Date: 5/20/2015
GAIN Report Number:

Zimbabwe

Post: Pretoria

Cotton production and consumption

Report Categories:
Cotton and Products
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Report Highlights:
For the 2015/16 MY, post forecasts a moderate increase of ten percent to 210,000 hectares in seed cotton area planted in Zimbabwe, mainly due to ginners and merchants' anticipation of increased funding levels for contract cotton production. Seed cotton production is forecasted to increase by 40 percent to 126,000 MT in the 2015/16 MY, due to the increase in area planted and the recovery in yield levels after the drought conditions in the 2014/15 MY. Seed cotton production declined by 34 percent from 136,000 MT in the 2013/14 MY, to 90,000 MT in the 2014/15 MY, due to the drought conditions.

Executive Summary

In the 2015/16 MY, post forecasts a moderate increment in seed cotton area planted of ten percent to 210,000 hectares, mainly due to ginners and merchants' anticipation of increased funding levels for contract cotton production as they seek business growth and improved utilization of the excess ginning capacity. Seed cotton production is forecasted to increase by 40 percent in the 2015/16 MY to 126,000 MT, mainly as a result of recovery in yield levels and the increase in area planted.

The area planted with cotton seed in the 2014/15 MY is estimated at 190,000 hectares, a 24 percent decrease from the 250,000 hectares planted in the 2013/14 MY. This is mainly as a result of the late start of the raining season, the reduced inputs support by contractors and the undertaking by some farmers, particularly in high rainfall areas, to produce higher value crops.

Seed cotton production is set to decline by 34 percent from about 136,000 MT in the 2013/14 MY, to 90,000 MT in the 2014/15 MY, mainly due to drought conditions. This is the second lowest crop in the last two decades after 60,000 MT was harvested in the 1991/92 MY, also due to severe drought conditions.

In September 2014, the Government of Zimbabwe in conjunction with representatives of the entire cotton value chain, developed and launched the five-year Cotton-to-Clothing Strategy (2014-2019) in a effort to revive the entire cotton value chain in Zimbabwe and to improve trade and industrial development. Rapid growth in production capacity, exports and employment are anticipated once the objectives detailed in the strategy document are achieved.

Production

Cotton is Zimbabwe's second largest export crop after tobacco. The crop is produced mainly by smallholder farmers that cultivate small plots of between one and two hectares under rain fed conditions. There are three main cotton production areas in Zimbabwe as illustrated in Figure 1.

