



INTERNATIONAL COTTON ADVISORY COMMITTEE

1629 K Street NW, Suite 702, Washington, DC 20006 USA
Telephone (202) 463-6660 • Fax (202) 463-6950 • email secretariat@ICAC.org

Aide Memoire

To: Delegates to the Standing Committee, Coordinating Agencies and Members of the Private Sector Advisory Panel

From: Executive Director

Subject: Meeting of the PSAP, Bremen, Germany

Date: April 15, 2002

Members of the Private Sector Advisory Panel (PSAP) met at the Bremen Cotton Exchange on 13 March, 2002 in Bremen, Germany. Participants from the PSAP included:

Mr. Charles Wilson of Australia, Mr. Andrew Macdonald of Brazil, Mr. Amin Ahmed Abaza of Egypt, Mr. John Accas of Greece, Mr. Suresh A. Kotak of India, Mr. Romano Bonadei of Italy, Mr. Felix Stiegwardt of Paraguay, Mr. Isidor Gilan of the Philippines, Mr. Andries Fourie of South Africa, Mr. Sebahattin Gazanfer of Turkey, Mr. Ray Butler of the UK, Dr Phillip J. Wakelyn of the USA

Also present were Terry Townsend and John Mulligan of the Secretariat.

Mr. Felix Stiegwardt, Chair of the PSAP, led the discussion.

The executive director expressed appreciation for the work of the PSAP. He noted that members had traveled to the meeting at their own expense. He noted that the PSAP was having a specific and positive effect on the work of the ICAC by raising issues of significance and ensuring that the work program of the Secretariat and the discussions of the Committee were relevant to the concerns of the private sector.

Business Plan and Plenary Meeting Venues

Mr. Stiegwardt then reviewed the Secretariat business plan, reminding members that this was an ongoing process that was progressing well. Mr. Stiegwardt also mentioned the work of the Working Group on Plenary Meeting Venues. He noted that it had implemented a rotation of venues designed to ensure an equal balance of meetings between importer and exporter markets and a rotation among regions.

The PSAP expressed its continued support and approval of both the business plan and the principle of a rotation among plenary meeting venues.

Good Trading Practices

The issue of supporting Good Trading Practices, or Contract Sanctity, remains high on the agenda of the PSAP. The PSAP notes that a basic function of government is to ensure the rule of law, and that government support for the enforcement of contracts provides a crucial incentive to all parties active in cotton trade to fulfill contractual obligations. The PSAP is anxious that the ICAC Standing Committee continue to address this issue, and the PSAP supports fully the work of the Secretariat in identifying member countries whose laws recognize

and allow enforcement of international arbitration agreements, with the aim of encouraging others to do likewise.

It was reported that private organizations are actively engaged in efforts to encourage contract fulfillment, and they are striving to find more effective ways of discouraging defaults on contracts. It was reported that the Liverpool Cotton Association (LCA) late last year changed its by laws in order to prohibit access to its arbitration procedures in disputes in which either party to a transaction has failed to abide by an arbitration award and whose name has been circulated accordingly, and has urged other arbitral bodies that are members of the Committee for International Cooperation between Cotton Associations (CICCA) to do likewise. Furthermore, the LCA is now contemplating further changes, which, subject to approval by its directors and ratification by members, would have the effect of prohibiting members from knowingly trading with defaulters, on pain of potential expulsion.

The PSAP supports the discussion of "Sanctity of Contracts" at future Plenary Meetings and suggests it is appropriate for the ICAC to support the activities of the United Nations Commission on International Trade Law (UNCITRAL).

Increasing Use of Electronic Trading

The PSAP recommended that the Secretariat continue to monitor developments in the field.

Enhance World Cotton Demand

Andrew Macdonald reported that the Forum for Cotton Promotion is progressing with its work and that major cotton producing countries are being encouraged to develop national organizations to promote cotton in domestic markets.

The merits of creating a body similar to the former International Institute for Cotton (IIC) to manage international cotton promotion were discussed. Issues of budget and responsibilities were considered. The PSAP concluded that the matter needed to be more fully developed and that the Forum for Cotton Promotion was the appropriate arena for this. A strengthened interest in the Forum was supported.

Government Measures

The executive director summarized the activities of the Working Group on Government Measures (WGGM). He noted that the WGGM was soliciting reports of injury caused by the decline in cotton prices. The WGGM is co-sponsoring a conference with the World Bank to highlight the damage caused to international cotton markets as a result of low cotton prices. The meeting should prove instrumental in persuading the WTO of the significance of cotton in the world economy and the need for meaningful progress in the talks on agriculture.

The PSAP urged countries to complete "reports of injury" in time for presentation at the conference. The Secretariat hopes to receive reports of injury in time for delivery to the Standing Committee at its meetings on April 23 and June 7. It was agreed that the matter would be monitored in future plenary meetings.

Improved Productivity and Pest Control

The PSAP discussed the success experienced in different countries. Some countries where cotton is grown on small farms experience difficulties as a result of poor, ill-educated farmers receiving no government assistance. Pest controls and fertilizer use were often limited and ineffective.

In other countries, subsistence farmers are contracted by private enterprises and provided with seed, bags, pesticides and education. As a result of this low cost approach (US\$40-45/ha), trust was developed between farmers and enterprises. The relatively low cost of the exercise was noted as a strong reason for the success of the partnership.

It was agreed that a successful experience in one region did not necessarily translate to the same success being experienced elsewhere. However, the PSAP agreed that education in the use of appropriate seed selection and pesticide use was a key factor in improving productivity and successfully managing pests. Governments were seen as an important partner in offering this training to farmers.

Quality

The PSAP recognized that the development of a standardized, universally accepted, consumer-oriented, quality classification system is an important goal. The PSAP debated current measuring standards and their limitations, noting that tests that work consistently with cotton from some regions did not take into account qualities of cotton produced in other regions.

The demands of specialized textile mills were also considered where cotton of a consistently high quality was important to the efficient running of the operation.

The merits of competing measurement standards from competing companies were discussed with the conclusion that each suited different situations.

Governments were encouraged to recognize their role in facilitating the development of appropriate quality standards. The PSAP concluded that the ICAC should encourage the development of consumer-oriented quality standards by promoting the subject with governments.

Genetically Engineered Cotton

The regulation of GE cotton on the basis of sound science has already been supported by the ICAC in the 60th Plenary Meeting. It was noted that customer acceptance has met significant emotional resistance in some markets.

Suggestions to increase acceptance of GE cotton focused on education and promotion. Informing customers of the benefits of GE cotton - such as reduced pesticide use and higher yields - were seen as ways of encouraging an attitude based on science rather than emotion among customers.

The PSAP concluded that more effort was needed in GE education by the Secretariat through distribution of reports and other means as appropriate.

Price Risk Management

The PSAP was told of a Brazilian government test to provide price risk management tools to farmers through local insurance companies. The importance to small cotton farmers of protection of their investment was emphasized. It was yet to be seen if the test would be a success, but the model is of interest and could be applied elsewhere.

Others noted that government regulations such as financial laws that prohibit insurance coverage from foreign companies could be an obstacle.

The PSAP suggested that a simplified description of price risk management tools emphasizing insurance rather than hedging, which is often confused with speculation, be developed in order

to encourage a more informed debate on the matter. The PSAP noted that market conditions differ in each country, and price risk management instruments need to be tailored to domestic conditions.

Next Meeting of the PSAP

The next meeting of the PSAP will be on Sunday, 20 October 2002 in Cairo, beginning at 3:00 PM.