

IS COTTON TRENDY?

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You will forgive me, I trust Mr Chairman, if I confess to you that I cannot regard this place as Paradise. The last time I addressed a cotton audience here was in March 1983. I came bearing a text that was profoundly pessimistic as to the immediate outlook for prices, particularly in Australia - only to discover on my arrival that Russia had begun purchasing every bale she could lay her hands on. This time I am invited to provide a "World Cotton Overview". But I must be careful. The next speaker is to enlighten you upon the US Farm Programme - which as we all know, is as critical to the world cotton situation as the weather is to yields.

I will admit, nonetheless, that there are opportunities to be grasped on occasions such as this, since one can use them (whether they be publicly documented or not) to say things that would be inappropriate in one's normal work. And what I invariably find myself saying is this: be sceptical; the geographical and ideological divisions in the raw cotton market distort your picture much more than you imagine.

We are asked this afternoon to examine "trends", a word perfectly illustrative of the dangers. A trend is after all almost by definition a deception. It is comfortingly manipulated to avoid spikes. It points with reassuring moderation to the general inclination of the road, but offers no warning as to the lurches and jolts by which ascent or decent will be achieved.

The long-term outlook for world fibre consumption, we are told, is upward. Mr John McPhee, the Managing Director of the International Wool Secretariat, was depressing on this score at your Bicentenary Wool Conference. However, papers presented to last year's meeting of the International Cotton Advisory Committee in Brussels came to rather reassuring conclusions regarding world consumption of all textile fibres by the year 2000. They suggested, and I think few of us would care to disagree, that foreseeable population increases and economic growth would carry world needs to between 230 and 245 million bales (of 480 lbs), and that, as cotton should retain a market share of over 45 percent, its use would rise to between 105 and 120 million bales. The current figure is about 82 million. So to take the more pessimistic view we may be asked, in the next 12 years, to meet a 28 percent increase in requirement; the more optimistic would call for 16 percent. Five-year average yields have risen by 27 percent in the past 12 years, whilst sowings have barely increased.

Unless very different circumstances apply to the food crops, availability of land should not be a limiting factor, and challenge to grow more cotton should not be hard to meet.

But the manner in which it will be met, and by whom, will be of vital interest to Australia. Australia depends upon exports. World imports, as a proportion of consumption have been falling of late. Will they remain large enough to sustain your trade?

I have often wondered whether a farmer in the Southern Hemisphere regards it to be advantageous that he grows cotton where he does. It's perhaps a matter of how you view things. I shall always treasure the spontaneous remark of one delegate to the International Cotton Advisory Committee Plenary meeting in Sydney three years ago, from a country that shall be nameless. It was ridiculous (he said inadvertently through the amplifier) to hold plenary meetings in Australia - which is too far away!

You, certainly, need no reminding that the bulk of the world crop - next season, we estimate, more than 83 percent - is grown in the Northern Belt. There is doubtless some scope for the increase of output in South America and Southern Africa, but within a foreseeable period it is from the Northern growers, by which I mean

Asian, that you and the US must therefore fear competition - direct competition when their home-produced cotton is offered as lint, and indirect when it is offered as textiles to your own now traditional markets.

I take it that you will regard as axiomatic the assertion that among the major producing countries only the US and Australia adjust plantings significantly in response to the movement of world price. It is a demonstrably sensible belief, particularly if one accepts that the Cotton Outlook Index is a fair reflection of values. Not all accept it as such, I must confess. You will be surprised perhaps to learn how many countries wrench the Index from our hands. Characteristically, they bear it away to some ill-defined domestic location. There they distort it with discounts, or pummel it with premiums, use it for some purpose for which it is entirely unsuited, and then round upon me with the accusation that the thing is no good at all. That happily is not the case in Australia. There were, you in particular will recall Mr Chairman, a few minor pummellings in the early days, but the bruises are fading, and it was some consolation to read in the econometric treatise of Messrs Mues and Simmons at the BAE that the Index may be a better statistical prognosticator than is the futures market. You will not be surprised to learn that I hold that treatise in some esteem.

I share in particular its view that the magnitude of Russian and Chinese sowings is palpably a consequence of official ambitions, rather than a reaction to world price.

There one's satisfaction regarding the predictability of Russia and China emphatically for the moment ends. Both of them do display large, perhaps inexorable trends, but we have failed to discern them. We accepted earlier, did we not, that five-year average world yields had risen by 27 percent in the last twelve years? During the first half of the period they were thought to have risen sharply in Russia as new land was being brought under irrigation and the plough. The five-year average by the end of the 1975/76 season, may truly have been about 758 lbs an acre in Russia, against 468 lb in the United States. A rising tide of Soviet exports looked assured. Matters were not, however, quite what they seemed. As we all now know, the next few years saw falsification of Uzbekistan's cotton production statistics on a massive scale, to sustain commissars of improbable avarice and personal power. Even by 1985 in Sydney, the extent of the deception was not recognised by the outside world. Yet we now believe the Russian five-year average yield by the end of 1987/88, to have been just 625 lbs an acre, down by over 17 percent in our twelve years. So if yields in the world as a whole in those years rose by 27 percent, the rest of the world recorded impressive gains.

Chief among the rest of the world, of course, was China, whose yields appear to have risen by over 70 percent. A more liberal official policy had spectacular consequences, as the Chinese farmer suddenly awoke to the opportunities for personal gain. Such success could occur only once, and here too there were odd influences at work. There was clearly some loss of official control over events.

