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LANDBOU-VOORUITSKOUINGSKONFERENSIE 1984

LANVOKON
AGROCON

'84

AGRICULTURAL OUTLOOK CONFERENCE 1984

PRESENTED BY -

- Agricultural Economics Association of South Africa
- Co-ordinating Committee of Agricultural Marketing Boards
- Department of Agriculture
- South African Agricultural Union

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OUTLOOK FOR COTTON: AGROCON - 1984

1. In retrospect

1.1 During Agrocon 1983 it was reported that owing to the declining interest in cotton growing the Cotton Board instituted stimulating measures in the form of price support. The announcement of these measures have, however, not had the desired effect because of -

1.1.1 the late announcement thereof;

1.1.2 the drought conditions that prevailed in all of the cotton growing areas;

1.1.3 the fact that notwithstanding the increase in the price to 60 c/kg seed cotton, cotton growing in most areas remained unprofitable.

1.2 Consequently production diminished further from 188 869 lint bales during 1981/82 to approximately 130 000 lint bales during 1982/83.

2. Production

2.1 Production areas

2.1.1 Cotton is mostly cultivated in the following areas -

Transvaal - Limpopo valley, North Eastern Transvaal Lowveld, Mid-Northern Transvaal, Loskop Scheme, South Eastern Transvaal Lowveld.

Cape Province - Upington, Vaalharts/Douglas area.

Northern Natal and Swaziland.

2.2 **Extend of production**

2.2.1 As you will have deduced from Tabel 1 of Schedule A a crop of 250 000 lint bales can be considered a normal crop - if 1978,79,80 and 81 is taken as the norm. During the previous two seasons crops of this extent could not be realised. Reasons for this being the following:

2.2.1.1 As will be seen later on the world lint price serves as basis for the fixing of the price for seed cotton - Schedule B indicates how this price fluctuates from year to year. This uncertainty in the level on which the local price will be fixed definitely does not serve as a stimulus;

2.2.1.2 the resultant lower production is alarming because of the fact that it reduces the throughput through the ginneries which causes ginning costs to increase unnecessarily. Escalating ginning costs have a direct adverse effect on the end realisation to the producer which causes further discouragement of cotton growing;

2.2.1.3 the severe drought that prevailed.

2.2.2 The latest indications are that the 1982/83 crop will realise only 130 000 lint bales against an expected consumption of approximately 300 000 lint bales.

2.2.3 At a ginning outturn of 35 % which is generally accepted within the industry the production of cotton seed for 1982/83 is estimated at 45 314 tons.

2.2.4 During 1982/83 cotton had been cultivated on only 105 287 ha against the 108 046 ha during 1981/82, i.e. a decrease of 2,6 %.

2.3 Gross value

2.3.1 As indicated in Table 2 of Schedule A the gross value of the crop diminished since 1980/81 from R116,41 million to the current estimated R57,07 million.

2.4 Production potential

2.4.1 According to Table 3 of Schedule A textiles and clothing to the value of R788 million was imported during 1982. According to Table 4 of that Schedule cotton's share therein will be ± 50,05 % i.e. R394,4 million. In terms of raw cotton this will mean an additional 225 000 lint bales which will bring the total local production potential to ± 565 000 lint bales during a normal year of consumption.

2.4.2 Because of the warm climate and the number of cloudless days experienced annually the extent of local cotton growing can be on par with this potential consumption with the necessary stimulation.

2.5 Production prospects

2.5.1 The early announcement of the minimum price (vide paragraph 4.2.5) for 1984/85 may possibly stimulate planting to such and extend that if favourable weather conditions prevail during the planting season, a crop of 250 000 lint bales and more should be realised.

3. Local and overseas markets

3.1 Local consumption

3.1.1 You would have deducted from Table 1 of Schedule A that in a normal year approximately 350 000 lint bales should be consumed with 1981/82 taken as the norm. Consumption during 1982/83 and 1983/84 was, however, closer to 300 000 lint bales. The reason for this may be directly ascribed to the serious recessionary circumstances in the grips of which the South African Textile Industry found itself during the previous two years.

