



# INTERNATIONAL COTTON ADVISORY COMMITTEE

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## Report of the 35<sup>th</sup> Meeting of the Private Sector Advisory Panel (PSAP)

Five members of the PSAP met in Bremen, Germany on March 15, 2016 before the start of the Bremen International Cotton Conference. One former member, two observers and the Executive Director joined the PSAP members. The Chair, Mr. Antonios Siarkos, chaired the meeting.

Members present: Fatih Dogan (Mediterranean Textile and Raw Materials Exporters Union, Turkey); Ahmed Elbosaty (Modern Nile Cotton Co., Egypt); Allen Terhaar (Cotton Council International-Cotton USA, USA); João Luiz Pessa (Abrapa, Brazil); and Antonios Siarkos (Siarkos S.A. Cotton Ginning, Greece). Former member present: Suresh Kotak (Kotak and Co., India).

Observers: Dahlen Hancock (Cotton Council International) and Elke Hortmeyer (Bremen Cotton Exchange)

Secretariat: José Sette.

## Report of the 35<sup>th</sup> Meeting of the Private Sector Advisory Panel (PSAP)

### 1. Composition of the PSAP

1. The Executive Director informed that no new nominations to the PSAP had been received since the 74<sup>th</sup> Plenary. Mr. Henning Hammer had sent apologies for his absence.

### 2. Economic study on the factors underlying the growth of polyester production and demand

2. The CHAIR introduced this subject by stressing that man-made fibers, particularly polyester, were the most important threat to cotton. The study proposed by the PSAP and endorsed by ICAC Members would investigate the future directions of polyester, in terms of technology, pricing, environmental and health issues, as well as the effect of government policies.

3. The Vice Chair, Allen Terhaar, made a presentation (attached) on the findings so far, based on the work of ICAC and Cotton Inc. The points raised included:

- The share of polyester in total fiber use has been increasing for more than 25 years. The market share of polyester is especially strong in filaments but has also increased in staple fibers;
- The price of polyester tends to remain below that of cotton;
- China is by far the most important player in the international polyester market, being responsible for 64% of worlds consumption as well as being the largest exporter;
- China was a price-setter in polyester;
- Overcapacity in the polyester sector is likely to continue exerting downward pressure on prices into the future.

4. The scope of the study is divided in three parts:

- a) The first section consisted of an analysis of data already available, to highlight major findings and to avoid duplication;
- b) The second section consisted of an analysis of trade data in order to identify whether the per-unit import values for fiber, intermediate and finished product from China and the rest of the world for different countries follow the same trend observed when analyzing per-unit apparel import values in the USA;
- c) This third section of the study would need to be conducted by an expert, who would perform a detailed analysis of the following issues:
  - What are the drivers, restraints, and challenges affecting the growth of polyester in China?
  - What are the polyester market dynamics and pricing differences between countries?
  - What is the difference in processing cost between cotton yarn and polyester yarn in China?
  - What are the quality improvements in textiles for the polyester versus the cotton industry in recent years?
  - What percentage of technology developments are focused to the cotton industry?
  - Are there new investments in yarn spinning facilities in the US and other Southeast Asian countries (including Vietnam, Indonesia, and Bangladesh) oriented to processing cotton yarn?
  - What are the views of brands and retailers on demand for cotton, quality issues, consumer behavior, and negative press on cotton?
  - How do brands and retailers make a fiber choice of cotton versus polyester, and blends?
  - How do retailers foresee the consumption of cotton versus polyester products in coming years?

The first section had already been concluded and was the basis for the presentation he had just made. The second could be conducted by the ICAC in conjunction with interested participants. This section of the study did not necessarily require additional funding, but could make use of existing

resources. The third section required expert knowledge that was not generally available within the cotton community. Sources of funding would need to be found.

5. The CHAIR thanked Mr. Terhaar for his presentation, noting the many ramifications of competition from polyester. The study must be focused and useful for decision-makers.

6. The Executive Director added that part of the work could be performed by existing resources, including those of ICAC, Cotton Council International, Cotton Incorporated and the National Cotton Council. It would be desirable to incorporate the work of similar bodies in other countries. However, the third section of the study required specific expertise and the hiring of expert consultants would be necessary. He would propose the inclusion of a sum for this study in the ICAC Business Plan (which would be discussed under item 6 of the agenda). However, he doubted that it would be sufficient to cover all the work envisaged. He inquired as to the projected cost of the third section of the study.

7. Mr. Suresh Kotak made the point that the cotton sector must be approached in a holistic manner, including the use not only of lint but also by-products, such as seeds and stalks. India was still predominantly a cotton-consuming country; cotton accounted for about 65% of fiber consumption. In the future, developing processes to make cotton competitive in the technical textiles sector would be important.

8. Mr. Terhaar said that the purpose of the study would be to produce actionable outcomes, including providing guidance to the strategic planning of the ICAC and other cotton-related entities. As to the cost of the third section, this would depend on the degree of ambition of the work. He estimated the cost at somewhere between \$30,000 and \$50,000. He believed that US cotton institutions would be ready to contribute to the funding of the study.

