

## The Cotton Market Situation

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### Overview

The world cotton market as of early September 1997 appears to be in a period of relatively close balance between supply and use. World cotton production is estimated at 19.7 million tons in 1997/98 and 19.8 million tons in 1998/99, while consumption is climbing to an estimated 19.4 million tons this season and to 19.7 million next season. The differences between forecasts of world production and consumption are relatively narrow, and the ratio of ending stocks to use outside China (Mainland) is not expected to change substantially, implying little movement in season average prices during 1997/98 and 1998/99. The forecast balance between world production and consumption is not a coincidence, but reflects an underlying relationship fundamental to the world outlook. World production is being held in check by farmers' difficulties in raising yields, and growth in consumption is being limited by a tightness in cotton supplies in many markets.

Based on current estimates of cotton supply and use and net trade by China (Mainland), a 1997/98 average Cotlook A Index of 83 cents per pound is indicated by the Secretariat's statistical model, and the indicated average for 1998/99 is 80 cents per pound. Neither estimate is statistically different from the 1996/97 actual average of 79 cents per pound. Since 1973/74, the average year-to-year change in annual averages of the Cotlook A Index has been 19%; the change estimated between 1996/97 and 1997/98 of just 6% implies a continuation of the recent period of lessened price volatility.

The upland cotton price spread has not changed substantially during the early portion of 1997/98. The upland price spread is measured as the difference between quotes in *Cotton Outlook* for SJV cotton at the top of the upland category and the Cotlook B Index. The price premium for California/Acala SJV fell to 11% above the Cotlook A Index during the first six weeks of 1997/98, compared with an average premium of 14% in 1996/97 and 21% in 1995/96. Three-fourths of world ending stocks in the fine category are accounted for by stocks building up in China (Mainland) since 1994/95 as a result of a government policy encouraging an increase in stocks, domestic taxes on consumption and the logistics of transportation to textile mills from a distant region. If policies in China (Mainland) change to encourage increased use and reduced stocks of cotton from Xinjiang, mill use in China (Mainland) of fine cotton could rise, exports could be encouraged and imports discouraged. An estimated 30% of the 750,000 tons imported by China (Mainland) in 1996/97 was in the fine category, and perhaps two-thirds of the fine cotton imports consisted of SJV from the USA. An apprehension about the possibility of reduced SJV exports to China (Mainland) in 1997/98 may underlie the decline in the SJV premium in Cotlook quotes during the first part of this season.

At the lower end of the upland category, world production of coarse count, or Texas/Oklahoma type, cotton will probably increase substantially during 1997/98 and is estimated at 5.6 million tons, 10% greater than in 1996/97 and about the same as in 1995/96. While some of the increase in production will be accounted for by larger consumption in the producing countries, more coarse count cotton will be available for export in 1997/98 than was the case in 1996/97. As a consequence, the discount of the Cotlook B Index below the Cotlook A Index may increase this season. During the first six weeks of 1997/98, the difference between the A and B Indexes averaged 6% of the Cotlook A Index, compared with an average difference during the last two seasons of 5% and a difference of just 2% in 1994/95. The average discount

during 1997/98 could climb toward 10%, suggesting an average Cotlook B Index as low as 75 cents in 1997/98. With the SJV premium over the Cotlook A Index falling, while the discount for the Cotlook B Index is increasing, the band of prices above and below the Cotlook A Index is shifting down in 1997/98, and the upland price spread between SJV and the Cotlook B Index seems likely to remain near 15 cents per pound, approximately the same as in 1996/97.

Because of increased beginning stocks in Egypt and the likelihood of increased world production of extra-fine cotton in 1997/98, the price outlook in the extra-fine sector is weak. The average quote in *Cotton Outlook* for American Pima fell from \$1.70 per pound in 1995/96 to \$1.23 in 1996/97, and the average quote during the first six weeks of 1997/98 has been \$1.12 per pound. Initial prices for Egyptian cotton are between 5% and 11% lower than in 1996/97.

### **China (Mainland) Imports Could Decline**

Increased imports by China (Mainland) were responsible for more than half of the rise in world prices during 1994/95 when the Cotlook A Index exceeded US\$1 per pound, and China (Mainland) imports helped to maintain the Cotlook A Index at relatively high levels in 1995/96 and 1996/97. Changes in net trade (exports minus imports) by China (Mainland) are often the single most important factor affecting changes in season averages of the Cotlook A Index; a rise or fall in net exports of 100,000 tons is correlated with a decline or increase in the season average Cotlook A Index of two cents per pound.

Imports by China (Mainland) are estimated at 750,000 tons in 1996/97, but declines are expected in 1997/98 and 1998/99 as domestic policies adjust to favor a reduction in stocks. Ending stocks in China (Mainland) have climbed during the last three seasons under the auspices of the government's supply management program and now represent almost one year's worth of domestic use and nearly half of world stocks. Within the context of the Chinese economic system, large stocks are desirable as a hedge against inflation, shortages and disruptions in the distribution system and as a tool used by the government to dampen price fluctuations. But even within the economy of China (Mainland), stocks of four million tons may be viewed as more than adequate.

