HIGH PLAINS JOURNAL™

BELTWIDE COTTON CONFERENCES

San Antonio, Texas

Brought to you by

DUPONT

The miracles of science™

National Cotton Council OF AMERICA

Count on DuPont for insect control and nematode suppression

The DuPont family of insecticides provides a wide range of protection from even the most damaging pests.

1. DuPont™ Asana® XL insecticide is a more effective pyrethroid with an extra-long residual.
2. DuPont™ Intruder™ insecticide provides fast knockdown and feeding cessation of aphids and fleahoppers with residual control of up to 14 days on aphids.
3. DuPont™ Lannate® insecticide provides fast knockdown broad-spectrum control.
4. DuPont™ Steward® insecticide helps to control all major worm pests while helping to protect beneficials.
5. DuPont™ Vydate® C-LV insecticide/nematicide provides early-season insect control and nematode suppression. **cropprotection.dupont.com**

The miracles of science™

BELTWIDE COTTON CONFERENCES 2006

San Antonio, Texas

Presented by HIGH PLAINS/MIDWEST AG JOURNAL

Brought to you by DUPONT *The miracles of science*

Mark your calendar...
2007 Beltwide Cotton Conferences
January 9-12
New Orleans, LA

Trade policy challenges U.S. cotton industry in 2006, beyond 4-5

NCC President and CEO Mark Lange details the challenges of international trade policies and the WTO to cotton producers.

NCC Chairman Woods Eastland updates growers on the Council's domestic and international accomplishments in 2005.

Demand base for U.S. cotton shifts to exports 6

Gary Adams, vice president of economics and policy analysis for NCC speaks on the shifting trends in the global cotton marketplace.

U.S. cotton growers must look to export markets for success 7

O.A. Cleveland, professor emeritus, Mississippi State University, predicts the future production and usage estimates for the 2006-07 cotton crop.

GINNERS HONOR RETIRING SCIENTISTS—Stanley Anthony, left, research leader at the U.S. Department of Agriculture-Agricultural Research Service Cotton Ginning Laboratory in Stoneville, Miss., and Alan Brashears, research leader for the Cotton Production and Processing Research Unit in Lubbock, Texas, were honored by their peers from the National Cotton Ginners Association. Both will retire this year from USDA-ARS. (Photo courtesy National Cotton Council of America.)

Journal photos by Jennifer M. Latzke

Trade policy challenges U.S. cotton industry in 2006, beyond

By Jennifer M. Latzke

It was a somber wake-up call, but one that Beltwide attendees needed to hear.

Mark Lange, president and chief executive officer of the National Cotton Council of America opened the second morning of the Beltwide Cotton Conferences, Jan. 5, with an update on the WTO Hong Kong Ministerial text and its affect on the U.S. cotton industry. And, the outlook wasn't rose-colored in the least.

Lange explained that a ministerial text from the WTO discards the concept of a single undertaking in ag by isolating cotton for special treatment and cotton is listed in a further subsection of the ag text.

There are three specific actions listed in the cotton specific text.

1. All forms of export subsidies for cotton will be eliminated by developed countries in 2006.

2. Developed countries will give duty and quota free access for cotton exports from least-developed countries from the commencement of the implementation period.

3. As an outcome for the negotiations, trade distorting domestic subsidies for cotton production will be reduced more ambitiously than under whatever general formula is agreed and implemented in a shorter time frame.

"The U.S. cotton industry is deeply concerned with the ramifications of this text," Lange said. "But, it is also an ominous warning to other commodities. Now that one commodity has been culled from the herd and is being dealt with differently, what commodity will be next? How can cotton compete with the interests of the rest of the world's economy? How can bananas, corn or wheat?"

Lange further explained the ramifications of the three portions of the text.

