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Instrument Testing of Cotton in the Context of the ICAC Cotton Development Strategy

Competition is at the heart of the world economy, and all industries face competitive challenges. Timber must compete with fabricated wood products and the development of plastics. Coffee, tea, orange juice and milk must compete with each other, and with soft drinks, powdered drinks and other beverage choices. Copper must compete with fiber optic cables. Sugar competes with corn sweeteners and artificial sweeteners. Grains compete with each other and with oilseeds.

For cotton, competition with polyester is a powerful challenge that is accelerating as chemical fiber production technology results in lower costs of polyester production and an increased range of uses for chemical fibers. Consequently, cotton as an industry must constantly work to reduce costs, improve efficiency and cater to the needs of customers in order to remain competitive.

In addition to inter-commodity competition, individual companies also compete with each other within industries. General Motors must compete with Toyota; coffee producers in Colombia compete with coffee growers in Vietnam, and African cotton exporters are competing with exporters from the United States, India, Australia and Brazil. Because of competitive pressures, African exporters must work to reduce costs, raise quality and improve efficiency in order to remain competitive with other exporters.

Instrument testing is a tool of competitiveness, helping producers to build demand for cotton in competition with polyester and helping individual exporters to remain competitive with producers in other countries. Instrument testing builds demand and enhances competitiveness in two ways: first by providing services to spinning mills who increasingly rely on instrument testing in determining laydowns, and second by providing information to producers on the quality of their products that can be used to target particular cotton qualities to particular yarn products. For these reasons, instrument testing is a component of the overall 5-year plan for cotton development that has been agreed by the ICAC and the CFC.

Analogy: Tennis Balls and Footballs

Imagine two retailers, each offering to sell sports equipment to a consumer looking to buy a football. Now, imagine that one retailer advertises that it has sports equipment for sale, including footballs, golf balls, tennis balls, cricket balls, basketballs, and many other types of balls. All the balls are brand new, so their grade, or quality, is identical, and all are made by the same manufacturer. The trouble is that all the balls are in identical unmarked boxes making it impossible to know which ball a customer might receive. As a consumer, you will have to pay your money and hope you get the ball you want. If you are a large consumer, perhaps one operating a summer sports camp, and you can afford to buy hundreds of boxes containing various balls and sort them out later, this might work. But if you are an individual consumer and want only one or two balls, the hit-or-miss chances of getting what you want will likely result in frustration.

Meanwhile, a second retailer has exactly the same inventory of sports equipment as the first retailer, but the second one has taken the time to open each box and label the contents. As a consumer, you will be able to buy the specific type of ball you want knowing with certainty that you will be able to use the ball when you get home.

Now, which retailer will be the more competitive? Which retailer will be able to charge a higher average price across the entire inventory of sporting equipment by selling tennis balls to tennis players and footballs to football players? Which of the two retailers will be able to discern which sports equipment his customers want the most and thereby stock more of those balls in his store for future customers?

Obviously, the retailer who has labeled his products will get and keep more customers, including customers with good credit and good histories of contract performance and customers who will come back with repeat business at higher average prices. And, in the process, the retailer who labels his products will build demand for all types of sports equipment, while the retailer who sells stuff in unmarked boxes is likely to frustrate more customers than he serves. Some customers will get tired of trying to find a football amongst a pile of unmarked boxes and will just decide to go swimming instead.

It is important to note that in this example, both retailers might sell their entire inventories. However, the retailer providing more information will attract better customers with better payment histories, and by selling tennis balls to tennis players and footballs to football players, the second retailer will be able to charge higher prices on average than the first retailer who might be selling exactly the same balls but keeping them in unmarked boxes.

Instrument Testing Boosts Competitiveness

Using instrument testing of cotton, in conformance with the Universal Standards for cotton testing that have been approved by the Task Force on Commercial Standardization of Instrument Testing of Cotton (CSITC), is the equivalent of opening boxes of sports equipment and labeling the contents. By ensuring instrument test results that are both accurate and precise within accepted tolerances and on a level with international norms, African cotton producers will be labeling their products so as to be able to sell long/strong cotton to mills making finer yarn, shorter/weaker cotton to mills making coarser yarn, high or low mic cotton to mills who do not intend to blend, white and bright cotton to mills making yarn for light colored fabrics and darker or yellower cotton to mills making yarn for denim or other dark products. By targeting cotton with particular characteristics to customers with particular needs, African producers will simultaneously build demand for cotton while improving their own competitiveness in relation to exporters from other countries. Instrument testing is a natural extension of production activities, and 100% instrument testing at origin is the inevitable future for cotton.

