



**66th Plenary Meeting of the
INTERNATIONAL COTTON ADVISORY COMMITTEE**

MINUTES

FOURTH OPEN SESSION

11:00 hr. Tuesday October 23, 2007

Mr. Iskender Özdemir in the Chair

The CHAIR welcomed the participants and presented the theme of the session: "Outlook for Cotton Supply and Demand". He introduced Dr. Alejandro Plastina, Economist, ICAC Secretariat, to present a report on the Outlook for Cotton Supply and Use. Dr. Plastina reported that world growth in cotton production and the extraordinary expansion in mill consumption in recent years have gone hand in hand. Asia has been the main driver of these increases in production and mill use. World cotton production is expected slightly down in 2007/08, to 26 millions tons, due to reduced plantings. Despite the small gain in prices in 2006/07, cotton area is estimated slightly down in 2007/08 to 34 million hectares. The world average yield rose by 105 kilograms per hectare (16%) in 2004/05 and has not declined since. Recent yield increases in India, where one fifth of world cotton is planted, significantly contributed to the rise in the world average yield. Cotton yields in many countries are benefiting from the expanded use of existing techniques and inputs, as well as new technologies. It is estimated that 41% of world cotton area will be planted to authorized biotech cotton in 2007/08, contributing to 48% of world cotton production. The world yield is forecast stable in 2007/08 at 772 kilograms per hectare. Production is expected to decline in many countries in 2007/08. In particular, significant production declines are expected in the United States, Turkey and in the African Franc Zone. In contrast, production in Asia is expected to increase again in 2007/08 to a record of 15.5 million tons. This would represent 59% of projected world production, up from 56% in 2006/07 and 51% in 2005/06. Dr. Plastina indicated that the Secretariat's revised production estimate for 2006/07 in China (Mainland) is 8.0 million tons, and the projection for 2007/08 is 7.8 million tons. He said that world cotton mill consumption is increasingly driven by Asia. Global cotton mill use is expected to continue to increase in 2007/08, but the increase is expected to be smaller than in recent seasons. World cotton mill use is projected to increase by 3% to 27.2 million tons in 2007/08, compared to an annual growth of 6% in 2006/07 and 9% in 2004/05. Asian cotton mill use would represent 75% of world cotton mill use, up from 74% in 2006/07 and 57% in 1998/99. Despite the significant increase in world cotton mill use since 1998/99, cotton's share of the world textile market has declined steadily since 1986. The main driver of this tendency is the faster increase in production in developing countries of textiles made of chemical fibers. World cotton imports are expected to rebound by 8% to 8.9 million tons in 2007/08, driven by forecast higher Chinese imports (3.5 million tons). U.S. exports are projected to rebound to 3.7 million tons in 2007/08 and Indian exports are also expected to increase to a record of 1.1 million tons, while Brazilian exports could more than double.

Dr. Plastina explained that the Secretariat recently developed a new model to forecast the season-average Cotlook A Index. The most important variable in the new model is the stocks-to-mill use ratio in the World-less-China (Mainland). As world cotton mill consumption is forecast to increase whereas world cotton production is projected slightly down, the stocks-to-mill use ratio in the World-less-China (Mainland) is expected to decline in 2007/08, resulting in an increase in international cotton prices. Dr. Plastina said that the new ICAC price model 2007 predicts a season-average Cotlook A Index of 68 cents per pound for 2007/08, with a 95% confidence interval ranging from 61 to 76 cents per pound. He concluded his presentation by suggesting that despite the expected significant rise in cotton prices this season, plantings in many countries may not increase much in 2008/09, because cotton prices are not rising as fast as prices for corn, soybeans and wheat.

The CHAIR opened the floor for questions.

The delegate of COLOMBIA asked if the confidence interval ranging from 61 to 76 cents per pound could be narrowed and requested clarification about the stocks-to-use ratio.

