

Cotton

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COTTON INDUSTRY PROFILE

PRIMARY PRODUCTION 2004/05 Marketing season

COTTON PRODUCTION

Area: 35 719 ha
Commercial farmers: ± 450
Developing farmers: ± 2 000
Total production: 25 798 tons lint
Imports: 29 437 tons lint p.a.
Turnover:
Seed cotton: ± R230 million
Cotton lint: ± R250 m
Employees: ± 65 000 workers

COTTON GINNERS

CLARK COTTON GIN

Ownership: Premier Group
Market share 33,85 %

N.S.K.

Ownership: Company
Market share 29,13 %

WEIPE COTTON GIN

Ownership: Privately owned by farmers
Market share 10,40 %

N.C. GINNERY

Ownership: Company
Market share 8,09 %

MAKHATHINI GIN

Ownership: 100 % black owned
Market share 8,67 %

VAALHARTS GIN

Ownership: Co-op

ORANGE COTTON GIN

Ownership: Co-op
Market share 3,90 %

LOSKOP COTTON

DA GAMA COTTON

Cotton lint

Cotton seed

COTTON SPINNERS

Table Bay Spinners

Tradelink

Tai Yeun Textiles

Spintex Swaziland

Taitex Swaziland

Frame Group Limited
Employees 5700

De Nim Textiles

Prilla 2000
Ownership: IDC

Da Gama Textile

SBH Cotton Mills

Standerton Spinning Mills

CSP Pty Ltd {oilpress}

Animal feed manufacturers AFMA

CLOTHING AND TEXTILE MANUFACTURERS

Retailers

Consumers



Cotton

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. It also creates thousands of jobs in South Africa as it moves from field to fabric. The cotton industry currently spends an estimated R223 million on agricultural inputs, pays an estimated R38 million in wages and produces raw material for the processing industry worth about R136 million. The contribution of the cotton industry to the Gross Value of Agricultural Production can be summarised in the figure below:

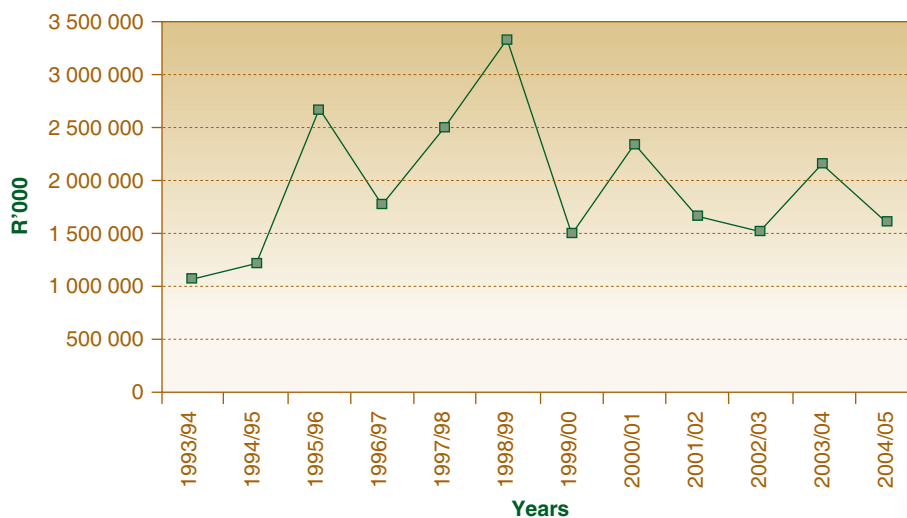


FIG. 1. Cotton – Gross Value of Agricultural Production

Source: Agricultural Statistics

1.1 Production areas

Cotton production areas in South Africa are as follows: Limpopo Province in the Springbok Flats from Bela-Bela to Mokopane, 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.

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



1.2 Production

During the 2004/05 production year 21 987 ha were dedicated to cotton production in South Africa, with 13 121 ha under irrigation and 8 866 ha under dryland conditions.

