



INTERNATIONAL COTTON ADVISORY COMMITTEE

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The World Cotton Situation *

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Projections to 2020

The ICAC and the Commodities and Trade Division of the Food and Agriculture Organization of the United Nations (FAO) completed a joint study in April 2007 to model the world fiber market and develop projections of major trends in production, consumption and trade through 2020¹. According to projections by the United Nations, world real GDP will grow at an average rate of 3.1% between 2005 and 2020, compared to average economic growth of 2.7% during the 1990s. However, world population growth is expected to continue to slow, to 1.2% in developing countries and 0.2% in developed countries. Growth in incomes and population will induce higher fiber consumption in the next decade, but the rate of increase is expected to be slower than during the last 10 years.

Over the long term, cotton production is always assumed to match consumption. Nonetheless, the distribution of additional production among countries depends largely on the relationship between area and prices of cotton and other commodities that compete for area with cotton and between yields and cotton prices. The projections do not take into account the recent increases in grain, oilseed and sugar prices due to recent interest in biofuels.

Retail Fiber Consumption

As a result of sustained lower prices of textile products, and income and population growth, world consumption of all fiber is projected to grow to 87 million tons by 2020 (400 million bales), 56% higher than in 2004.

Retail level consumption of fiber in developed countries is projected to reach 39 million tons, or 45% of world consumption, by 2020. The United States is the largest fiber consumer, and U.S. retail consumption is projected to grow by 3.5% annually and reach 19 million tons (87 million bales) by 2020. Fiber consumption in Western Europe is projected to grow by 1.9% annually to reach 11 million tons by 2020, and consumption in Japan is expected to rise by 1.2% a year.

Based on forecasts of population and income growth, fiber consumption in developing countries is expected to grow by 3.2% per year to reach 49 million tons (225 million bales) by 2020. However, this rate of growth will be lower than the average 4.1% registered in the 1990s. Fiber consumption in a number of developing countries in Asia is expected to continue to grow vigorously over the projection period, with China (Mainland), India, and Thailand ranging above 4% annually.

Retail Cotton Consumption

Cotton's competitiveness with chemical fibers suffered during the 1990s. Declines in prices of chemical fibers, combined with stagnant cotton yields and increased production costs, limited supplies of cotton and prevented potential demand from being realized. The loss of non-price competitiveness was mostly due to a lack of promotion programs outside the U.S., diminished R&D efforts, and continuation of the (MultiFibre Arrangement) MFA that was detrimental to cotton consumption.

* Paper presented to the 83rd Annual Convention of the American Cotton Shippers Association, May 24-26, 2007, Dallas at Las Colinas, Texas.

¹ The World Cotton Market: Projections to 2020. To be published by FAO/ICAC in June 2007.

In contrast, cotton's ability to compete with chemical fibers improved between 1997 and 2005, as prices of competing fibers increased and became more volatile, cotton promotion efforts expanded, and detrimental treatment of cotton in world trade ended with the elimination of the MFA. Therefore, growth in cotton consumption is projected to be just two-tenths of a percentage point below the growth rate of total fiber consumption through 2020. World consumption of cotton is projected to increase by 2.6% annually to reach 32 million tons (148 million bales) by 2020. The annual rate of growth in cotton consumption is projected to be considerably larger than the 0.3% per year growth rate registered in the 1990s, but below the 4.2% average annual rate of growth registered between 2000 and 2005.

The average rate of growth in retail cotton consumption in developed countries is expected to be 2.3% per year, compared to an average rate of 2.5% between 2000 and 2005. Retail level cotton consumption in developed countries could reach about 16 million tons (73 million bales) by 2020. The growth rate in the United States and Western Europe is projected to be 3.4% and 1.6%, respectively, while the growth rate in Japan is projected to be 1.1%.

The average annual rate of growth in retail cotton consumption in developing countries is expected to be 2.9%, compared to an average rate of 5.7% between 2000 and 2005. Cotton consumption in developing countries could also reach about 16 million tons by 2020. Consumption in Asia will expand at an annual rate of 3.1%. Cotton consumption in China (Mainland), India and Thailand will show average annual growth above 3.8% through 2020, just below the implicitly projected growth of chemical fiber consumption.

