

# A PROFILE OF THE SOUTH AFRICAN COTTON MARKET VALUE CHAIN

2012

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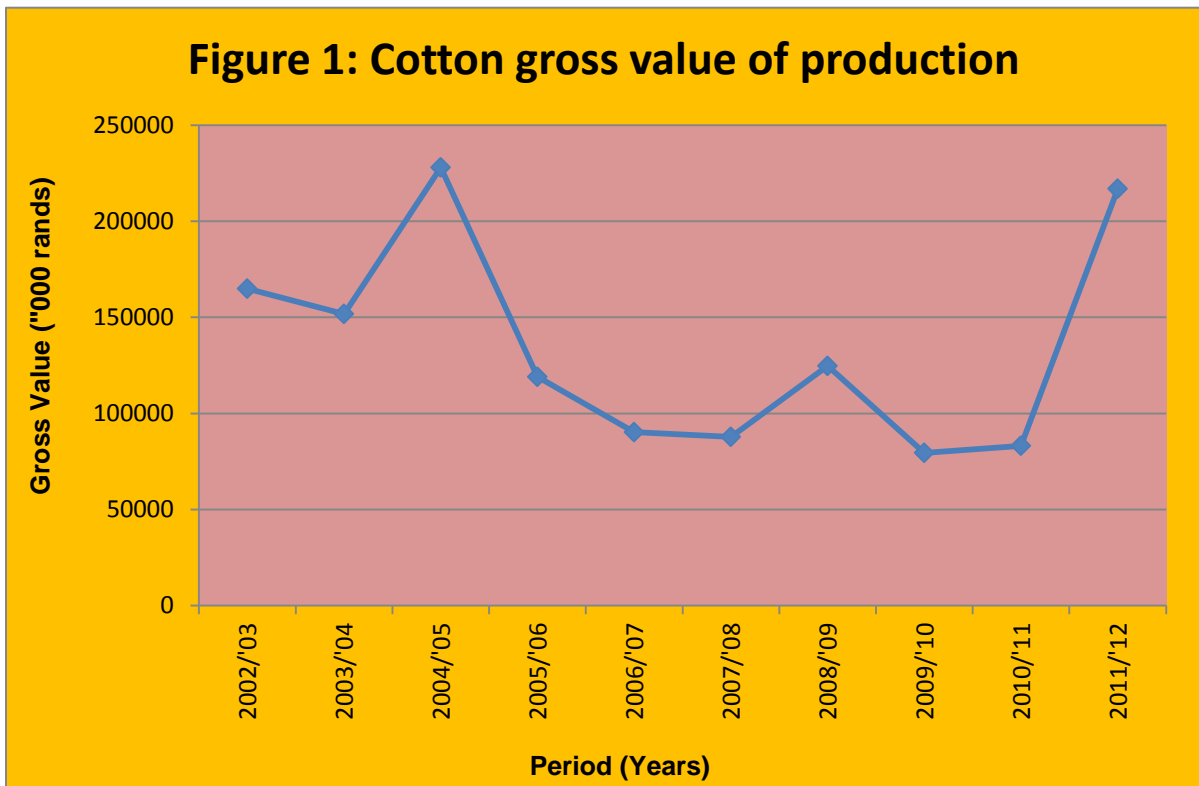
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## 1. DESCRIPTION OF THE INDUSTRY

Cotton remains the most versatile crop grown by mankind. It is noted for its versatility, appearance, performance and comfort and it provides useful products and used to create thousands of jobs in South Africa as it moved from field to fabric. In 2003, it was estimated that the cotton industry spent an estimated R223 million on agricultural inputs, paid an estimated R38 million in wages and produced raw material for the processing industry worth about R136 million. However, this situation is changing over the years due to a substantial decrease in the local cotton crop size. In 2001, Cotton SA established a formal program at the Lowveld College of Agriculture at Nelspruit where about 50 small-scale farmers were trained. The training capacity was increased in order to reach the production objective of the Cotton Sector Strategy Plan, namely the emerging farmers should contribute on average 25% of the national cotton crop by 2007 and 35% by 2014. The cotton gross value of production is estimated at approximately R242 million during the period 2011/12 season. The contribution of the cotton industry to the Gross Value of Agricultural Production is summarized in Figure 1.



Source: Statistics & Economic Analysis, DAFF

Figure 1 indicates contribution of the cotton industry in South Africa to the gross value of agricultural production between 2002/03 and 2011/12. The graph further indicates that cotton gross value of production started to increase in 2002/03, and then a slight decline occurred in 2003/04 until a peak was attained at approximately R228 008. The graph also indicates that between 2005/06 and 2007/08, gross value of production experienced a dramatic decline of up to R87 000 in 2007/08. The graph also indicates that in 2008/09, gross value of cotton production saw a slight increase of approximately R124 000. Between 2009/10 and 2010/11, cotton gross value of production experienced a further

decline due to amongst others things, a decline in domestic production due to competition from cotton imports arising mainly from SADC countries and cheap textile imports from the East. Another factor was low international cotton prices due to subsidies in a developed world; and this depressed local cotton production. The graph further indicates that another peak was attained in 2011/12 season at approximately R216 000.

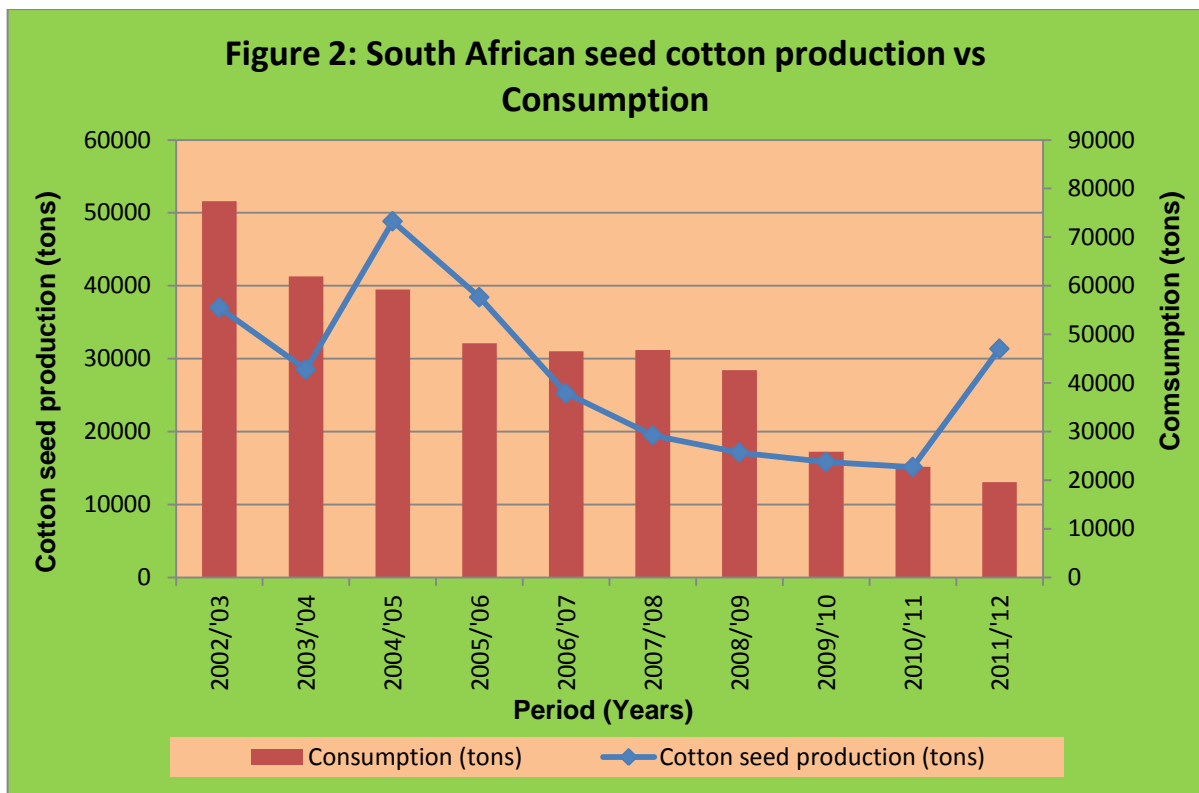
### 1.1. Production Areas

Traditional cotton production areas in South Africa are as follows: Limpopo Province in Loskop, North and South flats from Bela-Bela to Mokopane, Dwaalboom, Thabazimbi and Weipe. North West Province covering the areas of Taung, Stella, Delareyville and Maratsane, KwaZulu-Natal in the Makhathini Flats, Mpumalanga and Northern Cape in the lower Orange River, Vaalharts, Douglas and Prieska Districts. This situation has slightly changed over the years with the result that during 2010/11 in the North West Province, cotton is grown in Taung and Stella / Setlagoli.

In the SADC region cotton is produced in countries such as Namibia, Swaziland, Botswana, Malawi, Angola, Mozambique, Tanzania, Democratic Republic of Congo (DRC), Zambia and Zimbabwe.

### 1.2 South African seed cotton production vs. consumption

South African cotton seed production and consumption volumes are presented in Figure 2.



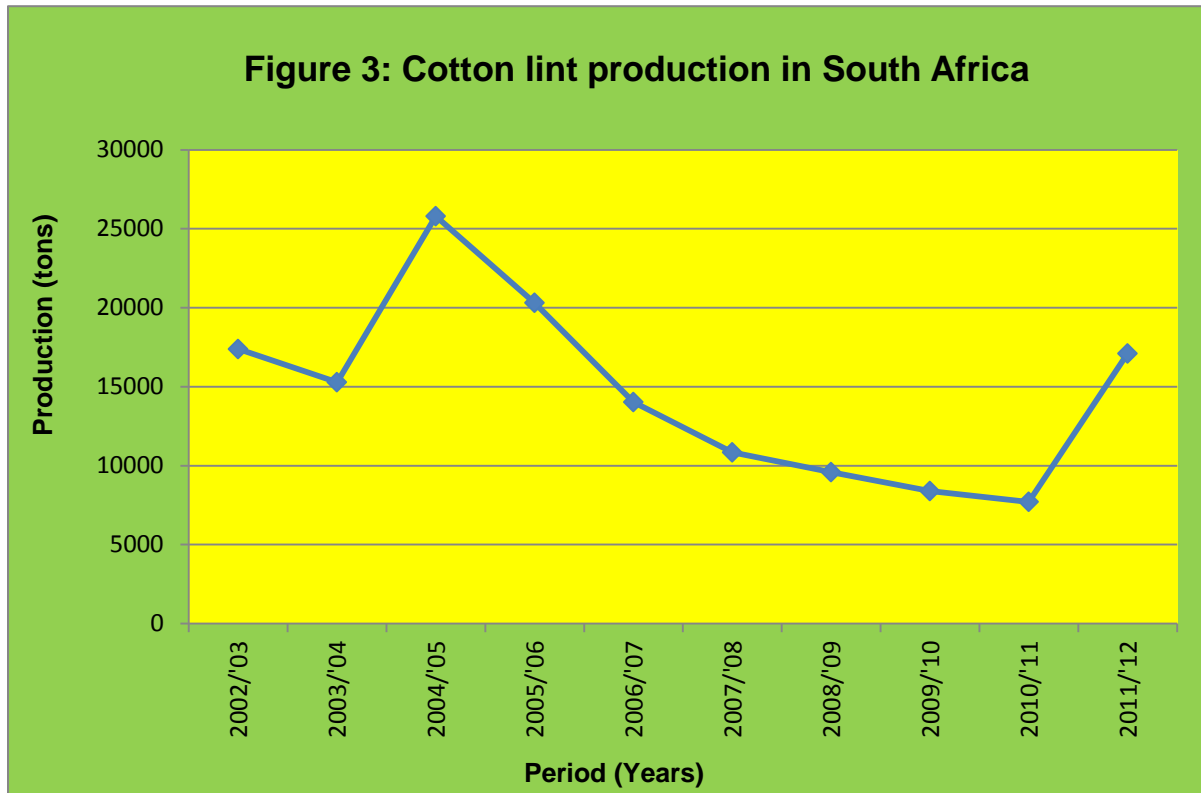
Source: Cotton South Africa

As is evident from Figure 2 that South Africa's production of cotton is far below the domestic demand while other SADC countries such as Malawi, Mozambique, Tanzania, Zambia and Zimbabwe produce far above their domestic demand. The graph also shows that in 2002/03 production season, the demand for cotton was higher than cotton production during the same production season. It is also clear from Figure 2 that cotton consumption by South African spinners have also been declining over the period under review. On average the production of cotton by South African producers has been declining continuously between 2005/06 and 2010/11 periods, while at the same time is far below the domestic demand due to global economic downturn, which also resulted in a situation where global cotton consumption fell by 12% during the same period. The deficit shown in Figure 2 above is met through imports, mainly from SADC countries. Cotton consumption by local spinning mills has shown a similar decline as production, as can be seen from Figure 2. This trend can be mainly ascribed to the continued imports of low-priced textiles and apparel from Asia, and also to the relative strength of Rand against the US dollar, all of which impacts negatively on demand for locally manufactured textiles. The graph further depicts that the demand for seed cotton has declined dramatically in 2011/12 season at 19 619 tons, compared to 2002/03 season of about 77 427 tons. It is also important to note that while the demand is low for the product, seed cotton production has increased during 2011/12 season. South African producers are unable to compete with their SADC counterparts as far as production of cotton is concerned. These SADC countries can produce cotton much cheaper than South Africa because they do not have minimum labor wages, amongst others.

### **1.3 Production of cotton lint**

During the 2011/12 production year 17 145 ha (11 640 under irrigation and 5505 under dryland) were dedicated to cotton production in SA, against 51 496 ha in 2002/03 production year. This represents a decline of 66.7% in area planted over a period of ten years. The decrease in cotton production over recent years can mainly be attributed to the following factors: to the perception that cotton is no longer a viable option in view of the more favourable prices of other competing summer crops; cotton prices over recent years have not increased to the same extent as in the case of other summer crops; and the low international prices of recent years, which discouraged any growth in cotton production. Cotton faces stiff competition from crops such as maize and sunflower where prices offer farmers greater profitability whilst requiring less management inputs.

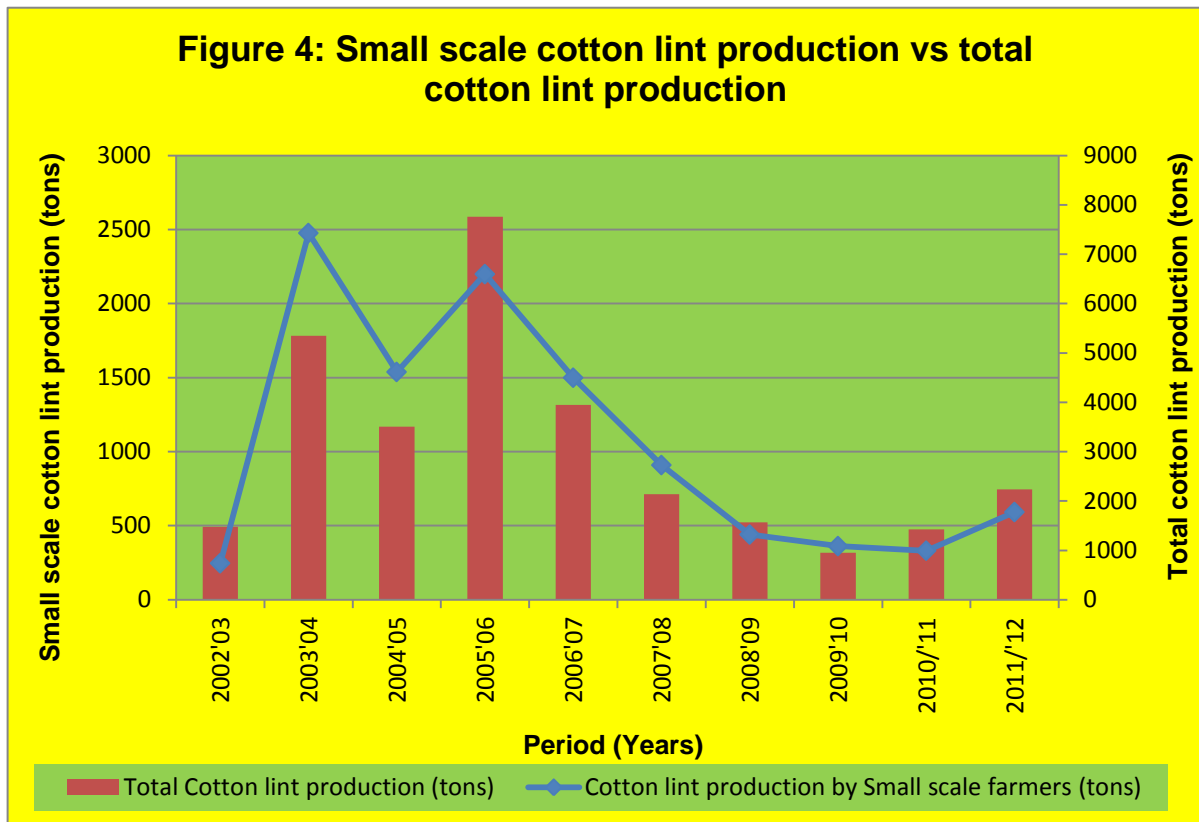
According to Cotton SA the following volumes (as shown in Figure 3) of cotton lint were produced over the ten year period starting from 2002/03 to 2011/12.



Source: Cotton South Africa

Figure 3 depicts production of cotton lint in South Africa between 2002/03 and 2011/12 period. The graph further depicts that over the past ten years, there were greater fluctuations of cotton lint production due to low prices from SADC countries and the issue of government subsidies by SADC counter parts. Between 2005/06 and 2010/11, there was a continuous decline in cotton lint production due to increasing cotton lint imports from SADC. In 2004/05 production season, cotton lint production attained a peak at approximately 25 000 tons. The graph further depicts that in 2010/11 production season, cotton lint production saw a dramatic decline to the lowest levels of approximately 7 712 tons. The graph also depicts that in 2011/12 production season, cotton lint production saw a sharp increase that led to a second peak at approximately 17 102 tons.

