

**REPORT  
of the  
EXECUTIVE DIRECTOR**

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to the 67<sup>th</sup> Plenary Meeting of the  
**INTERNATIONAL COTTON  
ADVISORY COMMITTEE**

Ouagadougou, Burkina Faso

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Mr. Chairman, distinguished delegates, observers and guests, thank you for the opportunity to address this 67<sup>th</sup> Plenary Meeting of the ICAC since 1939.

### **Government Involvement is Necessary**

The world cotton industry is meeting this year with a larger array of problems and a greater degree of economic uncertainty than at any time since the collapse of the USSR in the early 1990s, or even the economic upheavals of the 1970s. In adversity there is opportunity, and events since the 66<sup>th</sup> Plenary Meeting in Turkey offer ample opportunities for concerted<sup>1</sup> actions by government and private sector stakeholders in the cotton supply chain to improve market conditions, the underlying premise for the existence of the ICAC.

Since the 66<sup>th</sup> Plenary Meeting, the cotton market has been buffeted by increased volatility in the New York cotton futures contract, and by changes in relationships between cash and futures prices that have resulted in the closing of long-successful firms and continuing disruptions in the timing of cash cotton sales.

Cotton prices are being affected by prices of competing commodities in ways that have not happened since the mid-1970s when government embargoes on grain and oilseed exports and rising inflation led to a higher level of world cotton prices that persists yet. Perhaps not coincidentally, the costs of cotton production have been pushed higher by greater changes in energy prices than in any year since the 1970s.

Uncertainty about asset values and the valuation of risk in financial markets, and their potential impacts on actual economic growth and inflation, are resulting in greater anxiety about the outlook for world income growth and commodity consumption, including cotton use, than at any time since the recession of the 1970s. Cotton production practices are being criticized for their perceived, and sometimes real, social, environmental and economic consequences in ways that could lead to reduced consumer demand for cotton products. Resource constraints, particularly water and energy, pose challenges for all agricultural industries. Cotton faces an on-going competitive challenge from chemical fibers. The Doha Round has not yet been completed, and subsidies, quotas and tariffs that distort production and trade in cotton and cotton products persist.

These issues and others provide ample content for an international conference involving the governments of cotton producing, consuming and trading countries and representatives of all segments of the private sector. Surely the events of this past year should put to rest the assertion that in an age of reliance on the private sector to self-regulate, self-insure, self-finance and self-promote, the role of governments in commodity industries has been eliminated. The events of this past year, with massive government intervention in markets and efforts to buttress regulation, provide clear evidence that the rationale for the existence of international commodity bodies is as valid today as in 1939 when the ICAC was formed.

### **ICAC Mission**

The mission of the ICAC is to assist governments in supporting a healthy world cotton economy by raising awareness of cotton issues, by providing information necessary for decision-making and by facilitating cooperation among industry segments and governments on matters of shared

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<sup>1</sup> Planned or carried out by two or more people working together or with the same goal. (*Encarta World English Dictionary*)

international concern. The purpose of a plenary meeting is to move forward through agreements to cooperate and through the identification of best practices appropriate for national adoption.

The theme of this meeting, "Technology for Cotton Development," was suggested by Burkina Faso prior to many of the traumatic economic events of the past year. Nevertheless, this theme was chosen with prescience as it provides context for the discussions of this week that will focus on the role of governments in ensuring adoption of best practices to enhance efficiency, increase productivity and achieve social, environmental and economic objectives in the cotton sector.

No city could be more appropriate for these discussions than the capital of this special West African country where cotton exports account for approximately half of merchandise exports<sup>2</sup>. The Secretariat estimates that about two million people on 300,000 farms depend on the cotton sector of Burkina Faso, and that more than 300 million people throughout the world earn their livelihoods from activities associated with production, transportation and handling of cotton. Therefore, this meeting in Ouagadougou provides a highly realistic setting where the implications of development through the adoption of technologies can be readily witnessed.