Mill Use of Cotton

Mill use of cotton has shifted from developed to developing countries in the past few decades, and this trend will continue through 2020. Mill use of cotton in developing countries is projected to grow by 2.5% annually to reach 31 million tons (142 million bales) by 2020, accounting for 95% of world consumption, compared with only 66% in 1990 and 78% in 2000.

Mill use of cotton is projected to decline in developed countries through 2020, and the increased demand for cotton products will be met by imports of textiles from developing countries. Mill use in the United States is projected to decline at an annual rate of 6.4% to fall to 500,000 tons (2.3 million bales) in 2020. Similarly, mill use of cotton in Western Europe and Japan is projected to decline at annual rates of 4.9% and 7.5%, respectively.

There will be considerable differences between countries in rates of growth. For instance, mill use of cotton in the Republic of Korea, China (Taiwan), and China (Hong Kong), is projected to decline by more than 5% per year. The most rapid increases in mill use are projected in Vietnam, China (Mainland), India and Pakistan. In contrast, mill use in Brazil, Colombia, Syria, Argentina, and Turkey is projected to rise, but only by 0.5% to 1.5% annually. The rate of increase in mill use in Asia is projected to slow from the average of 8% per year registered between 2000 and 2005 to 2.9% annually, still above the rate of 2.4% registered in the 1990s. With projected mill use of 26 million tons (119 million bales) by 2020, Asia will account for 81% of world mill use. Mill use in China (Mainland) is projected to grow at 4.1% annually to reach 16 million tons (73 million bales) by 2020, accounting for over half of world mill use, compared with 40% in 2007.

Cotton Production

World cotton production is projected to increase to the same level as consumption of 32 million tons (147 million bales) in 2020. Developing countries will continue to account for a lion's share of world cotton production, but increases are also projected in some developed countries.

Production in Africa is projected to increase to 2 million tons (9 million bales) in 2020. Latin American production is projected to grow by 2.6% annually to reach 2.4 million tons (11 million bales) by 2020. Production in Brazil is projected to grow at a rate of 3% annually to reach 1.8 million tons (8 million bales) by 2020. Production in the Middle East is projected to expand by an average annual rate of 1.3%, reaching 2 million tons (9 million bales) by 2020. Expansion is projected to take place in Turkey, Egypt and Syria.

Production in India is projected to increase at an average annual rate of 3.4% to reach 7 million tons (32 million bales) by 2020. Production in China (Mainland) will increase by 1.5% annually to 8 million tons (37 million bales) by 2020. Pakistani production will increase by 1.3% annually to reach 3 million tons (14 million bales) by 2020.

Production in the United States could reach 5.7 million tons (26 million bales) by 2020 with an annual

growth rate of 0.7%, while production in Central Asia is projected to expand by 0.7% annually to reach 2 million tons (9 million bales) by 2020.

Cotton and Textile Trade

The general trends in trade seen so far this decade are projected to continue. Developed countries will increase their exports of cotton as mill use declines, while developing countries are expected to increase cotton imports. Thus, world cotton trade is expected to continue to expand, surpassing 13 million tons (60 million bales) by 2020.

The United States will export 5 million tons (23 million bales) by 2020, accounting for 38% of world exports, about the same proportion as in recent years. Exports from Western Europe will decline. Australian shipments in 2020 are projected at 600,000 tons, still less than exports in 2000/01. Exports from the former Soviet Union are projected at 1.6 million tons by 2020.

Exports from Africa are expected to continue to reach 1.6 million tons (7 million bales) by 2020. Brazilian exports are forecast at 0.8 million tons (4 million bales) by 2020. Indian exports are projected at 2.3 million tons (11 million bales) in 2020.

Asia is forecast to account for imports of 11 million tons (51 million bales) by 2020. Asia will account for all the increase in imports, while imports will decline elsewhere.

Net imports of cotton textiles in developed countries are projected to expand from 8.1 million tons in 2004 to 14 million tons in 2020. Net imports of cotton products are projected to increase by 122% between 2005 and 2020 in North America, 55% in Western Europe and by 14% in other developed countries.

Net exports of cotton products by developing countries in the Far East are projected to reach 14 million tons by 2020, representing exports by China (Mainland), India and Pakistan, which will be partially offset by net imports in other countries in the region.

