

REPORT
OF THE CHAIR
OF THE STANDING COMMITTEE

Patrick Packnett
United States

to the 70th Plenary Meeting of the
**INTERNATIONAL COTTON
ADVISORY COMMITTEE**

Argentina

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Honorable Chairman, Distinguished Delegates to the 70th Plenary Meeting of the International Cotton Advisory Committee (ICAC), Observers and Guests.

On behalf of the members of the Standing Committee and the United States, I would like to express our sincere appreciation to the Government of Argentina and the members of the Organizing Committee for hosting the 70th Plenary Meeting of the ICAC.

Argentina has a very rich history of cotton production and processing dating back to the 16th Century, and its cotton system has evolved to a diverse mixture of small, medium and large producers all contributing to a vibrant farm economy. We are very fortunate to have the opportunity to witness the country's production systems while enjoying the generous hospitality of the Argentine people. It is clear that no effort has been spared by our hosts in ensuring the success of this meeting and for this we are grateful.

Argentina has been a member of the ICAC since 1946, and in addition to this 70th Meeting; Argentina also hosted the 45th Plenary Meeting in 1986. Over the years Argentina has been a consistent and steadfast supporter of the ICAC and advocate for the cotton industry and in particular a strong voice for developing countries and smallholder producers.

We further commend the Government of Argentina and the Organizing Committee on the selection of the theme for this year's meeting Public and Private Sector Roles in the Cotton Value Chain. The further development and expansion of the cotton industry hinges on strong public/private cooperation. Such cooperation has been the foundation of successful cotton industries around the world and the lack of cooperation has led to challenges in addressing the key constraints facing the industry in many producing regions.

Though cotton producers are enjoying high prices and the industry overall is benefitting from improved demand following the recent economic recession, we must continue to focus on the roles the public and private sectors must play to maintain a vibrant international industry. We hope that this plenary meeting provides information to assist the various stakeholders in their institutional roles and provides a platform to enhance cooperation in meeting the challenges and seizing the opportunities that lie ahead.

Mr. Chairman,

The Standing Committee has handled an important and demanding agenda since the last Plenary Meeting held in Lubbock, Texas, USA in September 2010. I am pleased to report that in the seven meetings, one special seminar and one workshop that it has convened this year, the Standing Committee examined issues ranging from extreme price volatility, consideration of an international cotton research center, production programs including organic, Fair Trade, Cotton Made in Africa, and the Better Cotton Initiative, efforts to harmonize phytosanitary certificates for trade in cotton, cotton and multilateral trade negotiations, government measures that distort cotton production, responsible sourcing of cotton, endorsement of the contract for the Executive Director and a difficult negotiation to approve the ICAC budget.

Discussion of these issues in the Standing Committee helped improve our understanding and foster a greater appreciation of diverse views surrounding them. I am also pleased to report that the Standing Committee welcomed the participation of Mozambique to its first Standing Committee meeting and recently granted approval for Peru to rejoin the ICAC.

Volatility in Cotton Prices

Mr. Chairman, following concerns noted about price volatility at the 69th Plenary Meeting and the need for enhanced dialog, the Standing Committee focused attention to this area. For the 507th Meeting on November 23rd, 2010 the Secretariat prepared a report on volatility in prices of cotton and other commodities. The Secretariat's analysis found that in the long run the volatility of cotton prices is similar to that of other raw agricultural products, metals, and food, while it is lower than that of beverages and energy. Across decades, no commodity experienced a consistently rising or falling pattern of price volatility. The Secretariat reported that during 2010, price volatility was falling with respect to its long-term average for 4 out of 6 commodities and rising for 1 out of 6 commodities (including cotton). A second study compared the volatility of the Cotlook A Index and the price of the nearby cotton futures contract on the Intercontinental Exchange by seasons, over the period from June 1999 to October 2010. The study found that between 1999/2000 and 2008/09 futures prices were more volatile than the A Index, but in 2009/10 and during 2010/11, the volatility of the A Index has been similar to that of futures prices. A third study showed that the inter-daily volatility of the A Index increased from the 1970s to the 1990s, but remained stable in the 2000s. However, the inter-day volatility of the A Index rose to a record in 2010/11. The Secretariat noted that tight stocks relative to rising demand, combined with concerns over defaults on contracts, fears of restrictions on cotton exports, and fears of increased imports by China were probably the primary factors explaining the rise in volatility in prices during 2010/11.

The Secretariat presented a historical summary of past efforts to curb cotton price volatility from a report that had been prepared for the 49th Plenary Meeting in 1990. The conclusions of the 1990 paper were that the subject of an international cotton agreement had been studied exhaustively and that no further research into the methods of operation of buffer stocks, trade quotas or multilateral contract agreements was needed. The Secretariat noted in the 1990 report that the problems that hobbled international agreement on a program to reduce volatility in cotton prices (i.e. expense, complexity and equitable treatment of participating countries) could not be solved by quantitative analysis. It was also noted in the 1990 paper that international agreements with economic provisions had fallen from favor, and other provisions to reduce cotton price volatility such as reduction of trade barriers on raw cotton, increased international efforts to improve transparency in the cotton market, particularly data on cotton supply, use and trade policies in China, would be helpful.

