



INTERNATIONAL COTTON ADVISORY COMMITTEE

Standing Committee
Washington, DC

SC-M-452 Final
March 23, 2001

MINUTES

452nd Meeting of the Standing Committee
Tuesday, March 13, 2001
The Brookings Institution
1775 Massachusetts Ave. NW
Washington, DC

PRESENT:

- Mr. Lawrence Blum (in the Chair)
- Ms. Andrea Preiss, Australia
- Mr. Luc Devolder, Belgium
- Mr. Aluisio de Lima-Campos, Brazil
- Mr. Alfred Wang, China (Taiwan)
- Mr. Alfonso Liévano, Colombia
- Mr. Idrissa Bayo, Côte d'Ivoire
- Mr. Wael Shoaeb Samir, Egypt
- Ms. Michelle Durruty, France
- Mr. Stephen Laetsch, Germany
- Mr. Christos Prapopoulos, Greece
- Dr. S.K. Behera, India
- Dr. Mordehai Cohen, Israel
- Mr. Giancarlo Gobbi, Italy
- Mr. Satoru Takahashi, Japan
- Ms. Chigozie F. Obi-Nnadozie, Nigeria
- Mr. Victoriano Leviste, Philippines
- Mr. Andrzej Dziekonski, Poland
- Mr. Viacheslav G. Grushetskiy
- Mr. Alfonso Pino, Spain
- Mr. Roland Rietmann, Switzerland
- Mr. Alex Massinda, Tanzania
- Ms. Mayanendja B. Nonon Saa, Togo
- Mr. Cumhuri Isbirakmaz, Turkey
- Mr. Tatenda Makono, Zimbabwe
- Dr. Terry P. Townsend, Executive Director
- Mr. Gerald Estur, Statistician
- Mr. Carlos Valderrama, Economist
- Mr. Andrei Guitchounts, Economist
- Dr. Rafiq Chaudhry, TIS
- Mr. Federico Arriola, Administrative Officer
- Ms. Patricia Buignet, Bilingual Assistant

1. Adoption of the Agenda

The CHAIR called the meeting to order at 10:15 AM and welcomed Mr. Mordehai Cohen of Israel and Dr. S.K. Behera of India, who were attending a Standing Committee Meeting for the first time. He also recognized Mr. Gérald Estur who was attending his first Standing Committee Meeting as statistician for the Secretariat, and he welcomed Mr. Tim Barry, a guest presenter from the New York Board of Trade.

The CHAIR asked if there were comments on the proposed agenda, and seeing none found that the agenda was approved.

2. World Cotton Situation (Attachment I)

The CHAIR introduced Mr. Carlos Valderrama, head economist of the Secretariat, to present the world cotton situation. Mr. Valderrama reported that cotton prices on the world market, as measured by the Cotlook A index have declined from 67 to 57 cents a pound since the beginning of the year. He explained that this 10 cents drop is due primarily to increased estimates of production in China (Mainland) and, secondly, to expectations of lower economic performance, mainly in the U.S. but also worldwide. He noted that market fundamentals, with production exceeding consumption in 2000/01, still support higher prices than in 1999/00, and he said that the average season-to-date Cotlook A Index is 62 cents, against 53 cents during the previous season.

He explained that the volatility in cotton prices has affected all sectors of the cotton industry not covered by risk-management tools, and has had a particularly negative impact on the farmers and on the export revenues of countries like Argentina, Australia and Mali. Overall, a one-cent decrease in cotton prices translates into a \$420 million loss in the value of world cotton production. Despite the drop in cotton prices since December, the Secretariat anticipates that world production will rise next season due to increased cotton plantings in China, India, USA and Brazil. At this stage, a moderate increase in world consumption is expected in 2001/02 and China (Mainland) is expected to remain a modest net importer. Consequently, the Cotlook A index is likely to average 66 cents per pound 2001/02. If the deterioration of the world economic situation were to worsen into a recession, consumption and price projections will have to be revised downward.

The CHAIR thanked Mr. Valderrama for his presentation.

The delegate of COLOMBIA asked details about the situation in Mali, and Mr. Valderrama answered that export revenues will plummet as a result of a 50% drop in production this season due to lower cotton prices in 1999/00 and to the reorganization of the cotton sector.

The CHAIR introduced Dr. Rafiq Chaudhry, Head, Technical Information Section of the Secretariat to present a report on new developments in genetically engineered cotton. Dr. Chaudhry reported that genetically engineered cotton varieties were grown on more than 5 million hectares in 2000/01, representing 16% of world cotton area, and that cotton represented 12% of all area planted to genetically engineered crops in 2000.

