



PROCEEDINGS

58th Plenary Meeting of the
International Cotton
Advisory Committee

Charleston, South Carolina, USA
October 1999

PROCES-VERBAL

58e Réunion Plénière du
Comité Consultatif
International du Coton

Charleston, Caroline du Sud, Etats-Unis
Octobre 1999

ACTAS

58a Reunión Plenaria del
Comité Consultivo
Internacional del Algodón

Charleston, Carolina del Sur, EE.UU.
Octubre 1999

**PROCEEDINGS
OF THE
58TH PLENARY MEETING**



ICAC
Washington DC USA

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FOREWORD

At the invitation of the Government of the United States of America, the 58th Plenary Meeting of the International Cotton Advisory Committee was held in Charleston, South Carolina, from October 25 to 29, 1999.

The International Cotton Advisory Committee is an association of governments having an interest in the production, export, import and consumption of cotton. It is an organization designed to promote cooperation in the solution of cotton problems, particularly those of international scope and significance.

The functions of the International Cotton Advisory Committee, as defined in the Rules and Regulations, are

- To observe and keep in close touch with developments affecting the world cotton situation
- To collect and disseminate complete, authentic, and timely statistics on world cotton production, trade, consumption, stocks and prices
- To suggest, as and when advisable, to the governments represented, any measures the Advisory Committee considers suitable and practicable for the furtherance of international collaboration directed towards developing and maintaining a sound world cotton economy
- To be the forum of international discussions on matters related to cotton prices

PREFACE

Sur l'invitation du Gouvernement des Etats-Unis, le Comité consultatif international du coton a tenu sa 58e Réunion plénière à Charleston, Caroline du Sud, du 25 au 29 octobre 1999.

Le Comité consultatif international du coton (CCIC) est une association de gouvernements ayant un intérêt dans la production, l'exportation, l'importation et la consommation de coton. C'est une organisation créée dans le but d'encourager la coopération pour la solution des problèmes relatifs au coton qui présentent un caractère international.

Les fonctions du Comité consultatif international du coton, telles que les définit le Règlement statutaire, sont les suivantes :

- Observer et suivre de près l'évolution de la situation mondiale dans la mesure où elle intéresse le coton.
- Réunir et publier des statistiques complètes, officielles et à jour sur la production, le commerce, la consommation, les stocks et les prix du coton dans le monde.
- Proposer, s'il en est besoin, aux Etats membres du CCIC, toutes mesures que ce dernier juge appropriées et réalisables pour renforcer la collaboration internationale afin de développer et de maintenir une économie mondiale du coton qui repose sur des bases saines.
- Etre le forum international pour toutes discussions relatives aux prix du coton.

PROLOGO

Por invitación del Gobierno de los Estados Unidos de América, la 58a Reunión Plenaria del Comité Consultivo Internacional del Algodón se celebró en Charleston, Carolina del Sur, del 25 al 29 de octubre de 1999.

El Comité Consultivo Internacional del Algodón es una asociación de gobiernos que se interesan en la producción, exportación, importación y consumo de algodón y tiene como finalidad promover la cooperación para solucionar los problemas algodóneros, en particular los de alcance y significación internacional.

Las funciones del Comité Consultivo Internacional del Algodón, según se definen en el Reglamento son las siguientes:

- Observar el desarrollo que afecta la situación algodónera internacional y mantenerse al corriente de la misma.
- Reunir información estadística completa, oportuna y auténtica sobre la producción, el comercio, las existencias y los precios mundiales del algodón y divulgar dicha información.
- Sugerir a los gobiernos representados, en la forma y oportunidad convenientes, cualquier medida que el Comité Consultivo estime adecuada y factible para el progreso de la colaboración internacional con la debida atención a la manutención y desarrollo de una economía mundial algodónera sana.
- Ser el foro de discusiones internacionales en materias relacionadas con los precios del algodón.

MEMBER GOVERNMENTS

ETATS MEMBRES

GOBIERNOS MIEMBROS

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

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STATEMENT OF THE 58th PLENARY MEETING

The International Cotton Advisory Committee met in Charleston, South Carolina, USA, from October 25 to 29, 1999, for its 58th Plenary Meeting since the Committee was established in 1939. Representatives from thirty-four member governments, three non-member countries and four international organizations participated in the meeting. The Committee welcomed the governments of Nigeria and Togo as its newest members. The member countries are committed to working together to advance the interests of cotton worldwide. The challenges faced by the industry are many, including inadequate demand for cotton, technical production issues, and government measures that distort markets. Cotton, as a renewable fiber resource, plays a crucial role for an increasing number of countries, providing employment to hundreds of millions of farmers and processors and serving as an engine of economic growth in both developed and developing countries. Cotton is simultaneously an agricultural product and industrial raw material and has an important impact on the agricultural and industrial sectors of the world economy. The Committee approved the following statement:

1. World cotton production is expected to rise in 1999/00 and reach more than 19 million tons. However, demand for cotton remains weak, and world ending stocks are expected to climb (Annex I). International cotton prices have fallen to the lowest level since the mid-1980s, and current estimates by the Secretariat suggest that 1999/00 will be the fifth consecutive season in which average cotton prices have fallen.
2. Improved world economic growth during 1999 and 2000 is expected to lead to increases in cotton use. However, the demand for cotton is expected to grow more slowly during the next five years than was recorded during earlier periods. Governments recognized that properly managed promotion efforts increase the demand for cotton. The Committee was informed of national programs funded largely by their private sectors that are examples of successful promotion efforts. Cotton industries were encouraged to begin promotion efforts based on best practices adapted to the specific conditions in their countries. Some countries also expressed an interest in generic promotion efforts for cotton. The Secretariat was instructed to investigate the net benefits of re-establishing the international cotton emblem, as well as efforts to raise consumer awareness of fiber content and to educate consumers about the desirable properties of cotton fiber.
3. Many governments were deeply concerned that subsidies, particularly production and export subsidies, tariffs and trade barriers serve only to distort the world cotton economy and thus are likely to interfere with the achievement of a sound world cotton economy. Numerous governments urged the elimination of these practices throughout the whole cotton production, processing and marketing chain in 1999/00. The Secretariat of the Committee was instructed to provide annual updates on government measures affecting cotton production, ginning and trade, and to provide a paper on arrangements affecting trade in cotton textiles and apparel. Recognizing that these issues are more appropriately addressed in the World Trade Organization, governments welcomed the forthcoming multilateral negotiations in the WTO, and expressed the wish that these negotiations result in a substantial reduction in production and trade distortions and improvements in the global cotton economy.
4. Continued improvements in cotton quality and reductions in contamination are recognized as important contributing factors in the initiative to increase the demand for cotton. While producing countries have made significant efforts to improve cotton quality and reduce contamination, the Committee heard that polypropylene, stickiness and other forms of contamination continue to trouble cotton spinners. Cotton producers are encouraged to remain vigilant in their efforts to improve quality and reduce contamination.
5. The Committee held a technical seminar on the topic "Fiber Quality Needs of the Modern Spinning Industry and Advances in Ginning Research," where it was explained that with the introduction of high-speed spinning machinery, the requirements for fiber attributes have changed. The use and potential of high-volume instrument testing equipment have expanded in recent years. The Committee noted that the repeatability of test results needs to be improved, and that additional tests are needed for cotton characteristics not currently measured. Some governments suggested that it would be beneficial to advance in the adoption of mechanical classification of cotton, within the practical limitations and realities of each country, as a basis for the commercialization of fiber.
6. The Committee agreed to hold a technical seminar in 2000 on the topic of "Global Challenges: Environment, Field Production and Processing of Cotton."
7. The world cotton yield has not risen in the 1990s. The Committee heard from scientists who reported that in some countries further advances in cotton yields are likely to be dependent on the development of new technologies. In other countries, gains from the classical contributors to yield improvements, such as classical breeding, modern crop handling, integrated pest management and the use of fertilizers and pesticides are still possible.
8. While input costs are rising, the world average yield has not increased, such that the average cost to produce cotton has risen in the 1990s. Agronomic practices that permit reductions in the use of inputs while maintaining yields have shown substantial benefits in reducing production costs. The use of new technologies to control cotton pests, in combination with fewer applications of insecticides, could be a potential vehicle for reducing production costs.
9. With a view toward strengthening linkages to the private sector, the ICAC formed a Private Sector Advisory Panel (PSAP) in 1999. Governments expressed appreciation to Panel members for their contributions. The Committee looks forward to enhancing its partnership with the PSAP and to considering recommendations from the Panel to improve the functioning of the ICAC (without changing its nature as an intergovernmental body), to expand the resources available to the Secretariat and to focus the work of the Committee on matters of greatest strategic concern to those who produce, market and process cotton. The Committee requested the Secretariat to present a business plan on this matter.
10. The Committee acknowledged the assistance of the Common Fund for Commodities in working towards the solution of a number of important cotton problems. Since 1991, when the Fund became fully operational, a total of seven cotton projects have been approved involving nearly US\$20 million in grants or loans from the CFC.
11. The 59th Plenary Meeting of the Committee will be held in Cairns, Queensland, November 5 to 10, 2000 at the invitation of the Government of Australia. The Committee has accepted an invitation from the Government of Zimbabwe to host the 60th Plenary Meeting from September 17 to 21, 2001. The Committee has also accepted invitations from the governments of Egypt and Poland to host the 61st and 62nd Plenary Meetings, respectively, in the years 2002 and 2003.

Annex 1
SUPPLY AND DISTRIBUTION OF COTTON
29 October 1999

Years Beginning August 1

	1995	1996	1997	1998 Est.	1999 Proj.	2000 Proj.
Million Metric Tons						
BEGINNING STOCKS						
WORLD TOTAL	7.374	8.926	9.391	9.92	9.70	9.81
CHINA (MAINLAND)	2.788	3.715	4.002	4.30	4.12	3.47
USA	0.577	0.568	0.865	0.85	0.85	0.96
NET EXPORTERS	2.954	3.609	3.908	4.05	3.97	4.53
NET IMPORTERS 1/	4.420	5.317	5.484	5.86	5.73	5.28
PRODUCTION						
WORLD TOTAL	20.352	19.607	20.072	18.66	19.24	19.27
CHINA (MAINLAND)	4.768	4.203	4.602	4.50	4.00	3.80
USA	3.897	4.124	4.092	3.03	3.58	3.80
INDIA	2.885	3.024	2.686	2.71	2.80	2.80
PAKISTAN	1.801	1.594	1.561	1.48	1.70	1.50
UZBEKISTAN	1.254	1.062	1.139	1.00	1.05	1.10
TURKEY	0.851	0.784	0.838	0.87	0.82	0.79
OTHERS	4.895	4.816	5.155	5.07	5.29	5.49
CONSUMPTION						
WORLD TOTAL	18.615	19.369	19.275	19.03	19.13	19.40
CHINA (MAINLAND)	4.500	4.700	4.700	4.60	4.40	4.30
INDIA	2.576	2.864	2.684	2.76	2.85	2.95
EU, C. EUR. & TURKEY	2.386	2.502	2.578	2.36	2.44	2.48
USA	2.318	2.422	2.471	2.27	2.18	2.10
EAST ASIA & AUSTRALIA	2.160	2.086	1.922	1.99	2.08	2.11
PAKISTAN	1.540	1.524	1.543	1.53	1.56	1.60
BRAZIL	0.817	0.830	0.773	0.86	0.89	0.90
CIS	0.441	0.406	0.445	0.43	0.48	0.50
OTHERS	1.878	2.036	2.160	2.24	2.25	2.45
EXPORTS						
WORLD TOTAL	5.972	6.049	5.911	5.30	5.78	6.00
USA	1.671	1.495	1.633	0.94	1.30	1.60
UZBEKISTAN	0.940	1.042	1.050	0.90	0.84	0.91
FRANCOPHONE AFRICA	0.608	0.719	0.824	0.84	0.91	0.91
AUSTRALIA	0.308	0.519	0.575	0.65	0.63	0.57
GREECE	0.275	0.195	0.187	0.23	0.25	0.20
ARGENTINA	0.266	0.290	0.220	0.16	0.11	0.06
CHINA (MAINLAND)	0.005	0.002	0.006	0.15	0.30	0.30
IMPORTS						
WORLD TOTAL	5.842	6.118	5.738	5.42	5.78	6.00
EAST ASIA & AUSTRALIA	2.137	1.992	1.786	1.93	2.06	2.06
EU, C. EUR. & TURKEY	1.476	1.621	1.698	1.50	1.60	1.54
SOUTH AMERICA	0.510	0.633	0.581	0.47	0.52	0.57
CIS	0.224	0.206	0.273	0.24	0.29	0.29
CHINA (MAINLAND)	0.663	0.787	0.399	0.07	0.05	0.05
TRADE IMBALANCE 2/	-0.130	0.069	-0.172	0.12	0.00	0.00
STOCKS ADJUSTMENT 3/	-0.055	0.159	-0.100	0.02	0.00	0.00
ENDING STOCKS						
WORLD TOTAL	8.926	9.391	9.916	9.70	9.81	9.68
CHINA (MAINLAND)	3.715	4.002	4.297	4.12	3.47	2.72
USA	0.568	0.865	0.846	0.85	0.96	1.06
NET EXPORTERS	3.609	3.908	4.053	3.97	4.53	5.17
NET IMPORTERS 1/	5.317	5.484	5.863	5.73	5.28	4.52
ENDING STOCKS/USE 4/	0.42	0.42	0.41	0.38	0.41	0.44
COTLOOK A INDEX 5/	85.61	78.60	72.20	58.90	55*	58*

1/ Includes Brazil, China (Mainland), Colombia, Greece, Mexico, Turkey and traditional importers. 2/ The inclusion of linters and waste, changes in weight during transit, differences in reporting periods and measurement error account for differences between world imports and exports. 3/ Difference between calculated stocks and actual; amounts for forward seasons are anticipated. 4/ World-less-China (Mainland) ending stocks minus China net exports, quantity divided by world-less-China consumption. 5/ U.S. Cents per pound. The estimates for 1999/00 and 2000/01 are based on net China (Mainland) trade and world-less-China (Mainland) ending stocks to use. The ICAC price model is corrected for the average error.

* 95% confidence interval extends 15 cents above and below the point estimate.

Inauguration

Monday October 25, 1999, 9:30 am
Mr. F. Ronald Rayner in the Chair

The SECRETARY GENERAL introduced Mr. Ronald Rayner as Chairman of the plenary meeting and said that Mr. Rayner was a third-generation Arizona farmer who produced cotton, alfalfa and grains in partnership with two brothers and a nephew. He said that Mr. Rayner was also a stockholder and president of Farmer's Gin in Buckeye, Arizona and served as chairman of the board of Electrical District No. 8. He said that Mr. Rayner was serving this year as president of the National Cotton Council of America.

In his welcoming remarks, the CHAIR welcomed participants to the 58th Plenary Meeting and said that it was an honor for the U.S. to host the meeting. He commented that the work of the ICAC is important to the U.S. cotton industry and all countries represented. He described the importance of the cotton industry to the economy of the USA, and noted that the industry is facing serious economic difficulties, at least in part because of the drop in demand caused by the recent economic slowdown. He noted that many governments encourage investment in polyester production capacity, and that the increase in polyester use is having a negative impact on world cotton prices. He said that it is clear that the number one competitor to cotton producers is manmade fiber, not other cotton producers, and that the success of two U.S. organizations, Cotton Incorporated and Cotton Council International, is clear evidence that consumer promotion and advertising is effective. He said it is time to explore how all cotton producing, trading and consuming countries can work individually and collectively to promote cotton. He said that if each member of the ICAC carried out an effective promotion campaign, cotton could reverse the downward trend in market share and recapture market dominance.

The CHAIR also discussed government help in his welcoming remarks. He noted that it is not unusual for cotton producers to turn to their governments for near-term help when market prices are so low that productive capacity cannot be maintained until economic conditions improve. He said that profitability can be enhanced through creative, mutually beneficial trading arrangements, such as the relationship the USA

has entered into with Mexico and Canada. He also reported his strong belief in the development of new technology and the belief that genetically enhanced products should not be feared or shunned. He said that new technology offers many solutions to many of society's concerns, and that genetically enhanced cotton offers significant paybacks in productivity, efficiency, environmental sensitivity and improved quality. He concluded by encouraging each participant in the meeting to search for innovative solutions to mutual problems. Mr. Rayner's remarks are a statement of the meeting.

The CHAIR introduced Mr. Patrick Steel, Associate Administrator of the Foreign Agricultural Service of the U.S. Department of Agriculture, and invited him to offer the opening address. Mr. Steel thanked all elements of the U.S. cotton industry and, in particular, South Carolina's producers and ginners for sponsoring this conference. He noted that cotton is grown, ginned, shipped as fiber and manufactured into textile products in South Carolina, and that the famous "Sea Island Cotton," one of the finest varieties ever grown, originated on the islands off the Carolina coast.

Mr. Steel noted that U.S. agriculture has been hurt by the effects of the Asian financial crisis, by burgeoning commodity supplies, and by sharply lower prices. He reported that U.S. cotton production was 25% below the five-year average in 1998/99, due largely to drought. He added that the U.S. textile industry has faced a flood of cotton textile imports, combined with lower cotton textile exports. He also noted the loss of cotton export sales to China (Mainland). Consequently, the U.S. cotton industry has been hit with the double whammy of a short crop and low prices.

Mr. Steel noted that Cotton Incorporated has used producer funding to boost cotton's market share in the USA and called on other countries to make similar efforts. He also reported on ways in which USDA is helping the U.S. cotton industry weather the times.

Mr. Steel highlighted the importance of biotechnology and Bt cotton as a global issue. He emphasized that sound science must guide decisions about the products of biotechnology and that it would be appropriate for ICAC to assist in an

education program explaining the need for sound science in the decision-making process. He also reported on the benefits of trade agreements and negotiations over China (Mainland)'s accession to the World Trade Organization. Mr. Steel said that the U.S. government would work during upcoming WTO negotiations to mandate large new cuts in tariffs, eliminate export subsidies, significantly discipline state trading enterprises, tighten rules on domestic support policies, and clarify rules governing technical measures to ensure that sound science is the only legitimate basis for health and safety measures, such as those in the area of biotechnology.

The CHAIR thanked Mr. Steel for the opening address, which is a statement of the meeting.

The CHAIR recognized the delegate of ARGENTINA who thanked the Government of the U.S. for inviting the ICAC to hold the 58th Plenary Meeting in Charleston, a city tightly linked to the history of cotton. The delegate noted that Charleston has lived the good and bad times of the cotton economy and that in the early nineteenth century, cotton was already an important source of economic strength for the city. He observed that the Charleston Merchant Commission had noted that little attention was being devoted to crops other than cotton in 1807, leaving the economy of the city vulnerable to economic depression. During the depression of the 1820s, overproduction of cotton resulted in a dramatic decline in prices, and the place of Charleston as the trade capital of the South of the USA came to an end. However, after the depression of the 1820s, agriculture in the South changed. A new water control system increased yields dramatically, and the use of the cotton gin gave a strong push to cotton production. Cotton was king in South Carolina, bringing prosperity to the region, and later to what is now known as the Cotton Belt of the USA. The delegate concluded by reiterating his appreciation for the hospitality of the U.S. government, the authorities of Charleston and its people. His remarks are a statement of the meeting.

The CHAIR observed that no other delegates wished to speak and adjourned the meeting at 10:20 am.

Statements of the Meeting, which are an integral part of the full record of the meeting, are published separately.

First Plenary Session

Monday October 25, 1999, 11:10 am
Mr. F. Ronald Rayner in the Chair

The CHAIR introduced Mr. Paul Morris, Chair ad interim of the Standing Committee of the

ICAC, and invited him to present his report. Mr. Morris noted that the selection of Terry Townsend as the new executive director and the establishment of a Private Sector Advisory Panel were reshaping the ICAC. He thanked the Na-

tional Cotton Council of America and the organizing committee for the excellent arrangements, and he thanked delegates and observers for their participation in the meeting.

Mr. Morris reported on the work of the Standing Committee during the past year. He noted that the Standing Committee decided to approve recommendations from the Private Sector Advisory Panel to expand the educational role of the ICAC and to develop project proposals for submission to the Common Fund for Commodities to improve cotton infrastructure in developing countries. The Private Sector Advisory Panel had specifically recommended that the Secretariat work with the private sector to educate cotton producers regarding the use of risk management tools, highlight concerns of textile mills regarding the quality needs of the spinning industry, inform the consuming public that cotton is an environmentally friendly product, and foster the education of the world cotton community on the benefits of fair trade practices. He reported that the Standing Committee accepted the desirability of expanding the activities of the ICAC in these areas and has committed to working with the Secretariat in developing a strategic plan to implement this.

Regarding other recommendations of the Private Sector Advisory Panel, Mr. Morris reported that the Standing Committee agreed that there should be improved communication with the private sector, that the term of service for the initial Panel members should be extended until (but not including) the 2000 Plenary, that the changes in arrangements for this plenary would be reviewed and considered in developing the agenda for the 59th Plenary, that combining ICAC plenary meetings and World Cotton Research Conferences would be considered at an appropriate time in the future, and that the Secretariat should develop two papers on expanding the revenue base of the ICAC: one a statement of principles and the other a business plan.

Mr. Morris also offered his personal endorsement of recommendations from the Standing Committee regarding proposed changes in the Rules and Regulations of the Committee. The Report of the Chairman of the Standing Committee is attached.

The CHAIR invited Dr. Terry Townsend to present his report as executive director of the ICAC. Dr. Townsend recounted the history of discussions in the Committee, including discussions in the 1960s that led to modern efforts to promote cotton consumption. He noted that technical sessions had been included in the agendas of ICAC meetings since 1963, and that there has also been a long history of discussions of government policies affecting cotton supply, use and prices. Dr. Townsend stated that the mission of the ICAC is to assist governments in fostering a profitable and healthy world cotton industry. He felt that the Committee can achieve this mission by serving as a forum for consultation and cooperation on international issues related to cotton, by providing transparency to the world cotton market through accurate and timely statistics, and by facilitating the exchange of techni-

cal information about cotton. He added that the future of the ICAC lies in how constructively the Committee can address the real-world problems faced by participants in the cotton industry. Current objectives are to pursue additional membership, to increase attendance at plenary meetings, to expand the educational role of the ICAC and to increase the distribution of ICAC material. He urged that Standing Committee delegates be empowered by their governments and private industries to serve as part of the cotton team. He concluded that for sixty years the ICAC has provided transparency to the market and has served as a forum for discussion of issues. Contamination is less of a problem than decades ago, partially as a result of increased awareness brought during ICAC meetings. Cotton yields are higher, the costs of producing cotton are lower and cotton quality is better than if the technical work of the Committee had not occurred. The demand for cotton has been augmented by promotion efforts, and the genesis of those efforts, as well as some of the specific strategies, was in discussions in the ICAC. Programs and policies of governments that distort production and trade in cotton are smaller in scope than in previous decades, often decoupled from current planting decisions and in most cases are being reduced. The understanding of impacts of poorly designed policies occasioned by discussions in the ICAC over six decades are contributing to a more productive and efficient cotton world. The Report of the Executive Director is attached.

The CHAIR remarked that the organization has a very ambitious agenda and he wished success to the member governments in the implementation of this program.

The CHAIR adjourned the First Plenary Session at 11:50 am.

ATTACHMENTS

Report of the Chairman of the Standing Committee

**Paul Morris
Australia**

During the past year, we have entered a new era for the International Cotton Advisory Committee—one which I believe will significantly strengthen the organisation and result in an organisation which delivers substantial additional benefits to member countries. There have been two changes this year which were the result of decisions made at the 57th Plenary in Santa Cruz, Bolivia in October 1998 that are already reshaping the organisation—the selection of Dr Terry Townsend as the new executive director and the establishment of the Private Sector Advisory Panel.

I will discuss these two changes a little more in

a minute, but let me say now, that having made these two pivotal decisions, it is the task of this, the 58th Plenary, to carry these decisions forward and build on the foundation that has been laid.

And what better place to do this than one of the bastions of innovation, independent thinking and growth in cotton—the United States. Let me congratulate the Government of the United States as well as the organisers of this conference—the National Cotton Council—for establishing a program and series of events that will help advance the agenda for the ICAC, will compliment the U.S. domestic industry and will enable us all to enjoy some good South Carolinian hospitality at the same time.