Cotton prices in China (Mainland) are determined by government policy, and the price paid by textile mills for the base grade and staple length has been discounted from the published level by 4% in 1997. There are indications from speeches by government officials that the discount may be increased in 1998, and that taxes on cotton purchased by mills could be reduced, in order to encourage increased use of domestic cotton. The mill-delivered price for the base quality of cotton in 1997, including the 4% discount, is 90 cents per pound, compared with a 1996/97 average Cotlook A Index of 79 cents and a forecast for 1997/98 of 83 cents. Under present price relationships, textile mills in China (Mainland) have an incentive to import cotton, but if domestic prices are reduced, the incentive could diminish. Therefore, net imports (imports minus exports) by China (Mainland), are expected to fall from 750,000 tons in 1996/97 to 540,000 tons this season and to 430,000 tons in 1998/99.

### **Less Price Volatility**

During 1996/97, the Cotlook A Index fluctuated between 74.20 cents per pound in September and 82.35 cents in March, for a total spread between the highest and lowest Indexes of the season of 10% of the average of 78.6 cents. The spread between the highest and lowest Indexes of 1996/97 was the second narrowest in over ten years and was one-fourth of the average annual spread between high and low quotes of 36% of the season average Index between 1985/86 and 1995/96. Price stability in 1996/97 indicates that market participants as a group correctly anticipated the balance between available supply and effective demand during the season. An increase in the use of New York futures as an instrument for hedging, a reduced number of unanticipated government policy changes with international significance, a growing world confidence in the likelihood of contract performance and a reduction in barriers to trade in cotton, thus allowing easier movement from regions of surplus to regions of deficit, may also have contributed to the improved stability in prices in 1996/97.

# SUPPLY AND DISTRIBUTION OF COTTON

## 12 September 1997

Years Beginning August 1

	1993	1994	1995	1996 Est.	1997 Proj.	1998 Proj.
Million Metric Tons						
<b>BEGINNING STOCKS</b>						
<b>WORLD TOTAL</b>	<b>8.598</b>	<b>6.909</b>	<b>7.270</b>	<b>8.681</b>	<b>9.24</b>	<b>9.46</b>
CHINA (MAINLAND)	2.953	2.102	2.788	3.714	4.06	3.90
USA	1.015	0.769	0.577	0.568	0.83	0.93
NET EXPORTERS	3.906	3.194	2.898	3.397	3.74	4.15
NET IMPORTERS 1/	4.692	3.716	4.372	5.284	5.50	5.30
<b>PRODUCTION</b>						
<b>WORLD TOTAL</b>	<b>16.889</b>	<b>18.701</b>	<b>20.248</b>	<b>19.480</b>	<b>19.65</b>	<b>19.80</b>
CHINA (MAINLAND)	3.739	4.342	4.767	4.203	3.80	4.00
USA	3.513	4.281	3.897	4.124	4.01	3.97
INDIA	2.095	2.355	2.754	2.975	2.80	2.71
PAKISTAN	1.368	1.479	1.886	1.615	1.90	1.86
UZBEKISTAN	1.358	1.248	1.254	1.062	1.18	1.20
TURKEY	0.602	0.628	0.851	0.784	0.76	0.80
OTHERS	4.214	4.369	4.839	4.718	5.20	5.26
<b>CONSUMPTION</b>						
<b>WORLD TOTAL</b>	<b>18.534</b>	<b>18.559</b>	<b>18.643</b>	<b>19.199</b>	<b>19.42</b>	<b>19.65</b>
CHINA (MAINLAND)	4.600	4.500	4.500	4.600	4.50	4.50
INDIA	2.160	2.279	2.536	2.729	2.87	2.92
USA	2.268	2.438	2.318	2.420	2.42	2.36
EAST ASIA & AUSTRALIA	2.299	2.189	2.217	2.170	2.06	2.04
EU & TURKEY	1.898	2.050	2.036	2.120	2.13	2.20
PAKISTAN	1.583	1.508	1.602	1.530	1.60	1.65
E. EUR. & FORMER USSR	1.089	0.956	0.750	0.764	0.83	0.83
BRAZIL	0.834	0.818	0.817	0.835	0.84	0.91
OTHERS	1.802	1.821	1.867	2.031	2.18	2.24
<b>EXPORTS</b>						
<b>WORLD TOTAL</b>	<b>5.917</b>	<b>6.305</b>	<b>6.005</b>	<b>5.911</b>	<b>5.90</b>	<b>6.20</b>
USA	1.494	2.047	1.671	1.513	1.50	1.55
UZBEKISTAN	1.288	1.250	0.940	1.042	1.05	1.04
FRANCOPHONE AFRICA	0.520	0.614	0.618	0.721	0.82	0.82
AUSTRALIA	0.367	0.293	0.308	0.515	0.54	0.53
ARGENTINA	0.069	0.208	0.261	0.285	0.27	0.31
GREECE	0.175	0.265	0.325	0.192	0.18	0.24
CHINA (MAINLAND)	0.166	0.040	0.005	0.002	0.01	0.02
<b>IMPORTS</b>						
<b>WORLD TOTAL</b>	<b>5.765</b>	<b>6.536</b>	<b>5.883</b>	<b>6.109</b>	<b>5.90</b>	<b>6.20</b>
EAST ASIA & AUSTRALIA	2.225	2.140	2.181	2.059	1.97	1.97
EU & TURKEY	1.231	1.250	1.140	1.242	1.24	1.33
CHINA (MAINLAND)	0.176	0.884	0.663	0.748	0.55	0.45
E. EUR. & FORMER USSR	0.840	0.847	0.603	0.547	0.61	0.63
SOUTH AMERICA	0.542	0.477	0.512	0.622	0.61	0.66
<b>TRADE IMBALANCE 2/</b>	<b>-0.152</b>	<b>0.231</b>	<b>-0.122</b>	<b>0.198</b>	<b>0.00</b>	<b>0.00</b>
<b>STOCKS ADJUSTMENT 3/</b>	<b>0.108</b>	<b>-0.012</b>	<b>-0.073</b>	<b>0.077</b>	<b>-0.01</b>	<b>-0.01</b>
<b>ENDING STOCKS</b>						
<b>WORLD TOTAL</b>	<b>6.909</b>	<b>7.270</b>	<b>8.681</b>	<b>9.237</b>	<b>9.46</b>	<b>9.60</b>
CHINA (MAINLAND)	2.102	2.788	3.714	4.063	3.90	3.83
USA	0.769	0.577	0.568	0.832	0.93	0.99
NET EXPORTERS	3.194	2.898	3.397	3.737	4.15	4.37
NET IMPORTERS 1/	3.716	4.372	5.284	5.500	5.30	5.23
<b>ENDING STOCKS/USE 4/</b>	<b>0.35</b>	<b>0.38</b>	<b>0.40</b>	<b>0.41</b>	<b>0.41</b>	<b>0.41</b>
<b>COTLOOK A INDEX 5/</b>	<b>70.60</b>	<b>94.30</b>	<b>85.61</b>	<b>78.60</b>	<b>83*</b>	<b>80*</b>