He said that researchers have developed a new Bt cotton with a second Bt gene Cry2Ab called Bollgard[®] II. Cry2Ab has been added to a cotton variety named DP 50 that already has the original Bt gene called Cry1Ac. Bollgard[®] II has been field tested for two years against non-engineered DP 50 and a Cry1Ac variety DP50B. The combination of the Cry2Ab and the Cry1Ac genes shows promise for improved control of a larger range of insects. Tobacco budworm, cotton bollworm and pink bollworm are more susceptible to the Cry1Ac protein than to Cry2Ab, whereas fall armyworm, beet armyworm, cabbage looper and soybean looper are more susceptible to Cry2Ab than to Cry1Ac.

Dr. Chaudhry said that Monsanto has granted licenses to at least six seed companies already, and the new gene will probably be available in a number of new varieties being developed by various companies at the same time. Field testing and all regulatory requirements are being completed, and Bollgard[®] II varieties will probably be available for at least small-scale commercial cultivation in 2002/03. Once commercial production starts, Bollgard varieties will probably be replaced by Bollgard[®] II varieties in about five years. Bollgard[®] II cotton varieties will also be available containing the Roundup Ready[®] gene.

In response to a question from the delegate of GERMANY, Dr. Chaudhry confirmed that Monsanto was developing the new cotton varieties.

The delegate of the PHILIPPINES asked whether cotton quality was affected by genetically engineered varieties. Dr. Chaudhry said that one reference indicates that maturity seemed to be reduced in GE varieties, but the conclusion is not supported by other scientific studies.

The delegate of FRANCE asked about the use of GE varieties in the USA. Dr. Chaudhry said that 72% of upland cotton area in the USA was planted to GE varieties in 2000, and that over half of that was planted to herbicide tolerant varieties.

The CHAIR thanked Mr. Valderrama and Dr. Chaudhry for their remarks and asked if there were reports from countries.

The delegate of AUSTRALIA reported that the Australian Bureau of Agricultural and Resource Economics had recently conducted an outlook conference. At the conference it was reported that production is forecast to rise 4% to 788,000 tons in 2001/02 in response to the rise in cotton prices since 1999. She said that the area devoted to genetically engineered cotton resistant to insects rose by 35,000 hectares to an estimated 165,000 hectares in 2000/01. As a consequence, the use of genetically engineered cotton is at the limit allowed by Australian regulatory authorities. She added that an estimated 14,000 hectares were planted with GE varieties tolerant to herbicides in 2000/01, the first year of the commercial release of herbicide tolerant varieties in Australia. Also, the Australian cotton industry is developing a genetically modified cotton variety containing two different insect resisting genes to increase effectiveness and delay the development of resistance. The new two-gene variety is scheduled for commercial release in Australia in 2003.

3. Report on Prospects for a non-US Cotton Contract and the status of efforts to develop electronic futures trading in cotton (Attachment II)

The CHAIR asked the executive director to introduce Mr. Tim Barry. The executive director said that Mr. Barry had graduated from Georgetown University in Washington, DC in 1980 and that he had worked for the New York Cotton Exchange and now the New York Board of Trade. Mr. Barry was recently promoted to the position of Vice President of New Product Development. The executive director said that the Private Sector Advisory Panel in its report to the Plenary Meeting in Cairns had asked that the ICAC encourage the development of new price risk management tools that would be of greater use to producers and consumers of cotton outside the USA. Consequently, Mr. Barry had been invited to discuss efforts by the New York Board of Trade to develop a World Cotton Futures Contract.

Mr. Barry reported that a sub-committee of the Cotton Contract Specifications Committee was formed last year to explore the development of a World Cotton Futures Contract and to make a recommendation back to the full Committee. He noted that trading in a Cotlook A Index futures contract was launched by the New York Cotton Exchange in October 1992, and annual trading volume in the first year was 12,000 contracts. However, volume fell in 1993 and 1994, and the contract was eventually delisted. Possible reasons for the failure of the contract include design flaws, insufficient trade interest and a close correlation with U.S. cotton prices that rendered the Cotlook A Index futures contract redundant.

However, in response to renewed calls for a world cotton contract, especially from traders in Europe, the issue of a world contract was being explored again. Late last year the sub-committee recommended that the Exchange recommence trading in the Cotlook World Cotton Futures and Options contracts. The sub-committee recommended several minor amendments to the contract specifications but retained the cash settlement-at-expiration feature of the original contracts. According to Mr. Barry, the Cotton Contract Specifications Committee has received the recommendation of the sub-committee, but has yet to take final action. One of the key issues concerns whether to trade the contracts electronically or by open outcry.

The CHAIR thanked Mr. Barry for his remarks and asked if there were questions.

Speaking as the delegate of the USA, the Chair asked if electronic trading of a world cotton futures contract would likely be conducted 24 hours per day, 365 days per year, and whether electronic trading would supplant open outcry on the floor of the exchange. Mr. Barry answered that 24-hour trading was a possibility but that the logistics of monitoring a 24-hour market might encourage some limit on trading hours. He said that members of the exchange will decide whether to use electronic trading exclusively if the world cotton contract is traded again, or whether open outcry would still be used. He added that a combination of electronic trading and open outcry was a possibility.