While I am thanking people, let me also thank the delegates to the conference, particularly those who have travelled long distances to be here with us. I trust that both the content of the formal meetings and the informal interactions at the side of the meetings will be of great value to you.

Let me reiterate, there were two significant decisions from last year's plenary that will shape our future.

- First, the 57th Plenary appointed Dr. Terry Townsend as the new executive director. Having worked closely with Dr. Townsend, I have the utmost respect for his abilities to move the ICAC forward to meet the challenges which member countries expect to be met by their representative body. As Dr. Townsend will explain in his report, he has spent a part of the year laying the groundwork for a rebalancing of the output of the Secretariat and its inputs to meet the changing needs of members.
- The second significant decision of the 57th Plenary was the decision to establish the Private Sector Advisory Panel. Early in the year, the Standing Committee worked diligently to ensure that the arrangements were put in place to enable the Private Sector Advisory Panel to become operational this year. These arrangements are spelt out in the Memorandum for Implementation of the Private Sector Advisory Panel, which is included in the plenary papers. Nominations for the Panel were called for by April this year, with members nominated and approved from 14 different countries, including developing and developed countries. The members of the Panel represent a strong array of skills, experience, and knowledge of the cotton industry and all have international respect in their fields of endeavour in the cotton industry. I wish to compliment in particular the Chair of the Panel, Mr. Nick Earlam from the United Kingdom, for his efforts in leading the efforts of the Panel.

The first meeting of the Private Sector Advisory Panel in June of this year resulted in a substan-

tial set of recommendations, many of which were supported by the Standing Committee. Whether or not any or all of these recommendations are accepted, I believe that a new process of cooperation, consultation and collaboration has been established between the private sector and the ICAC. I hope that members of the Panel will accept this as an on-going process of cooperation which will enable the ICAC to continue to operate as a government-to-government forum, but which is responsive to the needs of the cotton industries in member countries.

In the spirit of the new era that we have entered, I have decided not to provide the administrative details of the operations of the Standing Committee as has been done by past Chairs, but rather to focus on the decisions that we have made. These decisions can be divided into two main categories:

1. those that present new outcomes of benefit to member countries; and
2. those that underpin the operations of the ICAC to enable the outcomes to be achieved.

Outcome-oriented Decisions

Let me talk of the outcome-oriented decisions first. These decisions were formed directly as a result of the advice and recommendations of the Private Sector Advisory Panel and are provided in the Response to the Private Sector Advisory Panel provided in the plenary papers. There are two main decisions here:

1. an expanded education role for the ICAC; and
2. development of infrastructure projects with the Common Fund for Commodities.

On the first of these, the ICAC is the recognised commodity body for the world cotton industry and, as such, is the premier source of international cotton market data and forecasting of cotton markets. It also provides assistance to researchers with interest in the cotton industry, sponsors technical conferences and provides information on technical issues through a variety of avenues, including publication of *THE ICAC RECORDER*. However, the Private Sector Advisory Panel recommended that the ICAC expand its information extension activities, both in areas of existing expertise as well as in new areas of importance to the world cotton industry. Specifically, the Panel recommended that the Secretariat work with the private sector to:

- educate cotton producers and cooperatives regarding the use of risk management tools;
- highlight the concerns of textile mills regarding the quality needs of the spinning industry;
- inform the consuming public that cotton is an environmentally friendly product; and
- foster the education of the world cotton community on the benefits of fair trade practices.

On the last of these, I would note that the Secretariat has prepared a paper on government policies directly affecting cotton production and trade. This paper, which was reviewed by the Standing Committee in two separate meetings this year, provides a useful input to future work on this issue and a useful information source as we enter new negotiations on agriculture in the World Trade Organisation. I hope that this paper can become a “living document” which is regularly updated and extended to include government policies affecting other parts of the cotton marketing chain.

On the four areas recommended by the Private Sector Advisory Panel for further efforts by the ICAC, the Standing Committee accepted the desirability of expanding the activities of the ICAC in these areas and has committed to working with the Secretariat in developing a strategic plan to implement this. Of course, positions taken by the ICAC in these areas would need to broadly reflect the consensus of opinion among member countries. In developing the strategic plan, we hope to receive further advice from the Private Sector Advisory Panel as to how to maximise the net benefits from involvement of the ICAC in these activities.

On the second main outcome-oriented decision, the Private Sector Advisory Panel recommended that the Secretariat work with the Common Fund for Commodities (CFC) to develop cotton infrastructure, particularly in cotton-producing developing countries. The Standing Committee accepted this recommendation and, as a starting point, has decided to review the list of ICAC Common Fund priorities to increase the emphasis on cotton infrastructure projects. As members would know, the Secretariat is active in promoting the development of projects for the Common Fund and has been extraordinarily successful in this. At present there are six Common Fund projects involving cotton which are bringing a total of \$8 million into cotton research. A change in priorities to reflect the desire to invest in infrastructure projects will enable the Secretariat to extend its efforts to encourage projects in this important area of need for the cotton industry.

Operational Decisions

As mentioned, the Standing Committee also made decisions on a number of operational areas that will enable the implementation of the outcome-oriented decisions, or will improve the operational efficiency of the ICAC. Five of these decisions were in direct response to recommendations by the Private Sector Advisory Panel, while two others, that are in the form of recommendations for approval of the plenary, arose from issues which confronted the Standing Committee in the past year.

The five decisions relating to the Private Sector Advisory Panel recommendations were as follows:

1. First, it was agreed that there should be improved communication with the private sector. Member governments were encouraged to determine the most appropriate means of doing so in their own countries, and the Secretariat requested to ensure that appropriate industry representative bodies in each member country receive ICAC documents.
2. Second, it was decided that the term of service for the initial Private Sector Advisory Panel members be extended until (but not including) the year 2000 Plenary.
3. Third, it was decided that the changes that have been made to the arrangements for this Plenary (which were supported by PSAP) be reviewed and considered in developing the agenda for the 59th Plenary.
4. Fourth, it was decided that combining of ICAC plenary meetings and World Cotton Research Conferences be considered at an appropriate time in the future.
5. Fifth, it was decided that the Secretariat develop two papers on expanding the revenue base of the ICAC—one relating to principles for doing this, and the other on a business plan exploring opportunities to do so.

The final decision is extremely important in terms of making viable the expansion of activities that is envisaged for the ICAC under the outcome-oriented decisions, which I outlined earlier. It is difficult to envisage a significant expansion of the ICAC activities without an appropriate expansion in the resources available to the Secretariat to do this. There was no desire expressed to reduce the role of the Secretariat in its existing areas of activities. Again, the Standing Committee hopes to receive further advice from the Private Sector Advisory Panel on ways in which the revenue base for the ICAC can be expanded.

Let me now briefly mention the two sets of recommendations for changes to the ICAC Rules and Regulations. On the first of these, in accordance with the ICAC Rules and Regulations, the Standing Committee commissioned a special audit in 1998 at the end of the tenure of the previous executive director. While the finances of the Committee were found to be in good order, the auditors recommended changes to the procedures for the handling of checks written on the ICAC accounts and on withdrawals from the Reserve Fund that would make the financial operations of the Secretariat more prudent. I would encourage you to endorse these recommended amendments to the Rules and Regulations.

The second financial issue arose due to the interest of a former ICAC member country in rejoining the Committee, and the inflexibility of the Rules in relation to repayment of past debts. At present, all past arrears must be repaid be-

fore a member can rejoin. It is recommended that the Plenary change the Rules and Regulations to allow some flexibility in repayment of past arrears and hence encourage past members to rejoin us. The Standing Committee also recommends more stringent adherence to suspension of membership rules to avoid the situation which has arisen where some past members have many years of accrued arrears. I would encourage you again to support these recommendations.

Conclusion

In closing, let me thank Dr. Townsend and the staff of the Secretariat for their efforts over the past year and for the support that they have provided me. I have the highest confidence in Dr. Townsend's leadership and vision for the organisation and I look forward to seeing the progress of the ICAC over the coming years. I would also like to thank Mr. Alfonso Pino, First Vice Chair of the Standing Committee, who did the job of two in the past year given that we did not have a second vice chair. I will personally miss the lunches the three of us had before each of the Standing Committee meetings where we reviewed the agenda for the coming meeting as well as reviewing the menus of a number of Washington restaurants. I hope that the new Chair will carry on this new tradition. In this regard, I add my personal support to the recommendations by the Standing Committee on the Standing Committee officers for 1999-00 and wish the new officers well in the coming year.

Report of the Executive Director

Terry P. Townsend

Sixty Years of Success

It is fitting that this 58th Plenary Meeting of the ICAC is occurring in the USA, for 1999 is the 60th anniversary of the founding of the Committee at an international cotton meeting in September 1939 in Washington DC, just a one-hour flight north of where we meet today. Further, many of the problems that beset the world industry in 1939 continue to trouble cotton producers and consumers in 1999. World ending stocks at that time amounted to a near-record 4.8 million tons and represented 77% of world use. World prices were near the lowest point in history, and world trade in cotton was declining and had fallen to the smallest amount in fifteen years. World cotton consumption was rising, but not as rapidly as producers desired, and price-depressing surpluses seemed to stretch far into the future, without end.

In his welcoming address to the international cotton meeting, the U.S. Secretary of Agriculture, the Honorable Henry A. Wallace, who would later become vice-president, said, "Some may think it strange at this time of world tur-

moil when the guns are thundering again, that a meeting should be held to consider international collaboration in economic affairs. Actually there is nothing strange about it, either from the point of view of the particular commodity situation with which we have to deal or from the point of view of the broad principles of international cooperation."

At the 1939 meeting, the delegate of the USA observed that subsidized production, barriers to imports and export subsidies had contributed to the decline in world trade during the 1930s and the problems faced by the industry. The delegate of Egypt added that competition with artificial fibers reduced the demand for cotton. The representative of the British Cotton Exporting Colonies reported on the technical work of the Empire Cotton Growing Corporation in developing a properly balanced agricultural rotation to conserve soil fertility. The representative of the French Cotton Exporting Colonies reported on the contributions of the private sector toward the development of cotton infrastructure in Africa, noting that French industrialists had instituted a self-imposed tax of two francs per 100 kilograms of cotton to finance research and the improvement of production. The delegate of Peru criticized export subsidies offered by other producers, and the delegate from Brazil noted the problem of contamination caused by cotton bales being covered with other fibers.

The meeting in 1939 agreed to create the ICAC. Plenary meetings of the Committee continued after 1944, with discussions focused on methods of preventing surplus production and maintaining prices while competing against chemical fibers. Plenary meetings between 1952 and 1954 considered detailed proposals for the establishment of a world cotton buffer stock and methods of expanding world cotton consumption.

Demand Enhancement

Throughout the 1950s and 1960s, there were concerns about the loss of market share to chemical fibers and the need to increase demand for cotton, and the International Institute for Cotton (IIC) was formed out of discussions within the ICAC. The IIC was an international organization supported by assessments paid by the governments of cotton producing countries. The IIC was initially successful in helping to boost cotton's market share in Europe and Japan, and many of the strategies and techniques employed to promote cotton today were first developed by the IIC. But many cotton producers were not willing to fund promotion efforts outside their countries, consuming countries were not willing to support efforts at increased use of cotton, and attitudes toward public sector involvement in commodity market promotion changed in many countries. As a consequence, the Institute could not sustain government support and ceased to function in 1994.

The experience of the IIC, combined with experiences in the 1980s and 1990s, has demonstrated that cotton promotion can be effective, but promotion efforts need to be organized nationally, and funding for promotion efforts will need to come primarily from the private sector. The presentations and discussion to occur during the Fourth Plenary Session of this meeting will be consistent with the lessons learned from the IIC.

Plenary Topics

Also during the 1960s, the Committee considered the impacts of new methods of cotton testing, and there were proposals to establish uniform international cotton quality standards. Technical seminars were added to the agenda of each plenary meeting in 1963. This year's technical seminar on the Fiber Quality Needs of the Modern Spinning Industry, and the Sixth Plenary Session on Reducing the Cost of Cotton Production, represent a continuation of more than three decades of support by the ICAC for technological improvement in the world cotton industry.

During the last three decades, discussions in the ICAC have concerned the work of the United Nations Conference on Trade and Development (UNCTAD) and ways to reduce commodity price fluctuations. Studies were conducted on the special circumstances in the long-staple market, costs of production, bale packaging, the importance of contract sanctity, the role of cotton in economic development, the importance of cotton quality and reducing contamination, changes in market structure to emphasize a growing role for the private sector, and changes in quality measurement. The Committee has recognized the need to address environmental concerns about cotton growing. The Committee agreed to serve as the International Commodity Body to represent cotton before the Common Fund for Commodities (CFC) in 1990.

Discussions in plenary meetings have frequently brought to light government policies that affect cotton production, consumption and trade, and the Committee noted at its 51st Meeting that subsidies, tariffs, trade barriers and dumping practices prevented the achievement of a sound world cotton economy. The discussion during the Fifth Plenary Session of this meeting on the topic of government measures affecting cotton will be consistent with our sixty year heritage of illuminating the impacts of government policies affecting cotton with a view toward improving the working of the world cotton market.

Role of ICAC

The object of the 1939 international cotton meeting, as stated by Secretary Wallace, was to gather and exchange information about the international cotton situation, to give sympathetic attention to the problems in each country and to see whether, by cooperative international action, market conditions could be improved. There is

a saying that the more things change, the more they stay the same. As the similarity between the problems of 1939 and 1999 shows, while the specific issues before the cotton industry today may be new, their underlying nature is the same, and the objectives of that first international cotton meeting (to observe, to understand and to cooperate) remain central to the role of the ICAC today.

The mission of the ICAC is to assist governments in fostering a profitable and healthy world cotton industry. The Committee can achieve this mission by serving as a forum for consultation and cooperation on international issues related to cotton policies and cotton production, consumption, trade and prices, by providing transparency to the world cotton market through accurate and timely statistics, and by facilitating the exchange of technical information about cotton.

The strengths of the Committee are the quality of the work of the Secretariat, the good will and support of private sector and government officials, and the potential for constructive influence within the world of cotton. One of the purposes of the Committee is to represent the broad interests of the world cotton industry, and through its meetings, the Committee can create a sense of industry unity of purpose among governments, the private sector and cotton and textile industry associations in the pursuit of common goals.

Current Goals

The future of the ICAC lies in how constructively the Committee can address the real-world problems faced by participants in the cotton industry. Current goals for the ICAC, shared by the Standing Committee and the Secretariat, are to pursue additional membership in the Committee, to increase attendance at plenary meetings, to expand the educational role of the ICAC in the fields of risk management, cotton quality, and the benefits of free and fair trade in cotton and to increase the distribution of ICAC material. Working with the Common Fund for Commodities and other development agencies, the Committee will work to improve cotton's marketing and production infrastructure.

Membership

Membership in the ICAC rose from 22 countries in 1949 to 49 in 1981. However, membership has fallen in the years since because of budget constraints, reduced production, political upheaval and perhaps in some cases a lack of interest. Since its founding in 1939, 22 countries have left the Committee but 38 more have joined and four that left later rejoined, leaving a current membership of 42. While the Committee includes almost all important cotton producing and consuming countries, there are another 40 countries with significant cotton industries that are not currently members, including nine

with annual production or consumption of more than 100,000 tons.

To increase membership in the Committee, the Secretariat, the Standing Committee and the plenary meeting must work as a team to insure that discussions in the Standing Committee and at plenary meetings are focused, constructive and relevant to the concerns of governments and the cotton industry so that all countries have an incentive to join. It is a pleasure and honor to welcome the Government of Nigeria, which acceded to membership this year. Nigeria is an important cotton producing and consuming country in West Africa, and the lessons of Nigeria in adapting to a changed world cotton economy with an increased emphasis on the role of the private sector can be important for all countries. I also extend a welcome to countries participating in this meeting as observers and hope that more will choose to join the ICAC this year. The benefits of membership in the Committee are considerable and tangible, and membership avails national industries of the collegial embrace of the world cotton community.

A special note on the relationship between the Standing Committee and the plenary is appropriate. Just as a sports team needs all its players on the field to win, the ICAC needs to fully utilize all its components to be fully effective. A strong and robust Standing Committee is necessary to insure that discussions at the plenary are focused on cotton. The Rules and Regulations of the Committee give responsibility over budget and administration, including the work program of the Secretariat, to the Standing Committee. The Standing Committee also has responsibility for determining the agenda for each plenary meeting. This means that Standing Committee delegates must be empowered by their governments and private industries to serve as part of the cotton team, communicating frequently with government officials and industry in their home countries and being engaged in the discussions of strategic cotton issues. Since the last plenary meeting, the Standing Committee has approved the formation of the Private Sector Advisory Panel, provided initial feedback to the Secretariat on a study of government measures and handled issues of budget and administration effectively and with discretion. It has been a pleasure to work with Mr. Morris, Mr. Pino and other members of the Standing Committee this year, and as a consequence of their efforts, a minimum of time during this 58th Plenary needs to be devoted to administrative matters.

Plenary Meetings

The plenary meetings of the Committee are important and increasingly well attended, and currently four countries have extended invitations to the Committee to host plenary meetings through the year 2003: Australia, Zimbabwe, Egypt and Poland. The ICAC plenary meetings

provide a forum for the discussion of international issues of importance to the world cotton industry, and provide opportunities for industry and government leaders to consult on matters of mutual concern. Campaigns of targeted outreach are needed to inform countries of the benefits of membership in the ICAC and to encourage participation in plenary meetings of the Committee. Increased membership and attendance at meetings will enhance the status and value of the ICAC as a forum for the discussion of cotton issues of international scope and significance and will ensure the future of the ICAC.

Secretariat Activities

In discussions with people around the world about the ICAC and the benefits of membership, a common theme is the value of the work of the Secretariat. Representatives from both developed and developing countries, importing and exporting countries, the public and private sectors, all report that the statistics and production research provided by the Secretariat are a cardinal reason for the existence of the ICAC. Statistical and technical reports from the Secretariat have figured prominently in the agendas of every plenary meeting since 1946.

The ICAC Secretariat is the premier source of international data on the world cotton industry. The Secretariat forecasts cotton supply, use and prices, estimates cotton supply by type, and tracks exports by destination and imports by origin. The Secretariat measures and forecasts cotton consumption and cotton's share of fiber demand in the world and by region and is the primary source in the world for statistics on fiber demand.

Since the 57th Plenary Meeting in Bolivia, the Secretariat has commented on the world cotton situation with a daily update on the web (entitled *COTTON TODAY*), a monthly report available on the web and by fax (*COTTON THIS MONTH*) and with a bi-monthly report available on the web and in hard copy (*COTTON: Review of the World Situation*). The Secretariat produced a CD with a complete history of cotton statistics back to the 1920s in June. In a joint effort with the Food and Agriculture Organization of the United Nations (FAO), the Secretariat produced a report on *The World Cotton Market: Projections to 2005*, and papers were presented for cotton meetings in Asia, Latin America and Europe. Reports on cotton trade, consumption and supply were completed for this plenary meeting. The Secretariat welcomed Ioannis Kaltsas as its newest member in May of this year. Ioannis is the fourth statistician in the history of the ICAC, and he is already contributing substantially to the work of the Secretariat.

The ICAC Research Associate Program serves as an annual training program for people from member countries. The Committee provided partial sponsorship for 24 researchers from 19

countries this year to attend the very successful World Cotton Research Conference—2 in Greece. The ICAC also helped to sponsor the “Regional Consultation on Insecticide Resistance Management in Cotton” in Pakistan. The Consultation was attended by delegates from 16 countries in the region and experts from Australia, France, the UK and the USA. The Consultation decided to form the Asian Cotton Research and Development Network that will be meeting every two years.

Issues of *THE ICAC RECORDER*, special technical publications, as well as research on the cost of cotton production and cotton production practices help to inform all segments of the cotton research community. The Secretariat has kept abreast of new developments in production research, including organic cotton production, transgenic cotton and developments in fiber testing equipment like HVI.

The future of the ICAC must include a productive and competent Secretariat. Revenue gained from the sale of subscriptions and the number of visits to the ICAC web site can boost the resources available to the Secretariat and also serve as proxy indicators of how well the Secretariat is satisfying market demands for statistics and technical information. Subscription fees for Secretariat publications were set at nominal levels designed to cover postage rates prior to 1996, but were increased in recent years to partially cover the expenditures of the Secretariat while reducing the assessments paid by governments. A desirable secondary consequence of the increased reliance on subscription revenue has been a new attentiveness by the Secretariat to providing the kind of information the cotton industry is willing to pay for.

Subscription revenue has been as high as \$90,000 per year but fell in 1998-99, partially because many subscribers are shifting to lower-priced internet versions of publications. The Secretariat is hampered in efforts to raise subscription revenue by expectations that since a government is paying an annual assessment to the Committee, publications should be received for free within that country by both public and private sector entities. The Secretariat will need to ensure that its work remains timely, relevant and accurate in order to increase the utility of the ICAC web site and to expand the number of

publications sold through subscriptions, thus providing transparency to the world cotton market.

Seminars

The ICAC will also be forming partnerships with the private sector to pursue an expanded educational role in the future. The Secretariat has conducted three workshops on risk management in Tashkent, Gdynia and Khartoum, the 54th Plenary Meeting in 1995 featured a session on the use of futures and options as risk management tools, and research associate programs have included material on cotton risk management. The importance of reducing contamination and improving quality in cotton, the impact of cotton production on the environment and the necessity of observing the sanctity of contracts to preserve a fair and efficient cotton trading environment received prominent attention at plenary meetings during the 1980s and 1990s. Additional programs, both within the plenary meetings and in other forums, on the subjects of risk management, environmental protection and quality improvements will be planned, with some programs conducted cooperatively between the Secretariat and private sector specialists.

Common Fund

In its role as the international commodity body representing the world cotton industry before the Common Fund for Commodities, the ICAC can help garner resources to improve the industry. The priorities of the Common Fund are to provide loan financing for commodity development projects involving the private sector that benefit low-income producers in developing countries. The challenge for the ICAC will be to encourage and help develop projects acceptable to the Common Fund that will foster improvements in cotton infrastructure and marketing practices, will raise yields and lower production costs, and will provide resources to encourage new countries to embark on efforts to enhance the demand for cotton. Because of solid project proposals, a total of \$8 million has been provided for cotton research through the Common Fund since 1991, and as this report is being written, approval is pending for an additional project to develop sustainable methods of bollworm control in Asia. The new project involves \$4 million in funding, including a \$2 million grant from the Common Fund. This project will be in addition to ongo-

ing Common Fund projects involving control of the boll weevil, integrated pest management for non-sticky cotton, the development of virus-resistant cotton plants, improvements in the marketability of cotton affected by stickiness and the development of a collateralizable warehouse receipt system.

Conclusion

Looking back at our history since 1939, the Committee has been successful in shedding light on the evolving problems of the world cotton market. For sixty years the ICAC has provided transparency to the market and a forum for discussion of issues. And, while many problems persist, the world cotton industry has changed and is stronger than sixty years ago. Contamination is less of a problem than decades ago, partially as a result of increased awareness brought during ICAC meetings. Cotton yields are higher, the costs of producing cotton are lower and cotton quality is better than if the technical work of the Committee had not occurred. The demand for cotton has been augmented by promotion efforts, and the genesis of those efforts, as well as some of the specific strategies, was in discussions in the ICAC. Programs and policies of governments that distort production and trade in cotton are smaller in scope than in previous decades, often decoupled from current planting decisions and in most cases are being reduced. The understanding of impacts of poorly designed policies occasioned by discussions in the ICAC over six decades are contributing to a more productive and efficient cotton world.

In summary, the future of the ICAC after sixty years remains bright. The former executive director, Dr. Shaw, left the finances of the Committee in sound condition, and the Secretariat is competent, productive and committed to service. Most importantly, the principal of international consultation and collaboration in pursuit of solutions to common problems (to observe, to understand and to cooperate) remains as relevant today as in 1939. The discussions this week can be focused, constructive and relevant to the concerns of governments and the cotton industry. It is an honor to be serving the Committee as executive director, and I add my appreciation to the thanks of others to the U.S. government and the U.S. host committee for the hospitality and excellent preparations for this meeting.

