

AUSTRALIA - COUNTRY REPORT

THE COTTON GROWING AND GINNING SECTOR

2002-03 Cotton Crop

The Australian cotton industry consensus estimate of Australian cotton production for the crop harvested in 2003 is 368,000 tonnes (1.62 million [227 kg] bales) down over 50 per cent on the previous year's 745 000 tonnes.

The industry estimate of planted cotton area was 220,000 ha (although the Australian Bureau of Agricultural and Resource Economics' [ABARE's] figure is about 10,000 ha less).

The NSW area was estimated at around 160,000 hectares, while in Queensland the area was estimated at around 60,000 hectares. The reduced plantings are attributed mainly to lack of irrigation water resulting from extended drought conditions and to a lesser extent, low world prices.

Based on the above industry figures, the average Australian lint yield for 2002-03 is 1,673 kilograms (7.37 [227 kg] bales) per hectare, a reduction of just over 3 per cent on the world record yield of 1,731 kilograms of lint per hectare in 2001-02.

2004 Harvest Forecast

The main limiting factor to the coming year's cotton production is the continuing drought and lack of available water for irrigation. Some members of the Australian Cotton Industry Council's Raw Cotton Marketing Advisory Committee (RCMAC) consider that even with a minor improvement in water availability, production should be at around last year's level. If the improvement in water availability is more significant, production would rise accordingly. However, if it deteriorated, production could fall to as low as one million bales. This latter view is supported by ABARE, which in June released a forecast of 250kt. For these reasons it is not possible at this time to make an industry forecast with any degree of confidence.

Domestic Utilisation

It is estimated that the domestic spinning industry consumed around 25 600 tonnes of raw cotton in the 2002-03 marketing year, a decrease of around 25 per cent on the previous years consumption.

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. In 2002-03, a total of 595 402 tonnes of raw cotton, valued at \$A1 154 million, was exported. In volume terms this represents a decrease of around 16 per cent over the previous year's exports.

Principal export markets in 2002-03 were Indonesia, Japan, Republic of Korea and Thailand.

TRADE ISSUES

Agricultural trade reform is vital to Australia as a major exporter of agricultural products, and to the prosperity of the many agricultural producers in developing countries. The WTO Doha Round of trade negotiations is our only real opportunity in the foreseeable future to achieve meaningful multilateral reform. Such reforms have the potential to provide long-term benefits worldwide, with the Australian Bureau for Agricultural Research Economics estimating that reducing all support to agricultural producers even by a third would lead to global economic gains of US\$34 billion a year.

Australia, along with its Cairns Group colleagues, is therefore committed to an ambitious result in agriculture, in line with the mandate agreed to by Trade Ministers at Doha, when this Round was launched. This mandate requires substantial increases in market access, elimination of export subsidies and significant reductions in trade-distorting domestic support. The Australian Government has made it clear that there simply will be no outcome to the Round as a whole if there is no acceptable outcome on these issues.

The deadline for establishing reform guidelines for agriculture was missed in March this year, due in large part to the reluctance of some key players to accept the need to undertake genuine reforms. As a result, the agriculture negotiations are now entering a particularly challenging phase. The European Union's Mid-Term Review of its Common Agricultural Policy, could potentially provide a circuit breaker to the negotiations by allowing it to show some flexibility on agriculture, however, it is unclear how this will be reflected in the EU's negotiating position. The Australian government has encouraged the EU to use these changes to the CAP as a basis to fully engage in the upcoming WTO ministerial meeting in Cancun.

During the agricultural negotiations, several developing countries have raised the issue of the widespread use of production and trade subsidies provided to cotton producers in many producing countries. This is an issue which Australia is also deeply concerned about. A report commissioned by the Australian cotton industry estimates that the aggregate income for Australian cotton producers would rise by an estimated A\$42 000 per grower per year if major countries were to lift trade barriers on textile imports and end subsidisation for farmers. The report further found that worldwide, cotton producers and consumers would realise significant gains from this move. The Doha round represents a real opportunity to make progress towards these goals.

