



# 74<sup>th</sup> Plenary Meeting of the INTERNATIONAL COTTON ADVISORY COMMITTEE

## MINUTES

### SECOND OPEN SESSION

#### World Cotton Market Report

9:00 hr. Tuesday, December 8, 2015

Chair by Dhiren Sheth, President of the Cotton Association of India

Presentations:

- “India Market Report” Manek Gupta (Glencore Grain India Pvt. Ltd., India)
- “Cotton Supply and Use, Part 1” Rebecca Pandolph (ICAC)
- “Cotton Supply and Use, Part 2” Lorena Ruiz (ICAC)
- “Government Support to the Cotton Industry” Andrei Guitchounts (ICAC)

The CHAIR invited Mr. Manek Gupta, cotton trader from Glencore Grain, to present a Market Report on India. The first half of Mr. Gupta’s presentation focused on production. The main conclusions included: the improvement in yields seen after the introduction of biotech cotton has tapered off in recent years; pest resistance is increasing; little scope exists for expanding production in the North and Central zones, while the Southern zone is less saturated and cotton can expand if competitive with other crops; the priority of the Indian government is on food crops, not cash commodities; and increases in yields will depend on interlocking factors (high density planting; high efficiency irrigation; and mechanization of picking). Unless dramatic changes occur, future production will range from 5.8 to 7.4 million tons. The second part of Mr. Gupta’s presentation focused on the trade and industrial use of cotton in India. Some important conclusions were: the yarn industry is becoming increasingly dependent on exports, especially to China; India needs to develop a value added sector to enable import substitution of greige and processed fabric for domestic use; norms for small- and medium-size enterprises in the knits sector must be relaxed in order to achieve economies of scale; and neighbors of India have significant competitive advantages because of access to cheap Indian raw material and benefit of duty free access to Europe/US for finished goods.

The CHAIR invited the ICAC Secretariat to present on cotton supply and use. Ms. Rebecca Pandolph, the ICAC Statistician, noted that a very strong historical correlation exists between prices prevailing during a given season and the planted area for the next season. In 2014/15, one of the most notable events that happened in the cotton sector was the significant drop in world cotton prices from 91 cents per pound to around 71 cents per pound. As a result, world cotton area is estimated to fall to a level just above 30 million hectares. In addition, farmers also take into consideration the prices of competing crops and cotton was not as attractive as competing crops in 2014/15, contributing to the decrease in world area. Ms. Pandolph pointed out that world cotton yields have been stable over the last ten years, averaging around 780 kg of lint per hectare, and there is no indication that yields will increase in the near future. World cotton production is forecast to fall by 12% to 23.1 million tons, and decreases are expected in all five top producing countries. India’s production may decrease by 4% to 6.3 million tons due to reduced plantings and pest problems. China is in its fourth consecutive season of declining production, and its volume in 2015/16 is projected to fall by 19% to 5.3 million tons. As a result of a lower production and an increase on mill use, world ending stocks are expected to fall by 6% to 20.7 million tons, which represents about 85% of the volume needed for world mill use in 2015/16. Ms. Pandolph stated that stocks in China are projected to be just under 12 million tons at the end of 2015/16, while stocks outside of China are forecast to decline by 4% to 8.7 million tons.

Ms. Lorena Ruiz, the ICAC Economist, presented a report on cotton imports, mill use, textile fibers consumption and prices. Ms. Ruiz pointed out that in 2015/16, world imports are projected to decline for the third consecutive year to 7.4 million tons, with imports from China falling 33% to 1.2 million tons, the lowest level since 2002/03, due to a reduction in the cotton import quota in 2015 and the end of the Chinese stockpiling policy implemented until 2013/14. Imports by other countries increased by 31% in the last four seasons, rising from 4.4 million tons in 2011/12 to 5.8 million tons in 2014/15. Cotton imports outside China will continue to grow by 6% in 2015/16. However, this increase will not offset the 33% decrease in China’s imports. As a result, world cotton imports may drop by 3% to 7.4 million tons. Ms. Ruiz stated that world cotton imports are dominated by a few countries and

concentration has been further intensified over the past two decades. In 2014/15, seven countries accounted for 76% of global imports. She also noted that world cotton consumption increased for the third consecutive year and reached 24.2 million tons in 2014/15. However, demand for cotton still remains sluggish and it is projected to increase by only 0.5% to 24.4 million tons in 2015/16. Since the steep decline in demand for textile goods in 2008, textile consumption has increased 31%, from around 66 million tons to an estimated 87 million tons in 2014. Although textile demand continues to expand, the slowdown in world economic activity has affected the growth rate of textile consumption, decreasing from 5% in 2013 to 3.8% in 2014. World cotton consumption per capita has been almost constant since 1960, while non-cotton fiber consumption per capita has increased from 1.6 kg to around 8.7 kg in the same period. As a result, world non-cotton fiber consumption per capita is currently 2.6 times greater than the corresponding level of cotton consumption. The Secretariat's long-term projections foresee that total cotton consumption will continue to grow, but the market share of cotton among all textile fibers will continue to decline, possibly to 24% by 2025. Ms. Ruiz also mentioned that world production of chemical fiber yarn increased for the sixth consecutive year and reached 61.6 million tons in 2014. The Secretariat forecasts that the Cotlook A Index would fall to a range between 62 to 82 cents/lb in 2015/16, with a midpoint of 70 cents/lb.

Mr. Andrei Guitchounts, the ICAC Director of Trade Analysis, presented a report on government measures affecting the cotton sector. Direct assistance to cotton is provided through direct support to production, border protection, crop insurance subsidies, minimum price support mechanisms, input subsidies and transport subsidies. In 2014/15, subsidies were provided in 12 countries and the value of these subsidies totaled US\$10.4 billion. The benefit (subsidy) received by producers in China as a result of the government interventions is estimated at \$3.3 billion in 2014/15, or 23 US cts/lb, compared with \$4.8 billion, or 32 US cts/lb, in 2013/14. Several countries use a minimum support price mechanism. One example was India, where the J-34 cotton variety was set at a minimum price of Rs. 3900 per 100kg of seed cotton (US\$0.85/lb) in 2014. As domestic prices in India stayed below the MSP during 2014/15, the Cotton Corporation of India, an agency of the central government, and state cotton organizations directly purchased an estimated 1.6 million tons of cotton at MSP prices as of May 30, 2015, at an estimated cost of \$2.9 billion. In the European Union, both Greece and Spain receive direct assistance and Spain has the high per-unit level of assistance of 44 cents/lb. Turkey provided US\$508 million in assistance in the form of a premium for high quality seed cotton. China's level of assistance far exceeded that of the other eleven countries that received assistance in 2013/14 and 2014/15. In African countries, like Burkina Faso, assistance often took the form of input subsidies.

The Session was adjourned at 10:35 AM