3.1.2 Because of the fact that spinners are obliged under the Cotton Marketing Agreement,between spinners and ginners,to take up only 80 % of the previous years consumption no problems have been experienced with the marketing of the local crop of 130 000 lint bales.

3.2 Overseas market

3.2.1 During November 1982 the world lint price decreased sharply because of the vast stocks of cotton on hand on the world market. Since the beginning of the first quarter of 1983 these stocks diminished as a result of heavy purchasing by the U.S.S.R. resulting in a gradual increase in the cotton lint price.

3.2.2 As far as the current market situation is concerned the indications are that the American crop will only be 7,1 million lint bales against the normal 12 million lint bales.

It is further also significant that the world consumption of cotton is increasing to such an extent that textile mills in the U.S.A. are currently operating at 92 % of normal capacity.

3.2.3 Taking into account the above it may be stated that the world price for cotton lint during the 1984/85 marketing year will remain on the current high levels.

4. <u>Prices</u>

4.1 <u>For the current season</u>

4.1.1 The prices for seed cotton as well as cotton lint is reflected in Table 5 of Schedule A.

4.1.2 According to the Cotton Marketing Agreement the local cotton lint price is determined by taking the world price as basis mainly as follows;

4.1.2.1 During September of the previous year a minimum and maximum price is being negotiated with the August world lint price as basis. For the 1983/84 marketing year the minimum was fixed at 193 c/kg and the maximum at 207 c/kg;

4.1.2.2 the final price is determined during April of the year concerned in accordance with a formula which is again based on the world lint price namely the average of the price for the previous November and the price during March of the year concerned. For 1983/84 the minimum price of 193 c/kg was to be the ruling price seeing that the formula price was lower than this minimum for the average grade class Dirk A2. The effect of this was that producers could only be paid approximately 49 c/kg for his seed cotton - approximately 3 cents less than the price paid to him during the previous year.

4.1.3 This prompted the Cotton Board to approach Government for assistance which led to a payment to the producer together with a substantial contribution from the Board's Stabilisation Fund of an additional 10,65 c/kg seed cotton - the total payment to producers thus came to 60 c/kg for the best grade hand picked cotton.

4.2 <u>Outlook</u>

4.2.1 Because of the fact that the price for seed cotton is largely based on the world price of cotton lint it is essential to take note of conditions prevailing on the international market. A minimum and maximum price for the 1984/85 marketing year has already been negotiated during September 1983 with the August 1983 world price as basis.

4.2.2 Low world stocks caused the base price to be at such a level that the minimum price could be set at 225 c/kg cotton lint and the maximum to be set at 240 c/kg cotton lint.

4.2.3 As a result of the decrease in the American crop of 4,9 million lint bales and an expected firm increase in the consumption of cotton it is expected that the world price will remain high and shall remain so and that the formula price will eventually be set at more or less 230 c/kg i.e. an increase - of 20 % against the previous year.

4.2.4 Should favourable weather conditions be experienced during the 1983/84 plant season which will effect a higher throughput through the gins, the effect of the resulting lower ginning costs together with the higher world price may lead to producers being paid close to 70 c/kg for their seed cotton during the following season.

4.2.5 The Chairman of the Cotton Board has therefore already announced that producers will receive a payment (based on the minimum lint price of 225 c/kg) of at least 64 c/kg during the new season - i.e. 6,66 % above the price for seed cotton during the previous year.

5. <u>Substitution</u>

5.1 From Table 4 of Schedule A it is clear that cotton's share in the total world consumption of cotton as a result of the substitution thereof with artificial fibres gradually decreased since 1979. However, consumption again increased so that the total consumption of cotton as a percentage of the total fibre consumption, according to the latest available data is 50,05 %.

