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Cotton and products annual report

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Cotton and Products

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Report Highlights:

In 2009, the Zimbabwean government introduced new legislation to regulate the cotton industry. The new legislation restored confidence in the cotton credit market by curbing "side sales" and has positively impacted cotton production in Zimbabwe. Production in the 2009/10 season is forecasted to increase by 28 percent to 265,000MT. As a result, Post expects cotton lint exports in 2010 to reach about 89,000 MT (408 bales), up from a total of 73,888 MT in 2009.

Executive Summary:

Seed cotton production in the 2009/10 season is forecast to increase by 28 percent to 265,000 MT from 207,000 MT in 2008/9 season whilst area under cotton declined 8.92 percent from 370,000 hectares in 2008/9 to an estimated at 337,000 hectares in 2009/10. The increase in seed cotton production mainly results from increased input support and increased investor confidence following the introduction of new legislation (SI 142 142 of 2009) to regulate the cotton industry.

Commercial cultivation of GMO cotton is still outlawed although trials can be conducted under the supervision of the Biotechnology Authority of Zimbabwe. There were no local trials of Bt/Round-up Ready cotton in 2009/10 season, but the sole cotton seed producer is conducting trials through the technology provider of Bt/Round-up Ready cotton in South Africa, Kenya and Uganda. There are plans to try to start the trials in Zimbabwe in the 2010/2011 season.

Cotton lint production in MY 2010/2011 is expected to reach 108.65 MT (498,000 bales) and cotton lint exports are forecast at 89,000 MT (408,000 bales). Domestic consumption of cotton lint is forecast to fall well below the 30 percent statutory quota provision due to viability and operational challenges affecting the local textile industry.

General Information:

Author Defined:

Seed Cotton

Production

Cotton in Zimbabwe is produced predominantly by small scale farmers situated in marginal rainfall areas who account for approximately 99 percent of the country's cotton crop. Approximately 200,000 small scale farmers, whose individual cotton fields average one to two hectares, form the Zimbabwe cotton industry's production base. Due to the small size of their operations, cotton production tends to be labor-intensive, with most operations such as planting, weeding, spraying and harvesting being done manually.

The private sector drives the cotton industry in Zimbabwe. Cotton ginners and merchants (also referred to as contractors), both belonging to the Cotton Ginners Association (CGA), finance the production of approximately 95 percent of the seed cotton crop by providing planting seed, fertilizer, and crop chemicals to contracted growers on credit. The farmers repay the loans at the time of seed cotton sale. This system relieves the farmer of the burden of financing the crop and assures the ginners will have raw materials. However, the problem of "side-marketing", where contracted growers renege on contractual obligations and sell the contracted crop to a non-contracting buyer, posed a big threat to the growth of the industry. Contractors faced a growing risk of credit default and this dampened investor confidence resulting in some major contractors scaling down cotton contract farming.

In August of 2009, the government introduced new legislation to address problems affecting the cotton industry, including provisions aimed at curbing "side-marketing". The Agricultural Marketing Authority (Seed Cotton and Seed Cotton Products) Regulations (SI 142) 2009, seeks to ensure long-term viability of the cotton industry through regulating the entire production chain from crop production to marketing.

The legislation requires that every contractor is registered and adequately finances seed cotton production during any season and does not lose their share of the contracted crop to non-contracting buyers through side-marketing. The government established the Cotton Marketing Technical Committee (CMTC) in 2009 to manage the legislation. The committee, which has prosecuting powers, is responsible for the annual registration of all cotton contractors and growers. Growers are required to register by 30 October each year, while contractors and buyers should register by 31 August of every year. Since the introduction of the new regulation, the number of contractors has been cut in half from 25 contractors in the 2008/09 season down to 12 contractors currently registered for the 2009/10 season. The regulation requires that a producer enters into contract with one contractor. The CMTC is empowered to prosecute or impose penalties on those who breach contractual obligations. This legislation also enforces ideal cultural practices (e.g. destruction of cotton residues and the eradication of ratooned cotton) and has brought stability to the cotton industry.

The start of the 2009/10 season marked a change in the distribution of inputs to farmers in accordance with the new regulations. All seed cotton inputs were collectively warehoused and distributed to farmers through 50 common warehouses throughout the cotton growing districts. The warehouses are managed by the CGA. In the past, individual contractors were responsible for distributing their own inputs. The common inputs facility guarantees transparency, avoids multiple contracting by farmers and ensures coordinated and timely provision of adequate inputs by contractors.