Projections for 2007/08

Mill Use of Cotton

World cotton mill use is projected to increase by 2.6% to 26.8 million tons (123 million bales) in 2007/08. This would mark a continuation in the slow-down in growth rates from 8.5% in 2004/05 to 5.4% in 2005/06 and 5.0% in 2006/07. Mill use is expected to increase by 5% in China (Mainland) to 11 million tons (51 million bales), by 6% in India to 4.2 million tons (19 million bales) and by 2% in Pakistan to 2.6 million tons (12 million bales). These three countries combined could therefore continue to concentrate mill use, accounting for 67% of world mill use in 2007/08 compared to 65% in 2006/07. Mill use is also expected to increase in Bangladesh, Vietnam and Indonesia, but is expected to remain stable or to decline in most other developing countries. Mill use in industrial countries is expected to continue its long-term decline to 1.6 million tons (7.5 million bales), down 8% from 2006/07. In particular, U.S. mill use is forecast to decline by 10% to 960,000 tons (4.4 million bales) in 2007/08. Mill use is also expected to decline in Central and Eastern European countries but to increase slightly in countries of the former USSR.

Cotton Production

World cotton area is expected to decline slightly to 33.7 million hectares (83 million acres) in 2007/08 and the average yield is forecast at 742 kilograms per hectare (662 lb/acre), about the same as in 2006/07. The share of world cotton area planted to official biotech cotton is expected to grow from 36% in 2006/07 to 40% in 2007/08 and the share of biotech cotton production is expected to increase from 45% to 47%.

World cotton production is expected to decline slightly in 2007/08 to 25.0 million tons (115 million bales), down 1% from the current season. Production in China (Mainland) is forecast slightly down from the record reached in 2006/07 to 6.7 million tons (30.6 million bales), assuming a small drop in yields will offset the expected slight cotton area increase. Production in the United States is projected to decline by 13% to 4.1 million tons (18.8 million bales) due mainly to a drop in planted area to the benefit of corn production. Production in India is expected to reach a record of 4.7 million tons (21.6 million bales), up 2% from 2006/07. This would make India the second producer behind China (Mainland). Production in Pakistan is also expected to increase to 2.3 million tons (10.4 million bales), as increases are expected in both area and yield. Production in Africa is expected to increase to 1.7 million tons (7.7 million bales), up

5%, thanks mainly to an expected small rebound in yields from an 8-year low in 2006/07. Production in Central Asia is forecast about stable at 1.8 million tons (8.2 million bales). Production in Europe is expected to increase slightly thanks to an expected increase in harvested area. Production in South America is forecast to decline by 4% to 1.7 million tons (7.8 million bales). Production in Australia is expected to drop to 165,000 tons (0.76 million bales), the lowest level since 1983/84 due to continued severe drought. Production in the Middle East is forecast at 1.3 million tons (6.0 million bales), up 9% from this season due to an expected rebound in yields assuming more favorable weather.

Cotton Trade

World cotton imports are expected to increase from 8.4 million tons (39 million bales) in 2006/07 to 8.9 million tons (41 million bales) in 2007/08, driven by a forecast rebound in Chinese imports from 2.8 to 3.7 million tons (13 to 17 million bales). Imports in the rest of the world are expected to decline from 5.6 to 5.2 million tons (26 to 24 million bales). U.S. exports are projected at 3.6 million tons in 2007/08 (16.5 million bales), 25% higher than this season, driven by large stocks, expected increased demand from China (Mainland), and expected lower competition from Indian exports. Exports from Brazil are also expected to increase. However, exports from most other large exporting countries are forecast stable or declining. In particular, Indian exports are expected to decline from their record of 1 million tons (4.4 million bales) to 700,000 tons (3.2 million bales), as domestic mills should consume increasing quantities of the domestic production. Australian exports are forecast down for the second consecutive season to 250,000 tons (1.1 million bales), the lowest level in 12 seasons.