6. <u>Outlook</u>

6.1 Up to now there has almost been a total mis-appreciation of the importance of cotton growing for the Republic - Taking into regard the fact that 50 % of the activity of the textile industry is dependent on this summer crop.

6.2 Both the growing of cotton and the processing thereof in textile mills are labour intensive practises and if the extend of the total industry is expanded it may play a major role in the development of the population in the B.L.S.- and T.B.V.C.- countries as well as the areas bordering thereon Disregarding the lower Orange river. All the cotton growing areas are situated in these areas.

6.3 Reference has already been made to the alarming exodus from the industry by producers. To counter this phenomenon the Board endeavours to persuade the Government to be much more committed to the industry and has also decided to stabilise the fluctuations as far as the price is concerned by price support measures.

6.4 At the time of the writing hereof the average world lint price for the first two weeks of November was in excess of 230 c/kg which is indicative thereof that the Board's expectations of the local lint price of 230 c/kg is very much possible. Up to now the sales of seed indicates that if favourable climatic circumstances is experienced a normal crop will be on hand. The effect of the higher price and the higher production will result in the expectations for the following season being much more favourable compared with the actual conditions experienced during the current year.

6.5 As far as the long term is concerned the Minister of Agriculture decided to instruct the Jacobs-Committee to make recommendations concerning the making of structural adjustments over the longer term, financially as well as otherwise which may be necessary to place the industry on a continued sound basis with the view further to minimize Government involvement. At the time of the writing hereof the recommendations of this Committee is still being awaited.

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BYLAE A

STATISTIESE BYLAE/STATISTICAL ANNEXURE

TABEL 1/TABLE 1

JAAR/YEAR	PRODUKSIE/PRODUCTION	UITVOERE/EXPORTS 200 kg bale	INVOERE/IMPORTS	VERBRUIK/CONSUMPTION
1972/73	88 679	167 609	242 481	323 208
1973/74	200 492	54	150 959	283 567
1974/75	202 518	13 064	65 817	264 254
1975/76	92 122	-	210 000	303 000
1976/77	173 505	-	101 334	238 000
1977/78	255 000	21 682	50 840	244 435
1978/79	275 288	4 743	50 922	292 185
1979/80	325 071	1 000	60 668	328 236
1980/81	288 735	-	60 168	345 227
1981/82	188 869	-	100 449	307 790
1982/83	130 000*	-	170 000*	300 000*

*Beraam / Estimated

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TABEL 2/TABLE 2

Jaar/Year	Waarde katoenvesel/Value Cotton lint (R/m)	Waarde Saad/Value Seed (R/m)	Totaal/Total (R/m)
1972/73	9,67	1,53	11,20
1973/74	11,02	1,78	12,80
1974/75	45,03	4,24	49,27
1975/76	34,02	4,43	38,45
1976/77	21,19	2,61	23,80
1977/78	52,34	5,29	57,63
1978/79	66,43	7,77	74,20
1979/80	77,15	10,15	87,30
1980/81	102,77	13,64	116,41
1981/82	94,50	13,59	108,09
1982/83	63,15	9,30	72,45
1983/84	50,18	6,89	57,07

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TABEL 3/TABLE 3

1. TOTALE INVOERE VAN TEKSTIELGOEDERE EN KLERASIE/
TOTAL IMPORTS OF TEXTILE GOODS AND CLOTHING

Jaar/Year	R miljoen/R million
1978	362
1979	408
1980	530
1981	782
1982	788

2. PLAASLIKE VERKOPE VAN TEKSTIELGOEDERE EN KLERASIE/
LOCAL SALES OF TEXTILE GOODS AND CLOTHING

Jaar/Year	Klerasie/Clothing R miljoen/R million	Tekstiele/Textiles R miljoen/R million
1978	765	1 337
1979	897	1 554
1980	1 121	1 963
1981	1 379	2 271
1982	1 441	2 177

