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## **TRENDS IN FOREIGN PRODUCTION**

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**Cotton Outlook**

### **Introduction**

I would like to thank the organisers, and particularly Carol Skelly, for the invitation to address this conference. My paper focuses on cotton production outside of the United States, reviewing briefly the current situation and highlighting some of the factors that are likely to be influential in the future. I will touch on prospects for next season. Our first world production forecast is in fact published in today's edition of the Cotton Outlook weekly magazine. Subscribers can read the details now by downloading the publication from our website. However, for your convenience, handouts containing the data have been made available for distribution at this meeting.

### **A bit of a gamble**

Predicting the future is fraught with the danger that one becomes a hostage to fortune. It is a gamble. Before Christmas, one could have felt secure - though not very happy - in discussing the potential impact of low world prices on farmers' planting aims, drawing on the experience of the past to point out the different reactions that might be expected in different political and economic environments. The argument paraded by ERS in the mid-eighties, I recall, was that state-controlled economies were less likely to be price-sensitive, at least in the short term to world price changes. An interesting debate could focus on how such a claim might have changed given the influence of 'market forces' in China, or the destabilisation of the former monopoly control in West African states.

The rapid turnaround of world prices since the beginning of January has required a smart rethink of what might happen during the coming season. The first draft of my comments today, written before I indulged in Christmas spirit, was quietly ditched. Perhaps the spirit should have come first!

Prices have risen to a level at which many farmers who initially had seemed likely to turn from cotton could change their minds. So, is the name of the game for those of us who are inclined to roll the dice now, as usual, to consider such mundane matters as the availability of inputs and to monitor weather, or to ask some more challenging questions?

## **Low prices and the subsidy issue**

It may be reiterating the obvious, that the low prices we have recently seen have had severe financial consequences for the producer. In the United States, individual producers are to a large extent responsible for their own fate. Even so, however, it is the state (or the taxpayer) to which agriculture looks to provide a safety net. A greater extreme still can be found in this principle in Europe. The principle is no different in many other countries, except that taxpayers are often fewer, and states are poorer. Nevertheless, the past year has witnessed the emergence of subsidy schemes, which national exchequers have been required to fund. The list of countries concerned would include Pakistan, Egypt, Israel and others. Farmers in some parts of the world would seem to have been partially insulated by these subsidies from the low prices. An important caveat, however, is to note that the battle over prices paid to farmers in most West African countries has been much harder fought this time around, particularly in Ivory Coast, where ownership of the ginning sector is now split into three, with two regions in the hands of private-sector interests and the other remaining in the control of the former, parastatal monopoly. It might be postulated that increasing privatisation offers to remove the guarantee that previously afforded the farmer price certainty.

## **An important exception**

It is to be anticipated, furthermore, that the price shock received by China's farmers will have the effect of driving plantings lower for the next and probably subsequent crops, in line with current government policy. In the past, changes in policy have led to a cyclical pattern of excess and shortage, with important ramifications for the world market. China's accession to the WTO, when that event happens, will presumably reduce the scope for policy change, since the domestic market will remain exposed to a sizeable volume of imports, and thus to world market price influences. Chinese bureaucrats appear inclined to the view that inefficient, small-scale agriculture - the household responsibility system - must be allowed to wither while the economy focuses on exploiting its comparative advantage of low labour costs in manufacturing. A trend is likely to continue in cotton production toward planting high-yielding crops which can produce better quality supplies.

## **A few numbers**

World production outside of the United States this season is estimated to have declined by about 1.2 percent and a slightly greater fall seems in prospect during 1999/2000. These figures are slightly misleading, however, since if one also excludes China - as the accompanying chart demonstrates - world output rose by over 4 percent during 1999/2000, and can be expected to increase further during 2000/2001.

It is Cotton Outlook's practice, unlike other agencies, to divide the world, for production purposes, into the three logical production belts based on planting and harvesting times, the Northern, Equatorial and Southern belts.

## **The Northern Belt**

As one might expect, changes in output in the Northern Belt roughly match, in proportionate terms, those for the world as a whole. Losses in China this season have been largely offset by gains in Pakistan, which, after several consecutive years of disaster, experienced the right weather at the right time, and in Uzbekistan, which saw the return of a more normal average yield following the setback caused by inclement conditions during 1998/99. A relatively strong rise was recorded also in the European Union, notably in Greece.

When the majority of the Northern Belt crops were planted a year ago, New York futures and the A Index were both hovering around 60 US cents per lb. Although values have risen from their recent lows, attainment of a similar level this spring is by no means assured.

Northern Belt production seems likely to decline in 2000/2001 but, if both the US and China are excluded, volume will, we suggest, be slightly greater than in the present season. Modest losses in some countries seem likely to be offset by further gains in the Indian subcontinent.

## **Indian subcontinent**

Following several years in which untimely rains had stimulated insect and disease at crucial stages of the growth cycle in Pakistan, 1999 has proved quite different. Area sown increased by some 2.4 percent. Good weather prevailed throughout the autumn, thus allowing rapid maturation of bolls and an early start to harvesting. Production seems likely to have risen by 26 percent, to reach its highest level since 1995/96. Any change in area for next season seems likely to be marginal but production could be assisted by the government's continued efforts to restore the irrigation network. In the longer-term, the official aim is to produce a quantity of lint sufficient to provide an exportable surplus of 1.5 million bales.

In India, a late onset of Monsoon rains in the western region has resulted in a quantitative reduction, compared with the initial expectation, of quite significant proportions. Some southern regions have also suffered badly as a result of a surprisingly low average yield, which is attributed to poor vigour of the varieties sown. Whereas India's Cotton Advisory Board forecast at its first meeting last November a lint outturn of some 13.7 million bales, the 1999/2000 crop now seems likely to be about 1 million bales less, or about the same size as the year before. Officially, planted area in 2000/2001 is forecast to expand by more than 12 percent compared with last year. It remains to be seen whether such an ambitious gain can be realised, notwithstanding the government's clear aim to rise cotton production.

## **Central Asia**

Official sources in Uzbekistan say that area will remain about unchanged overall, and that output will not alter significantly in the short to medium term, unless it is achieved by dint of improvement in average yield. Focus on the varieties under cultivation has been urged from the very highest levels.

We remain unclear about production levels in Turkmenistan, the second largest producer in Central Asia. Official sources claim seed cotton output has registered a sharp rebound this season. An even higher target is envisaged for next season. Whilst these claims are disputed by private sources, official data indicate that more lint is indeed being ginned. Officially, the objective in the next three to five years is for seed cotton production to almost double compared with the level of output claimed for the present season.

The key to production in Tajikistan and Kazakhstan will be the extent to which pre-finance is forthcoming from abroad. A lack of such a provision on the same scale as before, which limited the purchasing power for agricultural inputs, is cited in explanation of Tajikistan's decline in output of about 11 percent during 1999/2000. In aggregate, Central Asian output is likely to be roughly similar in magnitude to this season's level, at close to 7,350,000 bales.

## **Middle East**

Future levels of output in much of the Middle Eastern region will be determined principally by the availability of water. Plentiful rain earlier this year has transformed the situation in Israel, which last year witnessed a dramatic scaling back of production owing to a lack of irrigation water. Although production may recover somewhat, particularly also with the improvement in world prices, doubt is expressed that sown area will be restored to the level of former years.

A shortage of water in Syria is likely to result in a fall of at least 10 percent in area sown and a commensurate fall in output, and will remain a limiting factor in the foreseeable future.

Egypt provisionally anticipates an increase of at least seven percent in planting area for the 2000/2001 season, with expansion continuing to be focused on long staple styles rather than extra-long. The return of some price protection for the farmer during the past season demonstrates the importance of cotton to the country's agricultural sector. Even with continued steps towards liberalising the cotton sector, it is hard to imagine a significant change in aggregate sowings in the foreseeable future.

Turkey can be expected to see a continuation of the drift in production towards the South East, which, in the longer term, is an area that has the potential to register significant growth as reservoir construction plans proceed. In 2000/2001, however, some observers contend that the region's farmers will plant slightly less cotton on price grounds. Since there will presumably be a continued decline in area in the traditional growing region of Cukurova,

where other crops are more lucrative, and production of the premium cotton roller-ginned styles in the Aegean is unlikely to record a significant change, the country's total output could register a modest decline.

## **European Union**

European Union producers continue to benefit from the high subsidies paid by Brussels. Both Greece and Spain have this season registered unexpectedly sharp increases in output, of about 9 and 18 percent, respectively, thanks to improved yields.

It was anticipated that 1999 would have seen a review of Commission policy, which would have been well in place for this season, but the process was thrown into disarray by political developments in mid-year. A proposed new framework was subsequently adopted by the Commission toward the end of last year and now awaits ministerial approval. Its intent is to focus on environmental concerns and budgetary control. Environmental issues could include restricting the eligibility for aid, where appropriate. It is in the budgetary control measure that one can foresee a more immediate impact on cotton cultivation, since the proposal is to increase the rate of penalty – the automatic stabiliser – applied to the guide price when national seed cotton production exceeds pre-determined limits<sup>1</sup>. In simple words, the rate of aid per unit paid by Brussels is lowered the more that is produced above the pre-set limit. Apart from the changes described, there seems unlikely to be any great willingness to depart radically from the present arrangements. Europe will continue to argue, on the one hand, that the aid it expends goes principally to the poorest parts of the Union and, on the other hand, that cotton imports are allowed freely. In consequence, its regime is perceived within the Union to be justifiable.

It is nevertheless evident that the proposals have brought uncertainty to planting prospects for the new season within the EU. Furthermore, confusion has been sown in Greece by a proposal from the Hellenic Cotton Board, which, in simple terms, envisages limiting an individual producer's planted area to something less than the average of the three past seasons. Spain, meanwhile, reports that water reserves are much less favourable than a year ago.

## **The Equatorial Belt**

Production in equatorial countries is expected to have risen by about 5.5 percent this season but any gains next time around seem likely on present indications to be modest. Price may have some influence, and there is still some way to go before the next planting decisions are taken. Comparison will be made, presumably, with international values

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<sup>1</sup> A 'guide price' is set, usually for a season, and the difference between it and a notional world seed cotton value is used as a basis for calculation of aid payments. Aid payments are subject to penalty, however, to the amount by which national 'quotas (249,000 metric tons of seed cotton in Spain and 782,000 metric tons in Greece) are exceeded. The current penalty ('automatic stabiliser') is 0.5 percent for each one percent overrun of the quota. The Commission's proposal is to increase the penalty to 0.6 percent.

prevailing at the last sowing, when the New York futures March 2000 delivery and the Cotlook 1999/2000 A Index were both around 57 cents per lb.

In an international context, the countries referred to under the Equatorial Belt heading are principally located in Africa, since output in the equatorial zone of Latin America is of small importance. In the African Franc Zone, many farmers remain dependent on cotton as their principal cash crop, and it is unsurprising therefore to find that planted area fell in a relatively marginal fashion across the region, except in Mali, the largest single producer. The region's output is currently forecast to be about 2 percent higher on the year. A modest decline in sowings and output could be in prospect next season, driven partly by the lower seed cotton prices currently being paid to farmers in most countries. In the longer term, the move toward privatisation will remain a principal force in determining levels of cotton production, as will the exchange parity for the region's currency against the US dollar.

In Sudan, the harvest has made good progress since the turn of the year, and a gain in output of about 50 percent is apparently considered foreseeable by Khartoum. In the medium term, the National Redevelopment Plan provides for rehabilitation of the three main agricultural schemes, including the Gezira, the potential success of which will undoubtedly be helped if Sudan continues to resume political and economic links with the West.

Tanzania's cotton sector remains in some disarray but this season's cotton production should prove higher, thanks to more favourable weather. Similarly favourable weather has proved helpful also in Uganda and a continued gradual recovery is foreseeable in the country's cotton sector, depending on the development of world prices.