"The text calls for the developed countries to eliminate all forms of cotton export subsidies prior to ratification of any agreement and while negotiations on much of the comprehensive package may not even be finished," he said. "So, no one has any idea what achievements will yet be reached in market access, but the developed countries have apparently already agreed to eliminate cotton export subsidies in 2006. This is probably not the best example of negotiating strategy by the developed countries."

The WTO Dispute Settlement Panel identified two programs in the WTO-Brazil cotton case as prohibited export subsidies: The GSM export credit program, which between 1999 and 2002 contained a prohibited export subsidy component; and the Step 2 competitiveness provision, which was a prohibited export subsidy for upland cotton.

"Actions taken in July 2006 by the U.S. Department of Agriculture have eliminated some of the export subsidy components of the GSM export credit program, and the administration has proposed legislation, which completes the elimination of any subsidy component by removing the cap on fees in the program," Lange said.

The Hong Kong draft text calls for developed countries to provide duty and quota free access for cotton exports from Least Developed Countries, Lange said. It's interesting to note that developed countries spin about 8 percent of total world mill use, or about 115 million bales, he added. Meanwhile, China, India and Pakistan account for 72 million bales of annual cotton mill use.

TRADE POLICY CHALLENGE—President and Chief Executive Officer Mark Lange, of the National Cotton Council of America, tells Beltwide participants that the key to U.S. cotton's export market success lies with fair trade policies. He told attendees the WTO is failing to acknowledge the trade disparities within the developing world.

"Failure of the developing world to offer the same access to the LDCs is an unfortunate outcome that has brought little response from non-government organizations so bent on supporting West African cotton farmers," Lange said. "In fact, several NGOs criticized the developed countries for not giving something more for cotton, noting that most cotton is consumed in China."

In the third portion of the text words such as "ambitious," "expeditiously" and others concern NCC. Lange said the West African cotton producing countries, backed by Oxfam, have demanded an 80 percent reduction in all domestic cotton support by developed countries in 2006, with 10 percent in each of the next two years. "They seek a total elimination of cottons support in developed countries within three years," he said.

Lange told attendees that the WTO is failing to acknowledge the disparities within the developing world.

"China has nuclear arms and a space program and yet is permitted to self-declare as a developing country and avoid the disciplines applied to countries such as the U.S., EU, Japan and Australia," Lange said.

In five years, China, India and Pakistan have grown from spinning 44.6 million bales, or 48 percent of world cotton spinning, to now using 72 million bales, or 63 percent of world spinning, Lange said. "This was not just an industrial happenstance or market driven outcome," he said. "This has arisen through industrial policies, high border measures, tax incentives and the free financing of construction through the deliberate reaction of non-performing loans."

(Continued on page 5)

Trade policy challenges . . . .

(Continued from page 4)

Lange explained that in recent years China's mills have faced the highest price for cotton in the world—in 2003, Chinese mills paid almost 78 cents per pound, while the A Index was 63 cents per pound. "How do they pay an average of 18 percent more for their cotton than the rest of the world and take business from everywhere else," Lange asked the audience.

Meanwhile, the world increased its annual use of cotton by 22 million bales in the last five years, but China, India and Pakistan have expanded their mill use by 27 million bales. Lange postured that these three countries not only took spinning business from the U.S., EU and Japan, but also from the least developed countries the WTO is supposed to protect.

But, competition for the textile market isn't only from other countries, but also from other fibers. Most of Asia has ramped up production of polyester in the past 10 years. China, Lange said, produced 45 million bale equivalents of polyester in 2005, up from just 22 million bale equivalents in 2000. And, this capacity was subsidized with non-performing loans and tax incentives, he said. Cotton's loss of share in the world fiber market has no perceptible impact on developing countries that produce cotton, at least through the eyes of the NGOs and the WTO, he said.

"Recognition of this situation would diminish the focused frenzy directed at the U.S. cotton program," Lange said. "Dramatic changes, even elimination of the U.S. cotton program would not materially affect the impact that all this is having on the world cotton market."