Cotton Stocks

World cotton ending stocks are expected to decline by 10% to 11.0 million tons (50 million bales) in 2007/08, after a decline of only 1% in 2006/07. Cotton stocks in China (Mainland) are forecast 4% down to 3 million tons (13.5 million bales), whereas stocks in the rest of the world are projected down by 12% to 8 million tons (36.9 million bales), the lowest level since 2003/04.

Cotton Prices

The Cotlook A Index averaged 55 cents per pound in the seven-year period from 1998/99 to 2005/06. This is well below the average of 74 cents per pound during the previous 25 years (1973/74 to 1997/98). Reasons for the drop in international cotton prices since the end of the 1990s include significantly higher levels of the stocks-to-use ratio in the world-less-China (Mainland) between 1998/99 and 2005/06, low or negative net Chinese imports from 1998/99 to 2001/02, recent productivity increases in some countries, government measures, competition with polyester and lower apparel prices.

The Cotlook A Index has varied little since the beginning of this season, remaining in a range of 56 to 61 cents per pound, and averaging 58 cents per pound until mid-May, or 2 cents higher than in 2005/06. The large U.S. stocks and lower-than-expected Chinese imports are weighing on cotton prices this season.

In 2007/08, the stocks-to-use ratio in the world-less-China (Mainland) is projected to decline from 76% to 74% and Chinese imports are projected to increase by 900,000 tons (4 million bales). Using current estimates, the "old" ICAC Price Model is projecting an annual average Cotlook A Index of 66 cents per pound in 2007/08. However, this old model is still predicting an annual average Cotlook A Index of 65 cents for 2005/06, or 9 cents higher than the actual average, even though the statistics for 2005/06 are now known. In 2005/06, Chinese imports tripled, but the stocks-to-use ratio in the world-less-China (Mainland) increased from 71% to 84%.

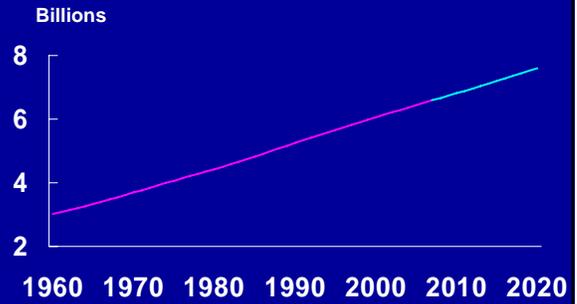
Therefore, the Secretariat is publishing a price forecast of less than 66 cents per pound, but a little more than 60 cents per pound. The Secretariat recognizes that a better objective model of cotton prices is needed. That is why a consultant has been working with the Secretariat since March to develop a new price model. The Secretariat hopes to start using this new model in July.

The World Cotton Situation

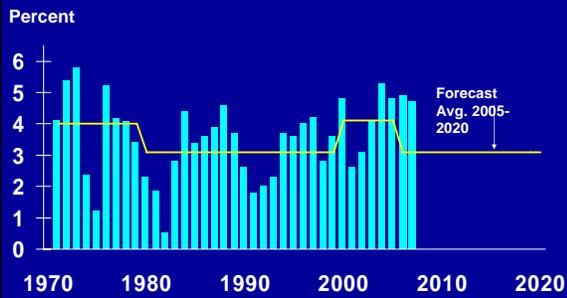


ACSA Convention
May 24-26, 2007

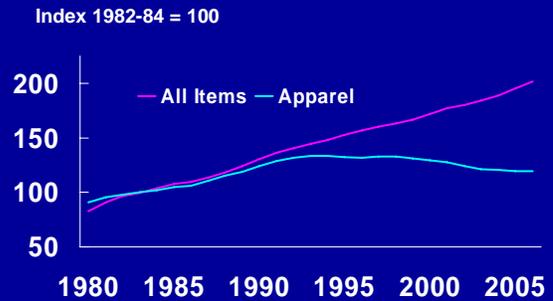
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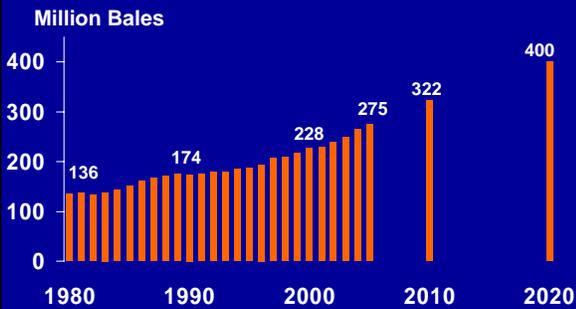
GROWTH OF WORLD GDP