Also at the 507th Meeting the Standing Committee heard a report from The World Bank on Strategies for Management of Price Volatility. The World Bank report provided an overview of techniques and strategies that may be used by cotton producers, cotton traders and cotton textile mills to manage exposure to production risks, market risks and environmental risks.

Recognizing concerns being raised and the call for action by some countries to address price volatility, the Standing Committee agreed to place the issue of price volatility on its agenda for the next meeting on December 16th, 2010. Ultimately the Standing Committee in cooperation with The World Bank, conducted a seminar on "Cotton Price Volatility: Transparency of Cotton Supply and Use and Trade Policies," on February 8, 2011. Five presentations were made during the seminar on topics including analysis of cotton price movements, factors influencing prices, volatility of prices of cotton and other commodities, the impacts of price volatility and addressing volatility.

Conclusions from the seminar were that governments could facilitate better decision making in the cotton value chain by improving efforts to collect and publish timely, relevant, accurate statistics on cotton supply and demand, and particularly data on physical stocks. Government policies that are transparent and well publicized would facilitate better private sector planning and that markets

can adapt to changes in policies, but frequent changes in domestic and trade policies force market adjustments that result in added price volatility. A majority of seminar participants agreed that no policy response to the situation of high and volatile cotton prices was necessary, except that governments should be encouraged to improve the collection and reporting of statistics on cotton supply and use, especially stocks, and that governments should strive to maintain a stable policy environment. It was also suggested that the situation of scarcity can best be alleviated in the long run through investments in agricultural productivity. There was general agreement that market participants should make greater use of market-based risk management tools where appropriate.

In line with recommendations to improve the collection and publication of statistics to improve market transparency, the Secretariat provided assistance to a Government agency in China to organize a seminar on best practices in the collection and reporting of cotton statistics. The seminar was conducted in Beijing in June of this year.

Report from the Private Sector Advisory Panel (PSAP)

The Standing Committee received a report from the Chairman of the PSAP at its 508th Meeting. The report indicated the PSAP endorsed the principals associated with Good Trading Practices and reiterated that distortions to production and trade harm the interests of all participants in the cotton value chains of all countries. Likewise interruptions to trade, or policies that establish a precedent for future interruptions, damage the reputation of the cotton sector as reliable suppliers of raw material to textile industries, thus encouraging increased use of polyester by textile mills. The PSAP report noted that, in addition to disciplines on import restrictions, the World Trade Organization (WTO) encourages members to phase out and eliminate export duties and to observe disciplines on export restrictions, and the PSAP observed that the International Textile Manufacturers Federation (ITMF) urged governments to honor the sanctity of contract and refrain from unpredictable interventions in the market.

Proposal for Establishing an International Research Center for Cotton

Mr. Chairman, the 69th Plenary Meeting instructed the Standing Committee to review prospects for the creation of an International Center for Cotton Research (ICCR) and to prepare a report for the 70th Meeting. The Standing Committee discussed this topic at three separate meetings since the last plenary. The Committee reviewed the expert report commissioned by the Secretariat, which suggested the Committee consider three variations for the establishment of an international center: an international center with its own campus, a formal network of cooperating nodes, and a virtual center. While some delegates believed the creation of a virtual center might be possible, others questioned the need for an international center. At subsequent meetings the Secretariat presented proposals for the creation of an International Cotton Solutions Center to be housed within the ICAC Secretariat. However, some delegates continued to ask what failures in existing research structures necessitate the creation of an international center. Delegates noted the need had not been documented and further expressed concern about trying to expand budgets and increase activities in international organizations when many countries were experiencing severe fiscal challenges. At the 512th Meeting the Government of Australia presented a proposal to have a small group of experts develop a strategy for world cotton research that would develop a shared understanding of research priorities and existing capabilities and identify gaps and how the gaps might be addressed. This proposal is included in the Standing Committee's report, which will be presented during the First Open Session for consideration by the Plenary.

Descriptions of Production Programs, including Organic, Fair Trade, Cotton Made in Africa, and the Better Cotton Initiative

At its 509th Meeting, the Standing Committee received a report from the Secretariat describing various production programs aimed at improving cotton production, improving economic returns and minimizing the environmental impact of cotton production among other objectives. The Secretariat reported that such programs had mushroomed in the past decade. The report summarized the four major programs highlighting their objectives, key provisions, requirements, benefits and challenges. In total organic cotton, Fair Trade, Cotton Made in Africa, and the Better Cotton Initiative account for less than 2% of world cotton production.

