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COTTON EXPORT MARKETING IN THE LATE 1980'S

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Prospects for maintaining U.S. cotton exports near levels prior to 1985 for the rest of the decade are good. Early signals from the marketing loan and a competitive price indicate that cotton shipments overseas are rapidly recovering from recent setbacks. Foreign cotton consumption is rising at an accelerated rate pushing world cotton trade to a higher level while reducing stocks. For the U.S., lower interest rates and a weaker dollar are giving the new cotton program a big boost.

Foreign Production Down

Foreign production for 1986 may fall almost 8 million bales short of mill use, the largest gap in ten years. With the U.S. price floor under world cotton prices removed by the marketing loan, lower acreage in many countries has dropped production well below rising consumption.

Acreage and production are down in a number of countries including Mexico, Central America, Brazil, Turkey, Australia, India, Pakistan, and Egypt. While yields remain high in the People's Republic of China (PRC), plantings have decreased substantially due to reduced government incentives. The official cotton procurement target is set at 19.52 million bales for the five-year plan 1986-90. Acreage in Russia is holding around 8.2 million, with yields trending downward for the last decade.

Foreign Consumption Up

Cotton consumption is expanding at a rapid pace because of several factors that should benefit U.S. export markets. Natural fibers are growing in popularity in many apparel uses in industrialized countries.

The PRC has taken special measures to encourage their cotton consumption. And, there are plentiful cotton supplies at lower prices that are very competitive with man-made fibers. Foreign countries showing favorable signs of using more cotton are PRC, India, Pakistan, Taiwan, Egypt, Brazil and Russia.

Cotton mill activity appears strong in Asia. Consumption gains are expected in the Far East in the textile producing countries. Of course, these countries are highly dependent on raw cotton imports to support textile exports. Protectionistic restrictions by importing countries and competition from exporters like the PRC greatly affect the international textile market. Cotton use in Western Europe is moving ahead slightly.

International Cotton Trade Expanding

World cotton trade in 1986 is expected to expand some 2 million bales to more than 22 million bales. That is the highest level since 1979 when the PRC alone imported 4.1 million bales. Trade has increased largely because of rising consumption in the Far East, very competitive prices with synthetic fibers, a slight replenishment of low stocks in importing countries, and improved demand in general. With the trade-oriented provisions of the cotton marketing loan, trade patterns of U.S. cotton exports for the 1986 season are in line with shipments in years prior to 1985. The U.S. has strong prospects of regaining its past market share of around 30 percent of the raw cotton traded internationally.

International cotton trade flows from several large countries and a number of smaller developing countries. The largest U.S. competitors are Russia, Pakistan, PRC and Australia. Some of the smaller countries exporting cotton include Syria, India, Sudan, Egypt, Paraguay, Israel, Turkey and Columbia.

The competing countries are mostly state traders and/or countries where the government supports the cotton industry in some meaningful way. Russia does not appear to have much incentive to expand exports. Traditionally, Russia has exported mainly to the Eastern European countries. With acreage fairly stable and yields declining, exports have dwindled from 4.3 million bales in 1980 to 2.8 million expected in 1986. As a result, Russia is not expected to be a significant force in cotton trade.

The official PRC procurement target of 19.5 million bales in 1986 suggests that production is primarily aimed at fully meeting domestic textile needs that have grown to near 18.0 million bales. Cotton exports from the PRC appear to be mainly a desire to draw down existing stocks.

The PRC has shifted from importing 4.1 million bales in 1979 to an expected exporter of more than 2.7 million bales in 1986. Production in the PRC leaped from 10.1 million in 1979 to 28.7 million in 1984, with 18.4 million expected in 1986. The surge in production was mostly due to production incentives by the PRC government. Consequently estimated carryover stock levels in the PRC of 16.5 million bales are a major factor in upholding foreign cotton stocks. It appears that the PRC government is far more interested in expanding textile exports than raw cotton.

Most developing countries of the Western Hemisphere, Asia and Africa that export some cotton have large debt loads. Therefore, their capacity to spend on enhancing cotton production for export markets seems to be limited.