The CHAIR noted that Mr. Panos Varangis, an economist specializing in market development with the World Bank, had prepared a presentation on the "Prospects for non-US Based Cotton Contracts." Unfortunately, Mr. Varangis could not attend the Standing Committee meeting, but he had sent his presentation to the Secretariat and the executive director would be able to summarize the remarks of Mr. Varangis.

The executive director said that the World Bank had studied the relationship between cash prices and New York futures prices for cotton from West Africa, Pakistan, Uzbekistan, China (Mainland) and Turkey between 1985 and 1993. That study was published in 1994 and showed that the annual variation in cash prices was about twice the annual variation in the difference between cash prices and futures prices. This meant that producers and consumers of cotton from these countries could reduce their price risk by only about half by selling a New York futures contract at planting time and buying the contract at harvest time.

The paper by Mr. Varangis also commented on recent efforts to establish new cotton futures exchanges in Brazil, India, China (Mainland), Turkey and Europe. The paper noted that a cotton futures market has operated in Sao Paulo since 1996, but trading volume has remained low. However, with the rise in production in Brazil the last several years, there is optimism that volume will expand. Futures trading is allowed in Mumbai, but speculation is not allowed. The Government of China (Mainland) has established an electronic exchange to allow registered buyers to purchase cotton offered from the state reserve. There are plans to expand trading in China (Mainland) and a futures market may eventually develop. The European trading alliance, Euronext, has expressed interest in launching a cotton contract. The Euronext contract could involve delivery of cotton from Africa, Central Asia, and Australia. Contract details, such as size, physical delivery or cash settlement, contract months and currency are being discussed.

Efforts have been underway in Izmir for a decade to establish a cotton futures contract. The Izmir Mercantile Exchange has operated since 1881 and hosts an active cash market for immediate delivery. Some contracts for delivery several months in the future are occasionally traded. The Izmir Mercantile Exchange is working with the Chicago Board of Trade and receiving support from the World Bank, FAO and UNCTAD to develop a larger futures market with contracts in financial futures to try and attract larger trading volumes. Studies have shown that agricultural futures alone are often not successful. Despite a decade of effort, trading in cotton futures in Izmir has not begun.

The paper by Varangis noted that hurdles to the establishment of futures contracts include a lack of speculator interest in agricultural futures, weak or non-existent regulatory bodies and sets of regulations in many countries, and financial instability that discourages open positions in futures contracts. The paper points out that there is a trade-off between basis risk (the risk that futures prices will not move in the same direction or degree as cash prices) and lack of liquidity (the ability to buy or sell at any time). The New York cotton contract has substantial basis risk for producers and consumers in many countries outside the USA, but the contract is highly liquid. Contracts in other countries may have a stronger correlation with domestic cash prices, but none of the cotton contracts outside New York have developed significant trading volumes.

The delegate of COLOMBIA noted that the Varangis presentation said that the adoption of more market-oriented policies was necessary for the success of futures contracts in developing countries and asked what was meant by market oriented policies. It was explained that in some countries government regulation of commodity markets and currency markets created risks that could not be hedged or predicted. In other cases governments tax transactions or prevent the resale of contracts, thus forcing every contract to be settled through delivery. In these cases, both speculators and hedgers are either reluctant or unable to participate in futures trading.

The Chair again thanked Mr. Barry for his remarks and noted that copies of his presentation and the presentation by Panos Varangis had been distributed.

The CHAIR noted that the Private Sector Advisory Panel has recommended that the ICAC urge the development of viable futures contracts based on the delivery of non-U.S. cotton and to agree that the

development of electronic futures trading for all growth should be encouraged. The Chair observed that there was a consensus to accept this recommendation.

4. Draft Agenda for the 60th Plenary Meeting (Attachment III)

The CHAIR asked the executive director to present Attachment III, a draft agenda for the 60th Plenary Meeting in Victoria Falls during 16-21 September 2001. The executive director said that a draft proposed agenda for the 60th Plenary Meeting has been developed in consultation with the Zimbabwe Host Committee. The theme of the 60th Plenary Meeting will be "*Cotton: An African Renaissance*" and will offer an opportunity to develop recommendations for solutions to world cotton problems, particularly those affecting cotton producers and spinners in Africa.

