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AGRICULTURAL OUTLOOK CONFERENCE 1985

AGROCON
LANVOKON '85

LANDBOU-VOORUITSKOUINGSKONFERENSIE 1985

PRESENTED BY —

- Agricultural Economics Association of South Africa
- Co-ordinating Committee of Agricultural Marketing Boards
- Department of Agricultural Economics and Marketing
- Department of Agriculture and Water Supply
- SA Agricultural Union

CSIR CONFERENCE CENTRE
Pretoria

16 AND 17 JANUARY 1985

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COTTON - AGRICON 1985

1. In retrospect

1.1 During Agricon 1984 it was reported that a price of 64 c/kg for the best grade handpicked cotton could be expected.

1.2 Due to the relatively high lint price (237,5 c/kg) and the fact that no special levy was imposed for the 1983/84 season, a nett price for producers of 65 c/kg seed cotton could be negotiated in comparison with the 58 c/kg the previous season - an increase of 12 %.

1.3 Although weather conditions (mostly drought) affected the 1983/84 crop the total production was still 25 % higher than the previous year.

1.4 As a result of the incerease in production, ginning costs decreased slightly which caused, in some cases, a price increase as high as 7 c/kg seed cotton.

1.5 During the 1983/84 production year spinners imported 50 % of their local consumption.

2. Production

2.1 Production areas

2.1.1 Cotton is mostly cultivated in the following areas - Northern Cape, Far-Northern Transvaal, Mid-Northern Transvaal, Lowveld, Northern Natal, Swaziland, Botswana, Venda and Bophuthatswana.

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2.2 Extend of production

2.2.1 Although cotton had been cultivated on less hectares during 1983/84 (99 262 hectares against 105 287 in 1982/83), production nevertheless increased.

2.2.2 The estimated production for 1983/84 is 169 331 lint bales (200 kg each) and represents an increase of 25% in comparison with the previous year.

2.2.3 The increase in production can be ascribed to the higher rainfall experienced during the production year, especially the cyclone Dimoina, in the Northern Natal production area.

2.2.4 The latest indications are that a normal crop of 230 000 - 250 000 lint bales can be expected for the 1984/85 crop year if ideal weather conditions persists.

2.2.5 The main problem areas affecting production are as follows:

2.2.5.1 Due to the alarming production figures the past three years (under 200 000 lint bales) and especially the surplus ginning capacity, it has caused the unit-cost of ginning to reach astranomical proporsions, which bears directly on unfavourable prices paid to farmers.

2.2.5.2 In spite of some good downfalls the past production season the continuous drought persisted causing the expected crop of 200 000 bales for 1983/84 to dwindle to an expected 169 331 bales.

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2.2.5.3 As indicated in table 1, the price of seed cotton the previous two seasons, did not proportionately keep pace with lint prices and seed prices - mainly due to the increase in ginning costs.

2.2.5.4 As you will deduct from table 2, it is understandable that the Board is concerned about the low crops which have been realized during the past three seasons.

2.2.6 The Cotton Board made available, during 1984 (as well as for the following 4 years) R100 000 annually (escalating at 12 % per year) for the development of suitable cultivars and cultivating practises and it can be expected that the application of the results of this research should bring about increased yields.

2.3 <u>Gross value</u>

2.3.1 As indicated in table 3, the gross value of cotton increased since 1982/83 from R59,37 million to estimated R90,64 million in 1983/84.

2.4 <u>Production potential</u>

2.4.1 According to table 2 it is clear that, if the 1979/80- production season, which was a record season, is taken as a basis, the crop potential is much higher then the actual crops which was produced during the past three seasons.

2.4.2 Although it is clear that the severe drought of the past three seasons contributed to the smaller crops, the Board is of the opinion that with ideal climatic conditions, improved cultivars for the different areas as well as improved farming practises, a crop of 400 000 lint bales could be realized.

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2.4.3 Crops in excess of 400 000 bales can realisticly be expected should the acreage under irrigation be increased.

2.4.4 The Cotton plant is reasonably drought resistant and can be a more viable commodity in extreme dry conditions then most other summer crops, which in the future, with the limited water supplies available in the Republic of South Africa, can lead to more farmers coming into the industry.

2.4.5 The drought has taught us the value of cotton seed and this aspect should again be looked at, especialy as viable protein source - as substance in the manufacturing of feed stuffs.

3. Local and overseas markets

3.1 Local consumption

3.1.1 The severe drought of the past 3 production seasons as well as the producers price, which did not always keep pace with production costs, caused the importation fo large quantities of cotton lint during this period.

3.1.2 The estimated consumption for 1983/84 should be in the region of 300 000 lint bales, which reflects a crop in consumption of 8 % in comparison with the figure for 1982/83.