Planting rose more than was intended, to the detriment of food output. After the quite astonishing achievement of 1984/85, it became necessary to rein back a little; upon which the weather took a hand. Seeming glut turned to scarcity in unexpectedly short order. Yet again we were deceived; not this time by the ill-intentioned, but by the ill-informed. It is remarkably difficult to discover in China, not least it would seem for the Chinese themselves, what precisely has been sown, produced and held back as stock in its many producing provinces. The Cotton Outlook spreadsheet for Chinese production is one in which we can take little pride - uniquely devoid of information gleaned directly from our own sources, an unhappy hotch-potch of items cadged, borrowed and assumed.

I have deliberately avoided reference in the Chinese context to price, disregarding it in a manner that still seems appropriate for Russia. Yet even in China price has in fact become the essence of government policy. A farmer is "contracted" to provide a given volume of cotton lint to the authorities. Although the basic price has been unaltered for several seasons, a varying proportion of his deliveries that is eligible for a bonus affords very different degrees of incentive, and until recently has been larger for the Northern growers than the Southern.

Price too is incontrovertibly the principal instrument of production policy in most of the second-rank producing countries. Few of their economies are centrally controlled in the Socialist sense, but their governments' ambitions for exports of either textiles or raw cotton or both, are expressed through the price at which cotton is bought (whether privately or officially) from the grower.

It is tempting for the foreign observer of national price control mechanisms to assume that they are all set with benevolent intentions insofar as the individual farmer is concerned. That is not always so. I could describe for you in private several situations in which prices purported to be established in the interest of the grower, appear in reality to be set at the lowest possible level commensurate with maintaining acreage, so

that exports can bring a maximum return to the national exchequer in foreign exchange.

Moreover there are countries where the manner in which cash reaches a farmer under a seemingly generous system actually discourages output. A high minimum price may be paid late, paid only in part, or not paid at all. Whether it is withheld for reasons of incompetence, iniquity or inadequacy of resources, may or may not be apparent.

The monopoly function of the Cotton Export Corporation in Pakistan's marketing system is about to be withdrawn. One can therefore now admit without embarrassment that that body played a most curious role in the domestic market in many recent seasons. It deliberately refrained from buying when the domestic mills were also purchasers, fearing to sustain prices at above the minima. Plantings in Pakistan have risen scarcely at all in recent seasons, but production has burgeoned with the improvement in yield. Virtually the entire Pakistan planted acreage is irrigated, but even today yields are only just topping 500 lbs per acre. One suspects there to be huge scope for improvement if price incentives are sustained.

A comparable but even more complex situation arises in India, where a nationwide system of price minima also operates. Its buyers of last resort is the Cotton Corporation, which occasionally cannot purchase in sufficient volume to fulfil its purpose. Just one state, Maharashtra, permits farmers to sell only to the Co-operative - a circumstance which creates illicit flow of seed cotton across state borders, for reasons which I scarcely need explain to an audience in Queensland. Despite her unique hybrid varieties, India's national average yield, like that of the United States, is pulled down by a large unirrigated average; like Pakistan she probably grows much less on her irrigated land than is her potential. So price incentives will be crucial for development. The seed cotton price minima have just been raised appreciably in real terms for the 1988/89 crop.

I have concentrated so far upon yield rather than acreage potential as your principal Asiatic threat. Familiar irrigation constraints are already notoriously apparent in Russia and Pakistan, and expansion will not be spectacular in either India or, I imagine, China. Turkey is a very different matter. Her colossal Anatolia irrigation system is about to water its first land, and its potential for cotton may be sufficient nearly to double the country's lint output (already approximately 3,000,000 bales) by the end of the century. As to what gradations of increase might be

realistic, Turkey has been remarkably coy. Once again, price is the instrument of incentive.

From all this Asiatic mist, I emerge with three hypotheses: firstly that acreage could not possibly respond to world price even if administration favoured its doing so; secondly, that the challenge to US, and therefore Australian, exports through the national price systems will be unrelenting, and thirdly that a more comprehensive examination of those systems would provide production trend indications which might be of interest even to the countries themselves. You have perhaps a right to demand of me an undertaking that Cotton Outlook will seek to provide the price data without which such an examination would be impracticable.

You will certainly expect of me too that I now abandon conjecture upon such long-term mystery and speak of today - in which there remains mystery enough. Lest we get too carried away by the help that the econometric wizards can provide, given the shortcomings of our statistics, let me show you them for mid-July - the USDA's, the ICAC's, and our own (which we calculate by starting from the ICAC stock of 34.2 million bales two years ago). All of us try our damndest. So it hardly seems possible that we can agree more closely on next season's prospective output (in which you might more readily forgive error) than we can go on opening stock.

Yet more mystifying is that we and the USDA are so near to one another on prospective consumption, and so far apart from the ICAC.

The figures leave us deeply divided as to the stock ratio (that between ending stocks and the past season's consumption) at the end of next season. If there is any validity in the belief that stock ratio is a good indication of the average Cotlook 'A' Index for the preceding season, then this set of statistics is hardly a guide. There is much interest these days, Mr Chairman, in the season's average for the 'A' Index, but if you are forewarned of that average, can you guarantee to attain it when you market your crop? I make only half in jest the suggestion that there is another marketing option that we have yet to provide.

	1988/89 SEASON		
	USDA	ICAC	COTLOOK
Stock 1.8.88 .....	32.4	31.9	33.0
Production.....	84.2	85.3	85.3
Supply.....	116.1	117.3	118.4
Consumption....	82.3	83.4	82.1
Stock 31.7.89 .....	33.8	33.9	36.3

