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Paraguay

Cotton and Products

Annual Cotton Report

2006

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Report Highlights:

Paraguayan cotton exports for Marketing Year (MY) 2006-2007 are forecast at 40,000 tons, the lowest of the past 30 years. This is a consequence of droughts which have had a significant negative impact on the production of the last two crops. Despite a smaller planted area, and as long as weather is normal, lint production for 2006-2007 is projected to increase to 70,000 tons. The local cotton sector is going through major financial difficulties. The support that the Government of Paraguay provides to its small farmers will have a decisive influence on total planted area.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Buenos Aires [AR1]
[PA]

SECTION I. SITUATION AND OUTLOOK

Paraguayan cotton exports for MY 2006-2007 are projected at 40,000 tons, the lowest since marketing year (MY) 1975-1976. This is the result of a small, weather affected 2005-2006 crop and to an expected small crop in 2006-2007. Cotton merchants indicate that approximately 25,000 tons of lint from the 2005-2006 crop will be shipped from August 2006, and that 15,000-20,000 tons of the 2006-2007 crop could be shipped prior to the end of July 2007. The destination of most cotton exports of the 2005-2006 crop has changed from China to South American destinations. Export destinations of the 2006-2007 crop are uncertain, and will depend on quality, volume, prices paid by ginner, and world prices at time of shipment.

Historically, Paraguayan cotton has been well regarded in the market. The volume or color would vary from crop to crop, but the staple length and the micronaire were always very good. However, in the 2005-2006 crop, a severe drought together with very high temperatures between mid December and mid-January, and serious insect attacks (primarily the Alabama army bollworm and secondarily, the boll weevil) caused very low yields and significant quality problems. By the end of May the 2005-2006 harvest should be completed. Traders believe that about 50 percent of the crop has problems of either low micronaire or short staple length, while the rest is of good quality. This quality problem has forced Paraguayan exporters to seek different clients, since the product is not what it usually markets. It now has to compete with many suppliers of lower quality cotton. Only Brazil and Argentina are able to pay somewhat higher prices for Paraguayan lint, since there are regional advantages such as proximity (smaller volumes per shipment, lower freight costs, faster delivery), duties, and other logistical factors. Brazil will purchase lint during June-July, prior to the beginning of its harvest in the State of Mato Grosso. Argentina, which is in the middle of its cotton harvest, will need to purchase lint, since its production is not enough to supply the growing domestic demand. It will likely source cotton primarily from Brazil, and some from Paraguay. Therefore, current prices in the region are not very attractive. Should world market prices increase significantly, Paraguayan cotton could move somewhere else.

The average FOB price for Paraguayan cotton during January-April 2006 was US\$0.50 per pound, higher than US\$0.47 per pound during the same period in 2005.

Lint exports in Calendar Year (CY) 2005 went primarily to Asia accounting for more than 80 percent of the total (China was by far the largest market). Regional destinations (primarily Brazil, Bolivia, Chile, and Argentina) accounted for 15 percent and the rest went to the European Union (E.U.). Exports of the new crop (2005-2006) that were shipped in March and April 2006 went primarily to Brazil and Argentina; only 10 percent of total exports went to China.

Paraguayan lint production for 2006-2007 is forecast up to 70,000 tons. Post forecasts harvested area to drop to 210,000 hectares, the lowest of the past four years. However, the dispersion of expected planted area, among the private sector analysts, is wide. Several expect planted area to be as low as 130-150,000 hectares, while the more optimistic believe it will be closer to 250,000 hectares. Most contacts indicate that the final number will depend significantly on the support which the Government of Paraguay (GOP) will provide to small farmers. The 2005-2006 crop was bad due to erratic weather, insect attacks, and the negative returns for most players of the local cotton chain. The estimated 100,000 small producers obtained very low yields and lower cottonseed prices than the previous season. The GOP announced recently that it would provide US\$5 million in financial support to partially offset negative returns in crop year 2005-2006. Cotton middlemen and gins, which usually finance a significant portion of the production costs, will probably not fully recoup

