Cotton Outlook

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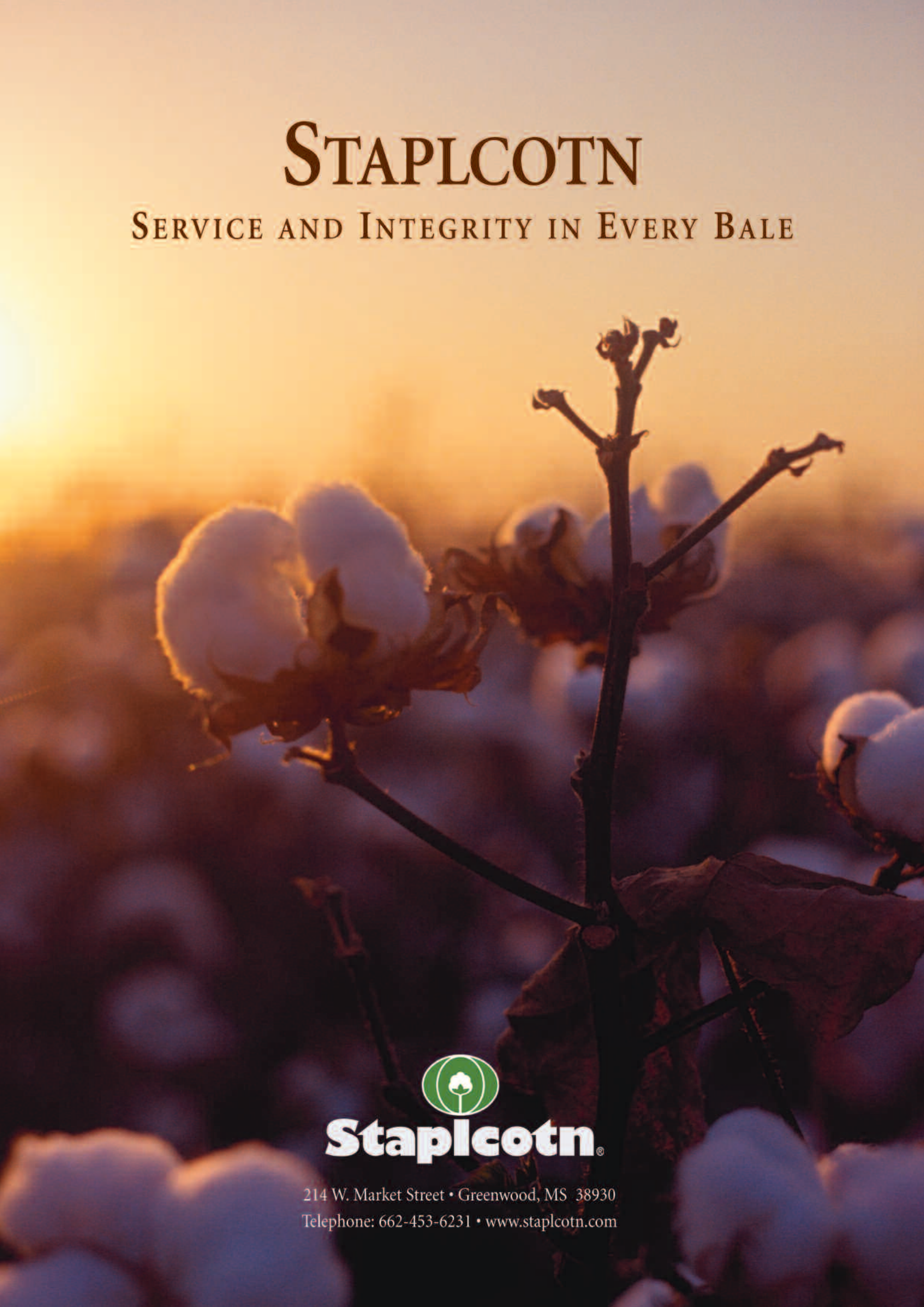
Mediterranean Cotton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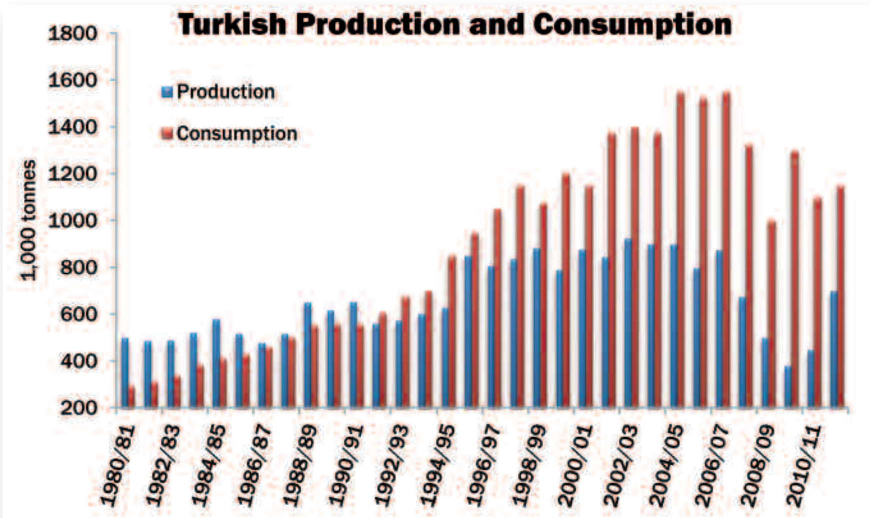
Mediterranean Cotton

Fluctuating Production and Consumption, Shifting Trade Patterns

By Mike Edwards, Cotton Outlook

Both production and consumption of raw cotton in the countries bordering the Mediterranean amount to roughly one and a half million tonnes. The shifting dynamics of cotton trade in the Mediterranean area are more complex, however, than that superficial equilibrium suggests. In this, the first of Cotton Outlook's Special Features for 2012, we examine underlying trends in production, consumption and trade within the region. Although long staple cotton is produced in some of the countries in question, principally of course in Egypt, but also on a smaller scale in Israel and Spain, we confine ourselves here to upland cotton, except insofar as one sector of the market impacts on the other (trends in the Long Staple cotton market are addressed in a separate, annual Special Feature, supplemented by quarterly updates).



Turkey is, by some margin, the largest producer, consumer and importer of raw cotton in the Mediterranean region. It is also an intermittent exporter of modest quantities - recently several thousand tonnes were shipped to China. However, the era of regular exportable surpluses is long past.

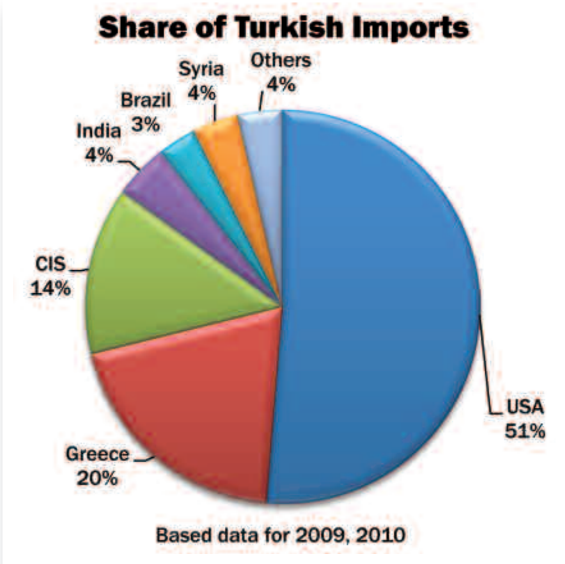

Memphis
Liverpool

Indeed, Turkey made the transition from net exporter to net importer from the early 1990's, tracing a pattern that would later be replicated in countries such as Pakistan and China, where growth in spinning capacity has likewise far outpaced the capacity or inclination of farmers to increase cotton production. Today, with an import requirement that has varied between 635,000 to 955,000 tonnes over the past few seasons, the country vies with Bangladesh for the rank of the world's third largest importer, behind the other two countries mentioned.