The executive director summarized the agenda by saying that the draft agenda includes five blocks of time reserved for plenary sessions:

1. Inaugural Session, Monday morning
2. 1st Plenary Session: official reports, Monday morning
3. 2nd Plenary Session: country statements, Monday afternoon & Tuesday morning
4. 3rd Plenary Session: government measures, Tuesday afternoon
5. Closing Session, Friday

There are four blocks of time allocated for business matters:

1. 1st Meeting of the Steering Committee, Monday morning
2. 2nd Meeting of the Steering Committee, Monday afternoon
3. Meeting of the Drafting Group, Thursday afternoon
4. 3rd Meeting of the Steering committee, Friday morning

There are times for four Open Sessions on the subjects of:

1. Improving Cotton Quality, Tuesday morning
2. Demand Enhancement, Tuesday afternoon
3. The Technical Seminar: Integrated Crop Management, Thursday
4. Genetic Engineering, Thursday afternoon

Regarding the conduct of discussions, the executive director recalled that there was general approval during the last two plenary meetings of a policy of limiting the oral presentation of country statements to five minutes, with the understanding that full statements are distributed to delegates and published as statements of the meeting. He added that some delegates to the meeting in Cairns suggested that a limit of five minutes per statement should be extended to all discussions during plenary and open sessions. There is a concern that lengthy statements by some delegates preclude others from making contributions. However, such a restriction could be perceived negatively by some delegations. As an alternative, the Secretariat suggested that all delegates who intend to make statements of more than five minutes in length be required to provide a written copy of their statement to the Secretary General in advance. The Secretary General will work with the Chair to schedule sessions so that all delegates may have a chance to speak. The Secretary General will also provide lengthy statements to the interpreters in advance to aid in the conduct of the meeting. The Secretariat is mindful of the need to use blocks of time efficiently so that all may have an opportunity to speak.

The CHAIR asked if delegates were comfortable giving preliminary approval to the draft proposed agenda and the rules for conduct of discussions. Seeing that there were no comments or discussion, the Chair determined that there was a consensus to give preliminary approval to the draft proposed agenda and the rules for conduct of discussions.

5. Recommendation to Transfer \$51,000 to the Reserve Fund (Attachment IV)

The CHAIR asked Mr. Alfonso Liévano, delegate of Colombia and Chair of the Subcommittee on Budget to present Attachment IV. Mr. Liévano explained that under the Rules and Regulations of the ICAC a Reserve Fund is authorized in the amount to be fixed from time to time by the Standing Committee. The Reserve Fund of the ICAC is designed to meet contingent liabilities in the event that the Committee

ceases to function, and to provide a reserve in the event that the Working Fund is insufficient to meet current expenses.

The Reserve Fund is currently \$327,800. In addition, \$43,517 is in a savings account held in trust by the Davis Building as a security deposit against the office lease for the Secretariat. Thus the total resources available to meet contingent liabilities are \$371,317.

Mr. Liévano referred to the table in the attachment and noted that the Standing Committee had decided in the early 1990s to reduce the Working Fund on June 30 of each fiscal year from an average of 50% of next year's annual budget to approximately 15%. As a consequence there have been three times since 1994 when the Working Fund was nearly inadequate to meet expenses. At the same time, the Reserve Fund has not been increased and is now smaller than in 1988. The two funds together, the Working Fund and the Reserve Fund, including a deposit on the office lease, amounted to 34% of the annual budget of the Committee on June 30, 2000, compared with 71% ten years earlier. Given fluctuations in the receipt of assessments and potential expenses that can occur when an employee leaves the Secretariat, the Subcommittee felt that a total of funds equal to 34% of annual expenses was too little and should be increased.

Mr. Liévano said that there was a consensus on the Subcommittee that a prudent management standard would be to keep the target of 15% of the budget for the next fiscal year for the Working Fund, and to establish a target of 35% of the budget for the next fiscal year for the Reserve Fund. In this way, the sum of both funds would rise to 50% of annual operating expenses. He added that the Secretariat had received a payment of \$51,000 earlier this fiscal year for an amount in arrears since 1996. Therefore, the Subcommittee on Budget recommended to the Standing Committee that \$51,000 be transferred to the Reserve Fund, thereby increasing the Reserve Fund to 33% of the current budget.

Mr. Liévano noted that the increased Reserve Fund plus the office lease deposit would still represent just half the contingent liabilities of the Committee. All withdrawals from the Reserve Fund must be approved in specific amount and timing by the Standing Committee, so this transfer will increase the degree of Standing Committee control over the funds of the Secretariat.

The CHAIR thanked Mr. Liévano and all members of the Subcommittee on Budget for their efforts. He asked if there were comments.

The delegate of GERMANY said that there was not a compelling reason for an increase in the reserve fund and that the possible need, not well documented, to cover higher contingent liabilities is not a sufficient reason. He noted that an earlier Secretariat document discussing the possibility of purchasing office space at the end of the current lease in six years is not consistent with a concern that the Committee may cease to operate in the future. Further, it was noted that governments whose budgets are in deficit must borrow to pay assessments. As a consequence, increased interest earnings by the Secretariat on money transferred to the Reserve Fund would not offset the increased interest expense incurred by governments in paying assessments.