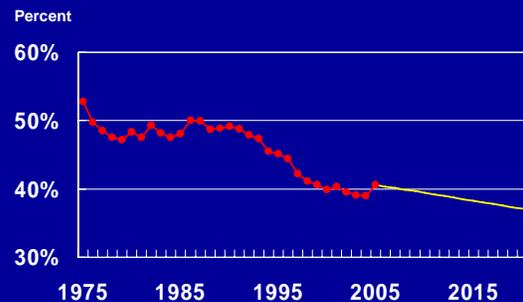
U.S. CONSUMER PRICES

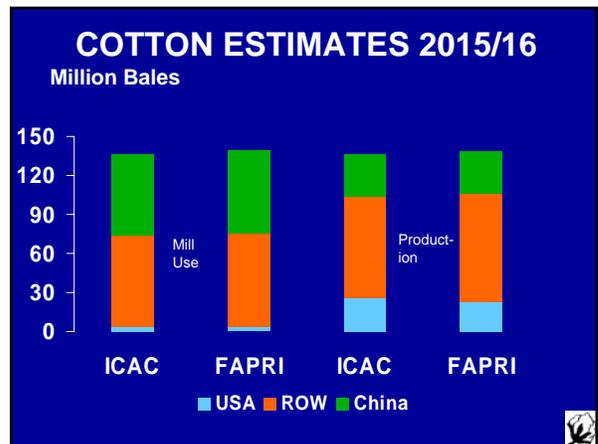
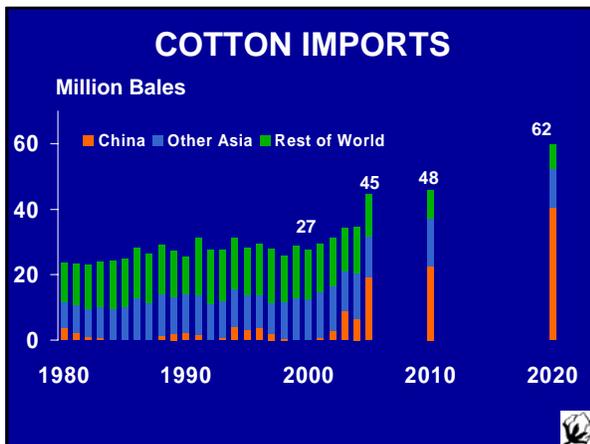
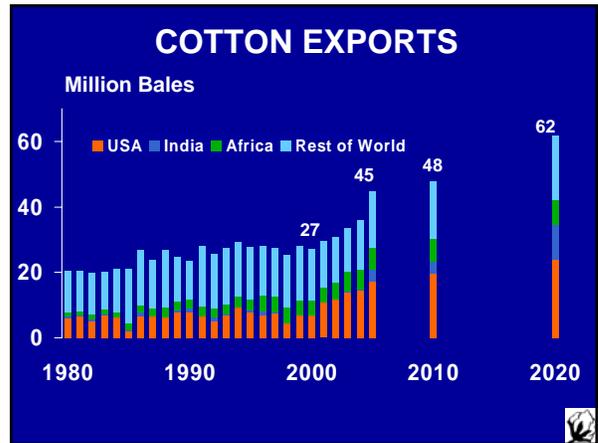
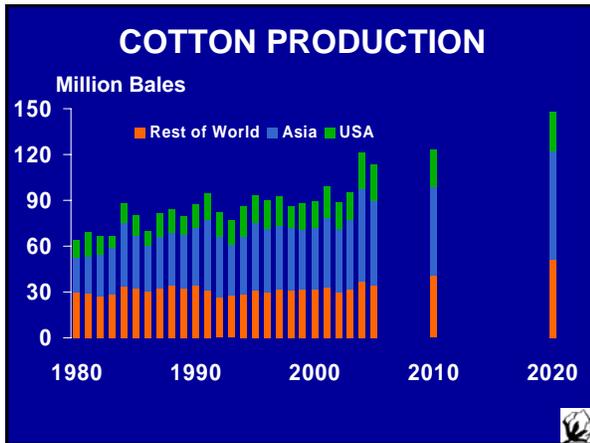
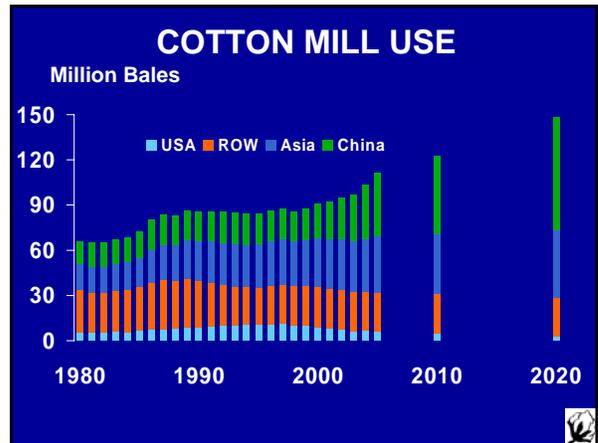
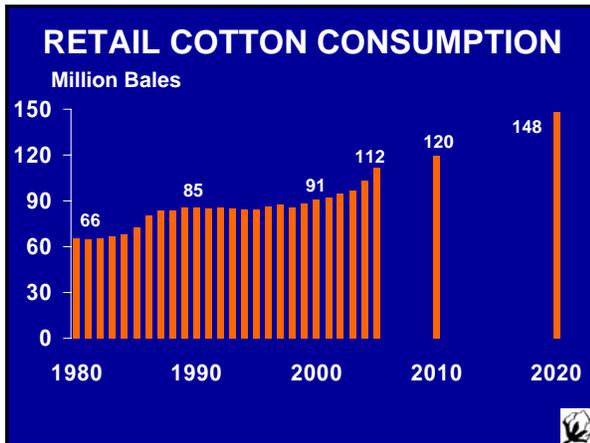


