



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

## MINUTES

### SECOND OPEN SESSION

#### World Cotton Market Report

9:00 hr. Tuesday, November 1, 2016

Mr. Hassan Iqbal, Federal Secretary, Ministry of Textile Industry, Government of Pakistan in the Chair

#### Presentations:

- Dr. Muhammed Ali Talpur, Director Marketing & Economic Research, Pakistan Central Cotton Committee
- Rebecca Pandolph, ICAC
- Andrei Guitchounts, ICAC
- Rafiq Chaudhry, ICAC

The CHAIR presented a welcome address and opening remarks and invited Dr. Muhammed Ali Talpur, Director Marketing & Economic Research of the Pakistan Central Cotton Committee, to deliver his presentation.

Dr. Talpur started his presentation by showing the historical growth in the area planted to cotton in Pakistan, which had increased from one million hectares to about 2.8 million hectares from 1947/48 to 2015/16. Punjab is the largest producing province, accounting for 80% of the total area planted in Pakistan. In 2015/16, the cotton area decreased slightly due to some technical reasons. The combination of lower area and yields, as well as the increased cost of production at the farm level, were the main factors behind the decline of production of cotton in Pakistan. Dr. Talpur presented the cotton market structure in Pakistan, which was composed of growers, commission agents, ginning factories, spinning mills, cotton yarn, exporters, and local textile industry. Dr. Talpur presented the evolution of seed cotton prices since 2006/07 and noted that the Pakistan cotton sector followed international cotton prices. Pakistan had produced more than three million tons of cotton yarn in 2013/14 and 2015/16. However, in 2015/16 production dropped to just over 1.5 million tons. Dr. Talpur finished his presentation with a report on the cotton balance sheet in Pakistan.

Ms. Rebecca Pandolph, the ICAC Statistician, made a presentation on cotton supply and use. She noted that a very strong historical correlation exists between prices prevailing during a given season and the planted area for the next season. In 2015/16, despite cotton prices remaining similar to the previous season, cotton area had continued to fall. One of the factors affecting how much cotton is produced worldwide is the prices of cotton and competing crops at planting time in the northern hemisphere, which accounts for 90% of total production. Ms. Rebecca noted that the world average yield increased from 600 kilograms per hectare in the 1990s to around 800 kilograms between 2000 and 2006. In 2016/17, cotton yields are expected to increase in most of the main producing countries; as a result, world cotton production will rise to 22.4 million tons. India will account for 26% of the total production, follow by China (20%), the USA (16%), Pakistan (8%), and Brazil (6%).

Ms. Pandolph pointed out that the USA will continue to be the largest exporter of cotton, follow by India, countries in Francophone Africa, Brazil, Uzbekistan, and Australia. World cotton imports are mainly exported to Asia. In 2015/16, both Bangladesh and Vietman had surpassed the quantity of cotton imported by China. Consumption in China has declined since 2009/10 season and is now projected to account for 30% of global consumption. In 2016/17, world cotton consumption is forecast to remain at the same level as the previous season, while cotton production is expected to increase to 22.4 million tons. This would be the second consecutive season in which consumption would exceed production. Ms. Rebecca noted that as a result of a lower production and similar mill use, world ending stocks are expected to fall to 18 million tons.

The chair opened the floor to questions. A participant from the audience asked the reasons behind the decline of

cotton prices. Dr. Talpur noted that Pakistan prices follow international price trends. Ms. Pandolph noted that from the global perspective, the fall in prices was mainly caused by the end of the stockpiling policy in China in the spring of the 2014. A participant from the audience suggested that ICAC's report called *Cotton This Month* should focus more on planted area and be released on a fortnightly basis. Ms. Pandolph commented that the secretariat produces a weekly report (*Cotton This Week*), which includes current estimates of world cotton supply and demand, as well as a quarterly report (*Cotton: Review of the world situation*) that provides a detailed analysis of the world cotton market.

Andrei Guitchounts, the ICAC Director of Trade Analysis, presented ICAC's annual report on government measures supporting the cotton sector. Direct assistance to cotton was provided through direct support to production, border protection, crop insurance subsidies, minimum price support use and minimum support price mechanisms. These were estimated at US\$7.2 billion in 2015/16, down 30% from a record of US\$10.7 billion in 2014/15. Mr. Guitchounts also noted that there is a strong negative correlation between subsidies and cotton prices: in years in which prices are high, subsidies tend to decline and in years when prices are low, subsidies tend to rise. The share of world cotton production receiving direct government assistance increased from an average of 55% between 1997/98 and 2007/08, to an estimated 83% in 2008/09. During 2009/10 through 2013/14, this share declined and averaged 48%. In 2014/15 the proportion of production receiving direct assistance increased to 76%. The share declined to 71% in 2015/16.