Numerous other studies have demonstrated the negative effects of these subsidies on world price volatility. Of particular concern is the adverse

impact of these subsidies on cotton production in other countries. Subsidies contributing to lower world cotton prices move the burden of adjustment of lower prices onto producers in many developing countries which often have little or no government support, and in which many rural producers are heavily reliant on cotton for their livelihood. Hence we are strongly supportive of the work of the Working Group on Government Measures on identifying effective strategies to reduce and eventually eliminate the negative affects on trade caused by direct government assistance to cotton production and trade.

Like many cotton producing countries, Australia will be monitoring with interest progress in Brazil's WTO dispute concerning US subsidies for upland cotton. As a third party to the dispute, we have been reinforcing our systemic and commercial interests in the issues being considered by the WTO disputes panel.

AUSTRALIAN COTTON SHIPPERS' ASSOCIATION

The Australian Cotton Shippers' Association (ACSA) represents the merchant sector of the industry and is focused on promotion of Australian cotton and the wider interests of the industry in export markets. ACSA's aims include preserving the sanctity of contracts and upholding the integrity of trade as well as facilitating compliance with contractual obligations and adherence to arbitration awards

ACSA is supportive of a whole-of-industry approach and holds membership of Australian Cotton Industry Council (ACIC), the Committee for International Co-operation between Cotton Associations (CICCA), the International Textile Manufacturers Federation (ITMF) and the Australian Peak Shipper's Association (APSA). It is active on the Raw Cotton Marketing Advisory Committee (RCMAC), the Cotton Evaluation & Advancement Committee (CEAC) and the ACIC Trade Committee.

An ACSA delegation of seventeen visited China in February 2003. The party included a grower representative and a researcher from one of the Australian Government's peak research bodies, the CSIRO. China is an important market for Australian cotton, being the fifth largest importer of Australian cotton behind Indonesia, Japan, Thailand and South Korea. A number of government agencies were visited in Beijing to discuss policy and industry development especially as concerned the impact of WTO accession. Commercial presentations were held for major spinner interests in Jinan (Shandong Province) Shanghai (Jiangsu Province) and Guangzhou (Guangdong province). The seminar topics included cotton quality, post-harvest fibre research, cotton yield, quality and the environment and trade issues.

ACSA also visited Vietnam in March 2003. Austrade sees Vietnam as a growing and important market for Australia cotton and provided briefings to ACSA in both Hanoi and Ho Chi Minh City on recent growth in Vietnam's textile and apparel industry. Specific meetings were arranged with the Ministry of Industry who outlined current government policy for the industry and the Vietnam Textile and Garment Corporation (VINATEX), members of which account for 65-70 per cent of the Vietnamese spinning capacity.

COTTON AUSTRALIA

Cotton Australia is the peak industry body for Australia's 1200 cotton growers and is funded by a voluntary levy of \$2 per bale. Cotton Australia acts to represent and advance the interests of the Australian cotton industry to governments, non-government organisations, the media and the community.

Promotion

Domestic promotion in Australia is the responsibility of Cotton Australia. During the year Cotton Australia hosted many promotional events including

the "Cotton Club" Parades at the Royal Queensland Show in August, reaching over 50,000 people.

Cotton Australia continued its proactive, coordinated promotion of the industry to the community, government and media. The Cotton Australia website is instrumental in this regard and continued to provide a wide range of cotton information to a growing audience.

Education also remained a major focus, with the Cotton Discovery Centre teaching over 10,000 students about the cotton industry across a range of subject areas.

Cotton Australia firmly believes that the promotion of the farming aspects of the industry is essential in gaining consumer acceptance.

Farming Issues

The majority of Australia's cotton growing regions 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. Under Australia's Federal system of government, responsibility for natural resource management rests with the States and Territories, but all governments, including the Commonwealth, increasingly recognise the need for a better coordinated national water plan.

The Australian cotton industry is seen as a responsible user of water and an industry that is using cutting edge technology to improve water use efficiency. In fact, Queensland cotton growers have achieved almost 13% water use efficiency gains over the last two seasons. Cotton Australia has continued to provide significant resources in liaising with governments over water use issues, particularly the right for cotton growers to have access rights to water for the long term in New South Wales and Queensland. In addition to these natural resource issues, Cotton Australia also represented the interests of cotton growers in the areas of chemical regulation, biotechnology, transport and rural infrastructure.

Best Management Practices

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

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 to develop action plans to overcome them.