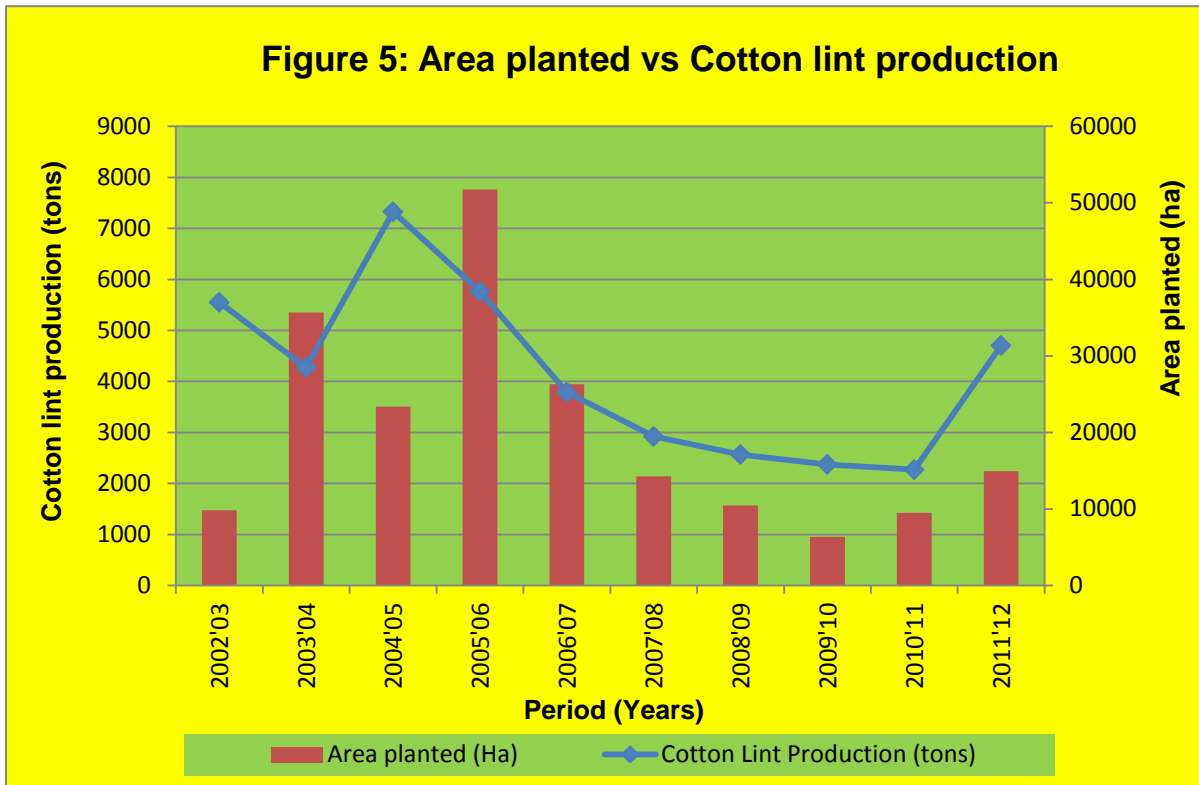
The graph further depicts that in 2011/12 production season, cotton lint production saw an increase of 121.8%, as compared to 2010/11 production season of the period under review.



Source: Cotton South Africa

Figure 4 shows small scale cotton lint production as against total cotton lint production in South Africa over the past decade. The figure further shows that during the period under scrutiny, production of cotton lint by small scale farmers has followed a similar trend to total cotton production in South Africa. Total cotton production started to increase in 2003/04 and in 2004/05 experienced a slight decline of approximately 1 538 tons until a peak was attained in 2005/06 at approximately 2 199 tons. Between 2006/07 and 2010/11 production season, the figure also shows that the lowest levels of total cotton lint production were attained in 2009/10 at about 950 tons. Similarly, production of cotton by small scale farmers experienced a continuous decline between 2006/07 and 2010/11 production season up to lower levels of about 331 tons in 2010/11. On average, cotton lint production by small scale farmers has been below 5 000 tons per annum during the period under examination. In spite of increases in the total Republic of South Africa's cotton production 2003/04 and 2005/06 production seasons, cotton production by small scale farmers did not follow the same trend.

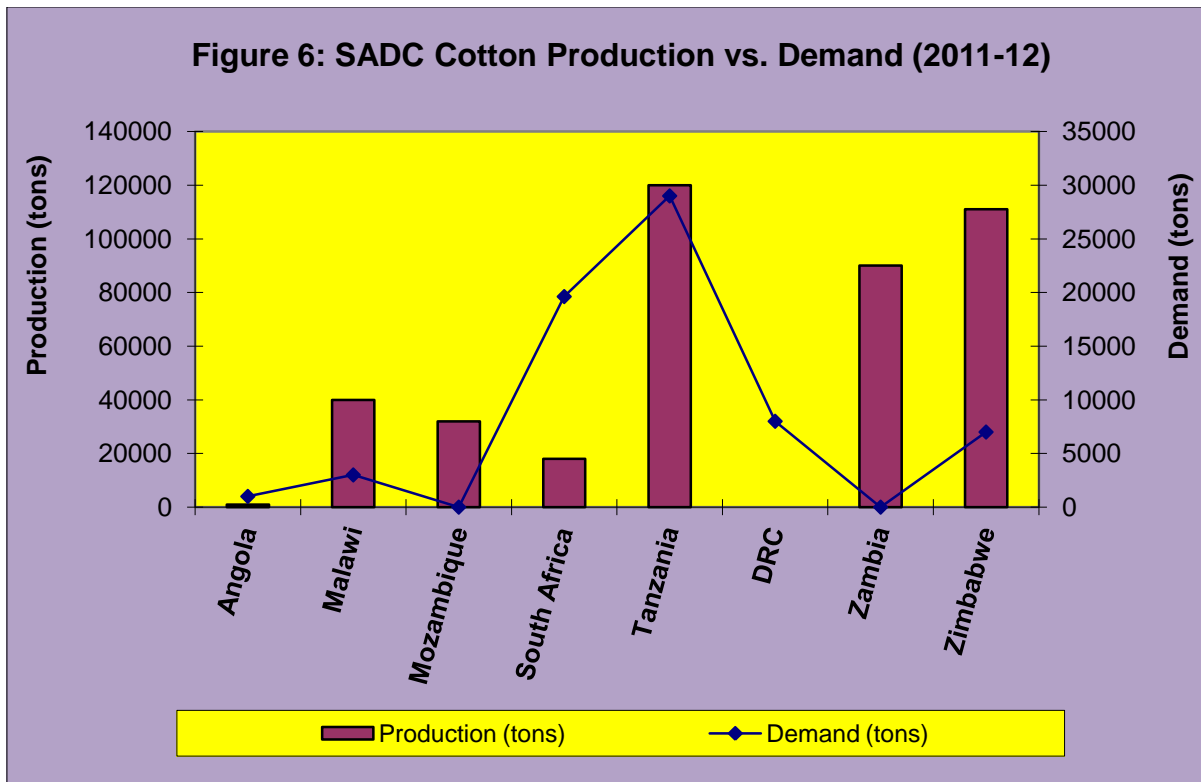
The graph also shows that during the period under scrutiny, total cotton production saw an increase of 57.2% in 2011/12 production season, compared 2010/11 production season. The graph further shows that during the period under scrutiny, small scale cotton lint production also saw an increase of 78.9% in 2011/12 production season compared 2010/11 production season.



Source: Cotton South Africa

Figure 5 illustrates the area that was planted with cotton lint as against the volumes of cotton lint produced between 2002/03 and 2011/12 marketing period. The graph further illustrates that in 2002/03 marketing season, production of cotton lint attained a peak in 2004/05 at approximately 48 000 tons in an area planted of about 3 508 hectares. Cotton lint production was very low between the period 2006/07 and 2010/11 production seasons at approximately 15 131 tons and less. Figure 5 also illustrates that on average farmers have continuously decreased the size of land allocated to cotton lint production since it is easy to substitute cotton with other grain crops. There were production efficiencies in 2002/03, 2004/05 and again between 2007/08 and 2011/12 production seasons, as the area planted was less but cotton lint production was relatively high. In 2010/11, the area planted with cotton lint experienced a slight increase in terms of the size of the land from 1 423 hectares to approximately 2 237 hectares in 2011/12.

The graph illustrates that cotton lint production saw an increase of 107.2% in 2011/12 marketing season, compared 2010/11 season. The graph further illustrates the area planted with cotton lint also experienced an increase of 57.2% in 2011/12 season compared 2010/11 season.



Source: Cotton South Africa

Figure 6 shows various SADC countries that are major producers of cotton as against the demand of cotton during the 2011/12 marketing season. The graph further shows that during the period under review, Tanzania was the main cotton producer during the 2011/12 marketing season followed by Zimbabwe and Zambia. It is further evident from the graph that Angola, South Africa and DRC are the lowest cotton producing countries during 2011/12 marketing season. When the supply and demand of cotton during the 2010/12 period is compared, countries such as Tanzania, Zimbabwe, Zambia, Malawi and Mozambique produced cotton in excess of their domestic requirements; making them exporters of the product to South Africa. On the other hand, the demand for cotton in South Africa and the DRC during the 2011/12 period far outweighed their domestic production making way for imports from other SADC countries to meet domestic demand. Cotton production in Tanzania attained a peak in 2011/12 period at approximately 120 000 tons while Zimbabwe attained a peak at approximately 111 000 tons over the same period under examination. As shown in figure 6, Angola is the lowest cotton producing country during the period under examination. The figure also shows that production of cotton in Zimbabwe and Tanzania during the 2011/12 period far outweighed their domestic demand, making way for them to export to other SADC countries to meet their domestic demand. The figure also shows that DRC did not produce cotton during the 2011/12 marketing season.

#### 1.4 Employment

In 2001/02 production season, it is estimated that the primary cotton industry employed on average an estimated 58 950 seasonal and 6 550 permanent workers which could increase to 154 215 seasonal and 17 135 permanent workers should local cotton production increase to 74 000 tons annually, or in a scenario where small scale farmers produce 27% of a crop of 74 000 tons of cotton lint, an increase of

112 534 seasonal and 12 504 permanent workers, as well as an additional 11 533 small farmers can be expected.

In 2008/09 production year, employment figures were estimated at around 7000 cotton farm workers and in 2009/10 production year, employment figures increased to 8000 cotton farm workers due to the increase in the area planted.

## **2. MARKET STRUCTURE**

### **2.1 Marketing arrangements**

Since deregulation, local seed cotton and cotton lint are marketed in on of the following three ways:

- The seed cotton is sold by the producer to a ginner who gins the cotton and in turn sells the cotton lint for his own account to spinners and the seed to processors, either directly or by making use of agents. The gin determines the price the producer obtains for his seed cotton and the producer relinquishes ownership of the cotton.
- The producer may decide not to sell his seed cotton to the ginner, but contracts the ginner to gin it on his behalf on payment of a ginning fee. The cotton lint and seed remain the property of the producer who then either market these products himself or contracts the gin or someone else to market the cotton lint (and seed) on his behalf.
- Producers can gin their own cotton in their own gins. They then either market the cotton lint and seed themselves or contract someone else to do it on their behalf.

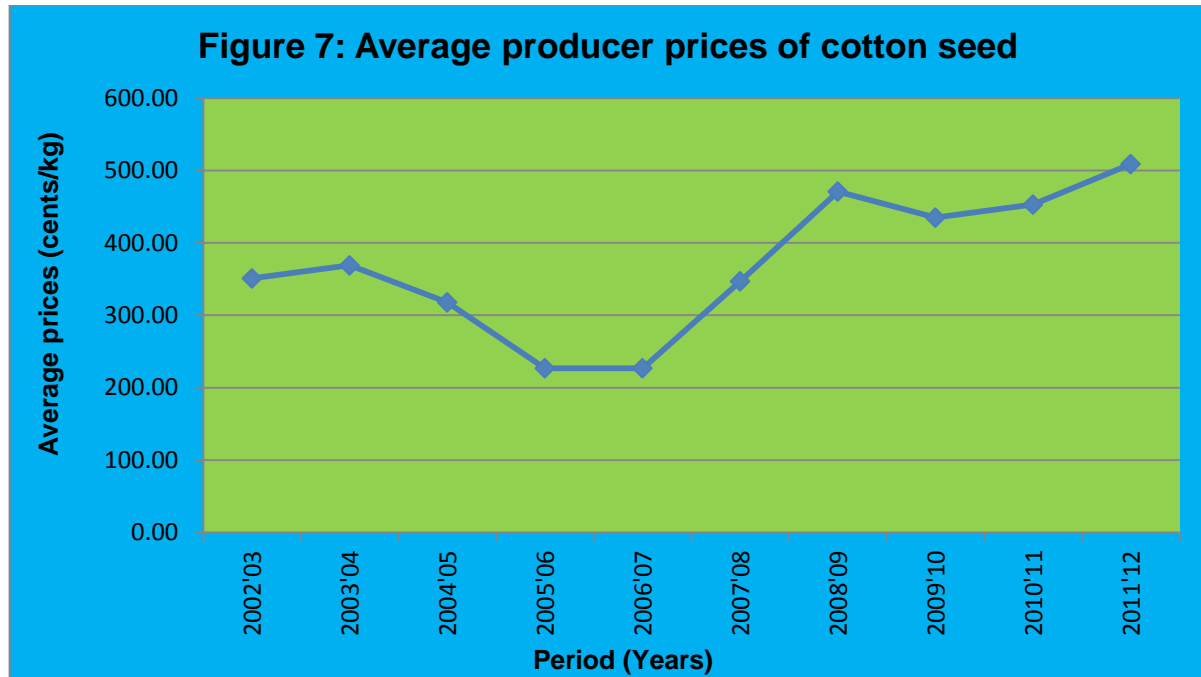
Seed cotton is ginned by the cotton gins where the seed is separated from the fibre – the ginning process. The purchase of seed cotton takes place in terms of the grading standards applicable to hand picked and machine picked cotton and linked to the South African Grading Standards for lint. The latter serves as a norm for the sale of the cotton lint. In the event of any disputes arising during the delivery of the seed cotton that cannot be resolved to the satisfaction of both parties, the Quality Control Department of Cotton SA is accepted as an impartial body in the role of arbitrator.

In the event of a dispute that may arise during the delivery of cotton lint, international organizations such as the Liverpool Cotton Association and the Bremen Cotton Exchange will fulfill this role.

### **2.2 Domestic Market and Prices**

Figure 7 illustrates average producer prices of seed cotton in South Africa between 2002/03 and 2011/12 period. The figure further illustrates that cotton production in South Africa has been declining between 2004/05 and 2006/07 marketing seasons, mainly because of the low levels of international cotton prices due to subsidies and government support by developed countries, which are creating serious distortions in the international market. During the same period of declining cotton production, the industry experienced improvement in cotton producer prices which began increasing in 2008/09 and at the same time a peak was attained at approximately R471 cents per kilogram in response to improvement in international cotton prices. In 2009/10 marketing season, there was a slight decline in prices of seed cotton due to low production levels and low demand for South African seed cotton. In 2010/11 marketing seasons, average producer prices of seed cotton started to increase again until a

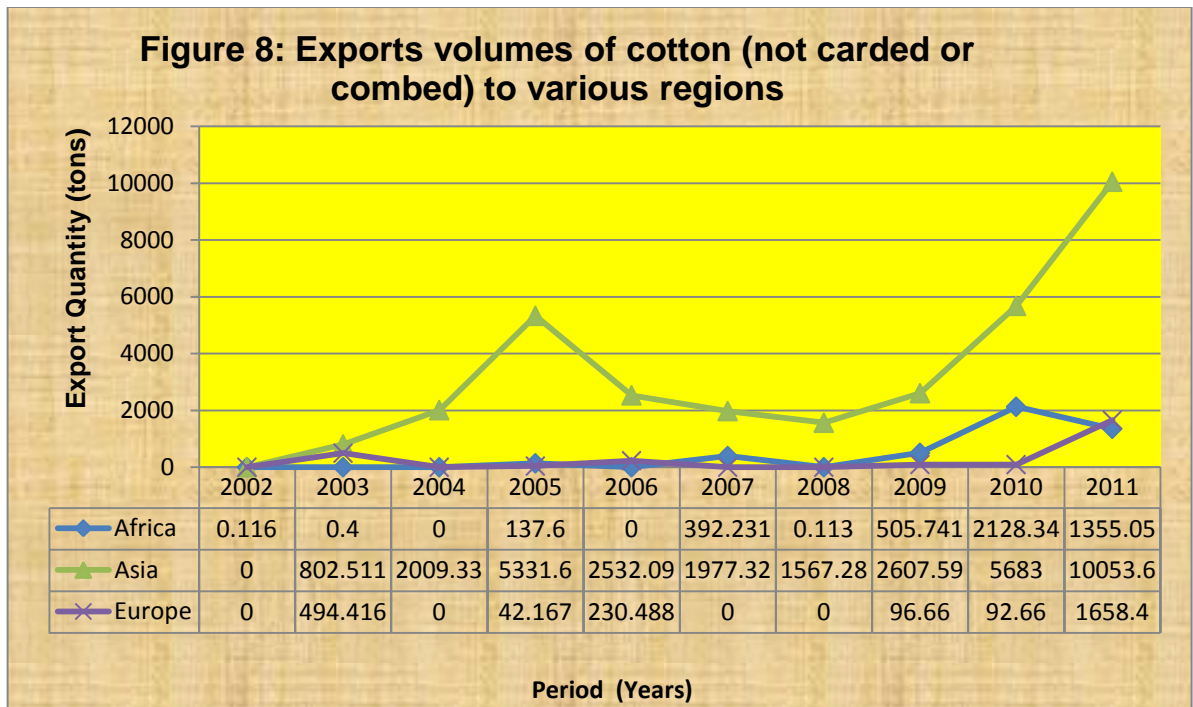
peak was attained in 2011/12 at approximately R509 cents per kilogram. The increase in average producer prices of seed cotton during 2011/12 period represents 11% compared to 2010/11 period.