Production in 2011/12 is estimated at 700,000 tonnes of lint, the highest output since the 2006/07 season. Since consumption is currently running well below its peak that was reached around the middle of the last decade, the apparent import requirement this season is at its lowest for several seasons. In each of the first two months of the campaign (August and September), imports fell short of 30,000 tonnes, for the first time since October 2006, and rose only modestly in October.

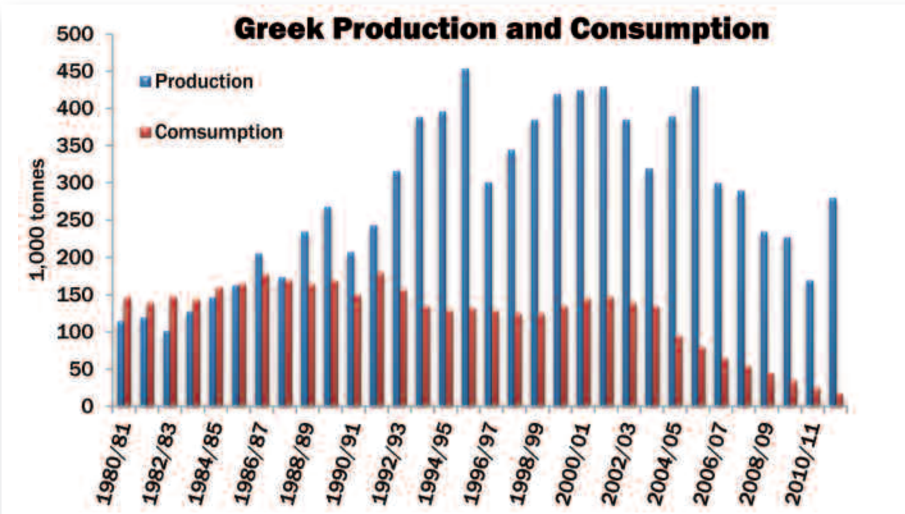
It is interesting to note, however, that there are already some tentative indications of a downturn in cotton plantings in 2012/13. Farmers are apparently disappointed with the seed cotton prices obtained so far this season, the more so in the context of quite a sharp rise in production costs. No government subsidy was paid this season for cotton, and at this early stage, observers would not be surprised to see a significant diversion of land from cotton, most notably to corn.

The United States remains by far the largest foreign supplier to the Turkish market, followed by Greece, then the Central Asian Republics.



Strategically situated between Europe and Asia, Turkey's textile and clothing industry depends heavily on exports to the European Union. In 2010, Turkey was the second largest supplier of both textiles and clothing to the EU, though far behind China in each category.

According to data compiled by the International Textile Manufacturers Federation (ITMF), between 2001 and 2010, Turkish mills took delivery of more than 2.9 million cotton-type new spindles – only China, India and Pakistan added more to their capacity during that period. As far as open-end rotors are concerned, Turkey was second only to China during the decade in question.



Cotton production in Greece increased substantially following the country's accession to membership of the European Union in 1981, surpassing 400,000 tonnes by the mid-1990's, before undergoing a decline under the influence of changes to the aid regime, albeit a less dramatic fall than that which occurred in Spain, as discussed below.

However, since spinners in Greece have shared the fate of their counterparts elsewhere in Europe, and domestic consumption of raw cotton has contracted sharply, the size of the country's exportable surplus has remained more or less intact since the period of peak production.

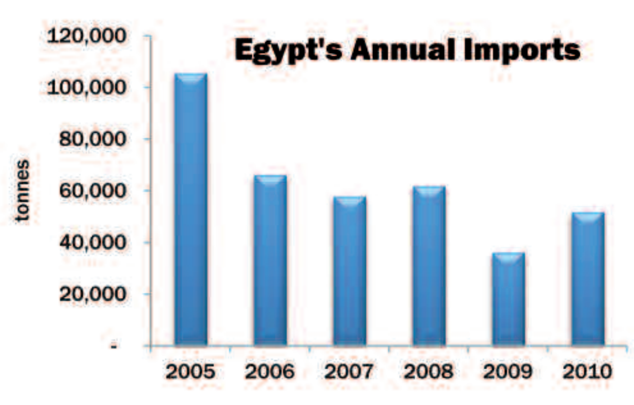
As far as export markets are concerned, Turkey remains pre-eminent, absorbing nearly 60 percent of shipments during the 2010/11 season. Egypt is the other major outlet, accounting for a further 20 percent of last season's exports.

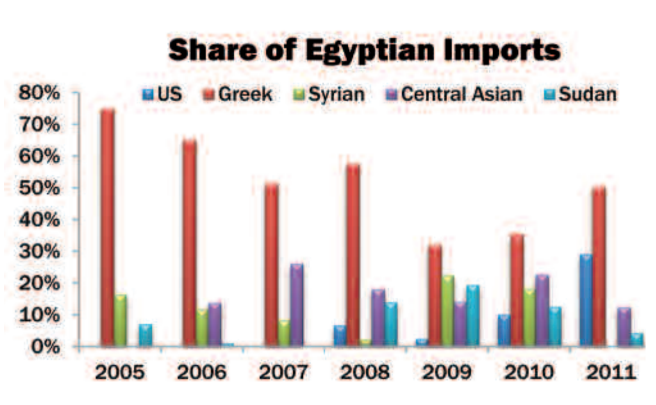
In the short term, Greek ginners face a rather timid demand from Turkey, their principal market, and a ban on imports by Egypt, the second largest outlet, which could scarcely be more untimely. Although no formal time limit has been established, it is anticipated that the ban will be lifted, once the local supply and demand situation has been placed on a healthier footing. In the meantime, Greece's substantial exportable surplus must come to market; in the current financial situation, the ability of ginners to hold cotton may be limited, and buyers may have to be sought in Asia.

