Voluntary _ Public

Date: 7/16/2012
GAIN Report Number:

Argentina

Post: Buenos Aires

2012 Cotton Report - Voluntary

Report Categories:
Cotton and Products

Approved By:
Brooke Markley

Prepared By:
William McNair

Report Highlights:
Planted area for cotton in Argentina is forecast to decrease to 400,000 hectares (ha) in marketing year (MY) 2012/13 due to the fall in the price of cotton and decreased competitiveness in relation to soybeans. With average yields, production is expected to reach 872,66 bales (B), MY 2011/12 saw approximately 60,000 ha losses out of 540,000 planted ha and lower than average yields due to drought, with lint production expected at 918,592 B.

Executive Summary:
Planted area is expected to decrease to 400,000 hectares (ha) in marketing year (MY) 2012/13, down from 540,000 ha in MY2011/12 and 618,000 ha in MY2010/11. The decrease is expected to occur due to many issues including the fall in the price of cotton in relation to previous years as well as the decreasing competitiveness of cotton in relation to soybeans. While planted ha are set to decrease in MY2012/13, production per hectare is expected to increase in relation to MY2011/12 where drought caused loss in yields. In MY2012/13, the weather is expected to be normal with cooler temperatures and more rainfall and yields expected to normalize.

Cotton production for MY 2012/13 is expected to decrease slightly and is expected to reach 872,663 B, down 45,929 B from the previous year. Cotton production in MY2011/12 is characterized by losses of ha, quality reduction, and decrease in production per hectare that resulted from drought conditions caused by a La Niña weather pattern. In fact, there was a 60,000 ha drop in harvested area (480,000 ha) from planted area (540,000 ha).

There are many conflicting numbers reported on cotton area, production, loss and productivity per hectare. FAS Buenos Aires estimates are based off of a large survey of post contacts in the cotton industry.

Production:
Cotton is produced in the north of the country, primarily in the provinces of Chaco, Santiago del Estero and Formosa which account for more than 90 percent of production. This region was among those most affected by La Niña weather pattern of marketing year (MY) 2011/12, which caused drought and higher than normal temperatures during the months of December 2011, and January and February 2012. Farmers in this region tend to view cotton a safer crop than alternatives as it performs better in water stressed periods. Alternative crops to cotton that are grown in this region are soybeans followed by sunflower. Cotton and soybeans production competes for land use, depending on which is more profitable for producers that have the equipment to harvest both.

Forecasted planted area for MY2012/13 is expected to be 400,000 ha. Sources have been contentions to this number, with industry and government sources stating that planted area is liable to change depending on price for cotton and alternative crops as well as availability of finance. MY2012/13 planted area is a reduction from previous years; with MY2010/11 seeing a ten year high of 618,000 planted ha. MY 2011/12 saw the second highest number of planted area in the last ten years reaching 540,000 ha, bolstered in part by the fact that at the beginning of the planting season (August) prices for cotton were still above $1USD/LB. During the growing season, however, high temperatures and limited rainfall affected the cotton producing region. Crop losses during this year saw an estimated 60,000 hectare gap between planted area and expected harvested area, which is now forecast at 480,000 ha. This gap can be directly attributed to the La Niña weather pattern. MY2010/11 saw relatively little area

losses (18,000 ha) with final harvested area reaching 600,000 hectares.

Marketing year	2010/11	2011/12	2012/13
Planted ha	618,000	540,000	400,000
Harvested ha	600,000	480,000	400,000
Production, lint (MT)	300,000	200,000	190,000
Production, lint (480 lb. bales)	1,377,889	918,592	872,663
Yield kg/ha	500kg	416kg	475kg

Yields are expected to normalize in MY2012/13, following a crop year severely affected by the drought with lint production expected to reach 872,663 B. Lint production MY2011/12 saw losses in area as well as per hectare productivity due to the drought. According to contacts, raw cotton production per hectare in MY2011/12 is considerably down from its 1500 kilo average, with some areas seeing as much as a 40 percent reduction in yields. Consequently production is expected to reach918,592 B, a significant drop from lint production in 2010/11 which was1,377,889 B. All three marketing years are in the upper range of the previous 10 years lint production; which ranged from 298,542 B, to 1,377,889 B, with an average of 721,095 B.

According to post contacts, in addition to losses in area due to the drought in MY2011/12, Argentine cotton is expected to be of lower quality. Fiber length has been reported to be of shorter staple this marketing year when compared with previous marketing years, with micronaire running higher than normal for Argentine cotton.

Argentine cotton producers received a respite from the cotton boll weevil in MY 2011/12 as populations were suppressed during the drought. Losses in MY 2012/13 are expected to rise as weevil populations rebound as the drought subsides. Regional programs to counter boll weevil are expected to lessen some of the impact however, responsibility for weevil elimination falls upon the producers who must purchase and apply pesticides. Consequently small producers tend to bear the brunt of the losses, as most do not have the resources available for multiple sprayings of insecticide creating hotspots of weevil infestation. Contacts indicate that as a result of uneven pesticide application between different producers in the affected region, cotton weevil will continue to be a problem for the foreseeable future as no comprehensive weevil elimination program is in place. Government sponsored anti-weevil programs includes the use of pheromone traps, and research on weevil resistant cotton varieties.