### **Cotton and Multilateral Trade Negotiations**

There is broad recognition that distortions to production and trade caused by subsidies, quotas and tariffs in agriculture reduce income and lower wealth in producing countries. There is widespread agreement among academics that direct subsidies to agriculture have lost intellectual legitimacy. The venue for negotiation of reductions in agricultural subsidies is the World Trade Organization (WTO), and ICAC meetings have a role in the WTO process by helping to raise the profile of cotton while emphasizing that progress on cotton can only come hand-in-hand with success in the Doha Round. To paraphrase a respected member of the WTO Secretariat, those who love cotton must love the Doha Round, and those who love the Doha Round must love cotton<sup>3</sup>.

A successful outcome to the Doha Round is a strategic objective of the ICAC, and cotton has risen to prominence in the Doha Round partly through the work of this Committee. The First Plenary Session will be devoted to the topic of "What Next for Cotton and Multilateral Trade Negotiations." In light of the challenges of poverty among millions of cotton producers in developing countries, in light of where the Doha Round negotiations ended after the July 2008 Ministerial, and in light of the fact that the cotton issue was not even addressed during the Ministerial, a key question for the ICAC is, "How can closure be reached on the cotton issue in the Doha Round?" A related question is whether there is a case to be made for an "early harvest" on the cotton dossier in the Doha Round. Panelists, along with representatives of member governments of the ICAC, will participate in discussion of these questions. I am confident that all Member Governments of the WTO will take note of the discussions during the First Plenary Session.

### **Biotechnology in Cotton**

The Secretariat has published extensively on the use of biotechnology (genetically modified organisms or GMOs) in cotton from early in the 1990s, before biotech cotton varieties were even released for commercial production in 1996. The Technical Information Section of the Secretariat continues to stay abreast of developments in biotechnology, including latest developments with cotton hybrids and multiple-gene varieties. The Secretariat reports to the Standing Committee on

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<sup>2</sup> UNCTAD Handbook of Statistics 2006-07.

<sup>3</sup> Mr. Chiedu Osakwe, speaking at the annual meeting of the African Cotton Association in Accra, Ghana, March 2007

new developments in biotechnology in cotton. The Committee sponsored two expert panels on Biotechnology in Cotton in 2000 and 2004.

2007/08 was a watershed year in which biotech varieties accounted for more than half of world cotton production. There have been no documented incidents of the development of insect resistance to biotech varieties, nor have there been incidents of adverse consequences on human health or the environment from the use of biotech varieties. There is a growing consensus among scientists that the technology safely reduces insecticide use, thus lowering costs, reducing the impacts of cotton production on the environment and improving human health and safety. Further, there are no indications of consumer rejection of products made from cotton produced with biotech varieties.

Accordingly, the conversation about biotechnology in cotton can now move from whether the technology is safe and should be adopted, to where and how the technology can be usefully employed. The Second Open Session of the 67<sup>th</sup> Plenary Meeting will be on the topic of the lessons learned from the implementation of biotechnology in cotton. The Secretariat worked with the Common Fund for Commodities and other sponsors to organize conferences on biotechnology in cotton in Pakistan in March 2007 and in Ouagadougou in October 2007. The Organization of African, Caribbean and Pacific Countries (ACP) organized a biotech cotton conference in September 2008 in Ouagadougou. Together, these conferences and other publications have amassed a plethora of reports and studies on the use of biotechnology in cotton. The purpose of the Second Open Session is to synthesize lessons learned about the implementation of biotechnology to develop useful guidelines for regulation and adoption.

### **Social, Environmental and Economic Performance (SEEP) of Cotton Production**

No plenary meeting stands alone, and as knowledge and understanding accumulate, the work program of the Secretariat and the agendas of subsequent plenary meetings are affected. At the 65<sup>th</sup> Plenary Meeting in 2006 in Brazil, the Committee was informed that there are negative impacts associated with improper use of pesticide and fertilizer, as well as positive results when properly applied. It was also noted in 2006 that indebtedness linked to input finance and hardship of labor, especially for women and children, are problems requiring additional study. The Committee directed the formation of an Expert Panel on the Social, Environmental and Economic Performance (SEEP) of Cotton Production to provide objective, science-based information on the negative and positive aspects of global cotton production, to gather information on the costs of agricultural labor and the factors that affect those costs, and to make recommendations for further action.

