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## Paraguay

### Cotton and Products

### Annual

### 2004

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**Report Highlights:**

Paraguayan cotton production for Marketing Year (MY) 2004 (August 2004/July 2005) is forecast at 115,000 tons as a result of relatively good returns to the previous crop. With a flat domestic demand, exports are forecast to increase to 100,000 tons, with Brazil still the number one market.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Buenos Aires [AR1]  
[PA]

*SECTION I. SITUATION AND OUTLOOK*

Paraguayan cotton exports for Marketing Year (MY) 2004 (August 2004-July 2005) are forecast at 100,000 metric tons (MT), as a result of expected larger production, and unchanged domestic consumption.

With larger exports during MY 2003 and 2004, Paraguay is recovering the importance and market that it once had. Traders indicate that exports to neighboring Brazil and Argentina will decline slowly, while shipments to the Far East and Europe will grow. Brazil, Paraguay's number one export market, is producing large volumes of very good quality cotton, while Argentina is expected to increase cotton production and reduce its imports significantly in MY2004. Cotton exports through April 2004 show Brazil with over half of Paraguay's shipments, followed by China, Bolivia and Indonesia. Brazilian traders state that while they export most of the highest grades of Brazilian cotton, they import good Paraguayan cotton for domestic use.

Paraguayan cotton is normally of good quality, although some traders state that it needs to improve its uniformity. The quality in MY2003 was above average, primarily as result of dry weather. Regarding quality grading, approximately 20 percent of the current crop was superior, 64 percent of secondary quality, and only 16 percent was of inferior quality (lower grades in last year's crop accounted for 34 percent).

Production in MY2004 is forecast at 115,000 tons. Although still too early to determine, planted area is expected to expand to 300,000 hectares. Good profitability in MY2003 would encourage somewhat larger plantings. However, there is great doubt on how this increase will be financed as the Paraguayan Government (GOP) has stated that this year it will not subsidize cotton production. Last year, through a credit from the Inter-American Development Bank, the GOP subsidized the cost of the seed for approximately 90 percent of the planted area. Farmers paid only the equivalent of US\$7 per bag of seed, which was of sufficient volume to plant one hectare, while the real cost of this seed was almost three times greater.

Gins also provided farmers support through the advancing of agricultural chemicals, and some cash for some labor, which was deducted at harvest time. A new system of control was successfully implemented and most gins were almost fully reimbursed for these advances. This system will probably be put into practice again in MY2004. There are some talks about helping gins to obtain cheaper financing through state banks so they can improve their capacity to finance farmers. There are also some unsubstantiated reports about the possibility of creating a fund directed to the support of cotton production through a tax on cotton exports. Although farmers do not seem to like this idea, it could be a way of financing and supporting over 100,000 families that plant cotton (only 5 large producers account for about 15,000 hectares).

Raw cotton prices for MY2004 are forecast to remain roughly the same or somewhat lower than in MY2003. In this current crop, farmers received on average the equivalent of US\$370 per ton of raw cotton, while production costs were estimated at US\$140 per ton (this estimate does not include labor, which is normally done by the grower).

A factor that could limit the expansion of cotton production in the future is the rapid growth of sesame seed production. This new crop, which is promoted by three local companies, is expanding rapidly because returns are better, production costs are lower, and its production is easier to carry out than that of cotton. According to official estimates, in MY 2003/04, area planted to sesame seed was placed at 45,000 hectares, and it could increase by fifty percent in 2004/05. Sesame seed is produced at the same time and in the same region as

cotton. However, some sources indicate that the market for sesame seed, which is produced solely for export, is very volatile.

Three years ago, the GOP implemented a program, focused on approximately 20,000 farmers in the northern part of the country, to increase the efficiency of their operations. Agronomists and other professionals help growers to improve their production and marketing. Sources indicate that cotton yields in these farms are improving, although growers initially resisted adopting the new technology. The GOP is studying the possibility of providing some financing for the purchase of modern sowing and fumigation equipment. This is considered to be a key means of improving Paraguay's low cotton yields, at the farm level, as the density of seed used is normally lower than what it is recommended. The majority of producers use very old seeders, and quite a few still sow by hand. Most fumigation is also done manually. Paraguay's agricultural technicians recommend focusing on improving yields rather than expanding acreage.

There is discrepancy between official and private estimates of area planted to cotton. In MY2003, the GOP distributed bags of seeds to cover almost 300,000 hectares. However, the private sector estimates that only 270,000 hectares were sown and will finally be harvested, with practically no loss, by the end of May. The difference occurs because many farmers use more seed than needed and keep some just in case they need to replant. Although the GOP still bans the use of genetically modified (GM) cottonseed, just a few farmers in Paraguay plant GM cottonseed varieties.

Cotton production for MY2003 is revised upwards to 110,000 tons. Although the crop season was characterized by dryness, average yields at the farm and gin levels were above normal (1.1 ton per hectare and 35 percent, respectively). Farmers took relatively good care of the fields and, although scarce, there were opportune rains which permitted the picking of few more bolls, and resulted in some extra output through a second harvest. Private sources estimate that roughly 15,000 tons of Paraguayan raw cotton was exported unofficially to Brazil (these are not accounted in our PSD as only lint is reported).

A total of 29 gins, eight more than in MY2002, operated in the current crop. These eight new gins had been idle during the previous season due to the very small crop. Except for some extra processing equipment, there was little investment in the local cotton complex.

Lint domestic consumption for MY2004 is forecast at 5,000 metric tons, the same as in the past marketing year. However, some sources indicate that local use could expand marginally. The two spinners, of which one accounts for 80 percent of the market, are expected to continue working at full capacity producing fabric. Roughly 60 percent of the output is exported. Argentina currently accounts for about 80 percent of total shipments, followed by Bolivia and Chile.

SECTION II. STATISTICAL TABLES

### PSD Table

Country Commodity	Paraguay		Cotton		(HECTARES)(MT)		UOM
	2002	Revised	2003	Estimate	2004	Forecast	
Market Year Begin	USDA Official   Estimate [A]	Official   Estimate [A]	USDA Official   Estimate [A]	Official   Estimate [A]	USDA Official   Estimate [A]	Official   Estimate [New]	MM/YYYY
Area Planted	0	0	0	0	0	0	(HECTARES)
Area Harvested	170000	170000	275000	270000	0	300000	(HECTARES)
Beginning Stocks	14805	14813	19595	25313	25039	40313	(MT)
Production	59875	60000	90357	110000	0	115000	(MT)
Imports	0	0	0	0	0	0	(MT)
TOTAL SUPPLY	74680	74813	109952	135313	25039	155313	(MT)
Exports	51166	45500	79470	90000	0	100000	(MT)
USE Dom. Consumption	3919	4000	5443	5000	0	5000	(MT)
Loss Dom. Consumption	0	0	0	0	0	0	(MT)
TOTAL Dom. Consumptic	3919	4000	5443	5000	0	5000	(MT)
Ending Stocks	19595	25313	25039	40313	0	50313	(MT)
TOTAL DISTRIBUTION	74680	74813	109952	135313	0	155313	(MT)

### Export Trade Matrix

Country Paraguay  
Commodity Cotton

Time Period	CY	Units:	MT
Exports for:	2003		2004
U.S.	598	U.S.	
Others		Others	
Brazil	35183		
China	9906		
Argentina	8730		
Indonesia	2787		
Taiwan	2569		
Venezuela	2472		
Chile	1703		
South Africa	708		
Switzerland	553		
Turkey	500		
Total for Others	65111		0
Others not Listed	2575		
Grand Total	68284		0