Strong U.S. Export Markets Likely

Export marketing prospects for the late 1980's may be in the 6-7 million bale range, provided the U.S. keeps a flexible cotton program with a marketing loan provision.

Trade patterns for U.S. exports may be altered only slightly by shifts in foreign production. Since exports from Russia have declined, shipments may increase a little to the European market with major markets remaining in Asia -- Japan, South Korea and Taiwan.

Ending stocks-to-use in the import nations are running in the 27 to 28 percent range, the same as during most of the 1980's. And, foreign production as a percent of use has declined to levels in the late 1970's and early 1980's when U.S. exports averaged in the range of 6 to 7 million bales per season.

Production in export nations has dropped from 75 percent more than use in 1984 to only 30 percent greater than use. This production-to-use level is also well below levels in the late 1970's. Therefore, the percent of ending stocks-to-use in export nations is declining in 1986 to the lowest level in three years. Even though the level of global ending stocks-to-use remains high, stocks are declining.

Cotton Marketing Loan Expands Exports

Export sales commitments only three months into the 1986 marketing year stood at 5.0 million bales. Clearly, the marketing loan, with a 40 cent per pound drop in U.S. cotton prices on August 1, triggered the tremendous volume of sales. The surge in export sales is largely to U.S. foreign customers of long standing.

Japan has already purchased more than twice the amount of U.S. cotton than they did in 1985 and about 85 percent of the average purchases of the past five seasons. They usually buy about 50 percent of their 3.0 million or so bales of cotton from the U.S. Japan is expected to continue to follow their practice of spreading out purchases from several exporting countries.

Total purchases by South Korea are close to 80 percent of expected U.S. volume. Taiwan purchases are at the highest level of U.S. purchases in recent times.

The high level of early U.S. exports indicates many of the key input markets will turn to the U.S. to buy cotton under competitive price conditions. The procedures for purchasing, delivering, settlement of contracts, and quality of American cotton are well known and accepted by foreign customers.

The marketing loan began with record supplies and a very weak market. Several years of increasing foreign production, a very strong dollar and large textile imports set the stage for market forces to drive prices to a low level. Low prices have stimulated worldwide cotton consumption. How state and centrally-planned governments react to the price changes, and how fast, for adjustments in production is difficult to anticipate.

The U.S. program of target prices will maintain a strong incentive to push for high yields on acreage planted. Therefore, a fairly high level of production and exportable supplies from the U.S. can be expected.

Concluding Remarks

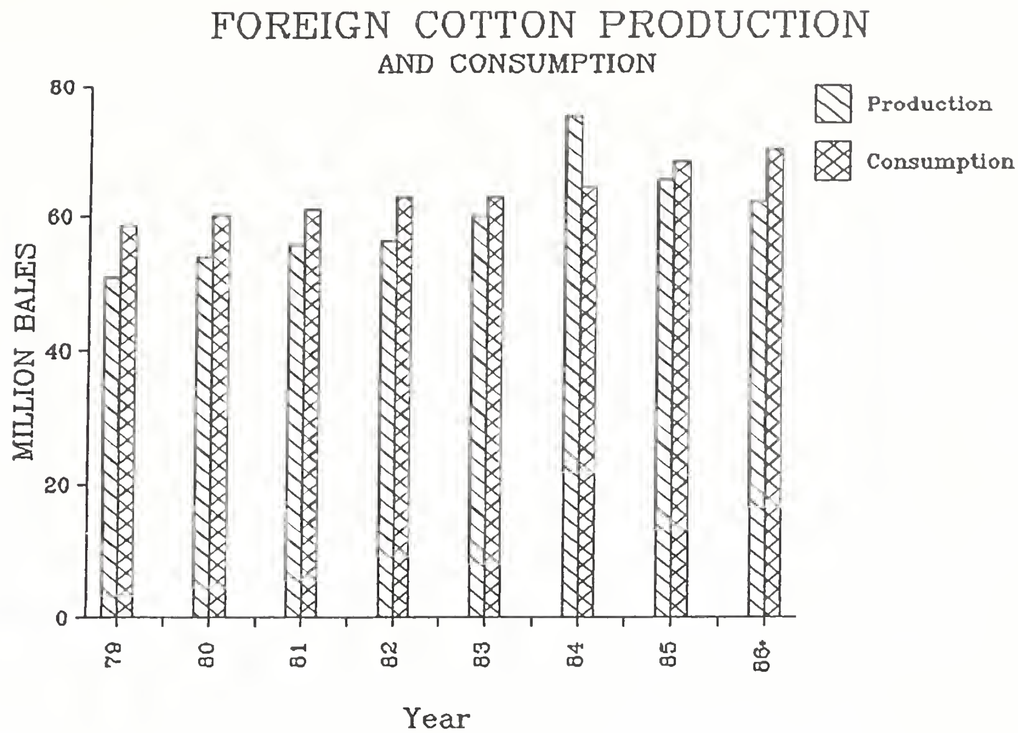
A review of cotton consumption and production patterns around the world indicates that the U.S. cotton grower can compete in international trade. However, to do so the U.S. cotton program needs to maintain provisions that, when needed, will meet headon production and export incentives of competing state and centrally-planned countries. The negative interaction of macroeconomic policies that lead to a strong dollar need to be considered when designing and implementing farm program provisions.