### **The Southern Belt**

Southern Belt production is forecast to have declined this season by around 5 percent. Looking forward a season is particularly difficult when the current crop is still in the ground but a tentative view would indicate that a fairly strong recovery might be foreseeable, if recent disappointments in South America are not repeated.

Among the Mercosur producers, Argentina might hope farmers will try cotton yet again, despite a limited finance after successive losses in recent seasons, and that, weather permitting, a trend towards further recovery can be expected in the medium term, since the infrastructure remains largely in place. Paraguay should experience a more satisfactory harvest result this season and this might help restore confidence for the future. A return to the level of output of the mid-nineties is considered a possibility next year. In Brazil, the production potential in the newly opened lands of the Mato Grosso remains a most exciting prospect and gains in area in this region, together with better yields, seem likely to continue to offset declines in traditional cotton producing regions.

In southern Africa, crop prospects in the Republic of South Africa, Swaziland and Mozambique, have not been helped by recent adverse weather, which has been too wet. Some sources have further reduced crop forecasts that were already lower than a year ago. Zimbabwe, the region's largest producer, and a significant exporter, has on balance,

however, welcomed the moisture. Furthermore, whereas commercial (that is, larger-scale, irrigated) plantings have declined on price grounds, the communal (smaller-scale, dryland) sector has continued to flourish. Observers predict that a moderate growth in output is foreseeable during the next few years, depending on broader economic influences, and the availability, at reasonable cost, of agricultural inputs.

## **The Stocks Issue**

Like production, we generally take a short-term view of the outlook for consumption. Our first forecast for the 2000/2001 season will be released in April and we cannot therefore complete the accompanying chart, showing ending stocks further ahead than this year. For 1999/2000, we continue to project a small surplus of production over consumption on a global scale, and a substantial surplus if one excludes China from the figures. We remain convinced that the activities of China will remain of paramount importance for the pattern of trade in cotton in years to come.

Cotton Outlook is sometimes criticised, since we do not do it on a country-by-country basis, for inadequately monitoring world stocks. We frankly do not have the time to do this more accurately than bodies like USDA and ICAC. Stock estimates from these two organisations invariably differ, since the sources of information are not always the same, and such estimates must inevitably contain a degree of subjectivity. However, it is worthy of note that more than a third of the difference between the two organisation's world ending stock figures are accounted for by China. It would seem to us that it would be a useful exercise for the cotton industry's understanding of world statistics if they were to seek to reach a closer measure of agreement on China alone. One of them must be more right than the other!



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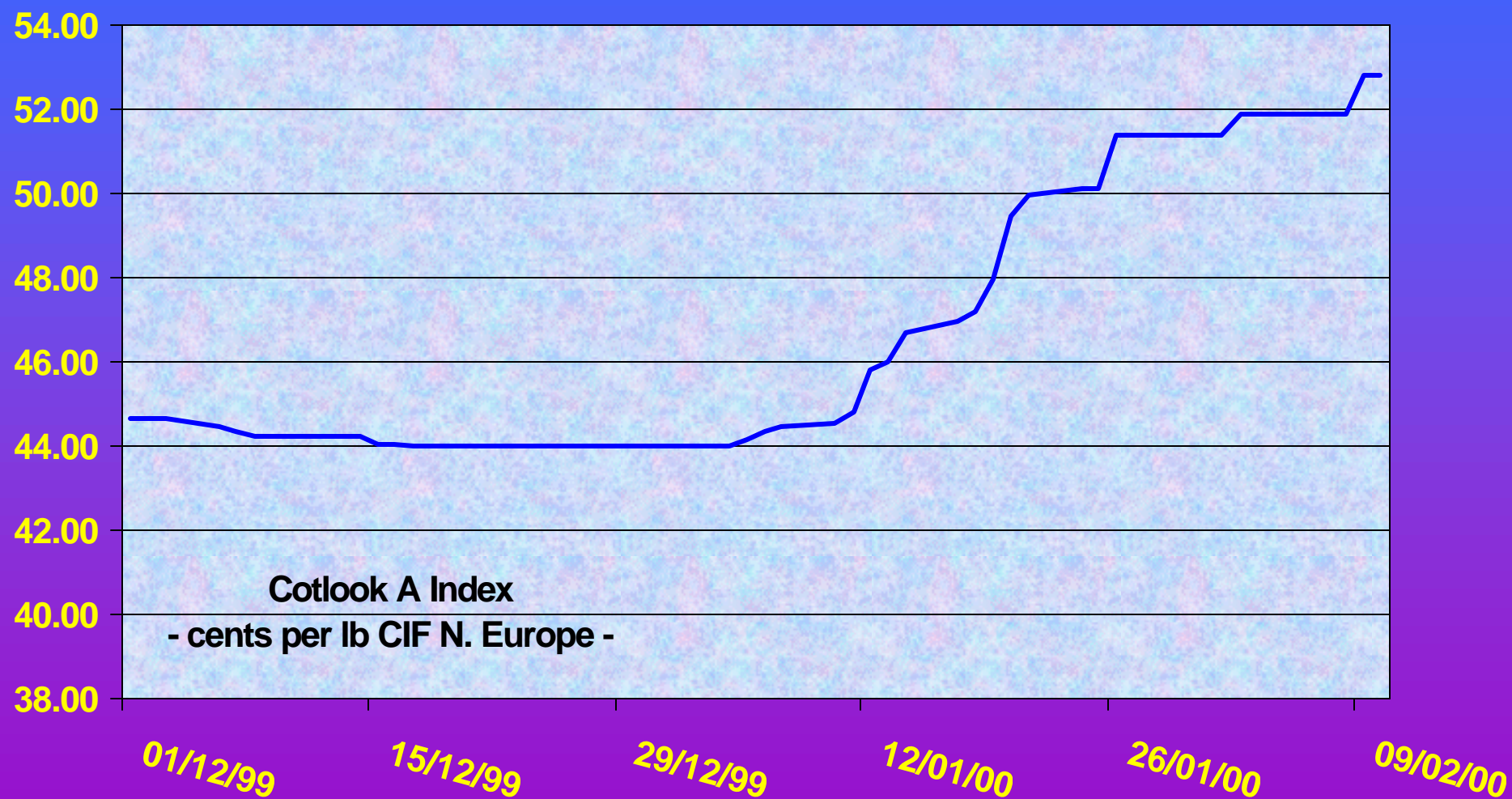