Second Plenary Session

Monday October 25, 1999, 1:30 pm
Mr. F. Ronald Rayner in the Chair

The CHAIR called the meeting to order and invited Mr. J. Berry Worsham, President and Chief Executive Officer of Cotton Incorporated to present a paper on the world economic and fiber demand outlook. Mr. Worsham stated that

according to a forecast by the International Monetary Fund in May 1999, world economic growth slowed significantly in 1998 to just 2.5%, half the average rate of growth of the previous four years. The IMF forecast calls for continued weak economic growth in 1999 of just 2.3%. The performance of the world economy in 1998

and 1999 is well below the 3.7% average growth registered since 1970. A unique feature of the current economic slowdown is that the U.S. economy is registering strong economic growth, which is in contrast to previous global recessions. If the U.S. economy had weakened during the past two years, the world economic situ-

ation would have been much worse. Mr. Worsham mentioned that the IMF expects world economic growth to improve to 3.4% in 2000 and to an average of 4.2% between 2001 and 2003. However, as the world situation improves several concerns remain, including a potential disruption caused by the Y2K problem, a potential decline in the U.S. stock market, and continued increase in U.S. interest rates. He added that there is not a clear sign of economic recovery in Japan, and there is the potential of currency devaluation in China (Mainland). Mr. Worsham noted that as growth in fiber demand is closely linked to changes in economic activity, world fiber demand in 1998 was consistent with the weakness of the world economy and had virtually registered no growth. The economic forecast for 1999, he added, suggest zero or negative growth in fiber consumption in 1999. Based on the longer-term IMF forecast, world fiber consumption is expected to grow at an average annual rate of 2.6% to the year 2003. In reference to cotton demand, Mr. Worsham said that cotton's share of the world fiber market has declined nearly a percentage point a year during the 1990s and is likely to continue to decline from 41.7% in 1998 to 40% in 2003. The expected reduction in the rate of decline in cotton's share is due to a likely gain in the competitive position of cotton, as oil prices have risen rapidly in recent months, and as a consequence oil products are becoming expensive compared to cotton. Mr. Worsham finally stated that cotton

demand is forecast to increase at an annual rate of 1.7% to the year 2003. Growth in cotton demand, he added, is likely to be negative in 1999, but slightly positive in 2000 and stronger between 2001 and 2003. His presentation is a statement of the meeting.

The CHAIR invited Mr. Ioannis Kaltsas, Statistician of the Secretariat, to present a report on world cotton supply and demand. Mr. Kaltsas stated that the Cotlook A Index had dropped below 50 U.S. cents per pound for the first time since 1986 and that it was the first time since the inception of the Index that prices had declined for five consecutive years. He added that prices remained depressed in 1999/00 because of the possibility that Chinese (Mainland) stocks could overwhelm the market and because of continued uncertainty about economic recovery in East Asian countries. Despite declining prices, production is increasing in 1999/00 and world supply, which includes beginning stocks and production, is estimated at 28.9 million tons, about 1 million tons more than supply in the previous season. He noted that mill consumption of cotton declined 1.5% to reach 19 million tons in 1998/99, but that a likely recovery of world textile fiber demand and lower cotton prices was expected to translate into a scant 0.1% increase in world mill consumption in 1999/00 and a 1.9% increase in 2000/01. Mr. Kaltsas observed that world area dedicated to cotton is expected to decline in 1999/00 and that production in-

creases are solely the result of yield gains. He added that a reduction in stocks, a recovery in production and increases in cotton consumption characterized the five-year world cotton outlook. While cotton supply will likely remain stable, stocks are likely to decline below 9 million tons by 2003/04, mainly as a result of stock declines in China (Mainland) and increases in production to 20.5 million tons, a level still below the record 20.7 million tons registered in 1991/92. Mill consumption is expected to reach a new record of 21 million tons by 2003/04. Mr. Kaltsas' report, *The Outlook for Cotton Supply in 1999/00*, is a document of the meeting. Other reports of the Secretariat, *World Textile Demand* and *World Cotton Trade* are also documents of the meeting.

The CHAIR asked for comments on the previous two presentations. The delegate of ARGENTINA noted that in theory, as prices decline production declines are to follow, but that in practice that was not the case as subsidies exist in several countries. He asked about estimates of the incidence of subsidies on cotton area, production and trade. Mr. Kaltsas replied that there was academic research on the subject in other crops but that he was not aware of any research on cotton. He added that subsidies might create distortions in commodity markets.

The CHAIR seeing that no other delegates wished the floor, adjourned the session at 3:00 pm.

Third Plenary Session

Monday October 25, 1999, 3:30 pm
Mr. F. Ronald Rayner in the Chair

The CHAIR announced the start of the Third Plenary Session and asked that delegates present the statements of their governments. The CHAIR asked delegates to restrict their statements to five minutes or less.

The delegate of ARGENTINA congratulated the Government of the USA and the Secretariat of the ICAC for the excellent organization of the meeting. Production in Argentina for 1998/99 was 200,000 tons. The reduction in production in 1998/99 was due to adverse climatic conditions. At the end of March, yields were estimated at 470 kilograms per hectare. However, between the last days of March and April 15, the progress of the crop was disrupted by hard rains and low temperatures. This bad situation became even worse in the period between 17 and 18 April, when the lowest temperature for April was registered since 1945. Consequently, there was abandonment of 111,030 hectares. Prices of seed cotton were between \$100 and \$290 per ton, depending on quality. Domestic consumption of cotton in Argentina has been declining since 1991. In 1999, cotton consumption in Argen-

tina is estimated at 90,000 tons. This reduction in domestic consumption is related to the economic situation in Argentina as well as stronger imports by third countries. Brazil accounts for 51% of Argentinean imports and the United States for 35%. Argentina requests that production and export subsidies be eliminated. Those policies discriminate against Argentina and other countries that have no market intervention mechanism. The delegate expressed the hope that the coming WTO negotiations will show special care for agricultural issues. Argentina's country report is a statement of the meeting.

The delegate of AUSTRALIA thanked the U.S. government for the organization of the meeting and congratulated the Secretariat for the preparations. According to the delegate, Australian production achieved a new record of 726,400 tons, and planted area was 552,000 hectares, an increase of around 29% over the previous year and also a new record. Adequate water supplies and good weather characterized 1998/99. However, farmers in some areas experienced some mid and late season problems from water logging after heavy rains. Forecasts indicate plantings of around 452,000 hectares in 1999/00, with production around 480,000 tons.

Sustainable and profitable cotton production is based on the outcomes of good research, the delegate said. The Cotton Research and Development Corporation (CRDC) allocated total expenditure of AU\$10.5 million for research and development in 1998/99. The corporation is a partnership between government and industry. Biotechnology research is part of the CRDC's portfolio. The CRDC believes that the widespread introduction of transgenic cottons will be a factor in reducing the use of traditional pesticides in the cotton industry. While effectiveness in pesticide use reduction has been variable since the introduction of transgenic cottons in 1998/99 transgenic areas needed an average of 40% less chemical use per hectare than conventional cotton, the delegate said.

The delegate said that the Australian cotton industry operates without government intervention. The Australian government provides no assistance to cotton production other than for research. Australian cotton is marketed under a free market system. The growth of the Australian cotton industry, from a net importer in the 1960s to a major exporter today, without government support, demonstrates the benefits of free trade. The forthcoming WTO meeting will

provide the opportunity to negotiate free world trade for the benefit of all. If benefits of free trade are to be realized in practice, the focus must be on the measures that are most trade distorting. These include export subsidies, import tariffs and quotas, but they also include non-commercial export credits and domestic support to production and processing that distort market signals. Such measures can depress prices and depress development in countries that might otherwise have naturally competitive industries. Finally, the delegate reminded participants that the 2000 Plenary Meeting would be held in Australia. Australia's country report is a statement of the meeting.

The delegate of CHINA (TAIWAN) thanked the Government of the USA for the preparations of the meeting. The delegate highlighted several points about the cotton situation in China (Taiwan). China (Taiwan) depends on imports of cotton from other countries, especially the United States, and the appreciation or depreciation of the domestic currency against the U.S. dollar has great influence on Taiwan cotton spinners. The delegate reported that the spinning industry experienced difficult economic conditions in 1998 and made less profit than expected. The outlook for 1999 is not very optimistic. The stability of material costs may reduce the stress of cotton spinners, but demand is not expected to increase by a large amount; therefore, the situation will be similar to 1998. Finally, the delegate focused on how China (Taiwan) should maintain competitiveness. Cotton spinners should increase the unit value of their products. Spinners faced a reduction in spinning capacity. Older spinning and weaving machinery has been moved overseas, and new technologies have been introduced. China (Taiwan)'s country report is a statement of the meeting.

The delegate of COLOMBIA thanked the U.S. government and the people of South Carolina for their southern hospitality. Colombia supported the remarks of the delegate of Argentina with respect to the importance of reducing subsidies. The delegate said that subsidies are an issue of great importance because they distort markets and reduce the transparency of the market. Given that one of the aims of the ICAC is to increase transparency in the world cotton market, the issue of subsidies should have a prominent position in discussions during the plenary meeting. Colombia is making an effort to increase the efficiency of its economy by cultivating legal crops in a free market environment. However, low cotton prices created by subsidies in other producing countries make this effort, less efficient.

The delegate of EGYPT offered his thanks to the American government and people for hosting this important meeting. He also offered his thanks to the executive director and to the Secretariat of the Committee. Egyptian cotton marketing operations have passed through a num-

ber of changes, starting with the stage of free marketing to the stage of compulsory cooperative marketing. Subsequently, in the late eighties, a new policy was commenced. One of the features of the new policy was to liberalize cotton trade in order to motivate producers to accept its cultivation and care, in order that Egypt might regain its share of the global market. This was achieved through the issuing in 1994 of three pieces of legislation in the field of internal cotton trade, plus the establishment of the Cotton Exporters Association, and the revival of the spot market at Mena el Basal in Alexandria. Despite the fact that the first three seasons of the transformation towards liberalization were full of problems, the last two seasons have witnessed the start of the containment of these problems and progress towards the reaping of fruits of the liberalization, the delegate said. His remarks and country report are statements of the meeting.

The delegate of GERMANY thanked the U.S. government and mentioned that he had noticed the spirit of hospitality in this historic city. The delegate noted that the German textile and apparel industry, which is dominated by small and medium sized enterprises, remains a significant factor in the German economy. With a turnover of DM\$54 billion in 1998, it accounts for 2.4% of the manufacturing sector, and other branches of industry depend directly on it. Although there are signs that the industry is recovering, unemployment remains at high levels. Germany anticipates an economic growth of 2% to 3% in the year 2000 and foreign trade is developing positively. Low interest rates, moderate price increases and the successful introduction of the Euro have made companies more competitive and turned exports into the driving force of the economy. In addition, the Uruguay Round of the GATT has created the conditions for worldwide market liberalization, and reliable international agreements and contracts are of particular importance, the delegate said. His country report is a statement of the meeting.

The delegate of INDIA offered his thanks to the Government of the USA and to the people of South Carolina for their hospitality. The delegate stated the importance of cotton as an agricultural crop and as the dominant fiber for the Indian textile industry. Cotton is also an important contributor to rural employment and income, and thus food security in India's villages. India accounts for about 25% of world cotton area. The Intensive Cotton Development Program launched by the government, covering all cotton growing districts of India, is aimed at achieving higher yields and self-sufficiency in cotton production. Efforts are also being made to ensure the availability of certified and quality seeds, the delegate said.

The delegate of INDIA said that the Government of India has recently launched a Technology Upgradation Fund Scheme for the Textile and Jute Industry for a five-year period. This fund

aims at providing finance at international interest rates to facilitate technology upgradation. The delegate also mentioned that futures trading in cotton has been revived and is conducted by the East India Cotton Association, and that the Government of India has set a production target of 3.53 million tons for 2002/03 and hopes to have a small exportable surplus in coming years. India's country report is a statement of the meeting.

The delegate of JAPAN thanked the Government of the USA and the people of South Carolina for their hospitality. The Japanese economy was shadowed by anxiety about the Japanese financial system, and decreased by 2.8% in real terms in 1998. As a result, the Japanese spinning industry was severely affected and the number of cotton spindles decreased by 5% from the previous year. Imports of cotton yarn and cotton goods decreased in the same period, he said.

The delegate said that the Japanese spinning industry has almost completed its restructuring program for the 1990s. However, under the severe economic circumstances, the industry has been obliged to further adjust their production capacity during 1999. The Japanese delegate underlined the need for exporting countries to pay greater attention to the issue of contamination. Japan's country report is a statement of the meeting.

The CHAIR asked the delegate of Japan if he had noticed some improvement in contamination in recent years. The delegate responded that some improvement has been noticed. However, the level of foreign matter in cotton is still too high.

The delegate of MALI thanked the U.S. government and people for hosting the meeting. He underlined the importance of cotton for the economy of his country. However, Mali does not have means to subsidize production and compete on equal terms with developed countries that subsidize production. This is unfair for Mali and for all small developing African countries, and the Secretariat should pay particular attention to the issue of subsidies. CMDT (Compagnie Malienne pour le Développement des Textiles) has played an important role in the development of cotton production in Mali. Cotton area accounts for 24% of total agricultural area in Mali. However, production of seedcotton in 1997/98 was 522,000 tons, which placed Mali as the top cotton producer in the West-Sahara region. The quality of cotton in Mali is particularly high. In 1998/99, adverse weather did not permit Mali to achieve a new record, and this season production is estimated at the same level as last season, he said. Mali's country report is a statement of the meeting.

The delegate of Vietnam thanked the U.S. people for their hospitality and the executive director for his assistance in helping him attend the meeting. He said that the Government of Vietnam

has made special efforts to promote cotton production in order to achieve self-sufficiency for the textile industry. New policies have encouraged expanded cotton area and cotton growers will get more benefits. At present, the yearly cotton requirement is 60,000 to 70,000 tons. However, cotton production in Vietnam is only 10% of the amount needed. The research aims of the government are the improvement of laboratories and equipment, increased research funding, improve the training of scientists, the exchange of breeding materials (particularly for blue disease resistance) and increased exchange of research results with other cotton research organizations around the world. Vietnam's country report is a statement of the meeting.

The delegate of China (Mainland) thanked the U.S. government and the executive director of the ICAC for the opportunity to share some information about China (Mainland). There are three reasons why the supply of cotton in China (Mainland) largely exceeds the demand, including exorbitant domestic prices, the reduction of obsolete spindles and reduced exports of textiles due to the Asian financial crisis. However, cotton yarn output increased in the first semester of this year, and most state textile companies achieved profits. China (Mainland) expects a decline in cotton production this season due to reduced area devoted to cotton. With more strict administration, the impurity of cotton will be better controlled in the future. Also, starting this season, farmers and cotton enterprises will decide prices and take risks themselves. In 1998/99, the government further restricted the import of cotton yarn and in the coming two years yarn and fabric imports will be reduced in great amounts. Finally, the Chinese (Mainland) government has adjusted the export drawback rate to stimulate exports. This policy effectively expanded the export of textiles as well as increased the demand for cotton. The actual amount of cotton exports will depend on the level of international prices, the delegate said. China (Mainland)'s country report is a statement of the meeting.

The CHAIR recognized Ms. Paola Fortucci, representative of FAO, who congratulated the ICAC on its 60th anniversary of service to the world cotton industry. She emphasized that FAO's interest in cotton stems from its commitments to enhancing food security, particularly in the light of the World Food Summit of 1996. She noted that one of the major programs this year was to provide technical support to the 1999 China International Cotton Conference, which drew more than 110 participants and was successful in providing a forum for cotton industry leaders. The representative reported that the conference provided a better understanding of the current reforms in the Chinese (Mainland) cotton industry and their impact on the world cotton market. She said that the proceedings of the conference, published in English, were being distributed at

this meeting, while the Spanish, French and Chinese versions should become available by the end of the year. She reported that FAO plans to combine discussions of intergovernmental groups on jute and hard fibers, including cotton, in one forum to be held in Rome in November 2000 and expressed hope that ICAC will contribute to the conference. She said that FAO and ICAC have successfully worked on several projects and the most recent project included projections for cotton to the year 2005. The study was distributed to delegates. The representative reported that another joint work by the two organizations on the Global Plant and Pest Information Systems at FAO was available through the Internet. She said that a project on "Control Over Mexican Weevil and Integrated Pest Training in Bolivia" was approved this month under the FAO Technical Cooperation Program (TCP). She stated that FAO would be willing to act as an implementing agency on behalf of the ICAC to promote new cotton technologies in the future. Ms. Fortucci's presentation is a statement of the meeting.

The CHAIR recognized Dr. Jean-Philippe Deguine, representative of CIRAD, who thanked the organizers of the 58th Plenary Meeting for their professionalism and a very warm welcome. He said that CIRAD is a scientific organization conducting research on cotton for more than 50 years on several continents. He described the difficulties encountered by cotton growers in West Africa and the role of research. He noted that cotton has played a major role in rural development in West Africa in the past four decades, where it is grown on 2 million hectares and involves 10 million people. He said that cotton production and exports have increased steadily thanks to the efforts of cotton companies and research institutes contributing to food security and rural development. He noted that West Africa is the third largest exporter, and cotton cultivation in the region is recognized as a model of socio-economic development. He said that cotton production faces serious difficulties threatening its sustainability because of decreased yields, organizational changes and low market prices. Among other constraints, he mentioned insect resistance, soil degradation and reduced supervision in a course of liberalization. He underlined the importance of research in helping to overcome difficulties, with the support of CIRAD taking a new direction, called New Cotton Cultivation (NCC). He said that the NCC will optimize research for all the stages of crop management based on developing conditions, and will provide results to cotton growers, aiming to maintain competitiveness and sustainability of cotton production in West Africa. Mr. Deguine's presentation is a statement of the meeting.

The delegate of the PHILIPPINES thanked the organizers of the meeting for their hospitality. He said that his government considers cotton to

be a good crop for Filipino farmers and has established the Cotton Development Administration (CODA) through a merger of the Philippine Cotton Corporation and the Cotton Research and Development Institute. He noted that CODA provides extension services, research, industry support services and regulatory functions. The delegate reported that CODA started a new cotton program in 1998/99 with an area of 3,688 hectares and production of 950 tons, or 1.67% of domestic consumption. He indicated that for 1999/00 area will increase to 7,000 hectares, and yields should improve. The delegate reported that during the 1990s, cotton production declined because of lower prices and a lack of financing, leading to increases in imports. He said that in 1998, imports fell because of a financial crisis, and consumption declined to 45,000 tons, from 94,000 tons in 1992. The Philippines' country report is a statement of the meeting.

The delegate of POLAND thanked the hosts of the meeting for their hospitality and good preparation. The delegate reported that cotton imports by Poland declined in 1999 for the second year in a row because of the appreciation of the Polish currency, increased imports of textiles and a recession in Russia. He indicated that the Polish industry is mostly privatized and is determined to reverse the declining trend by improving productivity, but will need to attract investments and credit assistance. The delegate stated that the Government of Poland strongly supports the sanctity of contracts and fair trade rules and is assisting the activities of the Gdynia Cotton Association in the promotion of these values. He expressed satisfaction with the establishment of the Private Sector Advisory Panel within the ICAC. On behalf of the Government of Poland and its Ministry of Economy, the delegate extended an invitation to host the 62nd Plenary Meeting of the ICAC in 2003 in Poland. He noted that no ICAC meeting has been held in a consuming country since 1992, and that Poland has a long tradition in cotton trade and processing and will be honored to host the meeting. Poland's remarks and country report are statements of the meeting.

The CHAIR thanked the delegate of Poland for the invitation to host the 62nd Plenary Meeting. He found that there was a consensus to accept the invitation.

The delegate of RUSSIA thanked the organizers of the meeting. On behalf of the Government of the Russian Federation and the Russian cotton association, the Moscow Chamber of Cotton; he confirmed the participation of the Russian Federation in the ICAC and all its activities. He also stated that Russia will observe the rules and traditions of the ICAC and will cooperate with other international organizations and national cotton associations. He confirmed that Russia will fulfill its obligations as outlined in the Rules and Regulations of the ICAC. The

delegate reported that efforts to develop a civilized cotton market in Russia would continue in coordination with ICAC and cotton associations. His remarks are a statement of the meeting.

The delegate of SOUTH AFRICA thanked the U.S. government and the host committee for their excellent arrangements for the meeting. The delegate reported on the major events affecting agriculture and cotton production in South Africa. He reported that under the deregulation of agriculture in South Africa, which started in 1997, all central boards, including the Cotton Board, had been abolished within one year. As a result of the restructuring, Cotton South Africa, a non-profit company providing the cotton industry with information, quality assurance, promotion, coordination and research, was formed. The delegate reported that trade agreements were reached with the EU and thirteen African countries, providing for the gradual elimination of tariffs in three to five years. He stated that because South Africa eliminated all forms of support to farmers, its cotton industry is at a disadvantage to countries that provide direct assistance to farmers and thereby distort prices and the operation of the free market. The delegate reported that depressed international prices led to reduced production in South Africa in 1998/99, and domestic consumption also declined. He said that lower prices and liberalization effects placed severe pressure on producers. South Africa's country report is a statement of the meeting.

The delegate of SUDAN thanked the organizers of the meeting and the U.S. host committee, and the ICAC Secretariat for the excellent preparations. The delegate reported that cotton production and consumption had dropped in Sudan in 1998/99. He said that the government has adopted a 3-year rescue plan, which will start in 1999/00. The delegate stated that the plan provides for the rehabilitation of agricultural infrastructure and research, assistance to textile mills, and arranging better financing in order to reduce the cost of production. The delegate said that Sudan had requested technical assistance from the World Bank. He noted that in 1999/00 the situation in the main irrigated areas began to improve, and better yields are expected. Sudan's country report is a statement of the meeting.

The delegate of TANZANIA reported that cotton production in Tanzania has fluctuated because of changes in rainfall, input use, prices and competition from other crops. He noted that this season production was 40,725 tons, compared with 96,372 tons in 1992/93. The delegate said that his government has adopted a comprehensive Cotton Sector Development Strategy, which provides for the establishment of a financial facility to support the cotton industry, rehabilitation of two research centers, strengthening of the breeding programs, reducing taxes on farm inputs, and restructuring the Cotton Board to meet changing requirements of trade liberaliza-

tion. He noted that the aim is to increase production to 90,500 tons in 2001/02 and to 137,750 tons in 2006/07, from an estimated 54,300 tons in 1999/00. Tanzania's country report is a statement of the meeting.

The delegate of TOGO thanked delegates for the opportunity to address them as a member country. He also thanked the host committee for the preparation of the meeting. The delegate described the importance of cotton for Togo, where cotton accounts for 36% of GDP and employs 60% of the population. The delegate reported that seedcotton production in Togo rose from 23,800 tons in 1980/81 to 187,700 tons in 1998/99 and will be unchanged in 1999/00. He said that Togo's cotton industry is in the process of liberalization, and private ginning capacities have reached 200,000 tons. The delegate said that Togo plans to maintain production on a high level and to develop high quality, pest resistant varieties. However, a major concern is the low price for cotton, he said. Togo's country report is a statement of the meeting.

The delegate of TURKEY thanked the organizers and the Secretariat for the good preparation of the meeting. The delegate said that cotton production in Turkey in 1998/99 was affected by adverse weather and had been 871,000 tons, and that for 1999/00 it was estimated at 864,000 tons. The delegate reported that the world economic crisis caused consumption in Turkey to decline to 950,000 tons in 1998/99 and that for 1999/00 it is projected to be around 1 million tons. He said that Turkey imported 200,000 tons in 1998/99, and ending stocks were at 220,000 tons. Turkey's country report is a statement of the meeting.

The delegate of UGANDA thanked all involved in organizing the meeting and reported on developments during the past two years in cotton production in Uganda. She said that the economy has been liberalized and her government cannot subsidize the production of cotton but can provide limited assistance, including seeds and pest control. She said that production rose to 16,000 tons in 1998/99 from 6,000 tons in 1997/98, and it is projected to grow to 27,000 tons in 1999/00. The delegate reported that extension services in Uganda have been decentralized to the level of regional governments, bringing them closer to the farmer. She said that an HVI machine was installed in Uganda and the quality of cotton has improved. Uganda's country report is a statement of the meeting.