The delegate of AUSTRALIA asked how the \$51,000 is currently used, and the executive director explained that the money is in the Working Fund of the Secretariat.

The delegate of BRAZIL noted that the Subcommittee on Budget had considered this matter in detail and had concluded that an increase in the Reserve Fund to approximately 35% of each budget would be prudent.

The CHAIR of the Subcommittee on Budget explained that year-to-year variation in the amount of assessments received from governments can be substantial. Also, there are occasional unplanned increases in expenditures that occur when a member of the Secretariat retires or leaves and a new person is hired. Therefore, a larger reserve for contingencies is needed than has been maintained in recent years. The Chair of the Subcommittee noted that an increase in the Reserve Fund would provide a reasonable measure of security for members of the Secretariat.

The delegates of BRAZIL, PHILIPPINES, USA, and AUSTRALIA said that they supported the recommendation to increase the Reserve Fund by \$51,000.

The CHAIR concluded that additional discussion was needed. He instructed the executive director to provide a more specific explanation to Germany as to the need for an increase in the Reserve Fund in the hope that a consensus can be reached at the next Standing Committee Meeting in June.

Mr. Liévano said that the Subcommittee on Budget would discuss the matter of the Reserve Fund further. He also reported to the Standing Committee on other matters under discussion in the Subcommittee, including Secretariat salaries and proposals for the use of revenue earned under the business plan. He said that the services of the Secretariat were particularly important during times of economic stress for the cotton industry and that it was important to maintain a strong, future-oriented productive Secretariat. He thanked the Secretariat for its work and said that the information provided is extremely valuable to the cotton industry in his country. He invited all members of the Standing Committee to participate in meetings of the Subcommittee on Budget.

6. Other Matters

The executive director reminded delegates that the next three meetings of the Standing Committee are scheduled for May 2, June 5 and July 31. The meeting on May 2 was originally scheduled for April 24 but has been changed to accommodate the travel schedules of guest presenters. The agenda on May 2nd will include a discussion on good trading practices, and representatives from arbitral bodies will be making a presentation. The meeting on June 5 will include a discussion with the Private Sector Advisory Panel, and the meeting on July 31 will take place in Virginia during a visit to cotton fields and a gin.

The CHAIR observed that there were no additional items for discussion and adjourned the meeting at 12:05 PM.



INTERNATIONAL COTTON ADVISORY COMMITTEE

Standing Committee
Washington, DC

Attachment II to SC-N-452
February 26, 2001

Prospects for a non-US Based Cotton Contract and the Status of Efforts to Develop Electronic Futures Trading in Cotton

The Private Sector Advisory Panel (PSAP) noted in its report to the 59th Plenary Meeting in Cairns 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 recommended 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 PSAP added that the ICAC should also encourage the development of electronic futures trading for all growths of cotton.

New York Board of Trade

The New York Board of Trade (NYBOT) was informed of the concerns raised by the PSAP, and Mr. Tim Barry, Vice President, Product Development, has provided information about latest efforts by NYBOT to develop a World Cotton Futures Contract. A sub-committee of the Cotton Contract Specifications Committee was formed last year to explore the development of a World Cotton Futures Contract and to make a recommendation back to the full Committee. Late last year the sub-committee recommended that the Exchange recommence trading in the Cotlook World Cotton Futures and Options contracts which had been delisted by the Exchange in the mid-1990s. The sub-committee recommended several minor amendments to the contract specifications, but retained the cash settlement at expiration feature of the original contracts.

According to Mr. Barry, the Cotton Contract Specifications Committee has received the recommendation of the sub-committee, but has yet to take final action. One of the key issues concerns whether to trade the contracts electronically or by open outcry.

Mr. Barry has agreed to make a presentation on these matters to the Standing Committee at the 452nd Meeting on March 6. His presentation will include information about the history of efforts to begin trading in a world cotton contract and why the development of a new contract is not a simple undertaking. He will discuss the potential benefits of starting trading in a new contract and the constraints to the success of a new contract. Mr. Barry will also discuss latest developments in efforts to begin electronic trading, the potential benefits of electronic trading, as well as potential limitations.

Cotton Futures Contracts Outside the USA

While the recommendation of the PSAP referred specifically to the New York Board of Trade, efforts are also underway in other exchanges to develop cotton futures contracts, and these efforts are also of interest to the private sector. Futures trading in coffee, cocoa, rubber, sugar, grains and other commodities is conducted in multiple locations. The annual value of production of many commodities traded on more than one exchange is less than the value of cotton production.

Two economists, John Baffes, The World Bank, and Ioannis Kaltsas, European Investment Bank (and previously statistician at the Secretariat) recently completed a survey of exchanges developing new cotton hedging instruments (*Commodity Futures Exchanges: A Historical Perspective and some Recent Developments in the Cotton Market*). According to Baffes and Kaltsas, exchanges in Brazil, China (Mainland), Europe, India, and Turkey are contemplating new initiatives in cotton futures. A futures contract in cottonseed began trading last year in Minneapolis, USA.