Farmers are not guaranteed premium prices for participation in the four programs. Cotton farmers gain market access through these specialty cotton programs, but there is no guarantee they will actually be able to sell their cotton and/or receive a price premium over non-specialty cotton. The main barriers to expansion for specialty cottons are the costs of certification or verification, yields that are often below the respective regional averages, and the absence of guaranteed price premiums for certified production.

Efforts to Harmonize Phytosanitary Certificates for Trade in Cotton

Mr. Chairman, as requested by the PSAP and instructed by the 69th Plenary Meeting, the Secretariat gathered information on phytosanitary requirements for cotton in major importing countries. Information for 35 countries was collected and a report was presented at the 509th Meeting. The report indicated there is a wide variance in phytosanitary documentation required from country to country. International Standards for Phytosanitary Measures (ISPMs) were prepared by the Secretariat of the International Plant Protection Convention (IPPC) as part of the United Nations Food and Agriculture Organization's (FAO) global program of policy and technical assistance in plant quarantine. The ISPMs describe specific and detailed principles and guidelines for preparation and issuance of phytosanitary certificates, including a model phytosanitary certificate. The aim is to facilitate trade and avoid the use of non-objective measures as barriers to trade. The Secretariat asked Standing Committee members to distribute the International Standards for Phytosanitary Measures and a model phytosanitary certificate to their appropriate government agencies.

Best Practices to Ensure Responsible Sourcing in the Cotton Value Chain

On May 11, 2011, the ICAC in cooperation with GlobalWorks Foundation held a workshop on Best Practices to Ensure Responsible Sourcing in the Cotton Value Chain. The purpose of the workshop was to showcase responsible practices by reputable performers in the private sector. Four major multinational firms provided insights into the philosophies and practices of their companies. The panelists highlighted that governments could support growth in the cotton value chain by ensuring land rights and contract enforcement, by investing in research and extension, and by enforcing social and environmental standards consistent with international norms.

Government Measures and Multilateral Trade Negotiations

The 511th Meeting the Standing Committee reviewed the annual report from the Secretariat on government measures that distort cotton production and trade. Subsidies to the cotton industry, including direct support to production, border protection, crop insurance subsidies, minimum support price mechanisms and export subsidies, are estimated at \$1.3 billion in 2010/11 down from \$3.2 billion in 2009/10. Five countries provided subsidies in 2010/11, and the subsidies

averaged 5 cents per pound, down from seven countries providing 11 cents per pound on average in 2009/10.

Also at the 511th Meeting a representative of the Secretariat of World Trade Organization provided an update on the state of the Doha Round negotiations. The representative indicated that while great progress had been made on technical issues and quantifying of commitments, an impasse had developed in the Doha Round over issues in the Non-Agricultural Market Access (NAMA) talks. Further, he noted that even if differences were bridged in the NAMA discussions, there would still be difficulties in the talks on agriculture.

Switzerland's Offer to Host the 71st ICAC Plenary Meeting

The Standing Committee in its 509th Meeting on February 3, 2011, unanimously agreed to accept Switzerland's invitation to host the 71st Plenary Meeting in 2012. The Standing Committee is very thankful for Switzerland's unwavering support of the ICAC and its work mandate.

Approval of Standing Committee's Officers for 2010-11

The Standing Committee in its 511th Meeting held on May 26, 2011, unanimously endorsed the nominations of Mrs. Lily Munanka of Tanzania as Chair, Mr. François Schmidt of Switzerland as First Vice Chair, and Dr. Christopher Parker of Australia as Second Vice Chair of the Committee during 2011-12. The nominations have been submitted for final approval during this Plenary Meeting. On behalf of all members of the Standing Committee, I would like to endorse the nominated officers.

The ICAC Budget

In May 2011, the Standing Committee approved a budget for the Secretariat for fiscal year 2011-12 (July-June) of US\$1.974 million. Net of a one-time retirement benefit payment to a Secretariat employee, the 2011-12 budget represents zero increase over the budget for the current fiscal year. I would like to take this opportunity to thank the Chair of the Budget Subcommittee, Mr. James Johnson, the Executive Director and members of the Budget Subcommittee for their hard work in developing a budget, which addressed members' desire to constrain expenditures while ensuring that essential functions of the Committee were maintained.

Mr. Chairman, I will also take this opportunity to express on behalf of all members of the Standing Committee, our sincere appreciation of the excellent secretarial support that the Executive Director, Mr. Terry Townsend and other members of his team provide to the Standing Committee. We deeply appreciate their professionalism and commitment to the ICAC's work.

Once again a hearty thanks to the Argentine Government and the Organizing Committee for the excellent arrangements made for the 70th Plenary Meeting. I wish you all a very productive and memorable meeting.