During the 66<sup>th</sup> Plenary Meeting in Turkey in 2007, the Committee heard from the Chair of SEEP who reported that the Panel was collecting information from countries representing diverse farming systems with a view toward issuing a first report to the Committee in 2008. Delegates to the 66<sup>th</sup> Plenary Meeting emphasized the importance of reporting on the legal and social working conditions of those involved in cotton production, together with the related costs per country. It was noted that without adequate remuneration, education and a solid social structure, it is difficult to achieve ecological awareness among farmers and to foster good management practices.

The twelve members of SEEP represent both producing and consuming countries, some are government officials and some are from the private sector, some have practical experience in cotton production and others have research backgrounds. The SEEP Panel gathered an extensive body of information and commissioned a review of the literature on the social impacts of cotton production. Members of SEEP have gathered in person or via conference call more than eight times, and substantial work has been done by e-mail. It is a strategic objective of the ICAC to

develop and encourage the implementation of better management practices that result in sustainable production of cotton. The work of SEEP is contributing to the fulfillment of this objective, and I look forward to receiving the report of SEEP and the discussion with SEEP members during the Third Open Session. In addition, the Technical Seminar during the Fifth Open Session on “Improving the Sustainability of Cotton Production in Africa” and the First Open Session on “The Roles of Government and the Private Sector in Technology Transfer” will further the work of the Committee in the implementation of better management practices for cotton production.

### **“Outside” Variables Affecting Cotton Prices**

The Secretariat began publishing forecasts of season averages of the Cotlook A Index 20 years ago, and over the last two decades numerous efforts have been made to investigate correlations between cotton prices and cotton and non-cotton variables. The Secretariat has investigated correlations between prices of cotton and prices of grains, oilseeds and sugar, between cotton and precious metals, between cotton and oil, between cotton prices one year ahead and cotton futures prices for delivery one year ahead, and between prices of cotton and changes in macroeconomic variables such as interest rates, exchange rates, world GDP growth and GDP growth in certain countries. In all cases, the Secretariat has repeatedly found that there are no consistent or persistent correlations between movements in cotton prices and predictions based on futures prices or movements in variables “outside” the cotton industry. Accordingly, the ICAC Price Model 2007 uses changes in cotton ending stocks and cotton use to forecast changes in the Cotlook A Index.

However, it is abundantly clear that changes in prices of grains and oilseeds are now having a dramatic impact on cotton production, while changes in exchange rates, slower world economic growth and uncertainty about future economic growth linked to disruptions in financial markets are affecting the cotton market. The influences of variables external to the cotton market on cotton prices are reflected in the makeup of the panel for the Fourth Open Session on the Outlook for Cotton Supply and Use. Panel members represent experts in grain and oilseed markets, exchange rates and macroeconomics, along with members of the Secretariat who will report on cotton supply and use. The Fourth Open Session promises to be one of the most wide-ranging discussions on the outlook for cotton prices in the history of an ICAC plenary meeting, encompassing variables rarely considered in the context of the cotton market.

### **Competitive Pressures**

As was discussed last year, there has been strong growth in world cotton consumption and production during this decade linked to technology change, rising incomes, competitive cotton prices and effective research and promotion efforts. However, world cotton production and consumption are now declining because of competition with other commodities, rising prices of cotton relative to chemical fibers and economic uncertainty. Consequently, the competitive pressures existing in the cotton production and processing pipeline are, if anything, more intense than earlier in this decade.

During the 2007 plenary meeting, the Committee recognized that the development of human resources, improvements in quality from fiber to apparel, strong research and development efforts and creative marketing strategies are required for competitiveness. The Committee noted that governments can enhance competitiveness through the observation of social standards and intellectual property rights, the development of a strong investment climate to encourage private initiative and investments in storage, transportation, and communication infrastructure and through support for research and development. Cotton production can be enhanced with regulations that

provide non-distorting incentives for investment in production inputs and with mechanisms for price risk management.

The Sixth Open Session will be on the Competitiveness of African Cotton Production. This session will follow on from the lessons gained last year and from a discussion of competitiveness during the annual meeting of the African Cotton Association in Zambia in March 2008. Enhancing the competitiveness of the cotton industry is a core implicit objective of the ICAC, and this session will help to crystallize recommendations to governments.