The investment in Chinese polyester production infrastructure easily exceeds $2 to $3 billion annually, and yet the NGOs ignore the fiber market distortions this creates and credits the developing world's problems to U.S. production and subsidies.

The situation with the WTO won't ease up in the future, Lange said. If anything, there will be more and more pressure for further concessions on cotton.

"Overall market access on agriculture is the key component of the Doha negotiations at this time," he said. ◆

Eastland updates Beltwide attendees on NCC 2005 activities

By Jennifer M. Latzke

The National Cotton Council of America spent the majority of 2005 defending the U.S. cotton program and attaining sound trade policy, said NCC Chairman Woods Eastland, Greenwood, Miss., as he opened the first day of the Beltwide Cotton Conferences in San Antonio, Texas. And those defense strategies will continue on into the new year, he added.

At this time last year the headline news across the farmland was the Administration's budget proposal that would have cut farm support programs by about $5.7 billion over the next decade. These budget cuts, Eastland said, unfairly targeted cotton, rice and peanut farmers.

"The Council worked with Congress and the Administration in delivering the message that the Farm Bill is a multi-year contract that provides necessary stability for U.S. agriculture and U.S. consumers," Eastland said. The final budget resolution called for $3 billion in ag spending cuts. While the final reconciliation package for ag doesn't have across-the-board cuts for commodity programs, it does reduce advance direct payments for the 2006 and 2007 crops and provide for the early end of the cotton Step 2 program Aug. 1, he added.

The budget reconciliation wasn't the only domestic policy on the agenda at NCC in 2005, though. The 2002 Farm Bill will sunset in 2007, and already the debates are beginning on what should be included in the next farm bill. Congressional farm bill hearings will not begin until late this year, but the Council has already submitted comments on a number of policy considerations and has emphasized its support of the current farm bill and the importance of the legislation to the current structure and stability of the U.S. farm economy.

International trade policy was another dominant feature of the Council's 2005 agenda, Eastland continued.

"Immediately after the Council Board's agreement that passage of the Dominican Republic-Central America Free Trade Act was in our industry's best interests, the Council conducted an extensive campaign to help secure passage of this legislation," he said. "We believe DR-CAFTA provides the U.S. with the best opportunity for supplying apparel manufacturers and other end-use manufacturing industries in the western hemisphere with U.S. cotton fiber and U.S.-produced cotton textile products."

In March, the cotton industry got its answer from the WTO appellate body and its ruling on the WTO-Brazil case. NCC worked with both Congress and the White House to form a strategy for compliance. The Council wanted to protect Step 2 payments, but in an act of compromise it settled for a goal of maintaining the program until Aug. 1. Additionally, NCC continues to emphasize that it doesn't want the U.S. cotton program singled out for separate treatment from other commodities during trade talks and that there must be a comprehensive ag agreement.

Trade with China continues to be on the mind of NCC leadership. Already for the 2005 marketing year, the U.S. has sold 5.1 million bales of cotton to China, and the country has become the largest importer of U.S. cotton.

"However, China's unpredictability and its unwillingness to fully comply with all of its trade obligations require the continued attention of the Council," Eastland said. "We have worked with the Administration who has conducted numerous meetings with Chinese officials about the way China allocates their import quotas. An additional concern has arisen with the variable duty announced by China on imports in excess of their WTO commitment. This duty places the price of imported cotton above that of Chinese domestic polyester." NCC has also worked with the U.S. textile industry and the Bush administration to safeguard against surging China imports.

In the regulatory arena, NCC proposed changes to the International Code Council's fire code based on Cotton Foundation-sponsored research and industry testimony.

"As a result of these efforts, densely baled cotton is no longer listed as a high hazard and ginning is considered as an agricultural process and not a commercial or industrial operation," Eastland said.

