



*Vereniging ingelyf kragtens Artikel 21 / Association incorporated under Section 21*

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## **- SOUTH AFRICA - ECONOMIC INJURY DUE TO LOW COTTON PRICES**

### **SUMMARY**

Estimates for the 2002/03 marketing season (1 April 2002 to 31 March 2003) indicate a total expected crop of 19 760 tons which is 45% down from the previous season's total crop and the smallest in 9 years. This is mainly due to an estimated 45% decrease in RSA hectares because of the poor price prospects during planting time. Many cotton hectares (irrigation and dry land) have been planted to maize, wheat and sunflower due to more attractive returns from these crops in relation to cotton.

Hectares planted to cotton are very price sensitive and react immediately to changes in the A index. As a rule, irrigation hectares respond more drastically to low or high prices due to the fact that these farmers usually have the option of planting a variety of other summer field crops. For many dryland farmers, the option of alternative crops is very limited and they have little choice but to stick with cotton even though prices may be low. Were it not for the ever worsening Rand/Dollar exchange rate from the South African viewpoint, which in recent years in part compensated for low dollar prices, declines in hectares could have been much worse.

Due to the decline in utilization because of the drop in prices in recent years, ginners were forced to rationalize and temporarily close down processing plants. Similarly, cotton spinning plants were also closed down.

The expected small crop for the coming season, is estimated to have caused a farm employment job loss for about 25 000 labourers who in most cases are the sole breadwinners of households of 4 or more.

Farm income for the coming season is expected to decline by about 38% whilst ginning income is estimated to decline by about 33%. Little growth has been experienced by these sectors over recent years. The low international prices have to a certain extent been to the benefit of spinners, due to the fact that the RSA on average have up to now had to import between 50% and 60% of its cotton requirements.

## **OVERVIEW OF THE COTTON SECTOR SINCE 1998**

### **1998/99 Marketing year (1 April to 31 March)**

**Production** of cotton lint by RSA and Swaziland ginnerers totalled 42 381 tons, up 36% from that of the previous year, mainly due to a 28% increase in irrigation hectares as well as improved yields.

Cotton lint **consumption** by RSA and Swaziland spinning mills decreased by about 17% over that of the previous year, to 69 463 tons. Spinning mills **imported** 38 000 tons of cotton lint, 27% down from the previous season, with Zimbabwe being the main supplier, accounting for about 45% of the total imports.

For the first time since 1991/92, significant quantities of cotton lint was **exported**, 11 113 tons in total, the most yet.

As far as the local **textile** sector was concerned, local production of yarns and fabrics showed a decline whilst imports increased. As a result of the higher interest rates, local demand for textiles softened.

### **1999/00 Marketing year (1 April to 31 March)**

**Production** of cotton lint by RSA and Swaziland ginnerers totalled 53 144 tons, up 25% from that of the previous year, mainly due to a 54% increase in irrigation hectares, as many grain farmers switched to other crops such as cotton because of low international grain prices at the time.

Cotton lint **consumption** by RSA and Swaziland spinning mills increased by about 8% over that of the previous year, to 75 058 tons, but was still 10% less than the 1997/98 record consumption of 83 610 tons. Spinning mills **imported** 29 185 tons of cotton lint, 23% down from the previous season. Zimbabwe and Zambia were still the main suppliers, accounting for about 73% of total imports.

**Exports** of cotton lint amounted to 6 139 tons, 45% less than the record exports of the previous season.

A **free trade agreement** between countries within the Southern African Development Community (SADC) came into effect in January 2000 with the R1.60/kg duty being scaled down to R1.20/kg with regard to imports from SADC countries. South Africa committed itself to phase out its tariff on cotton from SADC countries in equal instalments in five years.

As far as the local **textile** sector was concerned, turnover was lower than in 1998, mainly due to the effects of the Asian financial crisis, which saw low cost imports hurting domestic sales.

### **2000/01 Marketing year (1 April to 31 March)**

**Production** of cotton lint by RSA and Swaziland ginnerers totalled 29 604 tons, down 44% from that of the previous year. mainly due to a 49% decline in total hectares

planted to cotton (66% less hectares under irrigation) mainly due to the low international prices which prevailed during planting time towards the end of 1999. The favourable climatic conditions that prevailed in all production areas for most of the growing season were responsible for an increase in both irrigation and dryland yields of 13% and 41% over that of the previous season.

Cotton lint **consumption** by RSA and Swaziland spinning mills fell back to levels of five years ago mainly due to increased textile and garment imports. The total consumption of 65 115 tons, 13% down from the previous year, was 22% less than the 1997/98 record consumption of 83 610 tons. Spinning mills **imported** 29 722 tons of cotton lint, more or less the same as for the previous season. Zimbabwe and Zambia were still the main suppliers, now accounting for about 86% of total imports.

