



## **78<sup>th</sup> Plenary Meeting – Brisbane (Australia)**

### **MINUTES**

#### **Fourth Open Session**

#### **Reports from the Secretariat**

13:45 hrs, Tuesday, 4 December 2019

Chair: Kai Hughes, Executive Director, ICAC

The CHAIR invited Ms. Lorena Ruiz, Economist at the International Cotton Advisory Committee to deliver her presentation.

Ms. Lorena Ruiz started her presentation by pointing out that world demand for textile fibres has expanded at an impressive pace over the last five decades. This increase has been supported by global economic growth and population. The market share of developed countries in total textile fibre consumption has dropped from 51% in 1969 to 30% in 2018. While in developing countries the market share has increased from 29% to 66%, in that same period. The relevance of developing countries in world textile fibre consumption has been accentuated by their population growth.

Relative Fibre Prices are also a very important driver of textile fibre demand. In 2019, the average relative price of cotton to polyester was about 1.5, meaning that cotton was 50% more expensive than polyester. World consumption of synthetic fibres increased for the 10th consecutive year and reached a new record of 62.3 million tonnes in 2018. Amongst synthetic fibres, polyester is the largest fibre used globally, accounting for about 89% of the total. The demand for wood-based cellulosic fibres has also shown rapid growth in recent years, increasing from 2.7 million tonnes in 2008 to a new record of 6 million tonnes in 2018. Most of the cellulosic fibre consumption are staple fibres, which account for 94% of the total.

It was pointed out that the demand for textiles fibres depends on economic conditions, thus a global recession could therefore lead to a decrease in cotton demand. **The latest projections show that world fibre demand in 2025 will reach 121 million tonnes, which means that the world is going to consume about 18 million tonnes more in the next six years.**

The Delegate from the USA asked what other factors, in addition to the US – China trade dispute, affected cotton prices.

Ms. Ruiz replied that price competition from polyester and stock-to-use ratio are important factors.

The Delegate from Turkey asked what definition of developed and developing countries was being used by the Secretariat.

Ms. Ruiz replied that the Secretariat was using the IMF definitions.

The delegate of Turkey asked if recycled materials could fill the gap in demand supply of cotton fibres.

Ms. Ruiz replied that it will depend on the development of new technologies.

The CHAIR invited Mr. Andrei Guitchounts, Director of Trade Analysis at the International Cotton Advisory Committee to deliver his presentation.

Mr. Guitchounts presented ICAC's annual report on government measures supporting the cotton sector. Subsidies to the cotton sector, including direct support to production, border protection, crop insurance subsidies, and minimum support price mechanisms, have been estimated at \$5.4 billion in 2018/19, which is a moderate decline from \$5.5 billion in 2017/18. Ten countries provided subsidies in 2018/19, and averaged 16 cents/pound, down from 17 cents/pound in 2017/18. Since 1997/98, when the Secretariat began reporting on government measures in cotton, there has been a strong negative correlation between subsidies and cotton prices: In years when prices are high, subsidies tend to decline. In years when prices are low, subsidies tend to rise. The share of world cotton production receiving direct government assistance, including direct payments and border protection, increased from an average of 55% between 1997/98 and 2007/08, to an estimated 83% in 2008/09. From 2009/10 through 2013/14, this share declined and averaged 48%. In 2014/15 and 2015/16, the average percentage of production receiving direct assistance increased to 75%. That number averaged 49% between 2016/17 and 2018/19.

The government of China supports cotton production by controlling cotton import volumes and values and by applying border protection measures based on quotas and sliding scale duties, with an effective tariff of 40% on cotton imported without a quota. In addition, starting in 2014/15, the Chinese government provided direct subsidy payments to cotton producers in Xinjiang based on the difference between a target price set for the season and an average market price. The sum of all subsidies provided by the Chinese government are estimated at \$3.5 billion (30 cents/pound) in 2018/19, down from \$3.9 billion in 2017/18 (26 cents/pound). Assistance outside China increased in 2018/19 to \$1.9 billion from \$1.6 billion in 2017/18. The sum of all types of support provided to U.S. cotton producers, including PLC/ARC, crop insurance, and STAX is estimated at \$1.2 billion (14 cents/pound) in 2018/19, up from \$890 million (9 cents/pound) in 2017/18. In 2018/19 the amount of direct subsidy for production in Greece was estimated at \$214 million (35 cents/pound, down from \$232 million (48 cents/pound) in 2017/18). The subsidy in Spain is estimated at \$69 million (48 cents/pound) in 2018/19, down from \$75 million (52 cents/pound) in 2017/18). The decline is mostly the result of a stronger U.S. dollar in relation to the euro. Turkey provided US\$314 million in assistance in the form of a premium for high quality seed cotton.

The CHAIR invited Ms. Lihan Wei, Statistician at the International Cotton Advisory Committee to deliver her presentation.

Ms. Wei presented the statistical estimates for the past season and projections for the current one. She indicated that the fundamentals of supply and demand, with current estimates for production outpacing production, put downward pressure on prices as stocks levels may increase.

Little growth in consumption - Consumption drives demand and little growth in consumption is expected as global economic growth is slowing. Trade barriers and trade disputes have weakened import and export growth and have positioned the global economy into a synchronized economic slowdown that has slowed the pace of manufacturing and investment. Trade disputes are not limited to that between the United States and China but include a range of major economies across the globe and create uncertainty for businesses and lower investment activity. Trade deals and resolutions are therefore needed to create increased confidence in the market.

Slowing trade – Trade for 2019/20 is estimated at 9 million tonnes. Global economic growth has slowed to the lowest levels in decades. For the cotton sector, where consumption has been led by Asian and Southeast Asian economies, the recently revised IMF forecasts of a global synchronised slowdown are expected to stall growth for the region’s manufacturing activities and demand for consumer goods.

Impact of policies - Resolving trade conflicts, revising global trade rules and increasing transparency in trade policies will help to support growth, rebuild investment and boost consumer confidence for the cotton sector. New uncertainties have emerged in addition to the usual risks facing agriculture. Following several years of relatively calm market conditions, world agricultural markets today face mounting risks, including policy uncertainty from trade tensions. Our recommendations include more open, transparent and predictable trade as these are important for the cotton market and its role as an important commodity in the global economy.

The Delegate of Turkey asked what the sources of the Secretariat data were.

Ms. Wei replied that coordinating agencies of the ICAC are the primary sources, however when data is insufficient private sources of information are used.

The CHAIR invited Dr. Keshav Kranthi, Head of Technical Information at the International Cotton Advisory Committee to deliver his presentation.

Dr. Kranthi noted that cost of production is a major challenge and indicated that the latest ICAC publication called “ICAC DATA BOOK 2020” contains a lot of information on the subject. The book contains a lot of information on varieties, soils, insects, water usage, fertilizers, number of farmers, number of researchers etc as well as information on weather and the cost of cultivation. It also contains long term trends and inter-country comparisons and charts on insect pests, disease, weeds, insecticides and sowing and harvesting calendars.

For economic sustainability, net returns per hectare are most important and will depend on yields, market price and production costs. The majority of African countries have the lowest yields in the world therefore it is assumed that net returns would be low. However, the cost of cultivation in these countries is also low but, despite this, the net returns are also low. This is because of the low market prices for seed-cotton in Africa. The market prices are about 30% less than most other countries. Interestingly, the production cost per Kg seed cotton is lowest in Africa and is comparable to Australia. The production cost of cotton lint is also low in Africa and is competitive with Australia, Argentina and Pakistan. In most African countries, expenditure is highest on manpower and constitutes 50 to 75% of total production costs in most African countries, whereas expenditure on manpower is less than 50% in other countries of the world. The data also indicates that cotton is a labour-intensive crop in many countries. Labour in these countries ranges from 50 to 345 man-days per hectare per season. In countries where daily wages are high, utilization of human labor is the lowest. Manpower costs are highest in countries which employ more man-days and where the labour wages are also relatively higher.

The cost of seeds for sowing is highest in countries with biotech crops. GM seed costs are relatively less in India because of the restrictions imposed by the Government on royalties. Argentina and Pakistan use public sector GM seeds.

Fertilizer costs are highest in China and Brazil and lowest in Africa. The cost of pesticides is highest in Brazil, Turkey, Egypt, Greece and China, but again lowest in Africa. It was recommended that small scale machinery can reduce cultivation costs in Africa and a few other countries. Yields in Africa must increase. The major steps to ensure this included the use of delinted seeds, high density planting and canopy management. Farmers in Africa need support on market prices of seed-cotton. Pesticide costs are highest in Brazil, Turkey, Egypt, Greece, China. Efforts must be made to cut

down costs through IPM. Biotech seeds are expensive. Africa must examine cost factors carefully before introducing GM seeds.

The delegate from Australia asked if water licenses costs had been included in the calculations.

Dr. Kranthi answered no.

The delegate from Pakistan asked if mechanization could be used to reduce the cost of man-power.

Dr. Kranthi replied that there are ways to introduce low cost mechanization to reduce man-power cost, such as planters.

The delegate from Burkina Faso asked how the conclusion that farmers in Arica, including C-4 countries, were paid lower prices compared to other countries was arrived at.

Dr. Kranthi replied that data came from the coordinating agencies and had been converted from local currencies into \$US. He expressed full confidence in the data used.

Dr. Michel Fok noted that there are differences in what is included in production costs between African and other countries, such as ginning and transportation costs, family labour and the extent of mechanization.

Dr. Kranti replied that every effort had been made to compare costs fairly based on the available data but the study could be improved as more data became available.

The representative from UNCTAD noted that the calculation of net returns should reflect costs throughout the whole value chain starting with the international market price down to the farm gate price in order to understand if prices paid to farmers were fair.

Dr. Kranti agreed with the proposed approach.

The delegate from Turkey noted that the recent decline in world prices was caused by the release of cotton from the reserves in China.