1/ Includes Brazil, China (Mainland), Colombia, Mexico, Turkey and traditional importers except Greece

2/ The inclusion of linters and waste, changes in weight during transit, differences in reporting periods and measurement error account for differences between world imports and exports.

3/ Difference between calculated stocks and actual; amounts for forward seasons are anticipated

4/ World-less-China (Mainland) ending stocks minus China net exports, quantity divided by world-less-China consumption

5/ U.S. Cents per pound. The model result for 1997/98 is based on net China (Mainland) trade, ratios of world-less-China (Mainland) ending stocks to use, barter sales from Central Asia, and futures prices. The estimate for 1998/99 is based on net China (Mainland) trade and world-less-China (Mainland) ending stocks to use. The estimate for 1994/95 is adjusted for quotes during June and July.

\*/ 95% confidence intervals extend 9 cents per pound for 1997/98 and 15 cents for 1998/99 above and below each point estimate

During the eleven year period between 1985/86 and 1995/96, two major changes in the US cotton program, the marketing loan and Step 2, the ending of the COMECON trading group and the breakup of the USSR contributed to cotton price volatility. Events of a similar impact on the structure and performance of the world cotton industry are not likely to be repeated during the current decade. Further, the direction of change in world economic policy is toward increased liberalization and reduced government regulation of production, consumption and trade. Consequently, events such as the embargoes on cotton exports or over-night imposition of export taxes implemented by some governments in 1994 are less likely to occur now, and markets are more free to adjust to localized conditions of surplus and scarcity by shifting cotton across borders than was the case in the 1980s and early 1990s. Therefore, international cotton prices are likely to be more stable during the next five years than was the case on average during the past eleven years.

As an indication of how the cotton market may perform in the next several years, the average difference between the highest and lowest Cotlook A Indexes each season between 1976/77 (after the impacts of US sales of grain to the USSR and an embargo of soybean exports to Japan had subsided) and 1984/85 (before the marketing loan was implemented in the USA) was 23% of the average Index each season. Because of the reduction in government regulation of trade since the 1980s, the variation between the highest and lowest cotton prices each season might well be less than 23% on average in the future.

### **World Cotton Consumption Rising**

World cotton use rose to more than 19 million tons in 1996/97 and further growth is forecast for 1997/98 and 1998/99, after a decade of no growth at about 18.5 million tons. Most of the growth during 1997/98 is occurring in cotton producing countries, including India, Pakistan, Mexico and Uzbekistan. Mill use is declining in East Asia and Europe, but gains are occurring in Africa and the Middle East. Strong economic growth and population growth are the fundamentals driving world cotton use higher, and per capita world cotton consumption is being maintained at about 3.2 kilograms, the same as during the last three years. Cotton's share of world fiber use declined in 1996 and is likely to fall further.

Cotton use in China (Mainland) is estimated at 4.5 million tons, the level planned by the National Textile Council of China. Total consumption includes less than 4 million tons of mill use and an estimated 700,000 tons of non-mill use of cotton. Cotton's share of cotton yarn production is estimated at 65% in 1997/98, down from 66% last season and 70% in 1995/96.

Cotton use in North America is rising 2% to an estimated record of 2.9 million tons in 1997/98. Mill use in the USA is not expected to increase after rising 4% to 2.42 million tons in 1996/97, but the use of cotton in Mexico and Canada is expected to continue upward because of expanding domestic sales in each country and trade opportunities with the USA.

Indian cotton mill use rose from 2.5 million tons to 2.7 million tons between 1995/96 and 1996/97, and 5% growth is forecast for 1997/98. Exports of cotton yarn, fabric and made-up products rose by 200,000 tons between 1995 and 1996, equal to the 8% rise in mill use between 1995/96 and 1996/97. Indian exports of cotton yarn rose by 35% in the first six months of 1997.

