



INTERNATIONAL COTTON ADVISORY COMMITTEE

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A Strategic Plan for the ICAC

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Major Challenges Facing the Cotton Industry

The world cotton industry is witnessing remarkable demand growth, advances in technology and substantial progress toward liberalized trade in cotton textiles and apparel. By many measures the health of the cotton industry is good. Nevertheless, many challenges continue, including the need to encourage universal implementation of sustainable production systems, competition with polyester and the need to boost demand, distortions to production and trade caused by government measures in cotton and continuing difficulties with contract defaults. In addition, the ICAC faces institutional challenges from declining membership, the refusal of China (Mainland) to join the Committee, a shift in attitudes toward public sector involvement in commodity matters, privatization of national cotton industry organizations and pressures on government budgets which translate into reduced support for the Secretariat budget.

Overview of the World Cotton Industry

Cotton is grown in more than 100 countries on about 2.5% of the world's arable land, making it one of the most significant in terms of land use after food grains and soybeans. Cotton is also a heavily traded agricultural commodity, with over 150 countries involved in exports or imports of cotton.

More than 100 million family units are engaged directly in cotton production. When family labor, hired-on farm labor and workers in ancillary services such as transportation, ginning, baling and storage are considered, total involvement in the cotton sector reaches an estimated 350 million people. It also provides employment to additional millions in allied industries such as agricultural inputs, machinery and equipment, cottonseed crushing and textile manufacturing. Cotton cultivation contributes to food security and improved life expectancy in rural areas of developing countries in Africa, Asia and Latin America. Cotton played an important role in industrial development starting in the 17th century and continues to play an important role today in the developing world as a major source of revenue. The value of world cotton production is estimated at \$30 billion in 2004/05. The economic importance of cotton justifies the involvement of governments in an international cotton organization dedicated to improvement in the health of the industry.

The world cotton industry is experiencing robust demand growth and rising yields, making it one of the best-performing commodity industries in the world at this time. The world cotton industry has experienced dramatic changes over the last five decades as production nearly quadrupled, rising from 7 million tons in 1950/51 to 26 million tons in 2004/05. The average annual rate of growth in world production over the last five decades has been about 2.5% per year.

New technologies, more extensive use of existing technologies, and new areas dedicated to cotton are resulting in dramatic gains in production. Since the mid-1990s, the world yield has risen from less than 600 kilograms per hectare to more than 700. Biotechnology, improved management of irrigation, targeted applications of pesticides, improved use of fertilizers, and improvements in crop management are leading to increased yields and lower production costs.

A survey by the Secretariat of costs of production using data from 2003/04, indicates that the average total cost of production, excluding the cost of land rent and subtracting the value of cottonseed sold after harvest, averaged \$0.52 per pound, and if economic and fixed costs are also excluded, the resulting cash costs of production averaged \$0.44 per pound. These data indicate that the average land owner, producing cotton at average cost and gaining average yields will tend to maintain or expand production when farm prices exceed 44 U.S. cents per pound of lint, translating into CIF prices reflected in the Cotlook A Index of between 50 cents and 60 cents per pound.

World demand for cotton has increased at an impressive pace since the 1950s, rising from 7 million tons in 1950 to 23 million tons in 2004, for an average annual rate of growth of 2.1%. The last six seasons have seen extraordinary rates of growth in cotton use. During the period from 1970/71 through 1998/99, world cotton use rose at an annual rate of 1.5%, but between 1998/99 and 2004/05, cotton use rose by 4% per year.

Most of the increase in world cotton consumption at the end-use level during the 1980s and 1990s took place in industrial countries. However, since 2000, most of the increase in cotton end use is taking place in developing countries as consumers in China (Mainland) and India accelerate their retail purchases. The share of developing countries in world mill consumption rose continuously from 61% in 1990/91 to 88% in 2004/05. Mill use in developed countries is declining.

International cotton prices have declined in real terms over the last six decades because of advances in technology, and this process is continuing. During the 1970s, 1980s and 1990s, the average world price of cotton in nominal terms was 70 cents per pound, but the average international price during the current decade is expected to be between 50 and 60 cents per pound, in line with the marginal costs of production for most producers.

Challenges Facing the Cotton Industry

1. Sustainable Production Systems

Sustainable production is the ability to produce cotton today without diminishing the ability of future generations to produce cotton. Over the past four decades, as the use of inorganic fertilizers and pesticides have been incorporated into production practices, farmers and researchers have tried to develop ecologically sound production systems for cotton and other crops. More insecticides are used per hectare of cotton than on many other row crops, and so interest in developing sustainable production systems has focused on cotton.

