

AUSTRALIA – 2005 COUNTRY REPORT

OUTLOOK FOR COTTON SUPPLY AND USE

2004/2005 Crop Harvest: - The Australian cotton industry consensus estimate of Australian cotton production for the crop harvested in 2005 is 658,300 tonnes (2.9 million [227 kg] bales), up 90 per cent on the drought affected previous year's 347,500 tonnes. The industry estimate of planted cotton area was 314,000 hectares which resulted in an average Australian lint yield for 2004/05 of 2,100 kilograms (9.24 [227 kg] bales) per hectare, an increase of over 18 per cent on the world record yield of 1,768 kilograms of lint per hectare in 2003/04.

2005/2006 Crop Forecast: - The main limiting factor to the coming year's cotton production continues to be drought and lack of available water for irrigation. The Australian Cotton Industry Council (the Australian cotton industry's peak body) estimates planting of 250,000 to 300,000 hectares resulting in estimated production of 477,000 to 567,000 tonnes (2.1 to 2.5 million [227 kg] bales) harvested.

Exports: - The Australian cotton growing industry is heavily reliant on exports, with up to 95 per cent of annual production sold on the world market. For 2004/05, it is estimated a total of 441,000 tonnes of raw cotton, valued at around \$AUD818 million, will be exported. The principal export markets for Australian cotton in 2004/05 were Indonesia, Thailand, the Republic of Korea, Japan and China.

GOVERNMENT MEASURES

Support: - There is no Government price support nor any other form of subsidies in Australia specific to cotton growing, ginning or marketing, other than in the form of a contribution to research and development (see Production and Research). There is active competition amongst ginners for seed cotton and amongst merchants for raw cotton, providing growers with a choice of ginning and/or selling arrangements.

World Trade Organisation: - Australia was disappointed by the failure to reach a first approximation of the Doha Agreement on agriculture by July this year and is pushing the EU and US to show greater leadership if we are to reach an agreement by December in Hong Kong.

The Australian cotton industry has been given approval to participate as a Non Governmental Organisation (NGO) at the next ministerial meeting scheduled for Hong Kong in December 2005. The Australian cotton industry continues to maintain that export and domestic support subsidies create significant market distortion and depress world prices and should be eliminated by all countries as early as possible.

The Australian cotton industry congratulates the ICAC Secretariat for responding to the resolution adopted at the 63rd Plenary in Mumbai to reactivate the Working Group on Government Measures (WGGM) and the subsequent publishing of Working Papers # 1 and 2, titled Government Policies to Cotton and Influencing Discussions in the WTO respectively. Australia contributed to the Working Group on Government Measures and this more fully details the activities of the Australian Government in relation to the cotton industry.

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INDUSTRY STANDARDISATION

Instrument Based Classing Systems: - The Australian cotton industry supports the move towards trading on instrument based classing systems and has been conducting trials on the consistency of colour measurement between machines used in Australia and correlating these to visual classing of colour grade. All properties other than colour and leaf are instrument based results. Further trials were conducted including instrument classing for leaf. Classing rooms in Australia participate in 'round-robin' classing trials and classing room environments are independently audited. The consistency of classing in Australia is very high.

The Australian cotton industry is fortunate that Ralph Schulzé has been appointed to the ICAC Expert Panel for Commercial Standardisation of Instrument Testing of Cotton.

Classing Best Management Practices (BMP) Program: - The Classing BMP program is one of the Australian cotton industry's extensions of BMP beyond the farm gate. The aim is to ensure a high level of consistency between classing facilities in Australia.

The Classing BMP program is an evolving document where the Cotton Classer's Association of Australia set certain procedural standards for Australian classing facilities. Some practical examples of the standards include sample conditioning, wall and ceiling colour, lighting, humidity management, sample testing procedures and check testing. An external audit is performed annually to ensure classing facilities are adhering to the BMP program.

Cotton Trading Practices: - With the volatile nature of cotton prices it is important to have standard international trade and arbitration rules by which cotton can be traded. The Australian cotton industry predominately trades under the International Cotton Association (ICA) rules and arbitration, both domestically and internationally.

Sanctity of contract, regardless of market movements, is of absolute paramount importance to the Australian industry, especially as we trade forward several crop years with growers and mills. The Australian cotton industry is proactive in and fully supports all efforts being undertaken internationally to improve sanctity of contract, arbitration procedures in the event of disputes, fulfilment of arbitration awards and standardisation of trading rules, bale sizes and packaging.