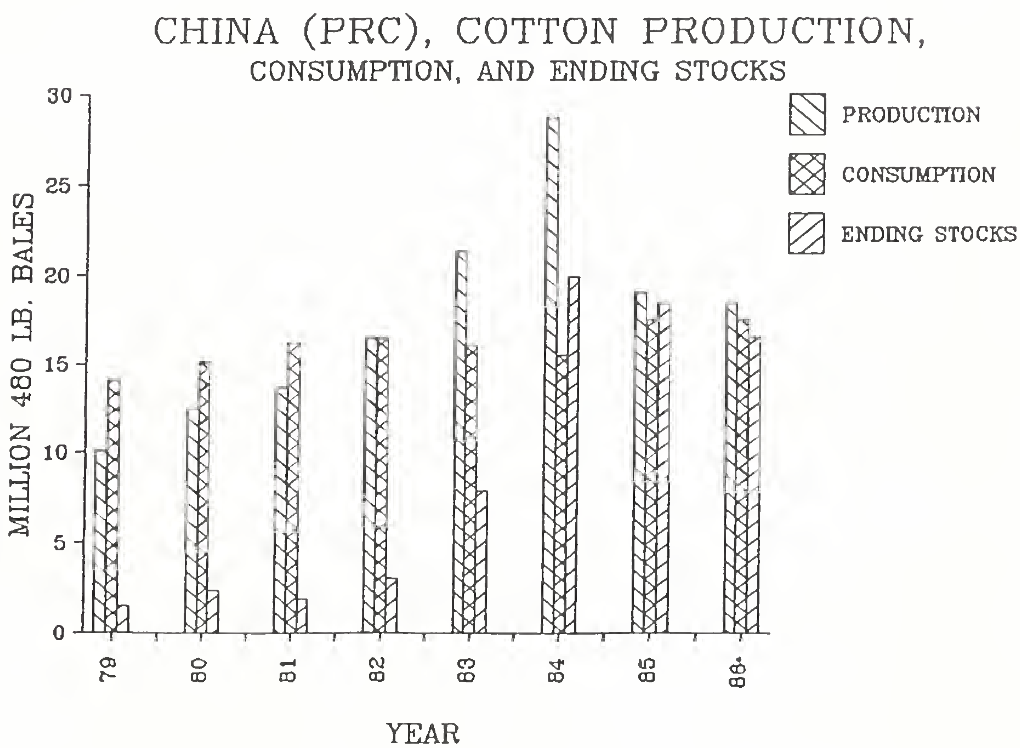
At the beginning of the 1986 marketing year under the cotton marketing loan, indications suggest U.S. sales will be large. The sales partly result from purchases delayed from 1985. For the longer run, however, a competitive price opens the door for maintaining markets. But it does not assure that the U.S. cotton industry can fully compete in the world market dominated by state trading countries. The level of exports depends largely on the relative costs of production and marketing, level of U.S. government support, and each exporting country's desire to maintain and subsidize their agricultural industry in order to generate trade dollars.