Seed cotton production in the 2009/10 season is forecast to increase 28 percent to 265,000MT from 207,000MT in 2008/09 season. Area under cotton in 2009/10 is estimated at 337,000 hectares, a decline of 8.92 percent from 370,000 hectares in 2008/09. The national average cotton yield in 2009/10 season at 0.79

t/ha improved from the 2008/9 season yield of 0.56 t/ha.

The decline in area planted is largely explained by the reduction in the number of registered contractors in 2009/10 season. As stated above, about half of the previous year's contractors withdrew from contract farming in 2009/10 season after failing to meet the high registration fees and the statutory requirement to provide adequate inputs as provided in the new legislation.

Another reason for the decline in the cotton area planted in the 2009/10 season is the seed cotton producer price of US 25 cents/kg in 2008/09 compared to that of tobacco, a major cash crop, which paid higher. Thus, many farmers went out of cotton production in the 2009/10 season into more lucrative crops.

Table 1 Cotton Production

Marketing Year begin	**08/2008**	**08/2009**	**08/2010**
Area planted (ha)	400,000	370,000	337,000
Area harvested	390,000	370,000	337,000
Seed cotton production (MT)	203,000 MT	207,000MT	265,000MT
Yield (t/ha)	0.57	0.56	0.79
Lint production MT or ('000 – 480lb bales)	83,230MT (381 bales)	98,400MT (451 bales)	108.65MT (498 bales)

Source: Cotton Ginners Association

The increase in yields can *inter alia* be attributed to the improved input supply levels by contractors in the 2009/10 season as a result of investor confidence and the statutory obligation to provide farmers with adequate inputs. Another reason for increased yields was the favorable climatic conditions for cotton production in most cotton producing areas. The exception is the south-eastern part of the country where crop development was affected by a prolonged dry spell that persisted from mid-December 2009 to February 2010 and below average rainfall. However, the crop condition improved significantly after rainfall in February and March and this crop will be harvested later than usual.

Marketing of the crop is now at designated common buying points where contractors are expected to purchase seed cotton from their own contracted farmers. Ginners pay differential prices based on the four quality grades and all seed cotton is ginned according to the respective seed cotton grades. A seasonal pool price of US$0.30 per kg is being paid for good cotton on delivery. Further price adjustments based on crop grades will be paid to farmers after final grading at ginneries. However, seed cotton deliveries to designated common buying points are still quite slow as cotton farmers consider the current price of US 30 cents/kg as unfavorable in view of the high domestic production costs. The price is competitive when compared the average paid in other neighboring countries. In Mozambique seed cotton prices translate to US$0.27 per kg.

Transgenic cotton

The commercial production of GMO cotton is not yet legalized in Zimbabwe. However, the government policy on Bt cotton now allows non-commercial testing of Bt varieties provided they are under the supervision of the Biotechnology Authority of Zimbabwe. All legislation, Bio-safety protocols and Bio-safety Board under the Ministry of Science and Technology are in place to allow evaluation of the technology.

There were no local trials of Bt/Round-up Ready cotton in 2009/10 season, but the sole cotton seed producer is conducting trials through the technology provider of Bt/Round-up Ready cotton in South Africa, Kenya and Uganda. They are trying to start the trials in Zimbabwe this coming 2010/2011 season.

A shift in government policy to allow the adoption of Bt/Round-up Ready cotton varieties would improve profitability through lowering of production costs and improved yields.

Production, Supply and Demand Data Statistics:

Cotton Zimbabwe	2008			2009			2010		
	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Aug 2008			Market Year Begin: Aug 2009			Market Year Begin: Aug 2010		
	USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		New Post
			Data			Data			Data
Area Planted	0	370	400	0		370			337
Area Harvested	370	370	390	380		370			337
Beginning Stocks	236	62	236	246		55			109
Production	415	565	381	460		451			498
Imports	0	0	0	0		0			0
MY Imports from U.S.	0	0	0	0		0			0
Total Supply	651	627	617	706		506			607
Exports	300	395	377	375		338			408
Use	90	170	170	90		44			75
Loss	15	15	15	15		15			15
Total Dom. Cons.	105	185	185	105		59			90
Ending Stocks	246	47	55	226		109			109
Total Distribution	651	627	617	706		506			607

Cotton Lint

Production

Lint production in 2010 is expected to increase by 10.42 percent from 98,400MT (451,000 bales) in 2009 to 108,650MT (498,000 bales). The country has a ginning capacity of about 600,000MT seed cotton which would translate to 240,000 tones of lint if satisfied.