Brazil: The São Paulo Commodity Exchange introduced a cotton contract in November 1996. The new contract is for 4,596 kilograms, or 10,000 pounds, one fifth of the NYBOT contract, and is delivered in March, May, July, October, and December. The São Paulo contract is traded in US dollars but is settled in Reals based on the exchange rate quoted by the Central Bank of Brazil. Therefore, trading the São Paulo

cotton contract involves \$US/Reals exchange rate risk. A lack of speculative activity in the Brazilian cotton futures market contributes to low volume, but trade volumes are increasing with the rise in Brazilian cotton production and hedging activity.

The São Paulo contract serves as a hedging instrument for South American producing countries whose harvests are timed to a Southern Hemisphere schedule. However, a 7% tax imposed on non-Brazilian traders acts as an impediment to making the exchange truly regional and limits trade volume.

China (Mainland): The Chinese National Cotton Exchange in Beijing started cash trading in September 1999. There are plans to establish a futures contract, initially limited to domestic participation. Foreign participation may be allowed in the future.

Europe: The European trading alliance, Euronext, has expressed interest in launching a cotton contract. The Euronext contract could involve delivery of cotton from Africa, Central Asia, and to a lesser degree Australia. Contract details, such as size, physical delivery or cash settlement, contract months and currency are being discussed.

India: Cotton futures trading started again in Mumbai in 1998. Daily trading volume is low because of a lack of speculative activity.

Turkey: The Izmir Mercantile Exchange has been working for a decade to establish a cotton futures contract. The Exchange, which is the traditional center of cotton trading activity in Turkey, was established in 1881 and currently facilitates cash trading in cotton for immediate delivery and occasionally trades cash contracts for future delivery. The Izmir contract could attract business from neighboring cotton producing countries such as Egypt, Greece, and Uzbekistan.

USA: The Minneapolis Grain Exchange (MGE) introduced cottonseed futures and options contracts on May 11, 2000, in response to demand by the cottonseed industry. The MGE is the first modern futures exchange to offer cottonseed futures and options contracts. Trade volume during the first months of operation was low, but volume is increasing.

Mr. Panos Varangis, Economist, The World Bank, has agreed to make a presentation to the Standing Committee on March 6 on the subject of the development of cotton futures contracts outside New York. Mr. Varangis will base his presentation on the paper by Baffes and Kaltsas, and he is personally knowledgeable about developments in Izmir.

Standing Committee Action

The Standing Committee is asked to urge the development of viable futures contracts based on the delivery of non-U.S. cotton and to agree that the development of electronic futures trading for all growths of cotton should be encouraged. The Secretariat will distribute information about developments in cotton futures trading and electronic trading of cotton to governments, commodity exchanges and the private sector.



Draft Proposed Agenda for the 60th Plenary Meeting Victoria Falls, Zimbabwe 16-21 September 2001

A draft proposed agenda for the 60th Plenary Meeting has been developed in consultation with the Zimbabwe Host Committee. The agenda takes into account recommendations from the 59th Plenary Meeting, the report of the Private Sector Advisory Panel and comments by the Standing Committee. The theme of the 60th Plenary Meeting will be "*Cotton: An African Renaissance*" and will offer an opportunity to develop recommendations for solutions to world cotton problems, particularly those affecting cotton producers and spinners in Africa.

The draft agenda includes five blocks of time reserved for plenary sessions:

1. Inaugural Session, Monday morning
2. 1st Plenary Session: official reports, Monday morning
3. 2nd Plenary Session: country statements, Monday afternoon & Tuesday morning
4. 3rd Plenary Session: government measures, Tuesday afternoon
5. Closing Session, Friday

There are four blocks of time allocated for business matters:

1. 1st Meeting of the Steering Committee, Monday morning
2. 2nd Meeting of the Steering Committee, Monday afternoon
3. Meeting of the Drafting Group, Thursday afternoon
4. 3rd Meeting of the Steering committee, Friday morning

There are times for four Open Sessions on the subjects of:

1. Improving Cotton Quality, Tuesday morning
2. Demand Enhancement, Tuesday afternoon
3. The Technical Seminar: Integrated Crop Management, Thursday
4. Genetic Engineering, Thursday afternoon

The Organizing Committee has been planning for the 60th Plenary Meeting for several years, and an extensive social program is being prepared. The Meeting will begin on Sunday 16 September. Conference dinners are planned for several evenings, and a trip to one of the finest wildlife reserves in Africa is planned for Wednesday. In addition, conference lunches, as well as tea and coffee breaks, will be provided each day.