The delegate of the UNITED KINGDOM thanked the U.S. hosts and the Secretariat for the organization of the meeting. The delegate highlighted the importance the UK attaches to the sanctity of contracts and to the 1958 New York Convention on Foreign Arbitral Awards. Nevertheless, he was able to report that during the past twelve months the number of firms which had failed to honor awards had declined.

The delegate urged governments to support an initiative of the Private Sector Advisory Panel to enhance the educational role of ICAC on issues of sanctity of contracts and arbitral awards. His remarks and the UK's country report are statements of the meeting.

The delegate of the USA thanked all sectors of the U.S. cotton industry, especially the National Cotton Council and producers and ginneres of South Carolina, for the resources devoted to the meeting and its success. The delegate noted that the statement of the cotton situation in the USA had been given to the Secretariat. The USA's country report is a statement of the meeting.

The delegate of UZBEKISTAN thanked the hosts and organizers for the meeting arrangements. The delegate reported that Uzbekistan is one of the major producers and stable exporters of cotton and it plans to produce 1.08 million tons in 1999/00. He noted that cotton consumption reached 150,000 tons in Uzbekistan and could reach 200,000 tons in 2001/02. The delegate described the new export routes developed recently through Black Sea ports and Iran. He noted that current market conditions indicate that high supply and low demand are leading to low prices. The delegate pointed to two factors responsible for low prices, the U.S. Step 2 program and liberalized cotton trade in China (Mainland). However, he expressed optimism on future price developments. Uzbekistan's country report is a statement of the meeting.

The delegate of ZIMBABWE thanked the U.S. hosts and described difficulties faced by the economy in Zimbabwe, where interest rates are at 60% and inflation is at 70%. The delegate noted that difficult economic conditions threaten the viability of cotton production in Zimbabwe. He said that in 1998/99 seedcotton production reached 298,000 tons, with small-scale farmers producing 70% of the total, while 30% came from large-scale producers. The delegate noted that the cotton industry is liberalized, except for research. The delegate reported that 98% of cotton is hand picked, 70% is exported and the rest is consumed locally. Zimbabwe's country report is a statement of the meeting.

The representative of ITMF, Mr. Andrew Macdonald, thanked the ICAC and the Government of the USA for the opportunity to present the views of the Federation at the meeting. He reported on the activities of ITMF's Spinners Committee during the past year, including meetings it held and trips to a number of countries on cotton-related matters. He said that ITMF believes that cotton's position in the fiber market can be strengthened by improving trading conditions. Therefore, a set of guidelines on cotton contracting was published under the title "The Guidelines for Purchasing Raw Cotton."

He noted that 9,000 copies of the document were circulated to mills, merchants and other interested parties around the world. He stressed the

importance of the testing of fiber properties and reported that the Spinners Committee had met for two days in Zurich with the developers of testing instruments to discuss the spinning industry requirements. He said that members of the Spinner's Committee visited the USDA Ginning Laboratory in Stoneville, Mississippi, and were impressed with the technology in place, which could allow movements toward a spinability-oriented cotton marketing system. He reported that the Spinner's Committee has al-

ways been concerned about cotton contamination, which reduces productivity. He said that the latest biennial Cotton Contamination Survey shows deterioration in the overall rate of contamination to 6% compared with 5% in 1997. He noted that stickiness has declined during the period, but that the appearance of seed-coat fragments has increased. He stated that it is the conviction of the Spinners Committee that the dialogue in the cotton pipeline from breeder to

grower, to ginner, to trader and spinner should be strengthened. Based on that, he said, the Committee supports the formation of the Private Sector Advisory Panel within the ICAC and the proposal by the Liverpool Cotton Association to set up an International Cotton Federation to bridge the traditional gap between producers and consumers. Mr. Macdonald's presentation is a statement of the meeting.

The CHAIR adjourned the session at 6:00 pm.

Fourth Plenary Session

Wednesday October 27, 1999, 8:30 am
Mr. Tommy Malone in the Chair

The CHAIR called the meeting to order and invited Mr. J. Berrye Worsham, President and Chief Executive Officer of Cotton Incorporated, to present a paper on the improvement of cotton demand through research and promotion. Mr. Worsham noted that Cotton Incorporated (CI) was a private non-profit organization dedicated to research and promotion of cotton, created in 1970. He said that CI was funded by an assessment on cotton produced in the USA and on imported cotton and cotton products at a rate of US\$2.50 per bale. He mentioned that creating consumer demand through promotion is most effective when there is a constant stream of new products and developments for cotton, and that CI's program deals with the entire cotton chain from agricultural research to retail promotion. Promotional activities include programs directed at the consumer and at mills, manufacturers and retailers. Television advertisement is the cornerstone of the promotional efforts, involving two thirds of the promotion budget of CI. A goal is to maximize exposure to the targeted audience, men and women age 18 to 49. A typical campaign will last three years before another one is put in place, with the current campaign featuring the theme *Cotton, the Fabric of our Lives*. The campaign covers a broad spectrum of television time, has four 30-second commercials, and over the last year has targeted younger audiences more aggressively. The program also uses billboard campaigns, posters in college campuses and advertisements in magazines. Another important activity is cotton promotion with U.S. retailers, in which the retailer agrees to feature the Seal of Cotton. CI also has licensed the Seal of Cotton to the world's largest manufacturer of laundry detergent. In conclusion, Mr. Worsham said that there is not a simple formula for effective advertisement of cotton. However, key promotional points include understanding the attributes that connect cotton with consumers, the establishment of a target audience, reaching the audience as frequently and creatively as possible, and a recognition that establishing cotton as a brand takes time. Finally, Mr. Worsham

said that CI resources are directed at consumer advertisement in North America only, and that outside that area, CI provides technical and information services to mills and manufacturers that use U.S. cotton, while Cotton Council International is responsible for international promotion. Mr. Worsham's presentation is a statement of the meeting.

The CHAIR invited Mr. Allen Terhaar, Executive Director of Cotton Council International, to present a paper on the global consumer and ingredient branding of cotton. Mr. Terhaar said that the mission of Cotton Council International (CCI) was to develop and expand overseas markets for U.S. cotton and cotton products, and the objective was to increase both the volume and value of U.S. cotton and cotton product sales. To achieve this goal, a strategy was designed to provide services and information to overseas customers of U.S. raw cotton and to get overseas final consumers to demand U.S. cotton products. Funding for the activities of CCI comes from the private and public sectors. CCI develops consumer research through a global lifestyle monitor in eleven countries. In exploring consumer attitudes, CCI found that consumers strongly prefer apparel that will outlast trends, that quality is important, and that consumers do not seem to be brand conscious, but are fiber conscious. However, Mr. Terhaar added, regional, country and age preferences differ on the importance of fiber content and brand name. In spite of the interest of consumers toward fiber content, only half of consumers realize that denim is made of cotton. CCI found that while polyester is identified as uncomfortable, it is also considered stylish. However, the perception worldwide is that cotton is comfortable and that polyester is "scratchy." Once CCI has knowledge about consumer preferences, it implements a program to increase demand for cotton and cotton products. Finally, Mr. Terhaar noted that over the last 15 years, chemical fiber, particularly polyester, has taken most of the growth in world fiber demand and that with the exception of North America and Europe, consumer demand for chemical fiber products has grown substantially. He suggested that the world cotton indus-

try might be winning some battles but losing the war and exhorted delegates to find more effective ways to promote cotton and cotton products on a global basis. Mr. Terhaar's presentation is a statement of the meeting.

The CHAIR invited Mr. Peter Corish, Chairman of the Australian Cotton Industry Council, to present a paper on cotton promotion in Australia. Mr. Corish said that the Australian cotton industry has seen a period of dramatic growth from 340,000 tons produced in 1986 to 725,000 tons produced in 1999. This impressive performance was due to suitable land, adoption of the latest research, a competitive unsubsidized market, and a period of stable prices. However, he added, rapid growth brought community concerns regarding chemical and water use and land degradation. Having a small spinning industry and exporting over 95% of cotton production, domestic promotion in Australia cannot be an effective tool to increase demand for Australian cotton. Therefore, the aim is to promote the cotton industry as a sustainable export industry, playing a good community citizen role and serving as a steward of natural resources. The body responsible for cotton promotion is Cotton Australia, which is fully funded by growers through a voluntary levy that produces an annual budget of US\$3.5 million, of which US\$1.3 million are dedicated to promotion. The major promotion activity is the concept of the Cotton Store, an education facility funded by a retail section. Promotion activities are also implemented in the press, television and radio, through the strategic placement of articles, regular media briefings and tours to cotton regions and very limited use of television advertisement. Another promotion activity is lobbying and education through distribution of information, visits to state and federal governments, organization of conferences to the community and limited sponsorship of fashion shows. Finally, Mr. Corish said that for many years Cotton Australia has taken advantage of the extensive U.S. cotton promotion programs in international markets. However, as Australian production has increased, a need has risen to independently promote Australian cotton, and over the last year promotion activities

were initiated in the form of trips to Asian destinations. The goal is to have the Australian cotton industry recognized as a reliable producer and shipper of quality cotton. Mr. Corish's presentation is a statement of the meeting.

The CHAIR invited Dr. Eugene Brock, Board Member of the National Agricultural Marketing Council of South Africa, to present his views on promoting cotton in South Africa. Dr. Brock said that the challenge to producers in South Africa is to create and maintain an increasing level of awareness of their products. Consumers, who include designers, manufacturers, retailers and the final consumer, have to be told that cotton has positive attributes. Dr. Brock mentioned that the woolmark is perhaps the best modern example of fiber branding. Research shows that the woolmark provides consumers with confidence and reassurance. He said that with the wool example, and as part of a cotton-marketing plan, a cotton certification scheme funded by growers was initiated in 1985 to promote cotton products in South Africa with a pure cotton and a blended cotton trademarks used by retailers. The goal of the marketing plan is to increase cotton production, particularly by small producers in marginal areas, to promote the quality and benefits of cotton products, and to expand market share in relation to man-made fibers. Although it cannot afford television advertisement, the plan uses various other types of media, with publications aimed at producers, magazine advertisements to consumers, billboards and exhibitions. Dr. Brock mentioned that as South Africa is exposed to global competition, there is a need for differentiation of the domestic cotton product and, therefore, it is important that the cotton mark be assigned to quality products made in South Africa and be used as a supportive marketing tool for exports. Dr. Brock concluded his remarks by stating that in an emerging society like South Africa, there is a constant struggle for a share of the disposable income of consumers. In that regard, he mentioned that the cellular telephone is the major competitor of cotton for disposable income. Dr. Brock's presentation is a statement of the meeting.

The CHAIR invited questions and comments. The delegate of CHAD thanked the Government of the USA and the American people for their hospitality and congratulated the Secretariat

for its pertinent work. He said that cotton plays a most important role in the economy of Chad, directly employing 2.5 million people and generating 65% of the export revenue of the country. Cotton production in Chad declined from 103,000 tons in 1997/98 to 67,000 tons in 1998/99, due to dry conditions, and that current estimates of 80,000 tons for 1999/00 could be revised down due to rain in the cotton region of the country. He added that almost all production is exported, making the country dependent on a very competitive world market. Therefore, he said, Chad makes constant efforts to improve the quality of its cotton, and the latest ITMF report placed cotton from Chad as one of the least contaminated by foreign matter and seed coat fragments. He said that the current very low prices create grave problems for developing countries and that for Chad this problem was no longer posed in terms of profitability but in terms of survival. Finally, the delegate mentioned that the course of action might be to increase cotton consumption or decrease stocks or to initiate promotional activities, but there is a need to efficiently fight unfair trading practices, such as subsidies to production and exports, which depress prices in the world market. Chad's country report is a statement of the meeting.

The delegate of BRAZIL congratulated the organizers of the field trip that took place the previous day. The delegate recognized the work and results achieved by Cotton Incorporated and Cotton Council International. The delegate also recognized that because U.S. growers funded the U.S. program, there was a need to promote U.S. cotton. He suggested that generic promotion of cotton would also benefit the U.S. grower, and proposed that the Secretariat make a study of the possibilities of developing a generic world cotton mark and other generic promotion measures that could be undertaken in conjunction with the three countries that presented their programs during the session. His remarks are a statement of the meeting.

The delegate of INDIA agreed with the remarks of Brazil regarding the usefulness of the field trip and supported the proposal for generic promotion of cotton.

The delegate of CHAD also supported Brazil's suggestion of generic promotion for cotton and the creation of a world mark.

The delegate of AUSTRALIA said that there were some affinities but also some differences in the promotion of cotton in different countries. He said that the approach to promotion is different in every country and there is a need to think about what a generic promotion should project. In regard to wool, he mentioned that the concept of the woolmark as a promotion tool has unresolved difficulties, as wool consumption has not increased.

The delegate of ARGENTINA said that the suggestion presented by Brazil and supported by other countries, along with the remarks by Australia, show there is a need for a generic mark, but that there are some inconveniences. He supported the possibility of a generic mark and proposed to instruct the Secretariat to develop a study to recommend a final decision by the plenary. The SECRETARY GENERAL replied that the logo of the International Institute for Cotton was available for use by the ICAC. He also mentioned that experience shows that branded promotion has proven to be sustainable, while generic promotion has not. He agreed to the development of a study.

The delegate of AUSTRALIA suggested drawing upon the Private Sector Advisory Panel for advice on the study of generic promotion.

The delegate of SOUTH AFRICA suggested that the study include cooperation on generic promotion but, if found to be not feasible, the study should investigate other areas.

The CHAIR asked the delegate of ARGENTINA if he wished to make comments on the issue of the mechanical classification of cotton. The delegate said that in 1985 the ITMF encouraged the idea of mechanical classification of cotton, and that later an ITMF Spinners Committee was created, where opinions developed for the need to classify cotton mechanically. Since then, the Spinners Committee has stressed the convenience of mechanical classification on several occasions. The delegate mentioned that it was not his intention to impose mechanical classification on countries, but just to have the plenary note in the final statement of the meeting the convenience and importance of mechanical classification so that all producers, spinners and traders know the characteristics of the fibers.

The CHAIR adjourned the session at 10:30 am.

Fifth Plenary Session

Wednesday October 27, 1999, 11:00 am
Mr. David Stanford in the Chair

The CHAIR stated his pleasure at participating in the plenary session. He noted that sessions related to government measures have been part of almost every plenary meeting during the last

two decades and that some governments are concerned that subsidies and trade subsidies may distort the market and are responsible for low prices. The CHAIR also said that there are historical reasons for the existence of state aid policies and noticed that some progress has been made during recent years, as some countries have

liberalized their cotton sectors. The CHAIR introduced Mr. Carlos Valderrama of the Secretariat to present Working Paper II, regarding direct support measures in producing countries. Working Paper II, Government Measures Affecting Cotton, is attached.

Mr. Valderrama reported that information gathered by the Secretariat suggests that 50% of world cotton production benefited from direct income or price support programs in 1997/98 and 53% in 1998/99. Of 76 cotton producing countries in 1998/99, eight had programs of government support and total aid amounted to U.S.\$4.8 billion.

Mr. Valderrama reported that under the Common Agricultural Policy of the European Union, a support program operates to provide assistance to growers. Support payments are made to ginners, who are required to pass the subsidy in the form of higher prices to growers. The cotton growing regions of Greece and Spain are among the lowest-income regions in the EU, and income support is viewed as a form of economic assistance. In China (Mainland), the government determines the level of prices, imports and exports of cotton. Based on the level of production and the estimated assistance per pound, the Government of China (Mainland) provided an estimated US\$2.7 billion to cotton growers in 1998/99. However, the Chinese (Mainland) government has recently reformed the cotton price and distribution systems and will allow domestic cotton prices to be influenced by market factors. In the USA, payments provided to growers amounted to US\$953 million in 1998/99.

Mr. Valderrama described also the mechanisms of subsidies in Turkey, Egypt, Brazil and Mexico and turned to the issue of direct assistance to exports. Information gathered by the Secretariat suggests that exports from China (Mainland) and the USA, representing 20% of world cotton exports, benefited from government assistance in 1998/99. Mr. Valderrama also said that some countries provide tax rebates as an incentive to export, and that several other countries tax cotton exports.

The CHAIR introduced seven members of the panel of experts on government measures. Mr. Nabil El Marsafawy from Egypt presented a joint paper with Mr. Hassan Ali Khedr, reviewing the history of state aid to cotton farmers in Egypt. In 1994, the government of Egypt issued a new legal framework aimed at liberalizing internal cotton trade, establishing a Union of Cotton Exporters and reviving the cotton commodity exchange. In 1996/97 and 1997/98, the government established minimum guaranteed prices. However, in 1998/99 prices were derived from export prices and the government did not bear the cost of subsidy to producers, except for the costs of chemical pest control.

Mr. Marsafawy said that in 1999/2000, the Egyptian government stopped subsidizing cotton producers and established the cotton price stabilization fund. The resources of the fund are paid through the different interest groups dealing in cotton production, marketing and trade, and the government contributed with an initial amount to start the fund's activity. In Egypt, no

restrictions exist on imports of short-staple cotton, with the exception of agricultural quarantine rules, he said. The paper by Messrs. Khedr and El Marsafawy is a statement of the meeting.

Mr. Lawrence Blum, Director of the Cotton, Oilseeds, Tobacco and Seeds Division of the United States Department of Agriculture, characterized the review of the Secretariat as useful, but he underlined that there are many government measures that were not covered in the review. He said that the U.S. official statement provides analytical information on state aid policies and that this information is also available on the Internet. Mr. Blum said that the USA is committed to improve access to markets by reducing subsidies and to guarantee that there is no distortion in international trade. He said that the WTO is the appropriate body for deciding whether government programs are unfair practices and distort international trade. He reported that the Agricultural Market Transition Program is not commodity specific and does not distort international trade. Mr. Blum described the three steps of the cotton-competitiveness program. He said that the impact of Step-2 on world exports is minimal and he noted the example of Indonesia where U.S. exports have lost share in recent years with respect to Australian exports. He said that international prices are driven by low demand and not by government support programs, and it should be partially the role of ICAC to discover ways to encourage demand for cotton. Mr. Blum's paper is a statement of the meeting.

The CHAIR recognized the delegate of INDIA who said that HVI was not a part of the agreed upon agenda for this meeting and as such his government was not prepared to discuss the issue.

Mr. Luis Pellegrino, Advisor to the Secretariat of Agriculture, Livestock and Fisheries of Argentina, stated that government prices keep international prices depressed, distort international trade and increase the cost to consumers. He said that Argentina has deregulated its agricultural markets, there is no agricultural subsidy of any kind in the country and that Argentina is committed to the results of the agreement of the Uruguay Round and respects multilateral agreements on international trade. Argentina is one of the largest exporters of cotton in the world, but production and exports have declined in recent years due to low international prices caused by subsidies and unfair practices in other parts of the world, he said.

Mr. Pellegrino said that Argentina requested the elimination of subsidies on cotton and cotton products and expressed hope that the next round of WTO negotiations will confirm the principals of free trade and fair competition. His paper is a statement of the meeting.

Dr. Kiratso Kosmidou, Director of the Hellenic Cotton Board of Greece, expressed her appreciation and thanks to the U.S. government and

the organizing committee for the warm hospitality. Dr. Kosmidou underlined that she represents the government of Greece but she had no authority to speak on behalf of the European Union. Greek farmers do not receive any aid from the Greek government, but subsidies come from the EU, she said. Dr. Kosmidou questioned the calculation of subsidies presented by the Secretariat. She said that EU subsidies do not distort international trade and that the EU is a net importer of cotton, domestic production covers only 35% of its needs, and the EU imposes no tariffs or measures of any kind. She noted that cotton growing areas in Greece are among the poorest in EU and 73% of farmers own only one to five hectares, usually fragmented in three to four pieces. The EU intends in the near future to evaluate the existing system for market organization of the cotton sector, she said. Dr. Kosmidou's paper is a statement of the meeting.

Dr. Sebahattin Gazanfer, Secretary General of the Exporters' Unions of the Aegean Region, Turkey, gave a historical review of the cotton industry in his country. He said that Turkey was a net exporter from 1950 to 1992 but became a net importer after 1993. Turkey had no government support mechanism between 1994/95 and 1997/98, but last season a premium system was applied, and no decision has been taken for the current season. During the last six years, the role of cooperatives in market price formation has been greatly reduced, and the premium system has been introduced only in extremely depressed market conditions, he said. Dr. Gazanfer's presentation is a statement of the meeting.

Mr. Tommy Malone, President of the American Cotton Shippers Association, USA, explained the historical, economic and political reasons for the existence of subsidies in the USA and underlined that the Secretariat's paper covers some, but not all, of the myriad forms of involvement by governments in cotton producing nations. He said that in many developing nations, government measures are the dominant force in the economy. Mr. Malone described current U.S. programs and current conditions in the USA. He said that the U.S. economy is founded on a strong domestic agricultural base and free trade among nations. The objective is a gradual phase-out of government involvement in agriculture that will be a long evolutionary process, he said. Mr. Malone's presentation is a statement of the meeting.

Dr. Hsin-hua Wu of China (Taiwan), Director-Commercial Division of the Taipei Economic and Cultural Office in Houston, was the last speaker on the panel. Dr. Wu underlined the importance of cotton imports for the economy of his country and described briefly the current situation in the textile industry in China (Taiwan). He said that the price of cotton is important for China (Taiwan), but there are also other concerns related to quality problems, the timing of

delivery, unsatisfactory services, lack of cotton promotion and assisting producers to get in touch with users. In the process of accessing the WTO, China (Taiwan) supports regulatory rules in the WTO agricultural agreement, which are the elimination of export subsidies and the reduction of government subsidies, he said. Dr. Wu's presentation is a statement of the meeting.

The delegate of AUSTRALIA expressed deep disappointment that the U.S. Congress recently approved Step-2 funding. The delegate proposed a motion that ICAC members recognize the negative impact of the renewed Step 2 on the world market. Australia also proposed that the statement of the plenary meeting include a declaration that members agree on reducing export subsidies, market access barriers and domestic support in the WTO round. Finally, Australia proposed that the Secretariat update its paper on government measures to include subsidies and export barriers in textiles and apparel. The delegate's remarks are a statement of the meeting.

The delegate of ARGENTINA stated the full support of his government for the position of Australia, and asked the Secretariat whether there are studies evaluating the effect of subsidies on planted area and production.

The SECRETARY GENERAL said that he is not aware of any recent study that can answer this question. The Secretariat had conducted studies in the past, but given the changes of government measures over time, the results are not applicable in the current situation, he said. The SECRETARY GENERAL mentioned that the Secretariat could update this study next year, but an extension to the paper on the issue of subsidies in textiles and apparel is not possible due to resources and time constraints.

The delegate of the UNITED STATES expressed its disappointment for the statement of Australia because it introduced subjective, emotional elements into the analytical work of the ICAC, and made clear that consensus is not possible. He said that the Secretariat did not analyze the impact of policies of individual countries and did not prove that these measures cause price distortion. The delegate quoted the statistician of the Committee, who had reported that expectations for higher exports by China (Mainland) and uncertainty about the recovery of East Asian markets are keeping prices at low levels. Finally, according to the U.S. delegate, the appropriate organization for this discussion is the WTO and not the ICAC. He said that the ICAC should focus on the promotion of cotton.

The delegate of BRAZIL said that he understood that cost structures varied from country to country, and that the introduction of corrective incentives by governments had become necessary. He said that low prices are in nobody's interest and state aid policies are shortsighted since low prices affect the ratio between labor costs and

raw materials. The delegate said that the 58th Plenary should urge those member countries that currently employ government programs to reconsider their policies. His remarks are a statement of the meeting.

The delegate of PARAGUAY supported the statements of Argentina, Australia and Brazil. He said that prices are low due to subsidies. He noted the fact that the two countries with the greatest subsidies currently offer the cheapest prices in the A Index and that Paraguay believes that cotton promotion is important, but unless prices go to higher levels Paraguay will be in a very difficult position. He requested the elimination of all subsidies. His remarks are a statement of the meeting.

The delegate of SOUTH AFRICA supported the views of the countries that requested the elimination of subsidies. South African production has declined significantly due to low prices, which are caused by subsidies in some parts of the world. The delegate said that South Africa may increase tariffs if subsidies are not eliminated in the next WTO meeting and supported the statements and motions of the Australian delegate. His remarks are a statement of the meeting.