3.1.3 This drop is mainly due to the unfavourable R/$ exchange rate (cotton internationally traded in USA dollars); the fact that spinners at present import 50 % of their consumption at a time when economical growth is being discouraged and the fact that the Textile Industry, for more than two years, has had to operate in a serious recessionary climate.

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During the writing of this paper spinners paid 285 c/kg for imported lint against the local price of 237,5 c/kg.

3.1.4 As mentioned above, no problems with the marketing of the local crop of ±169 331 lint bales, were experienced during the current Marketing year.

3.1.5 The S.A. producer see the local market as his natural and most important market and stability in the industry is therefor, for both the consumer and producer, of the utermost importance.

3.2 Overseas market

3.2.1 The local consumption of cotton lint, as already indicated, exceeded production during the previous season and therefor no cotton lint was available for export.

3.2.2 Notwithstanding the fact that the Cotton Industry is not presently self-sufficient, it is still evident that South African cotton lint is much sought after and the Board is often approached from overseas buyers in connection with export possibilities.

3.2.3 According to table 4 it is evident that the world consumption of cotton lint during the past decade averaged 49 % of the total consumption of important textile fibres in the world market and that world consumption of cotton lint increased since 1974 with 18,7 % from 65 million lint bales to a estimated 77,2 million lint bales in 1984/85.

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3.2.4 Because of the fact that a larger increase in world production than consumption is anticipated for 1984/85 (estimated at about 10 million bales) it will inevitably lead to a softening of world prices thus having a detrimental influence on the South African producers price.

4. Prices

4.1 For the current season

4.1.1 An advance payment of 66 c/kg for the best grade hand-picked cotton was negotiated with ginners for 1983/84 against 60 c/kg the previous season.

4.1.2 This price was made possible because of a guarenteed lint price by spinners of 237,5 c/kg for the average grade/class cotton lint - up by 23 % on the previous seasons 193 c/kg.

4.1.3 This sharp increase came about as a result of the high world price prevailing during November 1983 and March 1984 as well as the weaker Rand. (The Liverpool A Index serves as basis for the calculation of the South African lint price).

4.2 Outlook

4.2.1 During September 1984 a minimum- and maximum price for the 1985/86 marketing year was negotiated for cotton lint with the August 1984 world price as basis.

4.2.2 It is mainly due to the unfavourable R/$ exchange rate that a minimum price of 260 c/kg lint and a maximum price of 290 c/kg lint could be negotiated.

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4.2.3 This favourable situation made it possible for ginners to guarantee an advance payment for the 1985/86 marketing year of at least 10 % higher then the advance payment of 66 c/kg seedcotton for the previous season.

4.2.4 It is expected that, if the Rand does not recover prior to April 1984, the producers price could be as high as 80 c/kg lint.

4.2.5 If it is further taken into consideration that a normal crop of 250 000 lint bales could be produced, the weather condition permits, it could result in the reduction of unit throughput cost of the ginners which will further assist the producers price.

5. Substitution

5.1 From table 4, it is clear that synthetic fibres, which makes out ± 34 % of the total world consumption of fibres during 1984, is the most important rival of cotton.

5.2 The price of local cotton yarn is at present considerable higher than the price of spun polyester and this could result in the mixing in of higher percentages polyester in cotton/polyester blends - obviously leading to a reduction of cotton share in the market.

5.3 The cotton Board is concerned about the difference in the price of cotton lint and synthetics and, therefor is in the process of looking at alternative pricing meganisims which will be more suited to the present economic climate and policies.

6. Outlook

6.1 According to figures supplied by the Department of Agriculture, cotton, in 1982/83, held seventh place in terms of

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gross value to the total value of Agriculture crops. It is therefor clear that cotton as a commodity in S.A. Agriculture is fully justified. With a gross value of R90,64 million in 1983/84 (only the value of lint and seed) the Agricultural sector cannot permit this promising industry to be neglected to the point of its annihilation.

6.2 Production, as already indicated, especially during the past three seasons, could not supply in the needs of the spinning industry, and therefor 50 % of the total local cotton lint requirements for the 1983/84 production year had to be imported. According to the latest figures, as supplied by the Central Statistical Service, the F.O.B. value of cotton lint imports from 1/84 -7/84, already totals R43 million - this at a time when the South African economy has reached one of the lowest turns in its history, whilst the local markets for the S.A. producer remains unexploited.

6.3 It is therefor most essential that the R.S.A., as far as cotton is consern, becomes self-sufficient in cotton lint as raw material and this can only occur if the industry is placed on a sound footing, financially as well as otherwise.

6.4 Cotton is a labour intensive product and provides job opportunities especially in the unskilled labour class. During 1983/84 the cotton industry provided work to almost 150 000 black farm workers which represents 14 % of the total number of farm workers in the Republic of South Africa.

6.5 Because cotton is mainly grown in areas which borders on National states and self-governing areas or in that areas as such, it is important that cotton production be encouraged and that it is established as a permanent summer crop. This provision of jobs

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will establish a consumer corps which in turn will cause money to flow back in the S.A. economy.

6.6 It is also important, in the light of Government's policy in respect of the depopulation of the rural areas, that the industry remains boyant.

Figuur 1

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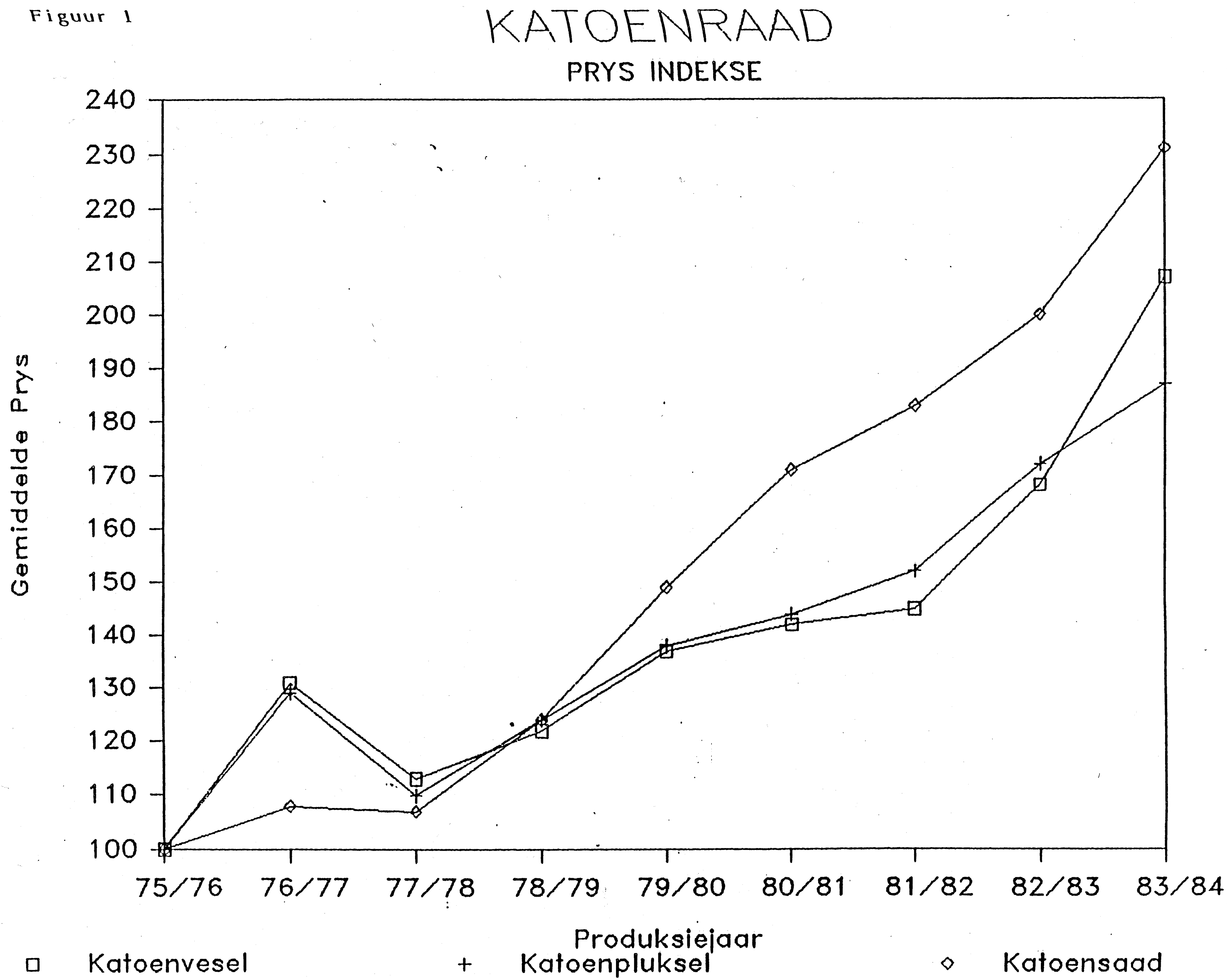

KATOENRAAD
PRYS INDEKSE
240
230
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120
110
100
Gemiddelde Prys
75/76
76/77
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78/79
79/80
80/81
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82/83
83/84
Produksiejaar
Katoenvesel
Katoenpluksel
Katoensaad

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Statistiese bylae/Statistical Annexure

Tabel 1/Table 1

Produksiejaar Production year	Produksie Production	Uitvoere Exports	Invoere Imports	Verbruik Consumption	Katoensaad Seed Cotton
	200 kg Bale/Bales				Ton
1974/75	202 518	13 064	65 817	264 254	73 913
1975/76	92 122	-	210 000	303 000	33 622
1976/77	173 505	-	101 334	238 000	63 324
1977/78	255 000	21 682	50 840	244 435	93 067
1978/79	275 288	4 743	50 922	292 185	100 472
1979/80	325 071	1 000	50 668	328 236	118 641
1980/81	288 735	-	29 048	345 227	105 380
1981/82	188 869	-	100 449	307 790	65 834
1982/83	135 459	-	181 620	325 969	47 217
1983/84*	169 331	-	130 000	300 000	59 024

* Beraamd/Estimated

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Tabel 2/Table 2

Hektare, gem. opbrengs droëland/Besproeiing en produksie
Hectares, av. yield dryland/Irrigation and production

Produksiejaar Production year	Hektare Hectares	Gem. opbrengs (kg/ha) Av. Yield (kg/ha)		Vesel produksie Lint production (200 kg bale)
		Droëland Dryland	Besproeiing Irrigation	
1978/79	100 409	1 056	2 105	275 288
1979/80	120 098	1 073	2 038	325 071
1980/81	114 719	1 050	1 888	288 735
1981/82	106 846	615	1 482	188 869
1982/83	105 287	435	1 272	135 459
1983/84*	99 262	678	1 486	169 331

* Beraamd/Estimated

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Tabel 3/Table 3

Produksie-jaar Production year	Waarde katoenvesel Value cotton lint	Waarde saad Value seed	Totaal Total
	Rm	Rm	Rm
1975/76	21,19	2,61	23,8
1976/77	52,34	5,29	57,63
1977/78	66,43	7,77	74,20
1978/79	77,15	10,15	87,30
1979/80	102,77	13,64	116,41
1980/81	94,50	13,59	108,09
1981/82	63,15	9,30	72,45
1982/83	52,29	7,08	59,37
1983/84*	80,43	10,21	90,64

* Beraamd/Estimated

TABEL 4 : Wêreldverbruik van die belangrikste tekstielvesels

World consumption of principle textile fibres

Jaar Year	Wol Wool	Sinteties Synthetics	Sellulose Cellulosic	Katoen Cotton	Totaal Total	Katoen as % van totaal Cotton as % of total
			Miljoen/Million kg			
1973	1 452	8 001	3 690	13 081	26 224	49,88
1974	1 307	7 763	3 531	13 039	25 640	50,85
1975	1 357	7 353	2 959	12 790	24 459	52,29
1976	1 521	8 594	3 210	13 380	26 705	50,10
1977	1 478	9 149	3 281	13 098	27 006	48,50
1978	1 481	10 034	3 318	13 193	28 026	47,07
1979	1 561	10 608	3 371	13 756	29 296	46,96
1980	1 575	10 476	3 242	14 266	29 559	48,26
1981	1 582	10 810	3 204	15 387	30 983	49,66
1982	1 571	10 100	2 949	14 763	29 383	50,24

Bron:

"Per Caput Fibre Consumption by FAO of the United Nations" - till 1974: Wool Situation and Outlook - BAE - since 1975.

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Tabel 5/Table 5

Gemiddelde produsente-; verbruikers- en katoensaadpryse
Average producer's-; consumer's- and cotton seed prices

Produksiejaar Production year	Produsent (katoen-pluksel) Producer (seed cotton)	Verbruiker (katoen-vesel) Consumer (cotton lint)	katoensaad Cotton seed
	c/kg	c/kg	R/ton
1975/76	35,3	115,00	75
1976/77	45,5	150,83	81
1977/78	38,9	130,26	80
1978/79	43,6	140,12	93
1979/80	48,7	158,07	112
1980/81	50,8	163,64	128
1981/82	53,5	167,19	137
1982/83	61,0	193,00	150
1983/84	66,0*	237,50	173

* Voorskot prys/price

Per caput Fibre Consumption by FAO of the United Nations" - till 1974: Wool Situation and Outlook - BAE - since 1975.

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Tabel 6/Table 6

Wêreldkatoenbalansstaat

World cotton balance sheet

(miljoen bale van 200 kg elk)

(million bales of 200 kg each)

	1981/82	*1982/83	*1983/84	*1984/85
Beginvoorraad/ Opening stock	24,2	29,5	29,3	28,5
Produksie/ Production	77,1	73,4	74,0	83,3
	101,3	102,9	103,3	111,8
Verbruik/ Consumption	71,8	73,6	74,8	77,2

* Beraamd/Estimated