



INTERNATIONAL COTTON ADVISORY COMMITTEE

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FINAL

Statement of the 73rd Plenary Meeting

“From Land to Brand: Strengthening the Cotton Value Chain”

November 7, 2014

1. The International Cotton Advisory Committee (ICAC) met in Thessaloniki, Greece, from November 2 to 7, 2014 for its 73rd Plenary Meeting since the establishment of the Committee in 1939. Participation was 401, including representatives from 33 member governments, 9 international organizations and 19 non-member governments.

2. Government policy continues to distort the world cotton market: The Secretariat reported that world cotton consumption in 2014/15 is projected to be below production for the fifth consecutive season and that stocks will reach record levels. Prices were falling and the temptation for countries to intervene in defense of their growers was increasing. The timing and manner of the liquidation of these stocks would help define the fundamentals of the world cotton market over the next several years. Within the last year, changes had occurred in the cotton policies of a few cotton-producing countries. More intervention would only postpone adjustments and lead to increased challenges for participants in the cotton value chain in the long run. Members noted that the statistics and economic studies provided by the ICAC were important to making the cotton market more transparent.

3. Promoting demand for cotton: The importance of ensuring the growth of cotton consumption was emphasized in various presentations from diverse sectors of the textile chain. Two World Café Sessions were dedicated to creatively discuss how to best promote the cotton as a brand. ICAC member countries noted the importance of promoting demand for cotton and endorsed efforts to encourage consumption. Cotton had many competitive advantages and was highly valued by consumers. In recent years, high cotton prices had damaged the competitiveness of the product. Prices were now coming down and cotton had become more competitive with man-made fibers. However, competitive pricing was not enough and more proactive promotion actions were required. Cotton is in competition ~~was~~ with man-made fibers, not other cottons. ICAC member countries were urged to promote the use of cotton, especially in their internal markets. The International Forum for Cotton Promotion of ICAC should remain closely involved with this work. The Task Force on Commercial Standardization of Instrument Testing of Cotton of ICAC stressed the importance of accurate instrument testing of cotton as a trading tool, since its application would be a further step in improving cotton's market share.

4. Measuring sustainability: The Committee received a report from its Expert Panel on the Social, Environmental and Economic Performance of Cotton Production (SEEP) on “Measuring sustainability in cotton farming systems: Towards a guidance framework.” This report, whose Executive Summary had been reviewed by the Committee at the previous Plenary Meeting, was now in its final stages of preparation for publication. It provided a comprehensive set of sustainability indicators that were designed to be used in the context of cotton cultivation, but could also be usefully applied to other crops. Following recommendations made at the 72nd Plenary Meeting, pilot testing of the indicators was being undertaken in Australia and in projects run by the Food and Agriculture Organization of the United Nations. In addition to monitoring such tests, the SEEP would now evaluate other sustainability assessment tools that affected the world cotton sector.

5. National programs of responsible cotton production: Presentations were made to the Committee from various countries explaining actions taken to produce sustainable cotton. It was suggested that countries must work together through mutual exchange of information to expand these important programs in order to ensure a healthy future for cotton.

6. Cotton Identity Programs: The Task Force on Cotton Identity Programs had expanded its report

presented at the previous Plenary to include five programs. The Chair reported that about 1.1 million tons of cotton had been produced under the five identity programs in 2012/13. However, side-by-side comparisons of identity cotton programs could be misleading since each program had different objectives. The updated report will be made available on the ICAC website after final editing. Members of the Task Force considered that they had fulfilled their mandate and that their work was concluded. The Committee thanked the Task Force members for their efforts. Some ICAC members expressed concern at the possibility of Cotton Identity Programs promoting one origin or type of cotton at the expense of others.