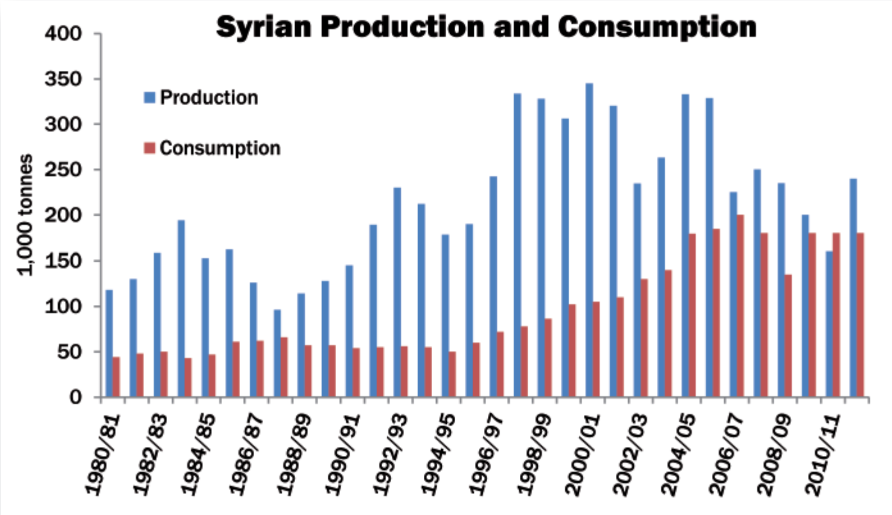
In this context, we note that China does not feature prominently amongst last season's export destinations. Chinese customs data show imports from Greece at no more than a couple of thousand tonnes in recent seasons. During the early stages of the 2011/12 campaign, several thousand tonnes were shipped to that market, but this business was motivated primarily by the ready availability of cotton to meet the shipment requirements (arrival by late December) of mills needing to use outstanding import quotas for this year. This marketing advantage was thus a temporary phenomenon.

Egyptian imports of upland cotton have been brought to an abrupt halt by the aforementioned embargo, which was introduced by the government in late October. Faced with a bumper crop, supplemented by a significant carryover from the 2010/11 season, and faltering consumption, the authorities not only banned imports, but also introduced various other measures, all intended to support activity in the domestic textile industry, and to stabilise local raw cotton prices, which had begun to fall substantially.

Even before the measure was introduced, however, only cotton from certain origins, principally parts of the US, Greek, Syrian and Central Asian could be imported. Other origins have been prohibited on phytosanitary grounds, though Benin and Burkina Faso were added to the list of permitted suppliers in October 2010.





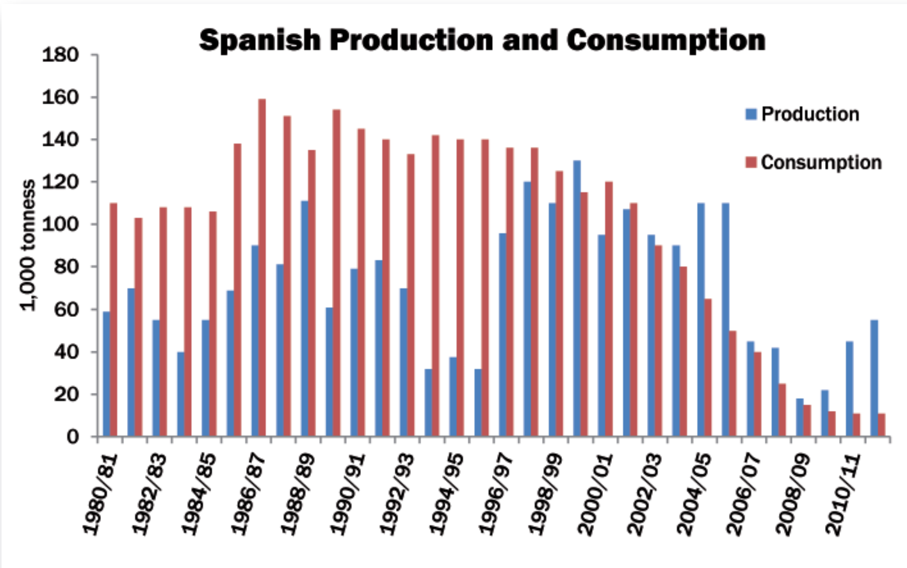


As for Spain, in the immediate aftermath of the changes implemented to the European Union's cotton support arrangements, it seemed as though cotton production might disappear from the country altogether. The substantial 'decoupling' of aid from the volume of output effectively deprived producers of any incentive to maximise yields. Having regularly surpassed 100,000 tonnes under the previous regime, production fell to below 20,000 tonnes during the 2008/09 season. A fundamental restructuring of the ginning sector has been carried out, as discussed elsewhere in this publication.

The conjunction of a minimum yield requirement with firmer market prices and an abundance of water for irrigation has allowed a modest renaissance of Spanish output. In common with that in other European countries, consumption has fallen dramatically, as spinners have relocated or closed altogether.

As the accompanying chart demonstrates, Greece has consistently claimed the largest share of Egypt's import business, while the presence of other suppliers has fluctuated quite widely from season to season.

Syria became a significant and regular exporter to the international market during the 1990's. A Syrian quotation was introduced to the basket from which the Cotlook A Index is calculated in the middle of that decade. It remains eligible for Index purposes, but in recent seasons Syrian cotton has had no more than an intermittent presence in export markets. Production has tended to stagnate, partly as a result of rising costs, while recent investment in spinning capacity has raised the requirements of the domestic industry. Until recently, discernible offers had been restricted to organic cotton from the 2010/11 crop. However, reports indicate that output in 2011/12 may prove sufficient to allow a surplus of moderate proportions once again, and trade sources confirm that offers of conventional cotton have again been made from origin.



In Israel, cotton overall has been cultivated on a much-reduced scale since the 1990's, and emphasis in recent seasons has steadily shifted toward Pima, or hybrids producing fibre for the fine count market. The presence of Israeli Acala on international markets has, in consequence, been reduced to negligible proportions.

In North Africa, Morocco and Tunisia in particular have established themselves as major exporters of textiles and apparel to the European Union. However, 'backward linkages' have not been established on any meaningful scale, and primary cotton textile production has failed to match the dynamism and growth of the downstream sectors.

An Overview of the Turkish Cotton Industry

By Dr. Sebahattin Gazanfer,
Advisor, Sectoral Board, Textiles and Raw Materials Exporters' Associations of Turkey

Historical Developments Related to Cotton Cultivation

Cotton entered into Anatolia (Asia Minor) in the 1st Century, made its expansion during the Byzantine era in the 6th Century, continued with the Seljuks in the 11th century, and later with the Ottomans in the 14th Century, when cotton cultivation expanded beyond Anatolia, to the Balkans, Syria, Iraq and Egypt, also making certain provinces, like Bursa and Konya, prominent weaving centres.

In the 19th century, increased demand for cotton prompted the cultivation of new, American origin, short to medium staple varieties, such as Gossypium hirsutum, which apparently had proved its superiority with higher production yields, finer yarn spinning and better weaving properties, compared to the already cultivated, Asian origin cotton varieties, such as *Gossypium herbaceum* and *Gossypium arboreum*, which possessed short staple length (18-22 mm) and coarse fibre characteristics.

To promote the cultivation of the above-mentioned, new American origin cotton varieties, their seeds were distributed to growers, free of charge. The name *iane* (free of charge) was later attributed to this American variety. During the Balkan Wars (1912-13) and, subsequently, in the First World War (1914-18), cotton production and the cotton-based textile industry suffered seriously.

Development of new cotton varieties since the establishment of the Turkish Republic

With the establishment of the Turkish Republic in 1923, and parallel to the reconstruction efforts initiated in every direction, cotton cultivation also gained in importance. Seeds of more than 40 upland varieties (*Gossypium hirsutum*) had been brought to Anatolia and were subjected to trial productions in the cotton research institutes, established in Adana (1924) and Nazilli (1934), respectively.

Based on the results of the adaptation trials for new cotton varieties, cultivation of the *iane* variety was no longer permitted. Instead, from 1954 onwards, two Acala varieties of *Gossypium hirsutum*, and native *Gossypium herbaceum* were recommended. After 1963, cotton varieties such as Deltapine, together with Coker and Carolina Queen, replaced the Acala varieties in many parts of Turkey.