The marketing loan removes the U.S. price umbrella over world markets, yet it provides a safety net on farm income. Further, the level of supply management is reduced, though not eliminated. Smaller carryover and government stocks are possible. The total economy benefits from the economic activity associated with a larger sized agricultural industry. And, a more highly productive U.S. agriculture results. Too, the marketplace will signal foreign competitors to share in adjusting production levels.

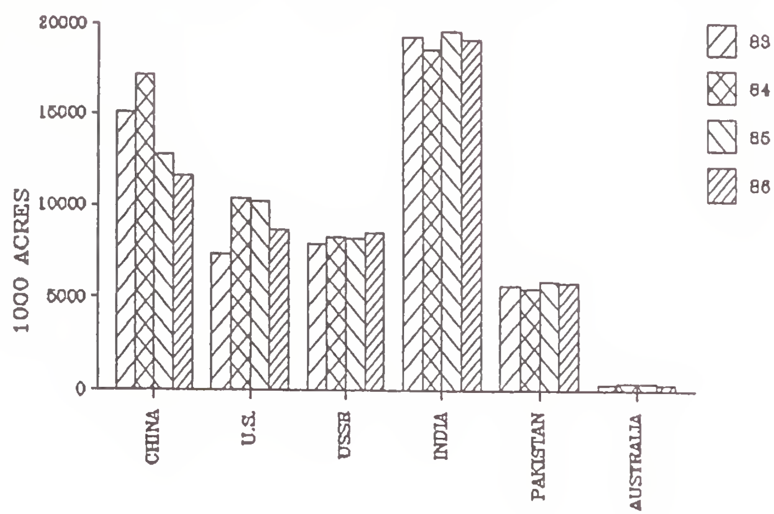
In the international trade arena, the marketing loan impact has some limitations. American farm exports compete largely against foreign governments that historically have been willing to subsidize their producers and exports. As a result, foreign agricultural production trends are up. Farmers in the U.S. must rely on highly productive operations to compete against low cost foreign labor with rapidly improving technology.

The need to develop strong trade policies and trade agreements remains central to maintaining and expanding exports. The relative strength of the dollar compared with currencies of other trading countries is also extremely important to the flow of trade. For cotton to compete with foreign production a balanced program of macroeconomic policy, coordinated trade policies and a market-sensitive but flexible farm policy need to be packaged, supported and implemented.

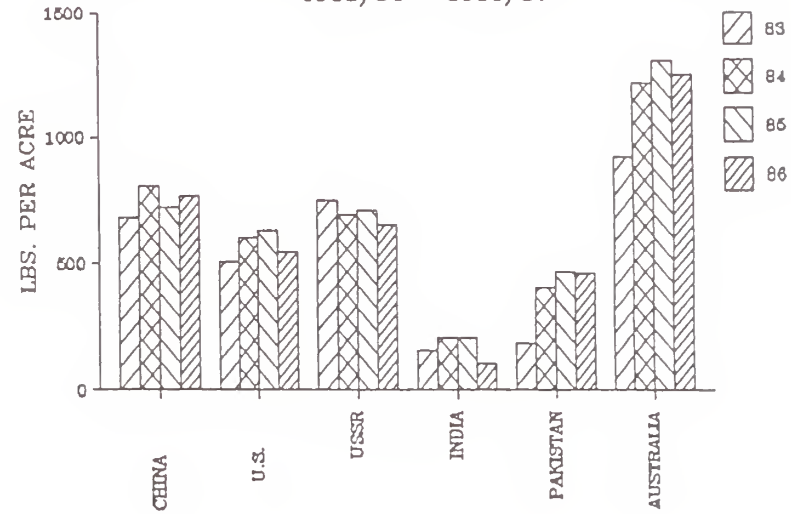

FOREIGN COTTON PRODUCTION
AND CONSUMPTION
Production
Consumption
MILLION BALES
0
20
40
60
80
79
80
81
82
83
84
85
86*
Year