Consumption

The government has ensured that the local textile industry's lint requirements are satisfied by prescribing a statutory 30 percent lint quota that each ginning company must reserve for the domestic textile market. Ginners are only permitted to export 70 percent of their lint after demonstrating ability to fulfill the local quota. When the domestic quota exceeds demand, the surplus lint is channeled to the exports. In the 2008/09 marketing year, 25,461MT of lint was the 30 percent domestic lint supply quota however, only 9,544 MT was consumed by the local textile industry.

The country's textile industry is facing serious viability and operational constraints following the decline in the country's economy from 2002 to 2008. In 2008, at the height of economic decline, domestic consumer demand for textile products became almost non-existent in the hyperinflationary environment. Demand for Zimbabwean textile products in South Africa, the country's principal export market decreased considerably due to cheaper textile imports from China, India and the Far-East. Consequently, textile production decreased. With the dollarization of the economy in 2009, domestic consumer demand is slowly picking up. Cheap imports (fabric, clothing and second-hand clothing) from the Far East and China in particular are adversely affecting the industry. High labor cost is also a major constraint. In September 2009, the National Employment Council (NEC) for the textile industry raised wages by 66% backdated to April 2009, a development that is threatening viability of many textile firms.

The ginning, spinning and weaving industries are operating with antiquated equipment and this adversely affects productivity and quality and pushes up production costs. The many years of inadequate foreign currency and poor operational performances have precluded the industry from making the necessary refurbishments, rehabilitations and investments in equipment and machinery to be competitive in the global market. Recovery of the sector is contingent upon obtaining funding for new technologies. Other factors that have contributed to depressed activity in the textile sector include lack of access to medium and long-term loans after dollarization of the economy as well as recurrent interruptions in power and water supplies.

These major constraints have led to the closing or down-sizing of operations by several textile firms, with one of the largest textile firms filing for provisional liquidation after failing to meet its obligations including the payment of wages.

In 2010, the prescribed domestic lint quota is 32,595MT, however, only about 15 percent (16,298MT) of national lint production is expected to be made available to the textile industry after it consumed far less than the 30 percent quota in 2009.

Trade

Cotton lint exports are an important source of foreign currency to Zimbabwe. Lint exports must be supported by export permits from government that are issued only to prospective exporters who comply with supplying the 30 percent domestic lint quota.

Cotton lint exports in 2010 are expected to reach about 89,000MT (408 bales). In 2009 a total of 73,888MT lint was exported. The cotton lint is physically exported out of Zimbabwe to various regional and overseas destinations.

The table below shows lint exports for 2008 and 2009.

Export Trade Matrix

Country	Zimbabwe		
Commodity	Cotton lint		
Time Period	MY	Units:	MT
Exports for:	2008		**2009**
U.S.	0	U.S.	0
Others		Others	
South Africa	27912	South Africa	22026
Thailand	10780	Thailand	8505
Italy	4290	Italy	3580
Singapore	11229	Singapore	9953
UK	5921	UK	5443
Indonesia	1418	Indonesia	1162
Japan	2960	Japan	2262
Germany	1164	Germany	739
China	6629	China	5038
Portugal	2638	Portugal	1498

Colombia	3187	Colombia	3386
Mozambique	916	Botswana	3853
Total for Others	79044		67445
Others not Listed	3193		6443
Grand Total	82237		73888

The major export destinations in 2008 and 2009 were similar. In 2009, the Far East accounted for 41.4% of exports, Africa for 38.06 percent, Europe for 15.96 percent and South America for 4.58 percent of total exports.

The country imported cheap fabric mainly from China, Hong Kong, India, Pakistan and South Africa whilst fabric and yarn exports were exported mainly to South Africa.

Stocks

Cotton lint stocks are expected to decrease in MY 2010 as exports are expected to increase.