The delegate of COLOMBIA stated the need to eliminate all subsidies, otherwise, Colombian products could not compete in the international market because productivity achievements and cost reductions would always be stifled by developed countries' government aid. The delegate defined these practices as disloyal and as an encouragement of illicit crops. He stated his disagreement with some countries' position (United States and Greece), who consider ICAC's function only that of promotion, and who believe that the issue of subsidies should be dealt at WTO. The delegate said that he would submit a statement on this subject because (i) WTO is the forum for devising multilateral agreements and solving trade disputes among countries; (ii) ICAC is the cotton sector's own forum and as a body affiliated with the UN on cotton matters, it is only natural that it perform economic studies of the cotton sector that include government aid and subsidies; (iii) despite being presently competitive, the Colombian cotton sector cannot afford to compete with subsidized cottons being marketed under real costs, therefore, it is vital for Colombia that all subsidies be eliminated; (iv) in addition, subsidies negatively affect the rational use of natural resources. His remarks are a statement of the meeting.

The delegate of INDIA shared the view that export subsidies distort the market and should be eliminated, but added that India did not agree with the specificity of the motion naming a specific country and program. His remarks are a statement of the meeting.

The delegate of SPAIN expressed his gratitude for the excellent organization of the meeting. He

said the Secretariat study does not include estimates of the effect of subsidies on prices. The delegate said that this issue should be discussed in the WTO and he opposed the proposals of Australia. The delegate stated that he was sure that the proposals of Australia did not have the consensus of the ICAC. His remarks are a statement of the meeting.

The delegate of CHAD congratulated the Secretariat on the report and emphasized the negative consequences that low prices have for his country. He said that Chad has no means to subsidize prices and has been hurt by low international prices the last years. The delegate underlined that taxes on exports are not a subsidy but a necessity in his country. Through these taxes, Chad is able to gather adequate income to provide public services. He said that the Step-2 program is a market distortion and the true victims are developing countries. Chad supports the rapid elimination of subsidies in all countries, he said. His remarks are a statement of the meeting.

The delegate of GREECE said she supported the position of Spain.

The delegate of BELGIUM stated that subsidies are a very sensitive political issue, and she supported the position of Spain. Her remarks are a statement of the meeting.

The delegate of MALI said that cotton is the white gold of Mali and that Mali suffers the consequences of international low prices. The Government of Mali does not have the means for government intervention, despite the fact that thousands of lives in his country depend on the income coming from cotton production. Mali asks for the immediate elimination of cotton subsidies in all cotton producing countries, he said. His remarks are a statement of the meeting.

The delegate of ARGENTINA stated that the ICAC is the proper forum for discussion of all issues related to cotton and he expressed his disagreement that these issues should be discussed only in the WTO. The delegate also noted that the plenary meeting of the ICAC stood above the Standing Committee and the executive director in authority over the work program of the Secretariat. He mentioned that during Steering Committee meetings, the plenary meeting often establishes policies and provides instruction to the Standing Committee, and the Standing Committee in turn passes the instructions to the executive director for execution.

The CHAIR tried to summarize the discussion. He said that the Australian motions did not have consensus, though many countries seemed to agree on several points.

The delegate of BRAZIL suggested a withdrawal of the reference to Step-2 and to the specific ICAC member country in order for consensus to be reached.

The delegate of COLOMBIA expressed his belief that the Secretariat had the ability to study textile and apparel matters, given the quality of the annual reports. According to Colombia, the Secretariat could extend the paper on subsidies to the textile and apparel industries, he said.

The delegate of SPAIN once again expressed his view that consensus had not been reached on the Australian proposals.

The delegate of AUSTRALIA stated that there was common ground in the opinion of several countries.

The CHAIR observed that the discussion was becoming circular and repetitive. He offered to work with the Secretary General and First Vice Chair of the plenary meeting to develop a compromise proposal on the issue of government matters affecting cotton for consideration during the meeting of the Drafting Group. He observed that delegates found this solution acceptable.

The Fifth Plenary Session was adjourned at 3:35 pm.

ATTACHMENT

Working Paper II

Government Measures Affecting Cotton

Report from the Secretariat

Introduction

The Secretariat was instructed by member governments at the 57th Plenary Meeting to carry out a study documenting government measures affecting cotton production, ginning and trade. The purpose of the study is to facilitate discussion of the subject within the ICAC.

The scope of the study is to list the measures applied by member governments that affect production, ginning and trade of cotton and to provide estimates of the overall assistance to the cotton industry. To the extent possible, the same information is to be provided for non-member governments with relatively large cotton sectors. To this end, the Secretariat prepared a survey that was sent to member and non-member governments in mid-December 1998. The Secretariat has received responses from 13 member governments and collected information on China (Mainland) and Mexico. In addition, the Secretariat requested information from the World Trade Organization (WTO).

The existing WTO Agreement on Agriculture calls for a continuation of reforms of the agricultural sector in order to reduce government aid and protection substantially and progressively. As the coming round of negotiations will be centered on access to markets, domestic aid

to agriculture and export subsidies, it is of interest to the world cotton sector to document the experience of countries regarding reform and current government programs that provide aid or protection to the sector.

The WTO monitors developments related to the Agreement on Agriculture in three main disciplines: market access, domestic support and export subsidies. The WTO provided the Secretariat with the search criteria necessary to consult over 750 documents gathered through the WTO member-country notification system. No document was found in which a country notified WTO on a development specifically related to cotton.

The Secretariat has compiled and produced documents on government regulations periodically since 1958. To this end, the Secretariat has relied over time on annual surveys of member countries. The last document, published in 1991, reviewed barriers to trade in cotton and cotton textiles. The 1991 document summarized information on duties, taxes, subsidies, and quantitative and administrative restrictions on cotton lint and cotton yarn and fabrics.

The trend over the last 40 years has been toward the lowering of tariff barriers regarding cotton lint. While in 1958 a number of countries imposed significant duties on the importation of cotton lint, many of these duties were eliminated by 1991. For instance, among the countries that export cotton lint, duties in Argentina, Colombia, Greece, Mexico, Pakistan and Turkey, that ranged between 5% and 150% in 1958, were reduced to zero by 1991. Some of these countries restored duties to cotton lint in the following years, but the new duties were at far lower levels than in the past. In importing countries, duties that ranged between 6% and 12.5% in 1958 in China (Taiwan), Italy, and the Republic of Korea were eliminated by 1991.

Countries did not often report export subsidies, but many countries had them in place between 1958 and 1991. During the 1990s, however, as a result of the advancement of trade negotiations under the Uruguay Round of the GATT, export subsidies were discontinued in many developing cotton-exporting countries. This study suggests that direct export subsidies were in place in two countries in 1998/99.

Production subsidies remained virtually unchanged between 1958 and 1991. In a 1986 report, 13 countries reported having production subsidies in the form of price or income programs. During the 1990s, income and price support programs were discontinued in several developing countries. This study suggests that direct income or price support programs were still in place in eight countries in 1998/99.

Direct Assistance to Production

Information gathered by the Secretariat suggests that 53% of world cotton production benefited

in 1998/99 from direct income or price support programs. Of 76 cotton producing countries, support programs directed at cotton production were in place in eight countries: Brazil, China (Mainland), Egypt, Greece, Mexico, Spain, Turkey and the USA. The level of assistance varied from country to country. Assistance per pound of lint in 1998/99 ranged from 89 U.S. cents in Spain to 3 U.S. cents in Mexico. Overall assistance provided by governments in the eight countries amounted to US\$4.8 billion, ranging from an estimated US\$2.7 billion provided in China (Mainland) to US\$15 million provided in Mexico.

In 1998/99, as international prices deteriorated, subsidies to production increased. International prices, as measured by the Cotlook A Index, declined from a season average of 72.2 cents per pound in 1997/98 to 58.9 cents in 1998/99. As a result, the level of direct assistance to production worldwide increased from US\$3.7 billion in 1997/98 to US\$4.7 billion in 1998/99. Subsidies to production are in the form of price support programs in four of the eight countries that subsidize production directly. In addition, income support programs in the remaining four countries were reinforced in 1998/99. The level of direct assistance to production declined in two countries in 1998/99.

Brazil

The Brazilian support program for corn, cotton, rice, soybeans and dry beans includes credit to finance production at low interest rates, and includes a minimum price support program for each commodity. Cotton growers are currently eligible to borrow up to R\$300,000 (equivalent to about US\$163,000) at interest rates well below market rates (9.5% in 1997/98 and 8.75% in 1998/99, compared to short-term interest rates in Brazil of 24% in March 1998 and 45% in March 1999). The minimum price guaranteed by the government was about R\$7 per arroba or 62 U.S. cents per pound of lint in 1997/98. The government secures the marketing of cotton through the Production Distribution Program (Programa de Escoamento da Produção) by which the Brazilian government pays the difference between the minimum price and the market price whenever the market price is below the minimum. During 1997/98, market prices were above minimum prices through February 1998. However, during the remaining five months, when most of the Brazilian crop is marketed, market prices were, on average, 3.5 U.S. cents per pound below minimum prices. The support price for 1998/99 is set at the same level of R\$7 per arroba. However, with the currency devaluation, the minimum guaranteed price for 1998/99 was 55 U.S. cents per pound. Market prices in 1998/99 were about 5.3 U.S. cents below minimum prices. Based on this average price differential and the level of production, it is estimated that assistance by the Brazilian government to the cotton sector through the price sup-

port program amounted to US\$29 million in 1997/98 and US\$49 million in 1998/99.

China (Mainland)

The cotton market in China (Mainland) is fully controlled by the government. The government determines the level of prices, imports and exports of cotton. Regardless of demand and supply conditions, government organizations known as cotton and jute companies must buy the entire cotton crop at a national procurement price established by the government. In an effort to encourage production, procurement prices increased from 47 U.S. cents per pound in 1993/94 to 77 U.S. cents in 1997/98. Procurement prices do not reflect the cost of ginning, packaging, storage and transportation of cotton, which is estimated at 20% of the procurement price. In 1997/98, the procurement price was 4.5 cents per pound of lint above the Cotlook A Index, and the difference between the procurement price plus 20% for other costs of production and the Cotlook A Index was 20 U.S. cents. The difference increased to 27 U.S. cents per pound in 1998/99. By setting procurement prices above international prices, the government of China (Mainland) provides assistance to growers through a system comparable to a price support program.

Based on the level of production and the estimated assistance per pound, the Government of China (Mainland) provided an estimated US\$2 billion in assistance to growers in 1997/98 and US\$2.7 billion in 1998/99. The government of China (Mainland) has recently reformed the cotton price and distribution systems. Policies in the early 1990s, designed to allow farmers greater freedom in the marketing of cotton, textile mills more freedom in purchasing cotton and limited scope for price fluctuations, were withdrawn when low production resulted in tight supplies, rising prices and black market sales of cotton. Now, with several years of better-than-expected harvests and substantial imports resulting in ample stocks, the government is trying again. As of September 1, 1999, new policies in China (Mainland) allow domestic cotton prices to be influenced by market factors. The government will still set a guide or reference price for cotton. Nonetheless, actual prices are now negotiated between buyers and sellers and could go below the reference price. For 1999/00, the government has set the reference price at 10,000 yuan per ton (55 U.S. cents per pound), 22% lower than the procurement price for 1998/99 and 30% lower than in 1997/98. The Government of China (Mainland) is seeking to reduce large stocks of cotton and plans to broaden marketing channels by allowing state mills to procure cotton directly from farmers. The government is attempting to reduce production in eastern provinces such as Hebei, Shandong and Henan, while stabilizing output in the western Xinjiang Autonomous Region. Xinjiang has been

the fastest advancing cotton area, accounting for 1.38 million tons, or 31% of total production, in 1998/99.

Egypt

The government of Egypt announces a floor price every year based on the cost of production and assumptions about international prices. Floor prices are often above international prices resulting in a de facto price support program. In 1997/98, prices paid to growers for Giza 75 (a variety of Egyptian cotton used as the reference in calculating price supports) were equivalent to US\$1.38 per pound. The Egyptian minimum price was about 32 cents above prices in North Europe for Giza 75. As prices paid to growers do not include ginning and transportation to the Egyptian port, which is an estimated 6 U.S. cents per pound, the assistance in 1997/98 is estimated at 38 U.S. cents per pound. Similarly, the Egyptian minimum price was 7 U.S. cents above prices in North Europe, and the assistance in 1998/99 is estimated at 13 U.S. cents per pound.

Based on the level of production and the estimated assistance per pound, the government of Egypt provided an estimated US\$290 million in assistance to growers in 1997/98 and US\$66 million in 1998/99. During the 1990s, the government of Egypt has implemented policies to bring market concepts into the cotton sector. For years, Egyptian farmers were required to fulfill production and marketing quotas established by a government ministry. Since the 1993/94 crop year, although the government still establishes single-variety planting areas and influences planting decisions, growers are allowed to choose production practices. Growers are required to deliver all cotton to co-operative collection centers, which act as agents for public and private cotton trading companies.

European Union

Assistance to cotton growers in Greece and Spain is determined by the Common Agricultural Policy of the EU (CAP). Under the CAP a support program operates to provide assistance to growers. The CAP includes support for wheat, corn, barley, rye, oats, rapeseed, sunflower, soybeans, cotton, dried pulses, dry beans, tobacco, beef, and lamb. Under the CAP oilseed income support program, support payments are made to ginners, who are required to pass the higher prices to growers. Advance assistance payments are based on estimates of seedcotton production and the difference between market prices and a published guide price. The CAP also influences the quantity of cotton produced by a maximum guaranteed quantity of seedcotton for which assistance is provided. The maximum quantity guaranteed is 782,000 tons of seedcotton for Greece and 249,000 tons for Spain. The maximum assistance provided to cotton growers in the EU is ECU\$770 million per season (equivalent to US\$864 million in 1998/99), which is usually allocated in its entirety. Exchange rates

used to convert EU assistance into local currency are often more favorable than market rates. The EU provided an estimated US\$559 million to growers in Greece in 1997/98 and US\$560 million in 1998/99. Spain obtained an estimated US\$211 million from the EU in 1997/98 and US\$204 million in 1998/99. Greek growers obtained an average of 86 U.S. cents per pound produced in 1997/98 and 74 U.S. cents per pound in 1998/99, and Spanish growers obtained 82 U.S. cents per pound in 1997/98 and 89 U.S. cents per pound in 1998/99. The cotton growing regions of Greece and Spain are among the lowest-income regions in the EU, and the income support for oil seed producers is viewed as a form of economic assistance.

Mexico

A support program for wheat, corn, sorghum, barley, rice, cotton, dry beans, soybeans, and safflower was implemented in Mexico in 1993 and will be phased out in fifteen years. Under this program, known as PROCAMPO, direct assistance is provided to growers based on cultivated area, and every year the government announces the amount of assistance per hectare. In 1997/98 and in 1998/99, the government provided assistance to growers at a rate of US\$63 per hectare dedicated to cotton, equivalent to about three cents per pound with an average yield. Total direct assistance provided by the Mexican government to cotton growers was US\$13 million in 1997/98 and US\$15 million in 1998/99. Other provisions of the support program in Mexico include technical assistance, assistance for growers that choose to buy price risk coverage instruments, and assistance for crop insurance. Given the financial difficulties faced by the Mexican government after a domestic financial crisis in 1994, and the current global financial crisis, assistance did not increase in 1999/00 and growers reduced area dedicated to cotton by 36%.

Turkey

The government generally uses the Agricultural Sales Cooperatives Unions (ASCUs) for the implementation of price support programs. Although the share of ASCUs' purchases varies between 10% and 30%, the cooperatives play a significant role in the price development of the domestic market. The ASCUs' procurements of seedcotton from growers can be realized in two different forms:

- *Procurement on cooperatives accounts (private).* This type of procurement involves no governmental subsidy. The cost of indirect price support is partly borne by the ASCUs and partly by the textile sector, which is the ultimate buyer of cotton from the market. During the 1997/98 season, there was no governmental price support, since the ASCUs' purchases were on their own accounts.

Types of Cotton Procurements Implemented in Turkey

Crop Year	Number of Years	Type of Purchase
1949/50 - 1965/66	17	no government support
1966/67 - 1987/88	22	support price mechanism
1988/89 - 1990/91	3	no government support
1991/92 - 1992/93	2	support price mechanism
1993/94	1	premium system
1994/95 - 1997/98	4	no government support
1998/99	1	premium system
1999/00		not yet announced

• *Procurement on treasury accounts (public).*

This type of procurement involves the government subsidy due to the minimum support price mechanism implemented by the ASCUs. However, the amount of subsidy is limited to the ASCUs' purchases only and it is given only if a loss occurs from these purchases. The textile sector is still partly the carrier of the burden, if any, arising from its purchases of cotton from the market.

For the 1993/94 season the government introduced what is known as "the premium system." In this system, a procurement price is set at the prevailing world market price. All the growers are entitled to a premium payment calculated on the basis of seedcotton deliveries to either cooperatives or private ginneries. The premium system was implemented again in 1998/99, when extremely unfavorable weather conditions created heavy losses. The premium, which was set at 10 US cents/kg of seed-cotton, made a significant contribution to the recovery from the losses arising from bad weather as well as from the depressed cotton market conditions. Since the premium is paid from treasury accounts, this type of support is fully provided by the government. For the 1998/99 season, this support is calculated to be US\$220 million.

Governmental support in Turkey was largely practiced between the years 1966-1987. Since 1988, governmental support has been minimized and only introduced when cotton price developments were considered unfavorable to growers.

USA

In the USA, a support program for wheat, corn, sorghum, barley, rice, cotton, and oats was implemented in 1996 to replace previous programs. Typically, a U.S. grower is given assistance through two different mechanisms. A Loan Deficiency Payment (LDP), calculated each week as the difference between the average loan rate and a weekly Adjusted World Price (AWP), and a Production Flexibility Contract Payment (PFCP), a fixed payment to compensate growers for the loss of previous assistance linked to prices. Because the AWP was above the average loan rate in 1997/98, there was no LDP provided that year. The PFCP provided to growers amounted to US\$597 million in 1997/98 and US\$953 million in 1998/99. Other assistance

provided by the U.S. government to cotton growers includes export credit guarantees, assistance to exporters and domestic consumers when prices are unfavorable in relation to international prices, and assistance to cotton research and promotion programs.

government assistance in 1997/98 and 20% in 1998/99. Of 51 cotton producing and exporting countries, support programs directed at exports of cotton are in place in two countries: China (Mainland) and the USA. Average assistance per pound exported in China (Mainland) was 10 U.S. cents per pound in 1997/98 and 13 U.S. cents in 1998/99. Exports are subsidized in China (Mainland) through direct payments made by the central government to exporting agencies. The direct payments are designed to bridge the difference between international market prices and the internal cost of buying, ginning and transporting cotton to an export location. Assistance in the USA averaged 4.3 U.S. cents per pound in 1997/98 and 4 U.S. cents in 1998/99. Overall assistance provided by the governments of China (Mainland) and the USA amounted to US\$157 million in 1997/98 and US\$123 million in 1998/99. Most assistance in 1997/98 was provided to U.S. exports, as China (Mainland) only exported 6,000 tons. However, in 1998/99 China (Mainland) provided a third of the overall assistance.

Technical Assistance

In most cotton producing countries, the government provides some form of technical assistance to cotton growers. For instance in Argentina, a country where the government does not intervene in the cotton market, research and technical assistance are provided by the government through the National Institute of Agricultural Technology. Similarly, in Colombia, research and technical assistance are provided to growers through a government institution, the Agricultural Institute of Colombia, and a private institution, Corpoica. In India, the government provides research and technical assistance as well. India also has a minimum price support mechanism set by the government, but market prices have been well above minimum prices for more than a decade.

Direct Assistance to Exports

Information gathered by the Secretariat suggests that 28% of world cotton exports benefited from

Other Trade Measures

Some countries provide tax rebates as an incentive to export. Zimbabwe, for instance, reports that for fiscal year 1999, a tax rebate of 8% will be provided to companies exporting over 50% of their production, and ginning companies expect to qualify for this preferential treatment. In contrast, several countries tax cotton exports. Syria reports that exports of cotton are assessed a tax rate of 21.5%. Syria also taxes cotton production with a rate of 9% of value. Many other

Level of Assistance Provided by Governments to the Cotton Sector Through Production Programs *

Country	1997/98			1998/99		
	Production	Average Assistance per Pound Produced	Assistance to Production	Production	Average Assistance per Pound Produced	Assistance to Production
	1,000 tons	US cents	US\$ millions	1,000 tons	US cents	US\$ millions
China (Mainland)	4,602	20	2,013	4,501	27	2,648
USA	4,092	7	597	3,031	14	953
Greece	348	86	659	385	74	660
Turkey				871	11	220
Spain	116	82	211	104	89	204
Egypt	342	39	290	230	13	66
Brazil	370	4	29	420	5	49
Mexico	209	3	13	219	3	15
All countries	10,079	17	3,811	9,761	22	4,814

* Income and price support programs only. Credit and other assistance not included.

Level of Assistance Provided by Governments to the Cotton Sector Through Export Programs

Country	1997/98			1998/99		
	Exports	Average Assistance per Pound Exported	Assistance to Exports	Exports	Average Assistance per Pound Exported	Assistance to Exports
	1,000 tons	US cents	US\$ millions	1,000 tons	US cents	US\$ millions
USA	1,633	4	156	915	4	81
China (Mainland)	6	10	1	147	13	42
All countries	1,639	4	157	1,062	5	123

countries tax exports of cotton, including Egypt, countries in the Francophone zone in Africa, India, Pakistan, Sudan, Tanzania, Uganda, and others. For several developing countries, export taxes represent an important source of government revenue.

Most non-producing countries that import cotton have no tariff for the importation of cotton.

In contrast, producing countries generally have tariffs, but they vary widely. The level of tariffs applied to cotton, nonetheless, has declined since the Secretariat's last survey on barriers to trade in 1991. Japan and the United Kingdom report no tariffs on cotton. Argentina, Brazil, Paraguay and Uruguay, which together form the Southern Common Market (Mercosur), assess a common tariff of 9%. The Andean Community of Nations,

made of Bolivia, Colombia, Ecuador, Peru and Venezuela, assesses a common tariff of 10%. The United States assesses a tariff on cotton depending on staple length and country of origin that ranges between 0 and 36.8 cents per kilogram. The U.S. government issues special quotas for imports of cotton with lower or no tariff assessments.

Sixth Plenary Session

Thursday October 28, 1999, 2:30 pm
Mr. Allen Helms Jr. in the Chair

The CHAIR noted that reducing the cost of production was very important and during these difficult economic conditions it was necessary for the cotton industry to confront this issue. He said that the National Cotton Council (NCC) of the U.S. considers this issue a high priority as it seeks to return profitability to the cotton industry.

The CHAIR introduced Dr. Rafiq Chaudhry, Head of the Technical Information Section of the Secretariat, to present a report on the cost of producing cotton. Dr. Chaudhry reported that based on the surveys conducted by the Secretariat he has observed that it is difficult to make comparisons among many countries. However, data from some countries could be compared reliably. He noted that cost of production has increased because of higher fertilizer use and insecticide applications. Dr. Chaudhry said that data from Syria showed that cotton could be grown successfully by spraying only 2% of the total area and with only one spray per season. He noted that possible options to reduce costs of production are strict implementation of recommended technology, transgenic cotton resistant to insects and genetically modified cotton with the ability to tolerate drought conditions and enhance the value of lint. Dr. Chaudhry's presentation is a statement of the meeting.

The CHAIR opened a panel discussion on the issue and invited Dr. Joe Kabissa, General Manager of the Tanzania Cotton Lint and Seed Board to present a paper. Dr. Kabissa indicated that cotton farming in Tanzania is a small order enterprise entirely rainfed and input use is extremely limited. He noted that Tanzania is reacting now to two major shocks in the cotton industry: the first one relates to a structural adjustment program initiated in 1996, which badly affected cotton production in Tanzania because of elimination of subsidies and currency devaluation. He indicated that the second factor was the recent liberalization of the cotton industry leading to volatility and difficulty in financing. He noted that it costs US\$440 to cultivate one

hectare of cotton in Tanzania and that 95% of the costs relate to labor alone and 5% to inputs. Dr. Kabissa said that his government's policy is to reduce costs of production by reducing taxes, supporting large-scale farming, easing access to credit and introducing new technology and training. His paper is a statement of the meeting.