During the meeting of the African Cotton Association in Khartoum in March 2011, Mr. Diop Bachir, President of the A.C.A. said that Africa needs innovation and creativity to raise productivity and competitiveness for a “new Africa” using best practices. Instrument testing of cotton fits fully into Mr. Diop’s vision of a ‘new Africa.’”

ICAC Cotton Development Strategy

The ICAC serves as the International Commodity Body for Cotton and Cotton Textiles with the Common Fund for Commodities (CFC). Since the Fund became operational in the early 1990s, a total of 226 cotton projects valued at over \$7063 million have been supported. Out of these 26 projects, 24 were submitted by the ICAC to CFC while one each was submitted by the Food and Agriculture Organization (FAO) of the United Nations and United Nations Conference on Trade and Development (UNCTAD). The CFC has provided \$5.7 million in loan financing and over \$253 million in grant financing for the projects. Co-financing has accounted for \$16.93 million and counterpart contributions have accounted for over \$204 million in total project costs.

Priority Areas for CFC Support

In accordance with the Fund's Program Approach, the ICAC Secretariat consulted with its member governments and cotton industry organizations in order to identify areas of high interest in cotton. The objective was to avoid dilution of resources and to ensure maximum benefits from the Funds' support to cotton. The ICAC Secretariat organized a 'Stakeholder Forum' on September 10, 2006, in cooperation with Mr. Sieste Van der Werff of the CFC, at the start of the 65th Plenary Meeting of the ICAC in Goiania, Brazil. The meeting discussed possible key themes for future co-operation between the ICAC and CFC. Particular attention was given to the priority theme's of the Fund, including supply chain management (e.g. productivity, management practices; pricing systems, etc); diversification (both horizontal and vertical); market access (e.g. quality control and certification); and market development; (new products/marketing chains).

The report from the Stakeholder Forum was presented to the 65th Plenary Meeting. The Meeting decided to initiate further consultations with member countries to explore multi-country/regional priorities for support to the cotton industry and present them in due course to the CFC. The ICAC finalized its 2nd round of consultations, and the ICAC proposed the following priority areas for the Fund's Third Five Year Action Plan (2008 –2012).

Fund Theme: Supply Chain Management

Pest management, including Integrated Pest Management (IPM) strategies and the elimination of the consequences of pest damage.

New technologies and methods to transfer improved production and harvesting practices.

Efficient input supply and use and sustainable crop management practices.

Improve production efficiency.

Price risk management.

Fund Theme: Market Development

Develop new industrial uses for cotton and cottonseed, and develop alternative uses of cotton by-products.

Increasing the use of cotton for value addition.

Fund Theme: Market Access

Improvement of fiber quality and testing methods.

CFC/ICAC/33

The project on Commercial Standardization of Instrument Testing of Cotton (CSITC) was approved under the Fund Theme of Market Access. Instrument Testing is a commercial reality and an historical inevitability. The theme of the 66th Plenary Meeting of the ICAC in Izmir, Turkey in 2007 was focused on competitiveness, and one of the central results of that meeting was that competitiveness is market driven and is determined by consumers. Further, it is clear that in an environment of shrinking margins and increased efficiencies, producers must understand their

customers and meet consumer needs in order to maintain and build markets. Producers who fail to fulfill customer needs will be doomed to selling to the weakest buyers at the lowest prices. Further, in a competitive world economy with multiple suppliers of goods and services, producers who fail to differentiate themselves will always be price takers.

The ICAC Secretariat is highly gratified by the progress of the CSITC project, including the establishment of the Regional Technical Centers in West and East Africa. The conclusion of CFC/ICAC/33 is an opportunity for producers in each region to take ownership in each RTC so as to ensure the long-term viability of instrument testing in Africa.

The ICAC Secretariat believes strongly in the utility and necessity of instrument testing of cotton. Congratulations to the Project Executing Agencies, the RTC managers and all project participants who have ensured the success of this effort.

Presentation to the Final Seminar of CFC/ICAC/33, Arusha, Tanzania, 18 January 2012.