3. WERKGELEENTHEDE/
WORK OPPORTUNITY

Jaar/Year	Klerasie/Clothing	Tekstiel/Textile	Totaal/Total
November 1981	116 600	118 900	235 500
Tans/ Presently	111 300	109 700	221 000

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WORLD CONSUMPTION OF THE MOST IMPORTEND TEXTILE LINT - MILLION KILOGRAM

WêRELDVERBRUIK VAN DIE BELANGRIKSTE TEKSTIELVESELS - MILJOEN KILOGRAM

TABEL/TABLE 4

JAAR/ YEAR	KATOEN/ COTTON	WOL WOOL	SINTETIES/ SYNTHETICAL	SELLULOSE/ CELLULOSE	TOTAAL/ TOTAL	% KATOEN/ % COTTON
1975	12 790	1 357	7 353	2 959	24 459	52,29
1976	13 380	1 487	8 594	3 210	26 671	50,17
1977	13 098	1 448	9 149	3 281	26 976	48,55
1978	13 193	1 441	10 034	3 318	27 986	47,14
1979*	14 270	1 578	10 601	3 371	29 820	47,85
1980	13 924	1 610	10 476	3 242	29 252	47,60
1981	15 320	1 626	10 810	3 204	30 960	49,48
1982	14 697	1 616	10 100	2 949	29 362	50,05

Bron/Source:

Bron/Source:	Wol/Wool	- Market Intelligence; IWTD Wool Statistics
	Sinteties/Synthetical	- Wool Facts; Textile Organon
	Katoen/Cotton	- Wool Facts vanaf 1970/Since 1970; Wool Intelligence
	Sellulose/Cellulose	- Textile Organon; Wool Facts
	Sy/Silk	- Textile Organon

* I.W.S. London

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PRYSE/PRICES

TABEL/TABLE 5

JAAR/YEAR	KATOENVESEL/COTTON LINT	KATOENPLUKSEL/SEED COTTON
1972/73	58,89	
1973/74	62,15	
1974/75	112,29	
1975/76	84,00	
1976/77	115,00	
1977/78	150,83	48,5
1978/79	130,26	41,75
1979/80	140,12	45,50
1980/81	158,07	52,50
1981/82	163,64	52,50
1982/83	167,19	52,00
1983/84	193,00*	60,00

* Beraamd/Estimated

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PRODUKSIE: KATOENVESEL EN -SAAD
PRODUCTION: COTTON LINT AND -SEED

TABEL/TABLE 6

Oesjaar/Crop Year	Katoenvesel/Cotton Lint (200 kg bale/bales)	Katoensaad/Seed Cotton (ton)
1970/71	76 260	27 833
1971/72	82 070	29 953
1972/73	88 679	32 365
1973/74	200 492	73 173
1974/75	202 518	73 913
1975/76	92 122	33 622
1976/77	173 505	63 324
1977/78	255 000	93 067
1978/79	275 288	100 472
1979/80	325 071	118 641
1980/81	288 735	105 380
1981/82	188 869	65 834
1982/83	130 000	45 314

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PRYSE VAN S.A. KATOENVESEL EN PLUKSEL 1977/78-1983/84

PRICES OF S.A. COTTON LINT AND SEED COTTON 1977/78-1983/84

TABEL/TABLE 7

	Pluksel/Seed Cotton		Vesel/Lint	
Oesjaar/Crop Year	Prys/Price	Indeks/Index	Prys/Price	Indeks/Index
1977/78	48,50	100	150,83	100
1978/79	41,75	86,08	130,26	86,36
1979/80	45,50	93,81	140,12	92,90
1980/81	52,50	108,24	158,07	104,80
1981/82	52,50	108,24	163,64	108,49
1982/83	52,00	107,22	167,19	110,85
1983/84	60,00	123,71	193,00	127,96