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# Cotton Outlook

## Price Recovery



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# Cotton Outlook

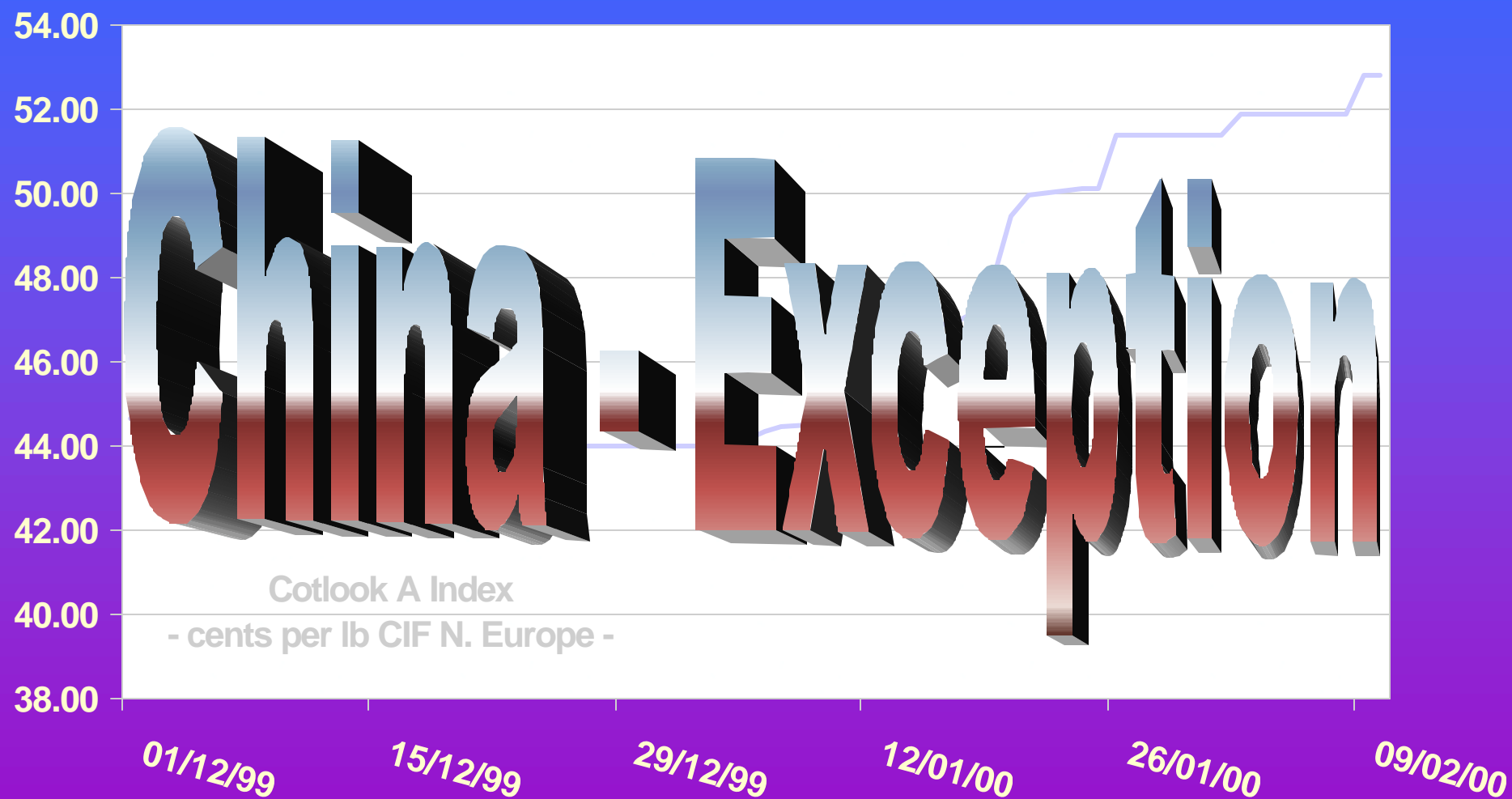
## Price Recovery



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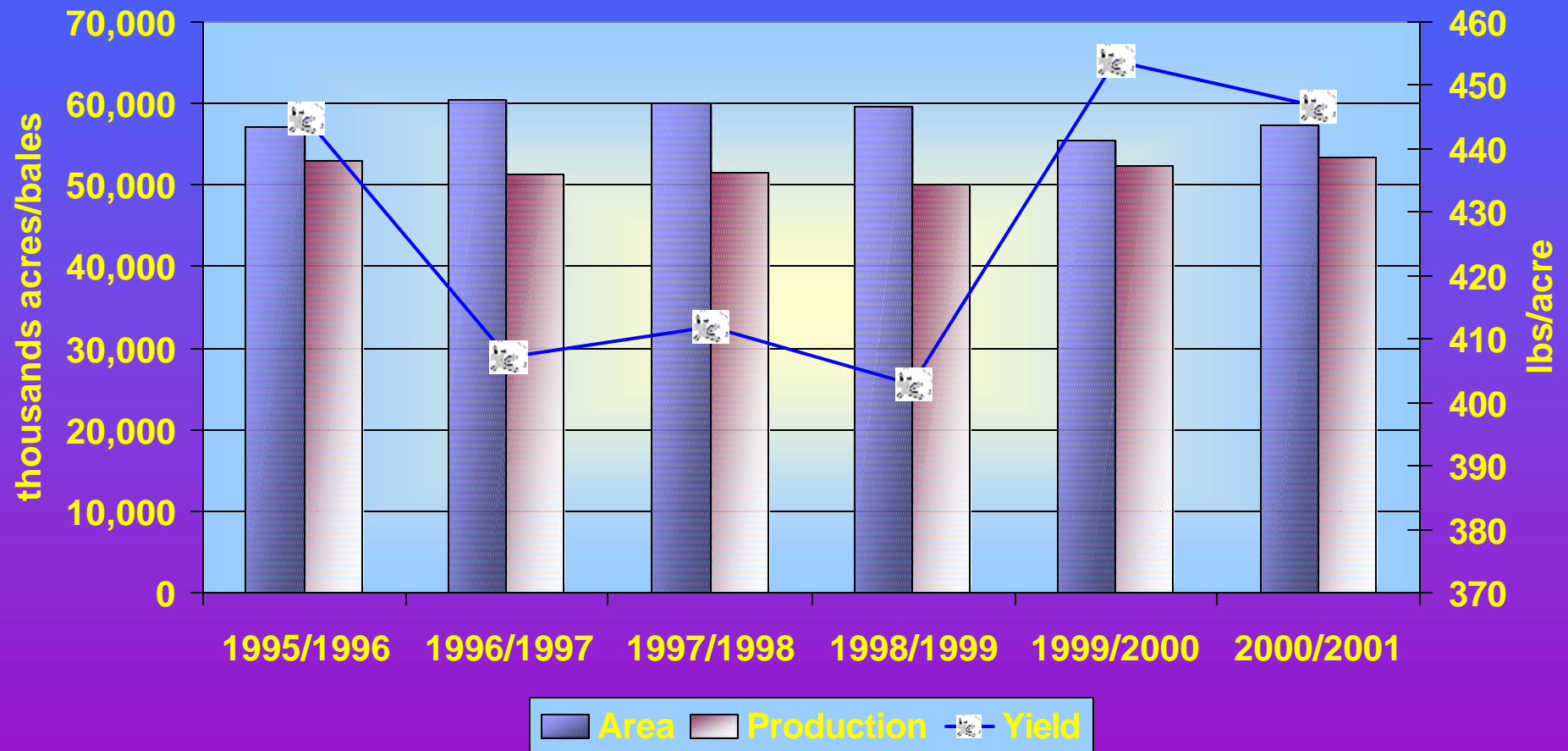
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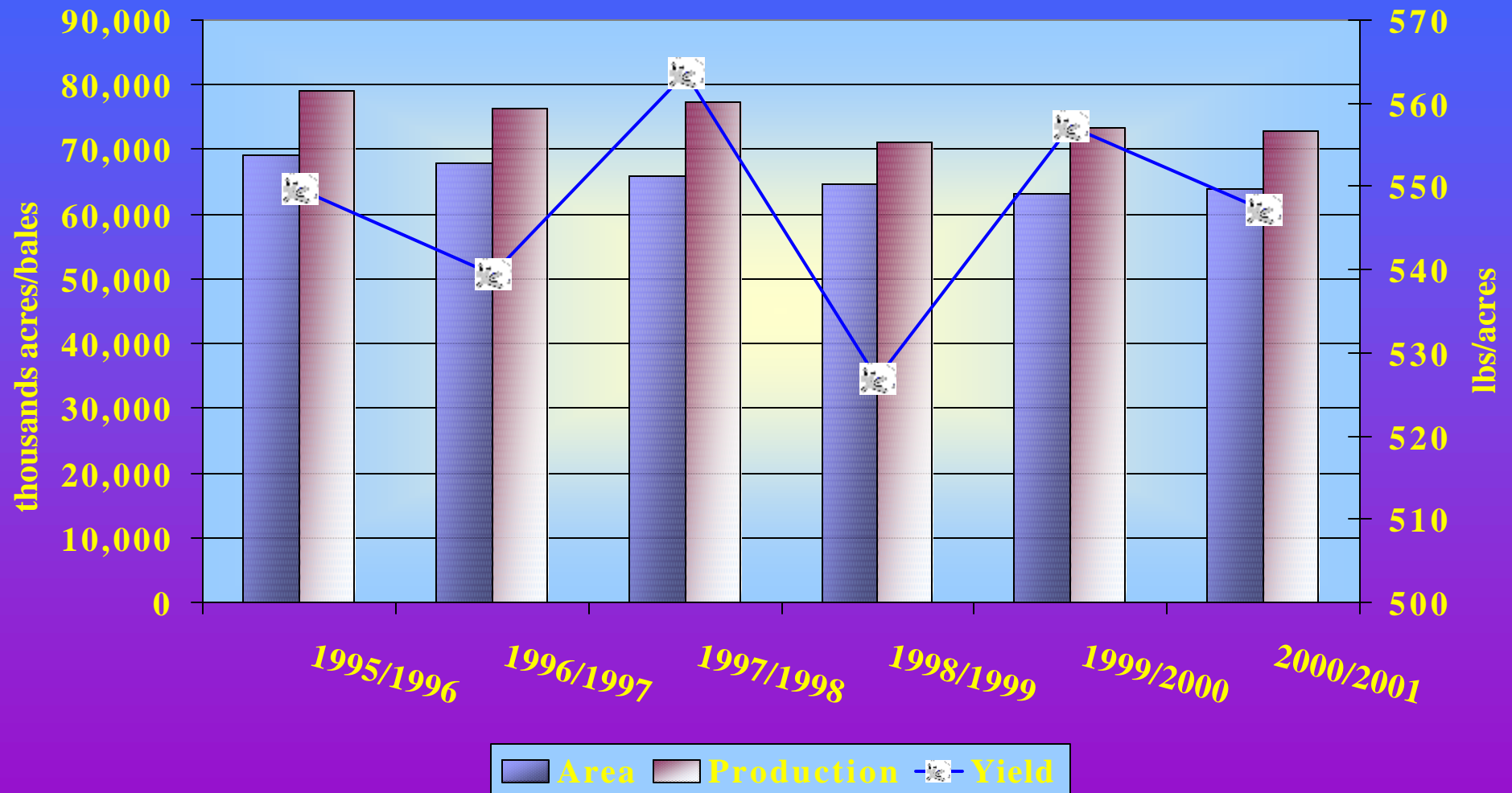
## World Area and Output excluding US and China



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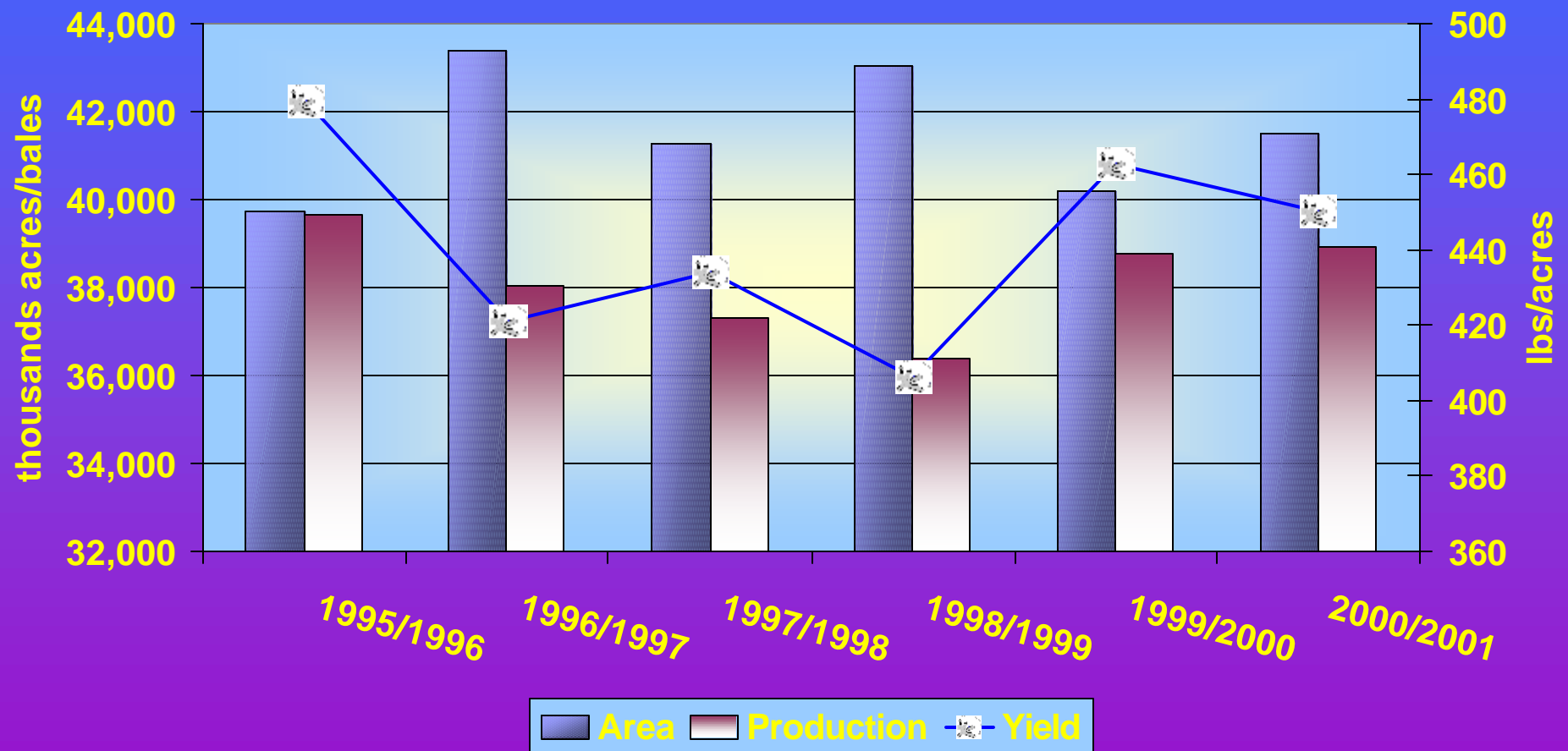
## Northern Belt



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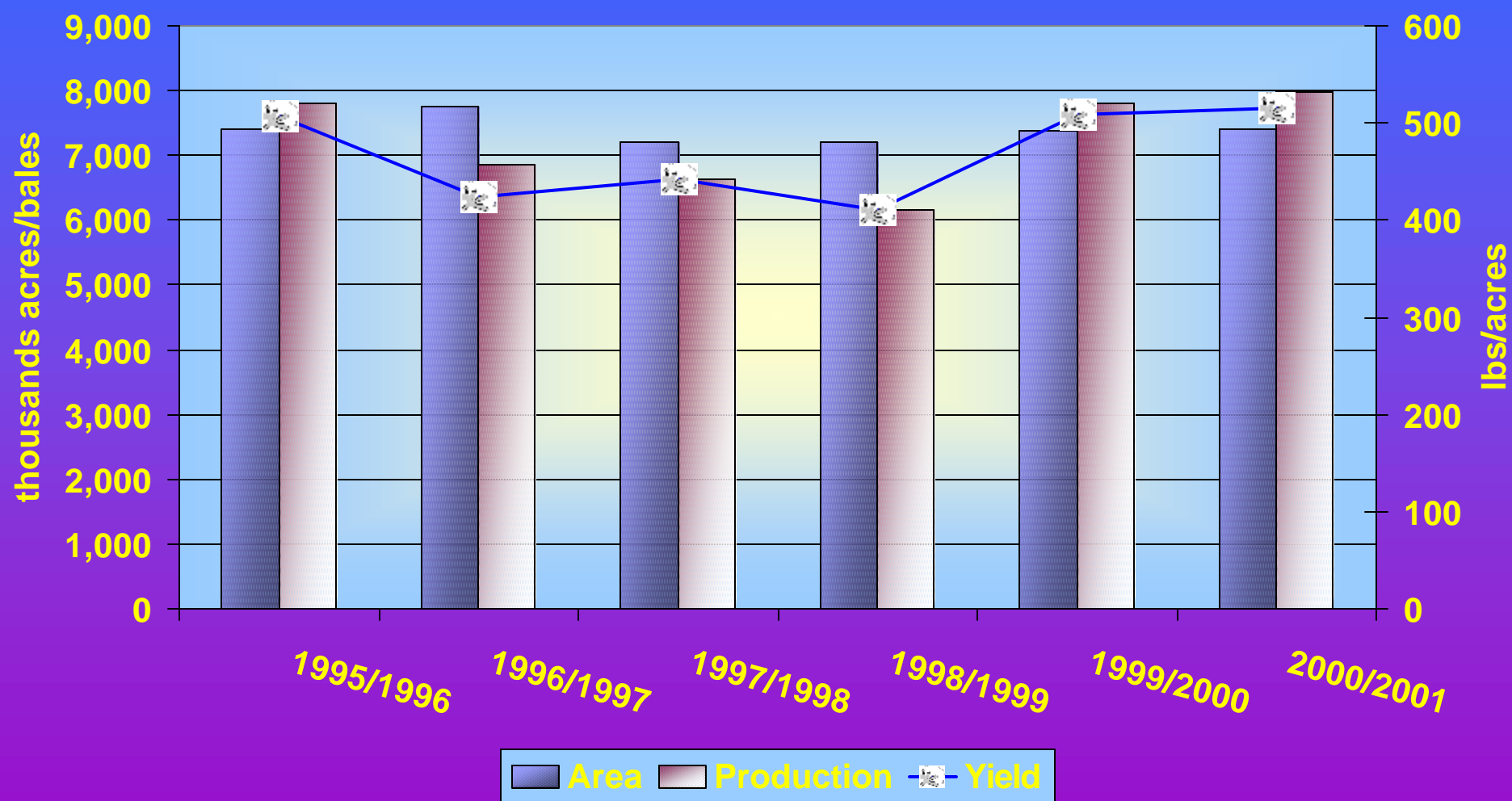
## Northern Belt excluding US and China