CHINA (PRC), COTTON PRODUCTION,
CONSUMPTION, AND ENDING STOCKS
PRODUCTION
CONSUMPTION
ENDING STOCKS
MILLION 480 LB. BALES
0
5
10
15
20
25
30
79
80
81
82
83
84
85
86*
YEAR

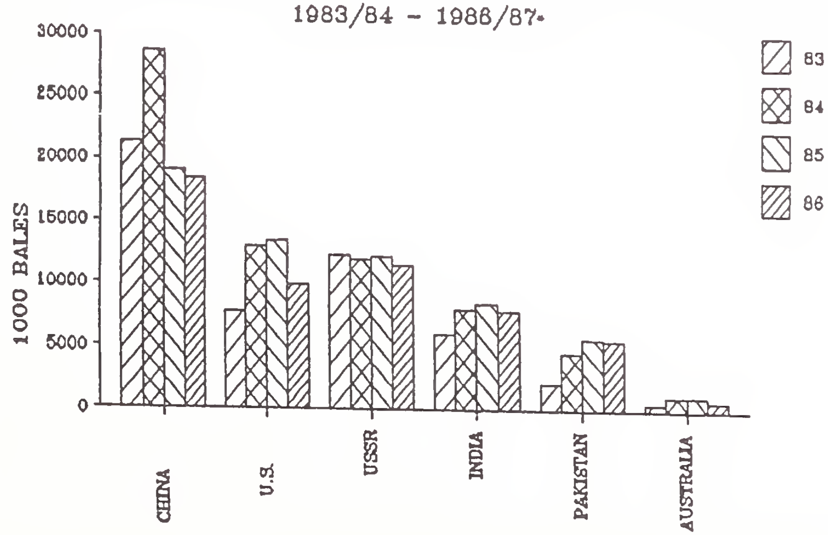
COTTON AREA BY SELECTED COUNTRIES
1983/84 - 1986/87*



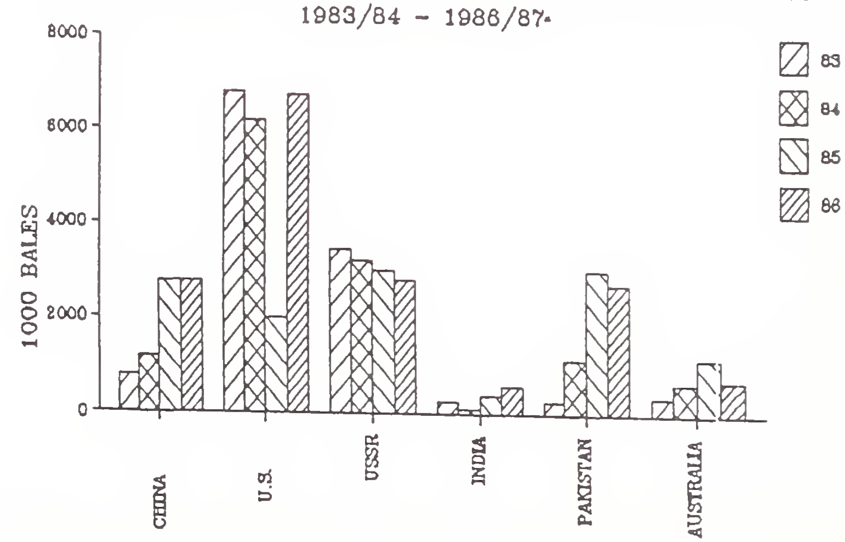
COTTON YIELD BY SELECTED COUNTRIES
1983/84 - 1986/87*