## **Membership**

It is self evident that the world economy has changed since 1939, when the ICAC was created. Globalization is no longer a new concept, and the principles of expanding trade, respect for the rule of law, transparent markets and competition are dominant within almost all national economies. Worldwide, the role of governments within national cotton economies is evolving from a past of state planning and managed allocation of resources to a future of increased efficiency and enhanced welfare through private initiative channeled by government regulation and the application of the rule of law in democratic societies. Nevertheless, as noted at the outset of this report, the underlying premise of the ICAC is as valid today as in 1939.

The arguments for continued government membership in the ICAC are strong. The ICAC provides public infrastructure in support of the cotton industry that cannot be performed by the private sector. International commodity bodies serve as instruments of cooperation between developed and developing countries. The ICAC does not intervene in markets, but the Committee influences variables that affect the cotton market. The ICAC supports economic development through technology transfer and improved market transparency. The ICAC is more than just a development agency: the ICAC is an instrument of cooperation and communication to the benefit of all participants in the cotton economy.

Membership in the ICAC is of value to all countries that produce, consume or trade cotton. Membership provides tangible benefits in the form of increased access to statistics and technical information provided by the Secretariat. Membership in the ICAC can lead to increased funding for cotton research through the Common Fund for Commodities. Most importantly, membership in the ICAC provides the avenue for each cotton industry, including cotton textile industries, to join fully into the fraternity of cotton countries in discussions of cotton issues of international scope and significance.

## **Acknowledgements**

It has been a great pleasure to work with representatives of Burkina Faso to prepare for the 67<sup>th</sup> Plenary Meeting. Members of the Organizing Committee have been diligent in preparation for the meeting, and the full resources of the Government of Burkina Faso have been made available to ensure a successful gathering. The Government of Burkina Faso issued an invitation to host a plenary meeting approximately eight years ago when H.E. Tertius Zongo was then serving as Ambassador in Washington. Because meetings had already been scheduled in Zimbabwe in 2001 and Egypt in 2002, it was necessary to delay another meeting in Africa until this year. Therefore, it is a great honor to be able to meet in Burkina Faso now with Mr. Zongo serving as Prime Minister. The name Burkina Faso is roughly translated into English as the Fatherland of the Honorable, and in my experience the name is very appropriate for the many people who have worked diligently to prepare for this meeting.

I am gratified to note that the governments of South Africa and Uzbekistan have extended specific invitations to the Committee to host the next two plenary meetings. I want to acknowledge the Government of South Africa for its flexibility in being willing to advance the date of a meeting in Cape Town from 2010, as originally planned, to 2009 at my request because of the need to begin preparations. I am sure that all preparations for the meetings in 2009 and 2010 will be excellent. All those involved in planning for the meeting in 2009 are aware of the Muslim holy month of Ramadan, and every effort will be made to ensure that appropriate arrangements are made for religious observances. South Africa joined the ICAC in 1991, soon after the ending of Apartheid, and 2009 will be the first ICAC meeting in South Africa.

## **CSITC**

The ICAC Task Force on Commercial Standardization of Instrument Testing of Cotton (CSITC) has accomplished much since its formation in December 2003 following the 62<sup>nd</sup> Plenary Meeting in Poland. Over some two centuries since the invention of the cotton gin, cotton industries tended to develop parochial sets of classes and grades to evaluate cotton quality, with little ability to map directly from one set of standards to another. This patchwork of national classing standards worked well enough for its time, but as competitive pressures between cotton and chemical fibers have grown, and as competitive pressures on textile mills to reduce costs have increased, the need for standardization in cotton quality evaluation has become apparent.

During the last five years, CSITC has agreed to a set of six parameters and methods of testing, and a system of Round Trials involving approximately 80 laboratories around the world is in place. CSITC has adopted a Combined Properties Measurement to enable testing centers to gauge performance and to track progress over successive Round Trials. Arbitral bodies are developing procedures for arbitration of instrument test results based on data from CSITC Round Trials. More than half of world cotton production is instrument tested at the producer level, up from about one-third five years ago, and CSITC is serving an indispensable function of ensuring standardized testing procedures. I extend my thanks to Andrew Macdonald, Chair, and Zbigniew Rostwitalski, Rapporteur of CSITC, and to all members who serve at their own time and expense.

