



Welcoming Remarks

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I want to thank all of you for participating in the Conference on Cotton and Global Trade Negotiations. The fact that most of you have come from distant places illustrates how pressing is the issue that we are going to discuss in these two days. We have the distinguished honor to have among us the Secretary General of the OAS, former president of Colombia, Doctor Cesar Gaviria Trujillo, Minister Marcos Vinicius Pratini de Moraes from Brazil, Ambassadors Cyrille Oguin of Benin, Tertius Zongo of Burkina Faso, Luis Alberto Moreno, Humberto De la Calle, and Hernando José Gomez of Colombia, Pascal Kokora of Cote d'Ivoire, Ariel Rivera-Arias of Guatemala, Allan Wagner of Perú, and Simbi Mubako of Zimbabwe. We also benefit from the presence of high-ranking officials from several governments and international organizations.

The International Cotton Advisory Committee was formed in 1939 to gather and exchange information about the international cotton situation, to give sympathetic attention to the problems in each country and to see whether, by cooperative international action, market conditions could be improved. The need for cooperative action to ensure a successful outcome to the talks on agriculture being conducted under the auspices of the WTO has never been greater.

Today, cotton faces a predicament that is oblivious to the process of globalization—protectionism—which are intended to defend rural values, in order to subsidize and protect domestic prices in non-competitive countries. This event responds to political factors that prevent normal changes in open market economies, affecting the rational utilization of economic and natural resources. This distortion, in a world in process of globalization, is clear and in the case of cotton should be corrected at the WTO negotiations.

The world cotton industry is suffering through one of the most painful periods for producers in the approximately 200 years since the invention of the cotton gin. Cotton prices fell to just 50% of the 30-year average in October 2001 at the peak of harvest and sales activity, and the average price this season will be the lowest since 1972/73. When adjusted for inflation the average cotton price this season may be the lowest in history.

A number of market factors are contributing to the decline in world cotton prices. Weak consumer demand resulting from a decline in economic activity in 2001 is preventing world cotton consumption from more rapid growth this season. In addition, improved technology, the strength of the U.S. dollar, and the expansion of cotton production into new areas contributed to the increase in the world cotton supply in 2001. However, government measures that insulate producers in some countries from variations in market prices and result in increases in production in those countries, despite declines in market prices, are also contributing to the current imbalance between world cotton supply and demand.

In published reports to member governments, the Secretariat of the ICAC has identified eight countries accounting for an estimated 59% of world cotton production that have provided direct income or price supports to producers in their countries over the last four years. Some of these countries felt they had to resort to emergency measures in response to low prices partially caused by increased production in countries that have established subsidy programs. This season another six countries enacted emergency measures to mitigate the impact of low prices. All in all, the Secretariat of the ICAC estimates that the season average of the Cotlook A Index would be 74% higher this season in the absence of government measures than is actually taking place. Rather than a season average price of 42 cents per pound of lint, world market prices could be averaging 73 cents per pound this season if government measures were not encouraging increased supplies in countries providing direct income and price support measures. In the past, this event has caused many countries to abandon cotton production, while other countries surrendered their foreign exchange earnings in order to maintain their presence in the market, affecting their standards of living and economic development. If this state of affairs continues as is, the possibility exists that eventually only a few countries will supply cotton to the market.

The majority of countries have their hopes resting on the success of negotiations at the WTO to reach the elimination of measures that distort production and trade. Despite the efforts of the cotton industry to expand the demand for cotton, which will reach a record in 2002/03; despite a forecast reduction of supply and improved economic growth in major economies, excess production will continue to affect prices in international markets, and cotton prices are forecast to remain well below the long-run average during the next several years.

These matters have been discussed extensively over several decades, and while there has been progress toward increased cotton market liberalization, severe distortions remain. The multilateral negotiations under the World Trade Organization include cotton in the agriculture and textiles negotiations. Nonetheless, the importance of cotton is often overlooked because other agricultural commodities usually take the main stage in multilateral negotiations. As a result, the needs and interests of the cotton industry are not fully understood by multilateral negotiators. The talks on agriculture currently being conducted under the auspices of the WTO are of critical importance to the world cotton industry, and WTO negotiators must ensure that the talks on agriculture are of relevance to cotton producers.

The agreement reached in Doha in November 2001 to begin a new round of negotiations under the WTO is encouraging. However, there is a concern that talks in the WTO may not address the needs of the cotton industry or of other labor-intensive high valued commodity industries located primarily in developing countries. Member governments of the WTO at the meeting in Doha called for 1) the reduction, with a view to phasing out, of export subsidies, as well as 2) substantial improvements in market access and 3) substantial reductions in trade-distorting domestic support. There is a concern that the first goal of reducing export subsidies will take precedence over other considerations. It is important for WTO negotiators to note that export subsidies are not as significant a source of distortion in the world cotton economy as they are in the grain and oilseeds markets. Therefore, the cotton industry is anxious to ensure that the goal of reducing trade-distorting domestic support must receive equal consideration with the goal of reducing export subsidies within the context of WTO negotiations.

On behalf of the member countries of the International Cotton Advisory Committee I want to thank the World Bank for cosponsoring this conference and, again, thank you for being here today.