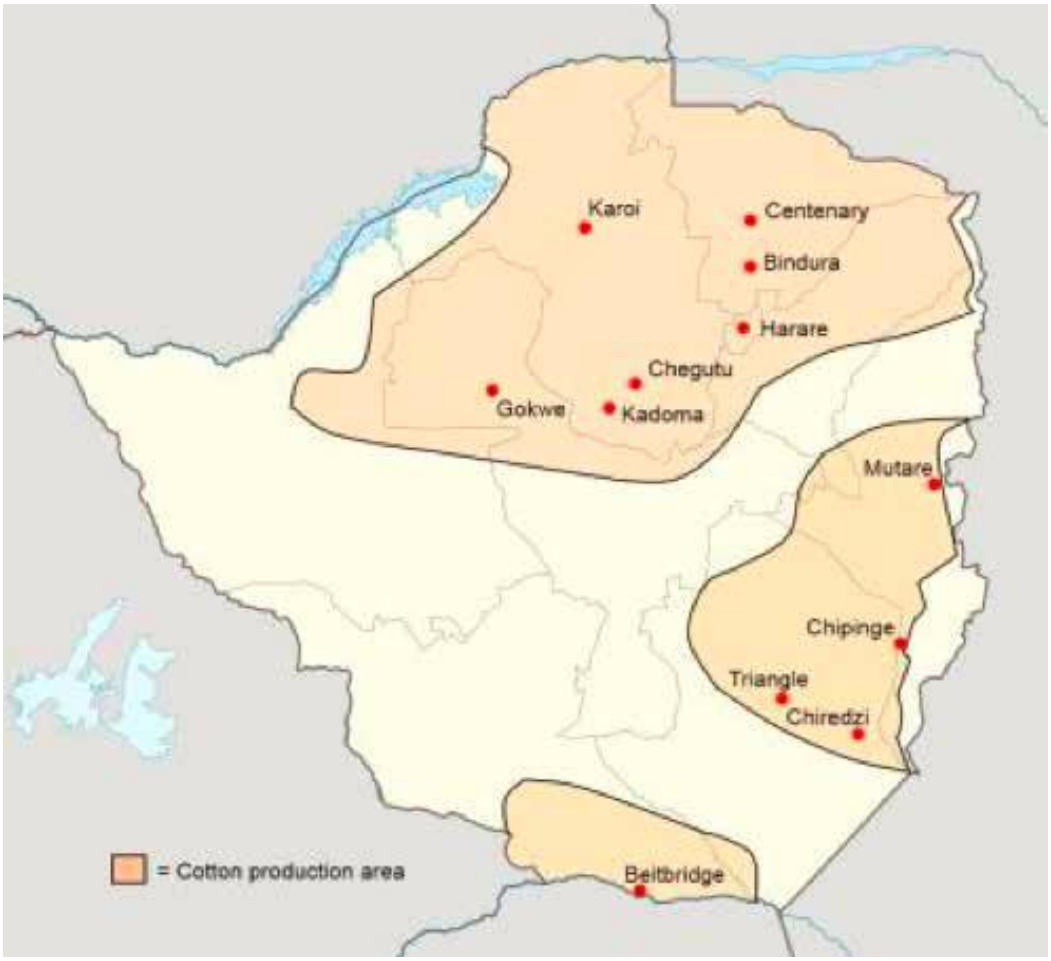

Figure 1: Cotton production areas in Zimbabwe
Source: Zimbabwe Cotton-to-Clothing Strategy (2014-2019)

In the 2015/16 MY, post forecasts a moderate increment in seed cotton area planted of ten percent to 210,000 hectares, mainly due to ginners and merchants' anticipation of increased funding levels for contract cotton production as they seek business growth and improved utilization of excess ginning capacity. Zimbabwe has 22 ginneries and 750,000 MT installed ginning capacity available. Current seed cotton production is well below the country's ginning capacity and for two consecutive seasons, cotton production has been less than 20 percent of the national ginning capacity. The ginners aim to improve the usage of ginning capacity to around 70 percent in the next five years. However, if the current low international lint prices persist, it may discourage farmers from planting cotton. Seed cotton production is forecast to increase by 40 percent to 126,000 MT in the 2015/16 MY, mainly as a result of the recovery in yield levels.

The estimated number of cotton farmers in the 2014/15 MY fell by 18 percent to 140,000, from 170,000 farmers in the 2013/14 MY. One of the main contributors to this decline is the decision by Cargill, a large player in the cotton sector, to pull out of cotton production. The company announced that it will no longer participate in Zimbabwe's cotton sector, citing low cotton output, depressed margins and high levels of breach of contractual obligations by cotton growers as a result of side-marketing. Cargill had been operating cotton ginneries in Zimbabwe since 1996 and supported more than 20,000 smallholder cotton contract growers. It closed its local cotton business in October 2014.

The low price of seed cotton in the 2013/14 MY compared to other cash crops such as tobacco and paprika also discouraged a substantial number of farmers particularly in the higher rainfall areas from cotton production in the 2014/15 MY.

Approximately 98 percent of the cotton crop in Zimbabwe is grown through contract farming arrangements since smallholder farmers lack collateral to access money independently from banks. Under the contract farming arrangements, contractors supply production inputs (seed, fertilizers and chemicals) to farmers on loan. In the 2014/15 MY, a total of eight ginners and merchants were registered by the government as contractors, down from 12 in the 2013/14 MY. All contractors are required to sign contracts with individual growers specifying the area supported by the contractor and volumes expected, which are then registered with the Agricultural Marketing Authority (AMA). AMA is a regulatory body mandated to ensure an orderly production environment and fair marketing of seed cotton in Zimbabwe. Contractors are required by AMA to declare their intended volume of seed cotton purchase at the beginning of the season and their investment in inputs funding is pro-rated based on the national average yield and estimated production cost per hectare of seed cotton.

The legislation, SI 142 of 2009, regulates the entire cotton value chain from production to marketing and prohibits a buyer to buy cotton from a grower contracted by another merchant. However, many farmers and merchants contravene SI 142 of 2009 regularly, mainly through side-marketing (the violation of contractual arrangements). Side-marketing remains a major challenge in cotton production and has resulted in high input repayment default by farmers. Sustained losses have resulted in some contractors, either pulling out of the sector, or scaling back on inputs investments. AMA's failure to implement the regulation and charge offenders with deterrent penalties is largely the reason for the loss of confidence and hesitation in the market by the remaining contractors to commit large financial resources to cotton contract farming. To mitigate risk, the tendency by contractors is to minimize the size of input packages they offer farmers. In the 2014/15 MY, contractors invested US$14 million in crop inputs for contract cotton production, a reduction of 56 percent compared to US$32 million invested in the 2013/14 MY.