Due to the lower production and low international prices, only 1 256 tons of cotton lint was **exported** in 2000/01.

In terms of the **free trade agreement** between SADC countries, the duty applicable to these countries was reduced to R0.90/kg on 1 January 2001.

As far as the local **textile** sector is concerned, turnover was higher than the previous year whilst imports increased.

#### **2001/02 Marketing year (1 April to 31 March)**

**Production** of cotton lint by RSA and Swaziland ginnerers is estimated at about 35 900 tons, 21% up from the previous season. The increase can mainly be attributed to an estimated 77% increase in irrigation hectares due favourable price prospects at planting time in 2000.

Cotton lint **consumption** is expected to recover to about 73 000 tons, with about 50% of spinners' cotton requirements being **imported**. No cotton lint is expected to be **exported**.

In terms of the **free trade agreement** between SADC countries, the duty applicable to these countries was reduced to R0.60/kg on 1 January 2002.

The South African **textile** industry is on the upturn despite the closure of some textile mills and growth is expected due to increased exports with the assistance of AGOA.

#### **2002/03 Marketing year (1 April to 31 March)**

The 1<sup>st</sup> **estimates** indicate a total crop of 19 760 tons (RSA and Swaziland ginnerers) which is 45% down from the previous season's total crop and the smallest in 9 years. This is mainly due to an estimated 45% decrease in RSA hectares because of the poor price prospects during planting time. Many cotton hectares (irrigation and dry land) have been planted to maize, wheat and sunflower due to more attractive returns from these crops in relation to cotton.

Cotton lint **consumption** is projected to remain the same as the previous year, with

more than 70% of spinners' cotton requirements being **imported** mainly from Zimbabwe and Zambia.

In terms of the **free trade agreement** between SADC countries, the current duty of R0.60/kg applicable to these countries will be further reduced on 1 January 2003 with a zero duty a year later.

## **IMPACT ON PRODUCTION**

### **IMPACT OF INTERNATIONAL PRICES ON SOUTH**

Marketing Year*	AVERAGE A IN		RSA TOTAL HECT		RSA TOTAL PROD	
	At plant time (R/kg)	% Char over previc seas	Tot: hectai	% Char over previc seas	Tot: produc (ton)	% Char over previc seas
1995/96	R 5.8		5413		2147	
1996/97	R 7.4	26%	9041	67%	3769	76%
1997/98	R 7.6	4%	8297	-8%	2418	-36%
1998/99	R 8.1	6%	8993	8%	3450	43%
1999/00	R 7.9	-3%	9861	10%	4492	30%
2000/01	R 6.5	-18%	5076	-49%	2458	-45%
2001/02	R 10.1	57%	5669	12%	3150	28%
2002/03	R 7.8	-23%	3110	-45%	1627	-48%

\* 1 April to 31 March

\*\* October average converted to RSA Rand

As can be seen from the above table, hectares planted to cotton are very price sensitive and react immediately to changes in the A index, expressed in Rand terms. As these prices move up or down during planting time, hectares planted to cotton respond accordingly.

As a rule, irrigation hectares respond more drastically to low or high prices due to the fact that these farmers usually have the option of planting a variety of other summer field crops, the returns of which may be more attractive at planting time. A point in case, is during October last year with cotton prices at the lowest levels in 29 years but with maize and sunflower seed prices at record high levels, which resulted in cotton irrigation hectares decreasing by 51%.

Because of the higher yields obtained from irrigation cotton, a multiplying effect on production can be observed in some years. For many dryland farmers, the option of alternative crops is very limited and they have little choice but to stick with cotton even though prices may be low. The majority of small scale emerging farmers in the RSA falls in this category.

Were it not for the ever-worsening Rand/Dollar exchange rate from the South African viewpoint, which in recent years in part compensated for low dollar prices, declines in hectares could have been much worse.

## **IMPACT ON RELATED INDUSTRIES**

### **IMPACT ON UTILISATION OF GINNING CAPACITY**

<b>Marketing Year</b>	<b>ANNUAL GINNING CAPACITY* (Tons lint)</b>	<b>ANNUAL PRODUCTION (Tons lint)</b>	<b>ANNUAL UTILISATION*</b>
<b>1995/96</b>	53800	24063	45%
<b>1996/97</b>	53800	44634	83%
<b>1997/98</b>	53800	31134	58%
<b>1998/99</b>	53800	42381	79%
<b>1999/00</b>	53800	53144	99%
<b>2000/01</b>	55800	29604	53%
<b>2001/02</b>	55800	35900	64%
<b>2002/03(est.)</b>	55800	19699	35%

\* Calculated at 107.5 bales per hour working capacity, 250 working days p.a. & one 10 working hour shift.

