



INTERNATIONAL COTTON ADVISORY COMMITTEE

Private Sector Advisory Panel
Cairns, Queensland, Australia

PSAP- 3
November 7, 2000

Private Sector Advisory Panel Report to the 59th Plenary Meeting

The ICAC has changed much since its inception 61 years ago, and, as is the case with much in the world economy, the pace of change for the ICAC seems to be quickening. Members of the Private Sector Advisory Panel applaud the heightened spirit of cooperation developing between governments and the private sector of the world cotton industry. We welcome opportunities to work constructively with public sector representatives for the attainment of social objectives through policies and programs designed to improve the health of the world cotton economy.

The Private Sector Advisory Panel wishes to acknowledge the hard work of the Standing Committee during the past year in approving the formation of an Expert Panel on Biotechnology in Cotton and in approving the development of a business plan by the Secretariat. Both developments are positive for the world cotton industry and are contributing to an improved focus by the ICAC on issues of importance to those who earn their livelihoods in the cotton sector.

The PSAP acknowledges with appreciation the positive comments about the PSAP offered by members of the Standing Committee. As noted by the Standing Committee, members of the PSAP serve voluntarily at own expense to help ensure that the ICAC continues to move forward. The PSAP is composed of representatives from both consuming and producing countries, from developed and developing countries and representatives from all major segments of the world cotton industry, producers/ginners, shippers and spinners.

Genetically Engineered Cotton

The second report of the PSAP presented to the 58th Plenary Meeting in Charleston urged the ICAC to take a greater role in environmental education. The PSAP notes with satisfaction the formation of an Expert Panel on Biotechnology in Cotton in January of this year and the completion of the Panel's report in August. The PSAP is concerned that an ICAC-member government earlier this year was requested to destroy genetically engineered cottonseed. Further, several governments of member countries are establishing a standard of disapproval of genetically engineered products based on concerns that seem to most in the private sector to be borne mostly of emotion, unfounded fears and philosophy rather than science. The PSAP reaffirms the extraordinary importance of genetically engineered cotton to the world industry and asks that discussions of genetically engineered cotton in the ICAC should be based on sound science. As noted in the report from the Expert Panel, seven national academies of science have indicated that biotechnology holds great promise to alleviate hunger and poverty in the world, and that best science is needed to make wise choices with respect to the new technology. The PSAP urges the Advisory Committee to adopt the report of the Expert Panel on Biotechnology in Cotton and to approve the report for broad public distribution. The PSAP also urges that the ICAC continue to be involved with environmental education to assure the public that cotton is a safe and environmentally friendly product.

Government Measures

The PSAP notes that some governments continue to provide subsidies that distort prices, production and trade in cotton and cotton products, often to the detriment of producers in developing countries. Such subsidies are damaging to the health of the world cotton economy. The PSAP urges governments to continue to work toward the elimination of practices and programs that distort prices, production and trade in cotton and cotton products. Wherever possible, government measures affecting the cotton industry should be designed so that production and trade will be based on market demand.

Common Fund Projects

The PSAP recognizes the potential benefits to the cotton industry of projects funded by the Common Fund for Commodities. The resources of the Common Fund must be applied to the development of

essential infrastructure in developing countries. Projects designed to improve cotton yields, to improve classification systems and develop permanent bale identification systems, and projects to develop cotton marketing and processing infrastructure, including warehouses and universally accepted negotiable warehouse receipt systems, will be of benefit to the world cotton industry.

Price Risk Management

The PSAP recognizes that producers and spinners face substantial uncertainty and increasing competitive pressures in the world cotton economy. Accordingly, efforts to educate cotton industry participants regarding the use of modern risk management alternatives should be encouraged. Educational material should be developed on the use of forward contracts, marketing clubs, options and other derivatives.

In addition, the PSAP notes that futures contracts traded in New York are limited to the delivery of U.S. cotton to U.S. locations. Accordingly prices in New York reflect primarily U.S. conditions. As a consequence, prices for cotton in non-U.S. locations can diverge from New York futures prices, limiting the utility of the New York market for many in the world industry. The PSAP recommends that the ICAC urge the New York Board of Trade to evaluate the development of a viable futures contract for the delivery of non-U.S. cotton. The ICAC should also encourage the development of electronic futures trading for all growths of cotton.

Education

The ICAC should work with other international organizations to educate the world cotton community on the benefits of fair trade practices through the adoption of universally accepted trade rules and enforceable arbitration structures.

The ICAC should facilitate cooperation between producers, the textile industry and the cotton trade to develop new seed varieties, better cultivation, harvesting, and ginning methods, standard bale sizes and packaging material to assure the delivery of a diverse variety of acceptable qualities which will allow 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.

Business Plan

In its report to the Advisory Committee last year in Charleston, the PSAP urged the development of a business plan by the Secretariat to explore revenue opportunities that comport with guidelines established by the Standing committee. The PSAP notes that a business plan has been developed by the Secretariat and approved by the Standing Committee and that implementation has begun. The PSAP regards these as positive developments.