COTTON PRODUCTION BY SELECTED COUNTRIES
1983/84 - 1986/87*



COTTON EXPORTS BY SELECTED COUNTRIES
1983/84 - 1986/87*



COTTON: "A" INDEX WITH SELECTED RATIOS FOR EXPORT NATIONS, FOREIGN COUNTRIES
U.S., IMPORT NATIONS AND WORLD, 1986/87-1976/77

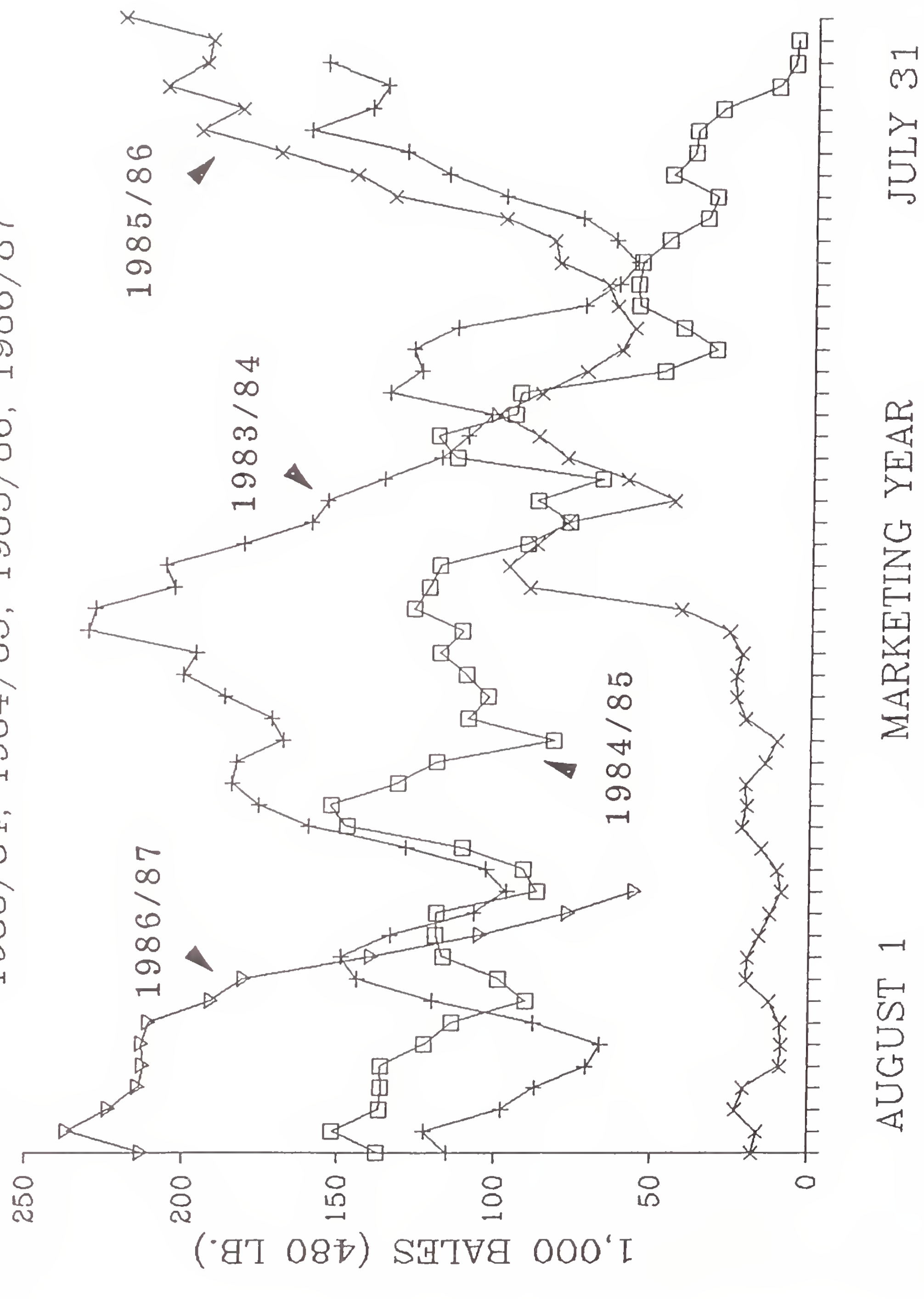
Crop Year	"A" Index Cents/Lb.	Export Nations		Foreign	Foreign-PRC	U.S.	Import Nations	U.S.	Foreign	World
		Ending Stocks to Use	Production to Use	Ending Stocks to Use	Ending Stocks to Use	Ending Stocks to Use	Ending Stocks to Use	Exports to Total Exports	Production to Use	Ending Stocks to Use
1986*		0.694	1.300	0.548	0.553	0.410	0.276	0.298	0.907	0.571
1985**	48.930	0.795	1.437	0.567	0.669	1.100	0.269	0.096	0.963	0.644
1984	69.210	0.765	1.750	0.607	0.530	0.352	0.268	0.306	1.149	0.618
1983	87.610	0.402	1.359	0.354	0.361	0.215	0.271	0.353	0.949	0.368
1982	76.650	0.403	1.365	0.273	0.516	0.745	0.277	0.268	0.895	0.367
1981	73.760	0.411	1.466	0.305	0.565	0.568	0.307	0.325	0.911	0.381
1980	94.110	0.331	1.337	0.308	0.413	0.233	0.298	0.301	0.897	0.320
1979	85.580	0.462	1.823	0.346	0.462	0.193	0.288	0.406	0.870	0.358
1978	76.070	0.468	1.624	0.339	0.418	0.323	0.296	0.312	0.888	0.368
1977	65.000	0.561	1.843	0.361	0.471	0.447	0.301	0.287	0.927	0.412
1976	81.690	0.426	1.583	0.309	0.422	0.258	0.249	0.272	0.857	0.324