# Cotton Outlook

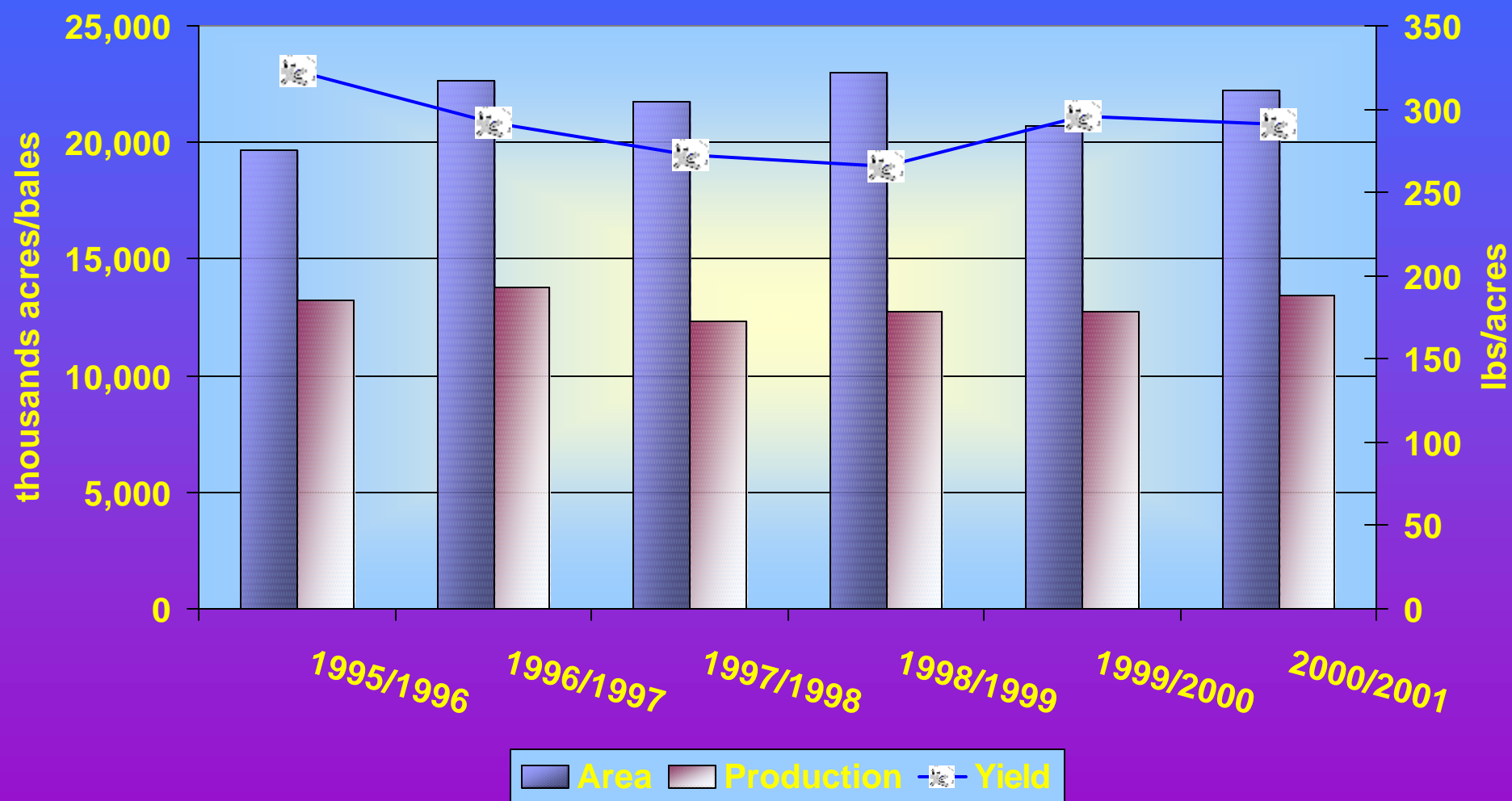
## Pakistan



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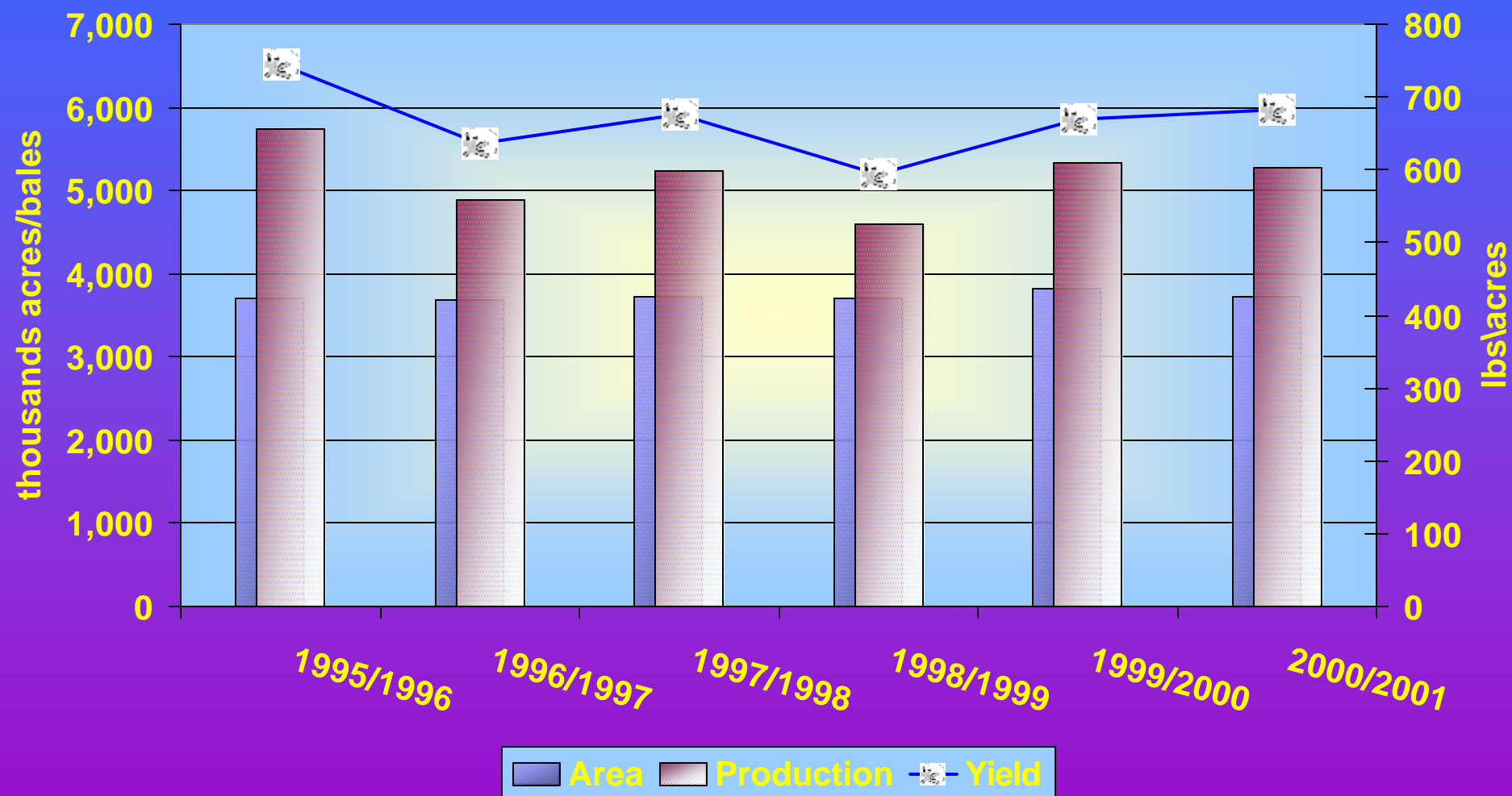
## India