The CHAIR invited Mr. Ralph Schulzé, Executive Director of the Cotton Research and Development Corporation of Australia to present a paper. Mr. Schulzé noted that it is difficult to compare cost of production in different countries because conditions vary too much, but it is possible to identify the break-even yield the farmer must achieve to stay in production. He reported that in Australia, on irrigated land, the cost of cotton production is about US\$1200 per hectare and the break even yield is 4-5 bales per hectare on a cash basis, but including financing it is six bales per hectare. He said that for the coming year, the price risk is too high and farmers could reduce plantings by 10-12.5% in response to negative market signals. Mr. Schulzé noted that the implementation of integrated pest management and the use of biotechnology could reduce the cost of production in the long term, but there is an immediate cost penalty for the implementation of new technology, and Bt cotton is an example. He complimented farmers using the new technology at a cost to them for addressing their environmental responsibilities very seriously.

The CHAIR invited Dr. Francisco Dávila-Ricciardi, President of CONALGODON in Colombia to present a paper. Dr. Dávila congratulated Dr. Chaudhry for his excellent presentation. He noted that the Colombian cotton industry entered a deep crisis in 1991/92 due to a combination of adverse factors, including the opening of the economy; a reduction of tariffs and the elimination of subsidies; and the revaluation of the peso between 1990 and 1998 that increased the cost of production. Dr. Dávila said that it is necessary to reduce the unit cost of production and increase yields. He reported on measures undertaken since 1993 in Colombia to overcome the crisis in the cotton industry, including the creation of a fund to stabilize the

income of producers. He noted that producers transfer money to the fund when prices are high and draw money back when prices are low. Dr. Dávila said that in 1995, a second fund was created to support research and adoption of technology and training, research alliances were formed with universities and private entities, and a National Cotton Plan was adopted that placed high priority on technology and training. He indicated that 3,500 people were trained on integrated crop management and a special technological package was adopted. Dr. Dávila said that a special credit line was arranged through associations of producers, which reduced financial costs. He noted that since the implementation of the program, costs have declined, including inputs and labor, and sustainability and competitiveness of cotton production may have been achieved. Dr. Dávila said that Colombia is ready to share the details and results of its cost reduction program with any country. His presentation is a statement of the meeting.

The CHAIR invited questions and comments. The delegate of the UNITED KINGDOM stated that the UK does not grow cotton but has a 110-year history of cotton production research around the world. He noted that pesticides in Asia represent some 40-45% of cash production cost, and 20% of total costs, and there are successful scientific trials to reduce the use of pesticides by 50%. He said that these achievements are not being implemented and the difficulty arises in the number of farmers around the world, 30 to 40 million in Asia alone, and there are no extension services to pass messages to that number of farmers. The delegate suggested that a focus on extension meetings could bring large reductions in costs.

The delegate of BRAZIL addressed a question to Dr. Chaudhry regarding a statement in his presentation that it was not possible to reduce costs by increasing yields. He pointed to the successes in Brazil in yield increases and asked Dr. Chaudhry to clarify the source of the statement.

Dr. Chaudhry explained that his statement meant that in most countries it is not possible under current growing conditions to improve yields,

because available technology has been utilized. However, he noted that it is quite possible to improve yields substantially in a number of countries such as Turkey and India, with current technology.

Dr. Kabissa referred to the statement of the UK delegate concerning extension services. He said that the information should be available to ex-

tension people in a consumable form, and he supported the proposal to engage extension services more actively in order to reduce costs.

Dr. Dávila said that, based on Colombia's experience, it is best to implement new technology at one example farm, and then extend the experience to all farmers. He noted that one exception is the use of pesticides, as the whole area

should be treated at the same time to be effective.

The CHAIR thanked the panel and recognized the representative of the World Bank who said that a special report on World Commodity Markets, including cotton, was distributed at the meeting.

The CHAIR adjourned the meeting at 3:45 pm.

Closing

Friday October 29, 1999, 11:00 am
Mr. Allen Helms Jr. in the Chair

The CHAIR called the meeting to order. He announced that the Steering Committee had approved the Statement of the 58th Plenary Meeting, which would be distributed at the close of the session. The CHAIR also announced that the Committee had accepted an invitation to hold the 59th Plenary Meeting in Australia.

The CHAIR recognized the delegate of AUSTRALIA who invited the audience to go to Cairns, Australia, in November 2000 for the 59th Plenary Meeting. He said that it was a great pleasure to be in South Carolina to discuss the major challenges faced by the cotton industry and to learn of the many advances in cotton production worldwide. He added that in Australia preparations for the plenary meeting were already underway and that 750 people were expected. He mentioned that Cairns had been selected as the site of the meeting because of its spectacular environment including the world's largest reef system. He also mentioned that cotton is one of Australia's agricultural success stories, being the world's fourth largest exporter and the leader in sustainable agriculture in the country. With about 96% of the crop exported, cotton represents AU\$1.5 billion in export revenue, he said. He reiterated his invitation to the 59th Plenary Meeting.

The CHAIR thanked the delegate of Australia for the invitation and said that it would be a pleasure to go to Cairns.

The CHAIR invited delegates to make closing remarks.

The delegate of ARGENTINA expressed thanks and congratulations to the Government of the United States, local authorities and the people of Charleston for their hospitality. He highlighted the significant participation and support of the agro-industrial cotton sector of the USA. He said that delegations were leaving Charleston in sadness, as they were unable to stay a few more days in this beautiful and historical city. He also congratulated the Standing Committee, the executive director and the Secretariat for their work and the high quality of the documents prepared for the meeting. He also thanked other delegates for their willingness to find an answer to the

current problems of the cotton market and the team of interpreters for their outstanding job. Finally, he hoped to be in Australia in 2000 to see the latest developments in cotton technology.

The delegate of AUSTRALIA thanked the U.S. government and all the agencies involved in the organization of the plenary meeting. He said the 58th Plenary Meeting was a gracious meeting and acknowledged the work of the Secretariat to make it a successful one.

The delegate of PHILIPPINES joined the delegates of Argentina and Australia to express thanks to the USA. He said that as the Report of the Executive Director stated, today as 60 years ago, the cotton market faced challenging times and that the ICAC was now stronger.

The delegate of SOUTH AFRICA thanked the Government of the United States and the host committee for the arrangements of a most successful meeting. He mentioned that this meeting had found the correct balance between administrative and cotton related issues. He thanked the executive director and the staff of the Secretariat for their contribution. He thanked the corporate sponsors of the meeting for the field visit and the social gatherings, and other delegates for their contribution in making the 58th Plenary a fruitful and worthwhile meeting. He wished all a safe trip back home and looked forward to be in Cairns, Australia in 2000.

The delegate of SUDAN extended his gratitude to the United States and South Carolina governments and to U.S. cotton agencies for the warm hospitality and the opportunity offered to visit a historical place in the USA. He thanked the Secretariat, the interpreters and other delegations for their effective participation in the meeting, and Australia for the invitation to hold the 59th Plenary Meeting in Cairns.

The delegate of TANZANIA echoed the sentiments of previous delegations in congratulating the Secretariat for the background work and the organization of the meeting. He thanked the U.S. government for the warm hospitality and the invitation to come to Charleston.

The delegate of TOGO expressed satisfaction and gratitude to the executive director and other

member countries for having recognized Togo as a member of the Committee. He said he had had great interest in the various conferences and the debate during the week and appreciated the high quality of the information. He also said that Togo was now, along with other important cotton nations, part of the big cotton family that ICAC was, and that this represented an improvement for the cotton sector of Togo. He thanked the Government of the United States for its hospitality. The remarks of the delegate of Togo are a statement of the meeting.

The delegate of TURKEY congratulated the U.S. government for its hospitality; the Standing Committee, the executive director and the staff of the Secretariat for the preparation of the meeting; and other delegates for their generous contributions.

The delegate of the UNITED KINGDOM thanked the U.S. hosts for their hospitality, planning and efficiency to make the 58th Plenary Meeting a success. He said that during the 1950s and 1960s the plenary meeting was held every three years in the USA; that during the 1970s and 1980s, it was held every five years; but that the last meeting in the USA had been in 1989. He added that the wait was well worth it after ten years, as Charleston was a most beautiful and gracious city. He said he was fortunate to be able to see the stunning architecture and enjoy the Southern hospitality. He mentioned that with the establishment of the Private Sector Advisory Panel, 1999 marked a new era for ICAC. He thanked the Secretariat for its vigorous work and the executive director for a successful first year. He also thanked the team of interpreters. He said that the atmosphere of the meeting was very productive and good for the cotton agro-industrial economy worldwide.

The delegate of the UNITED STATES expressed sincere appreciation for the words of other delegations. He thanked the executive director for the excellent management of the meeting and the Secretariat for the good work. He thanked the U.S. organizing committee for their excellent work and the sponsors of the social events. He said that the work of the executive director during his first year has been effective, and that he dealt with unique administrative issues and

reached out to new and old members of the ICAC. He mentioned that the new millennium brings new challenges to the ICAC, and that improvement and change has already started with the vitality of a new executive director, the development of a Private Sector Advisory Panel, and a new format for plenary meetings. He said that the ICAC could make a difference and have a positive impact in the new millennium.

The representative of CIRAD thanked the U.S. organizers for the meeting. He mentioned the professional work of the Secretariat and the high quality of all presentations during the plenary meeting, an extraordinary forum to address cotton problems. He said that CIRAD, as an international cooperation organization, was available to contribute to different cotton projects, par-

ticularly during the current difficult situation.

The CHAIR again thanked all delegates for their participation and comments. On behalf of the U.S. government and the National Cotton Council of America, he said that hosting the plenary meeting had been a pleasure.

The Closing session was adjourned at 11:40 am.

Steering Committee

First Meeting

Monday October 25, 1999, 9:00 am
Mr. F. Ronald Rayner in the Chair

The SECRETARY GENERAL reported that the Government of the USA had nominated Mr. F. Ronald Rayner, President of the National Cotton Council of America and Chairman of the USA Host Committee to serve as Chair of the 58th Plenary Meeting. He gave the chair to Mr. Rayner.

The CHAIR introduced Mr. Paul Morris, Chair of the Standing Committee, as First Vice Chair; Mr. Allen Helms Jr., Chairman of the American Cotton Producers of the National Cotton Council, as Second Vice Chair; Mr. Tommy Malone, President of the American Cotton Shippers Association, as Second Vice Chair; and Mr. David Stanford, Vice President of Marketing, Plains Cotton Cooperative Association, as Second Vice Chair.

The first item of business was the confirmation of the accession to membership in the Committee of the Government of Togo. The CHAIR recognized the SECRETARY GENERAL who reported that the executive director had received a letter from the Ministry of Agriculture, Livestock and Fisheries of the Government of Togo indicating a desire to join the ICAC. He reported that the letter fulfills the requirements stated in the Rules and Regulations of the Committee for accession to membership, and that based on the formula contained in the Rules and Regulations, the initial assessment for the Government of Togo for the remainder of fiscal year 1999-00 was \$7,500. The SECRETARY GENERAL added that Togo is an important cotton producing and exporting country and that the membership of Togo would enhance the status of the ICAC as a forum for discussion of international issues related to cotton.

The CHAIR asked if there was any opposition to confirmation of the membership of Togo and the initial assessment of \$7,500. There was no opposition, and the CHAIR declared that the accession to membership of the Government of Togo and the initial assessment were confirmed.

On behalf of all delegates, the CHAIR offered his welcome to Togo as the newest member of the ICAC.

The second item of business was to approve the agenda of the meeting. The CHAIR noted that delegates had a copy of the proposed agenda and asked if they had comments.

The CHAIR recognized the delegate of ARGENTINA who noted that during the 57th Plenary Meeting in Bolivia a representative from the spinning industry reported on the usefulness of utilizing HVI data. Based on this report, and at the urging of the delegate of Argentina, the seventh paragraph of the Statement of the 57th Plenary Meeting said that the Committee had agreed to discuss at the plenary meeting in 1999 the use of High Volume Instruments and other data for classifying each bale of cotton. The delegate expressed disappointment at seeing that the agenda did not include a plenary session devoted to a discussion of HVI. The delegate noted the importance of the topic and asked the Chair and the Steering Committee to make an effort to provide time for a discussion of HVI during the meeting. The delegate asked that the final statement of the 58th Plenary include a paragraph reflecting the value, according to the reality of each country, of advancing the adoption of HVI testing methods and the use of technical measures of cotton quality as a basis for the commercialization of cotton. He asked that his statement be included in the proceedings of the plenary meeting.

The CHAIR assured the delegate that his comments would be included in the proceedings of the meeting. The delegate of Argentina's remarks are a statement of the meeting. The CHAIR noted that the plenary sessions on Wednesday and Thursday offered opportunities for delegates to comment on the utility of HVI testing methods and the resulting data. He added that every effort would be made to include time for a discussion of HVI during the meeting.

The CHAIR asked if delegates had additional comments. Since no delegates asked to be recognized, the CHAIR concluded that the agenda was approved and he adjourned the meeting at 9:20 am.

Second Meeting

Wednesday October 27, 1999, 4:00 pm
Mr. David Stanford in the Chair

The CHAIR invited Mr. Nick Earlam, Chair of the Private Sector Advisory Panel (PSAP), to present the report from the PSAP. Mr. Earlam read the report (PSAP-2), which is attached. Background information on the PSAP is attached as Working Paper III.

The CHAIR invited questions and comments and recognized the delegate of the UNITED KINGDOM who on behalf of the UK welcomed the contribution made by the PSAP to the work of ICAC. He noted that the Panel was full of ideas and his only concern was that ICAC's limited resources could become overstretched, while governments were unlikely to increase their contributions. He said that it was essential for the business plan to be clear about the prioritization of its work. The delegate noted that the plenary should give the Secretariat as free a rein as possible in the budgeting of private sector-derived money. He said the Standing Committee should provide an option to allocate external-source money separately from the ICAC main budget, and spend the money on a joint Standing Committee/Panel agreed basis. The delegate stated that the UK supports suggestions on infrastructure projects to be put forward to the CFC. The delegate also supported the education recommendation. He indicated that as a member of the CFC, the UK supports projects on infrastructure and education. The delegate noted that the most difficult recommendation for the UK and possibly for other governments was the proposal related to environmental education, and that the ICAC may not be the right forum for this subject. He said that the UK believes that the issue of genetically modified (GM) cotton is so important for the industry, that early action is needed, and the response from this Committee should be to confront any challenge from the media and anti-GM lobbyists. He suggested that could be best achieved through the establishment of a working group, or panel of experts, charged with identifying and providing the benefits from the introduction of GM plants. The delegate for-

mally proposed to include in the Statement of the Meeting that the Secretariat examine the mechanism for establishing such a group, and that the GM-panel report the results of its work in a manner similar to that of the PSAP at an early date. His remarks are a statement of the meeting.

The delegate of BRAZIL congratulated the PSAP for its report and suggested that the proposals should be prioritized. The delegate recommended that the Steering Committee should support the proposal of the PSAP and that the Panel should interact directly with the Secretariat.

The CHAIR recognized the delegate of AUSTRALIA who said that Australia supported the PSAP and welcomed the report, and agreed with the UK and Brazil that the proposals needed to be prioritized and a strategic business plan would be most useful. He said that the list of issues was extensive and that the question was not whether they should be done but rather how. He noted that the Secretariat could act as a broker between different entities, which are already involved in this work. The delegate stressed the importance Australia places on environmental awareness in cotton production and suggested that the ICAC could promote the environmentally sound and responsible use of genetically modified organisms (GMOs). He supported the proposal of the UK to create a working group and for the Secretariat to look into the mechanisms in which the ICAC could be involved. His remarks are a statement of the meeting.

The delegate of INDIA complimented the PSAP for its report. The delegate touched upon the issue of financial support for the ICAC and referred to the view of the Standing Committee that the character of the ICAC should not change. The delegate noted that the Standing Committee had instructed the Secretariat to prepare a paper on principles underlying the collection of external revenues, and India would like to wait for the report. However, once the report was approved, India had no objection to the principle of generating revenues from external sources. The delegate also said that it was up to the Standing Committee or the plenary to prioritize issues, but not the PSAP. On information and education, the delegate supported the proposal by the UK. The delegate pointed to the discussion of the complexity of environmental issues at the Standing Committee. The delegate suggested that the Standing Committee or the plenary, not the Secretariat, should suggest the mechanisms and have money to back it up. The delegate welcomed the proposal of the PSAP on the elimination of subsidies.

The delegate of BELGIUM welcomed the report of the PSAP and referred to the discussion of private sector issues in the Standing Committee. She noted that the ICAC is an intergovernmental organization and cannot become an

agent for the promotion of private interests and should function within its mandate and regulation. The delegate would not support the generation of funds outside the mandate of the organization and would like to see reports from the Secretariat on funding, which were requested by the Standing Committee. The delegate said that the Standing Committee, not the PSAP, should come up with the priorities for activities. She said that concerning the environment and education, the organization could run into trouble if it becomes too closely associated with political issues that do not have consensus among members, in particular on biotechnology, chemicals and pesticides. Her conclusions are a statement of the meeting.

The delegate of ARGENTINA congratulated the PSAP for the work it had done. He noted that some of the proposals were positive and ambitious and should be analyzed in depth, keeping in mind previous decisions. He said that private sector participation should be welcomed, but the character of the ICAC as an intergovernmental organization should not be changed and there should not be confusion about it. The Standing Committee and the plenary should prioritize the work of the ICAC.

The delegate of the USA welcomed the report of the PSAP and called on the Standing Committee to take concrete steps to implement the recommendations, including the development of a strategic business plan identifying activities that could be undertaken in cooperation with the private sector. The delegate proposed to examine development of a mechanism for an environmental-education expert panel as proposed by the UK. He suggested that the Standing Committee could cautiously move forward in defining a partnership with the PSAP while being sensitive to the concerns noted.

The delegate of GERMANY thanked the PSAP for the report and fully supported the proposals. The delegate noted the importance of working out a business plan and pointed to the sensitivity of the environmental issues.

The delegate of SOUTH AFRICA thanked the PSAP for its positive thinking and expressed his opinion that issues related to GM cotton belonged to this organization, being some of the most important issues the ICAC should deal with. His remarks are a statement of the meeting.

The delegate of the PHILIPPINES welcomed the PSAP's report and noted that to move the work of the Panel forward the Standing Committee and the Secretariat might need to study and propose changes in the Rules and Regulations of the ICAC.

The delegate of TURKEY thanked the PSAP for the excellent report and supported proposals to identify priorities and to preserve the role of the ICAC as an intergovernmental organization.

The delegate of ARGENTINA noted that proposals on unified classification of cotton in developing countries should not be seen as an attempt to impose rules from outside, and that this issue was related to the use of HVI and Bt cotton.

Mr. Earlam thanked delegates for their comments and said that the PSAP took its mandate very seriously and was ready to cooperate fully with the ICAC. He said that there was no selfishness in the proposals, and that the Panel was motivated by a desire to serve to the interests of the cotton industry.

The CHAIR invited the Secretary General to present Working Paper IV containing a recommendation from the Standing Committee. The SECRETARY GENERAL read Working Paper IV, reporting that the Standing Committee proposed the following slate of officers for the Standing Committee for the coming year: Mr. Alfonso Pino, delegate of Spain, as Chair; Mr. Lawrence Blum, delegate of the USA, as First Vice Chair; and Mr. Alfonso Liévano, delegate of Colombia, as Second Vice Chair. Working Paper IV is attached.

The CHAIR observed that there was a consensus to accept the recommendations in Working Paper IV.

The delegate of ARGENTINA congratulated the elected officers and expressed his gratitude to Mr. Paul Morris for his chairmanship of the Standing Committee during the past year.

Mr. Blum thanked delegates for the opportunity to work for the ICAC and he praised the work done by Mr. Paul Morris as Chairman of the Standing Committee. He said that Mr. Morris had performed a very difficult job with skill, grace, fairness and effectiveness, and he thanked Mr. Morris for a job well done.

Mr. Pino expressed his gratitude for the trust shown in him and thanked Mr. Paul Morris for an outstanding performance carried out during the last year.

Mr. Liévano expressed his gratitude for being elected as second vice chair of the Standing Committee.

The CHAIR invited the Secretary General to present Working Paper V containing recommendations from the Standing Committee on amendments to the Rules and Regulations of the Committee regarding financial procedures. The SECRETARY GENERAL read Working Paper V, which is attached.

The CHAIR asked for comments.

The delegate of AUSTRALIA said that he strongly supported the amendments, but wanted to place on record that Australia viewed with some concern the findings of the special audit. The delegate thanked the Secretariat and the Standing Committee for implementing the rec-

ommendations of the special audit, which improved the accountability, transparency and management of this international organization.

The CHAIR declared that a consensus had been reached to accept the recommendations in Working Paper V.

The CHAIR invited the Secretary General to present Working Paper VI, containing recommendations from the Standing Committee on amendments to the Rules and Regulations of the Committee regarding membership. The SECRETARY GENERAL read Working Paper VI, which is attached.

The CHAIR asked if any delegate wished to comment.

The delegate of the UNITED KINGDOM referred to the first proposed amendment and proposed to change the word "retired" to "repaid in full."

The CHAIR accepted the change.

The delegate of PARAGUAY asked to clarify what would happen if a country withdraws while being up-to-date in its payments to the Committee.

The SECRETARY GENERAL said that in that case, membership of the country will cease effective the next June 30th and that the proposed change would have no effect on that situation.

The CHAIR declared that consensus had been reached to accept the recommendations contained in Working Paper VI.

The CHAIR adjourned the meeting at 5:40 pm.

ATTACHMENTS

Nick Earlam Chair Private Sector Advisory Panel (PSAP)

We are very grateful to Mr. Paul Morris for the positive way in which feedback to the suggestions made by the panel to the Standing Committee has been received. We wish him well in his new post and hope that the continued positive debate relating to the wider issues of cotton initiated through ICAC will be maintained after his departure.

In formulating our report we were asked to advise on:

- Further options for raising revenue consistent with ICAC's charter as a government forum.
- Possible cotton infrastructure projects that could be supported by the ICAC in seeking support from the Common Fund.
- Specific suggestions on information dis-

semination and education activities for the ICAC.

We believe that in our report to this plenary we have answered the questions required of us by the Standing Committee as well as addressed two more issues that we think need attention, and submit our report for your adoption.

PSAP-2 Report to the 58th Plenary Meeting

The private sector acknowledges the significant import of the ICAC and urges that it develop a strategic plan to assist the individual segments of the cotton industry in the developing and industrialized nations to improve their efficiency and profitability and thereby enhance the net income of the world's cotton producers and to provide its consumers with an environmentally beneficial, competitively priced, comfortable and care free product.

To accomplish these ends the limited resources of the Committee can and should be expanded in order to conserve the limited resources of member governments and to maximize the focus of the Standing Committee to that of addressing the issues facing cotton and formulating goals and objectives to expand the world-wide consumption of cotton.

Given the potential for improving the effectiveness of the ICAC, the PSAP recommends the consideration of the following strategic agenda:

1. Financial Support for ICAC

The PSAP urges the Standing Committee to authorize the Secretariat to explore revenue opportunities that comport with guidelines established by the Standing Committee including fees derived from information and trade booths, registration fees, web site links, publications, seminars, and informational materials. These additional revenues should be utilized to broaden the scope of the functions undertaken by the Secretariat.

Further, the PSAP urges the staff of the Secretariat to immediately develop a business plan to implement these recommendations.

2. Possible Infrastructure Projects Which Could Be Supported by the ICAC in Seeking Common Fund Support

The Common Fund must also be utilized for resources essential to the development of a modern infrastructure in each cotton producing nation to enable cotton to move with cost efficiencies from the field to the consuming textile mills while protecting the interest of the producer and maintaining the integrity of the cotton. This requires that:

- a. Each developing nation or geographical cotton-producing region, understanding the practical limitations within the producing regions,

strive to classify cotton pursuant to new international standards and classification methods.