## **CFC Projects**

The ICAC serves as the International Commodity Body for Cotton and Cotton Textiles with the Common Fund for Commodities (CFC). Since the Fund became operational in the early 1990s, a total of 20 cotton projects valued at \$63 million have been supported. The CFC has provided \$5.7 million in loan financing and \$22.9 million in grant financing for the projects. Co-financing has accounted for \$16.3 million and counterpart contributions have accounted for \$18.8 million in total project costs. The work of the Secretariat of the CFC, under the direction of Ambassador Ali Mchumo who serves as Managing Director, is much appreciated.

## **Demand Enhancement**

The work of the International Forum for Cotton Promotion (IFCP) is of great importance. The IFCP is a private sector organization composed of member associations from around the world. The IFCP serves as a clearinghouse for proven techniques of cotton demand enhancement. Maintaining cotton's competitiveness with chemical fibers is an important aspect of an overall industry strategy for competitiveness. The IFCP is ably led by Jeff Silberman, and their Chair this year, Zbigniew Rostwitalski. Both deserve much credit for their leadership.

## **Secretariat**

I want to acknowledge the members of the Secretariat whose organizational work is crucial to the functioning of the ICAC throughout the year, and especially during each plenary meeting. Fred Arriola, Yi Cao, Carmen S. León, John Mulligan, Rosa Soper, and Caroline Taco do much good work for the ICAC and the cotton industry. Rafiq Chaudhry, Head Technical Information Section, is extraordinarily productive. He helps to organize each World Cotton Research Conference at four-year intervals and regional technical conferences each year. Rafiq edits quarterly issues of *The Recorder*, special technical publications, and publications on the cost of cotton production and cotton production practices. He keeps abreast of new developments in cotton research, including organic cotton production, transgenic cotton and developments in fiber testing. Armelle Gruère, Andrei Guitchounts and Alejandro Plastina form an excellent team of economists, balancing real-world trading experience with academic credentials and solid judgment to make ICAC economic reports highly valuable. The three economists forecast cotton supply, use and prices, estimate the supply of extra-fine cotton, and track exports by destination and imports by origin. They measure and forecast cotton consumption and cotton's share of fiber demand in the world and by region, and the Secretariat is the primary source in the world for statistics on fiber demand.

## **Private Sector**

The work of the Private Sector Advisory Panel (PSAP) contributes specifically to the effectiveness of the ICAC. The Chair of the PSAP will report to the Steering Committee during the plenary meeting this year, and the full report will be translated and shared with all participants. John Mitchell of Cargill Cotton serves very ably as Chair of the PSAP, and Sebahattin Gazanfer of the Aegean Textiles and Raw Materials Exporters' Association serves as Vice Chair. All members of the PSAP serve at their own time and expense, and their counsel is highly constructive. The agenda of the PSAP discussion in Ouagadougou includes topics specific to the concerns of the private sector, such as bale size/density/packaging and phytosanitary requirements for cotton, to issues of broad concern such as child labor, climate change and emissions trading, and financial market regulation emanating from the current crisis in the cotton futures market. Neal Gillen of the United States serves as the ICAC representative to the United Nations Commission on International Trade Law (UNCITRAL). His service helps to raise the profile of the ICAC within the UN system and brings increased international attention to the issue of defaults on contracts and valid arbitral awards within the cotton industry.

## **Standing Committee**

I also want to acknowledge the work of the Standing Committee and its officers. Cecilia Marincioni of Argentina, Jacob Pasgo of Burkina Faso and Ashraf El-Rabiey of Egypt ensured that the agendas of meetings were focused and relevant and that meetings of the Standing Committee were conducted efficiently. I also want to acknowledge Benashri Bose Harrison of India and James Johnson of the U.S. who served as Chair and Vice Chair of the Subcommittee on Budget. The Subcommittee on Budget is an unglamorous task, but its work is necessary in providing appropriate oversight and government involvement in the management of the Secretariat.

I thank member countries for the privilege of serving as executive director, and I look forward to a successful 67<sup>th</sup> Plenary Meeting.