Following the liberalisation of the seed sector in early 1980s, many private sector seed development companies also encouraged the cultivation of some additional varieties which they considered to be promising. However, no genetically modified (GM) cotton has so far been commercially cultivated in Turkey[1].

Presently, almost all of the cotton grown in Turkey is *Gossypium hirsutum*, "upland" cotton, whose lint characteristics proved to be especially suitable to most applications, except those which necessitated the use of yarns with very fine counts.

A number of seed development companies have been successful in exporting cotton seeds of high yielding varieties, with good fibre properties. This has become a good export business, mainly to some Central Asian and African countries.

Despite various attempts to grow long staple cotton, it has not been successful on an economic scale. *Therefore, even at the time of self-sufficiency in upland cotton, there has always been a need by the Turkish textile and clothing industry for the importation of long and extra-long staple cotton.*

[1]Turkey has so far chosen a parallel stand with the EU, where cultivation of GM cotton is not permitted.

Cotton production

With an annual lint cotton production of about 900 thousand tons until a few years ago, Turkey used to be ranked as the sixth largest cotton-producing country in the world, after China, the USA, India, Pakistan and Uzbekistan. However, a significant reduction in cultivated area and production has been witnessed in recent years, owing to many factors, in particular: relatively low cotton prices, as opposed to high production costs arising from the high cost of inputs, such as fuel, fertilizers, labour, etc.; in some years, irregular and adverse weather conditions; and better prices for alternative crops. All have played a significant role in planting decisions. Thus, with its new production regions and increased annual production levels, Brazil and Australia have significantly surpassed Turkey in cotton production.

Cotton production regions of Turkey are shown in Figure 1. During the last decade, significant increases in cotton planted area have occurred in the "GAP" region, as opposed to drops in Çukurova and Antalya regions. Decreases in planted area in the Aegean region have also become apparent in recent seasons.

Cotton production practices

Most of the cotton cultivation areas are irrigated. Machine picking has increased in both the Aegean and the Çukurova regions, indicating almost 80-90% usage in medium to large-sized fields. This is due to costly hand picking, arising mainly from the scarcity of manual pickers. Contraction in planted area in all regions and the limited application of machine picking in small-sized cotton fields had started to indicate a stagnation in demand for new machine pickers. However, cotton price increases during the last two seasons have again raised the sales of mechanical harvesting equipment.

Mechanisation is seen at almost all stages of cotton cultivation, starting from soil preparation, continuing with mechanised seed plantation, irrigation, spraying of fertilizers, chemicals, etc., and finally mechanical picking and transporting seed cotton to ginneries. Tractors equipped with special, articulated tools prepare the soil for planting. More and more use is made of the ridge-planting of seeds, a method which offers various advantages, such as healthier plant growth, less use of water, higher yields and better suitability to mechanical harvesting.

Unlike the module making systems practised in the USA, Australia, Brazil, etc., mechanised harvesting was developed in Turkey without the necessity of module-making, an interim stage by-passed by using specially constructed mobile bunkers, with wire-nets to prevent seed cotton spilling en route to ginneries. Seed cotton arriving at the ginnery is sampled and tested for its ginning outturn at a small roller-ginning machine and later dumped into respective storage areas, depending on the quality of the seed cotton. In essence, seed cotton is loaded by the mechanical pickers onto these mobile bunkers, which are articulated to a truck and directly transported to the seed cotton feeding area of the ginnery. A lorry can also be used to load the seed cotton in the field and transported to the ginneries, which would be located mostly within a distance of 20 km from the cotton fields.

Local manufacturing of mechanical equipment made swift progress in adapting to changing needs and the increased necessity to raise productivity. Some manufacturers of conventional roller-ginning equipment have been successful in raising ginning output by introducing the "rotobar" system in a number of ginning installations.

Cost of seed cotton production

According to a recent study[2] conducted jointly by the Research and Development (R&D) Department of TARIS Cotton Cooperatives Union, Nazilli Cotton Research Station and the Agricultural Economics

[2]An unpublished report prepared jointly by the R&D Department of Tariş Cotton Cooperative Union, together with the representatives of the Nazilli Cotton Research Station and the Department of Agricultural Economics of the Adnan Menderes University (October 2011).

Department of the Adnan Menderes University, the average yield in seed cotton in the three provinces (Aydin, Izmir, Denizli) of the Aegean Region was 4,525 kgs/ha, which, with a reasonable ginning efficiency of 40%, would be 1,800 kg/ha in lint cotton. The cost of producing seed cotton was 7,182 TL/ha, making the estimated cost of seed cotton 1.59 TL/kg, or (at the present conversion rate of 1USD=1.85 TL) 86 US cents/kg. The report also mentions that mechanised harvesting would reduce the cost by 0.02 TL/kg, while manual picking would increase the cost by 0.10 TL/kg. Furthermore, those areas which were under a heavy rainy spell had their yield drop down to 3,500-4,000 kg/ha (seed cotton) or 1,400-1,600 kg/ha of lint cotton, which would increase the cost per kg of seed cotton by between 0.21 and 0.47 TL.

Cotton consumption

Turkey is one of the few countries in which cotton consumption has been maintained at a reasonable level, even after the end of textile quotas. This is mainly due to the fact that new investments in spinning, weaving and knitting have continued, especially in certain provinces, such as Adana, Gaziantep and Kahramanmaraş in central and southern Anatolia, in addition to the existing centres in Denizli, Bursa and Çorlu, in the western part of the country. It is estimated that annual consumption of cotton will continue to fluctuate at around its present level of 1,200,000 tons.

Cotton imports and exports

The Turkish textile industry is still heavily dependent on imported cotton, making the country one of the major cotton importing countries, after China. Cotton import figures for the January-October 2011 period are given in Table 1, where the names of major cotton exporting countries are also indicated. Table 2 gives Turkey's cotton exports for January-October 2011, listed by country of destination.

Table 1:

Turkey's Cotton Imports	
January-October 2011	
	Tonnes
United States	401.298
Greece	19.819
Brazil	20.664
Turkmenistan	20.875
Uzbekistan	12.095
Tacikistan	9.015
Australia	8.826
India	9.63
Argentina	9.156
Egypt	4.619
Cameroon	2.417
Kyrgyzstan	1.34
Azerbaijan	1.527
Burkina Faso	1.523
Pakistan	1.367
Ivory Coast	785
Mersin Free Trade Zone	3.402
Other	4.231
Total	532.589

Table 2:

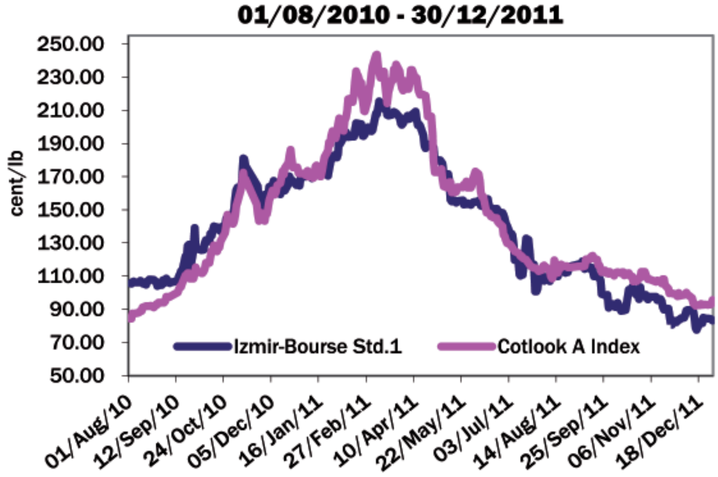
Turkey's Cotton Exports	
January-October 2011	
	Tonnes
Italy	5.225
Poland	4.353
China	3.827
Belarus	2.347
Holland	2.04
Greece	1.897
France	1.367
Hungary	691
Germany	838
Bahreyn	768
Russian Federation	661
Ethiopia	531
United Kingdom	667
Macedonia	369
Ukraine	429
Taiwan	215
Mersin Free Trade Zone	6.006
Other	3.098
Total	35.329

Domestic market price developments of cotton

Figure 2 shows the price developments of lint cotton as established at the Izmir Mercantile Exchange (IME), where prices are established daily. For the purpose of comparison, Cotlook 'A' Index prices have also been plotted on the same graph, which illustrates a good correlation between the two sets of values. It should also be remarked that, during the price escalations of January-March 2011, prices at the IME did not increase with the same magnitude, meaning that the domestic cotton market did not follow fully the price developments exhibited by the Cotlook 'A' Index. In other words, Std 1 Izmir prices did not follow the Cotlook 'A' Index values, which might be interpreted as a different understanding of the possible market developments, by remaining on a more cautious position, rather than taking a more speculative stand.

Figure 2:

Comparison of Cotlook "A" Index and Std.1 Izmir Cotton Exchange Daily Prices between 01/08/2010 - 30/12/2011



Development of the textiles and clothing sub-sectors

Contrary to the earlier predictions of many experts, Turkish manufacturer-exporters of textiles and clothing products have proven their continued ability to maintain and even expand their presence in most markets, in increased volumes and values, even after entering the quota-free era, mainly to the EU markets, which still constitute Turkey's number one trading partner, not only in textiles and clothing but also in most major sectors.

From the perspectives of the textiles and clothing sub-sectors, the foundations had long been laid down to face the quota-free era by private sector initiatives, backed by the strong entrepreneurship, dynamic economic growth, utmost respect to innovation, support by the existing and new talents in design and creativity, and close follow-up of market trends, active presence in the existing and new markets, close collaboration with the educational and training, as well as with the R & D institutions. The role of the exporters' associations in acting as catalysing bodies should not be underestimated in the overall success of the textiles and clothing sub-sectors.

Table 3 gives Turkey's textiles and clothing export figures, compared to the total exports. This table simply illustrates that:

- Turkey's total exports have increased considerably during the recent two years, marking the highest historical figure for 2011 as 134.6 Billion US$[3].
- Share of textiles and clothing exports in the overall exports has dropped to around the 18% level, due to the fact that exports in the other sectors have shown increased performance, which is a healthy sign that dependence mainly on the textiles and clothing exports has gradually diminished, while sectors such as automotive industries, chemical industries, etc., have shown excellent progress in recent years.

A high yield cotton field in the Mediterranean Region visited by cotton producers from West Africa

Table 3:

Turkey's Textile and Clothing Exports compared to Total Exports

	Billion US$							
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011****
Textile Exports*	4,6	4,9	5,5	6,5	6,8	5,5	6,5	8,0
Clothing Exports	13,1	13,7	13,9	16,0	15,7	13,3	14,6	16,1
Sub-total	**17,7**	**18,6**	**19,4**	**22,5**	**22,5**	**18,8**	**21,1**	**24,1**
Total Exports	**64,0**	**73,4**	**85,7**	**105,9**	**132,0**	**101,6**	**113,6**	**134,6**
Sub-total/Total (%)	**27,6**	**25,3**	**22,6**	**21,2**	**17,0**	**18,5**	**18,6**	**17,9**

Source: Ministry of Economy   ** includes cotton exports*   ***Jan - Dec 2011*

Conclusion:

The Turkish cotton industry is still one of the major sub-sectors, having a large export earning as well as employment potential. The textile industry is still largely dependent on imported cotton, since local cotton production is not sufficient to meet the demand for approximately 1.3 million tons of lint cotton, hence making the country the 2nd largest importer of cotton in the world.

The success of the textiles and clothing sub-sector in emerging as a major supplier of textiles and ready-made garments is largely due to a well-developed, infrastructural and institutional set-up, including the existence of strong entrepreneurial skills, well established banking and financial systems, close collaboration with the educational and training, as well as with Research & Development institutions, close follow-up of market trends, and an active presence in both existing and new markets.

A cotton picker unloading seed cotton onto a lorry, which transports seed cotton to a ginnery

[3]*According to figures disclosed at a press conference held by the Turkish Exporters Assembly on 2nd January 2012.*

Greek Cotton: Surviving the Financial Storm

By John Psaropoulos, N. I. C. O. T. Trading Ltd.

Greek cotton is favoured mostly by the importers Turkey and Egypt. The main reason is the benefit of an immediate shipment to these Mediterranean countries (maximum 15 days delivery) and the basic quality of SLM, 1-1/8", which is highly consumed in the above markets.

Since the decoupling of EU aid, the ginning business has more risks than in the past and, combined with the global financial crisis since 2008, the Greek ginning market is changing rapidly, season by season. Therefore, we are entering a new era in the Greek market.

Greek Cotton Exports (in mt)	Aug '07 to Jul '08	Aug '08 to Jul '09	Aug '09 to Jul '10	Aug '10 to Jul '11
Turkey	80,261	136,054	144,197	82,664
Egypt	25,520	74,063	26,749	27,496
Indonesia	5,461	15,272	13,495	9,052
Germany	1,435	3,357	1,295	3,428
Japan	812	1,636	1,836	3,125
Italy	17,176	12,670	6,395	2,117
Pakistan	10,504	10,782	3,330	2,039
Tunisia	2,136	2,463	1,999	1,119
Bulgaria	4,351	2,230	2,574	1,078
India	2,877	5,663	0	0
FYROM	2,844	1,712	698	0
S.Korea	2,503	473	895	172
Serbia	1,737	1,390	739	355
Algeria	1,633	3,498	0	0
Morocco	1,306	2,542	1,812	770
Austria	1,254	484	402	906
China	986	1,757	1,500	589
Others	1,692	15,150	1,726	4,663
Total	164,488	291,197	209,642	139,573
Source:	NSSG (National Statistical Service of Greece)			

The extreme movements of cotton prices, the unstable weather conditions versus historical patterns and the financial crisis that brought to light the performances of abnormal national economies have increased the risk and uncertainty faced by all cotton market participants.

A Greek ginner, as in all small farm producing countries, is a trader on both sides of his production i.e. both on the input and output side. On the input side, he buys seed cotton from the farmer according to the domestic forces of competition, local influence and the level of international prices of lint (farmers monitor them), and on the output side, he needs to sell based on international demand, currency exchange fluctuation and the financial cost of credit required. All these factors formulate the ginner's behaviour and attitude to risk within a small period of three months.

During the historic 2010-11 season, as in many countries, counterparty risk reached an all-time high, which will affect the global cotton trade for some time. In Greece, it sky-rocketed owing to a combination of a production loss of 30% (owing to the influence of pests and the weather), a sudden decrease in available credit from the banking system due to the involvement of the International Monetary Fund, and the large percentage of forward sales based on historic cotton prices; this brought panic and defaults.

The second factor, financial credit, is the most crucial of all, as the Greek economy is shrinking. Businesses in Greece are now seeing the other side of the picture on credit lines. From receiving ample credit at low cost, we have moved to almost zero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credit at a cost of at least 8% and this is not available to all. In addition, banks are facing their worst nightmare by observing people withdraw their money (€50 billion) for fear of an exit from the euro or a national bankruptcy and therefore a possible seizure of bank accounts by the government. This is obliging banks to reduce credit lines, or even close them, and businesses are collapsing. Furthermore, most of the bank guarantees or Letters of Credit issued for businesses are being rejected, in fear of a Greek meltdown. Finally, access to the international credit market is extremely limited.

The effect of the credit crunch was first seen last season when defaults took place. This season, only a few ginning companies have limited access to credit; the rest have none at all, despite last season's profitable year. Two years ago, payment terms for buying Greek cotton were either cash in advance or cash on the day of loading. Today, all business is cash against shipping documents, and only after the cotton has been customs cleared. This means payment is effected about a week later, after stuffing. In addition, the turbulent times within the country, with strikes and bank issues, indicate that, sooner or later, payment will be against a Bill of Lading, as buyers are not willing to take the risk of long, on-going strikes.

Another factor that has changed during this season has to do with counterparty risk. Only a handful of ginners have a high rating performance with buyers. These ginners are receiving demand first, at better prices, and more volume is concentrated towards them. Whether they will grow bigger in the seasons to come remains to be seen, the stakes are on them. This pattern will continue for the next 4-5 seasons until the defaulters can settle their awards, if they manage to do so. The sooner they do, so much the better for them.

The future area devoted to cotton will more or less remain stable, with a minimum of 220,000 hectares, and yields around three tonnes per hectare. Depending on seed cotton prices and the cost of production, it could increase up to 300,000 hectares. Therefore, taking into account the above planted area, the Greek crop will produce a minimum of 200,000 tonnes of lint, and up to 300.000 tonnes, depending on seed cotton prices. The above production figures will remain intact until 2013 when the current phase of the Common Agricultural Policy (CAP) expires. Beyond that date, it is too soon to judge. Some private

estimates foresee that production will not go lower than 200,000 tonnes, even with no subsidy.

The main competitor is durum wheat, as input costs for its production are much lower than for cotton. However, competition amongst ginners is strong, so seed cotton demand is high and prices fluctuate more than those of wheat. Also, an advantage over wheat is the shorter payment time. However, due to the current financial climate and the weak demand for cotton this season, it will be a matter of time before deferred payments are made to farmers.

As domestic consumption is fading, about 90-95% of the production is destined for the export market. Under current economic conditions, pressure to sell will increase if demand does not strengthen by the end of 2011. Already, Egypt, which is a major market, has postponed buying, by applying a ban on imports for the fourth quarter.

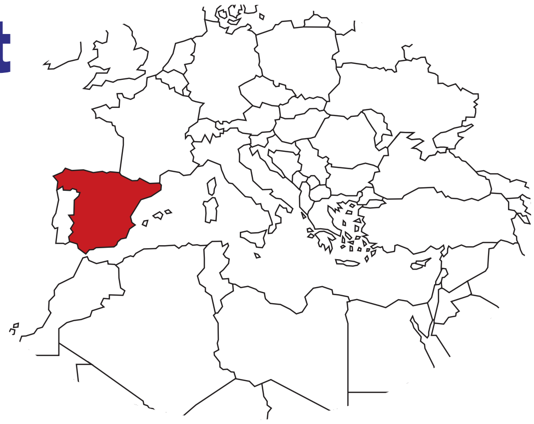
The Greek cotton market, therefore, will need to survive a national, financial storm and a wounded international cotton market. Prices will have to adapt to international levels, in order for Greek cotton to enter into other markets on a long-term basis, rather than on an opportunistic scale. Fast shipment times, and the cotton's good character, are advantages that will support it.

Greek Coton Supply and Demand

Season Aug 1 - Jly 31	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
						estimates	
Beginning	10,000	50,000	120,000	35,000	-	-	60,000
Production	320,000	310,000	250,000	220,000	165,000	280,000	300,000
Consumption	80,000	70,000	45,000	40,000	25,000	20,000	20000
Exports*	200,000	170,000	290,000	215,000	140,000	200,000	260,000
Ending	50,000	120,000	35,000	-	-	60,000	80,000

* up to 10-11 data from National Statistical Service of Greece (NSSG)

Spanish Cotton: Current Situation and Future Challenges



By Manuel Vilchez, Presidente, AEDA[1]

The Spanish cotton sector finds itself in the middle of a period of consolidation, as far as yields and economic viability are concerned.

The crop in Spain is highly concentrated in the region of Andalucía and, in particular, in four provinces (Sevilla, Cádiz, Córdoba and Jaén). It is an eminently 'social' crop, which generates prosperity and employment upon which thousands of families depend, in a region whose GDP is well below the European average, and in which the rate of unemployment is three times that of the Eurozone. Reviewing recent history, we see that planted area and production over recent years has been as shown below.

As will be appreciated, until 2005, we experienced stability with regard to area and production, with normal variations due to the weather, and owing to the incidence of pests on the crop.

From 2006, there occurred a turning point, with a reduction of 30 percent in the area planted and one of 56 percent in output. This reduction occurred when Regulation CE No. 864/2004 came into force, which basically consisted of the 'decoupling' of production from 65 percent of aid to cotton, with the remaining 35 percent maintained in the form of an aid per hectare devoted to cotton. The decoupled proportion was to be included in the Single Payment regime. The area-related aid was confined to authorised areas, sown with authorised planting seed, with the crop maintained until the opening of bolls.

	Area	Seed Cotton Prodution	Yield
	hectares	tonnes	tonnes/ha
Average (2003-2005)	89,972	325,166	3.61
2006	62,819	141,200	2.25
2007	63,628	119,700	1.88
2008	52,127	55,000	1.06
2009	58,358	67,500	1.16
2010	62,167	128,000	2.06

This situation worsened during 2007 and 2008, with the fall of international cotton prices, the incidence of pests on the crop and the incapacity to control them with the authorised phytosanitary products.

We should also state that, during this period, a great effort was made on the environmental front, with the elimination of sowing under plastic, a reduction in the application of nitrogen fertilisers and phytosanitary products and the more economical use of irrigation water. Although this was positive, insofar as it reduced cotton's environmental impact, it also reduced yields and thus the viability of the crop.

The conjunction of these factors produced a devastating effect on production, owing to the demotivation of farmers and high unit costs.

Spain requested and obtained the annulation of Regulation No. CE 864/2004, which was amended by Regulation CE No. 637/2008, which would come into force during the 2009/10 season. This new aid regime did not differ greatly from the previous one in terms of the percentage of aid that was decoupled (65 percent) and coupled (35 percent), but it did include the obligation to harvest the crop, and a programme for the restructuring of the sector.

[1]*Agrupación Española de Desmotadores de Algodón/ Association of Spanish Cotton Ginners.*

The ginning sector, faced with a lack of sufficient raw material to assure its viability, took full advantage of the restructuring programme, dismantling 19 of the 26 gins in existence, leaving 7 ginning companies situated along the length of the Guadalquivir valley in Andalucía.

In the 2009/10 season, similar production levels were maintained, and the same set of problems. The difference was felt in the ginning sector, as a result of the aforementioned restructuring.

From 2010, the downward trend of production was reversed, and a recovery began which can be attributed to three principal factors:

- A Regulation was brought in by the regional authorities in Andalucía, which, in addition to obliging farmers to harvest their crop, also required minimum indicative yields.
- The emergence and authorisation of phytosanitary products that allowed for the successful control of the intense attacks of Lepidoptera that had occurred in earlier seasons.
- The rise in the international price of cotton.

All this meant that farmers could regain levels of productivity that rendered cotton remunerative in comparison to alternative crops. Those ginners that remained active could, in their turn, rely on a volume of raw material that assured the viability of their operations.

During the present 2011/12 season, we record a planted area of approximately 67,200 hectares, a harvest estimated at 180,000/184,000 tonnes of seed cotton, and yields of 2,675/2,750 kilos per hectare. Owing to exceptionally favourable weather and authorisation of the use of the defoliant Tidiazuron, picking has been carried out under optimum conditions, with 90 percent of output gathered within a concentrated period of one month, and good quality fibre obtained.

Marketing of the fibre is carried out via merchants, for the most part international companies (only one Spanish firm continues). As for Spanish cotton's markets, we should point out that, owing to intense competition from other countries, our spinning industry has contracted at an accelerating rate: in the 1990's and the early part of the 21st Century, domestic consumption amounted to between 450,000 and 500,000 bales, while today it is just 45,000/55,000 bales. This situation obliges us to export to neighbouring countries in which some textile activity persists (Portugal, France, Italy and Morocco) and to ship to more distant destinations where the bulk of world consumption is concentrated (China, India and Pakistan) with commensurate transport costs.

As far as future challenges for Spanish cotton are concerned, the task before us is to consolidate the levels of production and profitability recorded during this last season, which may permit the survival of cotton producers, the ginning industry, together with the entire economic and social framework that makes up the sector (suppliers of seed, fertiliser, pesticides, transport, picking machinery and associated labour). For this, various conditions must be met:

- Maintenance of the level of 'coupled' aid enjoyed by the crop following reform of the Single Payment in 2014: the European Commission's proposal is to maintain the current system and budget for the period 2014 to 2020.

- Firm international prices: with a reduction of more than 20 percent from the current level, alternative crops become competitive.

- Accessibility of suitable tools with which to control pests: although producers have shown a technical understanding of the crop (with yields amongst the highest in the world), they need to have at their disposal the mechanisms that make economic viability possible.

- A united sector: producers, ginners and public administrators working together to achieve the consolidation and viability of the cotton industry.

We hope that circumstances will allow Spanish cotton once more to be the phoenix that rises from its ashes.

The Cotton Textile Industry in the Mahgreb

By Hassine Toutou, T. H. Cotton Consulting

The Mahgreb region's textile and clothing industry was created by the governments of the three countries after their independence, at the end of the 1950's for Morocco, in the early 1960's for Tunisia and in the late 1960's for Algeria. The initial intention was to create the first industrial employment and to meet the needs of a local market that was at the time the exclusive preserve of France. Up until the end of the 20th Century, strong growth was registered in this industry, supported by a strong demand from a protected local market and by exports of apparel. Tunisia and Morocco adopted similar strategies, based on a dynamic private sector orientated towards exports to the European markets, whereas Algeria has remained set on a national production that depends on the public sector and an absence of exports.

From 2002, the dismantling of customs barriers, the end of the Multi-Fibre Arrangement (MFA), the eastward enlargement of the European Union and China's accession to membership of the World Trade Organisation have put a brake on the expansion of the Mahgreb's textile-clothing sector.

Situation and Outlook

Tunisia

Current structure of the sector:

- 7 spinning mills, of which 3 have ceased production and one is entirely foreign-owned and export-orientated.
- 45 weaving companies, of which 12 are entirely foreign-owned and export-orientated.
- 229 hosiery companies, of which 43 are entirely export-orientated.
- 1,515 garment-manufacturing companies, of which 990 are entirely foreign-owned and 1,362 are entirely export-orientated.

Tunisia does not produce any textile raw materials (cotton, artificial or synthetic fibres).

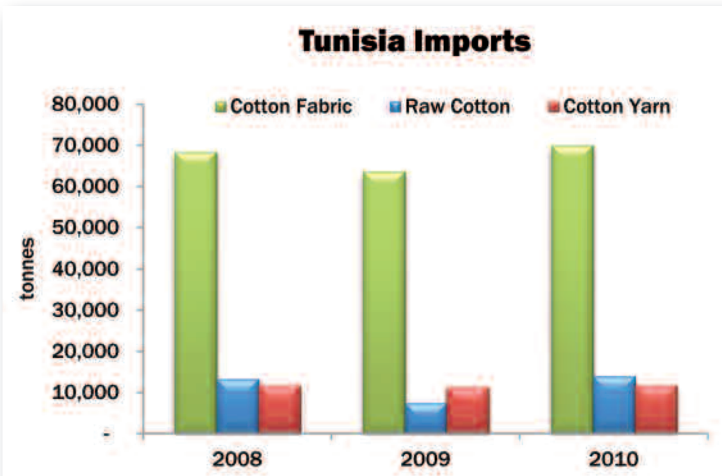
Spinning, weaving and hosiery have not matched the growth of garment manufacturing and there is a very significant disparity between the primary textile and clothing sectors.

Imports

More than 85 percent of cotton imports are absorbed by two spinners: one a denim producer, the other an off-shore Italian spinner.

Imports of cotton yarn destined for weaving, knitting, embroidery and garment manufacture are greater than domestic production.

Imports of cotton fabric, including warp and weft, as well as knitted fabrics, clearly demonstrate the imbalance between primary textiles and clothing.

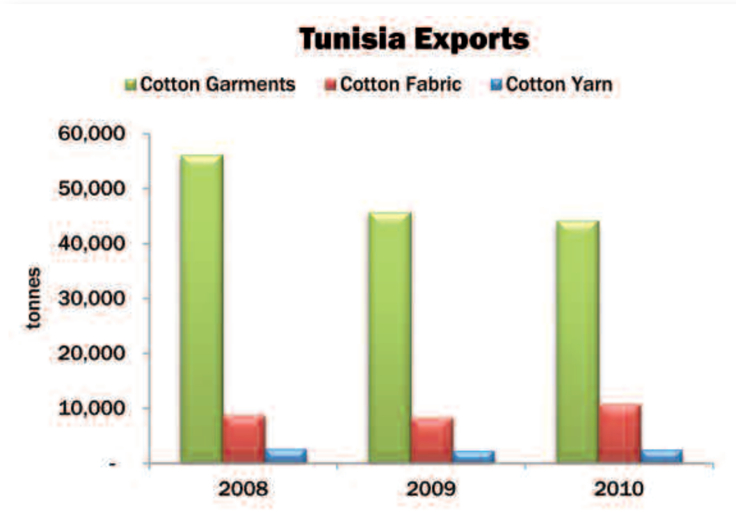


Exports

More than 55 percent of fabric exports consist of denim.

Tunisia is the fourth largest supplier, in front of Morocco, of clothing to the European Union. The country was the second largest in 2000.

Since 2008, the Tunisian strategy has been a shift towards co-contracting, emphasis on the finished product and on fashion collections. This has proved the salvation of the garment sector, in contrast to the plight of primary textile producers.