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# Cotton Outlook

## Uzbekistan



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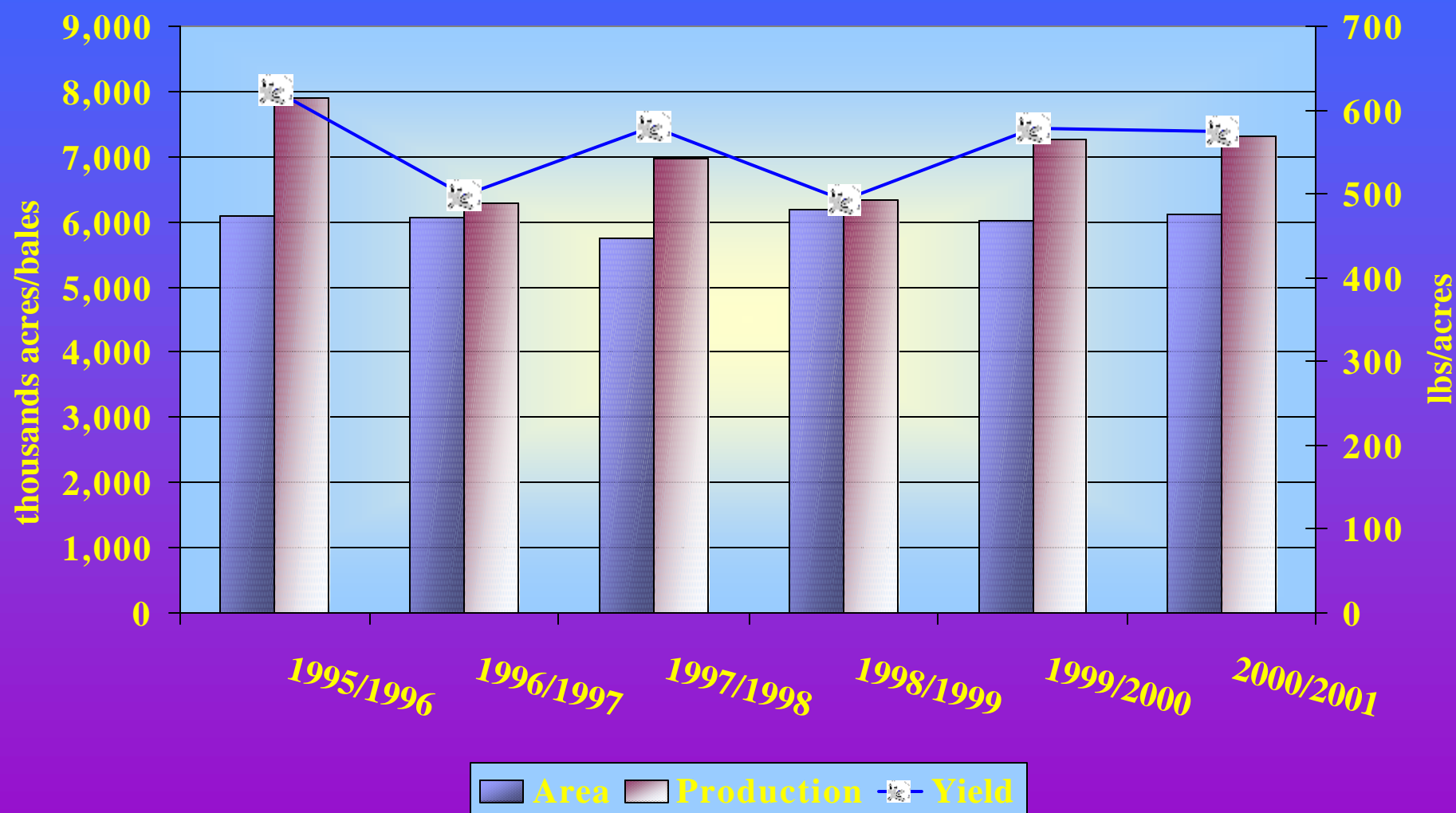
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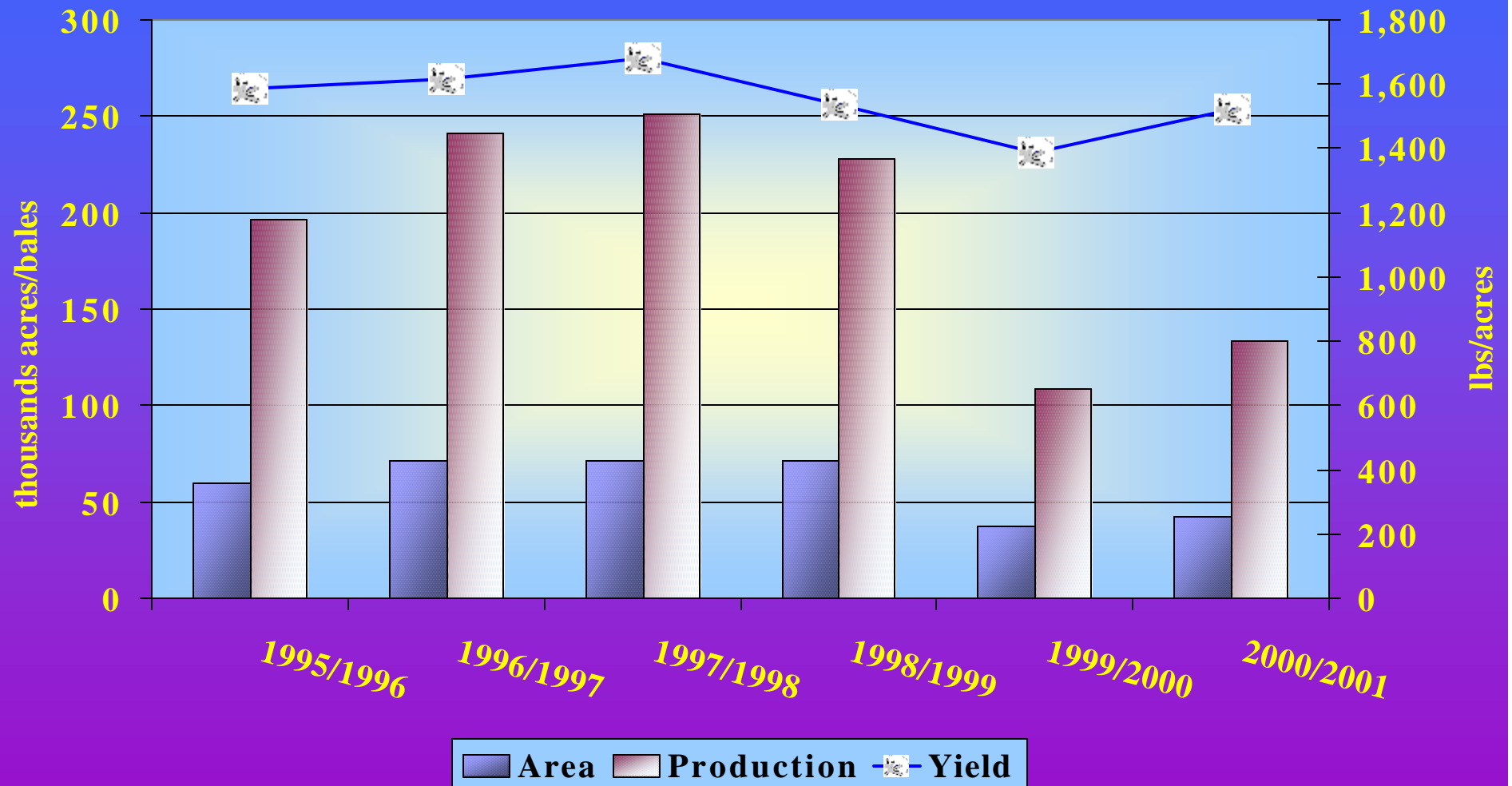
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## Israel



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## Syria

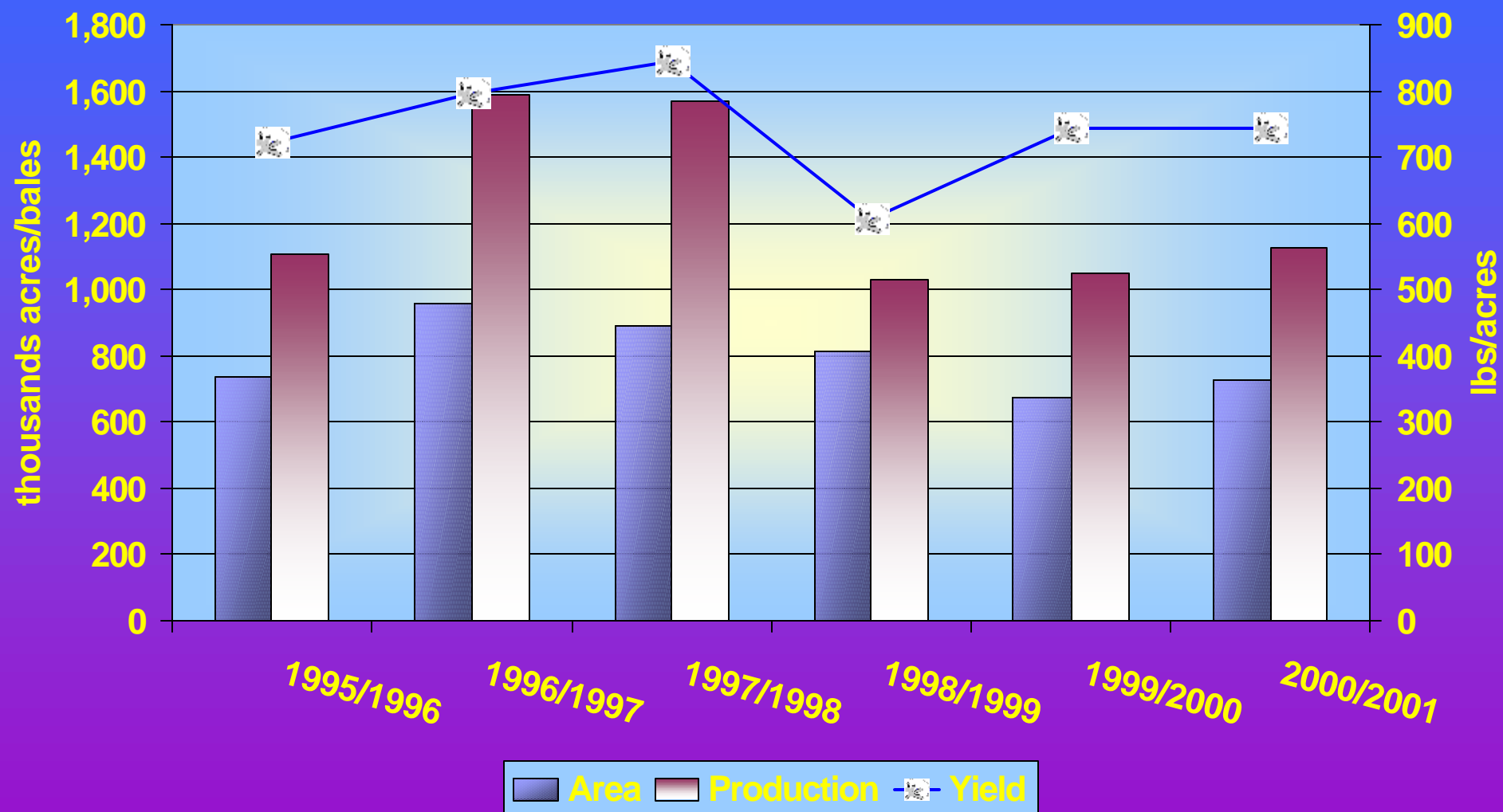


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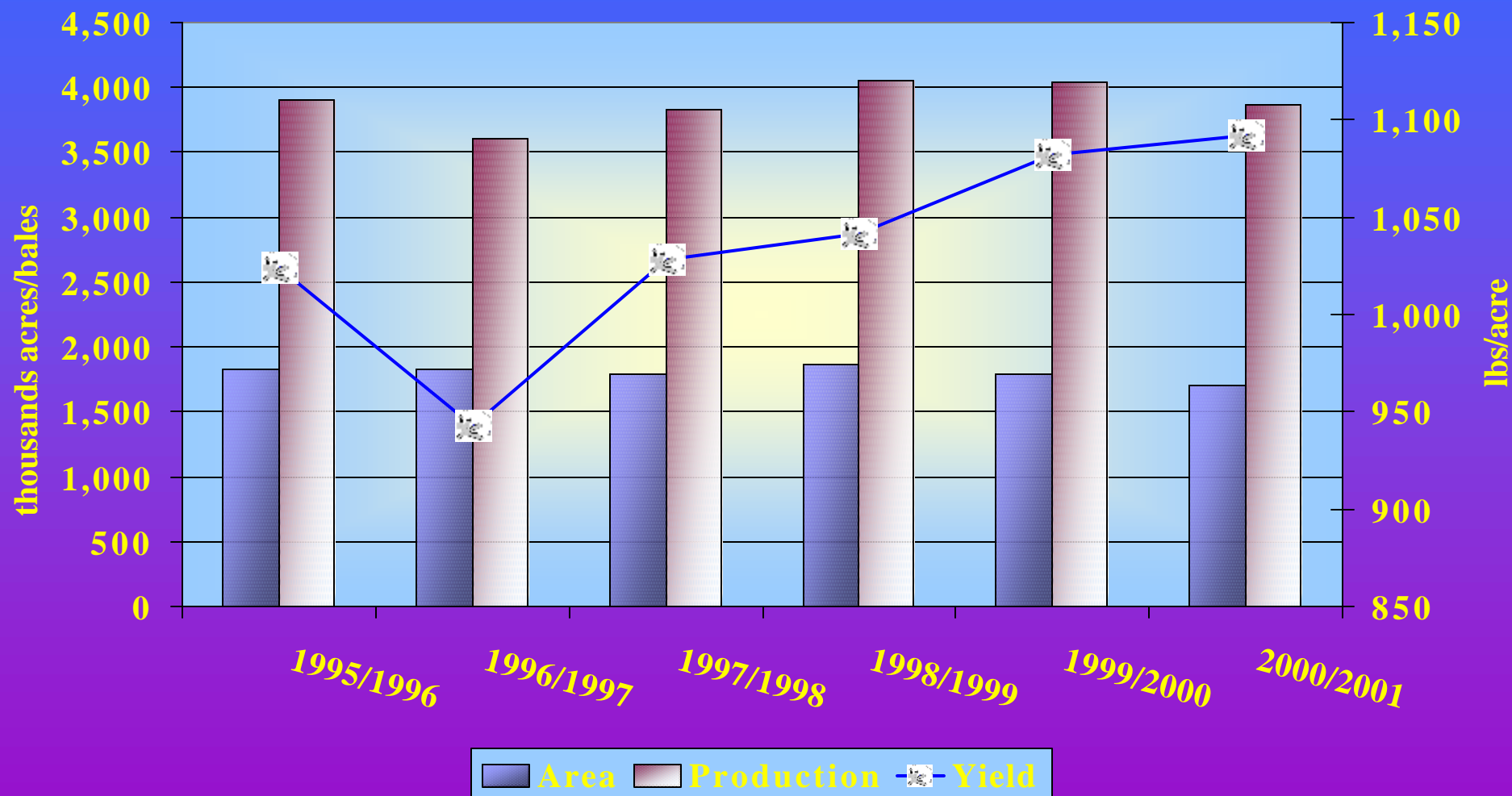
## Egypt





# Cotton Outlook

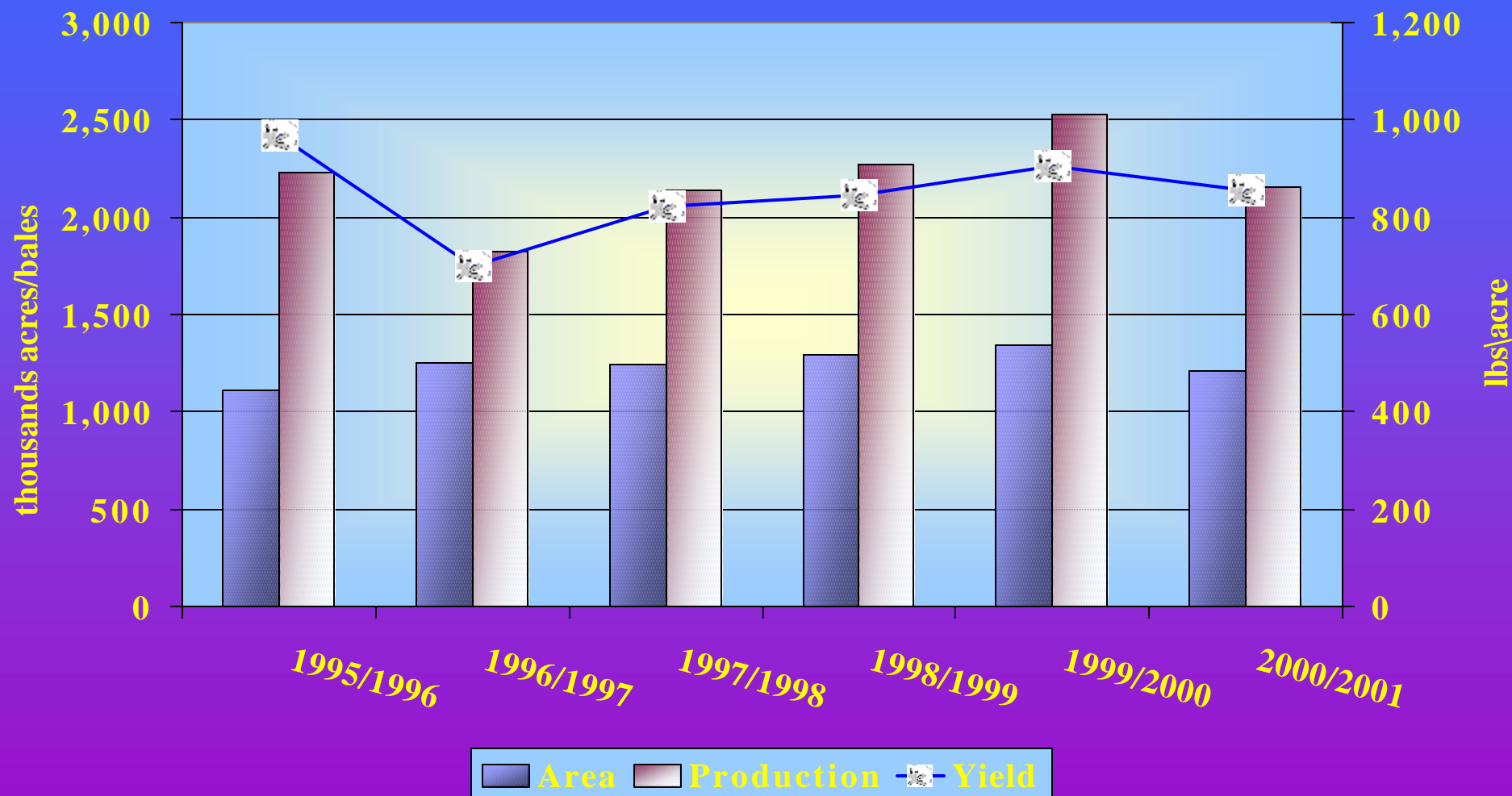
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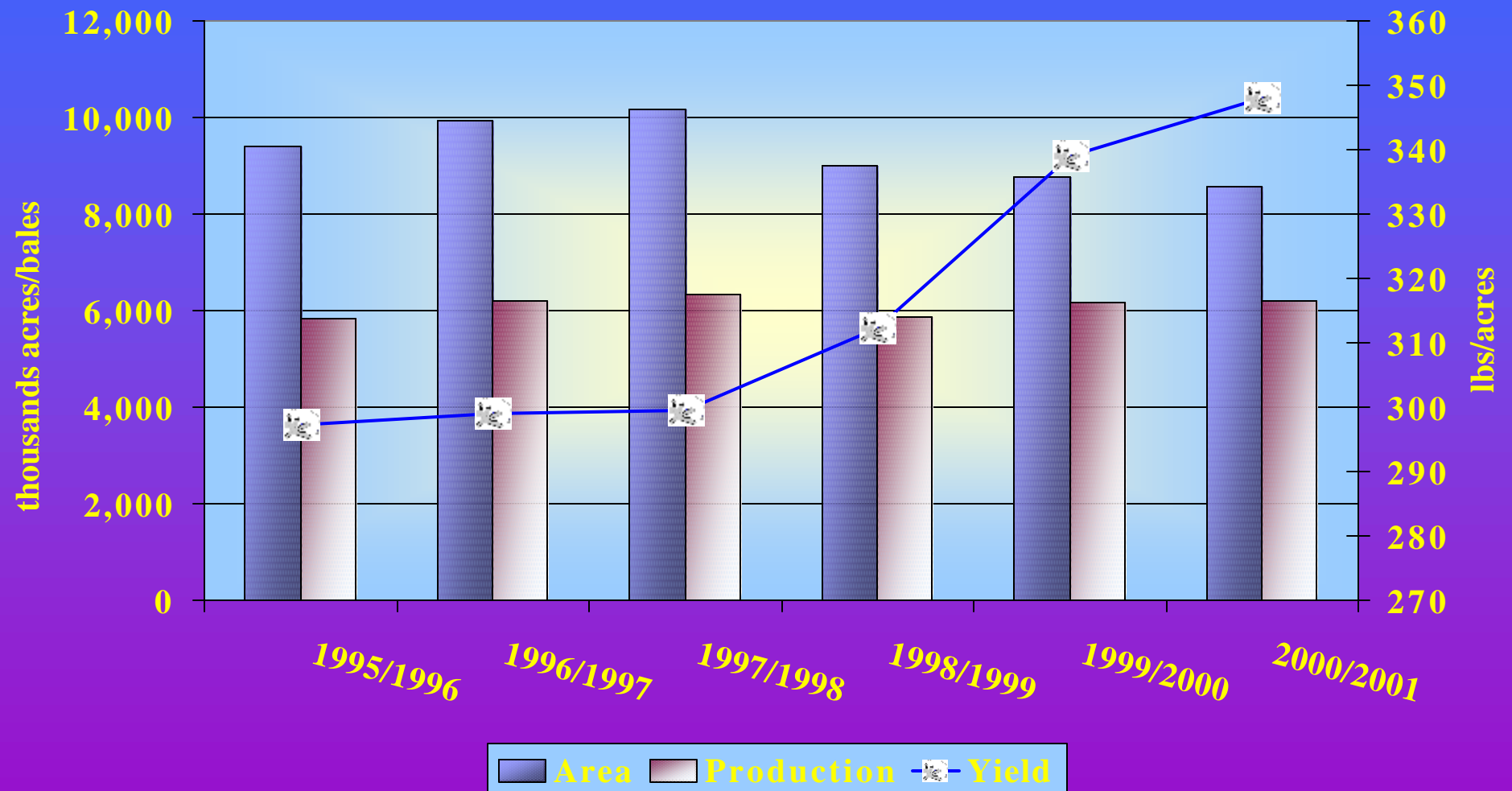
## European Union



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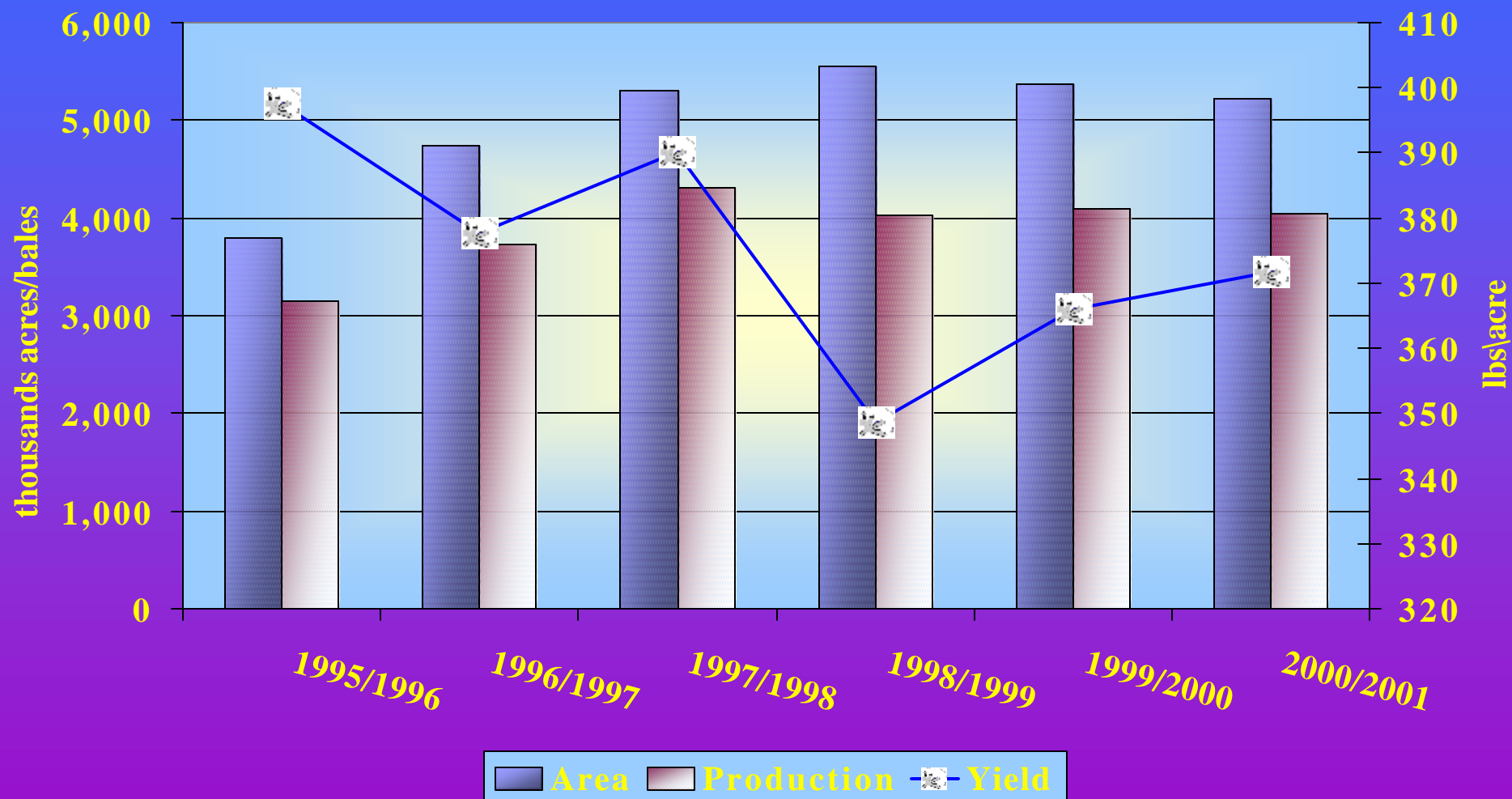
## Equartorial Belt