Source: Cotton South Africa & Statistics & Economic Analysis, DAFF

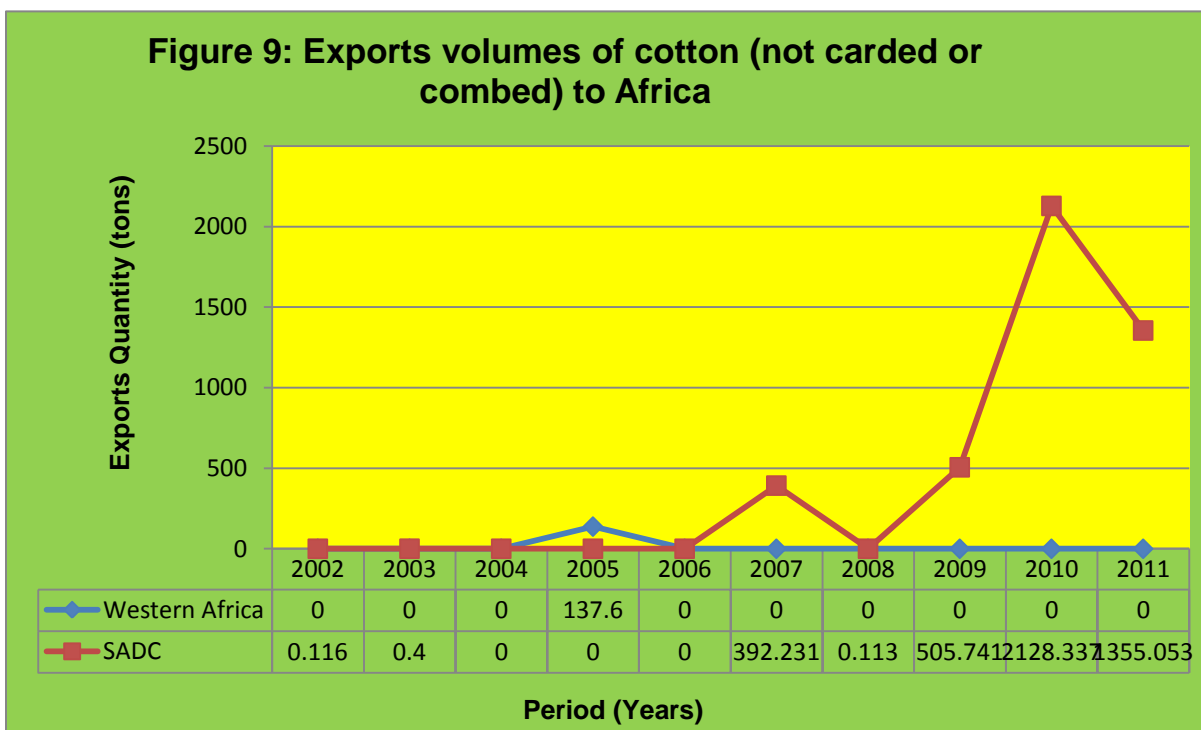
### 3. COTTON EXPORTS FROM SOUTH AFRICA

Figure 8 indicates volumes of cotton exports (not carded or combed) from South Africa to various regions of the world over the past decade. The figure further indicates that during the period under examination, South Africa exported most of its cotton to Asia, followed by very minimal volumes to Africa and Europe. The figure also indicates that during the same period under review, South Africa exported very few of its cotton to Africa due to the fact that African countries like Zimbabwe and Tanzania are big producers and exporters of cotton. The figure further indicates that exports of cotton from South Africa to Asia experienced a peak in 2011 at approximately 10 053 tons during the period under examination. The figure also indicates that exports of cotton from South Africa to Africa attained a peak in 2010 at approximately 2128.34 tons. Very low or minimal volumes of cotton were exported to Europe due to long distance and tariffs that exists between the region and South Africa. The analysis also indicates that in 2011, exports volumes of cotton (not carded or combed) from South Africa to Asia increased at approximately 10 053 tons (76.9%) as compared to the increase in 2010 at approximately 5 683 tons (118%).



Source: Quantec Easy Data

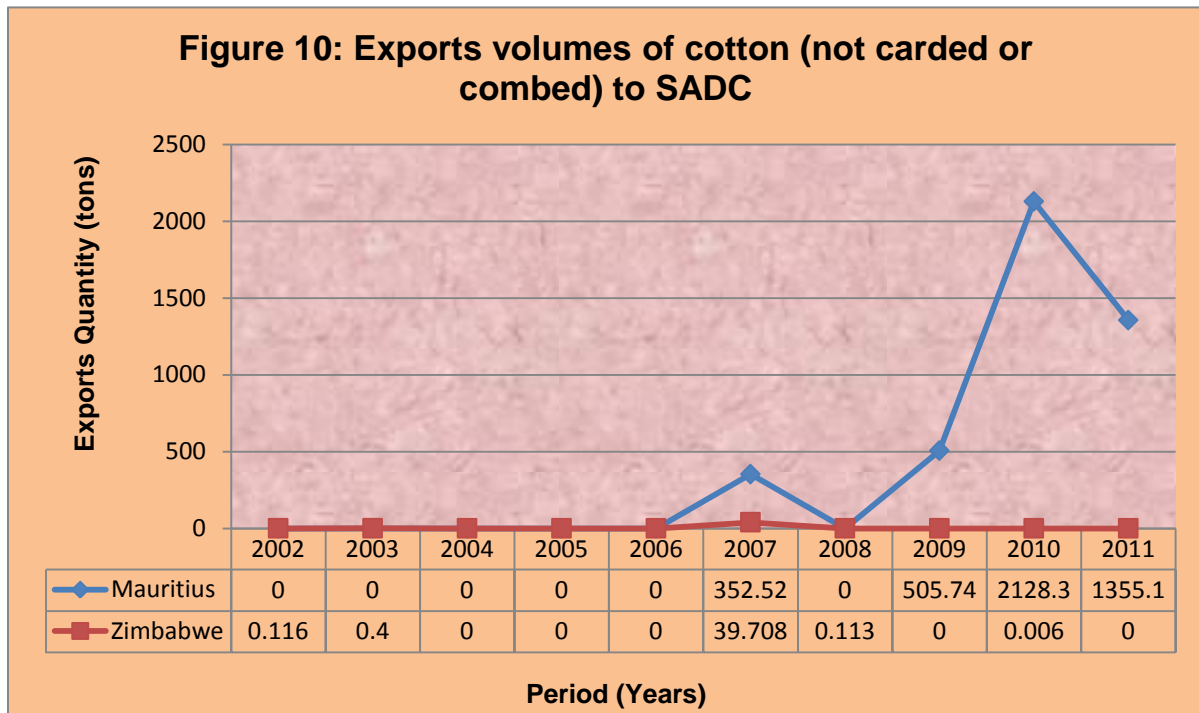
Figure 9 depicts volumes of cotton exports (not carded or combed) from South Africa to Africa between 2002 and 2011 period.



Source: Quantec Easy Data

Figure 9 depicts that during period under scrutiny, the greatest cotton exports from South Africa to Africa went to the SADC region, followed by very minimal export volumes to Western Africa. Over the past ten years our major source of cotton lint in particular is from SADC countries with cotton import volumes increasing every year. The figure also depicts that exports of cotton from South Africa to SADC attained a peak in 2010 at approximately 2128.34 tons during the same period under scrutiny.

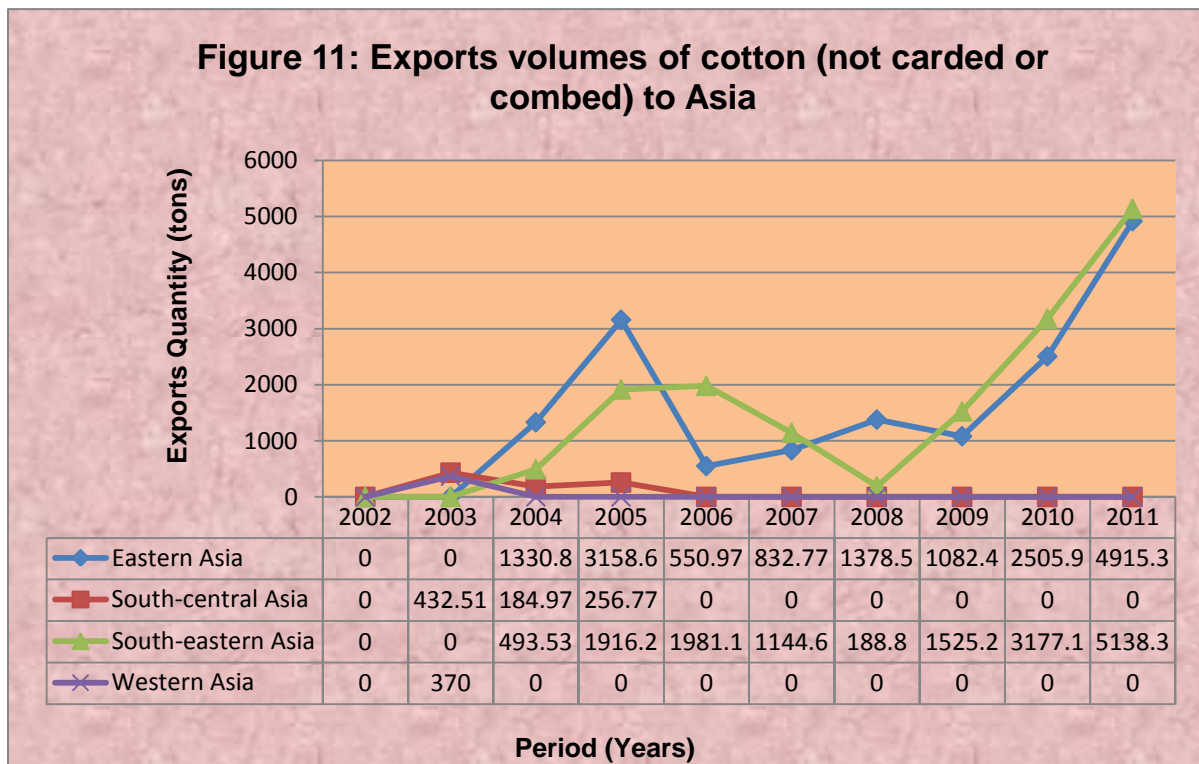
The SADC Free Trade agreement as well as closeness between South Africa and other SADC countries is the main reason behind such a huge flow of cotton exports and imports from the region to South Africa and otherwise. Other SADC countries such as Zimbabwe, Tanzania and Zambia have a comparative advantage in cotton production, and this allows them to produce more cotton at a lower cost and intensifies their potential to export to less producing countries like South Africa. South Africa exported very low levels of cotton volumes to Western Africa between 2002 and 2011 period. Also important to note was that between 2004 and 2006, South Africa didn't not export cotton to the SADC region. The figure also indicates that in 2011, exports volumes of cotton (not carded or combed) from South Africa to SADC declined at approximately 1 355 tons (36.3%) as compared to the increase and a peak in 2010 at approximately 2 128 tons (321%).



Source: Quantec Easy Data

Over the past ten years, Figure 10 shows exports volumes of cotton (not carded or combed) from South Africa to the SADC region. The graph further shows that in the SADC region, exports of cotton from South Africa landed primarily in Mauritius, followed by very minimal exports volumes to Zimbabwe during the period under review. The figure also shows that between 2002 and 2006 and again in 2008, South Africa did not export cotton to Mauritius, in return Mauritius attained a peak in exports of cotton from South Africa in 2010 at approximately 2128.33 tons.

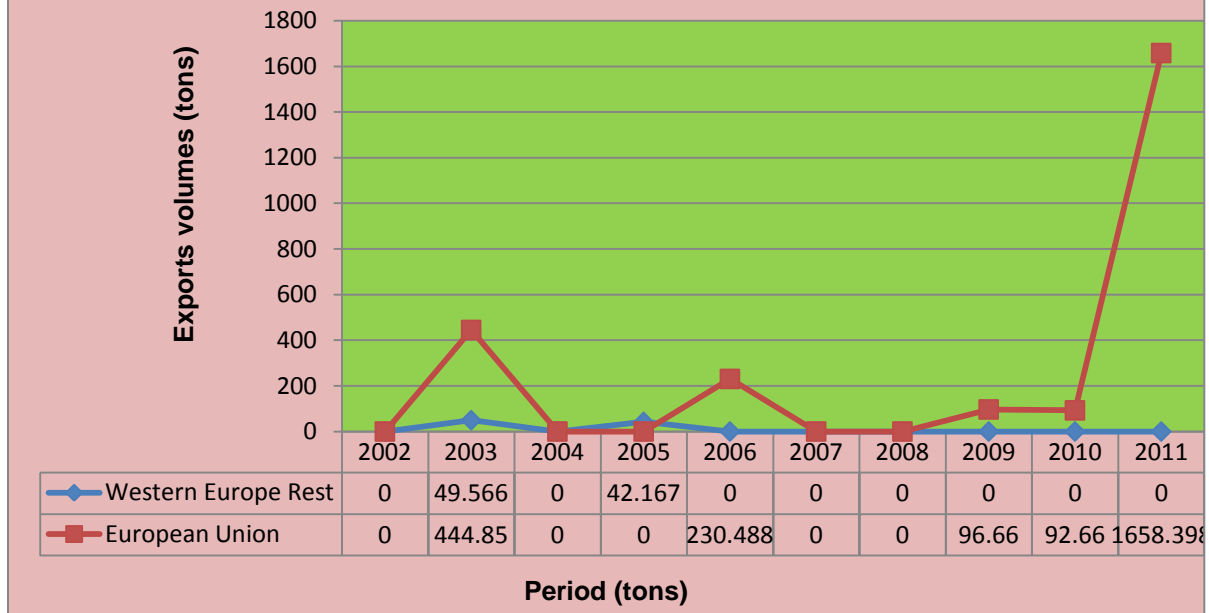
The stronger Rand to the US\$ in relation to the weaker SADC currencies contributed to the fact that cotton from SADC can be discounted in the SA market, thereby making the local crop less attractive to take up. Producers in Zambia and Zimbabwe are paid considerably lower prices than SA producers and thus ginners in these countries can be aggressively competitive when selling into the SA market. Many SADC governments are also providing some or other form of support to their cotton growing sectors and this is opposite with South African producers. In 2011, there was a notable decline in exports of cotton from South Africa to Mauritius of about 1 355 tons. The analysis also shows that in 2011, exports volumes of cotton (not carded or combed) from South Africa to Mauritius declined at approximately 1 355 tons (36.3%) as compared to the increase (peak) in 2010 at approximately 2 128 tons (321%).



Source: Quantec Easy Data

Figure 11 illustrates volumes of cotton exports (not carded or combed) from South Africa to Asia between 2002 and 2011 period. In Asia, the leading role players of cotton exported from South Africa was South-eastern Asia, followed by Eastern Asia during the period under scrutiny. The graph further illustrates that exports of cotton from South Africa to South-eastern Asia attained a peak in 2011 at approximately 5 138 tons, while Eastern Asia also attained a peak in 2011 at approximately 4 915 tons. The graph also illustrates that in 2002 and 2003, South Africa did not export its cotton to Eastern and South-eastern Asia due to the declining domestic production of the product during the period under scrutiny. Between 2006 and 2011, South Africa did not export its cotton to South-central Asia due to strong domestic production in that region. The graph also illustrates that over the past decade, exports of cotton from South Africa to Western Asia took place only in 2003 at approximately 370 tons. The analysis further illustrates that in 2011, exports volumes of cotton (not carded or combed) from South Africa to South-central Asia increased at approximately 5 138 tons (61.7%) as compared to the increase in 2010 at approximately 3 177 tons (108%).

**Figure 12: Exports volumes of cotton (not carded or combed) to Europe**

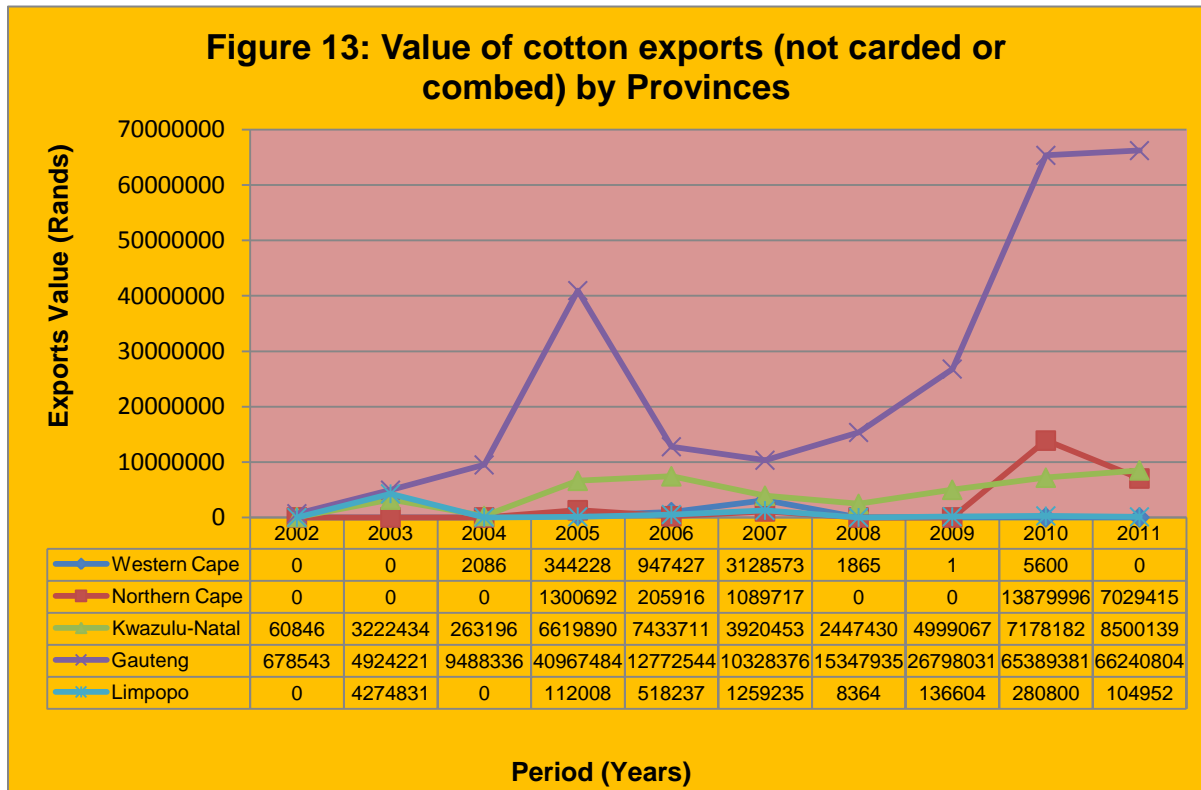


Source: Quantec Easy Data

Figure 12 shows volumes of cotton exports (not carded or combed) from South Africa to Europe between 2002 and 2011 period. The figure further shows that over the past ten years, the major export market for South African cotton to Europe was European Union, with very minimal volumes of cotton to Western Europe Rest. Exports of cotton from South Africa to the European Union started to increase in 2003, and then between 2004 and 2010 saw a decline in exports of cotton. Exports of cotton from South Africa to the European Union attained a peak in 2011 at approximately 1 658 tons. Exports of cotton from South Africa to Western Europe Rest started to increase also in 2003 and during the same period attained a peak at approximately 49.566 tons. The graph further illustrates that South Africa did not export cotton to the European Union in 2002, 2004, and 2005 and again between 2007 and 2008 due to low domestic production. In 2002 and 2004 and again between 2006 and 2011, South Africa did not export cotton to Western Europe Rest due to low or minimal volumes of cotton that were produced in the country. The analysis also shows that in 2011, exports volumes of cotton (not carded or combed) from South Africa to the European Union increased (peak) at approximately 1 658 tons (170%) as compared to the decline in 2010 at approximately 92.66 tons (4.2%).