7. Contract sanctity: The Plenary hosted a panel discussion on the question of measures that could be introduced to reduce disputes in cotton trading. Panelists noted the importance of contract sanctity to a healthy cotton supply chain. Member governments were reminded of their responsibility, under the New York Convention of 1958, to ensure that arbitration awards were duly recognized by their judicial systems. The concept of contract sanctity centers on the understanding that parties must honor their contractual obligations. The high volatility of cotton prices in 2010/11 put contract sanctity under stress and, although the number of disputes had declined considerably in the recent past, no grounds for complacency existed. The panel noted that the problem of contract sanctity extends further up through the value chain, as weavers, garment manufacturers and retailers also feel free to renege on their commitments. To avoid future disputes over delivery, the panel proposed the universal application of hedging practices to cope with price volatility and the resulting contract defaults, thereby providing insurance against the risks of volatility. Although the Panel stated that this issue primarily concerned the private sector, it could also have repercussions at the government level, especially during the negotiation of free trade agreements. Therefore, the Panel recommended the exploration of mechanisms, such as compulsory insurance, to guarantee the execution of contracts and thereby contractual protection for the industry. Additionally, the establishment of a world yarn contract would assist in offering further protection.

8. Price volatility: Members of the Private Sector Advisory Panel (PSAP) conducted an extensive discussion of factors affecting the volatility of cotton prices. The high volatility of prices in the recent past had damaged the competitiveness of cotton vis-à-vis competing fibers. They requested that the ICAC Secretariat continue to investigate volatility and provide information and analysis on its causes.

9. Prerequisites for textile industry growth: Many Committee members desired to add value to their crop by further processing their production. This issue was the subject of extensive analysis and debate. In the case of smaller countries, one promising possibility was the creation of regional collaboration arrangements to establish economies of scale and exchange experiences. The key factors in the success of the industrial processing of cotton and the attraction of foreign direct investment changed as one moved downstream along the supply chain. In the initial stages, such as spinning and weaving, low labor and electricity costs were crucial. Government policies could also play a considerable role. At later stages in the supply chain, such as garmenting, low labor costs continued to be important but other factors, such as participation in free trade agreements, could be decisive.

10. Completion of the Doha Round: The Committee received a report on cotton from a staff member of the World Trade Organization in the Doha Development Agenda (DDA) and relevant developments at the Bali Ministerial Meeting. The report highlighted the longstanding request of the "C4" group for an end to direct subsidies that distort production and trade in cotton. The Committee noted the production of a specific document on cotton and other outcomes involving agriculture reached at that meeting. It was further noted that the deadline for the adoption of the Protocol of Amendment had passed without any convergence of members. ICAC Members reiterated that cotton is an integral part of the DDA and that there can be no successful conclusion of that agenda without an agreement on cotton. The Committee restated the importance of trade policy as a key factor in promoting world economic growth and development, and voiced support for the WTO's role in promoting free trade.

11. European Union membership: ICAC members reaffirmed their interest in the accession of the European Union to the Committee. Negotiations during the previous twelve months had made progress in narrowing the range of options to be explored, but some difficult issues remained to be resolved. Some ICAC members noted that the Private Sector Advisory Panel had urged governments to ensure that the

multiple voices from the private sector continue to be heard by the ICAC. Despite the unresolved issues, ICAC members were confident that a mutually satisfactory solution could be found that would allow the EU to accede to the ICAC.

12. 74th Plenary Meeting: ICAC members welcomed and gratefully accepted the invitation of India to host the 74th Plenary Meeting in 2015.

13. 75th Plenary Meeting: ICAC members welcomed and gratefully accepted the invitation of Pakistan to host the 75th Plenary Meeting in 2016.

14. 76th Plenary Meeting: ICAC members welcomed and gratefully accepted the invitation of Mozambique to host the 76th Plenary Meeting in 2017.

15. Appreciation for the hospitality of Greece: The Committee thanked the people and Government of Greece for their hospitality in serving as host of the 73rd Plenary Meeting. Delegates commented on the warmth of friendship and the quality of the venue provided for the plenary meeting.