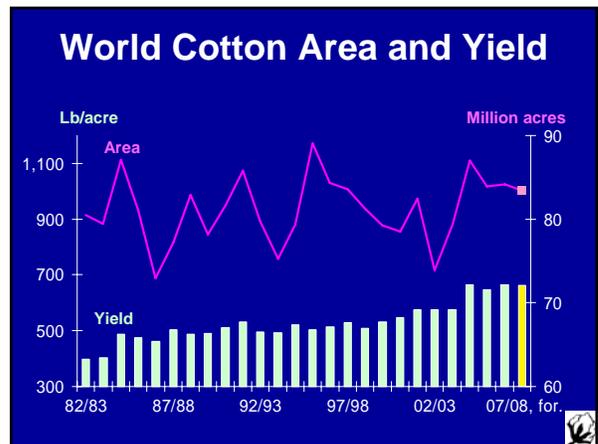
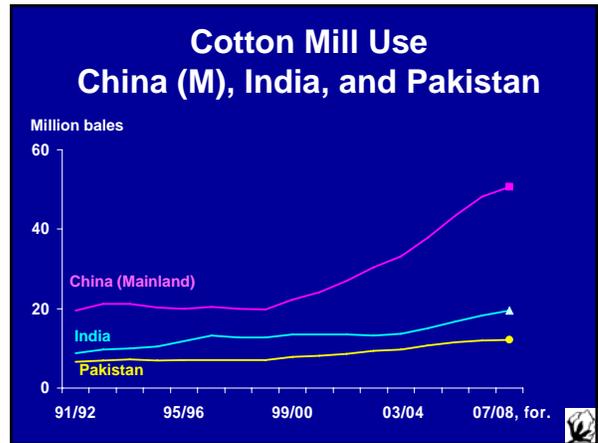
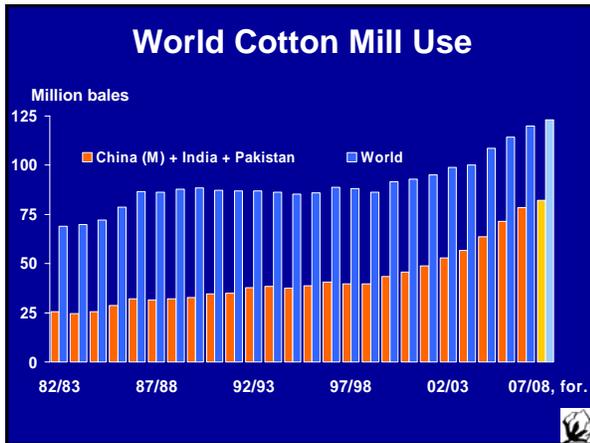
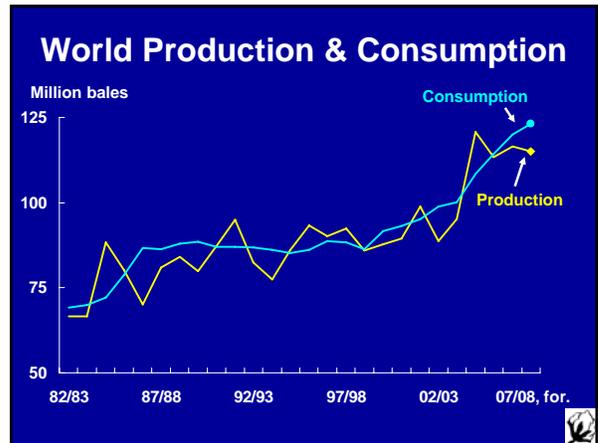
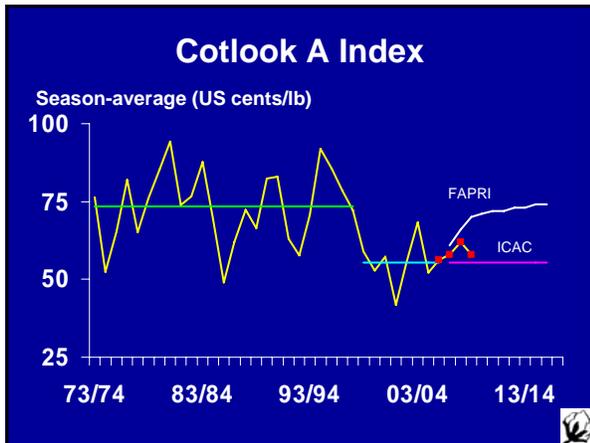
WORLD FIBER CONSUMPTION

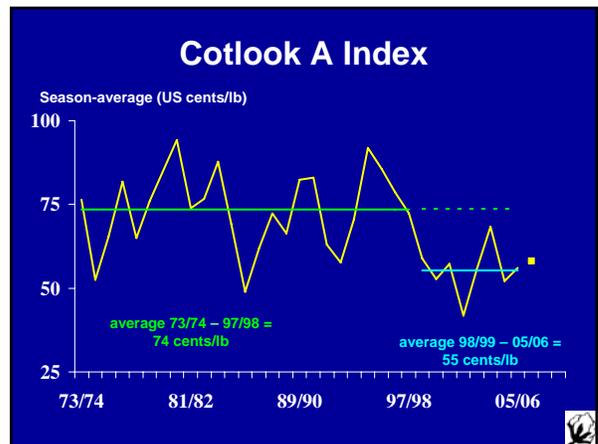
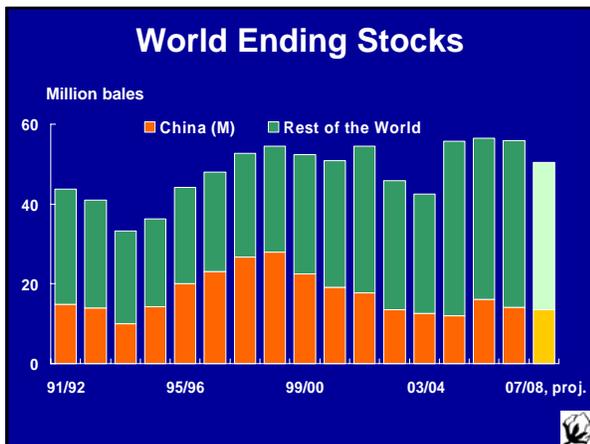
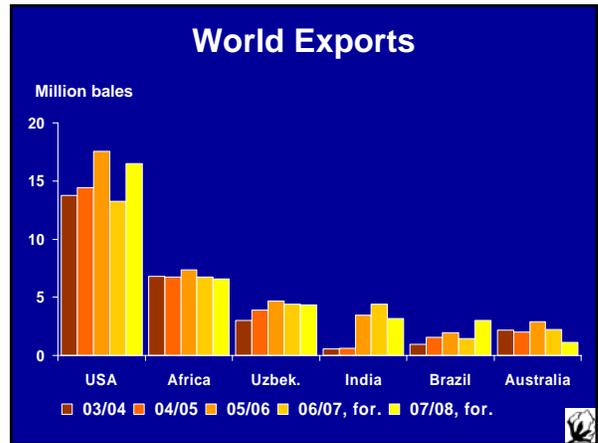
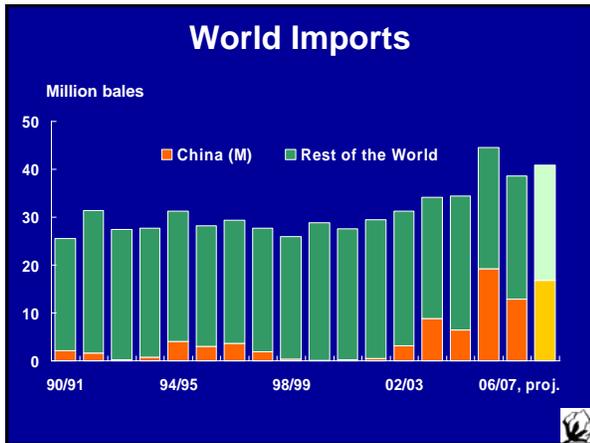
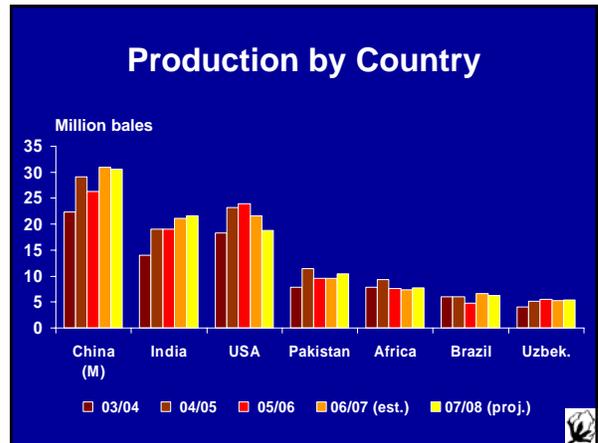