The area planted with cotton seed in the 2014/15 MY is estimated at 190,000 hectares, a 24 percent decrease from the 250,000 hectares planted in the 2013/14 MY. As mentioned above, the major reasons for the decline in planted area was the reduction in inputs support by ginners and merchants, due to poor recovery of loans from contracted farmers because of side-marketing. Low cotton seed prices obtaining on the market in comparison with other cash crops also resulted in farmers shifting to more lucrative crops, significantly reducing seed cotton planted area. Yield per hectare in 2014/15 MY is expected to decrease to 474 kg/ha from 544 kg/ha in 2013/14 MY. Erratic rains at the start of the season resulted in late planting, poor germination and low plant stands as a high proportion of farmers replanted their crops. Heavy rains at the beginning of the second half of the season in January also caused a high degree

of leaching of fertilizers. The rainfall season also stopped prematurely before the crop had fully developed. Thus, the bulk of the cotton crop in Zimbabwe was affected by drought, did not reach agronomic potential and will have lighter cotton bolls and low yields. Consequently, seed cotton production is set to decline from about 136,000 MT in the 2013/14 MY to 90,000 MT in the 2014/15 MY. This is the second lowest crop in the last two decades after 60,000 MT was harvested in the 1991/92 MY, also due to severe drought.

Table 1 indicates the area planted and cotton lint production in Zimbabwe for the 2013/14 MY (actual), 2014/15 MY (estimate) and the 2015/16 MY (forecast).

Table 1: Area planted and production of cotton lint in Zimbabwe

Marketing Year	**2013/14**	**2014/15**	**2015/16**
Area harvested (hectares)	250,000	190,000	210,000
Seed cotton production (MT)	136,000	90,000	126,000
Yield (t/ha)	0.54	0.47	0.60
Lint production MT or (480lb bales)	55,760 MT (255,000 bales)	36,900 MT (169,000 bales)	51,660 MT (236,000 bales)

Source: Cotton Ginners Association

Transgenic cotton

The government of Zimbabwe prohibits the commercial production of transgenic cotton but allows for confined non-commercial testing of Genetically Engineered (GE) varieties, under the supervision of the Biotechnology Authority of Zimbabwe. Entry of GE varieties in the country is regulated through the National Biotechnology Act. Legislation, bio-safety protocols and a Bio-safety Board have been put in place to allow for evaluation of transgenic varieties. GE cotton trials are conducted under the supervision of the Biotechnology Authority of Zimbabwe at the cotton training center in Kadoma.

Consumption

Through AMA, the government ensures that the local textile industry's lint requirements are satisfied by requiring each ginner to reserve 30 percent of lint production for local consumption. The volume of cotton lint currently being locally processed is only about 20 percent of production. When the domestic quota exceeds local demand, AMA authorizes the surplus lint to be exported. The local textile industry is scaling down mainly because of non-competitiveness compared to low cost producers in East-Asia. A substantial number of textile companies in Zimbabwe have shut down or have been placed under judicial management. The textile industry currently provides employment for about 4,000 people down from 35,000 people at its peak. Three spinning mills with an installed capacity of about 13,000 tons annually are still operating. Some of the yarn produced is used locally but most is exported, mainly to South Africa.

Challenges affecting the competitiveness of the textile industry in Zimbabwe, include, aged and outdated technology that is expensive to maintain; high production costs caused by high costs of power, labor, transport and the lack of long-term capital because of the liquidity problems in the country. Finance facilities on offer from international credit providers and insurers are more expensive in Zimbabwe because of the country's high credit risk and negative perceptions by investors. High cost of

labor (minimum wage of US$250/month) compared to wages in China and India at around US$70 to US$90 per month increases production costs. High cost of electricity (at US$0.0986 per kilowatt-hour) and unreliable supply are major constraints. Irregular supply of power disrupts operations in the sector and negatively impacts production levels.

Imports of cheap second-hand clothing bales mainly through Mozambique and Zambia have flooded the clothing market in Zimbabwe, negatively affecting viability of the textile manufacturing and clothing retail sector. However, given the high levels of poverty in the country, second-hand clothes have positively impacted many livelihoods across all social segments.