Regarding the conduct of discussions, there was general approval during the last two plenary meetings of a policy of limiting the oral presentation of country statements to five minutes, with the understanding that full statements are distributed to delegates and published as statements of the meeting. Some delegates to the meeting in Cairns suggested that a limit of five minutes per statement should be extended to all discussions during plenary and open sessions. There is a concern that lengthy statements by some delegates preclude others from making contributions. However, such a restriction could be perceived negatively by some delegations. As an alternative, the Secretariat suggests that all delegates who intend to make statements of more than five minutes in length be required to provide a written copy of their statement to the Secretary General in advance. The Secretary General will work with the Chair to schedule sessions so that all delegates may have a chance to speak. The Secretary General will also provide lengthy statements to the interpreters in advance to aid in the conduct of the meeting. The Secretariat is mindful of the need to use blocks of time efficiently so that all may have an opportunity to speak.

The Standing Committee is asked to give preliminary approval to the draft proposed agenda and the procedure for the conduct of discussions so that invitations to the meeting can be sent as soon as possible. Modifications to the agenda will be possible after logistics for social events and invitations to speakers are confirmed.

**Draft Proposed Agenda
60th Plenary Meeting of the ICAC
September 16-21, 2001
Victoria Falls, Zimbabwe**

Sunday, 16th

Noon to 7:00 PM	Registration
1:00 PM	WCRC-3
1:00 PM	Meeting of the Consortium for Cotton Promotion
4:00 PM	Welcome Social Event

Monday, 17th

8:00 AM	Registration
8:30 AM	1 st Steering Committee
9:00 AM	Inaugural Session 1. Conference Chairman with Welcoming Remarks 2. Government official with Inaugural Remarks 3. Keynote Economic address
10:15 AM	Tea/coffee
10:45 AM	1st Plenary Session 1. Report of the Chair of the Standing Committee 2. Report of the Executive Director 3. Secretariat Report on Government Measures 4. Report of the Expert Panel on Ginning Methods
Noon	Lunch offered by host country Lunch meeting of CICC
2:00 PM	2 nd Plenary Session – Statements by Member Countries
4:00 PM	Tea/coffee
4:30 PM	2 nd Meeting of the Steering Committee 1. Roundtable discussion with the Private Sector Advisory Panel 2. Recommendations from the Standing Committee a. election of officers b. other items
6:00 PM	Adjourn
7:30 PM	Evening program

Tuesday, 18th

8:00 AM	Registration
8:30 AM	1 st Open Session – Improving Cotton Quality
10:00 AM	Tea/coffee

10:30 AM	2 nd Plenary Session (continued) Statements by member, non-member and international organizations
Noon	Lunch offered by host country Lunch meeting of the PSAP
2:00 PM	3 rd Plenary Session – Government Measures 1. Report from the WTO 2. Statements by governments
3:30 PM	Tea/coffee
4:00 PM	2 nd Open Session – Demand Enhancement
5:30 PM	Adjourn
7:00 PM	Evening Social Function
Wednesday, 19 th	
7:00 AM	Trip to game reserve
Thursday, 20 th	
8:30 AM	3 rd Open Session -- Technical Seminar: Integrated Crop Management
10:30 AM	Tea/coffee
11:00 AM	3 rd Open Session (continued) Meeting of the Committee on Cotton Production Research Topics for 2002 Update on the WCRC-3
1:00 PM	Lunch offered by host country Lunch meeting of the Standing Committee
2:30 PM	4 th Open Session – Genetic Engineering in Cotton
3:30 PM	Tea/coffee
4:00 PM	Meeting of the Drafting Group
7:00 PM	Evening function
Friday, 21 st	
8:30 AM	3 rd Meeting of the Steering Committee 1. Adoption of the Plenary Statement 2. Report of the Committee on Cotton Production Research
10:30 AM	Tea/coffee
11:00 AM	Closing Plenary Session 1. Invitation from Egypt 2. Summary Remarks by the Chair 3. Statements by member countries
Noon	Closing lunch offered by host country



Recommendation to Transfer \$51,000 to the Reserve Fund

Recommendation

Under the Rules and Regulations of the ICAC, (Article VIII, Section 5.b and Section 6) a Reserve Fund is authorized in the amount to be fixed from time to time by the Standing Committee. The Reserve Fund of the ICAC is designed to meet contingent liabilities in the event that the Committee ceases to function, and to provide a reserve in the event that the Working Fund is insufficient to meet current expenses. Consequently, the Reserve Fund is rarely utilized, and the most recent withdrawal was in November 1998. The next withdrawal from the Reserve Fund will probably occur when the administrative officer retires and receives a severance payment equal to one years annual salary plus the value of unused annual leave, plus the cost of relocation to the Philippines. The total will be approximately \$100,000.

The Reserve Fund, currently \$327,800, is invested in money market accounts in the Vanguard family of mutual funds. In addition, \$43,517 is in a savings account held in trust by the Davis Building as a security deposit against the office lease for the Secretariat. Thus the total resources available to meet contingent liabilities are \$371,317.