9. As to next steps, Mr. Terhaar recommended:

- That the secretariat circulate the Terms of Reference to PSAP members and request them to rank the possible research items listed in section 3 of the study; and
- the constitution of an ICAC Task Force on the subject.

10. The Panel approved the recommendations made and requested the Executive Director to take the necessary steps within ICAC. In addition, it recommended that the subject of competition from polyester be included among the topics to be discussed at the 75<sup>th</sup> Plenary.

### **3. Efficiencies in cotton trading**

11. The Executive Director referred to the last meeting of the Panel, when Ms. Marième Fall, Counsellor in the Agriculture and Commodities Division of the World Trade Organization, speaking in a personal capacity, made a verbal presentation on relevant processes in the WTO involving the reduction of inefficiencies in international trade, especially the new Trade Facilitation Agreement and the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement).

12. At that time, PSAP members had noted that the standardization of phytosanitary certificates and fumigation procedures was a key element in the facilitation of international cotton trading. They recommended that the ICAC Secretariat should emphasize the importance of this matter in its presentations at WTO cotton meetings and that ICAC Members should support efforts to raise awareness of the importance of this issue within the WTO. They also requested the Secretariat to gather more information on relevant international initiatives, in the Codex Alimentarius and elsewhere, which might reduce these differences.

13. The Executive Director reported that the appropriate international body for all matters related to phytosanitary and fumigation was the International Plant Protection Convention (IPPC),

which has a standard-setting procedure that details how topics are put forward for consideration. Submissions for new topics are reviewed by a Standard Committee and recommended to the Commission on Phytosanitary Measures (CPM). The CPM adds new topics to the List of Topics for IPPC standards, whose next call is scheduled for June 2017. It was important to note that proposals for new topics must be channeled through national or regional plant protection organization(s); the ICAC could not propose a topic in its own name. The Secretariat would gather more information on the process, as well as request liaison status with the IPPC. The Executive Director added that Peter Wakefield had forwarded to him information on a similar initiative in the grain trade. He would try to collect more data on this initiative to see if any developments would be applicable to cotton.

14. PSAP members reported recent cases in which shipments had been rejected despite fumigation at origin. The issue should be given high priority.

#### **4. Terms of Reference of the PSAP**

15. The Executive Director informed that negotiations for the accession of the European Union to the ICAC were well advanced. One of the issues that had not yet been resolved was the representation of the European private sector on the PSAP. Background information on the PSAP, including its Terms of Reference, had been circulated as DG-0016/16 Rev. 1. Membership in the PSAP is restricted to one representative for each ICAC Member. Consequently, the EU would only have one designated representative, while there were three representatives of European cotton entities on the Panel at present. Delegates were keen to know the recommendations of private sector representatives on the best way to preserve the diversity of opinions received from the PSAP.

16. PSAP members agreed that the principle of one representative per member should be maintained. They debated as to the need to formally designate alternates. The point was made that PSAP meetings were traditionally open to interested observers, who were encouraged to take part in proceedings and whose views were taken into account in arriving at a consensus. On the other hand, the formal designation of alternates might motivate attendance at PSAP meetings and give greater weight to any invitation to participate in the PSAP. Members decided to recommend the designation of at most three alternates, while also stressing the Panel's willingness to accommodate and incorporate the views of interested observers. They also recommended that any revision of the Terms of Reference of the PSAP include the extension of the term of office of representatives in the PSAP. The current one-year term was too short, and renewing the nomination often required a lengthy bureaucratic process in Members. They recommended that the terms of PSAP members be lengthened to at least two years.

17. The Executive Director stated that he would transmit the findings of the PSAP to the Standing Committee. This would be useful in the negotiations leading up to the accession of the EU.

#### **5. Membership in the PSAP**

18. Members of the PSAP noted that only 10 of the 35 member countries of the ICAC were represented on the Panel. Once more they urged ICAC member countries that had not yet appointed representatives to do so, in order to broaden the representation of the body. Private sector organizations that were interested in being represented on the PSAP were encouraged to contact their governments.

#### **6. ICAC Business Plan: priorities for spending**

19. PSAP members noted that the ICAC Business Plan had been instituted at the instigation of the Panel and that the PSAP had always provided significant input into the use of the funds raised as a result of the Plan. Since the study on polyester, discussed earlier in the meeting, would require

expertise and data that were not available within the Secretariat, consideration should be given to providing support for this initiative from Business Plan funds.

#### **7. Administrative issues**

20. The next meeting of the PSAP will be held on October 30, 2016, during the 75<sup>th</sup> Plenary. Seeing no other business, the Chair declared the meeting closed.

#### **Attachments:**

Attachment 1: Terms of Reference of the Study on the Economic Factors Underlying the Growth of Polyester Production and Consumption

Attachment 2: Overview of the Study on Polyester