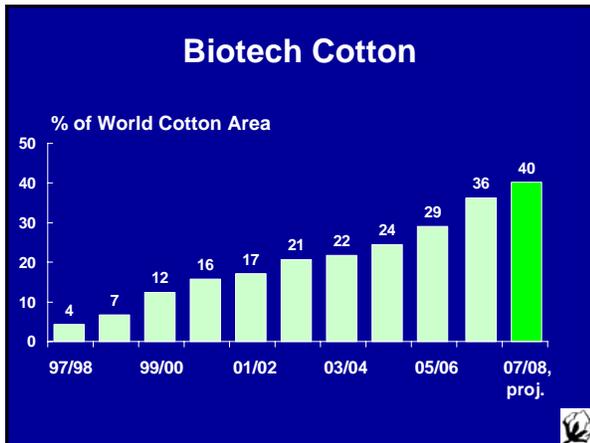


COTTON'S FIBER SHARE

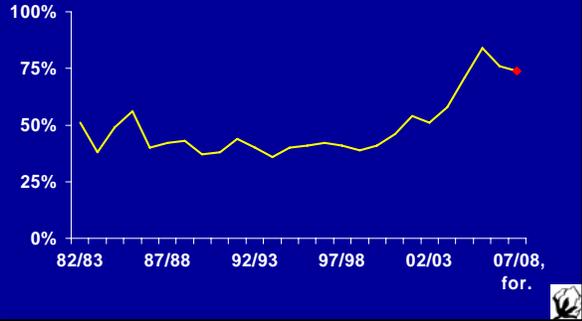








Stocks-to-use ratio in World-less-China (M)



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