According to the Secretariat, efforts are underway to expand subscription sales of publications, including on-line sales. The Secretariat is developing cooperative relationships with several coordinating agencies on the use of the web. The Secretariat is working with the host committees in Australia and Zimbabwe to expand revenue from plenary meeting registration fees and trade booths. The Secretariat has been able to recover costs associated with travel to national cotton industry events and the supervision of Common Fund projects. The Secretariat has received reimbursement for research conducted primarily for the benefit of another international organization. And, the Secretariat has been reimbursed for costs associated with participation in the Research Associate Program by additional participants from member countries. The PSAP has made several suggestions directly to the Secretariat regarding improvements in implementation of the business plan. For instance, the PSAP reiterates that revenue from trade booths and registration fees at plenary meetings must accrue to the Secretariat. The financial arrangements between the Secretariat and the host committee must be clearly delineated at the time an invitation to host a meeting is discussed.

The PSAP applauds the efforts at revenue enhancement and notes that the improved entrepreneurial culture of the Secretariat and the Standing Committee is being achieved without compromising the integrity of the Committee. The PSAP reiterates that the underlying purpose in encouraging the development of a business plan and efforts at revenue enhancement is to enable an expansion of services to the cotton industry, including educational material, training opportunities and additional research projects. By expanding services without requiring an increase in government assessments, members of the ICAC are in effect paying less for the benefits of the ICAC. It would constitute a missed opportunity if increased revenues received through business plan activities were used mainly to reduce government assessments rather than to expand services to the industry.

Secretariat Salaries

Members of the PSAP are aware that the issue of Secretariat salaries has been discussed before. The PSAP does not wish to generate disharmony, but we note with some concern that Secretariat salaries are not as high as those paid in other international organizations. The PSAP believes that the salaries and benefits paid to members of the Secretariat should reflect their considerable knowledge, skills, experience, productivity and dedication. With this consideration in mind, the PSAP urges the Standing Committee to review the current level of Secretariat salaries and benefits with a view toward ensuring that the Secretariat continues to employ highly capable people.

Plenary Meetings

The Committee has a history of accepting invitations in the order received, and members of the private sector very much appreciate the opportunity to visit all cotton countries. However, experience shows that consecutive meeting in the same region, or even continent, leads to reduced attendance. The Rules and Regulations indicate that meetings of the Advisory Committee should alternate as much as possible between exporting and importing countries, and we believe that observance of this rotation would be of benefit to the Committee as well as the host country. Therefore, the PSAP suggests that the Standing Committee, working with the executive director, take a more pro-active role in the selection of venues for each plenary meeting. The Committee should develop a rolling four to six year program of venues, alternating between producing and consuming countries, preferably trying to rotate from continent to continent and/or hemisphere to hemisphere and favoring safe, accessible and attractive locations that are likely to attract participants. A sequence might be as follows: 2001 Zimbabwe, Poland and Egypt in 2002 and 2003, 2004 South America, 2005 Western Europe, 2006 Central Asia, and 2007 East Asia.

The PSAP also reiterates a suggestion made previously that plenary meetings should be combined with international research conferences. Overlapping research conferences with plenary meetings would capture economies of scale in meeting preparation and logistics, conserve industry time and travel resources and allow plenary meeting participants exposure to a broader range of industry participants. Combining plenary meetings with research conferences would provide opportunities for involvement in the plenary by the entire chain of those engaged in cotton production, processing and marketing, allowing synergistic benefits to accrue to both groups of participants.

Internet Portals

Members of the PSAP are already aware of numerous different Internet portals vying to serve as a platform for online trading of cotton and cotton related products. It is self evident that most of these will fail, sometimes with repercussions to the cotton industry. While the development of e-commerce in cotton is exciting and will in time provide substantial benefits to the industry in the form of reduced transactions costs, there are also potential pitfalls. Mere platforms will not serve the industry well. Most e-commerce sites do not guarantee contract performance and do not have adequate dispute resolution systems, services the PSAP believes should be integral to cotton e-commerce sites. The PSAP suggests that the Secretariat monitor developments in e-commerce in cotton and that the subject be incorporated into future plenary discussions.

PSAP Membership

Membership on the PSAP should be inclusive of all facets of the world cotton industry, including representatives of producers, processors and marketers of cotton and representatives of developing and developed countries. The PSAP urges all ICAC countries to actively recruit representatives from their private sectors for service on the PSAP in coming years.

Contamination

Contamination of cotton bales with foreign matter, honey dew and seed coat fragments continues to be a problem of serious concern to the entire cotton industry. Contamination reduces the value of cotton and provides an incentive for spinners to use alternative fibers to reduce costs and the risks of product defects and damage to machinery. The ICAC has provided significant assistance in the area of education and encouragement regarding contamination, and the PSAP notes that many countries have made significant strides toward the reduction and elimination of contamination. Nevertheless, the problem remains acute. Producing countries should be encouraged to take additional care to avoid contamination in cotton bales. The PSAP recommends that the ICAC continue to educate and raise standards on this issue.

Submitted to the Advisory Committee
November 7, 2000
Cairns, Australia

Fritz Grobien, Chairman