Challenges and constraints faced by the textile and clothing industry

The absence of a local production of cotton lint and competition from cheap cotton yarn from Asia have been handicaps to the growth of the spinning industry.

The cost of investment and of freight from distant cotton-producing countries is a disincentive even to foreign investment in spinning.

Competition from Asian fabric and recourse to imports of foreign yarn limit the growth of weaving

Tunisian apparel is confronted, both on the European and local markets, by the anti-competitive practices of some Asian countries and by the erosion of trade preferences that are enjoyed by the Mahgreb countries in the EU market.

Outlook for the clothing industry

The country's new administration must support Tunisian and foreign manufacturers and guide them toward the primary textile industry, innovative products meeting international quality norms and which are competitive vis-à-vis Mediterranean textiles. It should relaunch cotton growing, which ceased in 1990, in the short term pay greater heed to the social climate, and make greater efforts to improve infrastructure and logistics. One could thus in the future satisfy all the demand from the garment-hosiery sector and consolidate the sustained growth of the textile-clothing sector as a whole.

Morocco

Current structure of the sector:

- 15 spinning mills, of which 3 have ceased production.
- 56 weaving mills.
- 400 hosiery factories.
- 1,100 garment manufacturers.

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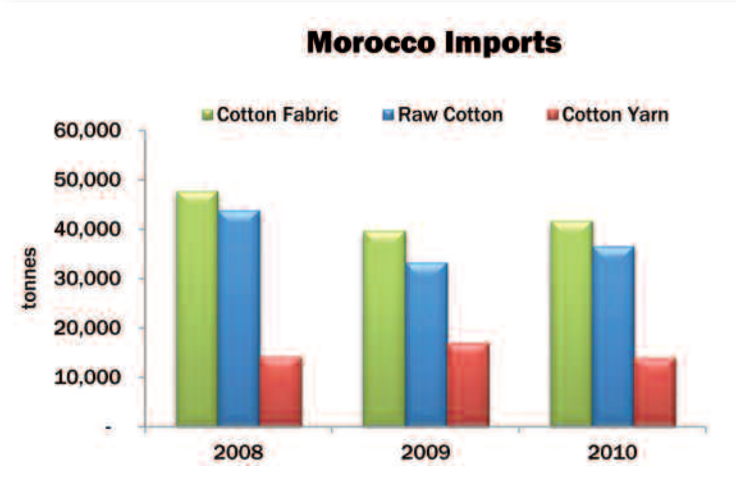
Unlike Tunisia, there is a very strong concentration of textile companies. Twenty percent of the companies in the textile-clothing sector account for 70 percent of the sector's entire turnover.

Before 2000, Morocco's primary textile industry was diversified and dynamic. Since 2003, it has felt the full impact of globalisation.

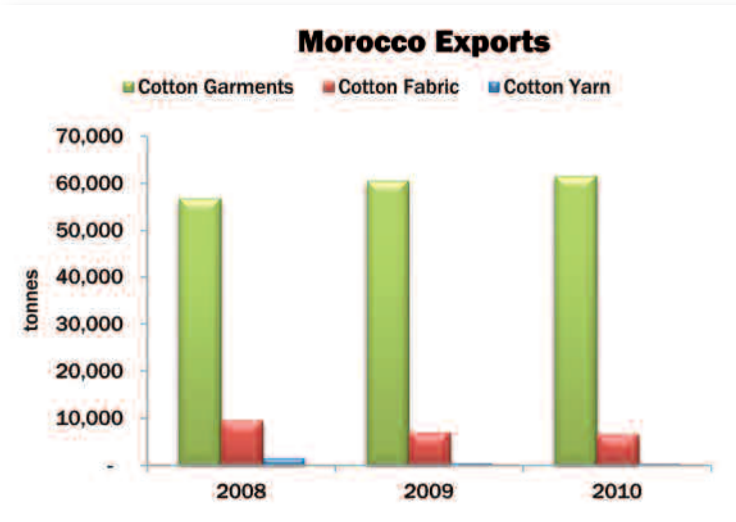
Morocco does not have at its disposal natural raw materials in sufficient quantity or quality (very limited local production of Pima cotton).

Unlike in Tunisia, Moroccan garment manufacturing is mainly owned by local parties and works on a sub-contracting basis; co-contracting is still limited.



Before 2000, Morocco imported very little cotton yarn and cloth. Since the dismantling of the Multi-Fibre Arrangement, however, and the free import of very competitive yarns and fabrics from Asia and Turkey, the spinning and weaving sectors have lost a third of their share of the domestic market to imports.

The maintenance of the sector at its present level has been achieved thanks to large Moroccan and foreign enterprises who have managed to integrate the entire textile chain, from the raw material to the finished product.



Exports of cotton yarn and cloth (more than half comprising denim fabric) at their current rate do not exploit the full potential of the sector. Moroccan manufacturers must seek partnerships with foreign investors, in order to develop a competitive, efficient and creative industry, capable of increasing market share both in Europe and North America.

Challenges and constraints faced by the textile and clothing sectors

The industry faces same challenges and constraints as those confronted by textile and clothing manufacturers in Tunisia.

Hourly labour costs in Morocco are higher than those in Tunisia, which does not encourage inward investment from the northern Mediterranean area.

Garment manufacturers have not yet developed co-contracting on a large scale, fashion and top of the range products, in order effectively to face up to Asian and Eastern European competition.

Algeria

Current structure of the sector:

Public sector

- Primary textiles: TEXMACO holding company (30 units of which 5 are closed, 4 whose construction has been stopped and 1 project abandoned).
- Garment manufacturing : T&H holding company (21 units of which an unknown number have ceased production or closed).

Private sector

- 30 companies (Small or Medium-sized Enterprises) operate in the garment and knitwear sectors.

Despite a multitude of restructurings and failed attempts at privatisation, the public sector continues to dominate the textile and clothing landscape in Algeria.

Before 2000, raw cotton consumption was in the region of 30,000 tonnes, but it is currently between 8,000 and 10,000 tonnes.

Algeria does not produce any raw materials. The country began to produce cotton is association with a partner in France, but output did not surpass 300 tonnes of lint.

Globalisation, the enlargement of the European Union and the partial dismantling of tariff barriers have undermined the position of TEXMACO, a good number of whose factories are closed pending the emergence of eventual buyers, or have ceased production owing to a lack of competitiveness and markets. Algerian consumers prefer textile and clothing products whose quality offers better value for money.

The private sector prefers to import its raw materials (yarn and fabric) than to source them from the public sector.

European textile and clothing producers are virtually absent from the industrial scene in Algeria, perhaps because of the administrative formalities and legislation, which do not sufficiently encourage, as is the case in Tunisia and Morocco, foreign investors to establish themselves in Algeria.

Challenges and constraints faced by the textile and clothing sectors

The vulnerability Algeria's textile and clothing industry stems from a structure that concentrates upstream production of fabric in poorly performing public sector mills. In order to meet the challenge, it would be preferable for the Algerian authorities to take a leap of imagination:

- Privatise the public sector
- Promote and streamline the sector by a better command of human and financial resources

- Bring textile and clothing enterprises up to standard, with an emphasis on certification
- Facilitate and encourage European textile companies to establish themselves in Algeria
- Seek out niche products and markets, in order to meet Asian competition.