* Estimated

** Preliminary

SOURCE: Foreign Agriculture Circular, "Cotton--World Cotton Situation", USDA, FAS, Selected Issues.

COTTON SALES, 4-WEEK MOVING AVERAGE
1983/84, 1984/85, 1985/86, 1986/87



U.S. COTTON EXPORTS, SELECTED COUNTRIES AND MARKETING YEARS
(1,000 Running Bales)

Country	82/83	83/84	84/85	85/86	86/87* Thru 10/30	Largest Purchase**		Total All Imports 82/83	83/84	84/85
South Korea	1219.40	1173.90	1212.20	468.90	1149.60	1219.40	(82/83)	1516.00	1602.00	1601.00
Japan	1257.00	1735.30	1480.40	529.70	1255.70	1735.30	(83/84)	3138.00	3338.00	3123.00
Taiwan	350.20	462.40	466.90	35.50	787.40	744.80	(81/82)	1044.00	1171.30	1293.00
Indonesia	234.40	342.90	252.00	97.10	227.00	342.90	(83/84)	520.00	603.00	620.00
Italy	105.90	259.90	318.10	87.20	199.40	318.10	(84/85)	1095.00	1155.00	1171.00
West Germany	111.50	169.40	153.00	32.20	152.70	169.40	(83/84)	1039.00	988.00	1069.00
Philippines	67.90	54.60	58.70	8.80	122.70	67.90	(82/83)	69.00	82.00	86.00
France	47.50	130.70	117.80	8.30	102.70	130.70	(83/84)	870.00	775.00	730.00
Portugal	41.00	67.70	93.00	8.00	67.50	93.00	(84/85)	596.00	668.00	721.00
Canada	230.80	220.10	198.10	84.90	15.80	230.80	(82/83)	245.00	248.00	225.00
Total	3665.60	4616.90	4350.20	1360.60	4080.50	5052.30		10132.00	10630.30	10639.00
Other	1199.00	1829.20	1592.80	413.90	892.60	---				
Grand Total	4864.60	6446.10	5943.00	1774.50	4973.10	---				

* Commitments
** For a Season Since 75/76

SOURCE: USDA, FAS, "U.S. Export Sales," various issues.