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# Cotton Outlook

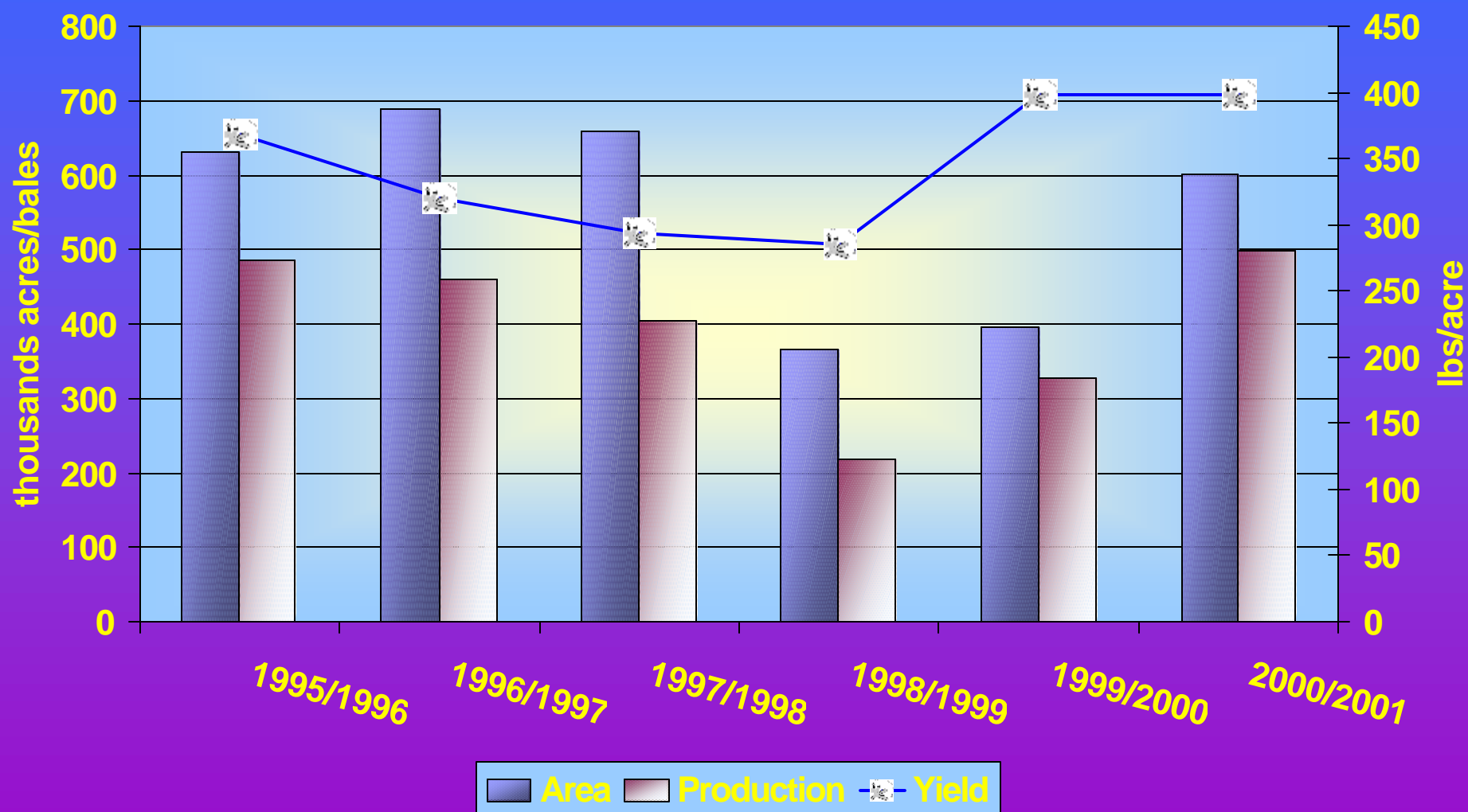
## African Franc Zone



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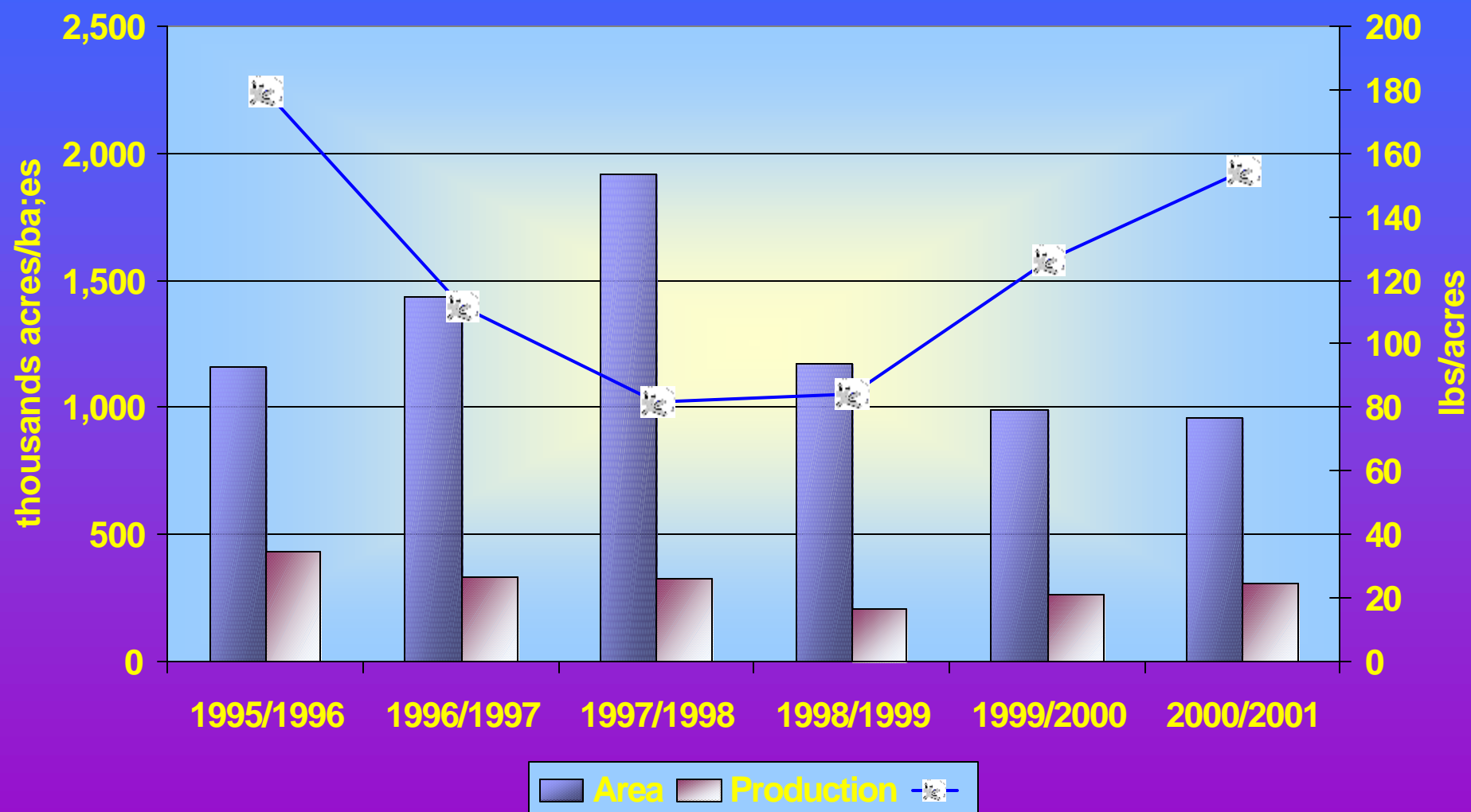
## Sudan