**ICAC****SUPPLY AND DISTRIBUTION OF COTTON**

November 5, 2014

Seasons begin on August 1

	2009/10	2010/11	2011/12	2012/13	2013/14 Est.	2014/15 Proj.
	Million Metric Tons					
BEGINNING STOCKS						
WORLD TOTAL	11.752	8.480	9.593	14.727	17.412	20.18
CHINA	3.585	2.688	2.087	6.181	9.607	12.07
USA	1.380	0.642	0.566	0.729	0.848	0.59
PRODUCTION						
WORLD TOTAL	22.250	25.631	27.947	26.773	26.340	26.24
CHINA	6.925	6.400	7.400	7.300	6.929	6.44
INDIA	5.185	5.865	6.239	6.205	6.766	6.80
USA	2.654	3.942	3.391	3.770	2.811	3.54
PAKISTAN	2.158	1.948	2.311	2.002	2.076	2.10
BRAZIL	1.194	1.960	1.877	1.310	1.705	1.51
UZBEKISTAN	0.850	0.910	0.880	1.000	0.940	0.94
OTHERS	3.285	4.606	5.849	5.186	5.114	4.91
CONSUMPTION						
WORLD TOTAL	25.529	24.478	22.730	23.584	23.455	24.42
CHINA	10.192	9.580	8.635	8.290	7.531	7.93
INDIA	4.300	4.470	4.231	4.817	5.042	5.27
PAKISTAN	2.402	2.100	2.217	2.416	2.271	2.31
EAST ASIA & AUSTRALIA	1.892	1.801	1.685	1.981	2.243	2.33
EUROPE & TURKEY	1.600	1.549	1.495	1.553	1.589	1.67
BRAZIL	1.024	0.958	0.897	0.890	0.889	0.89
USA	0.773	0.849	0.718	0.751	0.803	0.83
CIS	0.604	0.577	0.550	0.561	0.586	0.60
OTHERS	2.743	2.592	2.302	2.325	2.501	2.60
EXPORTS						
WORLD TOTAL	7.799	7.725	9.847	10.167	8.865	7.86
USA	2.621	3.130	2.526	2.902	2.268	2.42
INDIA	1.420	1.085	2.159	1.685	2.014	1.23
AUSTRALIA	0.460	0.545	1.010	1.305	1.037	0.66
BRAZIL	0.433	0.435	1.043	0.938	0.485	0.57
CFA ZONE	0.000	0.476	0.597	0.828	0.931	0.96
UZBEKISTAN	0.820	0.600	0.550	0.653	0.650	0.63
IMPORTS						
WORLD TOTAL	7.928	7.725	9.752	9.662	8.753	7.86
CHINA	2.374	2.609	5.342	4.426	3.075	1.98
EAST ASIA & AUSTRALIA	1.989	1.825	1.998	2.352	2.360	2.38
EUROPE & TURKEY	1.170	0.972	0.724	0.833	1.068	0.96
BANGLADESH	0.887	0.843	0.680	0.631	0.987	1.00
CIS	0.209	0.132	0.098	0.062	0.067	0.07
TRADE IMBALANCE 1/ STOCKS ADJUSTMENT 2/	0.129 -0.122	0.001 -0.041	-0.095 0.013	-0.505 0.000	-0.112 0.000	0.00 0.00
ENDING STOCKS						
WORLD TOTAL	8.480	9.593	14.727	17.412	20.184	22.01
CHINA	2.688	2.087	6.181	9.607	12.074	12.55
USA	0.642	0.566	0.729	0.848	0.590	0.88
ENDING STOCKS/MILL USE (%)						
WORLD-LESS-CHINA 3/ CHINA 4/	38 26	50 22	61 72	51 116	51 160	57 158
COTLOOK A INDEX 5/	78	164	100	88	91	

1/ The inclusion of linters and waste, changes in weight during transit, differences in reporting periods and measurement error account for differences between world imports and exports.

2/ Difference between calculated stocks and actual; amounts for forward seasons are anticipated.

3/ World-less-China's ending stocks divided by world-less-China's mill use, multiplied by 100.

4/ China's ending stocks divided by China's mill use, multiplied by 100.

5/ U.S. cents per pound.