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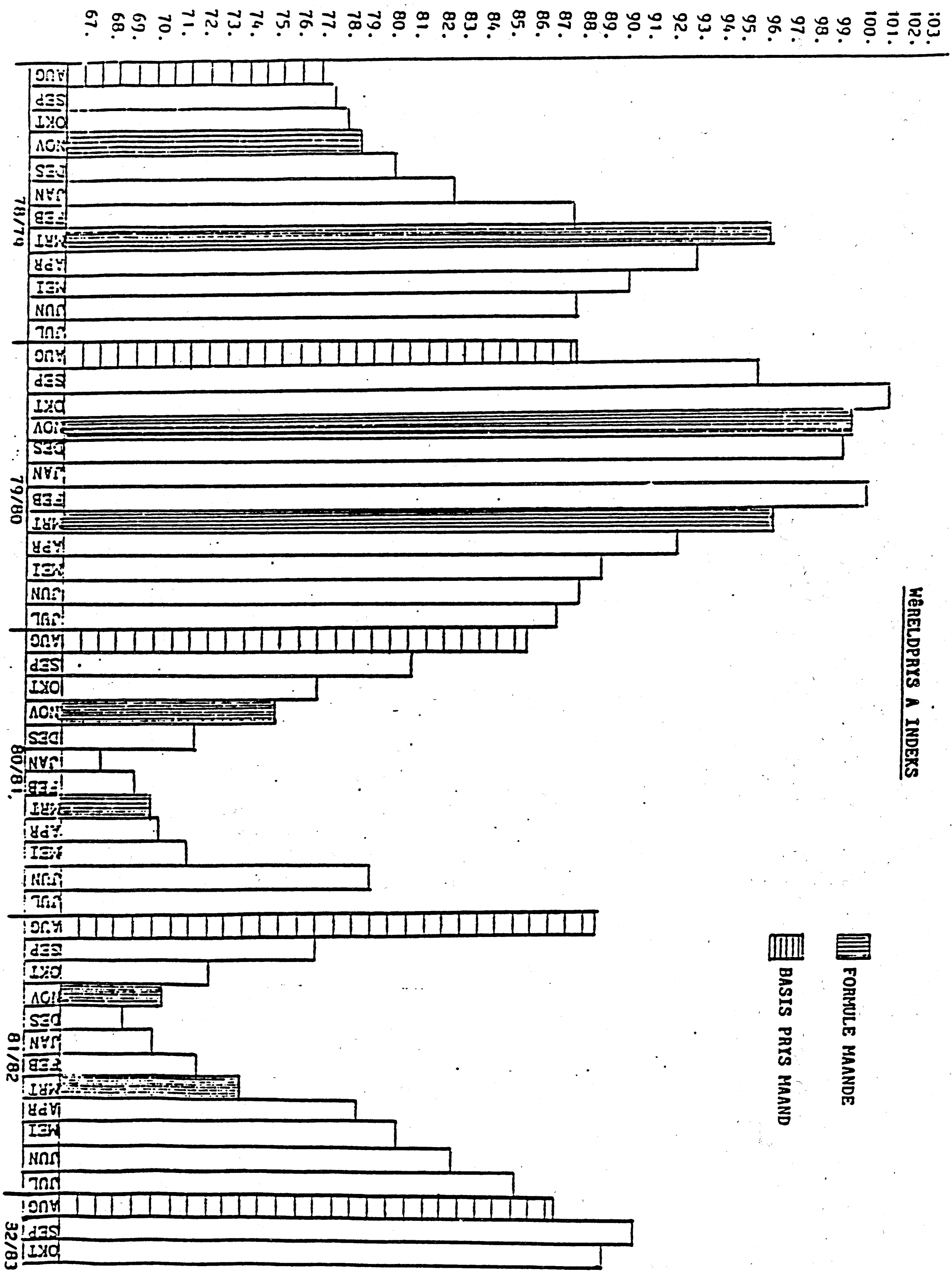
BYLAE B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