Dr. Plastina answered that the interval could not be narrowed for statistical reasons due to the limitations of the data base. He said that ICAC was more transparent than other international organizations that give only the mean point of their projections without mentioning the confidence interval. Dr. Plastina explained that, for a given level of mill use, an increase in the stocks-to-ratio would translate into a decline in prices, and vice versa.

An observer from TURKEY said that current international prices were not sustainable for producers in the region

of Izmir and asked what could be done to change the trend and overcome the price distortions. The Secretary General replied that the question required extensive and would be answered separately during the meeting.

The delegate of INDIA asked what were the expectations for the market share of cotton fiber. Dr. Plastina answered that cotton's share of the world fiber market is expected to decline further due to the faster increase in production of chemical fibers in developing countries. The delegate from INDIA asked whether this continued loss of market share was cause for alarm for the cotton industry. Dr. Plastina said that loss of market share is cause for alarm, and cotton producers need to develop appropriate strategies to deal with the declining market share. The delegate from SUDAN appreciated the hard work of the Secretariat to revise the price model. However he noted that the uncertainty of the projections, about 25%, was too high for decision-makers. The Secretary General explained that the new model has in fact a higher predictive power than the previous one. The indication of the 95% confidence interval draws attention to the fact that there is uncertainty in all projections.

The delegate of KENYA noted the contradiction between the global preference for agricultural products and declining cotton market share. She asked whether the consumer preference for synthetic fiber was linked to environmental concerns. Dr. Palestina replied that environmental concerns were not the reason.

The CHAIR thanked Dr. Palestina for his presentation.

The CHAIR introduced Dr. Rafiq Chaudhry, Head of Technical Information Section, ICAC Secretariat, to present a report on the Costs of Cotton Production. Referring to the discussions of the Third Open Session, Dr. Chaudhry said that Syria has successfully eliminated insecticides in cotton production. Only 0.4% of the cotton area is sprayed and the average yield is about 1,300 kg of lint per hectare. Dr. Chaudhry recalled that ICAC has undertaken surveys on costs of production since the early 1980s. The survey is undertaken every three years and, in most cases, the sources of data are the ICAC's coordinating agencies. The data collected for 2006/07 from 31 countries accounting for 88% of the world cotton area show that, on average, a cotton grower spent US\$ 730 to grow and harvest one hectare of cotton. The average cost per kg of seed cotton was US\$ 0.35 in 2006/07, which is two cents higher than the average cost in the survey for 2003/04. The cost per kg of lint averaged US\$1.00 in 2006/07, one cent lower than in 2003/04. Dr. Chaudhry said that there are small differences in the cost of production of seed cotton among countries. Most differences come from economic, fixed and ginning costs. The cost of production of lint is the highest in Central and West Africa (US\$ 1.32/kg), North America (US\$ 1.17/kg) and in Asia (US\$ 0.94/kg). Central Asian countries produce cotton at the lowest cost. On average, a cotton growers spent 9 cents on planting seeds per kg of lint, 22 cents on fertilizers, 13 cents on insect control, 12 cents on weed control, 11 cents on irrigation, 15 cents on harvesting, and 19 cents on all other inputs/operations including ginning. Dr. Chaudhry concluded his presentation with the remark that complete data are not available from all participating countries, which reduces the reliability of cost comparisons.

The CHAIR thanked Dr. Chaudhry for his report.

The delegate of ARGENTINA congratulated Dr. Chaudhry for his work, considering that it is very difficult to obtain information on costs. The delegate of SUDAN commended the speaker for his excellent presentation and asked the reason why ginning was so costly in AUSTRALIA.

Dr. Chaudhry replied that he could not answer the question.

A delegate from INDIA stated that the net income was more important than costs of production per kg, and that the cost per kg per unit of time was also relevant. Dr. Chaudhry agreed that everybody could make their own analysis with the data of the survey.