This year saw a large number of contracts fall into dispute, causing significant losses to the Australian industry and a concerted effort is required to restore confidence. Merchant members of the Australian industry intend to take a hard line with firms listed on default lists and on lists of unfulfilled awards, and will also discipline member firms found to be trading with firms on these lists. The Australian Cotton Shippers Association is a member of the Committee for International Co-operation between Cotton Associations (CICCA) and, therefore, abides by all rules governing this body.

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IMPACTS OF COTTON ON HEALTH AND THE ENVIRONMENT

Best Management Practices (BMP) is the Australian cotton industry's voluntary environmental program. It combines modern science and technology with practical on-farm management to protect and improve the natural environment.

The BMP program is uniquely Australian and is leading the world in environmental management on cotton farms. BMP is a very practical program where each cotton grower receives a BMP Manual that they work through to identify areas of environmental risk on the farm and develop action plans to overcome them.

This year saw the launch of the new BMP Land and Water Module which will help cotton growers protect and enhance the natural environments on their farms, improve water use efficiency and at the same time, improve profitability. The module covers topics that will mostly be familiar to cotton growers. As with the other areas of BMP, it will assist growers to organise information and records and provide an opportunity to assess the farm against a set of criteria, clearly identifying areas that need attention.

Some practical examples of BMP include safe chemical storage and handling, recycled water, reduced chemical usage, minimising erosion, integrated weed, disease and pest management. It is estimated that almost 60 per cent of the 2004/05 crop was produced under BMP. The cotton industry's efforts to improve environmental performance have been recognised by Australian Government and state governments with funding being provided to assist the industry in encouraging the adoption of BMP throughout the value chain.

Industry Response to Environmental Audit: - In 1991, the Australian cotton industry became the first Australian agricultural industry to have its environmental performance externally validated. This was done through a comprehensive audit of farming practices that provided recommendations to improve environmental performance and reduce impacts.

Today the industry is very different to that which was audited in 1991. The industry has spent over a decade working together and investing significant resources in the development of BMP.

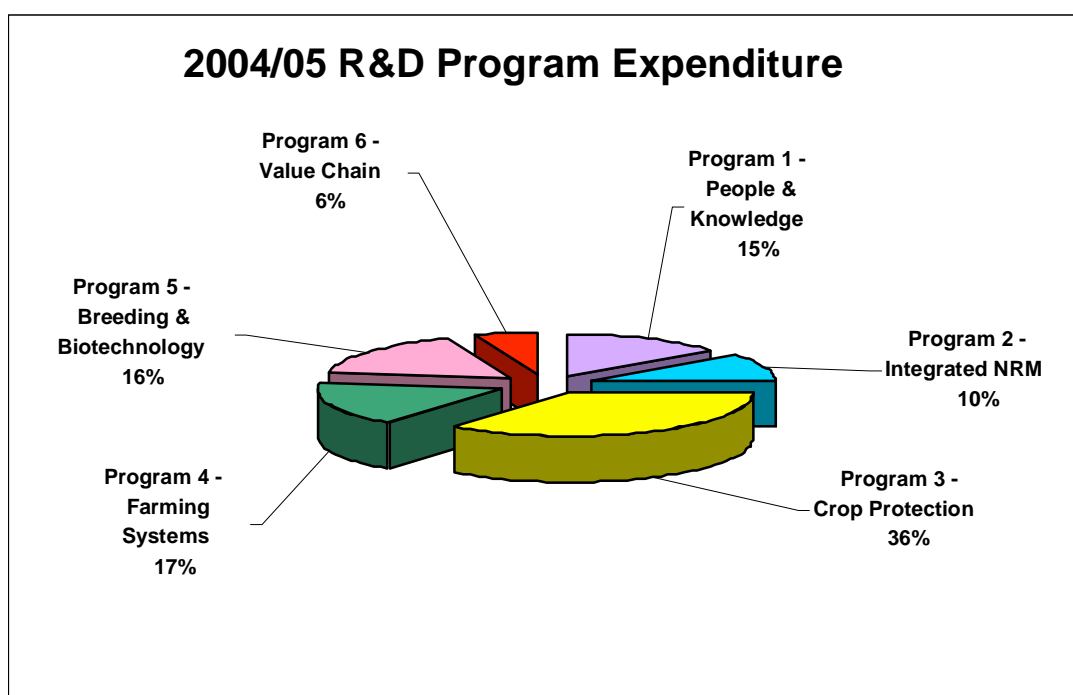
By 2003, 12 years after the first environmental audit, the industry believed it was time to test its environmental performance once again and conducted a second audit to see how far they had come. The 2003 audit found that the industry had achieved high compliance in 75 per cent of the recommendations from the original audit, with this having been attributable mostly to the BMP Program, improved water use efficiency and excellence in Integrated Pest Management.