The executive director believes that the Reserve Fund should be increased over time to cover a larger proportion of contingent liabilities and to provide a larger reserve for cases where the Working Fund is insufficient. The contingent liabilities of the Committee have increased since 1988 and are now in excess of \$800,000. The Subcommittee on Budget met on January 18, 2001 and discussed a proposal from the executive director to increase the Reserve Fund by \$51,000 to \$379,000.

The Subcommittee noted that the Standing Committee had decided in the early 1990s to reduce the Working Fund on June 30 of each fiscal year from an average of 50% of next year's annual budget to approximately 15%. As a consequence there have been three times since 1994 when the Working Fund was nearly inadequate to meet expenses. At the same time, the Reserve Fund has not been increased and is now smaller than in 1988. The two funds together, the Working Fund and the Reserve Fund, including a deposit on the office lease, amounted to 34% of the annual budget of the Committee on June 30, 2000, compared with 71% ten years earlier. Given fluctuations in the receipt of assessments and potential expenses that can occur when an employee leaves the Secretariat, the Subcommittee felt that a total of funds equal to 34% of annual expenses was too little and should be increased.

There was a consensus on the Subcommittee that a prudent management standard would be to set a target of 15% of the budget for the next fiscal year for the Working Fund, and a target of 35% of the budget for the next fiscal year for the Reserve Fund, thereby raising the sum of both funds to 50% of annual operating expenses.

The Secretariat received a payment of \$51,000 earlier this fiscal year for an amount in arrears since 1996. Therefore, the Subcommittee on Budget recommends to the Standing Committee that \$51,000 be transferred to the Reserve Fund, thereby increasing the Reserve Fund to 33% of the current budget.

Background

The Working Fund as of each June 30 has tended to decline relative to the budget for the following fiscal year. The Working Fund at the end of the last fiscal year was just 6% of this year's budget, compared to an average of 37% since 1974. Consequently, there is now a greater possibility of a shortage in the Working Fund than was the case ten years ago when the Working Fund at the end of the fiscal year was equivalent to 45% of the budget for the next fiscal year.

The Reserve Fund (including the office lease deposit) has varied between 15% and 43% of the following year's budget and is currently 28%. Approximately one-third of the Reserve Fund will be withdrawn when

Working and Reserve Funds

Fiscal Years
ending June 30

	Working Fund	Reserve Fund	Office Lease Deposit	Budget for next FY	Working Fund	Reserve Fund*	Total Funds
	\$000	\$000	\$000	\$000	% of budget	% of budget	% of budget
1974	163	72		342	48%	21%	69%
1975	234	76		390	60%	19%	79%
1976	222	80		397	56%	20%	76%
1977	246	85		446	55%	19%	74%
1978	173	90		499	35%	18%	53%
1979	213	96		543	39%	18%	57%
1980	284	108		674	42%	16%	58%
1981	316	122		814	39%	15%	54%
1982	222	222		891	25%	25%	50%
1983	242	182		905	27%	20%	47%
1984	357	200		936	38%	21%	60%
1985	343	288		765	45%	38%	82%
1986	436	310		829	53%	37%	90%
1987	606	202		887	68%	23%	91%
1988	623	372		935	67%	40%	106%
1989	643	202		1050	61%	19%	80%
1990	492	280		1092	45%	26%	71%
1991	510	284		1151	44%	25%	69%
1992	469	304		1134	41%	27%	68%
1993	382	304		1175	33%	26%	58%
1994	4	396	5	1170	0%	34%	35%
1995	280	511	5	1192	23%	43%	67%
1996	8	544	5	1277	1%	43%	44%
1997	238	529	5	1260	19%	42%	61%
1998	245	529	5	1260	19%	42%	62%
1999	196	529	5	1260	16%	42%	58%
2000	79	315	44	1299	6%	28%	34%
2001		328	44				
Average					37%	28%	65%
Maximum					68%	43%	106%
Minimum					0%	15%	34%

* Including the Office Lease Deposit

the administrative officer retires. There is no formula to dictate the size of either fund within the ICAC, but a decision taken in the early 1990s to lower the Working Fund as a share of the annual budget puts the cash-flow of the Secretariat at greater risk today than was the case earlier. Consequently, a larger Reserve Fund to cover inadequacies in the Working Fund would be desirable. For example, three countries paid their assessments for the current fiscal year in advance during June 2000, enabling the

Secretariat to meet payroll obligations at the end of June 2000 without having to ask the Standing Committee for permission to transfer funds from the Reserve Fund.

The increased Reserve Fund plus the office lease deposit will still represent just half the contingent liabilities of the Committee. All withdrawals from the Reserve Fund must be approved in specific amount and timing by the Standing Committee, so this transfer will increase the degree of Standing Committee control over the funds of the Committee.