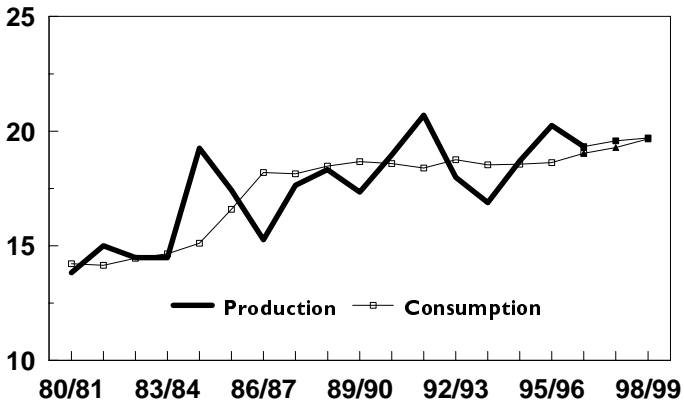
Pakistan enjoys production cost advantages compared with textile mills in Europe and East Asia, but consumption of cotton has been limited since 1992/93 by reduced production. Cotton use in Pakistan fell an estimated 4% in 1996/97. However, with increased production expected in 1997/98, an increase in cotton use from 1.5 million tons to 1.6 million is forecast.

Expanding irrigated production in East Turkey and quota-free access to markets in the European Union are leading to increased mill use of cotton in Turkey; as in the case of India, most of the gain in mill use in Turkey is accounted for by increases in textile exports. Mill use in Turkey is estimated at one million tons in 1997/98.

Cotton use is falling in Japan, the Republic of Korea, Thailand and Hong Kong and in the European Union