Figure 13 indicates values of cotton exports (not carded or combed) by provinces of South Africa to the world between over the past ten years. The figure further indicates that the major exporter of South African cotton during the period under scrutiny was Gauteng province with very low minimal values from Northern Cape and KwaZulu-Natal provinces. The figure also indicates that exports of cotton by Gauteng province started to increase in 2003, with a dramatic increase in 2004 and 2005. The figure further indicates that exports of cotton by Gauteng province to the world experienced a declined between 2006 and 2007 up to lower levels of about R12 million, until a continuous increase and a surge was experienced between 2008 and 2010. In 2011, exports of cotton from Gauteng province to

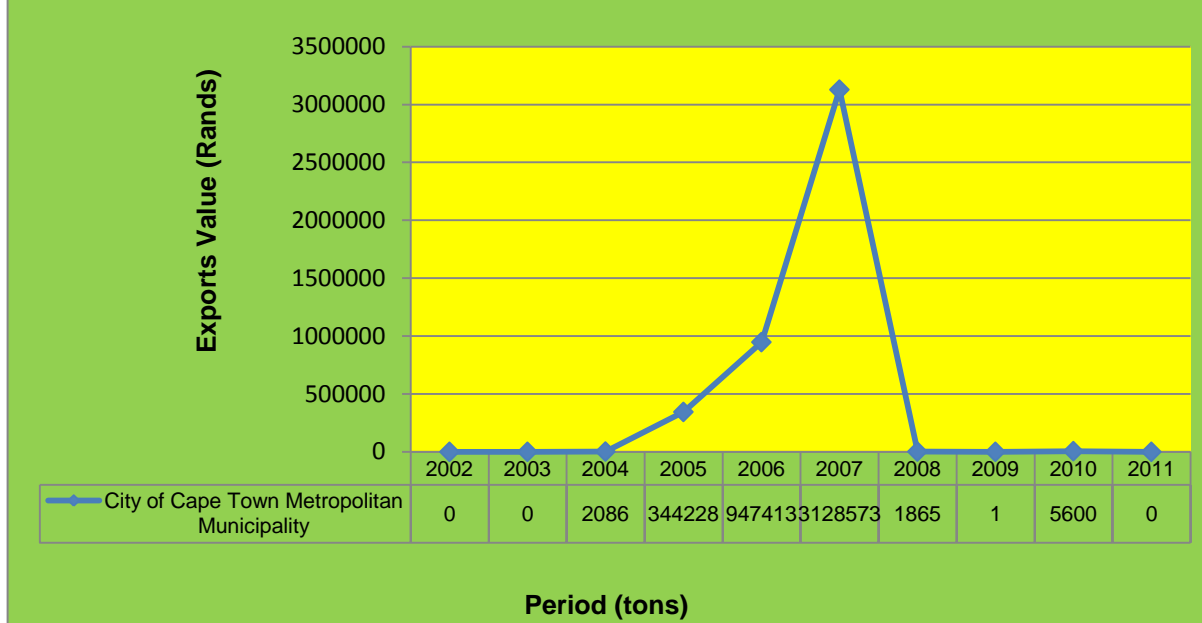
the world attained a peak at approximately R66 million. Minimal exports of cotton by Northern Cape Province to the world were noted in 2010 at approximately R13.8 million during the period under examination. In percentage terms, the increase of cotton exports from Gauteng to the world in 2011 at approximately R66 million represents 1.3% as compared to the increase in 2010 at approximately R65 million (144%).



Source: Quantec Easy Data

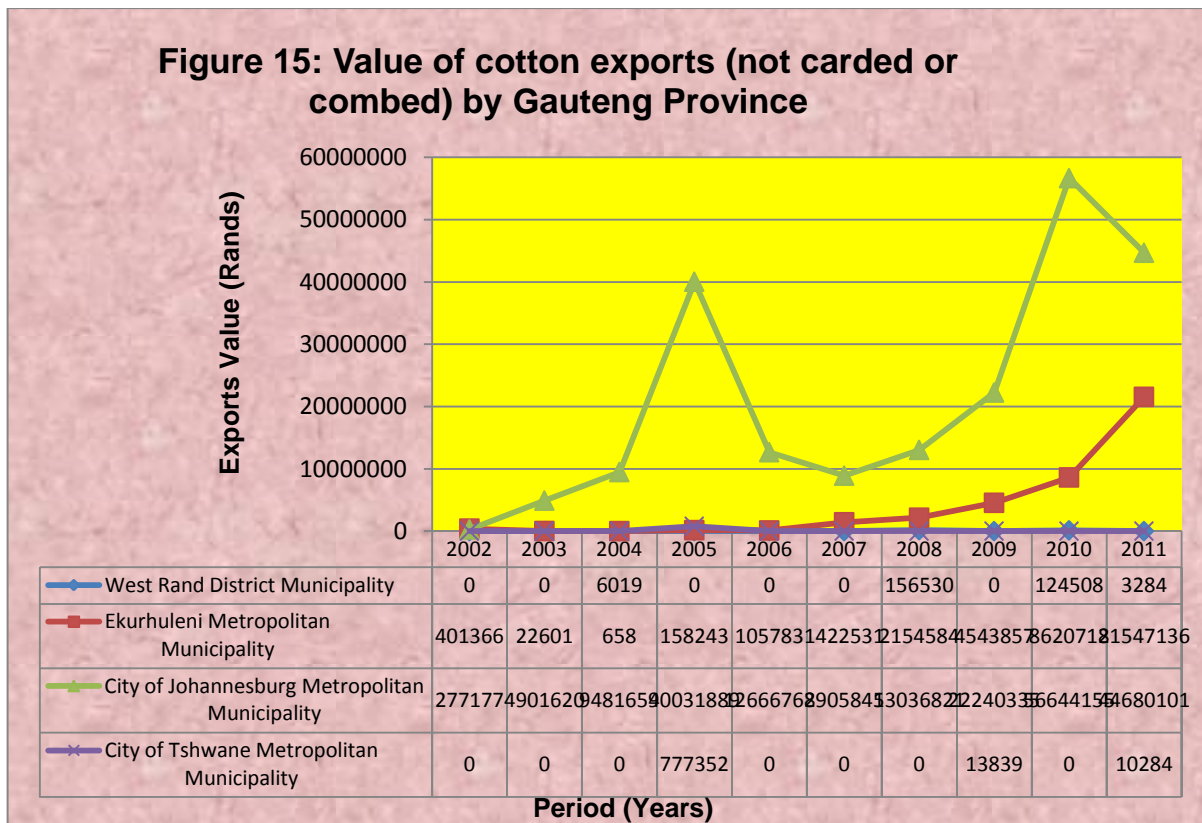
Figure 14 shows values of cotton exports (not carded or combed) from the Western Cape Province to the world. The figure further shows that City of Cape Town Metropolitan municipality was the main supplier of cotton exports from South Africa to the world during the period under scrutiny. The figure also shows that exports of cotton from the City of Cape Town Metro started to increase in 2005 with a surge in cotton exports in 2006, until a peak was attained in 2007 at approximately R3.1 million. The graph also shows that between 2002 and 2003 and again in 2011, there were no exports of cotton from the City of Cape Town Metro to the world. In percentage terms, the absence of cotton exports from Gauteng to the world in 2011 represents 100% decline as compared to the increase in 2010 at approximately R5 600 (559%).

**Figure 14: Value of cotton exports (not carded or combed) by Western Cape Province**



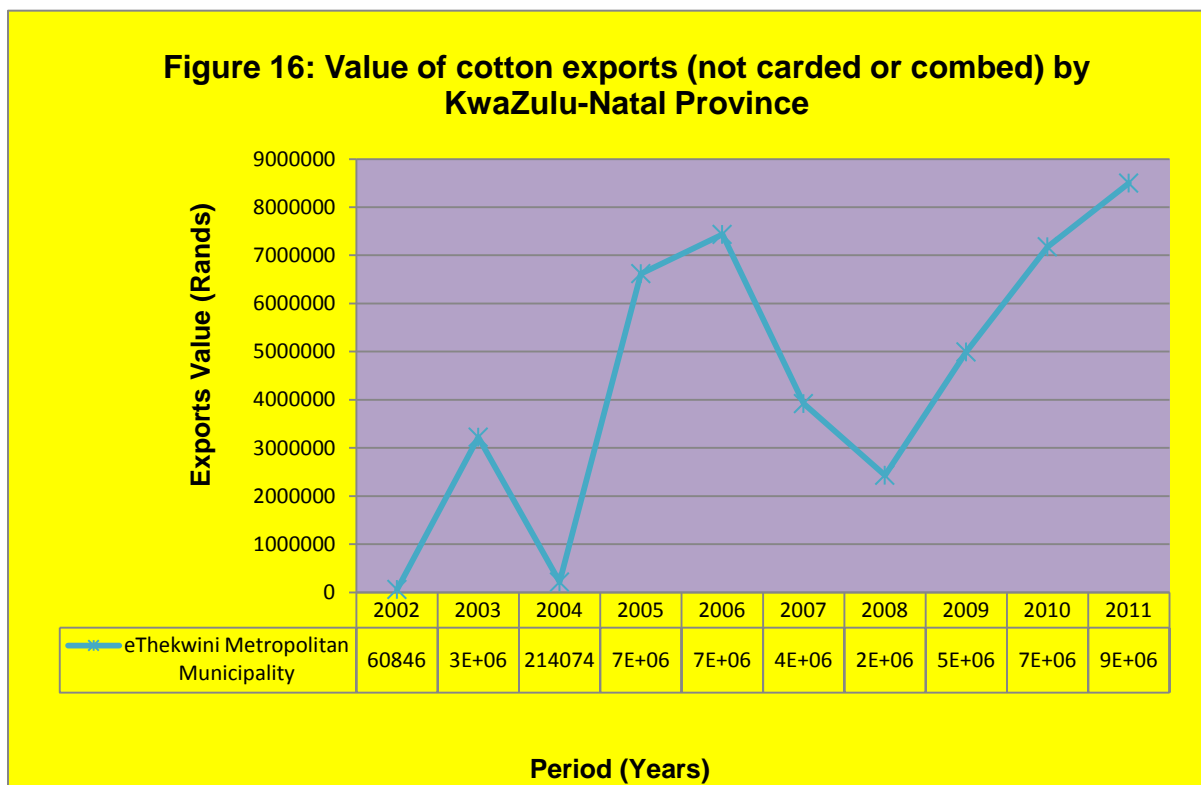
Source: Quantec Easy Data

**Figure 15: Value of cotton exports (not carded or combed) by Gauteng Province**



Source: Quantec Easy Data

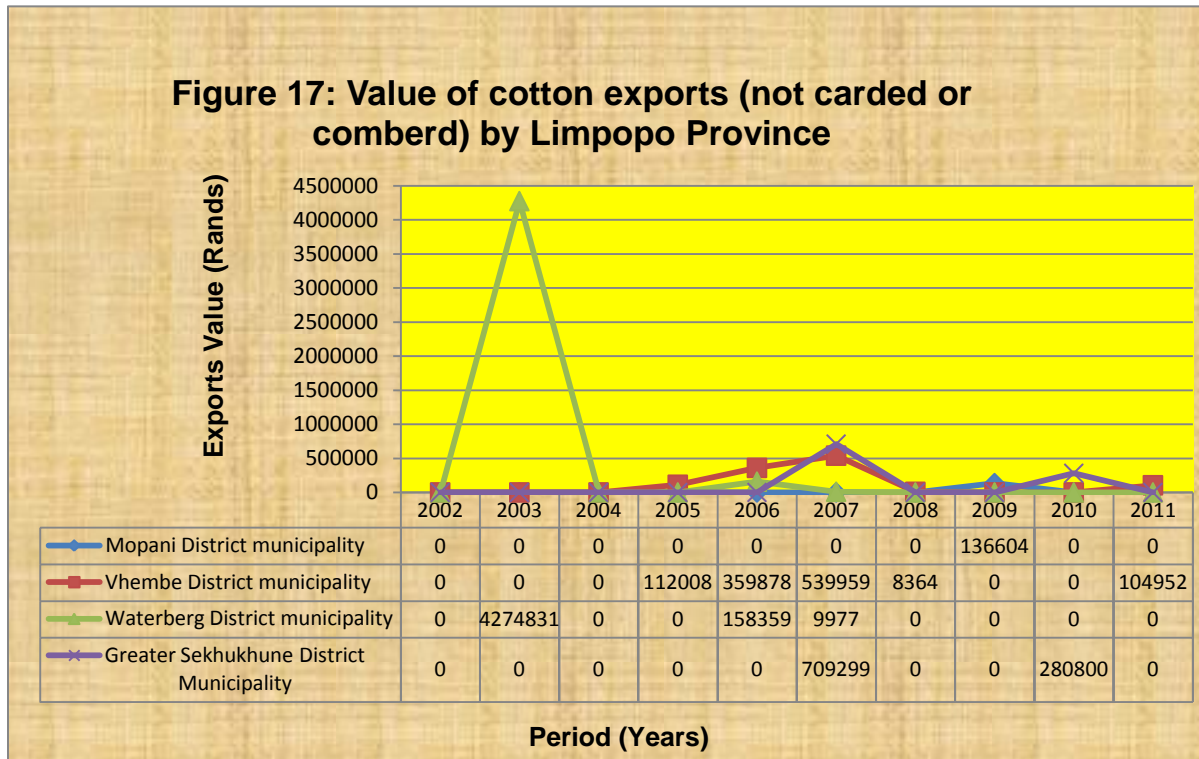
Figure 15 indicates values of cotton exports (not carded or combed) from Gauteng Province between 2002 and 2011 period. The figure further indicates that during the period under examination, City of Johannesburg Metro municipality was the main exporter of cotton from Gauteng Province to the world, followed by very minimal / low cotton exports from Ekurhuleni Metro municipality. The graph also indicates that cotton exports from the City of Johannesburg started to increase in 2003 to 2005 and then a decline occurred between 2006 and 2007. Between 2008 and 2010, there was gentle increase in cotton exports until a surge and a peak was attained in 2010 at an export value of about R56.6 million. The figure further indicates that there was a slight decline in cotton exports from City of Johannesburg in 2011 due to domestic demand in cotton products and that led to low cotton exports from the City of Johannesburg. In percentage terms, the decline in cotton exports from the City of Johannesburg Metro to the world in 2011 at approximately R44.6 million represents 21.1% as compared to the increase and a peak in 2010 at approximately R56.6 million (154.7%).



Source: Quantec Easy Data

Figure 16 shows values of cotton exports (not carded or combed) from KwaZulu-Natal Province between 2001 and 2010 period. The figure further shows that eThekweni Metro municipality was the main supplier of cotton from KwaZulu-Natal Province to the world followed by very minimal exports of cotton from the other four municipalities. The figure also shows that cotton exports from eThekweni Metro started to increase in 2003 and then a decline occurred in 2004, until a surge of exports in 2005 that led to a peak in 2006 and 2010 years at approximately R14.8 million and R14.4 million respectively. The figure also shows that in 2004 and 2008 years, there was a decline in exports of cotton of approximately R425 148 thousand rands and R4.8 million from eThekweni Metro municipality due to low production that led to low exports. In percentage terms, the increase of cotton exports from

Gauteng to the world in 2011 at approximately R66 million represents 1.3% as compared to the increase in 2010 at approximately R65 million (144%).



Source: Quantec Easy Data

Over the past decade, Figure 17 depicts values of cotton exports (not carded or comberd) from Limpopo Province to the world. The figure further depicts that during the period under review, Waterburg District was the main supplier of cotton exports from Limpopo Province to the world. Greater Sekhukhune, Vhembe and Mopani Districts had very minimal levels of exports of cotton to the world of not more than R1 million per year during the period under review. Exports of cotton from Waterburg District started to increase in 2003 and at the same time attained a peak at approximately R4.2 million. The figure also depicts that a dramatic increase in cotton exports from Waterberg District municipality to the world in 2003 represents 100% increase of cotton exports compared to 2002. In 2002 and between 2004 and 2005, there were no exports of cotton from Waterberg District Municipality of Limpopo Province to the world. Between 2002 and 2008 and again between 2010 and 2011, there were no exports of cotton from Mopani District of Limpopo Province to the world.

### 3.1 Share Analysis

Table 1 indicates the share of provincial exports into South African cotton exports in percentages between 2002 and 2011 period. The table further indicates that between 2002 and 2011, Gauteng Province commanded the greatest share in terms of cotton exported by South Africa to the world throughout the period under review.

**Table 1: Share of Provincial cotton exports (not carded or combed) to the total RSA cotton exports (%)**

Years	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Province										
<b>Western Cape</b>	0.00	0.00	0.02	0.70	4.33	15.86	0.01	3.13	0.01	0.00
<b>Northern Cape</b>	0.00	0.00	0.00	2.64	0.94	5.52	0.00	0.00	16.00	8.59
<b>KwaZulu-Natal</b>	8.23	25.8	2.70	13.4	33.9	19.8	13.7	15.6	8.28	10.4
<b>Gauteng</b>	91.7	39.5	97.2	83.0	58.4	52.4	86.2	83.9	75.4	80.9
<b>Limpopo</b>	0.00	34.3	0.00	0.23	2.37	6.38	0.05	0.43	0.32	0.13

Source: Calculated from Quantec Easy Data

Table 2 shows the share of district exports into Western Cape Province cotton exports in percentages between 2002 and 2011 period. The table further shows that between 2004 and 2010, City of Cape Town commanded the greatest share in terms of cotton exported by Western Cape Province to the world during the period under review.

**Table 2: Share of district cotton exports (not carded or combed) to the total Western Cape Province cotton exports (%)**

Years	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Districts										
<b>City of Cape Town</b>	0.00	0.00	100	100	99.9	100	100	100	100	0.00

Source: Calculated from Quantec Easy Data

Table 3 indicates the share of district exports into KwaZulu-Natal Province cotton exports in percentages between 2002 and 2011 period. The table further indicates that over the past decade, eThekweni Metropolitan municipality commanded the greatest share in terms of cotton exported by KwaZulu-Natal Province to the world.