"There are still many challenges before us," he concluded. "Research, education and technology transfer continue to be critically important. I assure you that the Council will continue its long-standing commitment of its resources for technology development and transfer and bringing resolution to the technology-based priorities." ◆

Demand base for U.S. cotton shifts to exports

By Jennifer M. Latzke

The cotton grown in a field near you might not be destined for U.S. mill use in the future. Gary Adams, vice president of economics and policy analysis for the National Cotton Council of America spoke on the changes in the global cotton marketplace Jan. 4, during the Beltwide Cotton Production Conference.

There has been a shift in the demand base of U.S. cotton, Adams said.

"In 1997, the U.S. textile industry consumed 11.3 million bales, or 60 percent of the cotton crop," Adams said. "In that same year, exports stood at 7.5 million bales.

"For the current marketing year, we're on pace to export more than 16 million bales, about 70 percent of this year's crop, with mill use at approximately 6 million bales," he added. Adams attributed much of the decline in the U.S. textile industry to increasing textile imports from Asia. Imports of cotton textiles have tripled since 1995, up to 22 million bales in 2005.

"We see that 5 million bales of the yarn, thread and fabric produced by our textile industry are exported to other countries, primarily in this hemisphere, for further processing," Adams said. "That leaves only a small amount that is completely manufactured into a finished consumer product within the U.S. Adding up fiber exports and textile exports suggests that 90-plus percent of the U.S. cotton crop enters export channels at some stage."

In 2004, U.S. cotton producers surprised the world with a record crop of 120 million bales, and 2005 is proving to be as big with 110 to 115 million bales. Consumption is estimated at 115 million bales. Key countries across the globe will play into this phenomenon.

Mexico, with the North American Free Trade Agreement is our second or third largest export customer, Adams said, buying about 1.8 million bales of U.S. cotton each year. And, much of that cotton is returned to the U.S. retail market as apparel or textiles. Brazil has the potential to expand its presence, Adams added. "Some estimates suggest that Brazil could bring 250 million acres of new land into crop production, that's roughly equivalent to what the U.S. has in production of the major row crops," he said. Expansion of farm production is a priority for the Brazilian government, as signaled by the estimated $13 billion in government credit and investment programs.

India is another country on the verge of growth in cotton demand and production. It has the second-fastest growing economy after China and uses more than 16 million bales of cotton in its mills. Adams said India devotes more area to cotton production, 22 million acres harvested, than any other country.

And, no list about cotton powerhouses would be complete without China. "They are the largest cotton producer with about 25 million bales, and were as high as 29 million in 2004," Adams said. "They are the largest spinner at 43 million bales, and consequently, they have emerged as the largest importer with potential purchases of 16 million bales in the current marketing year.

"Also, China, with purchases of 5 million bales in the first five months of this marketing year, is on pace to be the largest consumer of U.S.. cotton," Adams said. "It is likely that the U.S. will sell China 7 to 8 million bales of the 2005 crop."

However, a major concern continues to be China's allocation of a portion of its quota based on the condition of export of the textile market. China also imposes a variable levy on all imports above the initial quota of 4 million bales, Adams said. This raises the cotton price relative to manmade fibers.

The growth in Chinese mill demand is not due to its 1.3 billion citizens buying Chinese textiles at their local retailer. The growth is more driven by the Chinese ability to sell textile products in other global markets. This affects U.S. textile mills, and those in developing countries.

"Their retail cotton consumption is estimated at roughly 18 million bales," Adams said. Per capita that comes to just over six pounds per person.

"Meanwhile, manmade fiber consumption stands at 14 pounds per person," he continued. If cotton had just maintained its market share, in relation to manmade fibers, there should be an additional 12 million bales of consumption.

This shift to an export market also has consequences for the U.S. storage and distribution system. Because more cotton is shipped to the ports in Long Beach, Calif.; Savannah, Ga.; or Galveston, Texas, shipments can be bunched up and slowed.

"Ultimately, we are competing in a very competitive world market," he said. "Our success depends on a number of factors. Some of those are external. A weak dollar, strong foreign economic growth and more open markets should boost exports and prices. Weather problems outside the U.S. wouldn't hurt either."