The CHAIR introduced Mr. Rajaram Jaipuria, Chairman and Managing Director, Ginni Filaments Ltd., India, to deliver his presentation on the Outlook for Indian Supply and Use: Competitiveness of Indian Cotton. Mr. Jaipuria stated that cotton was a major crop in India. He reported that the cotton situation has changed dramatically in

recent years, from a shortage situation in 2001/02 to a surplus in 2003/04. Yield increased from 400 kg/ha in 2003/04 to over 500 kg in 2006/07. Production jumped from 3 million tons in 2003/04 to 4.76 million tons in 2006/07, 18% of the global output. India imported 0.43 million tons in 2001/02 and exported 0.94 million tons in 2006/07. India is a prominent player in the global cotton market: largest cotton area under cotton (27% of world total); second largest cotton producer (it surpassed the US); and second largest cotton exporter. Mr. Jaipuria listed the factors explaining the turnaround in productivity and quality of Indian cotton: phenomenal expansion of hybrid and Bt cotton varieties; adoption of better agronomic practices by farmers; greater application of IPM techniques and effective checks on pests and diseases; increases in irrigated areas; improvement in the quality of seeds; concerted efforts of all parties to the Technology Mission on Cotton; contract farming; efficient handling of cotton from harvesting to bale packaging; modernization of ginning and pressing factories; development of instrument testing; reduction in contamination. Mr. Jaipuria estimated that production in India will reach 5.27 million tons with exports in excess of 1 million tons. He said that Indian cotton is price competitive in the world market and that the cotton crop is attractive and remunerative for producers.

In India, sustained increase in area, yield, production, consumption and exports and prices still remaining high are assisted by the robust trends in consumption and exports. The trends in the textile and clothing industry during the current decade show that production is increasingly shifting to Asia. India has a geographical advantage to supply Asian developing markets (Bangladesh, Vietnam, Cambodia, Indonesia). To conclude his presentation, Mr. Jaipuria said that it is necessary to ensure that relevant and correct information on production, consumption, price and trade is available to all concerned. ICAC has been providing information on production, consumption and trade promptly, but not on prices. He said that New York futures are becoming less relevant as an indicator of international cotton prices as cotton trade is increasingly conducted outside the USA. Therefore there is need for an international price indicator or index that takes into account the trade outside the USA. Mr. Jaipuria said that ICAC should be the proper agency to undertake the responsibility of developing such a price monitoring system.

The CHAIR thanked Mr. Jaipuria for his presentation.

The CHAIR introduced Dr. Talat Şentürk, Acting General Director of Agricultural Production and Development, Ministry of Agriculture, Republic of Turkey, to present his report on the Outlook for Turkish Supply and Use: Competitiveness of Turkish Cotton. Dr. Şentürk welcomed the participants on behalf of the Turkish Government. He stressed the importance of cotton for the economy of Turkey. The cotton sector has an economic value of the \$24 bn, it accounts for 10% of the GNP, 23% of the manufacturing sector and 21% of employment. There are 45,000 companies in the textile and clothing sector, and 908 cotton ginneries in the country. 125,000 farmers are involved in the production of about 2.5 million tons of seed cotton, or 900,000 tons of lint. Organic cotton production reached 65,000 tons of lint. Cotton consumption has been rising to almost 1.5 million tons. Turkey had to import 750,000 tons and exported 62,000 tons of lint in 2006. Dr. Şentürk said that Aegean cotton is of top quality. He presented the four cotton producing areas of the country. He reported that Turkey had determined new objectives for 2006-2012 in order to cover cotton demand. Cotton area is expected to expand by 329,000 hectares and production to increase by 526,000 tons during that period. The development strategy of the cotton sector aims at meeting the supply deficit, reducing production costs, developing mechanized harvesting, increasing organic cotton production, expanding the use of good agricultural practices, improving research and development facilities and developing a licensed warehouse system and futures and options markets. Turkey will be in full compliance with WTO rules and, at the same time, will harmonize its rules in view of its negotiations with the EU. Dr. Şentürk concluded by saying that he is confident that with the efforts of all stakeholders in the National Cotton Council established in 2007 the market share of cotton can increase in Turkey.

The CHAIR thanked Dr. Talat Şentürk for his presentation.