**Table 3: Share of district cotton exports (not carded or combed) to the total KwaZulu-Natal Province cotton exports (%)**

Years	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
-------	------	------	------	------	------	------	------	------	------	------

Districts										
<b>eThekweni Metro</b>	100	100	100	100	100	100	100	100	100	100

Source: Calculated from Quantec Easy Data

Over the past ten years, Table 4 shows the share of district exports into Gauteng Province cotton exports in percentages. The table further shows that between 2003 and 2011, City of Johannesburg Metropolitan municipality commanded the greatest share in terms of cotton exported by Gauteng Province to the world during the period under review.

**Table 4: Share of district cotton exports (not carded or combed) to the total Gauteng Province cotton exports (%)**

Years	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Districts</b>										
<b>West Rand District</b>	0.00	0.00	0.06	0.00	0.00	0.00	0.02	0.00	0.19	0.00
<b>Ekurhuleni Metro</b>	59.2	0.46	0.01	0.39	0.83	13.8	14.0	16.9	13.2	32.5
<b>City of Johannesburg</b>	40.9	99.5	99.9	97.7	99.2	86.2	84.9	82.9	86.6	67.5
<b>City of Tshwane</b>	0.00	0.00	0.00	1.90	0.00	0.00	0.00	0.05	0.00	0.02

Source: Calculated from Quantec Easy Data

Table 5 indicates the share of district exports into Limpopo Province cotton exports in percentages between 2002 and 2011 period. The table further indicates that between 2001 and 2010 period, Vhembe District municipality commanded the greatest share in terms of cotton exported by Limpopo Province to the world during the period under review.

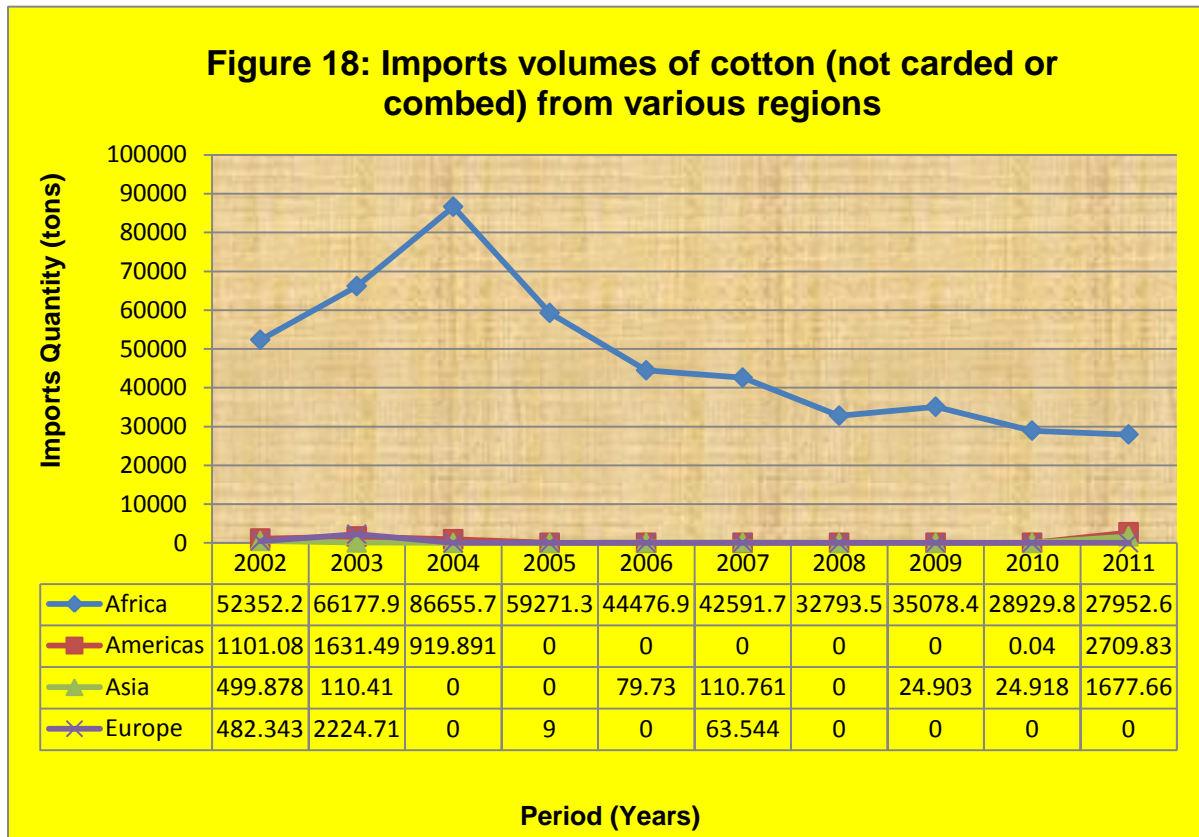
**Table 5: Share of district cotton exports (not carded or combed) to the total Limpopo Province cotton exports (%)**

Years	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Districts</b>										
<b>Mopani District</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100	0.00	0.00
<b>Vhembe District</b>	0.00	0.00	0.00	100	69.4	42.9	100	0.00	0.00	100
<b>Waterberg District</b>	0.00	100	0.00	0.00	30.6	0.79	0.00	0.00	0.00	0.00
<b>Greater Sekhukhune District</b>	0.00	0.00	0.00	0.00	0.00	56.3	0.00	0.00	100	0.00

Source: Calculated from Quantec Easy Data

#### 4. COTTON IMPORTS FROM THE WORLD INTO SOUTH AFRICA

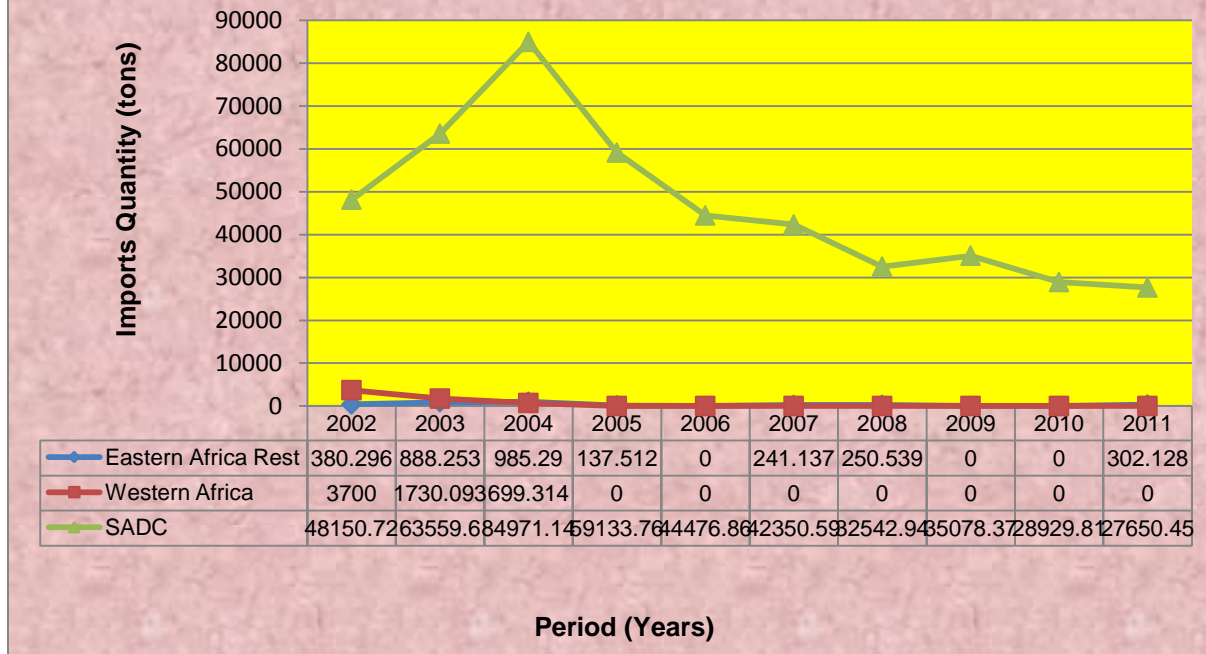
Figure 18 indicates volumes of cotton imports (not carded or combed) from various regions of the world into South Africa between 2002 and 2011 period.



Source: Quantec Easy Data

Figure 18 indicates that during the period under scrutiny, the major import market for cotton from the world was Africa, with very minimal volumes of cotton exports from Americas, Asia and Europe. South Africa's imports of cotton from Africa started to increase in 2002 until a peak was attained in 2004 at approximately 86 655.70 tons. From 2005 to 2008 imports of cotton from Africa started to decline until the lower levels of about 32 793.50 tons. In 2009 of the period under scrutiny, there was a slight increase in imports of cotton from Africa into South Africa. During the period under review, imports of cotton from Africa into South Africa were mainly from Zambia, Malawi and Zimbabwe as they are big producers and exporters of cotton in the region. The analysis also indicates that in 2011, imports volumes of cotton (not carded or combed) from Africa into South Africa declined at approximately 27 952 tons (3.4%) as compared to the decline in 2010 at approximately 28 929 tons (17.5%).

**Figure 19: Imports volumes of cotton (not carded or combed) from Africa**

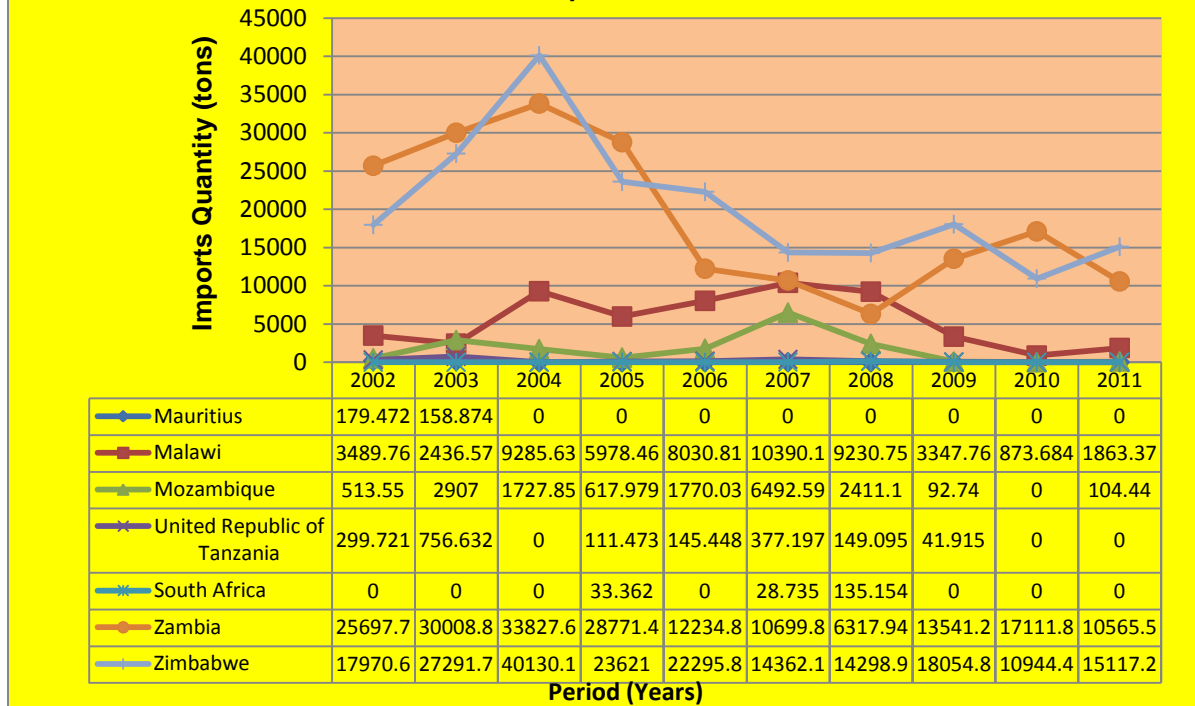


Source: Quantec Easy Data

Over the past decade, Figure 19 depicts volumes of cotton imports (not carded or combed) from Africa into South Africa. The figure further depicts that during period under scrutiny, the biggest supplier of cotton imports from Africa into South Africa was the SADC region. The major source of cotton lint in particular is from SADC countries with cotton import volumes increasing every year. During the period under examination, imports of cotton from SADC into South Africa started to increase in 2002 to 2003 and until a peak was attained 2004 at approximately 84 971 tons.

The SADC Free Trade agreement as well as closeness between South Africa and other SADC countries is the main reason behind such a huge flow of cotton imports from the region to South Africa and otherwise. Other SADC countries such as Mozambique, Malawi, Zimbabwe and Zambia have a comparative advantage in cotton production, and this allows them to produce more cotton at a lower cost and intensifies their potential to export to less producing countries like South Africa. The analysis further depicts that in 2011, imports volumes of cotton (not carded or combed) from SADC into South Africa declined at approximately 27 650 tons (4.4%) as compared to the decline in 2010 at approximately 28 929 tons (17.5%).

**Figure 20: Imports volumes of cotton (not carded or combed) from SADC**



Source: Quantec Easy Data

Figure 20 shows volumes of cotton imports (not carded or combed) from SADC region into South Africa between 2002 and 2011 period. The graph further shows that in the SADC region, imports of cotton originated mainly in Zimbabwe, Zambia, Malawi and Mozambique with few imports volumes from Tanzania during the period under review. Imports volumes of cotton from Zimbabwe into South Africa started to increase in 2002 to 2003, until a peak was attained in 2004 at approximately 40 130 tons, while the stronger Rand to the US\$ in relation to the weaker SADC currencies contributed to the fact that cotton from SADC can be discounted in the SA market, thereby making the local crop less attractive to take up.

Producers in Zambia and Zimbabwe are paid considerably lower prices than SA producers and thus ginner in these countries can be aggressively competitive when selling into the SA market. Many SADC governments are also providing some or other form of support to their cotton growing sectors and this is opposite with South African producers. The graph further shows that in 2011, imports volumes of cotton (not carded or combed) from Zimbabwe into South Africa slightly increased at approximately 15 117 tons (38.1%) as compared to the decline in 2010 at approximately 10 944 tons (39.4%).

**Figure 21: Imports volumes of cotton (not carded or combed) from Americas**

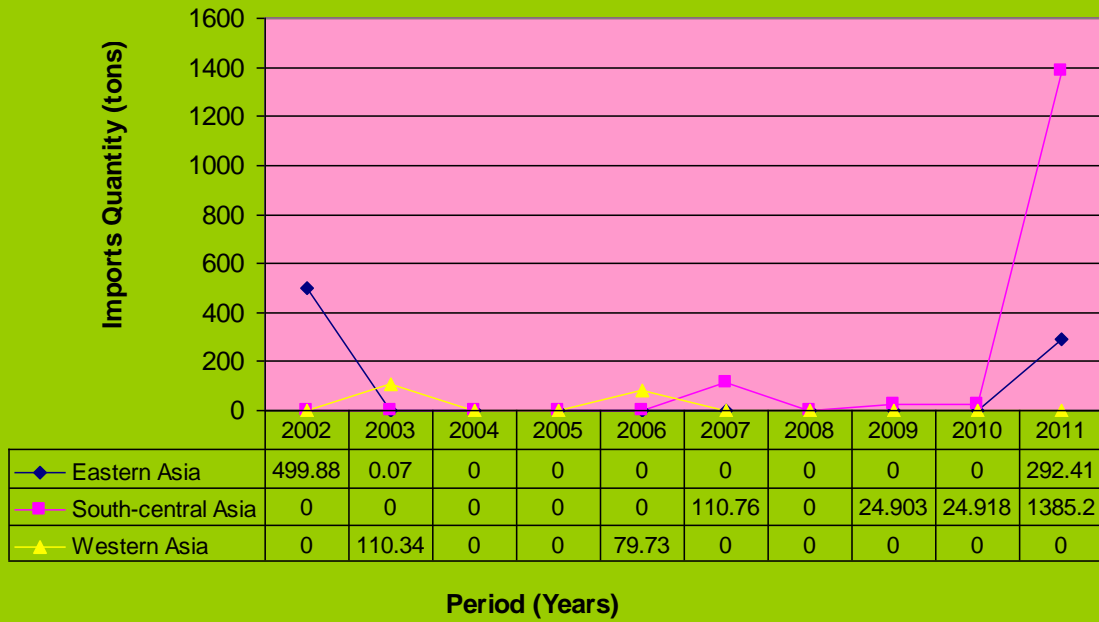


Source: Quantec Easy Data

Imports volumes of cotton imports (not carded or combed) from the Americas into South Africa over the past decade are indicated in figure 21. The figure further indicates that during the period under examination, South Africa imported most of its cotton from South America as shown in the Figure above. The graph also indicates that imports of cotton from South America into South Africa started to increase in 2002 until a peak was attained in 2003 at approximately 1 155 tons. The figure also indicates that between 2005 and 2010, there were no imports volumes of cotton from South America into South Africa. The figure also indicates that there were very low or minimal volumes of cotton imported from the NAFTA into South Africa between 2002 and 2011 due to long distance and tariffs that exists between this region and South Africa. The graph also indicates that imports of cotton from South America into South Africa also attained a peak in 2011 at approximately 1 419 tons. The analysis also indicates that in 2011, imports volumes of cotton (not carded or combed) from South America into South Africa increased at approximately 1 419 tons (100%) as compared to the absence of imports in 2010.

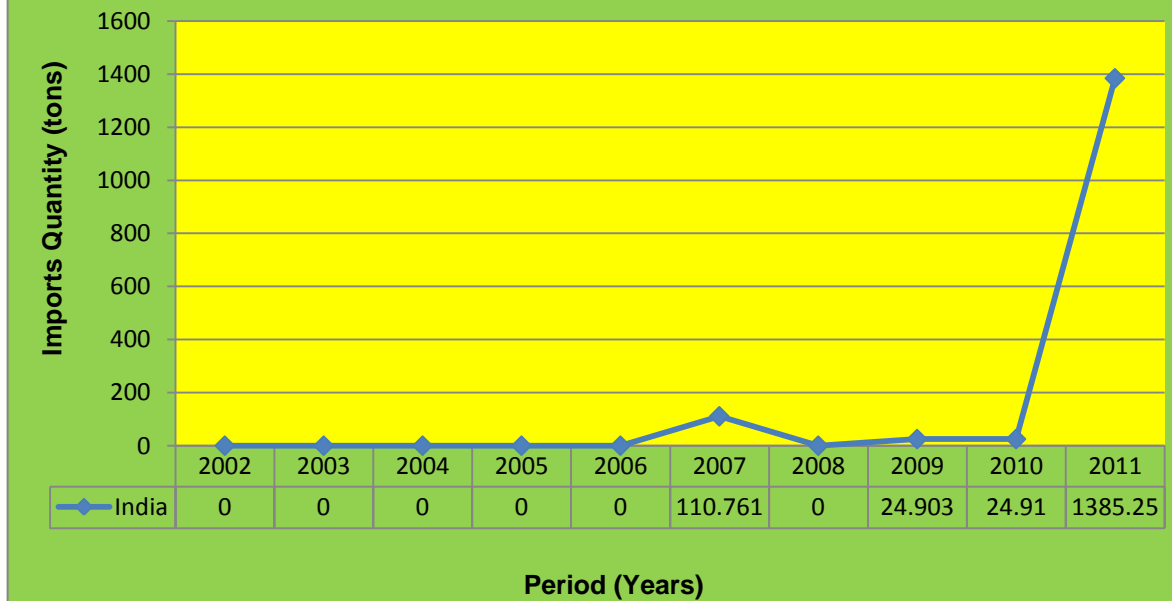
Figure 22 depicts volumes of cotton imports (not carded or combed) from Asia into South Africa. The graph further depicts that over the past decade, the major supplier of cotton from Asia into South Africa was mainly South-central Asia, followed by Eastern Asia. The figure also depicts that between 2002 and 2006 and again in 2008, there were no imports of cotton from South-central Asia during the same period under review. Imports of cotton from South-central Asia into South Africa attained a peak in 2011 at approximately 1 385 tons, imports of cotton from Eastern Asia into South Africa attained a peak in 2002 at approximately 499 tons. The analysis further depicts that in 2011, imports volumes of cotton (not carded or combed) from South-central Asia into South Africa increased at approximately 1 385 tons (54.5%) as compared to the decline in 2010 at approximately 24.9 tons (0.06%).