Some practical examples of BMP include safe chemical storage and handling, recycled water, reduced chemical usage, minimising erosion, weeds and diseases and Integrated Pest Management.

It is estimated that almost 60 per cent of the 2002-03 crop was produced under BMP. By June 2003, 40 Area Wide Management Groups had been established in cotton valleys to tackle environmental and on-farm issues across catchments.

The cotton industry's efforts to improve environmental performance was recently recognised by the Commonwealth Government with a \$600 000 grant to continue development and implementation of the BMP program. This grant will assist with a thorough assessment of the BMP program to date and provide for a move to the next level, where wider issues like sustainable land and water management can be addressed. The project will also provide a better understanding of how Environmental Management Systems, quality assurance systems and BMP guidelines can work together. Australia's BMP program has so far successfully addressed on-farm issues such as pesticide applications, chemical storage and handling, farm design and management and Integrated Pest Management.

MARKETING ARRANGEMENTS

Marketing is undertaken by a range of organisations including grower's cooperatives, private companies and the subsidiaries of international companies. There is no Government involvement in either export or domestic marketing. A non statutory body, the Raw Cotton Marketing Advisory Committee, acting as a sub-committee to the Australian Cotton Industry Council (ACIC), facilitates the exchange of information between the Commonwealth Government and the various sectors of the industry on cotton marketing.

There is no Government price support nor any other form of assistance specific to cotton growing (making Australian growers among the most efficient in the world) ginning or marketing, other than in the form of a contribution to research and development (see below). 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.

RESEARCH AND DEVELOPMENT

The Commonwealth Government contributes to research and development through the Cotton Research and Development Corporation (CRDC). The CRDC established in 1990 under Commonwealth legislation is a partnership between the Australian cotton industry and the Commonwealth Government.

The CRDC is funded by the cotton industry by way of a levy paid by all cotton farmers of \$2.25 per 227 kilograms. The Commonwealth matches this levy contribution on a dollar for dollar basis, up to a maximum 0.5 per cent of the gross value of production.

The CRDC has a nine-member board with directors drawn from the industry, community and government. It is accountable to the industry through the Australian Cotton Growers' Research Association and to the Federal Parliament. The Corporation is a member of the cotton industry's peak body, the Australian Cotton Industry Council. The Corporation is based in Narrabri NSW, in the heart of one of Australia's major cotton production areas and close to the industry's key research facility, the Australian Cotton Research Institute. The Cotton Research Institute is the headquarters for the Australian Cotton Cooperative Research Centre (Cotton CRC) and the CRDC is a core partner in the Cotton CRC.

The Corporation identifies its intended outcome as a more sustainable, competitive and profitable cotton industry providing increased economic, environmental and social benefits to rural and regional communities and the nation. In the financial year 2002-03 the CRDC invested around \$A14.2 million directly into research grants expenditure, a decrease of around 3 per cent on the previous year and managed to fit within reduced levy income. Approximately 47 per cent of the Corporation's total budget for 2002-03 was directed towards improving the sustainability of the cotton industry through continuous improvement in resource and environmental management. A further 38 per cent was allocated towards lifting the profitability and international competitiveness of Australian cotton while around 15 per cent contributed to improving and assisting the people and communities involved in the cotton industry.

During the year the CRDC initiated a second Environmental Audit of the Australian cotton industry. The first Environmental Audit was conducted in 1991, covering the environmental aspects of all stages of cotton production, from preparation of land through planting to harvesting and ginning of raw cotton. A total of 69 recommendations were made and all were acted upon, resulting in many improvements in the cotton industry over the last eleven years.

The aims of the second audit are to:

- Assess the industry's response to the previous audit recommendations;
- Assess the environmental issues currently facing the cotton industry;
- Assess current industry action in light of the previous audit;
- Review core information and data to provide a basis for identifying significance to the cotton industry; and
- Recommend strategies and priorities to further improve the cotton industry's environmental management.

The results of the independent audit were presented at a special Parliamentary briefing session on 14 August. They confirmed that the Australian cotton industry had achieved very significant environmental improvements. These were demonstrated by a range of indicators including riverine contamination, pesticide use and the adoption of the industry's Best Management Practice (BMP).