The CHAIR introduced Mr. Bill Norman, National Cotton Council of America, to make a presentation on the Outlook for U.S. Supply and Use: Competitiveness of U.S. Cotton. Mr. Norman conveyed the apologies of Dr. Mark Lange for not being able to attend the Plenary Session and his best wishes for a successful meeting. He reported that USDA estimates that production in the U.S. will be down 16% in 2007/08 to 18.2 million bales, mostly due to declines in plantings. The reduction in plantings is in direct response to the market signals. However, with a carryover from the 2006 crop larger than levels of recent years, total supplies for the current marketing year will be approximately 28 million bales, similar to a year ago. The continued decline in mill use, to an estimated 4.6 million bales, leaves the U.S. cotton industry relying on exports for about 75% of its production. USDA estimates US exports at 16.7 million bales in 2007/08. As a result, US carryover stocks on July 31, 2008

would be significantly lower than the previous year. Dr. Norman presented the world supply and demand data of USDA. He noted the continued lack of accurate data on China. Dr. Norman said that the environment surrounding the development of the new U.S. farm bill has been conditioned by a number of critical factors: focus on reform, criticisms of the 2002 bill, budget pressures, competition for dollars, the Brazil WTO case, concerns about the size of payments to producers. He explained that the provisions of the new farm bill of the House of Representatives essentially maintain the structure of the 2002 farm bill with minor modifications, notably the reduction of the target price from 72.4 to 70 cents per pound. The Senate will likely propose a comprehensive package with some differences from the House version. A conference committee will then sort out differences between the 2 versions. If an agreement is reached and approved by both bodies, the President must sign the bill or veto it. Dr. Norman stated that yields in the U.S. have increased since 2003, contributing to lower costs. USDA estimates that upland cotton cost of production rose from just over 40 cents per pound in 2004 to just over 50 cents per pound by 2007. With this cost structure, US cotton can compete in the world market with any other cotton. Dr. Norman concluded his presentation by saying that the new farm policy in the US is unlikely to bring any shift in acres devoted to program crops and that any further strengthening of expected cotton prices for 2008 will keep cotton acreage at current levels. Conversely, any weakening of grain and oilseed prices for 2008 would lead to an increase in cotton plantings.

An observer from TURKEY asked why the US exported more than 70% of their production. Mr. Norman replied that exports were not increasing by choice but due to the fact that the domestic market was shrinking.

The delegate of INDIA asked if cotton area would further decrease in 2008. Mr. Norman said that, at the current price level, the cotton area would probably be maintained. The CHAIR thanked Dr. Norman for his presentation.

The CHAIR introduced Mr. Hussein Velioğlu, General Manager of TARIS (Dried Figs and Cotton and Oil Seeds Sales Cooperative Unions), Turkey to deliver a presentation on Cotton in Aegean Region and Taris. Mr. Velioğlu described the activities and the missions of Taris, faithful to the principles of cooperatives, with a strong focus on quality. It is the biggest cooperative union in Turkey dealing with cotton and has a history of more than 90 years. Taris supplies inputs, provides technical assistance, cash loans, and marketing services to 44 cooperatives and 46,000 cotton producers. With 250,000 tons of seed cotton, Taris accounts for 50% of the cotton production of the Aegean region, and has a total ginning capacity of 650,000 tons. In addition to the ginning industry, the Union operates an oil plant that has a capacity of 240,000 tons/year, a spinning and a weaving mill with the capacity of 19,000 tons/year, and a feed plant with the capacity of 75,000 tons/year. Mr. Velioğlu concluded by saying that Taris was among the top 20 great industrial institutions in the region and among the top 150 in Turkey.

The delegate of ARGENTINA asked a question about the value of seeds paid to producers. Mr. Velioğlu said that the price was about 0.50 TL/kg, with a small premium for higher oil content and lower acidity. The delegate of ARGENTINA said that in his country the quality of seeds was not factored into the price.

The CHAIR thanked Mr. Velioğlu for his presentation and adjourned the session at 1:15 pm.