**Figure 22: Imports volumes of cotton (not carded or combed) from Asia**



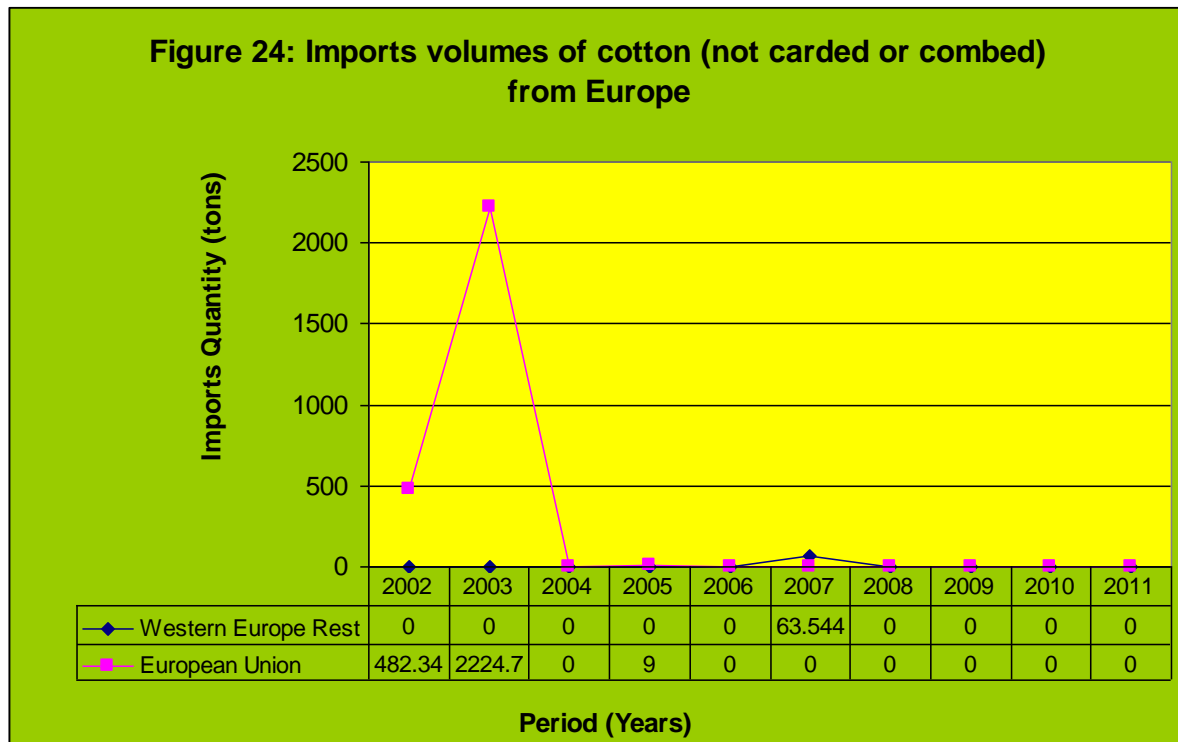
Source: Quantec Easy Data

**Figure 23: Imports volumes of cotton (not carded or combed) from South-central Asia**



Source: Quantec Easy Data

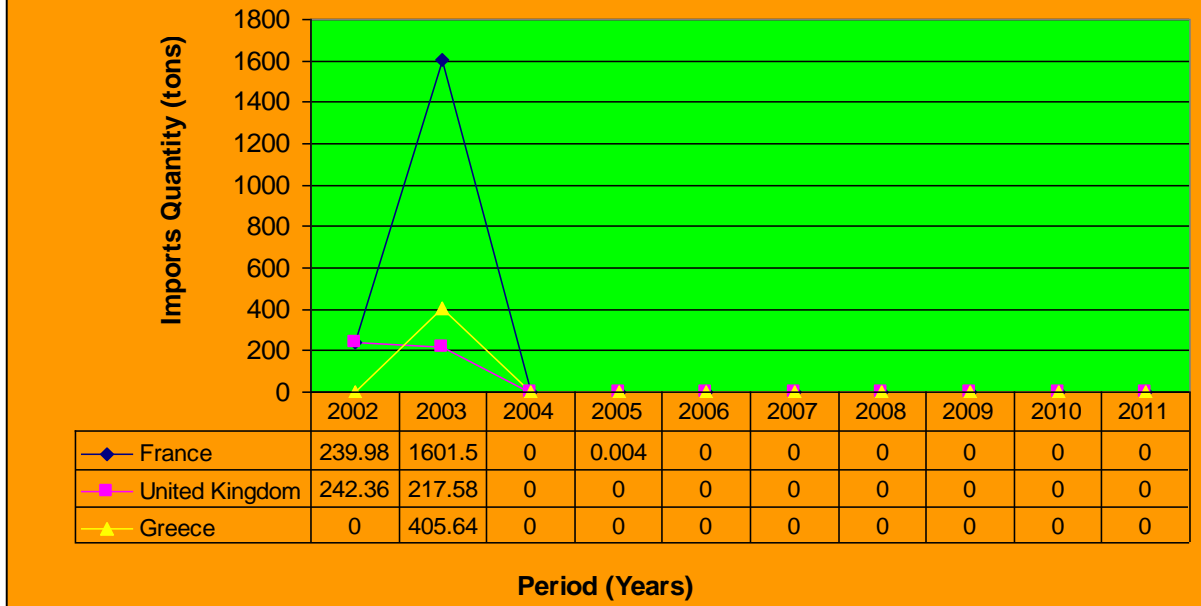
Figure 23 depicts volumes of cotton imports (not carded or combed) from South-central Asia into South Africa between 2002 and 2011 period. The graph further depicts that the major supplier of cotton from Asia into South Africa was mainly India, with no competition from other counter parts. The figure also depicts that between 2002 and 2006 and again in 2008, there were no imports of cotton from India into South Africa during the same period under review. Imports of cotton from India into South Africa started to increase in 2007 and then experienced a decline in 2009 and 2010. The graph also depicts that in 2011, imports volumes of cotton from India into South Africa attained a peak at approximately 1 385 tons. The analysis further depicts that in 2011, imports volumes of cotton (not carded or combed) from India into South Africa increase (peak) at approximately 1 385 tons (56.7%) as compared to the increase in 2010 at approximately 24.91 tons (0.04%).



Source: Quantec Easy Data

Over the past decade, Figure 24 illustrates volumes of cotton imports (not carded or combed) from Europe into South Africa. The figure further illustrates that the major supplier of cotton from Europe into South Africa during the period under review was European Union, followed by very low or minimal levels of imports from Western Europe. The figure also illustrates that imports of cotton from the European Union started to increase in 2002 with a dramatic increase and a peak in 2003 at approximately 2224.70 tons. The figure also illustrates that in 2004 and again between 2006 and 2010, there were no imports of cotton from the European Union into South Africa. Western Europe Rest had very low / minimal imports volumes of cotton into South Africa during the period under scrutiny. The figure also illustrates that from 2006 to 2011, imports volumes of cotton (not carded or combed) from European Union into South Africa were zero.

**Figure 25: Imports volumes of cotton (not carded or combed) from European Union**



Source: Quantec Easy Data

Figure 25 shows volumes of cotton imports (not carded or combed) from the European Union into South Africa between 2002 and 2011 period. The graph further shows that over the past decade, the major supplier of cotton imports from the European Union into South Africa was mainly France, followed by very minimal volumes of cotton imports from Greece and United Kingdom. The figure also shows that imports of cotton from France started to increase in 2002 with a dramatic increase and a peak in 2003 at approximately 1 601.50 tons. The figure also shows that in 2004 and again between 2006 and 2011 of the period under scrutiny, there were no imports of cotton from France, United Kingdom and Greece and into South Africa.

## 5. MARKET INTELLIGENCE

Table 6: List of importing markets for cotton exported by South Africa in 2011

Importers	Trade Indicators							Tariff (estimated) faced by South Africa (%)
	Exported value 2011 (USD thousand)	Share in South Africa's exports (%)	Exported quantity 2011 (tons)	Unit value (USD/unit)	Exported growth in value between 2007-2011 (% p.a.)	Exported growth in quantity between 2007-2011 (% p.a.)	Exported growth in value between 2010-2011 (% p.a.)	
World	13497	100	13205	1022	34	35	-30	
China	6010	44.5	4806	1251	120	104	99	6.8
United Kingdom	2098	15.5	1325	1583	180	107	4562	0
Indonesia	1428	10.6	2968	481	7	27	43	0
Mauritius	1160	8.6	1355	856	26	39	-42	0
Thailand	925	6.9	882	1049	31	27	-79	0
Singapore	624	4.6	1035	603	70	81	-69	0
Italy	426	3.2	142	3000	115	13	233	0
Malaysia	373	2.8	342	1091		-10	366	0
Portugal	288	2.1	236	1220	111	-3	-81	0
Republic of Korea	159	1.2	109	1459		4	-89	0
Mozambique	2	0	1	2000			0	0
Zimbabwe	1	0	0		-44			2.5
Ship stores and bunkers	1	0	0					
Zambia	1	0	4	250		-56		5

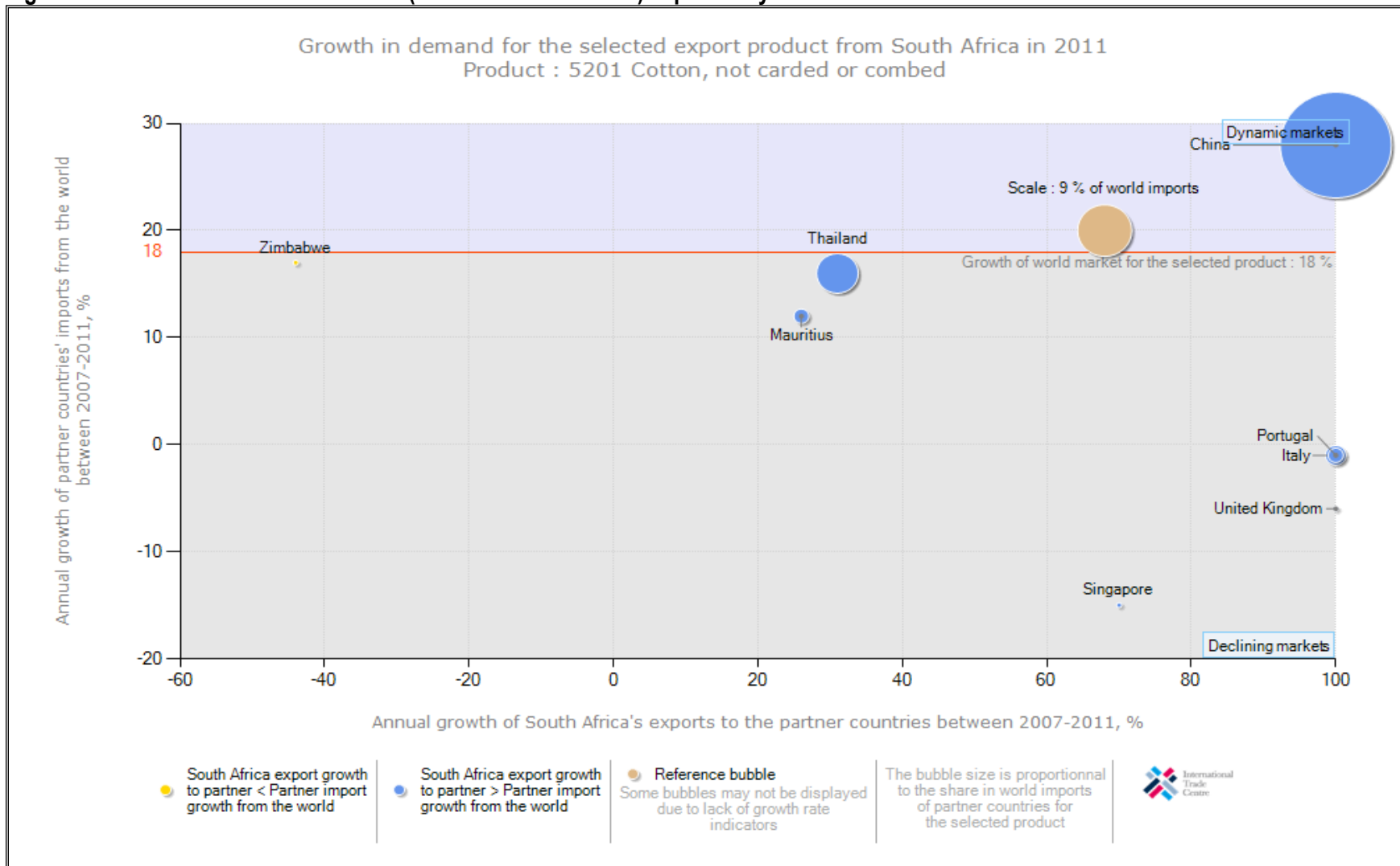
Source: Trade Map

Table 6 shows the list of importing markets for cotton exported by South Africa to the world in 2011. The table further shows that during the period under scrutiny, South Africa exported a total of 13 205 tons of cotton to the world, and this means that South Africa is a net importer of cotton. The table further shows that during the period under scrutiny, China followed by United Kingdom and Indonesia were the biggest import markets for cotton exported by South Africa in 2011. The table also shows that although China was the leading import market for South African cotton, the exported growth in value increased at 120% per annum, as compared to that of United Kingdom, Italy and Portugal at approximately between 111% and 180% per annum between 2007 and 2011.

The table further shows that although China was the leading import market of South African cotton, the exported growth in quantity increased at 104% per annum, as compared to United Kingdom as the second highest at an increase of 107% per annum between 2007 and 2011.

The table also shows that China had the highest share in South Africa's exports of cotton in 2011 at 44.5%, followed by United Kingdom at 15.5% and Indonesia at 10.6%. One other key point to notice was that South Africa's exported growth in value to both China and United Kingdom increased at 99% and 4562% per annum, while the average world figures declined at 30% between 2010 and 2011.

**Figure 23: Growth in demand for cotton (not carded or combed) exported by South Africa in 2011**



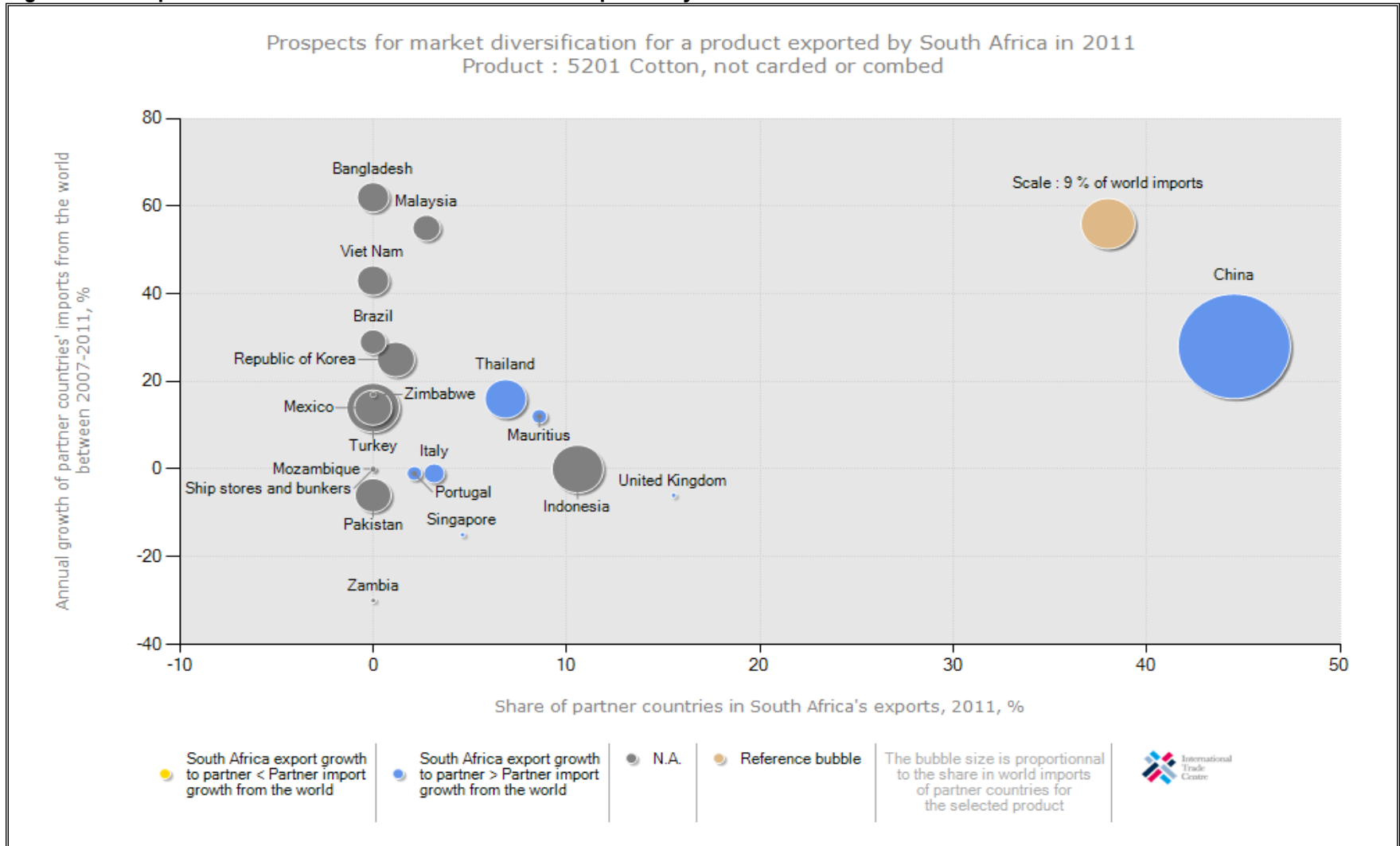
Source: Trade Map

Figure 23 depicts growth in demand for cotton exported by South Africa to the world in 2011. The figure further depicts that China was the biggest import market for cotton exported by South Africa during the period under scrutiny. The graph further depicts that the annual growth of South Africa's cotton exports to Mauritius and Thailand was higher at 11% and 15% in a declining market, as compared to the annual growth of South Africa's cotton exports to Italy and Portugal at approximately negative 5% and 2%.