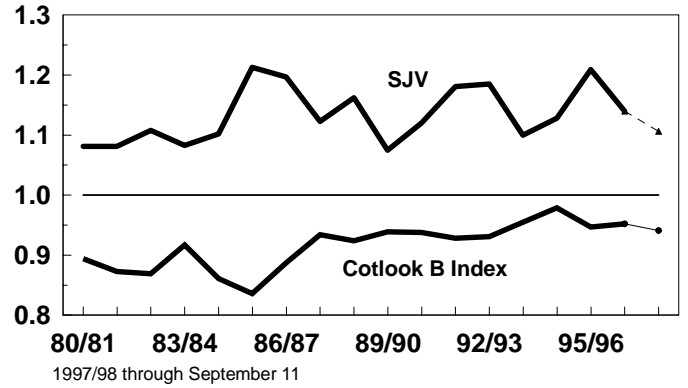
## WORLD COTTON

Million Tons



## UPLAND PRICE SPREAD

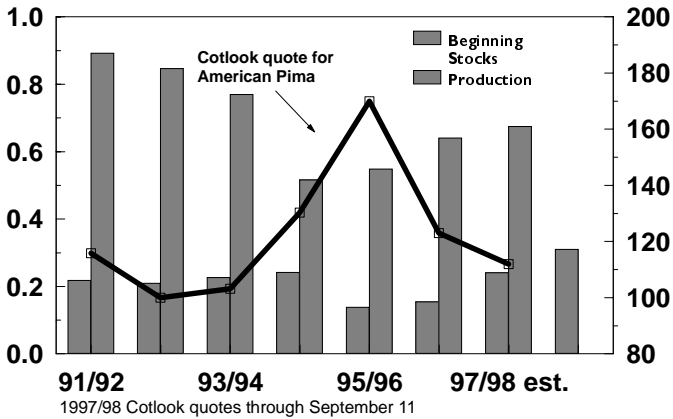
Ratio to the Cotlook A Index



## EXTRA-FINE COTTON

Million Tons

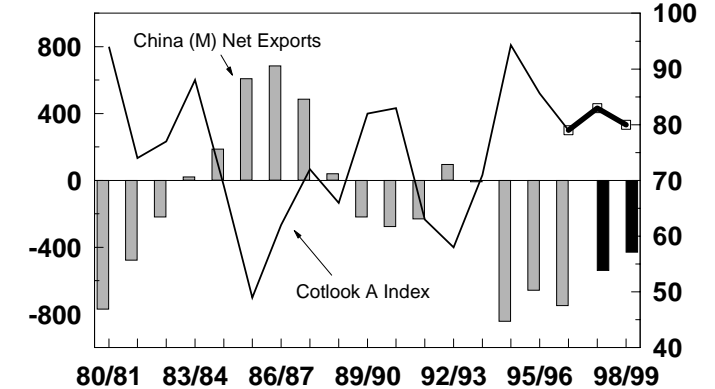
US Cents per Pound



## PRICES AND CHINA (M) TRADE

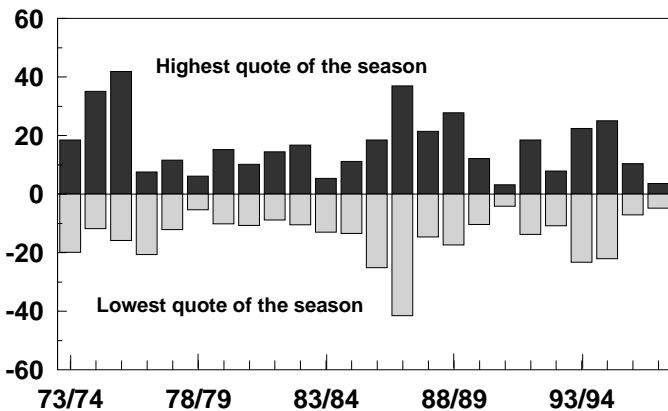
Net Exports, Million Tons

A Index, Cents per Pound



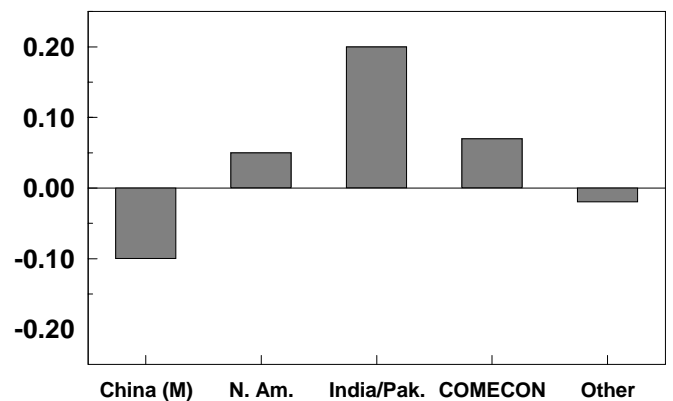
## COTLOOK A INDEX

Percent of Season Average



## CHANGES IN CONSUMPTION

Million Tons 1996/97 to 1997/98



because of high costs to import cotton, combined with high labor, land and energy costs. Mill use is rising in Indonesia, the Philippines and Bangladesh as well as in markets not often considered, such as Cote d'Ivoire, Iran, South Africa, Sudan, Syria and Zimbabwe. No significant changes are expected during this season in the amounts of cotton used in South America.

Of particular note, cotton use in Russia and other countries in the former COMECON trading group may no longer be falling. Cotton use in the region, which includes Central Europe, Vietnam, Cuba and North Korea, dropped from 2.8 million tons in 1988/89 to 760,000 tons in 1996/97, and the estimate for 1997/98 is 830,000. The loss of two million tons of use in the COMECON group in just seven seasons is the primary reason for the stagnation in the world consumption total between 1986/87 and 1995/96. World mill use is moving to countries which produce cotton, and it is not likely that the textile industries of Russia, Ukraine and other non-cotton producing countries in Europe are ever going to recover to the levels of consumption recorded in the late 1980s. Nevertheless, some stability seems to have been achieved, especially in the Baltic countries, Poland and the Czech Republic. The Government of Russia is committed to helping the textile industry, and with the former COMECON region no longer subtracting from the world total, growth in the rest of the world is leading to an overall increase.

Cotton consumption in Russia is estimated at 225,000 tons in 1997/98, and increase of 25,000 tons from the previous season. Russian cotton yarn production rose by 29% and cotton fabric production increased by 20% during the period from January to June 1997, suggesting that a recovery in cotton use is occurring. Consumption in Uzbekistan could rise during 1997/98 if production is close to the state plan and deliveries are allowed to the domestic industry. With Russia up by 25,000 tons and Uzbekistan by 30,000 tons, consumption in the former USSR could increase by 60,000 tons to 550,000 tons in 1997/98.

Cotton's share of world textile fiber consumption at the retail level fell from 50% in 1986 to 49% in 1991 and to less than 45% in 1996; cotton's market share in 1998 is forecast at 44%. Prices of competing fibers are part of the reason for the decrease in cotton's market share. Prices of polyester fell substantially relative to cotton prices during 1996/97. The average Cotlook quote for polyester in the USA fell from 80 cents in 1995/96 to 63 cents in 1996/97, dropping from 94% of the Cotlook A Index to 80%. Average Cotlook quotes for polyester in China (Taiwan) fell from 70 cents to 56 cents per pound between 1995/96 and 1996/97, and average quotes for polyester in Germany fell from 93 cents per pound to 61 cents. Relative to the Cotlook A Index, polyester prices in China (Taiwan) fell from 82% to 71%, and polyester prices in Germany fell from 109% to 78%.

However, prices alone explain only about one-third of the loss in retail-level market share for cotton during the last decade. Non-price factors such as textile trade policies which discriminate against cotton products, industrialization in developing countries, government policies favoring the use of chemical fibers, increased consumer purchases of chemical-fiber rich floor coverings and home furnishings, and shifts in consumer spending on apparel as incomes rise have affected cotton's market share. The most dramatic loss has been registered in Eastern Europe and the former USSR where cotton's share of apparent consumption declined from 49.3% in 1986 to 39% in 1996, with all of the decline taking place since 1992. The market share of cotton in the rest of the world fell from 50% in 1985 to 46% in 1996.

Cotton's loss of market share has occurred in developing countries. In industrial countries, cotton's market share increased from 38.9% in 1986 to 44% in 1996, but in developing countries, cotton's market share declined from 62.3% to 45% during the same period. While cotton price increases since 1993 may have affected end-use consumption of cotton throughout the world, a strong consumer preference for cotton in North America limited the loss of market share.

In terms of mill use, available evidence suggests that cotton's share of fiber use continues to increase in industrialized countries. In the USA, cotton's share of fiber use rose from 78% in 1995/96 to 78.3% in 1996/97. Cotton's share of mill use in Germany rose from 58.4% in 1994/95 to 61.8% in 1995/96 before dropping to 61.5% in 1996/97. Cotton's market share in the Republic of Korea climbed more than 3 percentage points in 1996/97 to 79%. In contrast, cotton's share of fiber used in the production of cotton yarn in China (Mainland) probably fell in 1996/97; the decline is estimated at four percentage points,

resulting in a share for cotton of an estimated 66%. Cotton's share of mill use is also falling in Pakistan and India.