Mr. Guitchounts stated that the benefit (subsidy) received by producers in China as a result of the government interventions is estimated at \$5.3 billion in 2015/16, or 50 US cts/lb, compared with \$8.2 billion, or 57 US cts/lb, in 2014/15. For the USA, the sum of all types of support provided to cotton producers, including crop insurance, STAX, LDP, MLG and the Cotton Ginning Cost-Share program, is estimated at \$1.1 billion or 18 cts/lb in 2015/16, compared with \$860,000, or 11 cts/lb provided in 2014/15. Several countries used a minimum support price mechanism. In India, the minimum support price (MSP) for 2015/16 was increased to Rs 4,000 per 100kg of seed cotton, equivalent to 80 cts/lb of lint, at the season-average exchange rate. Based on the difference between the procurement price and the value of the government stock at market prices, it is estimated that the cost of MSP operations to the Indian government could reach \$51 million. In the European Union, both Greece and Spain receive direct assistance and Spain has the high per-unit level of assistance of 55 cents/lb. Turkey provided US\$381 million in assistance in the form of a premium for high quality seed cotton.

The delegate from BRAZIL expressed his concerns about the incentives given by the government of the USA to cotton growers in 2015/16 seasons. According to the secretariat report, the benefit received by producers in the U.S increased from 11 cents per pound to 18 cents per pound. Mr. Guitchounts responded that the estimates are calculated from the reports provided by the US Department of Agriculture, and that the report includes the USDA Farm Service Agency (FSA) subsidy of \$300 million in cost-share assistance payments to cotton producers through the new Cotton Ginning Cost-Share program.

Dr. Rafiq Chaudhry of the Secretariat presented a report on costs of cotton production in 2015/16. He started his presentation from the conclusion, based on the average of 31 countries that represented 87% of world cotton area in 2015/16, that the net cost of production of cotton had declined to US\$1.16/kg of lint in 2015/16. The decline in cost of production was due to higher price of seed received after ginning, lower costs of insecticides/plant protection and the lower cost of picking and ginning in 2015/16. The cost of production per kilogram of seedcotton produced declined in 2015/16 to US\$0.46 compared to US\$0.52 in 2012/13. Dr. Chaudhry stated that the most expensive input in 2015/16 was the cost of fertilizers, which was US\$0.27/kg of lint produced. The second most expensive component of cost of production was picking. Dr. Chaudhry observed that production under irrigated conditions had a higher cost per hectare but that the cost per kilogram is lower under irrigated conditions, i.e. US\$1.05 as compared to US\$1.20/kg on the average of non-irrigated area. Dr. Chaudhry also presented data showing that average yields between biotech and non-biotech groups of countries were equal, but the net cost of production was lower in countries producing biotech cotton compared to the group of countries that produce conventional varieties. The net cost of production among the seven most important cotton-growing countries (excluding Uzbekistan which did not participate in the survey) is highest in the USA, where the cost of producing one kilogram of lint was US\$1.88. In China, the net cost of production was US\$1.70 per kg in 2015/16. Production costs were lowest in India. Brazil spends 5 to 6 times more on insecticides compared to other major countries. China spends more money on fertilizers than any other country among the 7 major producers.

In response to a question from the delegate of PAKISTAN, Dr. Chaudhry stated that average yields in the world

are in a period of slow/low growth. He observed that small increases in yields will continue to come, but that any significant increases in yields are expected to come from biotechnology. Features that could have a significant impact on yields are fertilizer-use-efficient and drought-tolerant cottons. In response to another question from the delegate of TURKEY, Dr. Chaudhry said that the substantial increases in yields in India following the adoption of biotech cotton were due to the combined effect of many factors, with biotech cotton being just one of them. As such, the Bt gene in insect-resistant biotech cotton has no genetic reason to produce higher yields. The delegate of PAKISTAN enquired as to the reason for the higher cost of production in Pakistan compared to India, which Dr. Chaudhry related to higher pest pressure in Pakistan.

The Session was adjourned at 12:30 PM