This means that in Mauritius and in Thailand, the growth in demand for cotton exports from South Africa was higher during the period between 2007 and 2011.

The annual growth of South Africa's cotton exports to Zimbabwe also increased at approximately 18% but in a declining market. The bubble graph also depicts that it was not a good economic decision for South Africa to export cotton to both Italy, Portugal and Singapore as both markets are declining in terms of South Africa's cotton exports during the period between 2007 and 2011.

**Figure 24: Prospects for market diversification for cotton exported by South Africa in 2011**



Source: Trade Map

Figure 24 indicates prospects for market diversification for cotton (not carded or combed) exported by South Africa to the world in 2011. The figure further indicates that China was the biggest market for South African cotton during the period under review, with a share of partner countries in South Africa's exports at 45%. The graph also indicates that if South Africa had to diversify its markets for cotton, small but attractive markets exists in Bangladesh, Malaysia, Brazil, Zimbabwe and Viet Nam.

The graph further indicates that China had a highest share in South Africa's cotton exports at approximately 45% between 2007 and 2011, as compared to United Kingdom at approximately 15.5% share.

**Table 7: List of supplying markets for cotton imported by South Africa in 2011**

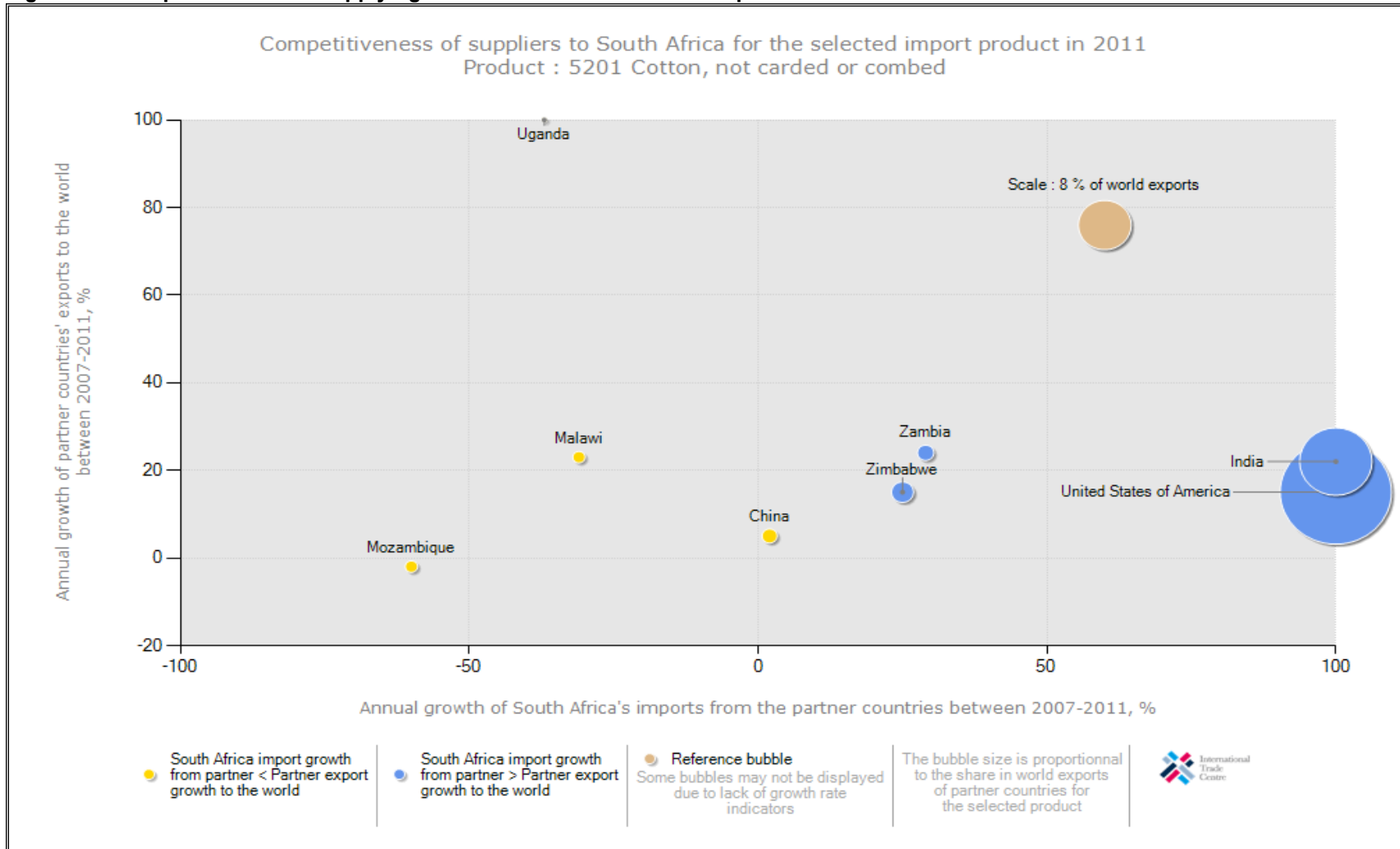
Exporters	Trade Indicators							Tariff (estimated) applied by South Africa (%)
	Imported value 2011 (USD thousand)	Share in South Africa's imports (%)	Imported quantity 2011 (tons)	Unit value (USD/unit)	Imported growth in value between 2007-2011 (% , p.a.)	Imported growth in quantity between 2007-2011 (% , p.a.)	Imported growth in value between 2010-2011 (% , p.a.)	
World	101579	100	32673	3109	14	-7	104	
Zimbabwe	52967	52.1	15316	3458	25	-1	181	0
Zambia	28528	28.1	10700	2666	29	11	-2	0
Malawi	6462	6.4	1863	3469	-31	-44	360	0
Brazil	4509	4.4	1420	3175				10.5
USA	4105	4	1290	3182	393		205150	10.5
India	2445	2.4	1385	1765	136	88	4694	10.5
Uganda	1199	1.2	302	3970	-37	6		10.5
Chinese Taipei	938	0.9	292	3212				10.5
Mozambique	424	0.4	104	4077	-60	-68	113	0
China	1	0	0		2			10.5

**Source: Trade Map**

Table 7 confirms the list of supplying markets for cotton imported by South Africa from the world in 2011. The table further confirms that during the period under review, Zimbabwe followed by Zambia and Malawi were the biggest supplying markets for cotton imported by South Africa in 2011. The table further confirms that during the period under examination, South Africa imported a total of 32 673 tons of cotton from the world, and this means that South Africa is a net importer of cotton. One of the reasons for this result is that all the countries are from the SADC region which means the distance to the market is short and the tariff agreements are suitable for trade as South Africa is also part of SADC.

It is also interesting to note that South Africa's imported growth both in value and quantity to Zimbabwe increased at 25% and declined by 1% respectively, as compared to negative 14% and 1a decline of 7% respectively of what was imported from the world during the same period under scrutiny. Also important to note was that, South Africa's imported growth in value to Zambia also increased at 29%, as compared to 7% from the world between 2007 and 2011 period. Zimbabwe's share in South Africa's imports accounts for 52.1%, while Zambia accounts for 28.1% during the same period under scrutiny.

**Figure 25: Competitiveness of supplying markets to South Africa for imported cotton in 2011**

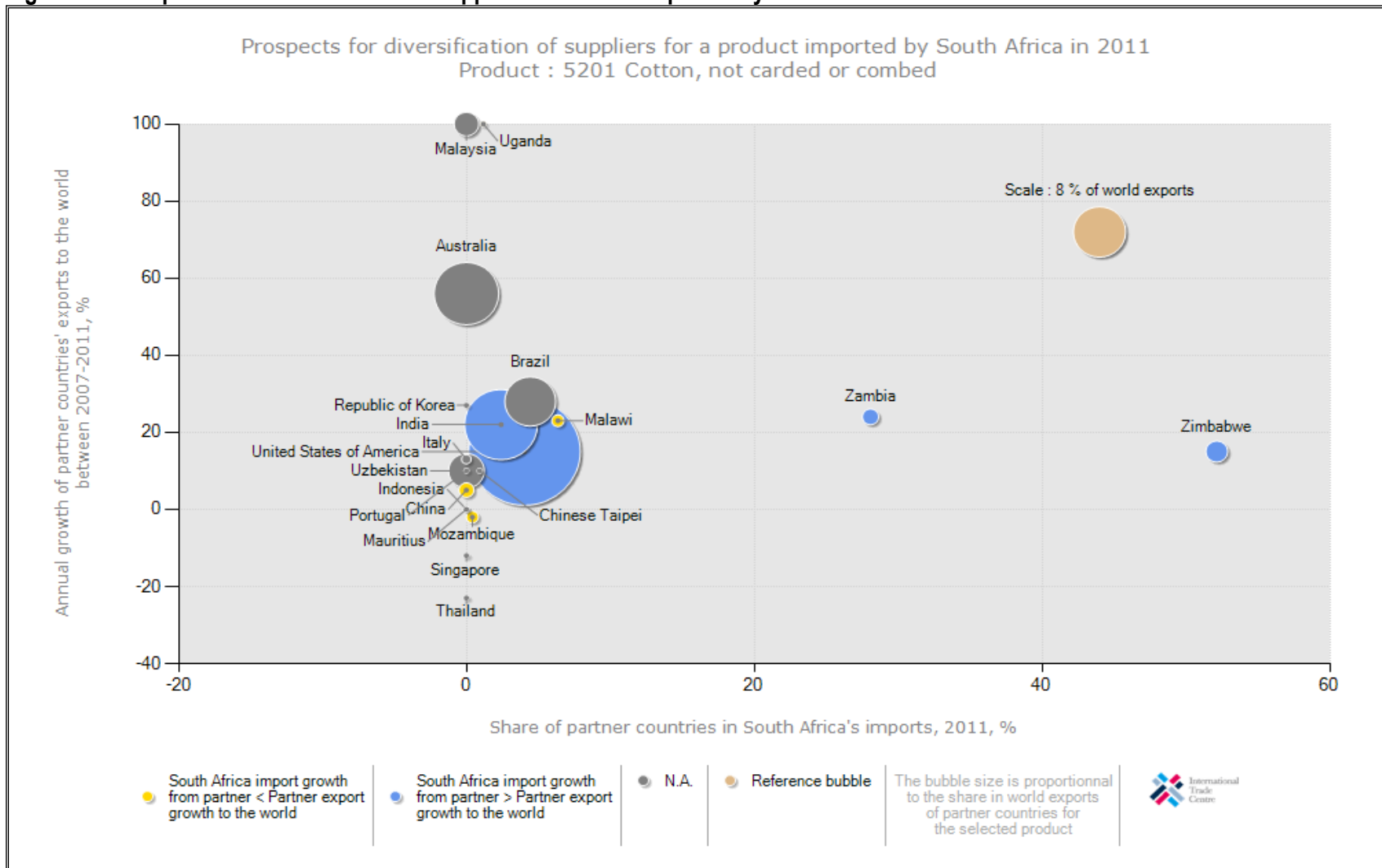


Source: Trade Map

Figure 25 illustrates competitiveness of supplying markets to South Africa for imported cotton (not carded or combed) in 2011. The figure further illustrates that the biggest supplying markets for cotton imported by South Africa was Zimbabwe, followed by Zambia during the period under review, with an annual growth of South Africa's imports from partner countries at 25% and 29% respectively between 2007 and 2011.

The figure also illustrates that during the period under examination, the most competitive supplier for cotton imported by South Africa was United States of America with an annual growth of South Africa's imports from the partner between 2007 and 2011 at 100%.

**Figure 26: Prospects for diversification of suppliers for cotton imported by South Africa in 2011**



Source: Trade Map

Figure 26 depicts prospects for diversification of suppliers for cotton imported by South Africa from the world in 2011. The figure also depicts that United States of America was the biggest supplier for cotton imported by South Africa during this period. The figure also depicts that if South Africa had to diversify its suppliers of cotton, small and attractive markets exist in Uganda, Malaysia, Australia and Brazil during the period under examination.

## 6. MARKET ACCESS

There is no restriction on the importation of cotton, but a duty on imported cotton lint of R1.60c/kg is payable. This duty is, however, in terms of the SADC Free Trade Agreement (FTA) not applicable to cotton lint imports from within SADC. The full duty of R1.60c/kg of cotton lint is still applicable to imports from outside SADC, in respect of imports that do not qualify under the WTO minimum market access provision. Cotton originating from SADC countries such as Zimbabwe, Zambia, Malawi, Mozambique and Tanzania incur no import duty.

**Table 8: Tariffs applied by different countries to cotton product exported by South Africa in 2011.**

COUNTRY	PRODUCT DESCRIPTION	TRADE REGIME DESCRIPTION	APPLIED TARIFFS	TOTAL AD VALOREM EQUIVALENT TARIFF (ESTIMATED)
China	Cotton, neither carded nor combed, rendered absorbent or bleached	MFN duties (Applied)	83.62 \$/ton	6.48%
Japan	Cotton, neither carded nor combed, rendered absorbent or bleached	MFN duties (Applied)	0.00%	0.00%
Korea	Cotton, neither carded nor combed, rendered absorbent or bleached	MFN duties (Applied)	0.00%	0.00%
Chinese Taipei	Cotton, neither carded nor combed, rendered absorbent or bleached	MFN duties (Applied)	0.00%	0.00%
India	Cotton, neither carded nor combed, rendered absorbent or bleached	MFN duties (Applied)	0.00%	0.00%
Indonesia	Cotton, neither carded nor combed, rendered absorbent or bleached	MFN duties (Applied)	0.00%	0.00%
Malaysia	Cotton, neither carded nor combed, rendered absorbent or bleached	MFN duties (Applied)	0.00%	0.00%

COUNTRY	PRODUCT DESCRIPTION	TRADE REGIME DESCRIPTION	APPLIED TARIFFS	TOTAL AD VALOREM EQUIVALENT TARIFF (ESTIMATED)
Singapore	Cotton, neither carded nor combed, rendered absorbent or bleached	MFN duties (Applied)	0.00%	0.00%
Thailand	Cotton, neither carded nor combed: Other: in staple lengths not exceeding 25,5mm	MFN duties (Applied)	0.00%	0.00%
United Kingdom	Cotton, neither carded nor combed: Other: in staple lengths exceeding 25,5mm	MFN duties (Applied)	0.00%	0.00%
Zimbabwe	Cotton, neither carded nor combed: Other: in staple lengths exceeding 25,5mm	MFN duties (Applied)	0.00%	0.00%
Germany	Cotton, neither carded nor combed: Other: in staple lengths exceeding 25,5mm	Preferential tariff for SA	0.00%	0.00%
France	Cotton, neither carded nor combed: Other: in staple lengths exceeding 25,5mm	MFN duties (Applied)	0.00%	0.00%

Source: Mac Map

Table 8 shows countries from various regions, tariffs and trade agreements applied by those countries for cotton exported by South Africa in 2011 period. The table further shows that most countries used the most favoured nation duties to facilitate trade with South Africa in terms of cotton exports. The table also shows that China is the only country that charge South Africa a tariff of 83.62 \$/ton during this period.

**Table 9: Tariffs applied South Africa to different countries for cotton product imported in 2011 period.**

COUNTRY	PRODUCT DESCRIPTION	TRADE REGIME DESCRIPTION	APPLIED TARIFFS	TOTAL AD VALOREM EQUIVALENT TARIFF (ESTIMATED)
Zambia	Cotton, neither carded nor combed: Not ginned	Preferential tariff for SA	0.00%	0.00%
Zimbabwe	Cotton, neither carded nor combed: Not ginned	Preferential tariff for SA	0.00%	0.00%
Malawi	Cotton, neither carded nor combed: Not ginned	Preferential tariff for SA	0.00%	0.00%
Mozambique	Cotton, neither carded nor	Preferential tariff	0.00%	0.00%

COUNTRY	PRODUCT DESCRIPTION	TRADE REGIME DESCRIPTION	APPLIED TARIFFS	TOTAL AD VALOREM EQUIVALENT TARIFF (ESTIMATED)
	combed: Not ginned	for SA		
United Republic of Tanzania	Cotton, neither carded nor combed: Not ginned	Preferential tariff for SA	0.00%	0.00%
India	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
China	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
Greece	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
United Kingdom	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
France	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
Italy	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
Japan	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
Korea	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
Chinese Taipei	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%

**Source: Mac Map**

Table 9 illustrates countries from various regions, tariffs and trade agreements applied by South Africa when it's importing cotton from various regions in 2011 period. The table further illustrates that during the period under scrutiny, countries from the SADC region prefer to use the preferential tariff for SADC countries to facilitate and fast-track trade with South Africa and that makes it cheaper to export and import cotton product between the SADC countries and South Africa.