According to the Cotton Crop Report by Cotton SA for the 2004/05 production year and as can be seen from Fig. 2, the greatest quantities of cotton lint are produced in the Mpumalanga Province with a quantity of 41 608 bales followed by Northern Cape with 22 815 bales and Limpopo Province producing 20 301 bales. The least cotton is produced in the North West Province with 1 567 bales of cotton lint for the 2004/05 production year.

The area devoted to cotton production over the past few years has gradually been declining as can be seen in Table 1. This is the result of the fact that large cotton

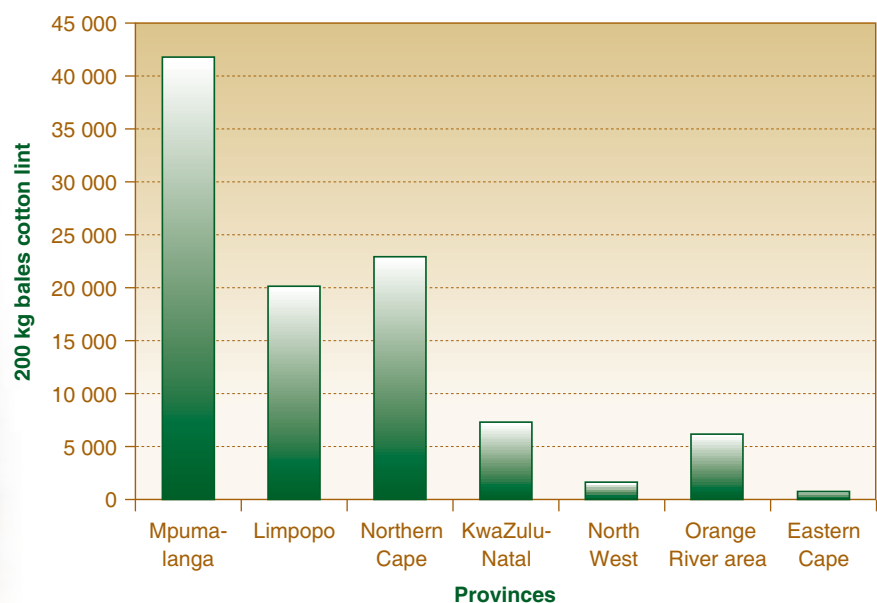


FIG. 2. Cotton production in South Africa
Source: Cotton SA

areas (irrigation and dryland) have been planted to maize, wheat and sunflower because of more favourable price prospects for these crops in relation to cotton. The switch to alternative crops can mainly be ascribed to the level of international cotton prices which have lately been very low as a result of subsidies and government support by developed countries.

TABLE 1. Cotton: area planted and production

Year	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
Area planted (1 000 ha)	54	90	83	90	99	51	57	39	23	36
Lint (tons)	21 472	37 699	24 180	34 507	44 926	25 757	33 893	17 384	15 285	25 798
Seed (tons)	37 422	65 704	42 142	60 141	78 299	44 891	59 070	30 298	26 639	44 962

Source: Cotton SA

According to Cotton SA, production of cotton lint by South African ginnerers for the 2004/05 marketing year was about 28 021 tons, which represents a 71 % increase over the previous season. A total of 25 798 tons were produced from RSA grown seed cotton, while the balance of 2 223 tons relates to seed cotton purchases from neighbouring countries, 50 % of which came from Swaziland.

Various SADC countries are also major producers of cotton. Tanzania is the biggest producer, accounting for about 31 % of the region's cotton output in the 2004/05 marketing year. Cotton production during 2004/05 can be summarised as follows:

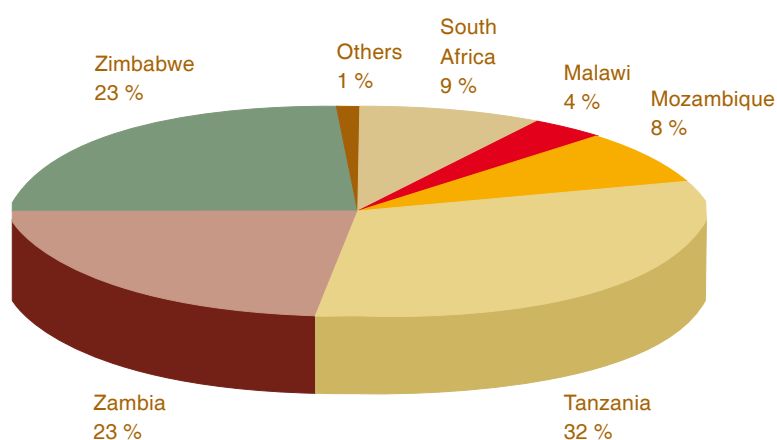


FIG. 3. Cotton lint production in the SADC region

Source: Cotton SA and the International Cotton Advisory Committee (ICAC)

1.3 Employment

The primary cotton industry employs 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 the 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.

2. MARKETING STRUCTURE

2.1 Domestic market and prices

The slow take-up process of local cotton since January 2004 creates tremendous cash flow problems for both farmers and ginners. For example, during the 2004/05 marketing year only 17 080 tons or 59 % of the local cotton crop was taken up by the spinners by 31 December 2004, with ginners' stocks representing the remaining 40 %.



FIG. 4. Seed cotton production and average producer prices

Source: Cotton SA and Agricultural Statistics

Over the past few seasons, cotton production in South Africa has been declining (see Fig. 4) mainly because of the low level of international cotton prices owing to subsidies and government support by developed countries which are creating serious distortions in the international market. In the 2002/03 production year, local production reached the lowest level in ten years mainly owing to the more attractive returns from competing crops and the dry conditions during planting and, more important, owing to the fact that international prices reached very low levels a year before as a result of government measures affecting cotton production and trade.

2.2 Imports

In terms of the SADC FTA (Free Trade Agreement) cotton can be imported free of duty since January 2004. Some SADC countries are substantial producers of cotton with a total production of about 320 000 tons of lint (SA included) in the 2004/05 marketing year, more than twice the total SADC consumption and twelve times the South African production for that year. These countries are very competitive producers of cotton and South Africa is a logical market for them. During the 2004/05 marketing year 92 % of South African cotton import was from SADC countries.

South Africa is a net importer of cotton lint and between 40 to 60 % of its cotton needs is imported annually. Fig. 5 outlines cotton imports into South Africa for the past ten marketing seasons.



FIG. 5. Cotton imports

Source: Agricultural Statistics

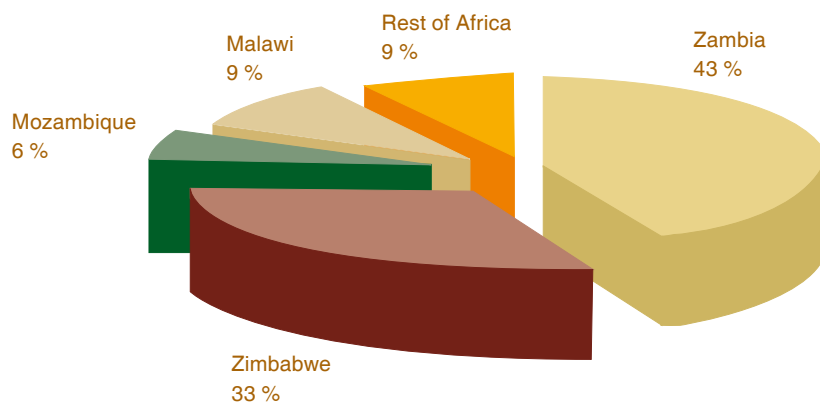


FIG. 5. Cotton imports

Source: Cotton SA

As can be seen from Fig. 5, the greatest quantities of cotton are imported from Zambia and Zimbabwe (about 75 % of imports). The stronger Rand compared to the US\$ in relation to the weaker SADC currencies contributes to the fact that cotton from SADC can be discounted in the South African market, thereby making the local crop less attractive to take up. Growers in Zambia and Zimbabwe are paid considerably lower prices than South African growers and therefore ginners in these countries can be aggressively competitive when selling to the South African market. Many SADC governments are also providing some or other form of support to their cotton-growing sectors.

2.3 Processing

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 deliver a variety of products such as textiles, towels, denim, canvas, furnishings, etc.



The major products of cotton lint are weaving yarns (used for towelling, 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 fertiliser); oil (used in soaps, explosives, etc.), hulls (used for feed, fertiliser, synthetic rubber, etc.), linters (used in pulp, medical appliances, yarns and felts) and planting seed.

2.4 Marketing arrangements

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 organisations such as the Liverpool Cotton Association and the Bremen Cotton Exchange will fulfil this role.

The following organogram (Fig. 6) provides a complete explanation of the various stakeholders involved in the cotton industry:

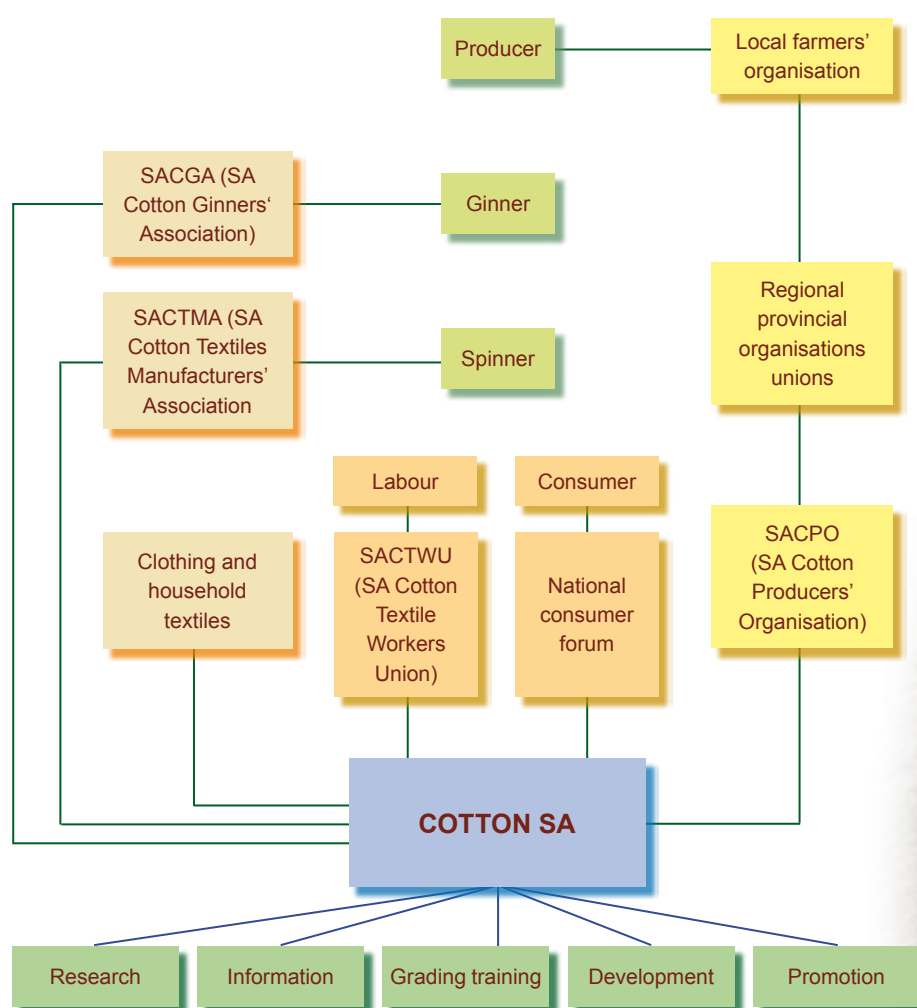


FIG. 6. Structure of the Cotton Industry

Source: Cotton South Africa



3. MARKET VALUE CHAIN

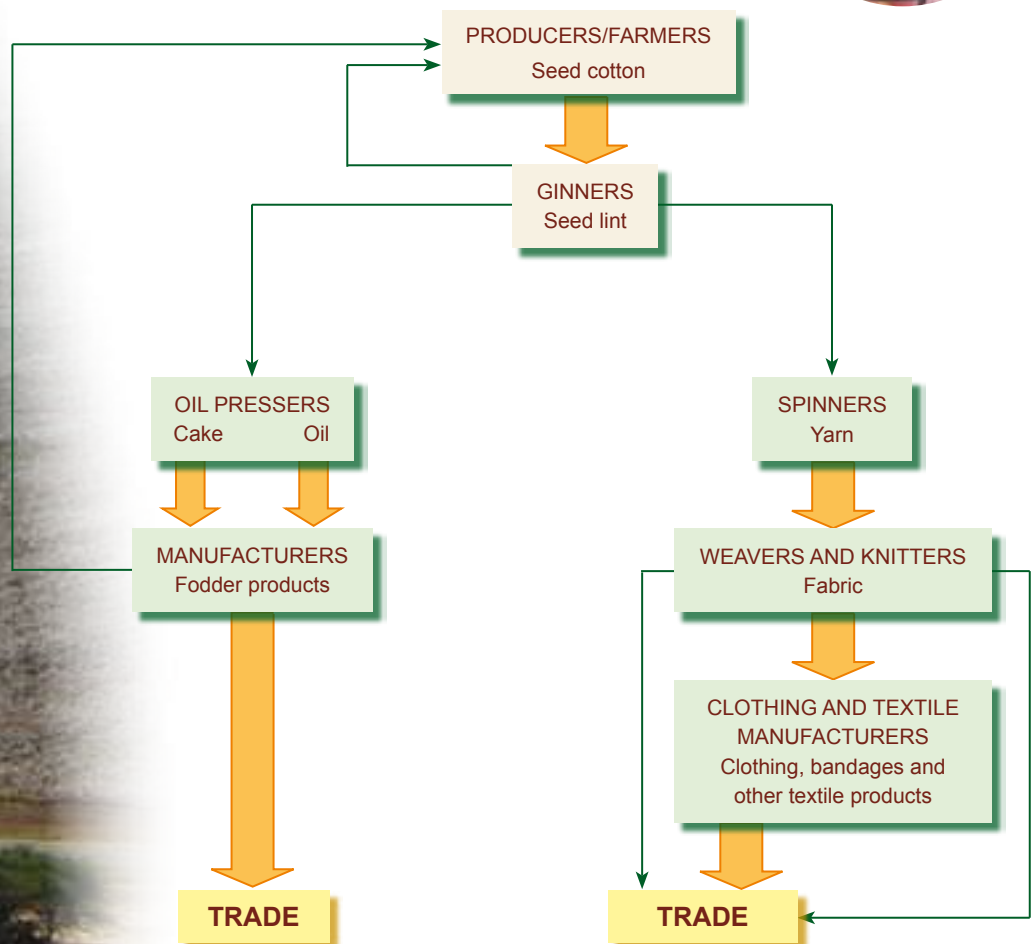


FIG. 7. Cotton value chain

3.1 Role of tariffs in the value chain

There is no restriction on the importation of cotton, however, a duty on imported cotton lint of R1,60 c/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 R1,60 c/kg of cotton lint is still applicable to imports from outside the SADC, in respect of imports that do not qualify under the WTO minimum market access provision.

4. 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 transfer of technology.

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 more than 340 farmers from Addo, Tyefu, Middel drift, Keiskammahoek, Qamata, Kat River and the Karoo.

5. 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 areas 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 at various times. In this respect it should also be noted that because of cotton's drought tolerance, 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, has placed serious pressure on domestic cotton production in recent years. International markets for cotton and derived products remain distorted because of the huge volumes 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 is also facing strong import competition from SADC countries. About 75 % of cotton lint imports during the 2004/05 season originated from Zimbabwe and Zambia.



6. GINNERIES

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7. ACKNOWLEDGEMENTS

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Thank you for the photomaterial on the masterpage and pages 51, 60, 62, 64, 65 and 66.