There are several examples of countries that have developed successful commercial cotton sectors with limited use of insecticides, including Syria where only 1% of cotton area is sprayed most seasons and Australia where Best Management Practices (BMP) have been developed to improve the environmental impacts of cotton production. Numerous efforts sponsored by the EU and the U.S. and implemented by FAO are underway. The ICAC has sponsored two projects funded by the CFC dealing with sustainable cotton production, one in West Africa and one in

Asia, and technical seminars organized by the Secretariat have helped to raise awareness of the need for the development and implementation of sustainable production systems.

In most cases, the knowledge necessary to the implementation of sustainable production systems exists or can be readily developed from current technologies. The constraint to expanded implementation of sustainable production practices is lack of knowledge by farmers, and governments can contribute through a strengthening of extension systems.

Objectives:

The ICAC Secretariat will facilitate the development and encourage the implementation of best management practices that result in sustainable production of cotton in producing countries.

Strategies:

1. The Secretariat will ensure that technologies consistent with BMP are highlighted in technical conferences supported by the ICAC.
2. The Secretariat will continue to report on BMP technologies, and the benefits of adoption of BMP, in issues of the Recorder.
3. The Secretariat will commission a Review Article (a special publication on a focus topic by an outside author with expertise in the field) on the impacts of cotton production on health and the environment. The article will include guidelines for successful adoption of BMP programs.
4. The Secretariat will report periodically on the status of adoption of BMP programs in countries and regions that have volunteered to participate in such a program.
5. The Secretariat will work with organizers of the World Cotton Research Conference – 4 in 2007 to showcase successful BMP programs resulting in sustainable cotton production practices.

Performance Indicators:

Effective implementation of BMP programs in producing countries and regions.

Intermediate Goal:

The establishment of BMP programs in at least two producing regions within three years.

Potential Collaborators:

USDA, CIRAD, Australian CRDC, and national cotton organizations responsible for development and extension of technology to growers.

Demand Enhancement

Income and population growth are the major factors driving increases in textile consumption. In addition, relative fiber prices, barriers to trade in textile and apparel products and consumer preferences have important impacts on fiber market share and growth in cotton use. Competition with chemical fiber is a continuing challenge for the cotton industry. Chemical fiber production technology results in lower costs of production of chemical fibers and an increased range of uses. World cotton consumption per capita has been almost constant since 1960, while total textile fiber consumption per capita more than doubled. Cotton's share of world textile fiber use fell from 79% in 1950 to below 40% in 2004.

The work of Cotton Incorporated in the U.S. proves that it is possible for a national cotton industry organization to encourage an increase in retail sales of cotton products. Cotton

Incorporated is a private company owned by U.S. cotton producers and funded by collections from each U.S. producer on a per-bale basis and from fees charged on the cotton-content of imported products. Per capita consumption of cotton in the U.S. rose from 6 kilograms in the early 1980s to 16 kilograms currently, and part of this increase can be attributed to the cumulative impact of the work of CI over the past 30 years. During the same period, per capita consumption in the rest of the world actually declined.

Consumption of cotton products at retail in the U.S. is supported by gains in income and changes in trade policies, but demand enhancement activities have contributed by raising consumer awareness of fiber content, encouraging positive consumer attitudes toward natural fiber properties and by encouraging trends in fashion and technology favorable to increased cotton use. Studies by the Secretariat suggest that as a result of research and promotion, 300,000 tons more cotton has been consumed since 1998.

The Secretariat supports the work of the International Forum for Cotton Promotion (IFCP). The IFCP is a consortium of 17 private sector cotton industry organizations in 15 countries. The mission of the IFCP is to boost demand at the retail level for cotton by serving as a clearinghouse for proven techniques of cost-effective demand enhancement. The IFCP works to encourage the formation of national organizations in producing countries to fund and execute programs to provide positive information about cotton to domestic consumers. Domestic promotion activities have been proven effective in raising fiber awareness among consumers, creating positive consumer impressions of cotton and encouraging fashion trends friendly to cotton use.

The IFCP grew out of the 59th Plenary Meeting in Cairns Australia. While there has been much accomplished in the way of organization and gathering of data, it must be observed that the mission of the IFCP, of encouraging increases in retail sales through the establishment of national organizations to conduct demand enhancement activities, has not been fulfilled. While there is broad agreement that cotton promotion is useful and beneficial, it has not been possible to convince the private sector that cotton promotion is directly beneficial to individual profit-oriented private firms. As a consequence, national organizations have not been formed, and additional demand enhancement work has not begun.

Remembering that the foundation of the ICAC is its status as an international organization, there is a role for government action in facilitating and encouraging national industries to look past individual self-interest and to unite into national organizations to promote industry growth. Governments can promote the health of the cotton industry by facilitating the formation of national cotton bodies, by implementing policies requiring fiber-content labeling of all products sold at retail in the organized sectors and by providing the support of government in the collection of funds for research and promotion activities. The experience of the United States, where the government does not fund promotion but does facilitate the collection of funds from the private sector for research and promotion activities, can serve as a model for government action.

Objectives:

The ICAC will encourage increased consumption of cotton at the retail level.

Strategies:

1. Member governments of the ICAC will be asked to specifically endorse increased consumption of cotton as a legitimate policy goal.
2. Member governments will be asked to adopt fiber-content labeling requirements.
3. The Secretariat will work with the IFCP to provide information to national cotton industry organizations and governments on the structure, conduct and

- performance of Cotton Incorporated and other successful domestic demand enhancement organizations and encourage the adoption of similar strategies.
4. Member governments will enact legislation supportive of efforts by the private sector to raise funds through industry organizations to finance research and promotion efforts.

Performance Indicators:

The establishment of national organizations to organize effective demand enhancement activities in producing countries.

Intermediate Goal:

The establishment of one demand enhancement program in a producing country by 2006.

Potential Collaborators:

Cotton Incorporated, Cotton Council International, Cotton South Africa, Cotton Australia and the IFCP.

Instrument Testing

Instrument testing of cotton contributes to efforts at demand enhancement. About one-third of world cotton production is instrument tested at the producer level at this time, and this proportion is rising. With China (Mainland) developing an instrument testing system, and other countries such as Brazil and Australia strengthening existing systems, more than one-half of world production will be evaluated using rapid instrument-testing systems within the next five years.

Instrument testing is not an end in itself; it is a means to an end. The objective of instrument testing is improved efficiency in the standards used to describe cotton in world trade so as to enhance the competitiveness of cotton relative to polyester and thus raise demand for cotton.

Following the plenary meeting in Poland in 2003, the Standing Committee approved the formation of an Expert Panel on Commercial Standardization of Instrument Testing of Cotton (CSITC). The purpose of the CSITC is to improve the competitiveness of the world cotton industry by encouraging widespread use of high-quality instrument testing systems at the producer level within a standardized international testing system. The CSITC is working to facilitate the adoption of best instrument testing methods and procedures so that test results can serve as a basis for international trade in cotton, thereby providing relevant technical information to spinners on a cost-effective basis to enable them to optimize the use of cotton, and to provide rational incentives to the production and marketing pipeline to supply cotton with the characteristics desired by spinners.

Objectives:

The ICAC will encourage worldwide adoption of a standardized instrument testing system for cotton.

Strategies:

1. The Secretariat will facilitate the work of the CSITC toward agreement on the adoption of procedures and practices consistent with high quality instrument testing within a standardized cotton testing system.
2. The Secretariat will work with other international organizations to circulate information to all cotton sectors on the work of the CSITC.

3. The Secretariat will collaborate with other international organizations to ensure that projects to expand instrument-testing capabilities in developing countries are consistent with the activities of the CSITC.
4. Member governments of the ICAC will acknowledge that instrument testing systems are superior to hand classing systems.

Performance Indicators:

Instrument testing of cotton within a standardized international system developed by the CSITC will be adopted by more countries.

Intermediate Goal:

Instrument testing of cotton within a standardized international system developed by the CSITC will be implemented at the producer level for 50% of world cotton production by 2008, up from approximately one-third at present.

Potential Collaborators:

USDA, Bremen Fiber Institute, CIRAD, international organizations and national cotton testing organizations.

Distortions Caused by Government Measures

The subject of government measures that distort production and trade is the timeliest issue facing governments and the world cotton industry at this time. It is also an issue where political will by ICAC member governments can directly improve the transparency and efficiency, and thus the health, of the world cotton industry.

There is broad recognition that distortions to production and trade caused by government measures in agriculture reduce income and lower wealth in the aggregate. There is also broad recognition that reductions in government measures result in temporary economic dislocations and changes in land use patterns that may not be desired. This is why negotiations are always difficult.