- b. Upon classification, each bale be assigned a permanent bale identification and/or warehouse number to preserve the integrity of the bale's unique classification and identity for valuation, sale, and consumption.

- c. An infrastructure of warehouses to protect cotton from the elements be established to facilitate the prompt movement of cotton into the channels of trade and locate the warehouses adjacent to adequate roads or rail lines.

- d. A uniform and universally accepted negotiable warehouse receipt system be developed to facilitate the prompt sale and movement of cotton and to enhance the value, security, and beneficial collateralization of cotton, which can help risk management.

3. Information/Education

Limited government resources and trade agreements are resulting in minimal government assistance for cotton producers. This has severely impacted the developing nations causing significant reductions in production that in turn have adversely impacted the economies of the producing regions of these nations. Further, the current world economy has seen a reduction in cotton consumption, which in the face of increased cotton stocks and an over-capacity of synthetic fiber consumption, has resulted in lower prices and a loss of markets to synthetic fibers. Further, there is reason to believe that the various governments of the cotton producing nations will continue to reduce their financial support for the agricultural sector.

a. Risk Management Education

Given these circumstances, it is incumbent on the various governments to embark upon an education program for cotton producers and cooperatives regarding the use of modern risk management alternatives.

It is appropriate that the ICAC be charged with this educational challenge and through the cooperation of established commodity exchanges, financial institutions, and commodity brokerage houses this mission can be accomplished.

b. Trade Practice Education

It is imperative that the ICAC, in cooperation with existing international organizations, educate the world cotton community of the benefit of fair trade practices through the adoption of universally accepted trade rules and an enforceable arbitration structure.

c. Quality Education

The producing nations, through the expanded educational role of the ICAC, must collaborate with the world textile industry and cotton trade on the development of new seed varieties, cultivation, harvesting, ginning methods, bale size

and packaging to assure the delivery of a diverse variety of acceptable qualities which will allow the mills to efficiently manufacture quality yarns and textile products. The issues of concern to the textile mills of neps, short fiber content, and in particular stickiness and contamination must be addressed on a wide scale to encourage the expanded use of cotton by textile mills. The highest priority must be assigned to accommodate the changing quality needs of the consuming textile manufacturers.

d. Environmental Education

The use of cotton in the developed nations faces potential resistance due to increasing and well-orchestrated environmental concerns over the use of biotechnology to develop insect resistant seeds and the utilization of chemicals and pesticides in the cultivation of agricultural products. While the current focus is on food products, this has already impacted the use of cottonseed oil, meal, and cakes in the European Union and could affect cotton yarn and finished textile products.

This issue must be addressed to appropriately educate and inform our governments and assure the consuming public that there are significant benefits to consumers from the adoption of biotechnology, for example, decreased pesticide use. The public must be assured that cotton is an environmentally friendly product which in its planting, cultivation, and processing every precaution is taken to protect the land and water resources in the producing nation and the health and safety of farm and textile workers and the consuming public.

The ICAC strategic plan should include the following issues:

4. Research & Promotion

a. We recommend that as soon as possible the Plenary Meeting be combined with the Cotton Research Conference. This will serve to expand interest and participation in the affairs of the ICAC and provide a great opportunity for revenue potential.

b. Urge all cotton producing, manufacturing, and consuming nations to develop cotton promotion programs. Developing nations hold the best potential for the increased use of cotton. What is lacking is demand, which can be created by developing promotion programs suited to the limited resources and media services in these countries. The growth in demand can and should encourage the establishment of textile manufacturers within these countries or regions with self-sufficiency through the domestic consumption of cotton being the desired end for each cotton-producing nation. It is essential that such an effort begin with the understanding that this would be a realistic first step and not an attempt to imitate the developed countries, particularly the United States who has over the last 40 years developed sophisticated advertising and promo-

tion programs through Cotton Incorporated and Cotton Council International.

5. Role of Government

Urge that governments work towards the elimination of all practices and programs, which distort cotton production and/or trade.

In conclusion, we do believe that we have been as specific as possible in our proposals and that it is for the staff of ICAC to implement these general suggestions upon guidance from the Standing Committee. We stand available to advise further when the ICAC has drafted a specific business plan. We acknowledge the role of the Standing Committee, but we would encourage that the Secretariat be given the latitude necessary to pursue and implement our recommendations, which we believe will expand upon the functions and improve the overall effectiveness and contribution of the ICAC to its member nations.

Working Paper III

Private Sector Advisory Panel

Report from the Standing Committee

Background

In the 60 years since the founding of the ICAC, the structure of the world cotton industry has changed. In all regions of the world, governments are relying increasingly on the private sector to accomplish societal goals of increased wealth and prosperity for cotton producers and processors. Recognizing the changes in world economic policies and practices, the former executive director, Dr. Lawrence Shaw, proposed at the 54th Plenary Meeting in Manila that the Committee develop ways for greater participation of private organizations in the ICAC. Delegates to the 55th and 56th plenary meetings noted the concerns of governments that the intergovernmental nature of the Committee should not be changed and also agreed with the view that the private sector was increasingly important in the cotton industry and that the ICAC needed to be cognizant of these changes. The 57th Plenary Meeting received a recommendation from a Small Group on Private Sector Participation in the ICAC and agreed to the recommendation for the formation of a private sector panel, with implementation of the recommendation being referred to the Standing Committee.

The Standing Committee accepted a proposal from Australia for the implementation of a Private Sector Advisory Panel, based on the recommendation from the Small Group, as a basis for further discussion. The proposal was revised by delegates at the 437th meeting and circulated

for further review. There was a consensus at the 438th meeting of the Standing Committee to forward the proposal to governments for their consideration. The proposal, with additional modifications, was adopted at the 440th meeting of the Standing Committee, and the Secretariat was directed to issue a memorandum for implementation of a Private Sector Advisory Panel (PSAP). The memorandum included an invitation from the Chair ad interim of the Standing Committee to provide nominations for Panel membership. Nominations were received by the Secretariat during February, March and April 1999, and the Standing Committee at its 441st meeting confirmed the inaugural membership of the PSAP. Among the members of the Panel are some of the most respected people in the private sectors of the cotton industries of their countries.

The inaugural meeting of the Panel, with eleven of fourteen members present, occurred on June 8, 1999 in Washington DC, at the office of the Secretariat. The Panel members elected Mr. Nick Earlam, Managing Director of Plexus Cotton Ltd. of Liverpool, UK, Chair of the PSAP. In the report of the Panel (PSAP-1), presented to the 442nd meeting of the Standing Committee, members of the Panel made approximately sixteen recommendations and observations on ways to improve the functioning of the ICAC. Standing Committee delegates expressed appreciation for the contributions of Panel members. Delegates at the 442nd meeting stated that the suggestions offered by the PSAP were interesting and useful and needed to be discussed in detail with governments.

Standing Committee Response

The Standing Committee responded to the recommendations contained in PSAP-1 at its 443rd meeting after consulting with governments. In general comments, delegates stated that they were impressed by the high caliber of the private sector representatives nominated by member countries and felt that the expertise and experience of the PSAP members suggested that the aim of providing a commercial dimension to ICAC business would be fulfilled. Delegates noted that the issues raised by the PSAP were useful in identifying private sector priorities and ensuring that ICAC deliberations are relevant to commercial as well as government concerns. The PSAP report was described as ambitious and impressive. Delegates also affirmed that the existence of the PSAP does not mean that the role of the Standing Committee in addressing issues of importance to the cotton industry should be diminished and that the Panel is serving in an advisory role to the Standing Committee and the Plenary.

The Standing Committee responded to each of the recommendations and observations contained in PSAP-1.

Standing Committee Delegates

The PSAP recommended that Standing Committee Representatives communicate regularly with the recognized and representative cotton industry organizations of their home country on the issues that come before the Standing Committee.

The Standing Committee agreed that there is a high value from communication between member governments of the ICAC and the private cotton industry, as well as between the ICAC and industry. The Standing Committee decided that:

- (1) each member government be encouraged to determine the most appropriate means of communicating with the private sector in their country; and
- (2) the Secretariat should ensure that appropriate industry representative bodies in each country receive ICAC documents.

Private Sector Advisory Panel

The PSAP recommended that the term of service of the inaugural panel should be extended by one year to assure initial continuity.

The Standing Committee decided that given the short tenure of current PSAP members it would not call for new nominations for the PSAP before the 1999 Plenary, as would normally be required by the articles establishing PSAP. Existing PSAP members will therefore be asked to continue to serve until (but not including) the year 2000 Plenary. Nominations for the PSAP will be requested in the middle of next year, with the new panel meeting for the first time at the 2000 Plenary. The Standing Committee affirmed the current arrangements which would enable countries to re-nominate current representatives if desired.

Plenary Meeting Agenda

The PSAP opined that plenary meeting agendas should feature essential issues of concern to the various segments of the cotton industry and that the consideration of government and/or administrative issues should be minimized. Delegations to plenary meetings were encouraged to submit written country statements in advance for publication and distribution at the meeting, and oral presentations of country statements should be confined to a specified plenary session and limited to five minutes. The PSAP agreed that plenary sessions should be conducted in an orderly fashion, with discussion limited, and delegations encouraged to develop a consensus within a reasonable time. The PSAP noted that the U.S. Host Committee had addressed many of these suggestions for the 58th Plenary.

The Standing Committee noted the observations by the PSAP on the agenda of the plenary meetings. The effectiveness of arrangements at the 58th Plenary will be reviewed and considered

in developing the agenda for the 59th Plenary. The Standing Committee emphasized the importance of the plenary meeting as an intergovernmental meeting and, in that context, felt that discussion of governmental matters should not be "minimized."

Secretariat Revenue

The PSAP recommended that the ICAC should authorize insurance carriers, banking institutions, foundations, futures brokerage houses, financial institutions, and computer software vendors to sponsor seminars in cotton producing countries on crop insurance, risk management, producer financing, and production cost management. The Panel agreed that these ICAC supervised educational ventures could be without costs to the ICAC, and contracts could be negotiated to derive a percentage commission from any business generated by these symposia. The PSAP urged that the Secretariat should explore all possible ways and means to exploit revenue opportunities with all of the private sector representatives with whom they interface on a regular basis. The PSAP felt that the income generated from such activities should be utilized to supplement the funding of activities undertaken by the Secretariat, rather than being utilized to reduce the assessments of member governments. And, the PSAP urged that the Secretariat develop a business plan to implement these recommendations, including an appropriate registration fee for all private sector representatives attending plenary meetings.

The Standing Committee accepted the principle that it would be desirable to explore ways to expand the revenue base of the ICAC. It was felt, however, that this should be done in ways which did not fundamentally change the nature of the ICAC as an inter-governmental body and should not in any way compromise, or be seen to compromise, the positions taken by the ICAC. In this regard, collection of registration fees and sponsorship for conferences and seminars were seen as compatible with this objective, but that other practices, such as collection of percentage commission on business generated, would not be compatible. Delegates also insisted that the Standing Committee maintain authority over the budget of the Committee, including the expenditure of revenues from outside sources.

It was agreed that during the 1999-2000 year the Secretariat be tasked to develop two papers for consideration by the Standing Committee: (1) a paper on principles that would apply to the generation of external revenues, (2) a business plan to explore opportunities for expanding revenue. Both papers are to be approved by the Standing Committee prior to implementation. In writing the papers, the Secretariat will seek additional guidance from the PSAP.

Research and Promotion

The PSAP recommended that the World Research Conferences be continued on an ex-

panded basis and that plenary meetings be combined with the research conferences.

The next World Research Conference is scheduled for 2002 in South Africa, and the Committee has already accepted an invitation from Egypt to host the plenary meeting that year. Therefore, as a practical matter, it would be 2006 before a World Cotton Research Conference could be combined with a plenary meeting. The Standing Committee noted that the recommendations from the PSAP will be considered in the future.

Common Fund Projects

The PSAP urged that the Secretariat work with the Common Fund for Commodities (CFC) to fund cotton promotion programs, and that the Secretariat work with the CFC to develop cotton infrastructure, particularly in cotton-producing developing countries.

The CFC has determined that the benefits of generic commodity promotion, while substantial, are not sufficiently targeted on the lowest-income producers in the least developed countries to merit CFC support. Therefore, the Standing Committee felt that it would not be fruitful to pursue CFC funding for projects involving market promotion. However, projects involving the improvement of cotton production infrastructure, especially in developing countries, are to be encouraged, and the Standing Committee will review the list of ICAC Common Fund priorities in the light of the recommendations from the PSAP.

Education

The PSAP recommended that the Secretariat work with the private sector to educate cotton producers and cooperatives regarding the use of risk management tools, that the ICAC foster the education of the world cotton community on the benefits of fair trade practices, that the ICAC highlight the concerns of textile mills regarding the quality needs of the spinning industry, and that the ICAC appropriately inform the consuming public that cotton is an environmentally friendly product.

The Standing Committee noted that it would be important to ensure that an ICAC position was not taken on politically sensitive issues which may not have broad consensus among member countries, such as the environmental impacts of cotton and biotechnology. The Standing Committee directed the Secretariat to prepare a third paper, this a strategic plan for the work program of the Secretariat, to include the PSAP recommendations regarding education. The strategic plan is to be reviewed by the Standing Committee next year as part of the process of approving a budget and work program for the Secretariat. In preparing the strategic plan, the Secretariat will seek additional guidance from the PSAP, and the PSAP will be asked to offer additional specific suggestions regarding the educational activities of the ICAC at its next meeting.

**Annex I to SC-M-440
February 11, 1999**

**Proposal for Implementation of a
Private Sector Advisory Panel
[Amended]**

The 57th Plenary Meeting agreed to a proposal from the Standing Committee to form a Private Sector Advisory Panel. The Plenary referred the task of implementation to the Standing Committee, with the provision that the views of all governments must be considered prior to the establishment of a private sector panel. The Standing Committee was urged to prepare its recommendations within 90-120 days for review by delegations (that is, by mid-January-mid February 1999).

At its 437th meeting, the Standing Committee accepted a proposal from Australia for the implementation of a Private Sector Advisory Panel, contained in Attachment III to SC-N-437, as a basis for further discussion. Based on the discussion at the 437th Standing Committee meeting, the Secretariat revised the Australian proposal, and the result was distributed to governments for their consideration.

At its 440th meeting, the Standing Committee accepted additional suggestions from the USA and India and adopted the proposal as amended. The amended proposal is presented below:

Functions of the Panel

The mandate of the Private Sector Advisory Panel shall be to foster communication between the private sector and member governments by consulting with the Standing Committee and plenary meetings. The basic character and structure of the ICAC as an intergovernmental organization is not to be affected by the Panel or its operations.

Consultations between the Panel and Standing Committee and plenary meetings may cover, but are not limited to:

- strategic issues critical to the long-term growth of the cotton industry;
- matters relating to the format and agenda for the plenary meeting;
- consideration of the mission of the ICAC and how it can foster the development of cotton; and
- exploration of opportunities for financial support of the ICAC and its activities.

Membership

Membership of the panel shall consist of invited industry experts recognized for their knowledge and experience. The industry experts shall be selected to reflect a geographic spread amongst member countries and a balance from the three

composite sectors of the cotton economy, namely:

- growing and ginning;
- marketing, merchandising, trading, shipping and related services, including cotton-related trade media; and
- spinning, textiles and related activities.

With regard to industry membership, there will be:

- no more than one member from any one country;
- at least two members from developed and from developing countries; and
- at least two members from each composite sector listed above.

An additional member having "special qualifications," which do not readily fit into the above categories, may also be approved.

Selection of Industry Members

The Chair of the Standing Committee shall invite member countries to nominate appropriate experts from their country, or from other member countries, who might be invited to participate on the Panel. The Standing Committee shall select the experts to be invited to participate on the Panel from the nominations provided, and communicate this decision to the Plenary. The tenure of each member shall be for one year. However, the terms of members may be renewed if agreed to by the Standing Committee.

Membership shall be reviewed by the Standing Committee prior to each plenary meeting with the view of ensuring the ongoing relevance and commitment of its members. New nominations by member countries will be considered at this time. A regular change over in Panel membership is expected.

The Panel shall select its own Chair.

Meetings of the Panel

The Panel will meet at least twice a year with those members of the Standing Committee who have a desire to participate, and at least one of these meetings will be held with the Plenary Meeting.

The other meeting(s) shall be held in a location to be determined by the Standing Committee, but will usually be held in Washington to facilitate attendance by delegates to the Standing Committee and to limit costs for the Secretariat. The Panel is free to meet independently of the Standing Committee if it so chooses.

Except under extraordinary circumstances (in the judgement of the Standing Committee), the ICAC shall not provide funding for private sector participation in the Panel.

Private Sector Advisory Panel

Australia

Mr. Peter J. Corish
Chairman

Australian Cotton Industry Council

China (Taiwan)

Mr. Steven S.C. Chen
General Manager
Tah Tong Textile Co.

Egypt

Mr. Amin Ahmed Abaza
Chairman Arabia Ginning Co.
Managing Director
Modern Nile Cotton Co

France

Mr. Garabed Kassarian
President
Société d'Importation et de commission

Germany

Mr. Fritz A. Grobien
Partner
Albrecht, Muller-Pearse & Co.

Greece

Mr. John Accas
Shareholder and Manager
Accas-Ten Cate Group

India

Mr. Suresh A. Kotak
President
East India Cotton Association

Italy

Mr. Romano Bonadei
President
Filati Filartex S.p.A.

Paraguay

Mr. Felix Stiegwardt
Representative of CADELPA
TCT Internacional S.A.

South Africa

Mr. Melville C. Ueckermann
Managing Director
Lonrho Agri Business S.A.

Turkey

Mr. Muharrem Kayhan
Chairman
Soktas Cotton

United Kingdom

Mr. Nick P.F. Earlam
Managing Director
Plexus Cotton Ltd.

USA

Mr. Neal P. Gillen
Executive Vice President
American Cotton Shippers Association

Zimbabwe

Mr. Sylvester Nguni
Managing Director
The Cotton Company of Zimbabwe Ltd.

PSAP-1
June 8, 1999
Private Sector Advisory Panel

Report to the
Standing Committee

Premise & Preface

The 56th Plenary Meeting of the International Cotton Advisory Committee (ICAC) appointed a Working Group to discuss with the private sector of the world cotton industry an appropriate role for it to assume in furtherance of improving and/or assisting the ICAC in accomplishing its objectives. The private sector, through its respective government representatives, expressed a strong interest to become involved in an effort to strengthen the role of ICAC, make it a more effective voice for the world cotton industry, and to improve its financial structure. The 57th Plenary Meeting refined and adopted recommendations of the Working Group and thereafter, the Standing Committee established the Private Sector Advisory Panel (PSAP). The PSAP members view their mission as follows:

- The private sector acknowledges the significant import of the ICAC and its under-utilized potential to assist the individual segments of the cotton industry in the developing and industrialized nations to improve their efficiency and profitability and thereby enhance the net income of the world's cotton producers and to provide its consumers with an environmentally beneficial, competitively priced, comfortable and care free product.
 - The private sector recognizes that the limited resources of the Committee can and should be expanded in order to conserve the limited resources of member governments and to maximize the focus of the Standing Committee to that of addressing the issues facing the cotton industry and thereby minimize involvement in management and budget issues which are best left to the professional staff of the Secretariat.
 - The potential for private sector participation is directly related to the opportunity for participation in the process of making the ICAC a more meaningful forum for the presentation of views, develop partnerships, the exchange of information, and the formulation of goals and objectives that could expand the world-wide consumption of cotton.
 - The Private Sector Advisory Panel recommends that the Standing Committee Representative from each member country communicate regularly with the recognized and representative cotton industry organizations of their home country on the issues which come before the Standing Committee to assure open and continuous channels of communication between member governments and their private sectors.
- Given the potential for improving the effectiveness of the ICAC, the PSAP recommends the consideration of the following agenda:
- PSAP Term of Service - The term of service of the inaugural panel should be extended by one year to assure initial continuity in the development of its agenda and to assure that its recommendations are properly addressed and accomplished.¹
 - Plenary Format & Agenda - The US Host Committee for the 58th Plenary Meeting, in Charleston, South Carolina in 1999, has addressed many of the concerns expressed over the years by government officials and members of the private sector with the format of plenary meetings. Comporting with an initial recommendation of the Private Sector Working Group, the agenda will feature essential issues of concern to the various segments of the cotton industry.²
- To attract attendance at and maximize interest in the plenary meeting the consideration of government and/or administrative issue will be minimized. The 1999 plenary meeting format will require the advanced submission of country statements which will be published and made available at the meeting. A specific time will be set aside to present country statements, and government representatives desiring to present such statements at the plenary will be limited to a maximum of five minutes. Further, the meetings will be conducted in an orderly fashion, discussion will be limited, and delegations will be encourage to develop a consensus within a reasonable time.
- Financial Support for ICAC - The PSAP endorses an initial recommendation of the Private Sector Working Group that "the ICAC should also consider authorizing insurance carriers, banking institutions, foundations, futures brokerage houses, financial institutions, and computer software vendors to sponsor seminars in cotton producing countries on crop insurance, risk management, producer financing, and production cost management. These ICAC supervised educational ventures would be without costs to the ICAC and contracts could be negotiated to derive a percentage commission from any business generated by these symposia." Further, it was also recommended that "the staff of the ICAC Secretariat should explore all possible ways and means to exploit revenue opportunities with all of the private sector representatives with whom they interface on a regular basis." Further, the income generated from such activities shall be utilized to supplement the funding of activities undertaken by the Secretariat, rather than being utilized to reduce the assessments of member governments.
- The PSAP recommends that the staff of the Secretariat immediately develop a business plan to implement these recommendations, including an appropriate registration fee for all private sector representatives attending plenary meetings.
- Redefining Mission of ICAC & Strategic Issues Critical to Long Term Growth of Cotton Industry - The focus of the ICAC must enlarge to address the challenges presented to the world cotton industry in the new millennium. A strategic plan must be adopted to address the following issues:
 - Research & Promotion
 - Continue on an expanded basis the World Research Conferences. The success of the 1994 Brisbane and 1998 Athens Conferences should be built upon for the forthcoming 2002 Conference in South Africa. Further, we strongly urge that the plenary meetings be combined with the Research Conferences. This will serve to expand interest and participation in the affairs of the ICAC and provide a great opportunity for revenue potential.
 - Develop with the Common Fund cotton promotion programs for the developing cotton nations. These countries hold the best potential for the increased use of cotton. What is lacking is demand which can be created by developing promotion programs suited to the limited resources and media services in these countries. The growth in demand can and should encourage the establishment of textile manufactures within these countries or regions with self-sufficiency through the domestic consumption of

¹ ICAC Executive Director, Terry P. Townsend, in his April 15th letter to PSAC members stated that though "a regular change over in Panel membership is expected I further expect that as the Panel gains in institutional experience and recognition over the next several years, the Standing Committee and Plenary will increasingly look to Panel members for guidance."

² "The plenary meeting should be a forum designed to address the challenges of competitiveness, the environment, reducing the cost of production, minimizing the use of chemicals on the land, expanding markets through promotion, financing production in developing and industrialized nations, the requirements of the textile manufacturer, consumer preferences, harvesting and ginning developments, crop insurance, trade rules, contract compliance, arbitration procedures & dispute resolution, transportation infrastructure improvements, and other issues that are critical to maintaining cotton as the fiber of preference by mills and consumers."

cotton being the desired end for each cotton-producing nation. It is essential that such an effort begin with the understanding that this would be a realistic first step and not an attempt to imitate the developed countries, particularly the United States who has over the last 40 years developed sophisticated advertising and promotion programs through Cotton Incorporated and Cotton Council International.

- Infrastructure Development

The Common Fund must also be utilized for resources essential to the development of a modern infrastructure in each cotton producing nation to enable cotton to move with cost efficiencies from the field to the consuming textile mills while protecting the interest of the producer and maintaining the integrity of the cotton. This requires that:

- In each developing nation, understanding the practical limitations within the producing regions, strive to classify cotton pursuant to new international standards and classification methods.

- Upon classification, each bale be assigned a permanent bale identification and/or warehouse number to preserve the integrity of the bale's unique classification and identity for valuation, sale, and consumption.

- Establish an infrastructure of warehouses to protect cotton from the elements. To facilitate the prompt movement of cotton into the channels of trade, locate the warehouses adjacent to adequate roads or rail lines.

