



A Profile of the International Cotton Advisory Committee

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Introduction

The cotton market is one of the most diverse commodity industries in the world, providing employment to hundreds of millions of farmers and processors and fostering economic activity in both developed and developing countries. Cotton is simultaneously an agricultural product and industrial raw material. The International Cotton Advisory Committee (ICAC) is an organization designed to promote cooperation in cotton affairs, particularly those of international scope and significance. It serves the industry as a source of timely, accurate and market-relevant statistics, as a source of economic research on the cotton market, as a clearinghouse for scientific information related to cotton production and processing, and provides a forum for international consultation, discussion and cooperation. The ICAC has consultative status with the United Nations and its specialized agencies and cooperates closely with other international organizations in matters of common interest. The ICAC is the commodity body for cotton and cotton textiles in the Common Fund for Commodities.

The ICAC

The ICAC is an intergovernmental body composed of cotton producing, consuming and trading countries. It is the outgrowth of an International Cotton Meeting held in Washington, D.C., in September 1939. Each year a member government hosts the Plenary Meeting of the Advisory Committee, which is composed of all member governments. A Standing Committee, consisting of representatives of all member governments convening in Washington, D.C., gives continuity to the activities of the ICAC between plenary meetings. The Secretariat of the ICAC, established in 1946, is located in Washington, D.C., and is composed of an international staff headed by an Executive Director. The Secretariat assists the ICAC in carrying out its work program by developing and publishing statistics and analyses of the world cotton situation, by disseminating information on cotton production research, by cooperating with other organizations to promote a sound world cotton economy, and by facilitating discussions on matters related to cotton prices. The official languages of the ICAC are Arabic, English, French, Russian and Spanish.

The mission of the ICAC is to assist governments in fostering a healthy world cotton economy, and the work of ICAC is important to government officials and all segments of the private sector involved with cotton. The Committee achieves its mission by providing transparency to the world cotton market, by serving as a clearinghouse for technical information on cotton production and processing, and by serving as a forum for discussion of cotton issues of international significance. The ICAC raises awareness of emerging issues, provides information relevant to the solving of problems and fosters cooperation in the achievement of common objectives. By serving as an objective statistical observer and by bringing together both producing, consuming and trading countries and all segments of the cotton industry, the ICAC serves a unique role as a catalyst for constructive change.

The ICAC is the leading source of international data on the world cotton industry. The Secretariat forecasts cotton supply, use and prices, estimates cotton supply by type, and tracks exports by destination and imports by origin. The Secretariat measures and forecasts cotton consumption and cotton's share of fiber demand in the world and by region and is the primary source in the world for statistics on fiber demand.

The ICAC has an annual training program for researchers from both producing and consuming countries and sponsors a world cotton research conference and regional technical conferences around the world. Issues of *the Recorder*, a special technical publication, as well as research on the cost of cotton production and cotton production practices help to inform all segments of the cotton research community. The Secretariat has kept abreast of new developments in cotton research, including organic cotton production, transgenic cotton and developments in fiber testing equipment like High Volume Instruments. The Secretariat is actively engaged in efforts to develop an international consensus on the adoption of objective classification standards to replace the current system of grades and types, and the Secretariat is facilitating efforts in producing countries to develop methods of reducing contamination in handpicked cotton.

The ICAC serves as the International Commodity Body for cotton before the Common Fund for Commodities (CFC). Fifteen Common Fund projects involving cotton are bringing a total of \$20 million into cotton research and market development activities.

Plenary meetings provide a forum for the discussion of international issues of importance to the world cotton industry, and opportunities for industry and government leaders from producing, consuming and trading countries to consult on matters of mutual concern.

The 63rd Plenary Meeting in 2004 in Mumbai, India was highly productive and included representatives from 49 countries and nine international organizations. During the 63rd Plenary Meeting:

The ICAC endorsed the establishment of an international protocol on instrument testing of cotton and authorized the work of an Expert Panel to implement such a protocol;

The ICAC facilitated the adoption of genetically engineered cotton varieties through the adoption of common bio-safety protocols, and;

Member governments recognized that government measures that distort cotton production and trade reduce efficiency and result in lower incomes to cotton growers.