loans which they extended to growers. Moreover, with a small crop, some large gins paid high prices to obtain product, forcing the competition to do the same. Several contacts indicate that the prices paid during harvest were between 10-15 percent higher than what the world market is willing to currently pay. Producers are unhappy and the private sector, which in some cases lost money, will limit significantly the financial support for the 2006-2007 cotton season. The GOP usually provides help to small farmers, generally through the provision of seed. However, some contacts indicate that with extremely limited private support, the GOP will have to increase significantly its help if it wants to pacify small farmers and keep the economy in rural areas running. In Paraguay, cotton is the most important cash crop for small producers, and is crucial to the rural economy.

Cotton production in Paraguay is going through difficult times. Apart from weather problems and widespread insect attacks (especially boll weevil which reduces yields by 20-30 percent), small producers, who, by far, account for most of the production, are having serious difficulties in incorporating basic technology and improved management. The correction of problems, like the lack of sufficient number of seeds per hectare and the bad timing in the application of agricultural chemicals, are key to providing satisfactory yields at the lowest possible cost. The level of mechanization is very low, and it seems to be very difficult to overcome this situation (there are only two companies which produce 3,000-4,000 hectares each with good technology). However, the largest gin is working with several farmers to teach them how to produce more efficiently without extra costs, and they are obtaining good results. In most cases, yields have been 3 to 4 times higher than their neighbors who produced under the traditional system. The program will also attract former medium-size cotton producers who shifted to soybean production and experienced severe weather problems in the past 2-3 crops. People at the gin are very optimistic and believe that planted area could recover quite rapidly.

Genetically modified (GM) cottonseed is not authorized in Paraguay (Roundup Ready soybeans are legally planted). However, some contacts indicate that some Bt varieties are being planted. Nonetheless, they expect Bt seed to be approved in a few years. However, some technicians believe that many things have to improve before small producers use this type of seed which, when properly used, provides many advantages, although it is significantly more expensive than conventional seed.

As long as weather is normal - the past 2-3 crops have not been normal – and either the private sector or the GOP provides support for planting and field control, the level of production in crop 2006-2007 could leave an export surplus of about 60,000 tons of lint. Paraguay, due to reduced crops, has been losing presence in the world market in the past years. Some merchants believe that a volume of about 150,000 tons would be necessary to re-insert Paraguay into the cotton world market.

There is no significant new investment in the industry, except for some equipment in the textile industry. There are about 35 gins in the country, of which 15-20 were in operation during the 2005-2006 crop year. Lint domestic consumption for 2006-2007 is forecast at 8,000 tons, slightly higher than in the past year. The two or three large spinners are working at full capacity, focused primarily on the export market. Textiles (cloth and yarn) are being shipped to Argentina, Brazil and the E.U. Foreign demand is strong, and local spinners could sell more if they had more capacity. However, the investment needed is significant and any new investment would most likely be focused on expanding and improving the quality of final products.

There is a small local company producing and exporting clothes made of organic cotton to the E.U. This is expected to remain as a niche business.

SECTION II. STATISTICAL TABLES

PSD Table

Country Commodity	Paraguay Cotton					
	(HECTARES)(MT)					
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Estimate[1]	A Official [Estimate[1]	A Official [Estimate[1]
Market Year Begin	08/2004		08/2005		08/2006	
Area Planted	0	0	0	0	0	220000
Area Harvested	215000	215000	250000	240000	0	210000
Beginning Stocks	28087	28087	22208	22422	21119	6922
Production	65318	66000	87091	57000	0	70000
Imports	0	0	0	0	0	0
MY Imp. from U.S.	0	0	0	0	0	0
TOTAL SUPPLY	93405	94087	109299	79422	21119	76922
Exports	64665	64665	81647	65000	0	40000
USE Dom. Consumption	6532	7000	6532	7500	0	8000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumptic	6532	7000	6532	7500	0	8000
Ending Stocks	22208	22422	21119	6922	0	28922
TOTAL DISTRIBUTION	93405	94087	109298	79422	0	76922