Despite growth of just 3% in US mill use of cotton during the first half of 1997, net domestic consumption (mill use of cotton plus the trade balance in textile and apparel products containing cotton, a proxy for retail level consumption) is rising rapidly because of a surge in imports of cotton products. US imports of cotton textiles and apparel rose by 10% during the first half of 1997. Exports of cotton products also rose during the months of January through June 1997, but the trade deficit in cotton textiles and apparel increased by 35,000 tons to 640,000 tons. If the same pace continues during the remainder of 1997, US domestic cotton consumption will increase by 150,000 tons to 3.7 million tons. Since world cotton use is forecast to rise by 220,000 tons during 1997/98, the projected rise in US domestic consumption means that two-thirds of the increase in world use at the retail level is being accounted for by US consumers. Per capita US cotton consumption is rising from 13.5 kilograms last year (about the same as in 1993) to 13.9 kilograms in 1997. However, in the rest of the world combined, per capita consumption of cotton may be falling in 1997.

### **Production Problems Persist**

World cotton prices were below average in the early 1990s but began rising in 1993/94 and have been decidedly above what used to be considered "high" for three seasons. Still, in what seems to be a contravention of economic principles, world production in 1997/98 is estimated 5% below the record set in 1991/92 and there is little likelihood of a rise to a record level in 1998/99. Among the largest producers, increases in production during 1997/98 are expected in Pakistan, Uzbekistan, Francophone Africa and South America, but reduced output is expected in China (Mainland), the USA and India.

Between 1950/51 and 1991/92, the world cotton yield rose an average of 8 kilograms per hectare, or 2% per year, but growth was not uniform. The world yield rose only from 420 kilograms per hectare in 1973/74 to 450 kilograms in 1983/84, an average gain of just three kilograms per year for eleven years. The world yield then jumped 100 kilograms in 1984/85 because of record production in China (Mainland) and good yields in most other countries, and the world yield continued to climb through 1991/92, rising 7 kilograms per hectare per year for seven more years and reaching 597 kilograms per hectare. However, yields have not risen in the five seasons after 1991/92, and the forecast for 1997/98 is 575 kilograms per hectare.

1996/97 was the fifth consecutive year in which the world yield did not reach a new record, the first five-year period of no growth in the world yield since World War II. The decline in the world average yield since 1991/92 is reinforcing the impression that the cotton industry is in the midst of a period of slow growth in production caused by specific difficulties affecting productivity in several of the largest producing countries. Resistance to pesticides in Eastern China, the existence of the leaf curl virus in Pakistan, changes in the government program in the USA and economic difficulties in Central Asia have affected cotton yields in four of the five largest cotton producing countries during the 1990s, resulting in a tightening of the world supply. As a consequence of tighter supplies, cotton prices have remained above the long run average since 1993/94.

Among the largest producing countries, the average yield in China (Mainland) reached 900 kilograms per hectare in 1984/85 but has tended to decline since; the average yield in China (Mainland) was 870 kilograms in 1991/92 and is estimated at 880 kilograms in 1997/98. US cotton yields were flat during the 1960s and 1970s, usually between 500 and 600 kilograms per hectare, but rose to 791 kilograms in 1987/88. Over the last ten seasons, US yields have been equal to or lower than the 1987/88 yield, and the estimate for 1997/98 is 740 kilograms. The national average yield in India reached 315 kilograms per hectare in 1989/90 and 328 kilograms in 1996/97, seven seasons later. In Pakistan, yields climbed dramatically during the 1980s, and the national average reached 770 kilograms per hectare in 1991/92. However, disease and difficulties controlling insects have led to lower yields since, and the average in 1997/98 is estimated at 630 kilograms. Cotton yields in the USSR peaked in the early 1970s and then tended to decline. The yield in Uzbekistan is estimated at 785 kilograms per hectare in 1997/98, no higher than a decade ago.

World area is rising an estimated 1% to 33.9 million hectares in 1997/98, mainly because of better weather in Texas in the USA and increased prices in South America. World area remains near the middle of a range between 29 and 36 million hectares established since 1950/51. Competition with other crops and with urban uses, combined with rising production costs, seem to be preventing a sustained increase in world cotton area, despite prices that would have been regarded as attractive just five years ago. 1997/98 cotton area is lower in China (Mainland) and Pakistan, but cotton area is rising in Francophone Africa.

The 1997/98 crop in Pakistan is estimated at 1.9 million tons but has the potential to exceed two million tons, depending on weather conditions during the remainder of the harvest period. Planted area was reduced in the state of Punjab because of lower yields in 1996/97, but insect and disease pressures are much reduced this season.

Production is rising in Central Asia in 1997/98 because of warmer weather, and production in Uzbekistan is estimated at 1.2 million tons, about 100,000 tons higher than in 1996/97. Harvesting began in August on areas planted under plastic, but cool weather earlier in the season may affect yields on other areas. Production in Turkmenistan is estimated at 220,000 tons in 1997/98, double what was harvested in 1996/97. Production in Tajikistan may be affected by difficulties tending and harvesting the crop in the midst of unsettled political conditions. Production in Francophone Africa is rising because of increased area linked to increases in prices paid to growers.

Cotton production in China (Mainland) in 1997/98 is estimated down 10% from 1996/97 because of reduced area tied to disappointment over prices and buying terms in 1996/97. Crop conditions in most areas of China (Mainland) are considered good, and there is general agreement that the drought in North China (Mainland) did little harm to cotton this season. However, data from several provinces indicate that national planted area in 1996/97 may be as low as in 1986/87 at 4.3 million hectares, 450,000 hectares less than in 1996/97. Consequently, even with a third consecutive year with an above-average national yield of about 880 kilograms per hectare, compared with a five-year average of 790 kilograms, production in China may decline to 3.8 million tons in 1997/98. An average yield in 1997/98 would result in production of about 3.5 million tons, while a record yield would boost production to four million tons or more.