In 2005 the publication of the cotton industry's response to the second environmental audit - 'Taking Responsibility for our Future' - was launched. In this publication all sectors of industry closely scrutinised the recommendations of the Audit and together came up with a response and action plan for each recommendation.

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PRODUCTION AND RESEARCH

Research Allocation: - In the financial year 2004/05 the Cotton Research and Development Corporation (CRDC) invested around \$A10.3 million directly into 6 key strategic research programs. The industry's contribution to the R&D program is matched by the Australian Government up to a specified cap (set at 0.5 per cent of Gross Value of Production). The chart below shows the levels of investment for each program:



The establishment of the new Cotton Catchment Communities Cooperative Research Centre (CCC CRC) in 2005 is a unique opportunity for the strategic research priorities of the CRC and CRDC to be aligned. CRDC is the largest single investor in the new CCC CRC, with an annual commitment of \$4 million, of which \$3.9 million is tied to specific research priorities.

The CCC CRC's new focus on catchments and communities opens opportunities for CRDC to further address its triple bottom line objectives through CCC CRC related investments, and it is expected that this broader focus will result in an enhanced cotton research effort, both in terms of quantity and scope.

Natural Resources: - The majority of Australia's cotton growing regions continue to remain drought affected, putting the spotlight on the sensitive issue of water supply. As the world's second driest continent, Australia must use its limited water resources wisely and is currently undergoing a process of water reform.

In June 2004, the Council of Australian Governments agreed to a National Water Initiative (NWI). The NWI is a major milestone in Australia's efforts to improve water management arrangements. It sets out priority actions for governments over the next 10 years.

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The NWI's key outcomes will include improved investment certainty, environmental health, water supply certainty and water planning. It will improve investor confidence through the provision of more secure water access entitlements and assist to broaden and deepen the water trading market, allowing water to move to its highest value uses and providing greater flexibility in business planning.

Environmental health will also improve under the NWI as environmental objectives are described more explicitly. All signatory governments are obliged to provide sufficient water and suitable management to ensure achievement of environmental objectives.

The Australian cotton industry has continued to provide significant resources in liaising and working with government on access and use rights to water pursuant to water sharing plans introduced during the year which define access and operations of water use over the next ten years. The Australian cotton industry continues to invest in both research and new technologies to improve water use efficiency.

Bio-technology: - Over the years, the Australian cotton industry's investment in gene technology has been integral to the economic and environmental sustainability of the cotton industry. The Australian cotton industry has progressively introduced genetically modified cotton over the past nine years. For the first eight of these seasons the genetically modified component of the crop was predominantly single Bt gene varieties and was restricted to 30 per cent for resistance management purposes.

The 2004/05 season saw the significant introduction of two-gene technology (Bt) (Bollgard II) which is much less likely to select for pest resistance. Over 80 per cent of the crop was planted to a combination of two-gene and herbicide resistant cotton in 2004/05 and there is little doubt that the new varieties, developed by the Commonwealth Scientific and Industrial Research Organisation (CSIRO) with funding support from CRDC, had a significant impact on improved yields and improved quality. The fourteen varieties released in time for the 2004 planting season contained many new features, including improved fibre quality, disease resistance, growth habit, maturity and regional adaptability.

Over the last 5 years the application of biotechnology has made a significant contribution to a dramatic reduction in the quantity of insecticides applied per hectare to Australian cotton crops. Prior to 1999/2000, Australian cotton received between 7 and 10 kilograms of insecticide active ingredient per hectare. In the last few seasons, use has reduced by 66 per cent, and the figure is now between 2 and 4 kilogram active ingredient per hectare. In 2004/05 it is estimated that Bollgard II® crops required less than 15 per cent of the insecticide required for conventional crops (see graph below).

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