From the above table the variation in annual output from RSA gins can be clearly seen. Production is closely linked to hectares planted, which in turn is affected by prices. Due to the decline in utilization because of the drop in prices in recent years, ginners were forced to rationalize and temporarily close down processing plants. At the beginning of the 1999/00 marketing season there were 5 ginning companies operating 8 plants in the RSA. In the following season two of these plants were closed, in 2001/02 another was temporarily closed and in 2002/03 a further plant is to be temporarily closed.

Similarly, cotton spinning plants were also closed down, two during the 1999/00 marketing season and a further two in 2000/01.

## **IMPACT ON EMPLOYMENT**

### **IMPACT ON FARM EMPLOYMENT**

<b>Marketing Year</b>	<b>RSA Total hectares</b>	<b>Estimated no. of farm labourers</b>	<b>Change over previous season</b>	
			<b>%</b>	<b>Number</b>
<b>1995/96</b>	54134	54134		
<b>1996/97</b>	90418	90418	67%	36284
<b>1997/98</b>	82971	82971	-8%	-7447
<b>1998/99</b>	89939	89939	8%	6968
<b>1999/00</b>	98619	98619	10%	8680
<b>2000/01</b>	50768	50768	-49%	-47851
<b>2001/02</b>	56692	56692	12%	5924
<b>2002/03(est.)</b>	31106	31106	-45%	-25586

The estimated impact on farm employment due to the change in cotton hectares is illustrated in the above table. The number of labourers are conservatively calculated at 1 farm labourer per hectare, which includes permanent as well as casual labour. It should be noted that these farm labourers are in most cases the sole breadwinners of households of 4 or more.

Employment changes in other sectors due to the change in cotton hectares are not known.

## **IMPACT ON INCOME BY SECTOR**

### **IMPACT OF INTERNATIONAL PRICES**

Market Year	R€		TOTAL FARM		Ginn ann produ (tons)	TOTAL GINNER		
	Tot produ (to seed c	Aver prod pri (R/k	Tot far val R mil	% Ch ov previ seas		Aver lir pri (R/k	Tot lir val R mil	
1995/96	613	R 1.	R 11		240	R 6.	R 15	
1996/97	376	R 2.	R 8	-2%	446	R 7.	R 33	11%
1997/98	241	R 2.	R 5	-3%	311	R 7.	R 24	-2%
1998/99	345	R 2.	R 8	4%	423	R 8.	R 34	3%
1999/00	449	R 2.	R 11	3%	531	R 8.	R 43	2%
2000/01	245	R 2.	R 5	-5%	296	R 7.	R 22	-4%
2001/02	315	R 2.	R 7	4%	359	R 9.	R 32	4%
2002/03	162	R 3.	R 4	-3%	196	R 11	R 21	-3%

The above figures show the extent to which farm income has decreased and will still decrease, not only in absolute terms but in real terms as well. Similarly ginner have experienced little growth. Again the recent worsening in the Rand/Dollar exchange rate from the South African viewpoint, will prevent farm and ginner income from reaching all time low levels in the coming season.

## **IMPACT ON THE VALUE AND VOLUME OF EXPORTS AND IMPORTS**

### **IMPACT OF INTERNATIONAL PRICES ON SOUTH AFRICA**

Market Year	RS		TOTAL IMPORT		RS Tot expo (ton	TOTAL EXPORT		
	Tot cotton impo (ton	Aver price (R/k	Tot imp val R mil	% Ch ov previ seas		Tot expo val R mill	% Ch ov previ seas	
1995/96	462	R 7.	R 34		0	R 0.	R 0	
1996/97	314	R 7.	R 24	-2%	0	R 0.	R 0	
1997/98	518	R 8.	R 41	6%	0	R 0.	R 0	
1998/99	380	R 8.	R 30	-2%	111	R 8.	R 8	
1999/00	291	R 7.	R 21	-3%	61	R 7.	R 4	-5%
2000/01	297	R 9.	R 29	4%	12	R 9.	R 1	-7%
2001/02	360	R 9.	R 33	1%	0	R 0.	R 0	
2002/03	530	R 11	R 58	7%	0	R 0.	R 0	

\* Actual import and export prices unknown - average A index used

The low international prices have to a certain extent been to the benefit of spinners, due to the fact that the RSA on average have up to now had to import between 50% and 60% of its cotton requirements. This benefit has however been cancelled out to a great extent due to the recent poor performance of the Rand against the Dollar.

**LEVEL OF ADDED GOVERNMENT EXPENSES AS A RESULT OF LOW PRICES**

The South African cotton industry receives no financial assistance from government.

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*Cotton SA*  
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