The Economic Importance of Cotton

Cotton is one of the most important and widely produced agricultural and industrial crops in the world. Cotton is grown in more than 100 countries and it is estimated that the crop is planted 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 about 350 million people. It also provides employment to millions of persons in allied industries such as agricultural inputs, machinery and equipment, cotton seed 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. Cotton plays a major role in the economic development in Africa. Thirty-five of the fifty-three African countries produce cotton, and twenty-two are exporters. The value of world cotton production is estimated at \$30 billion in the crop year 2004/05.

Cotton, unique among agricultural crops, provides food and fiber. A cellulosic fiber, cotton is one of the world's most important textile fibers, accounting for about 40% of all textile use and more than half of all the fibers used in clothing and household furnishings. Cotton is also used in industrial fabrics, and the by-products derived from cotton seed and stalks provide edible oil for human consumption and soap, industrial products, firewood and paper and high protein animal feed supplements. Cotton oil is ranked as the fifth largest edible oil consumed in the world.

The World Cotton Market

The world cotton market has experienced dramatic changes over the last five decades. Consumption of cotton more than doubled from 7.6 million tons in 1950/51 to 18.5 million in 1998/99. The industrial processing of cotton fiber rapidly concentrated in developing countries. While in 1950/51, 28% of world mill consumption of cotton took place in developing countries; by 1998 the share had increased to 77%. Cotton production increased along with consumption, and the increase was the result of gains in yields, combined with an area dedicated to cotton fluctuating within a rather narrow range of 28 to 36 million hectares.

Over the last six years cotton consumption increased by 4.6 million tons, an average increase of 3.8% per year. The rapid increase in cotton consumption is mainly the result of low cotton prices relative to prices of competing fibers. Over the next five years, cotton consumption is expected to expand at an annual rate of 2.4%. Despite low prices, world cotton production reached records of 21.5 million tons in 2001/02 and 26.1 million tons in 2004/05. Production is expected to maintain the pace of consumption growth in the next five years. Three main factors have promoted increases in cotton production since the mid-1990s: new technologies, the incorporation of new area dedicated to cotton and government measures. These factors are expected to continue to support cotton production in the next five years, without exceeding the large accumulation of stocks registered in the second part of the 1990s. Consequently, world stocks, which averaged 52% of consumption between 1994/95 and 2000/01, are expected to average 43% of consumption over the next five years.

Another influence on prices is the trade of raw cotton between China (Mainland) and the rest of the world. China (Mainland) is the largest producer and industrial consumer of cotton. The very rapid increase of mill consumption of cotton in China (Mainland) was supported in the late 1990s by large stocks in that country. However, with depleted stocks, the strength of the Chinese textile industry has had to resort to imports of raw cotton in the last two years. Chinese imports of cotton jumped from less than 100,000 tons in 2001 to 1.9 million in 2003/04 and 1.5 million in 2004/05. It is expected that imports of raw cotton by China (Mainland) will exceed current levels over the next five years.

International cotton prices, as measured by the Cotlook A Index, have declined over time due to more efficient production practices. During the ten years to 1985/86 international cotton prices averaged 75 cents per pound; between 1985/86 and 1994/95, prices averaged 70 cents per pound; and in the eight years to 2002/03 prices averaged 63 cents per pound. In 2003/04, prices increased to a crop year average of 68 cents per pound and this crop year, which concludes in July 31 2005, prices are averaging 53 cents per pound.

Distortions in the Cotton Market

An important factor that promoted increases in cotton production despite relatively low prices was the strengthening of government policies regarding cotton. Member governments of the ICAC instructed the Secretariat in 1998 to report on the government measures that affect production and trade, and the Secretariat has prepared annual reports since 1999. In 2000, member governments asked the Secretariat to include a measure of the impact of subsidies on cotton prices.

Direct income and price supports worldwide are estimated by ICAC to have increased from US\$3.8 billion in 1997/98 to US\$5.8 billion in 2001/02. That year, fourteen countries representing three-fourths of world cotton production offered direct income and price support programs to cotton growers, resulting in higher production and forcing the burden of adjustment to low cotton prices onto growers in countries that do not provide similar measures of protection. Developed countries and China (Mainland) accounted for 86% of assistance provided worldwide. It is estimated that in the absence of subsidies international cotton prices would have averaged 26 cents above the 42-cent average registered in 2001/02. Direct income and price supports worldwide are estimated by ICAC to have declined to US\$3.4 billion in 2003/04, but are increasing again to an estimated \$4.7 billion in 2004/05. As subsidies increase or maintain production in subsidizing countries, they have a negative impact on average international cotton prices.