- Develop a uniform and universally accepted negotiable warehouse receipt system to facilitate the prompt sale and movement of cotton.

- Risk Management Education

Limited government resources and trade agreements are resulting in minimal government assistance for cotton producers. This has severely impacted the developing nations causing significant reductions in production which in turn has adversely impacted the economies of the producing region of these nations. Further, the current world economy has seen a reduction in cotton consumption which in the face of increased cotton stocks and an over-capacity of synthetic fiber consumption has resulted in lower prices and a loss of markets to synthetic fibers. Further, there is reason to believe that the various governments of the cotton producing nations will continue to reduce their financial support for the agricultural sector.

Given these circumstances, it is incumbent on the various governments to embark upon an education program for cotton producers and cooperatives regarding the use of modern risk management alternatives.

The ICAC should be charged with this educational challenge and through the cooperation of established commodity exchanges, financial institutions, and commodity brokerage houses this mission can be accomplished.

- Education & Trade Practices

The ICAC should foster the education of the world cotton community in the benefit of fair trade practices.

- Producing Quality Cotton for Textile Mills & End User

The producing nations, through the expanded educational role of the ICAC, must collaborate with the world textile industry and cotton trade on the development of new seed varieties, cultivation, harvesting, ginning methods, and bale size and packaging to assure the delivery of a diverse variety of acceptable qualities which will allow the mills to efficiently manufacture quality yarns and textile products. The issues of concern to the textile mills of neps, short fiber content, stickiness, and contamination must be addressed on a wide scale to encourage the expanded use of cotton by textile mills. The highest priority must be assigned to accommodate the changing quality needs of the consuming textile manufacturers.

- Environmental Concerns

The use of cotton in the developed nations faces potential resistance due to increasing and well-orchestrated environmental concerns over the use of biotechnology to develop insect resistant seeds and the utilization of chemicals and pesticides in the cultivation of agricultural products. While the current focus is on food products, this has already impacted the use of cottonseed oil, meal, and cakes in the European Union and could effect cotton yarn and finished textile products.

This issue must be addressed to appropriately inform and assure the consuming public that cotton is an environmentally friendly product which in its planting, cultivation, and processing every precaution is taken to protect the land and water resources in the producing nation and the health and safety of farm and textile workers and the consuming public.

The adoption of this strategic agenda will engage the staff of the Secretariat with its member

nations and their private sectors to assure the long-term growth of the world's cotton industry.

Working Paper IV Election of Standing Committee Officers

Recommendation from the Standing Committee

The Nominating Committee met in Washington, DC on June 8, 1999 with delegates from Argentina, Australia, Belgium, China (Taiwan), Egypt, Finland, Germany, France, Greece, India, Israel, Italy, Japan, Philippines, Poland, Spain, Switzerland, Turkey, United Kingdom and the USA present. Mr. Victoriano Leviste of the Philippines was elected Chair of the Nominating Committee.

The Nominating Committee recommended that Mr. Alfonso Pino of Spain be nominated as Chair of the Standing Committee for the period between the 58th and 59th plenary meetings, and that Mr. Lawrence Blum of the USA be nominated as First Vice Chair and Ms. Olga Reyes of Colombia be nominated as Second Vice Chair. The Standing Committee accepted the recommendations of the Nominating Committee at its 442nd meeting.

However, Ms. Olga Reyes was subsequently re-assigned by her government to a post in another country. Consequently, she will not be available to serve as an officer of the Standing Committee during 1999-00. This situation was explained to delegates at the 443rd meeting of the Standing Committee. Delegates were asked to consider a new nomination for the position of Second Vice Chair and to offer their suggestions to Mr. Leviste. Mr. Leviste reported that Mr. Alfonso Liévano, delegate of Colombia to the Standing Committee, had been suggested for the position of Second Vice Chair and that other delegates supported this suggestion. Accordingly, Mr. Leviste, as Chair of the Nominating Committee, nominated Mr. Liévano for the position of Second Vice Chair. Members of the Standing Committee were informed of the nomination, and since there were no objections, the nomination of Mr. Liévano for the post of Second Vice Chair was considered approved by the Standing Committee.

Accordingly, the Standing Committee proposes the following slate of officers to the Plenary Meeting for the coming year:

Mr. Alfonso Pino, Chair
Mr. Lawrence Blum, First Vice Chair
Mr. Alfonso Liévano, Second Vice Chair

Working Paper V

Amendment to the Rules and Regulations

Financial Procedures

Recommendation from the Standing Committee

Background

The finances and financial records of the Committee are audited each year by an independent accountant. The Standing Committee commissioned a special audit in 1998 at the end of the tenure of the previous executive director. While the finances of the Committee were found to be in good order, the audit report highlighted deficiencies in some of the financial procedures followed by the Secretariat. An Ad Hoc Working Group on Special Audit reviewed the Special Audit Report during meetings in January and February 1999, and then forwarded the report to the Standing Committee with comments and recommendations. The Standing Committee reviewed the report from the Ad Hoc Working Group on Special Audit at its 440th meeting in February and decided to recommend to the Plenary the following three amendments to the Rules and Regulations of the Committee.

The executive director and financial officer of the Secretariat worked closely with the Ad Hoc Working Group on Special Audit and the Standing Committee in developing these proposals, and the recommended procedures have already been implemented by the Secretariat. The purpose of amending the Rules and Regulations is to ensure that the procedures are codified and observed in the future.

Proposed Amendments

1. Add to Article VIII, Section 5.a. this additional sentence at the end:

“The Standing Committee shall determine from time to time a threshold dollar amount for checks written on the Working Fund by the Secretariat, at or above which written approval from the Chair of the Standing Committee is required.”

2. Add to Article VIII, Section 5.a. this additional sentence at the end:

“No individual, including the Executive Director, may sign a check drawn on any of the Committee’s accounts to him or herself.”

If recommendations one and two are adopted, the resulting section will read:

“Unless otherwise directed by the Standing Committee, all funds received by ICAC shall go into a Working Fund. The Standing Committee shall determine from time to time a threshold dollar amount for checks written on the

Working Fund by the Secretariat, at or above which written approval from the Chair of the Standing Committee is required. No individual, including the Executive Director, may sign a check drawn on any of the Committee’s accounts to him or herself.”

3. Add to Article VIII, Section 5.b. this additional sentence at the end:

“Each withdrawal from the Reserve Fund must be authorized in specific amount and timing.”

If the recommendation is adopted, the resulting section will read:

“A Reserve Fund is authorized in the amount to be fixed from time to time by the Standing Committee. Withdrawals from the Reserve Fund may be authorized by the Standing Committee, but only when the monies available in the Working Fund are inadequate to cover commitments or liabilities of ICAC. Each withdrawal from the Reserve Fund must be authorized in specific amount and timing.”

Working Paper VI

Amendment to the Rules and Regulations

Membership

Recommendation from the Standing Committee

Background

Twenty-two governments have withdrawn or been suspended from membership in the ICAC since its inception in 1939, and twelve of the countries left the Committee while still owing unpaid assessments totaling nearly \$700,000. The debts to the Committee owed by some countries represent more than twelve years of assessments. The Rules and Regulations of the Committee (Article II, Section 4 g.) state that a government that has withdrawn from membership or whose membership has been suspended shall not be readmitted to membership until all debts due ICAC from that country have been paid.

In March 1999, the Subcommittee on Budget received a letter from a delegate in Washington of a former member country expressing an interest in rejoining the Committee. However, the delegate noted that unpaid assessments from a previous period of membership were a hindrance to renewed membership. The Standing Committee referred the matter to the Subcommittee on Budget for further consideration.

The Subcommittee on Budget met four times in February, March and April 1999 to consider options for changes in the Rules and Regulations regarding the payment of arrears by former members. Six options were identified, includ-

ing 1) maintain current rule, 2) allow repayment in installments, 3) suspend membership retroactively but require repayment prior to renewal of membership, 4) suspend membership retroactively and allow repayment in installments, 5) full exemption, and 6) percentage reduction.

Subcommittee members discussed the issues involved extensively. There was strong interest in having former members rejoin the Committee, and some delegates urged a pragmatic approach to the issue of repayment of arrears. Delegates also expressed sympathy with the current economic difficulties of some countries. However, based on a survey of industry and government contacts conducted by the Secretariat, it was noted that few former members were likely to rejoin the Committee even with a change in the Rules and Regulations because of changes in the structure of the cotton industries or political situations in many countries. Several delegates also expressed strong reservations about creating a precedent within the ICAC for forgiveness of arrears, fearing that such a precedent might encourage other countries to withdraw. There was a parallel concern that a precedent established in the ICAC might be used in other international organizations. However, all delegates agreed that it would be acceptable to allow a deferral of the repayment of amounts in arrears.

At the end of the discussion, the Subcommittee on Budget agreed to recommend to the Standing Committee that the Rules and Regulations be amended to allow deferred payment over five years of amounts in arrears, conditional on the requirement that a country renewing membership remain up-to-date in the payment of current assessments. The Subcommittee also agreed to recommend to the Standing Committee that the Rules and Regulations be amended to clarify that membership is automatically suspended if the assessments of a member are two years in arrears. The Subcommittee felt it prudent to make these changes to the Rules and Regulations and review their impact on attracting renewed membership after one year.

The Standing Committee received the report of the Subcommittee on Budget at its 441st meeting in April 1999 and agreed to forward the recommendations to the Plenary for approval.

Proposed Amendments

1. Amend Article II, Section 4 g. to read as follows:

“A government that has withdrawn from membership under Section 3 of this Article or whose membership has been discontinued under Section 4 f. shall not be readmitted to membership until at least one-fifth of all debts due ICAC from that country have been paid. Membership of the government shall continue only if no additional arrears accumulate while its debt to the Committee is being retired, and only if the govern-

ment continues to pay its debt to the Committee in installments of not less than one-fourth of the remainder per year."

2. Amend Article II, Section 4 f. to read as follows:

Replace the words "all rights" with the words "the membership", and

Delete the phrase "until such time as it has paid in full its assessments, unless the Committee decides otherwise."

If amended, Article II, Section 4 f. would read as follows:

"If the assessment of a member government is in arrears for twelve months, except for a minimal amount, not to exceed 15 percent of its current annual assessment, the Executive Director shall notify the government concerned that, unless payment is received within six months after the date of notification, the provision of documents and other services will be discontinued thereafter. If payment is still not received after a further six months, *the membership* of that member shall be suspended."

Third Meeting

Friday October 29, 1999, 8:30 am
Mr. Paul Morris in the Chair

The CHAIR asked Mr. Allen Helms, who had been elected Chair of the Committee on Cotton Production Research, to report on the Technical Seminar that had been held on October 28. His report is attached.

The CHAIR asked for comments on the report. The delegate of AUSTRALIA said that the Technical Seminar had been informative and that important issues had been discussed. He thanked the Committee on Cotton Production Research and Mr. Helms for their work.

The delegate of ARGENTINA suggested approval of the report. The CHAIR observed that there was a consensus to accept the report.

The CHAIR introduced the subject of the Statement of the 58th Plenary Meeting. The CHAIR explained that the Drafting Group had met for over two hours the previous evening to prepare the draft Statement and that the printed version now before the Steering Committee represented the result of that effort. Mr. Bulent Sahinalp of Turkey had chaired the Drafting Group that had developed the draft final Statement, and the CHAIR thanked him for his efforts, noting that he had done an excellent job. The CHAIR asked the Secretary General to read the draft of the Statement. After the draft was read, the CHAIR asked delegates for their comments.

The delegate of ARGENTINA requested that the Statement be approved as read.

The delegate of TURKEY said he had no substantive objection, but he offered an amendment to paragraph number 8 to improve the structure of the first sentence.

The delegate of INDIA suggested two additional editorial changes, adding that he could also accept the Statement in substance, as drafted.

The delegate of FRANCE expressed concern about the word "industries" when translated into French and Spanish, noting that a literal translation had a narrower connotation than was implied in English. The CHAIR assured all delegates that the translators would be informed of the need to use language inclusive of the full scope of the cotton production, processing and marketing chain as represented in the English version of the Statement.

The delegate of ARGENTINA repeated his call that the Statement be approved as read, noting that innumerable editorial changes were possible. He gave an example of his own, saying that the phrase, "technological parameters" could replace the word "attributes" in the fifth paragraph.

The delegate of SUDAN agreed with the delegate of Argentina that the Statement should be approved as written, noting the potential for lengthy additional debate.

The delegate of BRAZIL said that it was important that the Statement of the Meeting correctly reflect the views of delegates because it would be distributed worldwide, and he noted that the draft Statement as printed did not contain a suggestion that had been agreed to by the Drafting Group.

The delegate of GREECE proposed three substantive changes in the wording of paragraph three, asking that three words be deleted. The delegate asked that the word "only" be removed because subsidies have numerous purposes and impacts. She also asked that the word "production" be deleted in the two instances in paragraph three where it was used in reference to subsidies.

The delegate of ARGENTINA repeated that a paragraph-by-paragraph re-write of the draft Statement would not be appropriate in light of the time spent the previous evening, and he noted that he could not support the suggestions of the delegate of Greece.

The delegate of the UK said that he agreed with the delegate of Argentina that the Statement should be approved as printed because the time for polishing the draft was over.

The delegate of SPAIN supported the suggestion of Greece that the words "only" and "production" be deleted from paragraph three. He said that the draft was acceptable otherwise.

The delegate of COLOMBIA supported the delegate of Argentina in his call to accept the Statement as printed.

The CHAIR suggested that there seemed to be a consensus to accept the Statement as presented. He asked if there were objections. No delegate objected, and the CHAIR declared that the Statement of the 58th Plenary Meeting was approved as printed.

The CHAIR invited the delegate of Australia to make a statement.

The delegate of AUSTRALIA invited the ICAC to hold its 59th Plenary Meeting in Australia, November 5 through 10, 2000.

The delegate of ARGENTINA expressed his satisfaction over the invitation.

The CHAIR observed that there was a consensus to accept the invitation from the Government of Australia.

The CHAIR adjourned the meeting at 9:25 am.

ATTACHMENT

Report of the Chairman of the Committee on Cotton Production Research

Allen Helms Jr.

Ladies and gentlemen, it is a matter of great honor and privilege to present to you the report of the Committee on Cotton Production Research of the ICAC, which I chaired yesterday. The technical seminar was held on the topic of "Fiber Quality Needs of the Modern Spinning Industry and Advances in Ginning Research." Nine papers were presented by scientists from seven countries.

Prof. Marc Renner of the College of Textiles, France, reported that the current direction of improvements in the spinning industry is toward minimizing foreign matter, spinning based on strict qualitative criteria, improving productivity at every step of spinning and shortening the spinning process. He referred to many recent developments in machinery and stated that yarn can now be spun with only 14 fibers in a cross section, and trash can be scanned in the spun yarn. Prof. Renner told about the compact spinning process that produces less hairy, more uniform and even yarn. Regarding finer cottons, he emphasized the importance of fineness and maturity.

Cotton yarn production was one-fourth of all types of yarns produced in China (Taiwan) in 1998, which is 5% more than in 1997. Mr. Steven Chen of the Tah Tong Textile Company stated that in China (Taiwan) spinners now demand cotton with properties that suit high-end spinning needs. Combed yarn has become a major product now. In order to meet the needs of weavers, knitters and other users of yarn, there is a

need to improve yarn strength and evenness. Knitters, particularly, require cotton with a nep count of less than 100 points per 1,000 meters of yarn. Better equipment and newer techniques have also contributed to the priority for fiber characteristics. Replying to questions, Mr. Chen stated that China (Taiwan) is upgrading its spinning to remain competitive in the market. He also said that spinners in his country are willing to pay higher prices for contamination-free cotton. He hoped that farmers have received the message and they are trying to reduce seed coat fragments and neps and enhance maturity and elongation.

Prof. Tadeusz Jackowski from the Technical University of Lodz, Poland, talked about his practical experiences regarding fiber quality. He stated that many fiber quality parameters are interdependent; they can be complementary or they can also be negatively correlated. The spinning process determines the significance of these relationships. He reported on the significance of cohesion and friction coefficients, stiffness, and static electrification of fibers. Regarding neps, Prof. Jackowski advised spinners to take into account not only the number of neps per gram, but also the mean nep size and nep size distribution.

Dr. Charles Chewing of Cotton Incorporated, USA, talked about the Engineered Fiber Selection (EFS) system with particular reference to MillNet. MillNet is computer software developed by Cotton Incorporated to use large volumes of HVI data for preparing suitable mixes for spinning. HVI data for every bale is a prerequisite. Utilization of the EFS system has economic as well as quality benefits. Some benefits are the elimination of the need for testing at the mill because HVI data from the USDA will be used, a reduction in inventory carried by the mill, improved yarn quality with fewer defects, and better management of short fibers. However, replying to a question, Dr. Chewing stated that only mills that use the U.S. produced and HVI-classed cotton can make use of the EFS system.

Mr. Hossein Ghorashi of Zellweger Uster, Inc. reviewed the progress in the development of High Volume Instrument machines. Currently, there are over 1200 machines working in the world. The fourth generation of HVIs has been developed with the objectives of enhancing precision and accuracy of the data, including new measurements, reducing dependence on laboratory conditions, simplifying machine operations and providing solutions and applications. The latest models are capable of measuring 13 characters in 40 seconds. Mr. Ghorashi was asked

about the cost of HVI and its impact on enhancement of value. He observed that it is hard to quantify economic impact because many factors are interdependent. However, Mr. Ghorashi concluded that efficient and correct determination of the fiber quality is in the interest of the seller as well as the buyer.

Dr. Helmuth Harig of the Fiber Institute, Bremen, Germany, talked about fiber properties that are not measured currently. He stated that fineness and maturity are important fiber qualities and should not be extracted from the micronaire value. He recommended measuring elongation in single fiber tensile tests. The other characters he recommended for measurement on a commercial scale included short fiber content, neps, stickiness and foreign matter. Dr. Harig stressed the need to improve the reliability of the data and to harmonize testing procedures. He suggested that future developments must target testing at the single-fiber level. He proposed that ICAC should take over the development of test equipment and internationally accepted calibration standards, which are missing for several procedures.

Dr. Krishna Iyer of the Central Institute for Research on Cotton Technology, India, made a presentation on the fiber quality characters that are still less known and are not measured. Such characters include convolutions, structural reversals, fibrillar orientation, luster, friction, torsional rigidity, wet strength, morphological deformities, single fiber tenacity, linear density and inverse relaxation. Dr. Iyer's institute has studied these characters on various types of cottons and concluded that several affect fiber quality with respect to mechanical and chemical processing. But, their measurement is not becoming common because they have not shown any strong quantitative correlation with other commonly measured characters, and they are also difficult to measure.

According to Mr. Stanley Anthony of the USA, varieties differ among themselves for various characters. Moisture content and cleaning at the gin also have varying effects on seed coat fragments, short fiber content and neps. He went through various stages of the ginning process and said that the Cotton Ginning Research Laboratory at Stoneville, MS, has developed a cotton gin process control system for the benefit of all parties, including farmers. Mr. Anthony stated that the three important components of the system are the capability to use, or not use, cleaning machines, an optimized ginning process based on testing every three seconds and the capability to automatically calibrate electronic sensors used to measure color and trash. Farm-

ers can benefit more than ginners from the gin process control system.

Mr. Keith Thompson of the Templeton Process Developments Ltd. from UK made a presentation on the Templeton Rotary Gin. The objectives of the Templeton Rotary Gin are to achieve the speed of saw ginning and the lint quality of roller ginning. The first prototype was developed in 1996, and the upgraded 1997 model is in large-scale testing now. There have been some problems related to feeding, but now a feeder has been developed that is a part of the gin. According to Mr. Thompson, the Templeton Rotary Gin has a number of advantages in quality improvement over the current systems. He offered to collaborate with anybody interested in trying the new ginning system.

Topic for the 2000 Technical Seminar

Regarding the topic for the 2000 Technical Seminar, the Committee on Cotton Production Research of the ICAC considered five proposed topics from the ICAC Secretariat, four in the working paper and one received from Australia. The delegates from Brazil, Egypt, Greece, South Africa, Tanzania and the representative of CIRAD-CA, France, supported the proposal from Australia. The Committee unanimously decided to hold the next Technical Seminar on the topic "Global Challenges: Environment, Field Production and Processing of Cotton." The Committee also accepted a suggestion from the delegate of India that a detailed program for the seminar should be prepared in consultation with the Standing Committee of ICAC.

The delegate of Australia inquired about progress on the World Cotton Research Conference-3 (WCRC-3). He wanted to know about the possibility of implementing the recommendation made by the Private Sector Advisory Panel regarding holding the plenary meeting and a world cotton research conference together one after the other. Dr. M. Rafiq Chaudhry of the Secretariat informed participants that the ICAC Secretariat has received an invitation from South Africa to host the WCRC-3. Since Zimbabwe, which had already offered to host the WCRC-3, had no objection, the Committee on Cotton Production Research accepted the invitation from South Africa to host the WCRC-3. It was suggested that the WCRC-3 should be organized in the month of February, which will be the off-season in the Northern Hemisphere and the peak cotton season in the Southern Hemisphere. Australia and Greece, who hosted the first and second conferences, respectively, offered their help to South Africa. CIRAD-CA also committed to continue its support for the world conferences.

DOCUMENTS

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| 1. ² Agenda | 7. WORLD TEXTILE DEMAND - October 1999 |
| 2. ¹ Report of the Chairman of the Standing Committee | 8. WORLD COTTON TRADE - October 1999 |
| 3. ¹ Report of the Executive Director | 9. ² THE ICAC RECORDER - September 1999 |
| 4. ¹ COTTON: Review of the World Situation - September/October 1999 | 10. Survey of Cotton Production Practices - October 1999 |
| 5. COTTON: WORLD STATISTICS - October 1999 | 11. Directory - 1999 |
| 6. THE OUTLOOK FOR COTTON SUPPLY IN 1999/00 | |

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| 1. ² Ordre du jour | 7. LA DEMANDE TEXTILE MONDIALE - Octobre 1999 |
| 2. ¹ Rapport du Président de la Commission permanente | 8. LE COMMERCE MONDIAL DU COTON - Octobre 1999 |
| 3. ¹ Rapport du Directeur exécutif | 9. ² THE ICAC RECORDER - Septembre 1999 |
| 4. ¹ COTON : Examen de la situation mondiale-Septembre/Octobre 1999 | 10. Enquête sur les pratiques de production de coton - Octobre 1999 |
| 5. COTON : STATISTIQUES MONDIALES - Octobre 1999 | 11. Répertoire - 1999 |
| 6. PERSPECTIVES DE L'OFFRE DE COTON EN 1999/00 | |

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| 3. ¹ Informe del Director Ejecutivo | 9. ² THE ICAC RECORDER - Septiembre 1999 |
| 4. ¹ ALGODON: Revista de la Situación Mundial-Septiembre/Octubre 1999 | 10. Encuesta sobre las prácticas de producción del algodón - Octubre 1999 |
| 5. ALGODON: ESTADISTICAS MUNDIALES - Octubre 1999 | 11. Directorio - 1999 |
| 6. PERSPECTIVAS DE LA OFERTA ALGODONERA EN 1999/00 | |

WORKING PAPERS¹

I	Procedural Matters	Déroulement de la 58e Réunion plénière	Asuntos de procedimiento
II	Government Measures Affecting Cotton	Les mesures gouvernementales affectant le coton	Medidas gubernamentales que afectan al algodón
III	Private Sector Advisory Panel	Le Panel consultatif du secteur privé	Panel Consultivo del Sector Privado
IV	Election of Standing Committee Officers	Election du bureau de la Commission permanente	Elección de los funcionarios del Comité Permanente
V	Amendment to the Rules and Regulations: Financial Procedures	Amendement au Règlement statutaire: Procédures financières	Enmienda al Reglamento: Del procedimiento fiscal
VI	Amendment to the Rules and Regulations: Membership	Amendement au Règlement statutaire: Qualité de membre	Enmienda al Reglamento: De los miembros
VII	Topic of the 2000 Technical Seminar	Sujet du Séminaire technique de l'an 2000	Tema del Seminario Técnico del 2000

¹ Available in Arabic, English, French, Russian and Spanish.
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