In MY 2012/13 approximately 80 percent of planted area is expected to be planted in narrow rows (0.25m-0.35m). In the next few years producers are expected to continue replacing conventionally plated cotton with no-till narrow row cotton as returns are higher. Due in part to the prevalence of narrow row cotton, most cotton is now harvested with strippers as opposed to pickers, increasing foreign content matter in lint. Consequently many ginners have had to modernize or adapt their gins to deal with this problem.

Genetically modified organism (GMO) seeds dominate cotton production in Argentina, accounting for an estimated 98% of planted area. The dominant seed variety is Upland BT Roundup Ready double stack, accounting for the vast majority of GMO cotton. Sources have confirmed that glyphosate resistance is starting to become a problem in the cotton producing region of Argentina, opening up possibilities of growth for the use of other GMO seeds in the future. In MY2011/12 approximately half of all cotton planted was no till, with the proportion of users expected to grow in the future.

Consumption:

Domestic Argentine cotton consumption for MY2012/13 is forecast at 551,155 B, a drop from 634,014 B consumed in each of the previous marketing years. Some sources believe that consumption could be even lower as a result of lower expected internal demand. Domestic consumption continues to be dominated by nine firms who account for 80 percent of consumption. Major consumers are; Alpargatas, Tavex, Tipoití, TN & platex, Avellaneda, Lartex, Tecotex, Alg del valle, Enod. Consumption of artificial fibers is expected to rise in MY 2012/13, but cotton continues to be the dominate fiber in the Argentine textile industry.

There are approximately 110 cotton ginners located in Argentina, of which 72 were in production as of 2011. However capacity, left over from the booming days of cotton production in the 1990's remains and most operating gins are operating well below capacity. Some estimates have total capacity at 7.4 million bales of raw cotton (two-thirds last year's cotton lint consumption). Argentina does not produce cotton ginning equipment, the U.S. being the main supplier followed by Greece and Brazil. High cotton prices during MY2010/11 lead many ginners to modernize their equipment, primarily purchasing gins from the U.S. that are better able to deal with the higher foreign content matter of narrow row cotton. In MY2012/13, Argentina is not expected to import any U.S. ginning equipment, as ginning capacity far exceeds expected demand.

Trade:

Exports

In MY2012/13 Argentina is expected to export 413,366 B of cotton. This represents a 10 percent drop in exports from MY2011/12 which is estimated at 459,296 B of exports. Primary export markets are; Brazil, Taiwan, and China, accounting for 55 percent of all exports in MY2010/11. In the past, Brazil was the largest country of export due to inter business exports; although recently though this has changed with Taiwan being the main recipient of Argentine cotton exports.

Export taxes within Argentina continue to favor the export of value added products. Pre-ginned cotton has a 10 percent tax rate, compared to a 5 percent rate on lint cotton of all grades. Consequently all cotton exports, including those within the MERCOSUR region, are in the form of ginned cotton or thread/textiles.

Cotton exports continue to be limited in size by exporting infrastructure. According to sources, exports

are limited to 4,600 B of cotton a month due to lack of shipping facilities in the port of Buenos Aires, the main cotton exporting port. Given current facilities, Argentine cotton would not be able to appreciably increase the size of their export market without investment in exporting infrastructure. Cotton exports are further hampered by the logistics associated with transporting lint from production site to exporting ports.

All data for past year's exports and imports are cited from the Global Trade Atlas (GTA). GTA's numbers concerning cotton exports and imports are calculated by statistics generated by the Argentine National Institute of Census and Statics (INDEC). The presented statistics reflect closely what post contacts have estimated, and in general, can be surmised to be reliable. It is important to note that the statistics presented by INDEC report by calendar year, while USDA reports by a marketing year July-August. Current year and out year data are based on estimations from industry sources.

Imports

Argentina is expected to import 46,000 B of cotton lint in MY2012/13, while lint imports for MY2011/12 are set to reach 68,894 B. Imports for MY2012/13 could rise to make up for any shortfall that might occur as a result of lower production. The primary source of imports is neighboring Brazil, accounting for 100 percent of all imports in MY 2011/12. As a consequence of lower quality production due to the drought the majority of imports coming in from Brazil in MY2011/12 will be of higher quality cotton.

Argentina is not expected to import any cotton from the U.S. in MY2012/13. This is due to the fact that Brazilian cotton is more competitive. Brazilian cotton has two distinct advantages over American cotton; first that it faces lower shipping costs due to its proximity, second that inter MERCOSUR cotton imports are duty free compared to the U.S.'s, at 6 percent.

Stocks:

Harvesting of cotton in Argentina runs from March-July causing very little of the harvested production to be consumed in the same marketing year (July-August) as the production year. As a result the country shows very high levels of carryover relative to its production and consumption. In MY2011/12 the beginning stocks were significantly higher than normal (367,437 B), due to producers unwillingness to part with stocks due to price decreases.