Trade

In September 2014, the government of Zimbabwe, in conjunction with representatives of the entire cotton value chain, developed and launched the five-year Cotton-to-Clothing Strategy (2014-2019) in efforts to improve trade and industrial development. The International Trade Centre (ITC) and the Common Market for Eastern and Southern Africa (COMESA) gave technical assistance. The initiative was also supported and sponsored by the European Commission and the African, Caribbean and Pacific Group of States (ACP) Secretariat under the European Union (EU)-Africa Partnership on Cotton. The strategy sets out the vision for revival of the Zimbabwean cotton industry, defines strategic targets and identifies instruments through which public policy can contribute to value chain and industrial development. Rapid growth in production capacity, exports and employment are anticipated once the objectives detailed in the strategy document are achieved.

Zimbabwe currently exports the bulk of its domestic cotton lint production. Cotton lint exports data collected from Zimstats (Ministry of Finance) is shown below:

Table 2: Zimbabwe lint exports in the 2013/14MY

Destination	**Volume exported (MT)**	**Volume exported (480lb bales)**
South Africa	40,442	185,359
Mozambique	1,370	6,279
Lesotho	297	1,361
Total exports	**42,109**	**192,999**

Source: ZIMSTATS (Ministry of Finance)

Cotton lint exports in the 2014/15 MY and the 2015/16 MY are expected to be on the same level as in the 2013/14 MY at 200,000 bales.

The current main export markets for textile goods produced in Zimbabwe are South Africa, Botswana, Zambia and China. Textile exports include yarn, woven fabrics and hosiery of which yarn and woven cotton fabrics make up the bulk of fabric exports. In the 2013/14 MY, Zimbabwe exported 12,200 MT printed woven fabrics to Zambia. Exports of cotton yarn have grown steadily since 2011 and are concentrated at wholesale level. South Africa was the main destination for yarn exports and in the 2013/14 MY the country exported 4,307 MT yarn to South Africa and 326 MT yarn to Botswana. Twines and cordage are also exported to a lesser extent, mainly to Zambia and Mozambique for packaging tobacco.

Prices

Seed cotton prices for 2014/15 MY have not yet been set even though the cotton marketing season opens in May and ends on August 31. Prices are set at the end of the growing season. In May 2014, the Competition and Tariff Commission (CTC), Zimbabwe's investigating authority for unfair trade, issued an order barring collective price negotiations between representatives of farmers associations and members of the Cotton Ginners Association. The ruling was in response to complaints of unfair business practices against the Cotton Ginners Association presented to the CTC in 2010 by the Zimbabwe National Farmers' Union (ZNFU). Cotton growers have since made submissions to the CTC advocating for the review of the order and farmers' associations want ginners and farmers to negotiate prices as in the past. With the advent of the marketing season, it is anticipated that the CTC's order will be amended before crop marketing begins with an expectation of reverting to the traditional system of seed cotton price negotiation between the Cotton Ginners Association and farmers' associations.

In the 2013/14 MY, seed cotton prices ranged between US$0.35 and US$0.65. There are suggestions in the industry of offering farmers an advance payment and payment of the actual prices after grading. This would encourage proper grading and enhance seed cotton quality. Currently, there is no price stabilization and no stable price setting system in the country to address international price volatility. Uncontrolled market price volatility threatens security of income of both farmers and ginners and impacts negatively on future cotton production. The Zimbabwe Cotton-to-Clothing Strategy (2014-2019) suggests the establishment of a cotton stabilization fund that would assist in reducing pricing risk to both farmers and ginners and thus increase viability in the sector.

Table 3: PSD table for cotton

Cotton	2013/2014		2014/2015		2015/2016	
Market Begin Year	Aug 2013		Aug 2014		Aug 2015	
Zimbabwe	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Planted	0	0	0	0	0	0
Area Harvested	255	250	230	190	220	210
Beginning Stocks	232	232	179	241	164	157
Production	262	255	250	169	275	236
Imports	0	0	0	0	0	0
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	494	487	429	410	439	393
Exports	225	193	175	200	190	200
Use	75	38	75	38	75	45
Loss	15	15	15	15	15	15
Total Dom. Cons.	90	53	90	53	90	60
Ending Stocks	179	241	164	157	159	133
Total Distribution	494	487	429	410	439	393
1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA						