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AGRICULTURAL OUTLOOK CONFERENCE 1986

AGROCON
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LANDBOUVOORUITSKOUINGSKONFERENSIE 1986

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
- National Marketing Council
- SA Agricultural Union

CSIR CONFERENCE CENTRE
Pretoria

10 AND 11 FEBRUARY 1986

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COTTON BOARD - AGRICON 1986

PRODUCTION YEAR - 1 OCTOBER TO 30 SEPTEMBER
MARKETING YEAR - 1 APRIL TO 31 MARCH

IN RETROSPECT

In our previous years' estimates it was pointed out that given a normal agricultural year a crop of 250 000 bales for the 1984/85 production year is not unrealistic. Contrary to this expectation a crop of 230 000 bales will be produced locally. It was also expected that producers will receive a price of 80 c/kg cotton lint. Although the world price has reached a record low, producers received a minimum nett advance payment of 80 c/kg lint - 5,5 c/kg lint was subtracted as levies and handling costs. This price, together with the greater throughput at the gineries which in some cases meant an additional payment of 9 c/kg to producers, caused a definite interest for cotton amongst farmers in general and a spirit of optimism amongst the cotton producers specifically for the first time in many years.

The encouraging rise in the production of cotton the previous two seasons still does not meet with local demand, this resulted in the importation of approximately 100 000 bales. Obviously, this figure could have been considerably lower if climatic conditions had been more favourable. However, it should be mentioned that, due to somewhat more favourable weather conditions during the past growing season, the average yield per hectare increased by 28 %. See table 2.

2. PRODUCTION

2.1

Production year	Production 200 kg bales	Gross value Rm
1981/82	188 869	72,45
1982/83	135 459	59,37
1983/84	179 137	95,90
1984/85*	230 000	151,0

* Estimated

2.2 From the above table but particularly table 1 it is clear that currently, following a serious decline since 1983/84, a sharp increase in local cotton production is being experienced - an average increase of 34,9 % during the past two seasons. This increase could have been considerably higher under better climatic conditions.

2.3 As a result of the persistant drought cotton has shown, through its high resistance to drought that it is a summer crop which, if correct cultivation practices is applied, still quarantees a return to the farmer which will at least cover his annual production costs.

2.4 Irrespective of the dampening effect caused by the climatic conditions the past three seasons, the more favourable producers' price of cotton led to an increase of cotton producers. The fact that hectares under cotton cultivation the past three seasons have not increased is misleading due to the fact that some hectares did not deliver any crops and these hectares were not incorporated into the statistical data.

2.5 The role which cotton can play relative to the total area under cultivation is limited constricted due to various reasons of which the following are the most important.

2.5.1 Cotton requires greater managerial inputs from the producer - to change over to cotton production, there must be no doubt regarding the producers managerial capabilities.

2.5.2 A large number of labourers are required for cotton picking - approximately 60 % of the crop is presently hand picked.

2.5.3 Cotton cultivation requires a specific cultivation environment (eg. type of soil, climate etc.).

2.6 Cotton cultivation is an extremely specialised practice and a further stumbling block for expansion is a deficiency of an organized information service on a national basis.

2.7 Cotton is presently mainly cultivated in the warm low lying areas of the R.S.A., national states and neighbouring countries. The TBVC countries and selfgoverning terrotories have the greatest potential because of the fact that cotton is a cash crop which can be produced by the inhibitants of these areas. The present production potential for the R.S.A. is put at 400 000 bales.

2.8 The enormous increase in seed sales indicated towards the production of a record crop during the coming season but the lack of rain especially during November has dampened these expectations. It is therefore difficult at this stage, to estimate productions for the 1985/86 season.

3. LOCAL AND OVERSEAS MARKET

3.1 Local market

3.1.1 Local cotton consumption for 1985 is estimated at 330 000 lint bales which compares well with the 328 535 lint bales used in 1984.

3.1.2 This maintained consumption, inspite of persisting recessionary conditions in the S.A. economy, has been made possible by the fact that spinners could find suitable export markets (mainly for yarns). As a result of world fashion trends cotton exports had been favoured to the cost of synthetics.

3.1.3 Judging from the above it is clear that no difficulties were experienced with the marketing of the 230 000 lint bales during the present season.

3.1.4 The total crop of 230 000 bales were insufficient to meet the requirements of spinners, resulting in an estimated importation of 100 000 lint bales during 1985.

3.1.5 The R.S.A. has large market potential for textiles but the development of a local manufacturing sector is hampered by textile imports. Notwithstanding the fact that the R.S.A. is not a signatory to the "Multifibre Arrangement" we are being subjected to export quotas. It is against Government policy to make imports subject to a similar quota system. Approximately 60 % of South Africa's textiles is based on cotton fibre.

3.1.6 The average consumption of textiles per capita in the R.S.A. is 11 kg per annum and is compiled as follows:
Whites 21 kg, Asians 11kg, Coloureds 9 kg and Blacks 5 kg.

3.1.7 Cotton is the "bread and butter" fibre together with polyester and therefore does not compete in the same market as wool and mohair. The blends usually depends on the price relation between the two fibres.

3.1.8 Competition with synthetic fibres will definitely remain intense and the Board endeavours to create greater public awareness by means of generic promotion and thus enlarging cotton's share of the local market. The launching of the Cotton Mark during the year under review helped to create a more favourable climate for the marketing of cotton goods.

3.2 <u>Overseas market</u>

3.2.1 Traditionally the R.S.A. is an importer of cotton fibres, mainly because local production could not meet with local requirements - the Rand/Dollar exchange rate is therefore a prominant factor. During the first quarter of this year, mainly as a result of the relatively higher world price in Rand terms, cotton had to be imported at prices higher than the local price. The import price reached a peak during the third quarter as a result of the weak exchange rate.

3.2.2 The surplus world supply resulted in the world price of cotton dropping to levels below 0,5 U.S.A. dollar cent per lb. and it seems as if the price has now stabilized around 0,48 U.S.A. dollar sent per lb.

3.2.3. This state of affairs under normal circumstances would have been to the advantage of the textile industry owing to the fact that cotton lint imports could be cheaper, but due to the weak Rand this advantage was virtually neutralized.

3.2.4 The reduced world price will continue untill at least the end of comming season (1986/87). The slightest improvement of the exchange rate, in so far as imports are concerned, will be to great advantage to the textile industry.

3.2.5 Should the Rand improve, it will result in the weakening of the local price for cotton lint, as the price formula is based on the world price. See graphs C1 and C2. It is obvious that the exchange rate component is the determining factor. The fact that the world price declined considerably since the beginning of the year had no marked effect on R.S.A. price as drastic depreciation of the Rand against the Dollar, especially during the third quarter of the year occured simultaneously.

3.2.6 South African cotton lint is a fibre of high quality and could be accepted and marketed overseas without difficulty, should a local surplus occur at any stage.

4. PRICE

4.1 Present season

4.1.1 Mainly because of the fact that the local price of cotton lint is a market orientated price which is directly linked to the supply and

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demand position in the world market and the producers price is derived from that price, a gross producers advance payment of 85,5 c/kg could be negotiated for the best grade handpicked cotton.

4.1.2 The fact that spinners had to pay a guaranteed price of 290 c/kg for average class/grade cotton lint resulted in an approximate increase of 30 % in the advance payment.

4.1.3 As a result of the decline of the Rand against the Dollar, spinners had to pay up to 321 c/kg for imported cotton lint during the course of the year.

4.2 Outlook

4.2.1 The uncertainty about the exchange rate caused the various parties in the industry to decide to deviate from the traditional price formula for 1986/87 and a price of 295 c/kg was fixed for average class cotton lint.

4.2.2 The parties were of the opinion that it would be to the advantage of the industry as a whole if a price could be fixed at this early stage and not to wait until the end of March 1986. Thorough planning was deemed to be essential in order to survive the present economic recession.

4.2.3 This slight increase in the price of lint did not result in any increase in the minimum gross producers advance payment - the 5 cent increase will be deposited into the stabilization fund of the Cotton Board.

4.2.4 The favourable lint price for the comming season (1,7 % increase for cotton as opposed to 10-20 % increase in the case of synthetics) has been welcomed by the textile industry and local cotton consumption will surely benifit by this.

5. A VIEW OF THE FUTURE

5.1 Judging by the latest production tendencies it seems as if local cotton production will reach the 300 000 (lint bales) mark within the next two seasons.

5.2 Should this happen it can save the country millions of Rands in foreign exchange. For the period 1/85 - 8/85 the F.O.B. value of imported cotton lint already amounted to R42,9 million.

5.3 With the present shortage of money it is essential that the R.S.A. becomes self sufficient and that these vast amounts of money do not leave the country - money to be paid for imports could rather be channalled to local producers. A healthier cotton producers corps can only lead to better production and cultivation methods and thus to the advantage of the industry as a whole.

5.4 The cotton content in textiles intended for export will increase as a result of international fashion trends but especially a a direct result of the price increase in the case of synthetic fibres (mainly polyester) versus cotton lint. The fact that if cotton is being exported in this form as opposed to the exportation of raw material is laudable as we are exporting only after adding value.

5.5 The increase in the cotton content of textiles is welcomed, seen in the light of the Board's continious efforts to bring the local consumption to a level that favourably compares with that of the rest of the world. See graphs A and B.

5.6 The Cotton Board is presently striving to increase consumer awareness of cotton by means of continious generic promotion. The introduction of the Cotton Mark will enable the consumer to identify cotton products at retail outlets.

5.7 Indications are that the cotton industry is now entering a period of growth and the production of a record crop in the future (more than 325 000 lint bales) should therefore not create any marketing problems.

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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
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	179 137	-	171 346	328 535	62 442
1984/85*	230 000	-	100 000	330 000	80 171

* Beraamd/Estimated

Tabel 2/Table 2 M

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)
		Droeland 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	179 137
1984/85*	107 454	827	1 981	230 000

* Beraamd/Estimated

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Tabel 3/Table 3

Produksiejaar 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	85,09	10,80	95,89
1984/85*	133,40	17,64	151,04

* Beraamd/Estimated

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Tabel 4/Table 4

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

Produksiejaar Production year	Produsent (katoenpluksel) Producer (seed cotton)	Verbruiker(katoenvesel) 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	67,3	237,50	173
1984/85	85,5*	290,00	220

* Voorskot prys/price

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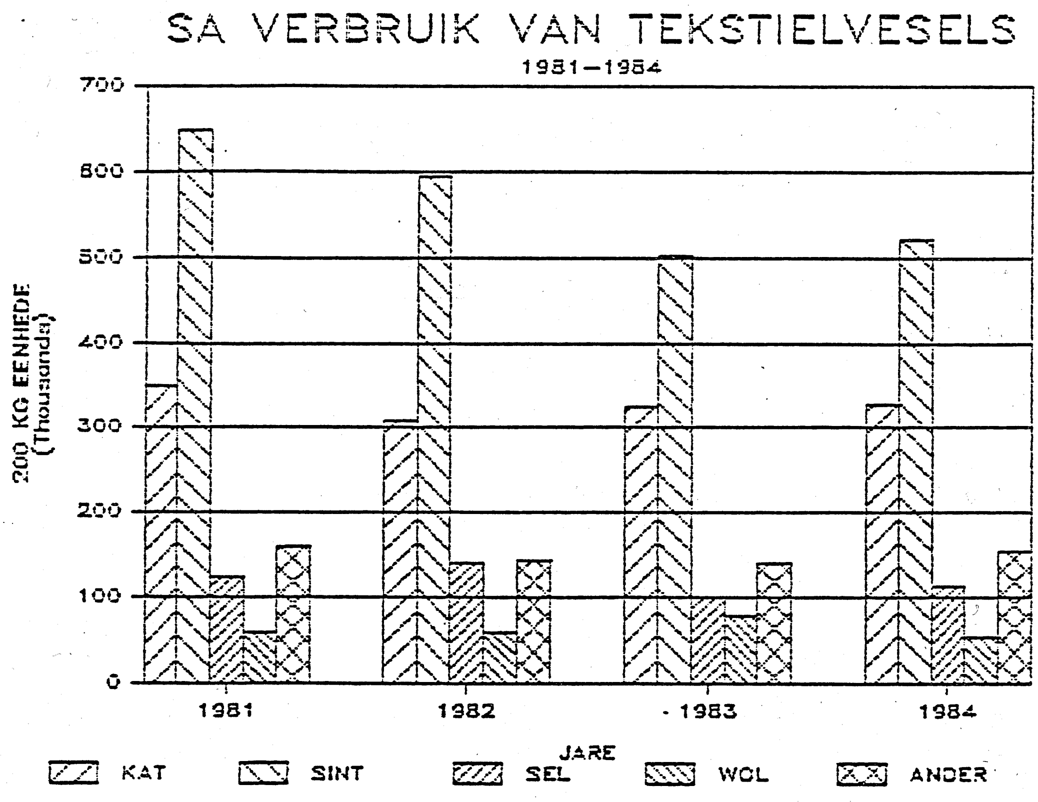

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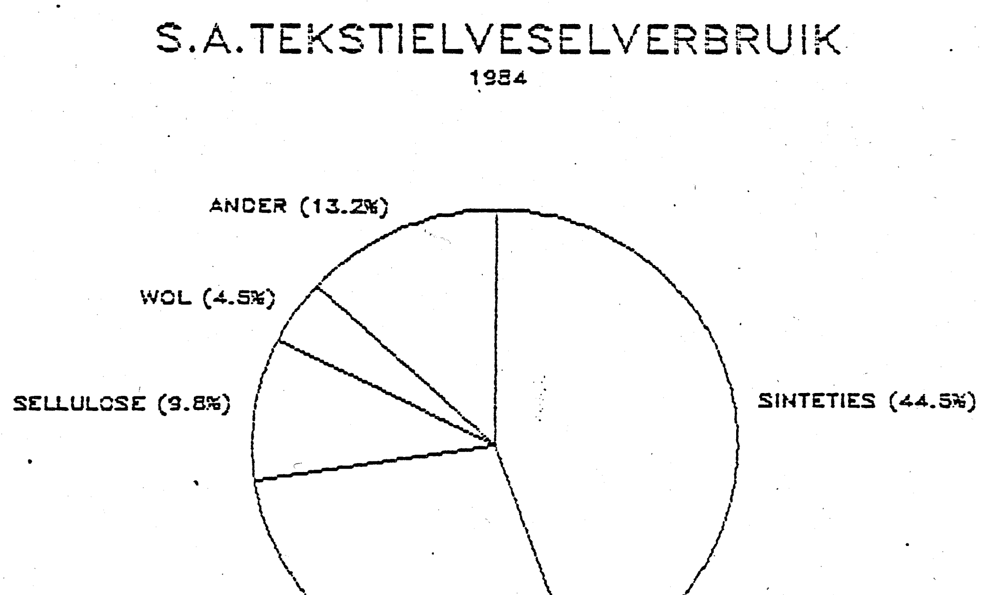

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WERELDVERBRUIK VAN TEKSTIELVESELS
1981–1983

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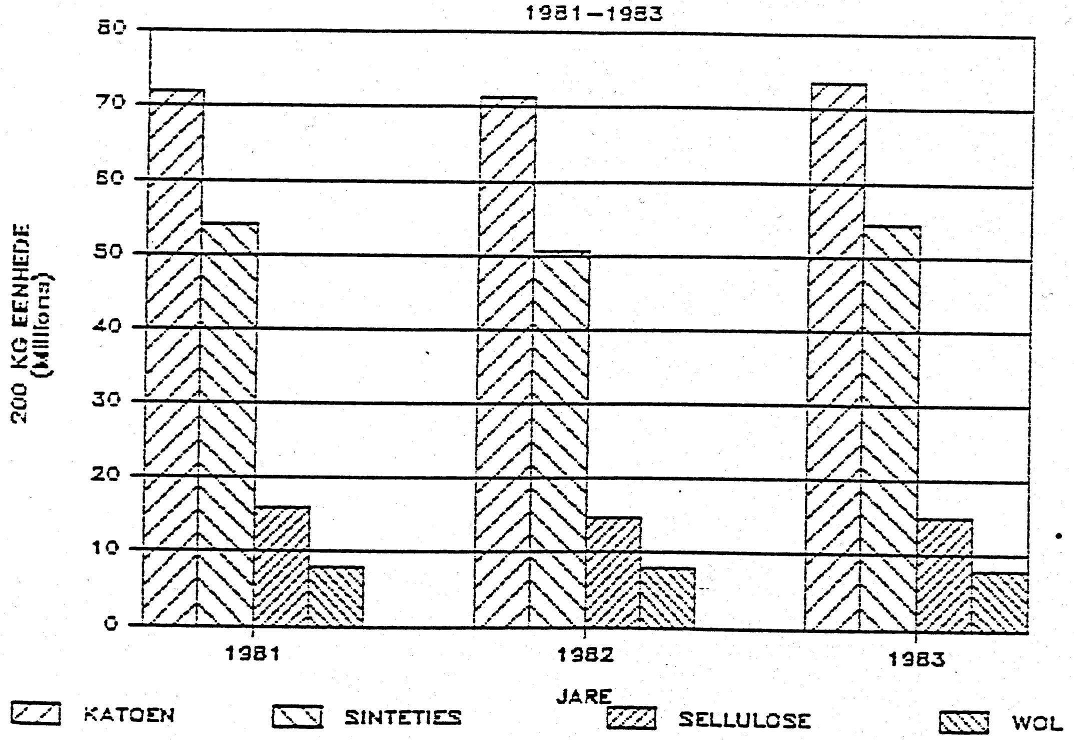

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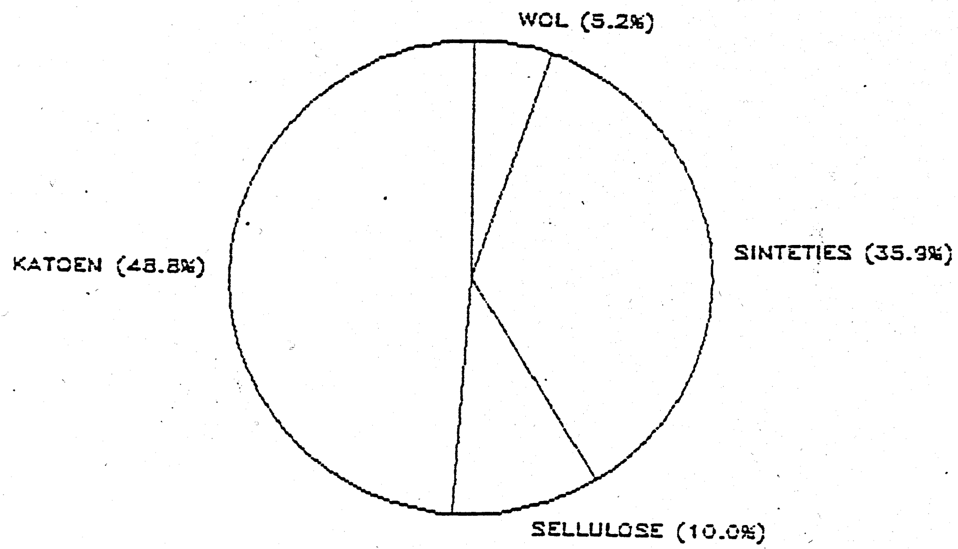
WERELDTEKSTIELVESELVERBRUIK
1983



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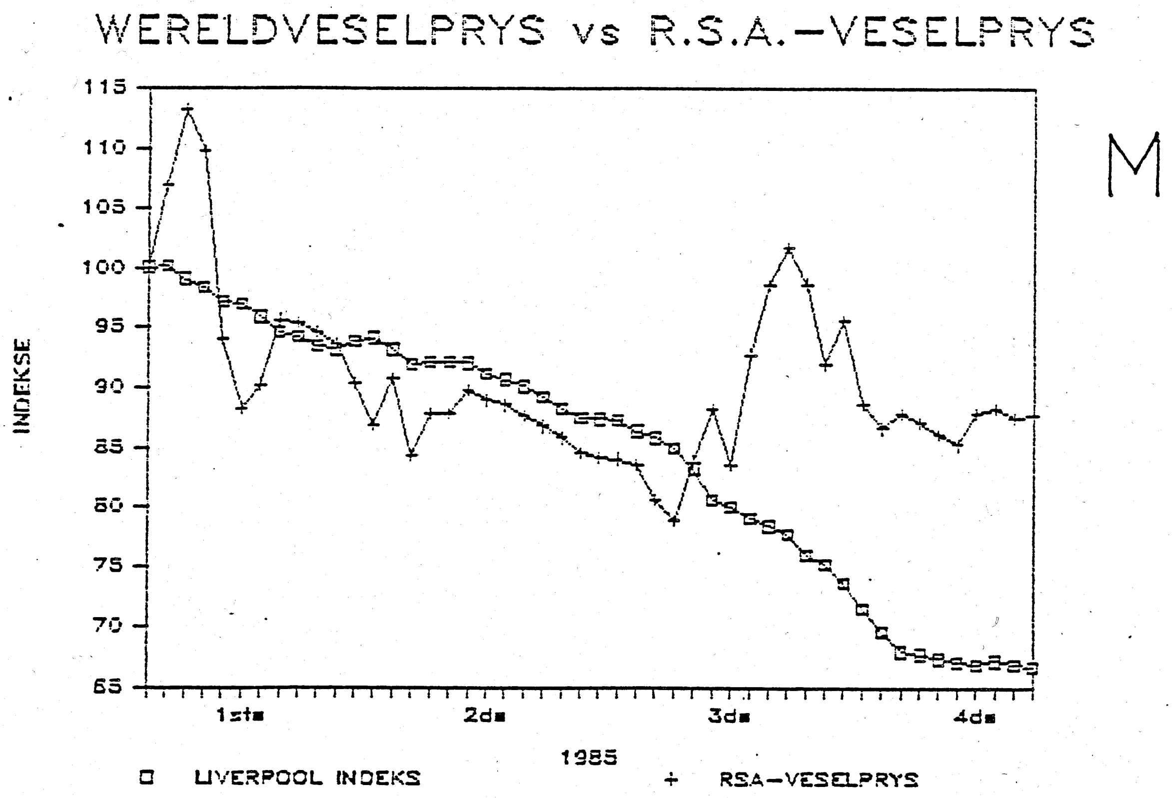

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