The bottom line for U.S. cotton growers is to differentiate U.S. cotton from other cottons available on the global market and really promote quality, as well as controlling costs of production. ◆

CONGRESSIONAL EDUCATION—Congressman Henry Cuellar, D-TX, reminds Beltwide attendees that in order for them to have successful farm policy, they need to make an effort to educate their Congressional leaders. Cuellar sits on both the House Budget Committee and the House Agriculture Committee. He spoke during the opening day of the Cotton Production Conference.

U.S. cotton growers must look to export markets for success

By Jennifer M. Latzke

The American cotton producer must look toward the export market if he's to have a successful future, said O.A. Cleveland, professor emeritus, Mississippi State University, during the Cotton Economic Outlook Symposium, Jan. 5, at the Beltwide Cotton Conferences. It's a sad fact that the U.S. textile industry is dying.

"The Step 2 program was conceived to prop up the domestic industry, and I was a supporter," Cleveland said. "However, it was a total failure and actually sped its demise." Globalization in the cotton industry and general U.S. trade policies didn't help the situation any as well.

Even though last year the U.S. increased its domestic bale consumption to 6.7 million bales, prices were also 10 cents per pound lower. "We should not expect to see domestic consumption to climb back to 6.5 million bales," Cleveland said. He predicted another 500,000 to 800,000-bale reduction by 2010.

Therefore, the global textile industry will be the untapped opportunity for U.S. producers, China in particular.

"In this regard, the industry must bite the bullet and swallow the bitter pill and support a move that updates the loan schedule and brings it inline with the world export market," Cleveland said. And, the world market is looking for higher quality cotton that what has been acceptable in the past. Growers, Cleveland said, must aggressively support a premium being paid for their higher quality cotton. The system, he added, must be changed and the American cotton farmer must take an active role in his cotton marketing.

China, which continues to be on the forefront of the global cotton marketplace, will expand its use next year. Cleveland cited Globecot's estimates of 45 million bales this season, with an opportunity to reach 46 million bales as a good forecast to follow. Additionally, China and the Indian sub-continent will account for 80 million bales of cotton consumption annually, yet only China is a major importer of U.S. cotton, he said.

Cleveland forecasted that the 2006-07 cotton marketing year will see about 21.5 million bales off of nearly 14.8 million acres.

"U.S. yield has climbed to about 780 pounds per acre," Cleveland said. While the Southwest had abundant subsoil moisture for the 2005 crop, the Midsouth was droughty.

Domestic consumption will fall to 5.8 million bales, while exports will still be strong yet slip to 15.1 million bales. Carryover, he said, could increase to 7.4 million bales, which could become an issue during the upcoming farm bill debate. However, a crop of 21 million bales or less would lead to declining stocks, he said. Worldwide production should reach 112 million bales, while consumption will be at 116 million bales, he added. Cleveland estimated the price range for this year to swing anywhere from 48 cents to 68 cents per pound.

COTTON CONSUMPTION—O.A. Cleveland, professor emeritus, Mississippi State University, forecasts the production and consumption estimates for the new cotton crop. He predicted the U.S. will produce 21.5 million bales in the 2006-07 cotton marketing year.

Domestic and world events could rock the cotton industry in the coming months. Cleveland cited the fact that both houses of Congress have passed unanimous resolutions condemning the government of Uzbekistan and its communist dictator for human rights violations. At stake is the Uzbek cotton industry, which could be destroyed in the fallout.

"This is a hot spot that could rock the world cotton industry any day and lead to as much as a 10 cent move to the upside before pausing for a reality check," Cleveland said.

On the home front, the coming farm bill debates are going to affect producers due to the Bush administration's intent on cutting support for U.S. agriculture in general, and cotton more specifically. Cleveland predicted that historically strong relationships between various ag sectors and regions will be tested. He warned against any splintering in the industry in relation to farm policy debates. ◆