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# Cotton Outlook

## Tanzania and Uganda



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# Cotton Outlook

## Southern Belt

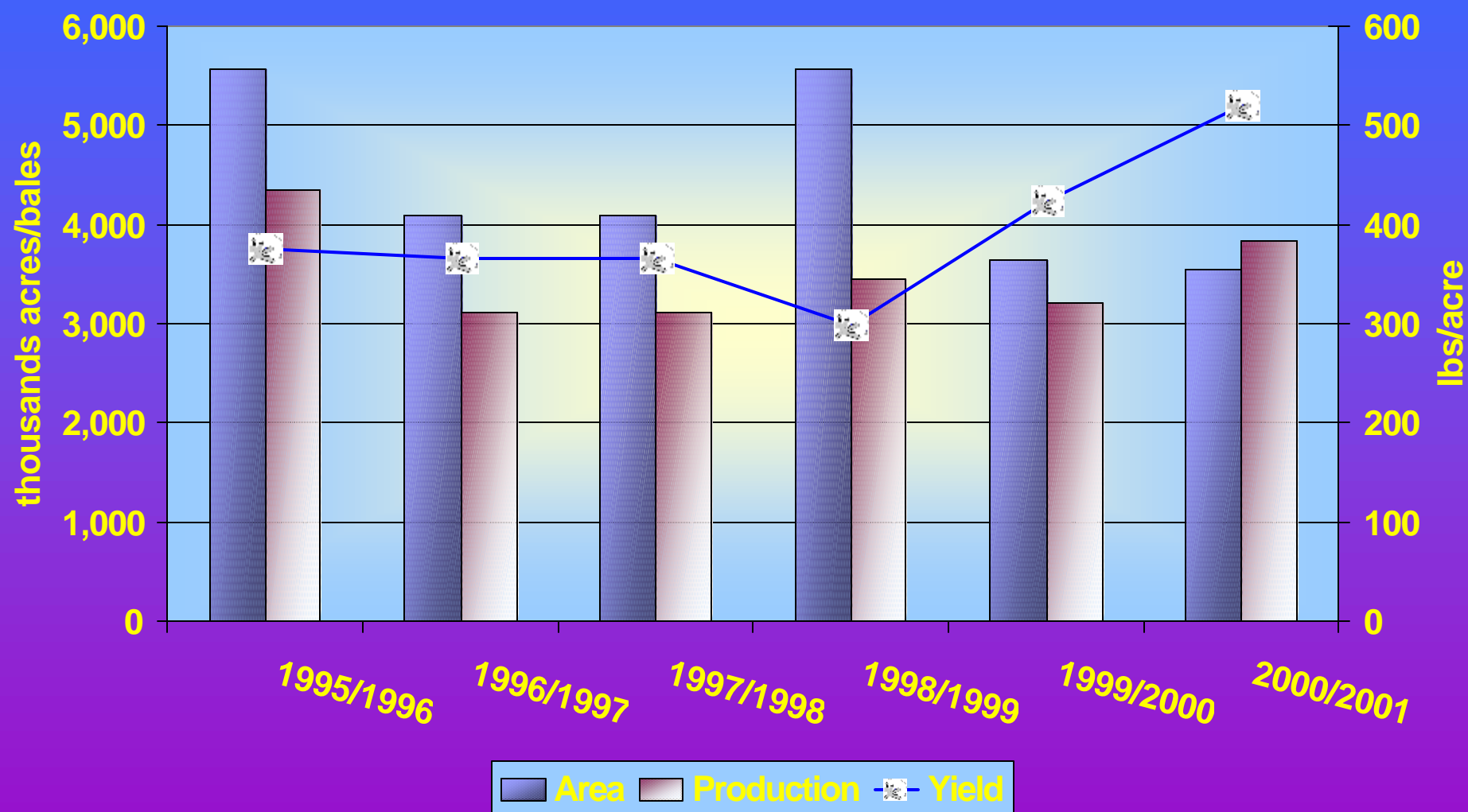


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# Cotton Outlook

## Mercosur

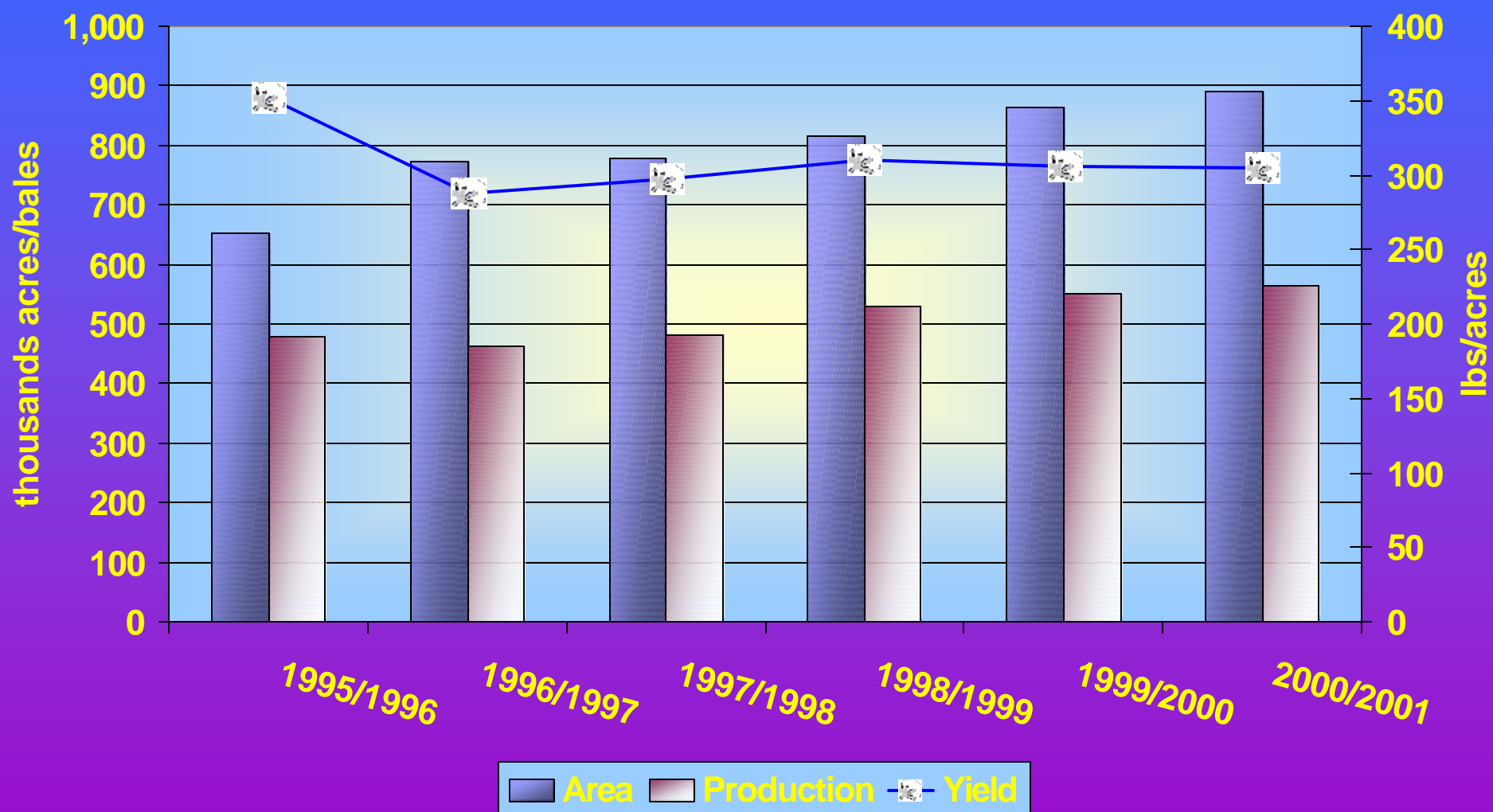


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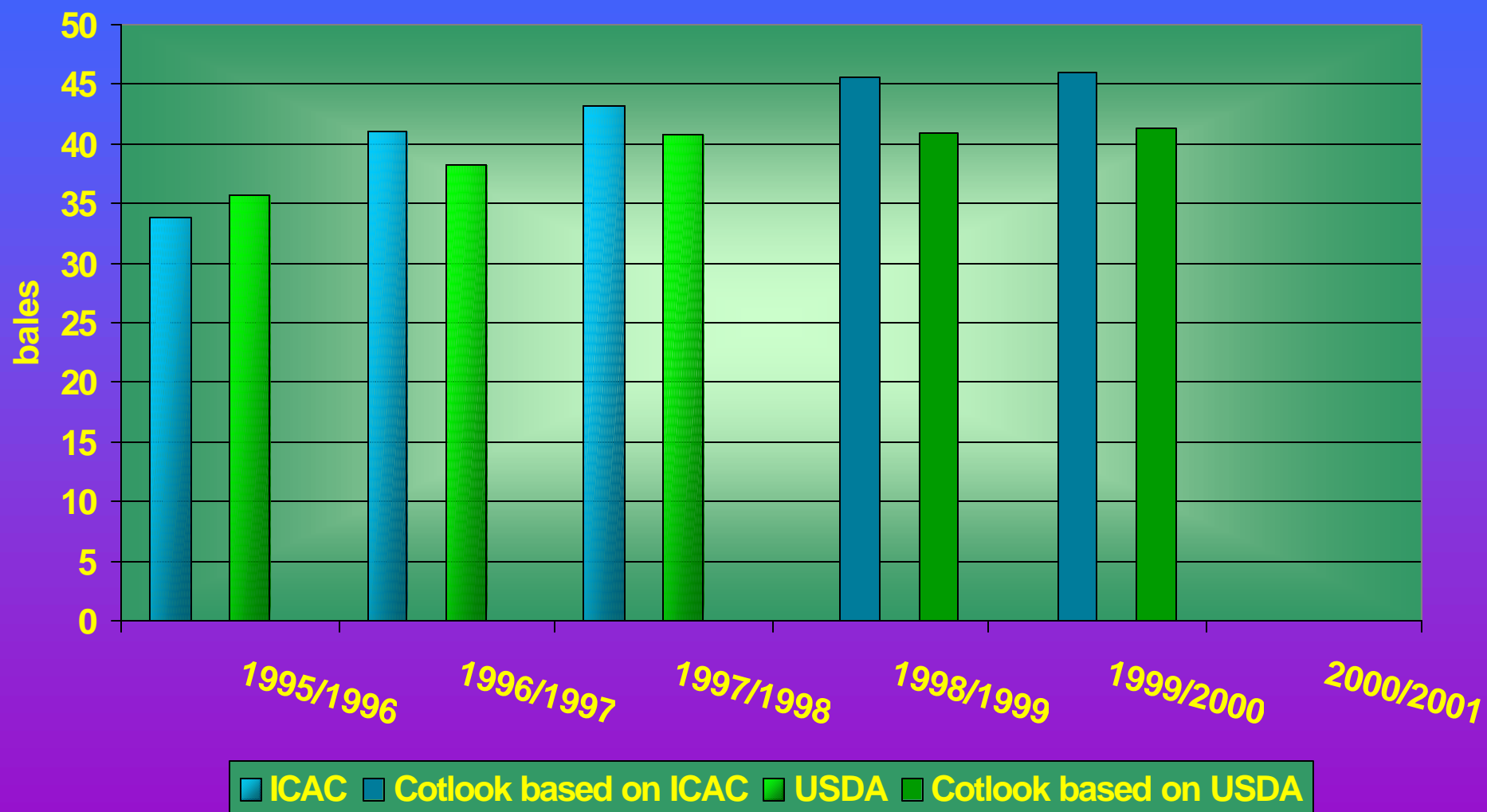
## Zimbabwe



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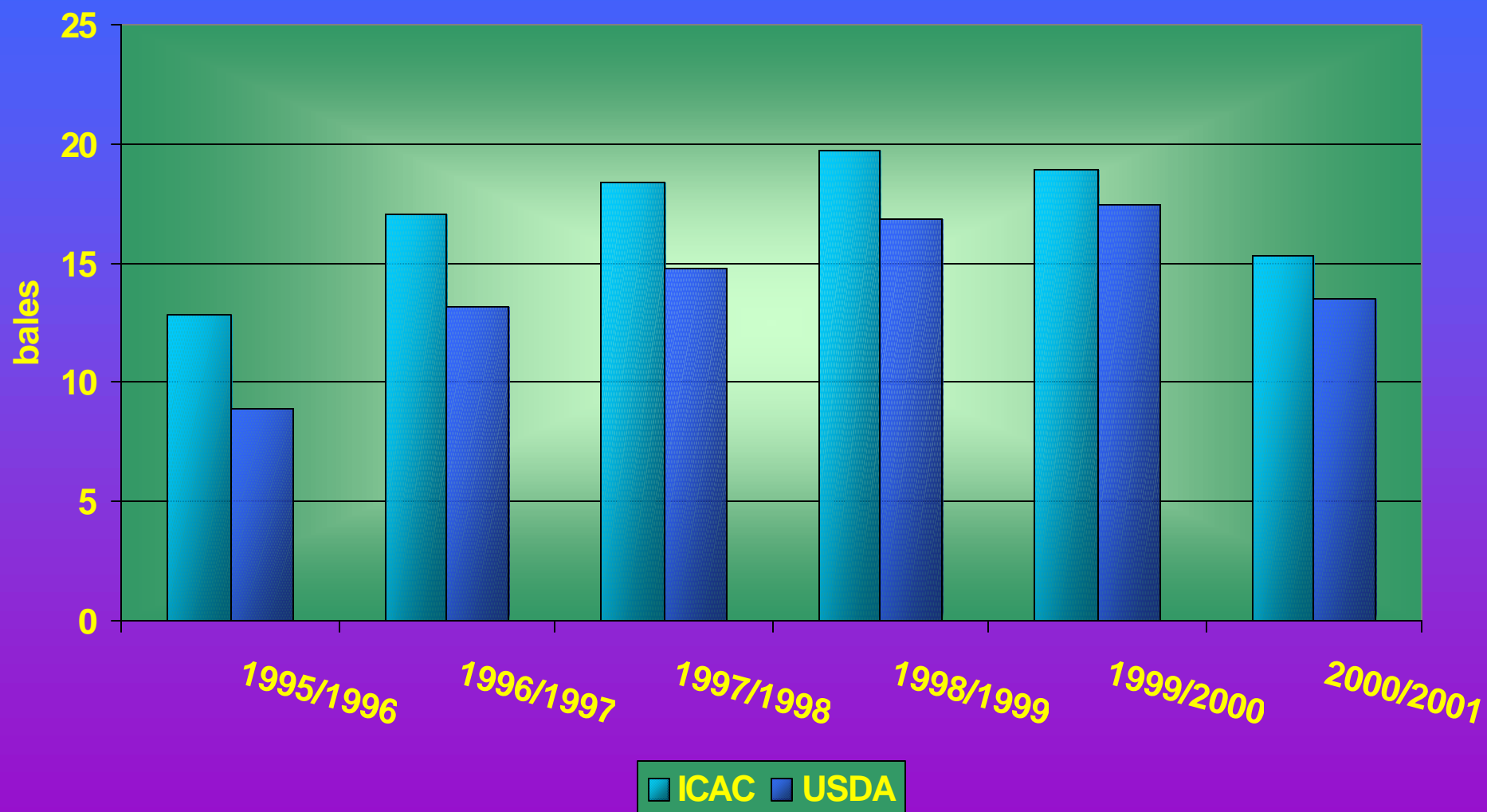
## World Stocks



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## China Stocks



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