US production is estimated at four million tons in 1997/98, about 100,000 tons less than in 1996/97. 1997/98 production in the Southeast and Delta may be about 300,000 tons lower than in 1996/97 because of declines in area and yield. However, increased harvested area may boost production in Texas by 250,000 tons over the 1996/97 accomplishment, and production in the Far West may be about the same as last season. The US crop is developing approximately two weeks later than in 1996/97, when a near-record yield of 790 kilograms per hectare was achieved, but conditions are reported excellent in many areas.

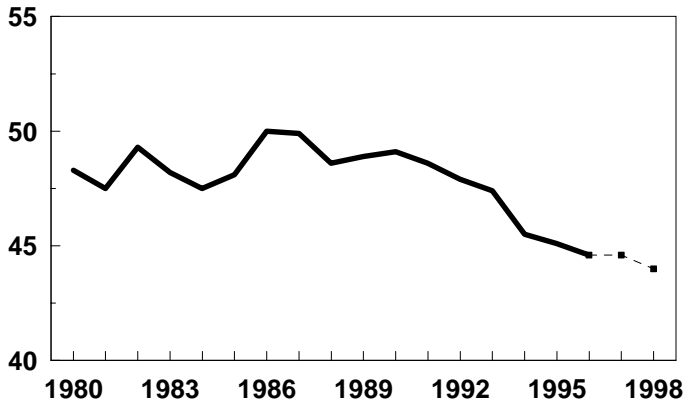
Assessments of 1997/98 crop conditions in India vary widely, from 2.4 million tons to 3.1 million. Rains affected planting in northern India this season, reducing plant populations and delaying development. The leaf curl virus has spread to most of the cotton area in northern India, but the intensity of the disease is low and opinions vary regarding the impact on yields. The northern region accounted for one-fourth of production last season, and farmers have little experience dealing with the leaf curl virus. In Central and Southern India, rains have been late and less than normal in 1997, suggesting difficulties matching the above-average yields achieved in 1996/97. Indian cotton area is estimated at 9.2 million hectares in 1997/98, including a decline of about 100,000 hectares in Northern India and increases in Central and Southern India. On an area of 9.2 million hectares, below-average yields in the North and better-than-average yields elsewhere resulting in a national yield equal to the five year average could produce a crop of 2.8 million tons. Indian production in 1996/97 reached nearly three million tons.

Production in Turkey is estimated at 760,000 tons in 1997/98, down 3% from 1996/97 because of reductions in planted area linked to a decline in real prices for cotton. Better yields could boost production in Greece and Spain during 1997/98. Area is rising in Francophone Africa because of increases in prices paid to farmers, and record production of approximately 900,000 tons is expected in the region during this



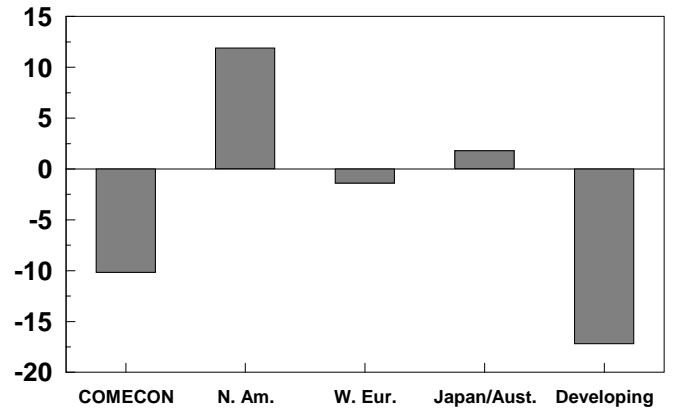
## COTTON'S MARKET SHARE

Percent of World Fiber Use



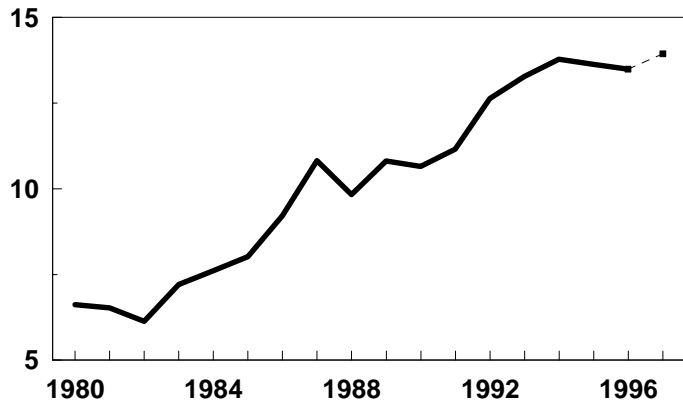
## CHANGES IN COTTON'S SHARE

Percentage Points 1986 to 1996



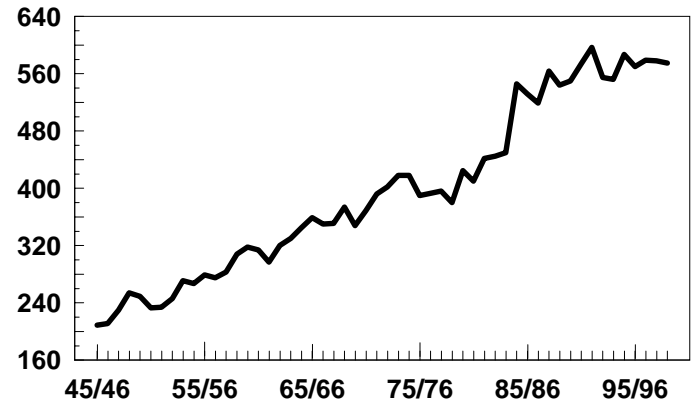
## COTTON CONSUMPTION: USA

Kilograms per Capita



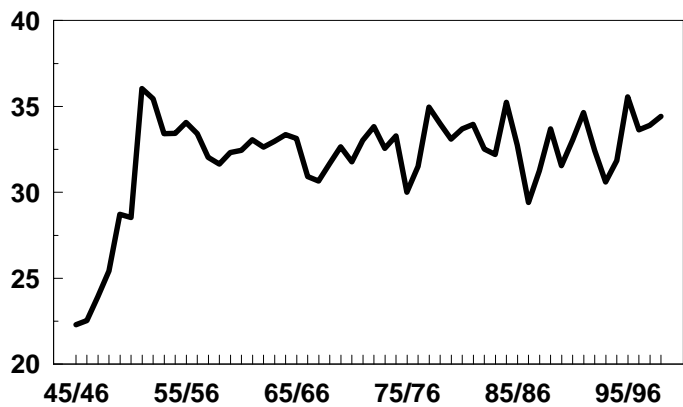
## WORLD COTTON YIELD

Kilograms per Hectare



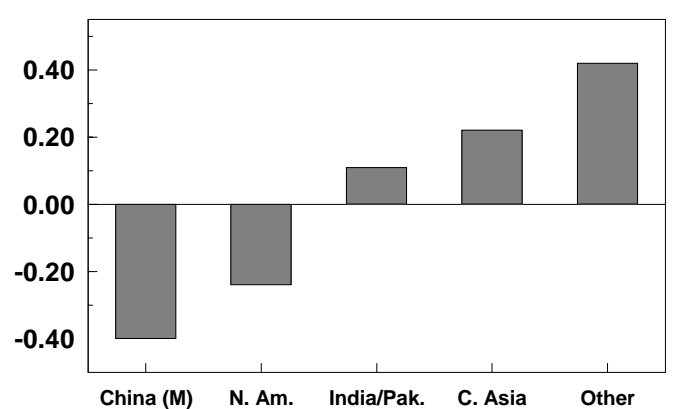
## WORLD COTTON AREA

Million Hectares



## CHANGES IN PRODUCTION

Million Tons 1996/97 to 1997/98



season.

Planted area in South America is expected to rise by one-third during 1997/98 because of higher prices received during 1996/97 and because of government policies in Brazil and Paraguay to expand credit and ensure the availability of inputs. Production in South America could increase from 800,000 tons in 1996/97 to 1.1 million tons in 1997/98. Australian production reached 615,000 tons in 1996/97 and is forecast at the same level in 1997/98. Ample water supplies exist for irrigated areas in Australia, but production on dryland areas will depend on receiving sufficient rainfall.

### **Summary**

World cotton production and consumption are rising in 1997/98 and seem to be in relatively close balance, resulting in little change in the ratio of ending stocks-to-use outside China (Mainland). The forecast balance between world production and consumption is occurring because production is being limited by difficulties raising yields and growth in consumption is being reduced by tight supplies. Imports by China (Mainland) may decline in 1997/98 because of adjustments in government policies affecting domestic prices, but imports by China (Mainland) are likely to remain substantial and are estimated at 550,000 tons.

There was less variation than usual in international cotton prices during 1996/97. An increase in the use of New York futures as an instrument for hedging, a reduced number of unanticipated government policy changes with international significance, a growing world confidence in the likelihood of contract performance and a reduction in barriers to trade in cotton, thus allowing easier movement from regions of surplus to regions of deficit, may be contributing to the improved stability in prices.

World cotton use rose to more than 19 million tons in 1996/97 and further growth is forecast for 1997/98 and 1998/99, after a decade of no growth at about 18.5 million tons. Cotton use may have stabilized in the former COMECON region in 1996/97, allowing increased use in other countries to boost the world total. Strong economic growth and population growth are the fundamentals driving world cotton use higher, and per capita world cotton consumption is being maintained at about 3.2 kilograms, the same as during the last three years. Cotton's share of world fiber use declined in 1996 and is likely to fall further, with the loss in market share occurring in developing countries.

The estimate of 1997/98 world production is higher than in 1996/97 but remains nearly one million tons lower than the record set in 1991/92, despite three consecutive seasons of above-average cotton prices. 1996/97 was the fifth consecutive year in which the world yield did not reach a new record, the first five-year period of no growth in the world yield since World War II. The decline in the world average yield since 1991/92 is reinforcing the impression that the cotton industry is in the midst of a period of slow growth in production caused by specific difficulties affecting productivity in several of the largest producing countries.

*This prepared text is dated September 12, 1997 and will be updated orally. Detailed statistics and charts referred to in this address are found in WORLD TEXTILE DEMAND and the OUTLOOK FOR COTTON SUPPLY IN 1997/98, reports available for sale from the Secretariat of the International Cotton Advisory Committee, 1629 K Street NW, Washington DC 20006 USA. Telephone 202-463-6660, Fax 202-463-6950, Internet Publications@icac.org. Regular monthly forecasts of the cotton situation are available by fax and on the Internet.*