## **7. PROCESSING AND THE VALUE CHAIN TREE**

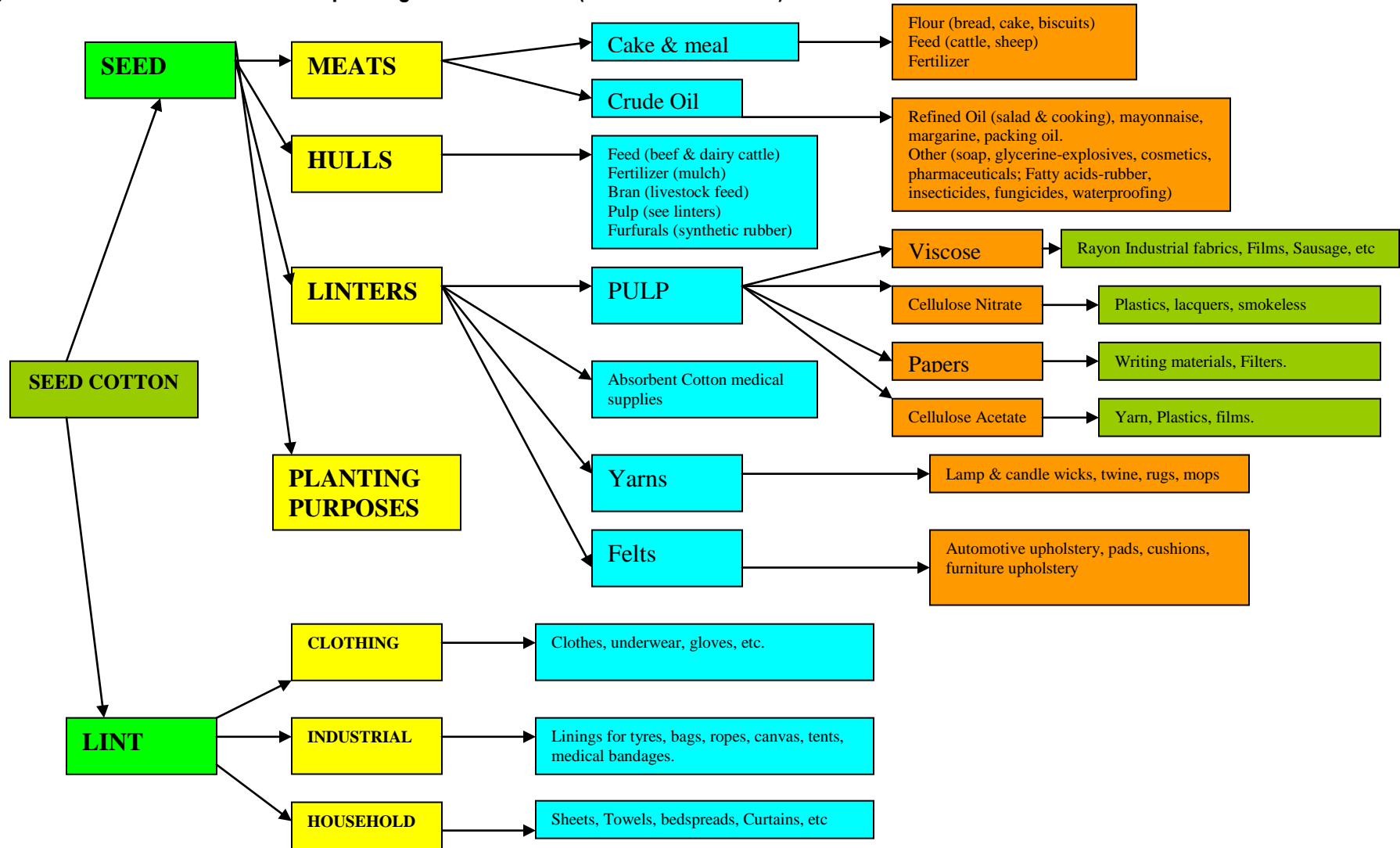
The first step in the processing of picked cotton occurs at the ginnery where the fiber, which is about 37% of the total mass of the cotton, is separated from the seed. The fiber consists exclusively of cellulose and is the most important product of cotton from a commercial viewpoint. There are currently nine ginneries in South Africa. Seed cotton is either sold by the grower to a ginner who gins the cotton and sells the cotton lint for his own account to spinners (and the seed to processors), or the grower does not sell his seed cotton to the ginner but contracts the ginner to gin it on his behalf on payment of a ginning fee (some growers also own their own gins). In this case the cotton lint and seed remain the property of the producer who then either markets it himself or contracts the gin or someone else to market the cotton lint (or seed) on his behalf. Cotton seed processors use the seed to manufacture

animal feeds and the spinners use the cotton lint to spin yarn. Weavers and knitters use the yarn to produce a variety of products such as textiles, towels, denim, canvas, furnishings, etc.

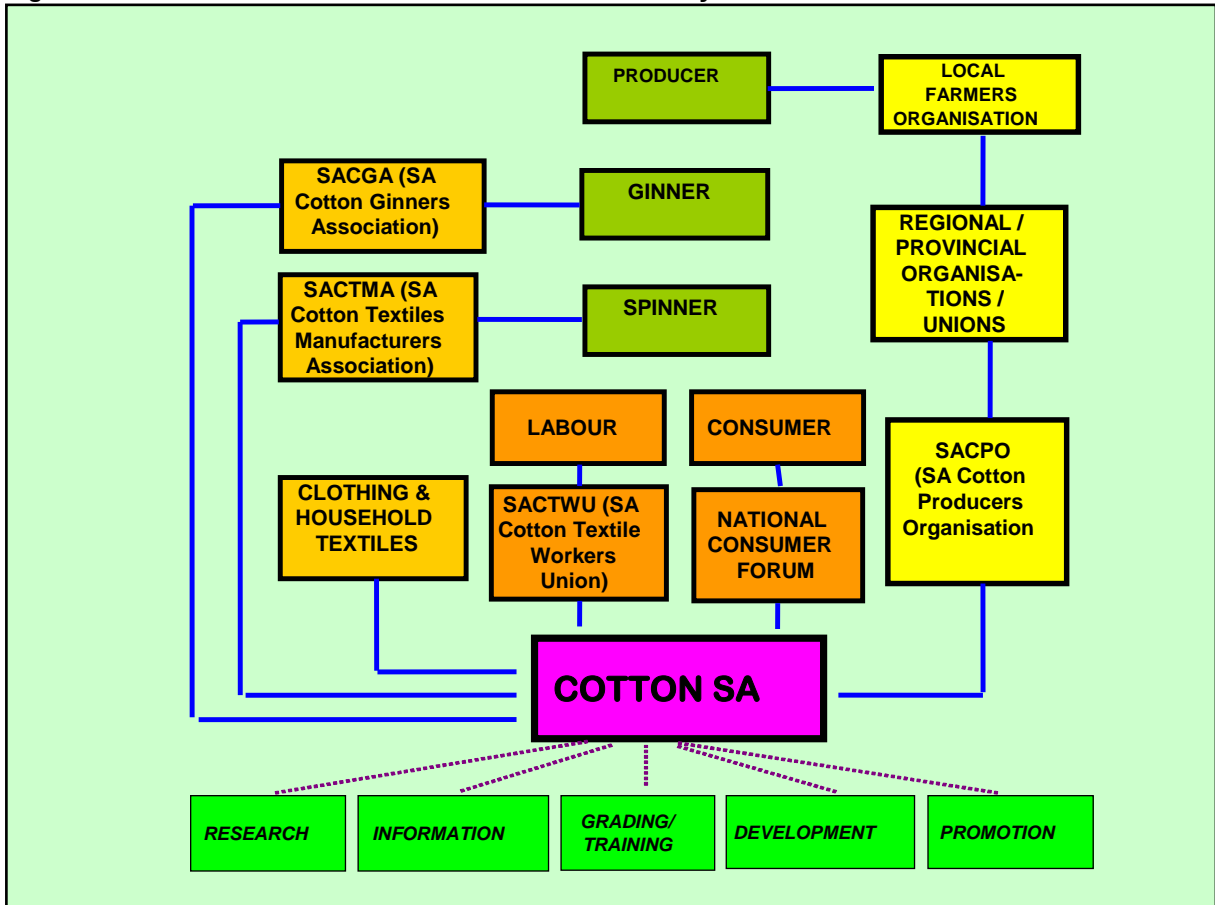
The various products derived from cotton are outlined in Figure 14. During the course of oil extraction, the seed is processed into fuzzy cotton (3%), hulls (30%), pulp (61%), and cotton waste (6%). The pulp is then further processed into the following products: crude oil (21%), oil-cake (74%) and waste (5%). The oil is used in the preparation of foodstuffs while the cake or meal is used in the manufacture of fodder. Cotton seed contains a poisonous substance known as gossypol, which is removed from the edible oil during the refining process. The gossypol in the oil-cake is rendered harmless by the addition of chemicals.

The major products of cotton lint are weaving yarns (used for toweling, denim, sheeting, etc) and knitting yarns (used in knitted fabrics for T-shirts, underwear, etc). Major products produced from cotton seed are meal (used in cake/meal for flour, feed and fertilizer); oil (used in soaps, explosives, etc), hulls (used for feed, fertilizer, synthetic rubber, etc), linters (used in pulp, medical appliances, yarns and felts) and planting seed.

Figure 27: Cotton value chain tree explaining its various uses (Cotton South Africa)



**Figure 28: Structure of the South African Cotton Industry**

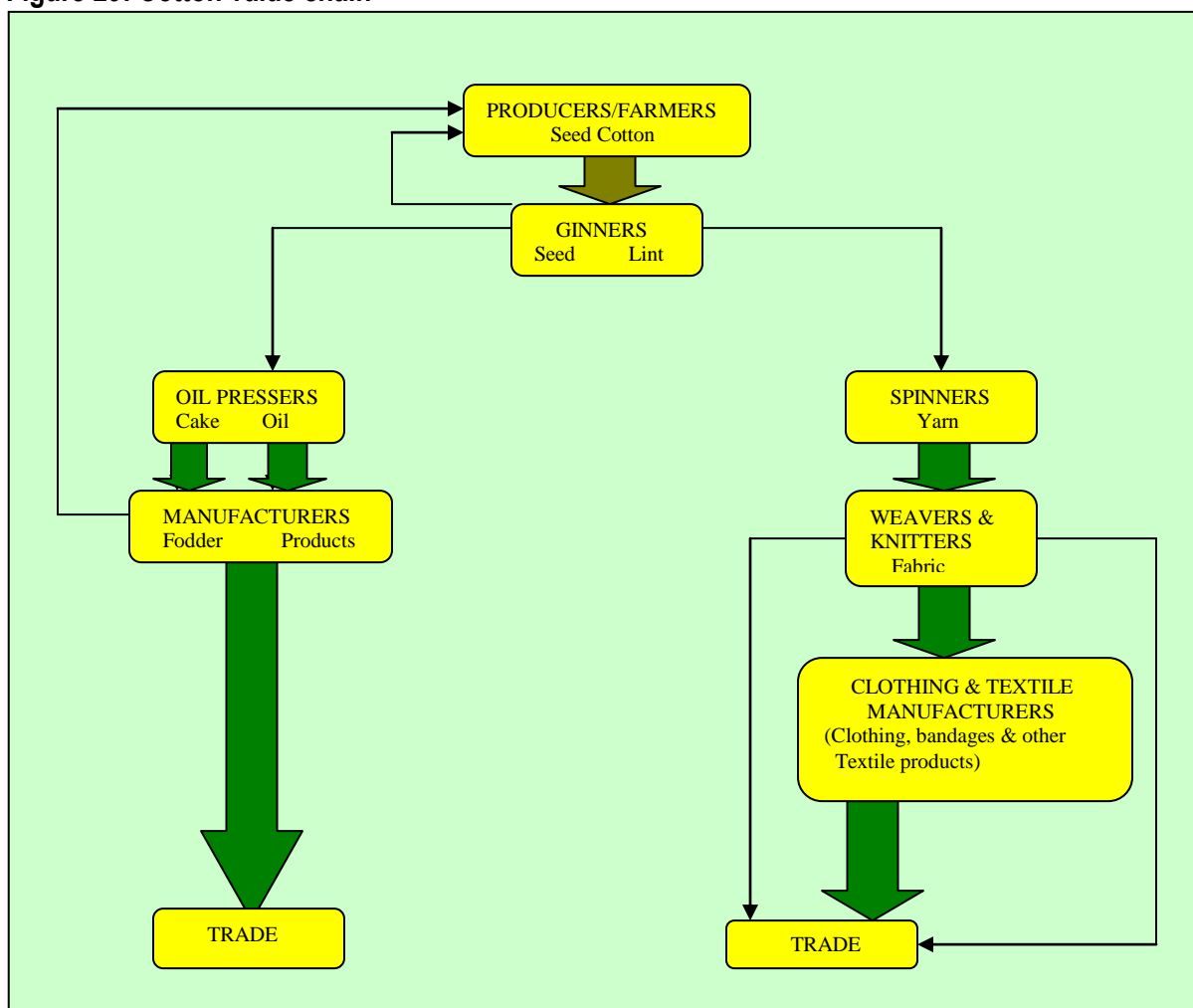


Source: Cotton South Africa

There are five important stakeholders in the cotton industry. These are producers of seed cotton, ginners, spinners, oil pressers and clothing and garment manufacturers. For the 2006/07 production season it is estimated that cotton was planted by approximately 2 849 small scale cotton farmers (representing between 15% and 20% of total cotton lint production), as opposed to approximately 300 commercial farmers. Small scale farmers in the past also represented the vast majority of local cotton growers. The ginning industry is made up of only eight companies or gins. They buy seed cotton from producers, gin it and sell the lint. Ginners also gin the cotton for the farmers who could retain ownership of the lint and the seed, at a cost. In this case, the farmer is then responsible for the marketing of his won product. The output of the ginners is lint and seed. The lint is sold to the spinners and the seed to the oil pressers. There are nine spinners in the spinning industry (from 16 in 2003), of which the biggest are Frame Textiles and Da Gama Textile Co. Ltd. These spinners buy the cotton lint from ginners, process the lint and deliver the output (yarn) to the clothing and textile industry. Most of the spinners also perform the task of weavers and knitters and are thus vertically integrated. There is only one oil presser in South Africa. Cotton oil is pressed from the seed, and the oil cake is used as input in animal feeds.

## 8. MARKET VALUE CHAIN

Figure 29: Cotton value chain



Source: Adapted from Cotton South Africa

In order to fulfill South Africa's commitment under the World Trade Organization: Marrakesh Agreement regarding market access, the Directorate: Marketing issues rebate permits under the Market Access rebate scheme to importers of cotton lint for a total of 17 101 tons (85 505 bales of cotton lint) (for 2010) per annum. The import arrangements for cotton lint are as in Table 2.

Table 7: Import arrangements for cotton lint

TARIFF HEADING	DESCRIPTION	EXTENT OF REBATE	ANNUAL TONNAGE	QUOTA
52.01	Cotton, not carded or combed	Full duty less 12%	17 101 (85 505 bales of cotton lint)	

Source: Government Gazette Notice 1297 of 2009

**a. *Developments in the cotton industry.***

A trend that has emerged over the past few years is the establishment of farmer-owned gins as well as the incidence of contract ginning (where the farmer retains ownership of the cotton lint after ginning). About 54% of cotton lint produced for the 2005/06 marketing year was by way of contract ginning. This means that farmers are increasingly getting involved in the marketing of their produce than before, although the majority of sales are still being brokered by local cotton traders.

As 40-60% of South Africa's cotton requirements are imported annually, three international cotton traders (namely Cargill, Plexus Cotton and Dunavant) are also involved in the local market, in addition to the local commodity traders who also offer import services. Some of these international cotton traders own their own gins in SADC and Cargill also owns gins in South Africa having acquired Clark Cotton in 2006. The above two developments show market fragmentation within the industry.

**9. EMPOWERMENT ISSUES AND TRANSFORMATION IN THE SECTOR**

South Africa's cotton growers together with the input suppliers, output processors and the Department of Agriculture have developed a Strategic Plan for the South African Cotton Sector with the following objectives: broadening participation to enable developing farmers to contribute on average 25% of the national crop by 2007 and 35% by 2014, raising productivity by training at least 60% of developing farmers by 2007 and by improving research, extension services and technology transfer.

A cotton gin has been commissioned by cotton farmers in the Vaalharts irrigation area during 2004. The gin is a joint venture between IDC and cotton farmers with a BEE component of at least 25% reserved for workers and emerging farmers.

Makhathini Cotton Company in KZN is also a BEE firm with 65% black empowerment shareholding.

The Cotton Project in the Eastern Cape is a joint initiative by the Eastern Cape Development Corporation and Da Gama Textiles. It involves 500 emerging farmers from Addo, Tyefu, Middeldrift, Keiskammahoek, Qamata, Kat River and the Karoo. A new gin has been commissioned in 2005/06 and will eventually jointly be owned by farmers and Da Gama Textiles (the off-take partner of their produce), with small scale farmers having a major share.

From 2001, Cotton SA established a formal training program for small scale cotton growers at various centres mainly at the Lowveld College of Agriculture in Mpumalanga province, Tompi Seleka College of Agriculture in the Limpopo Province, Mjindi Training Centre and Owen Sithole College of Agriculture in Kwazulu-Natal and Fort Cox Rural Development Centre in the Eastern Cape Province. Up to the end of 2006 close to 600 small scale cotton farmers have attended these courses.

**10. BUSINESS OPPORTUNITIES AND CHALLENGES**

- The fact that South Africa is a net importer of cotton indicates that there is scope for substantial increases in production without fear of creating surpluses. As cotton is a Summer crop

cultivated on the same land as maize, many hectares which are currently under maize can be switched to cotton, which would not only lessen South Africa's dependence on cotton imports but will also contribute to alleviating the overproduction which occurs in the maize industry from time to time. In this respect it should also be noted that because of cotton's drought tolerant ability, it is much more suited for marginal agricultural lands than maize.

- Domestic support and export subsidies provided by governments of many cotton producing countries create serious distortions in the international market. This factor together with the strength of the rand against the dollar and combined with uncertain weather conditions, have placed serious pressure on the domestic cotton production in recent years. International markets for cotton and derived products remain distorted because of the huge amounts of trade and production distorting support granted to cotton producers mainly in the USA, China and the European Union.
- The South African cotton production industry also faces strong import competition from SADC countries. About 99% of cotton lint imports during the 2005/06 season originated from SADC countries. Since January 2004 when the SADC Free Trade Agreement allowed duty-free cotton lint imports from SADC countries, South African producers are finding it increasingly difficult to compete with SADC imports. The current crop for 2010/11 is estimated to be 15% down from the first estimate earlier this year, mainly due to a decline in yields as a result of floods and unfavourable weather conditions.

#### **10.1 Other factors that constrain commercialization of emerging farmers' cotton products.**

- Access to productive land. In most cases small scale farmers do not own the land they farm on.
- Lack of land tenure as well as own equity make these farmers high risk customers to financial institutions.
- Lack of institutional support such as limited extension services.
- Lack of credit since the ginning companies no longer act as intermediaries.
- Lack of irrigation infrastructure.
- Lack of regional and provincial structures for emerging farmers in order for them to participate in partnership programs with commercial companies.
- Lack of knowledge and expertise among small scale farmers relating to cotton agronomy.
- The lack of formal skills development programmes (which involves a certain number of unit standards at NQF level 1).

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