There is broad agreement that the venue for negotiation of reductions in agricultural subsidies is the World Trade Organization (WTO). The ICAC has a role in the WTO process. Reports from the Secretariat inform governments about the nature and scope of distortions in cotton caused by government measures, and discussions in the ICAC help to raise the profile of cotton and emphasize the need to reduce government measures that distort production and trade.

Government support for the cotton sector accounts for only 1% of subsidies paid to agriculture in OECD member countries, and yet cotton has attained prominence in the current round of trade negotiations, partially due to the work of the ICAC.

The WTO framework agreement from August 2004 said that the specific issues related to cotton would be addressed within the agriculture negotiations, and that a Special Session of the Committee on Agriculture would ensure appropriate prioritization of cotton issues through a Subcommittee on cotton. The framework agreement reaffirmed the importance of the General Initiative on Cotton, proposed during 2003 in Cancun by four African countries, and attached importance to the development aspects of the initiative.

Objectives:

The ICAC will support a successful outcome to negotiations in the Doha Round that will result in the elimination of export subsidies, improved market access for agricultural trade and reductions and eventual elimination of forms of domestic support that distort production and trade.

Strategies:

1. The Secretariat will continue to provide independent and objective information on the size and nature of government measures affecting cotton production and trade.
2. The Secretariat will estimate the impacts of these government measures on cotton prices.

Performance Indicators:

A successful outcome to the Doha Round negotiations in the WTO.

Intermediate Goal:

Potential Collaborators:

Governments, NGOs, international organizations

Contract sanctity

A central function of governments is to provide for the rule of law, and the ICAC has endorsed the concepts of contract fulfillment and compliance with valid arbitral awards. Contract defaults impose costs on the entire cotton chain in the same way that the costs of shoplifting are eventually borne by all shoppers. The Secretariat continues to cooperate with the United Nations Commission on International Trade Law (UNCITRAL).

The countries involved in international trade in cotton are shifting because of changing patterns of production and consumption. A distinctive feature of the past decade is that many cotton-producing countries are also cotton-consuming countries and have become net importers. In some countries, after decades in which domestic production was sufficient to cover domestic mill use, many textile mills must now purchase imported cotton. As textile mills in producing countries have been forced to source cotton internationally, frustrations have developed because of differences between patterns of domestic trade to which they are accustomed and international trade rules for cotton. While progressively managed textile companies in importing countries are able to adapt to international trade rules, other companies have sought protection from international obligations by seeking to erect trade barriers in the form of mandatory rules covering imports of cotton that follow the rules for domestic trade with which importers are familiar.

There is a threat that the number of sets of rules for international trade in cotton will multiply, resulting in numerous parochial sets of rules for different regions that would reduce transparency and efficiency in cotton trade. It is hoped that there will be a consensus among governments not to support efforts by national industries to create additional sets of mandatory rules for international trade in cotton and that instead governments will encourage industries to remain internationally competitive through the use of standardized international contracts for trade in cotton.

The problem of non-performance of cotton contracts in a falling market is exacerbated by the lack of respect for yarn contracts. Difficulties in the enforcement of yarn contracts occur because specifications are so detailed and exacting that it is easy to find fault with any given yarn, and so to reject it or demand re-negotiation. Since yarn is normally difficult to resell unless with a large discount, invoicing back is in practice impossible. As a consequence, spinners sometimes respond to cost pressures by defaulting on contracts for the purchase of cotton.

Objectives:

The ICAC will insist on adherence to good trade practices by all members of the cotton trade.

Strategies:

1. Member governments will continue to endorse the principles underlying good trade practices.
2. The Secretariat will publicize the negative impacts of contract defaults on world cotton trade.
3. The Secretariat will provide information about efforts to harmonize trading rules.
4. The Secretariat will participate in efforts to educate all segments of the cotton industry about the need for contract compliance.
5. The Secretariat will work with the ITMF and other organizations to analyze the structure, conduct and performance of both the cotton and cotton yarn industries to aid in understanding the problem of defaults on cotton contracts.
6. The ICAC might work with ITMF and the ICA to develop a model contract for trade in cotton yarn based on the ICA contract for trade in cotton.

Performance Indicators:

A long-term reduction in the number of technical arbitrations submitted to recognized arbitral bodies.

Intermediate Goal:

Potential Collaborators:

Member associations of the Committee for International Co-operation between Cotton Associations (CICCA), UNCITRAL, ICA, ITMF

Institutional Challenges Facing the ICAC

Declining membership

Membership in the ICAC has fallen from more than 50 countries at its peak in the early 1980s to 40 countries presently. The peak membership was achieved when it appeared that discussions under the auspices of UNCTAD could lead to the establishment of an international buffer stock with the ICAC as the buffer stock authority. Membership has declined for a number of reasons. Some countries lost interest once discussions under UNCTAD ended. Central American countries withdrew as production declined. Mexico withdrew in 1994 when the value of the peso declined. Sweden, Norway and Japan withdrew because of changing priorities in government, and Nicaragua and Benin have been suspended from membership because of non-payment of assessments. There has been a shift in attitudes toward public sector involvement in commodity matters, combined with privatization of national cotton industry organizations and pressures on government budgets that is leading to reduced support for international commodity bodies. A common feature among countries that withdraw from membership and countries that do not join the ICAC is the lack of organized support from within the private sector of the cotton industry to endorse membership in the ICAC.

The viability of the ICAC as an institution is not yet at risk, but continued reductions in membership will eventually imperil the organization. Thus, the ICAC needs to refocus efforts at membership growth.

Objectives:

The ICAC will increase membership by 10% to 44 governments within 5 years.

Strategies:

1. The Secretariat will initiate contacts with government officials in targeted countries.
2. Member governments of the ICAC will buttress Secretariat efforts at communication with target governments through government-to-government contacts.
3. The EU will be encouraged to endorse membership in commodity organizations for all 25 member states.
4. Members of the private sector will encourage business associates and counterparts in non-member countries to endorse the membership of their governments in the ICAC.
5. At appropriate times, Standing Committee officers can visit targeted countries to raise the profile of ICAC membership.

Performance Indicators:

Increased membership in the ICAC.

Intermediate Goal:

Reactivation of the membership of Japan and Mexico.

Potential Collaborators:

Member governments, members of CIOCA and cotton companies in member and non-member countries.

Membership of China (Mainland)

The membership of China (Mainland) is of special significance to the ICAC because of the size of China in the world cotton market. The Government of China (Mainland) opposed the application by the ICAC for observer status with the Subcommittee on Cotton of the WTO because China is not a member of the ICAC and because of resentment that Secretariat reports indicate that China provides government support to the cotton sector. The explicit opposition of China (Mainland) to the request for observer status by the ICAC is a troubling development. The Secretariat maintains a pragmatic relationship with the cotton sector of China (Mainland) through exchanges of visits beginning in the 1980s, sharing of information, and supervision of one project by the Secretariat that was funded by the Common Fund for Commodities that involved China. Some researchers and representatives of the cotton trade in China have attended some ICAC meetings, and the Secretariat has attended cotton conferences in China. Until recently, the Government of China (Mainland) seemed to regard the ICAC with watchful indifference, not bothering to join, but not moving to interfere with or block the work of the Committee. However, the situation may be changing.

China (Mainland) accounts for one-fourth of world cotton production, one-third of mill use and one-fourth of imports. Despite its importance to the world cotton industry, the Government of China (Mainland) is not a member of the ICAC. China (Mainland) has been invited to join the ICAC on numerous occasions, but even though the cotton sector of China (Mainland) has been interested in membership, the government has repeatedly declined invitations to join. The government has stated that it can only consider membership in the ICAC if China (Taiwan) is no longer a member. At the 63rd Plenary Meeting in Mumbai in 2004, the Private Sector Advisory Panel underscored the importance of participation by China (Mainland) in ICAC meetings and urged the Secretariat to renew efforts to involve China in the ICAC. It will be a delicate challenge for member governments of the ICAC to maintain the integrity of the Committee as a scientific and technical body representing all segments of the world cotton industry, while

encouraging China (Mainland) to join, but this is an issue that can no longer be ignored and will require government involvement if a solution is to be found.

Objectives:

China (Mainland) will join the ICAC in time to participate in the 67th Plenary Meeting in Burkina Faso in 2008.

Strategies:

1. The Secretariat will maintain contacts with cotton industry officials in China (Mainland).
2. Member governments of the ICAC will buttress Secretariat efforts at communication with China (Mainland) through government-to-government contacts.
3. The Secretariat will invite individual representatives of producers and spinners in China (Mainland) to participate in ICAC meetings.
4. Members of the private sector will encourage business associates and counterparts in China to endorse the membership of China in the ICAC.

Performance Indicators:

Membership of China (Mainland) in the ICAC.

Intermediate Goal:

Participation in ICAC meetings by officials from China (Mainland).

Potential Collaborators:

Member governments, members of CICC and cotton companies in member and non-member countries.