

AUSTRALIAN OUTLOOK FOR COTTON

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As more than 94% of the Australian crop is exported, the world situation has greater bearing on the outlook for the Australian grower than most of his competitive counterparts who have the benefit of their own large domestic textile industries to whom they sell the bulk of their production.

The following table sets out the estimated USA and World cotton balance sheet for the current and next two world seasons.

US and World Cotton Balance (Estimated)
(Million Bales)

	1991-1992		1992-93		1993-94	
	US	World	US	World	US	World
Carry	2.3	29.4	3.8	41.2	3.8	46.2
Production	<u>17.6</u>	<u>95.5</u>	<u>15.7</u>	<u>91.5</u>	<u>16.5</u>	<u>89.7</u>
Supply	19.9	124.9	19.5	132.7	20.3	135.9
(Net) Exports	6.7	-0.3	5.8	0.0	6.0	0.0
Consumption	9.5	84.0	10.0	86.5	10.0	89.1
Other	<u>-0.1</u>	<u>0.0</u>	<u>-0.1</u>	<u>0.0</u>	<u>0.1</u>	<u>0.0</u>
Usage	16.1	83.7	15.7	86.5	16.1	89.1
Carryout	3.8	41.2	3.8	46.2	4.2	46.8

For 1993-94 a further reduction in world production of 2% and an increase of 3% in world consumption has been assumed.

The US figures have been included because of the significance the US situation has on world prices.

With world stocks expected to remain above the equivalent of 6 months supply and the subdued demand that exists throughout the world with the exception of the USA, prices will remain under pressure.

Nevertheless at current price levels there seems to be no reason for cotton to lose its share of the world fibre market and the threat from synthetic fibres is much less significant. World events have also played a major role in pressuring prices. In the countries we now know as the Commonwealth of Independent States political upheavals have reduced consumption and the pressure for badly needed hard currency to pay for urgently needed food has meant that much more cotton has been offered from the former Soviet States and at very cheap prices. The current economic upheaval in Japan - our major buyer - is of concern. The yarn market is very depressed and Japanese spinners are finding they cannot afford to continue to produce coarse count yarns in competition with imports mainly from Indonesia and Pakistan.

The following table demonstrates the importance the Japanese market is to Australian growers.

Estimated Cotton Imports into Japan 1/8/91 - 31/7/92

USA	1,100/1,200,000	BALES
AUST	600/650,000	
CHINESE	200/250,000	
PAK	200,000	
CIS	100,000	
AFRICA	70,000	
NIC	70,000	
MEX	50,000	
INDIA	50,000	
SUDAN	80,000	
EGYPT	30,000	
OTHERS	50,000	

2,600/2,700,000 BALES

LAST SEASON	: 3,230,000 BALES
YEAR BEFORE LAST SEASON	: 3,400,000 BALES
AVG IN PAST 10 YEARS	: 3,340,000 BALES

There are definite indications that cotton imports into Japan are on the decrease and it is expected that they would run into somewhat less than 2,500,000 bales in next season.

Fortunately more than 90% of Australian exports to Japan are used for the production of the more expensive medium count yarns and with the quality of cotton we are now producing we should be able to hold our share of this market at around 6/700,000 bales.

The situation in China is very difficult to evaluate. The 1991 crop is estimated at 6 million tonnes and this year's crop is expected to be around the same figure. Imports of US cotton this year were in excess of 800,000 bales and there were imports from other countries.

Chinese exports have been below earlier expectations but there is evidence that offers are now in circulation. To some extent these may be due to a recent 15% devaluation in the Chinese Yuen.

With its level of stocks estimated to be 3.69 million tonnes at 1/8/92 and 3.33 million tonnes at 1/8/93 imports during 1992/93 are expected to be virtually nothing but exports are expected to be around 5/600,000 tonnes.

The outlook for the coming season in Australia is being clouded more by water shortages than current prices. With adequate water and a continuation of good yields growers should be able to get through this period of lower than average prices.

At the time of preparing this paper prices for the 1992/93 crop were around \$410 per bale. The disastrous rains in Texas have had a marked effect on New York Futures prices but the weather is improving and new crop months are showing signs of softening in reaction to the level of world stocks.

A factor that presently is helping Australian prices is the weakening Australian dollar.

Lower interest rates also have an impact on prices but from a growers point of view these are more significantly reflected in reduction of growing costs.

The excellent quality and character of this year's crop has gone a long way to restoring the reputation of Australian Cotton and the anticipated crop of 2.1 million bales will be disposed of without difficulty.

In the longer term Australian production is expected to continue to rise and a figure as high as 4 million bales by the turn of the century has been suggested. Before we dismiss this as nonsense too quickly we should keep in mind that Australian production has doubled in just the past five years. There are still areas suitable for growing cotton apart from the established areas and the new generation of cotton growers are seeking challenges just as we not so young ones did.

In addition the industry attracts the entrepreneurial individual and if the grower decides to have a go there will be others that will be anxious to provide the support services that the grower requires.

However none of this will be possible without the continuing efforts of the scientists and researchers that have provided the industry with the varieties that not only yield so well but have the characteristics that a modern textile industry requires today.

Adding value to Australia's cotton crop?

The question of expanding our own textile industry and adding value to our product is often asked.

It is estimated that Australia consumes the equivalent of 700,000 bales of raw cotton annually, yet spinning a maximum of 140,000 bales even after many millions of dollars have been spent in rationalisation and upgrading of facilities with the most modern equipment available today.

On the face of it, it would seem obvious that the cotton growing industry is one where value adding would be a natural.

Unfortunately, this is not so simple and the reasons for this relate to a degree to the varieties of cotton we grow.

In 1961 when the new era of cotton growing was beginning the varieties available produced a cotton that was fairly well suited to the requirements of the local spinners. However, as production increased the surplus production needed to be exported and the export price was not as attractive to the grower.

To offset this growers pressed for the introduction of higher yielding stronger cottons that were in demand in the export market. These were cottons that were suited for the production of medium count yarns mainly for blending with synthetics.

As production increased so did production costs and further pressure was placed on Australian plant breeders to produce still higher yielding, stronger and longer stapled cotton varieties. To say they were successful is an understatement.

Australian cotton growers now have available varieties which overall are among the best in the world. The cotton produced from these varieties is in strong demand and much is being used in the production of finer counts of 100 per cent cotton yarns.

Unfortunately, for the Australian spinners or those proposing an expansion of the spinning industry, varieties suitable for the production of lower count yarns are not high yielders and their selling price is up to 10 US cents per pound lower than our current varieties. Consequently the Australian spinner in many instances is using a cotton of much higher quality than is required and the price he is required to pay is not as cheap as his overseas competitors, who in most cases also receives a generous subsidy in some form.

Not to be entirely negative I do believe that Australia does have a strong possibility of getting to a stage where we could consume up to 200,000 bales of our own production annually, but it must be kept in mind that a figure of 200,000 bales represents only 10 percent of our anticipated short term production of 2 million bales and that the long term outlook for the cotton growing industry will remain geared to our success or otherwise in the difficult export market.