

**Business Session I**  
**2016-20: The Outlook for the World Cotton Market.**

Chair: Mr. Jean-Marc Derossis, President of the ICA

Speakers:

Mr. Ray Butler, Managing Director, Cotton Outlook

Mr. José Sette, Executive Director, International Cotton Advisory Committee

Mr. Sanjay Sachetti, Country Head India, Olam Agro India

**Competition with Polyester Constraining Cotton Use**

Mr. Butler noted that the Cotlook A Index has fluctuated in a relatively narrow range around an average of 70 cents since 2014, but that recent downward price movements seem to be indicating that something is occurring in the cotton industry that market participants may not fully understand. Mr. Butler noted that decisions in China regarding the disposition of the cotton reserve are difficult to predict. The overall level of cotton consumption is about 23 million tons in the current season, and an increase does not seem likely. Consumption in China has declined, and the outlook for 2016/17 depends on the disposition of the cotton reserve. Cotton consumption in the rest of the world has increased somewhat, but not enough to fully offset the decline in China. Mr. Butler reported that world cotton production had declined in 2015/16, but that the current outlook is for modest growth in 2016/17.

Mr. Butler lamented the imprecision in estimates of cotton production and use in China, but he noted that Chinese production seems to be in decline. He noted that production in 2015/16 had also declined in Pakistan, India, Central Asia and the United States relative to levels that had been predicted early in 2015. Because of the declines in production, world ending stocks are declining for the first time since 2009/10. For 2016/17, Mr. Butler suggested that there would be little change in world stocks because there is little optimism regarding the prospects for growth in cotton mill use. He noted the steep price advantage enjoyed by polyester in China currently, suggesting continued loss of market share for cotton.

Mr. Butler concluded that the chief overhanging question is whether China would release the stocks in the reserve onto the world market. He noted that a Chinese government agency had recently indicated that sales from the reserve would commence on April 1, 2016. However, it is not clear what price(s) would be required, although initial indications are for a significant decline from the average level that currently prevails.

In response to a question about the impacts of polyester prices on cotton prices, Mr. Butler reiterated that cotton must be competitive with polyester or mill use of cotton would decline substantially more than it already has. Consequently, polyester is providing a cap on cotton prices, despite what farmers might wish.

Mr. Sette noted that during the 20 seasons between 1995/96 and 2015/16, world cotton mill use had increased at an annual average compound rate of 1.4%, with China, India, Vietnam, Bangladesh, Pakistan, Turkey and Indonesia having experienced the largest growth in absolute terms. World GDP growth is forecast at more than 3% by the IMF during 2016 and 2017, suggesting sustained growth in demand for cotton. He forecast that world mill use would increase gradually to about 24.7 million tons by 2020/21, which would still be more than 2 million tons below the peak reached in 2006/07. He forecast mill use in China at less than 6 million tons in 2020/21, compared with 7.2 million tons in 2015/16. On the other hand, mill use in India, Pakistan, Turkey, Vietnam, Bangladesh and Indonesia is forecast higher by 2020/21, offsetting the decline in China and resulting in a small increase in world mill use. Mr. Sette forecast that world cotton imports would recover somewhat by 2020/21 to about 8 million tons, up by a small amount from 7.6 million tons currently. He noted that imports by China would fall to about 1 million tons per season, consistent with WTO requirements. However, imports by Vietnam, Bangladesh, and Indonesia will rise.

Mr. Sette responded to a question about the extraordinary rate of growth of cotton mill use in Vietnam by observing that Vietnamese culture is dynamic and hard working, resulting in strong growth in agriculture and industrial production. He noted that wages are low in Vietnam, but he suggested that this was not sufficient to explain the extraordinary rate of growth in cotton use, and that cultural factors probably explain the growth.

He noted that cotton accounts for 28% of world fiber mill use, down from 50% in the 1980s.

Mr. Sachetti spoke about the outlook for agricultural markets other than cotton in India. He reported that about half of the Indian population is rural, and that nearly 50% of total land area is arable. India is one of the top producers in cotton, rice, sugar, dairy, fruit and vegetables and oilseeds. However, Indian agriculture is characterized by stagnant crop yields, increased urbanization resulting in pressure on land availability, lower availability of farm labor as economic diversification expands, slow adoption of mechanization, receding rainfall patterns over the last ten years, little public investment in irrigation, increased consumption of horticultural crops, and shifts toward processed and branded food as incomes expand.

Total area under cultivation in India is 141 million hectares. The highest rate of growth in production is occurring in horticultural crops, rather than row crops or animal products. The Government of India provides minimum support prices to growers, but the MSPs have been growing slowly.

The greatest need in Indian agriculture is to raise productivity through land consolidation through land leasing, collective farming or land pooling. Greater investments in mechanization and crop breeding, improvements in marketing systems, and investments in rural infrastructure are needed in order to improve industry efficiency.

Mr. Sachetti reviewed the specific market dynamics facing several industries. Indian sugar production is expected to decline over the next several years. Indian rice exports will continue at the current level. Indian coffee production will remain stable. Cashew production has come down and exports will continue. Spices are a bright spot in India, and almost all spices are grown in India.

Mr. Sachetti noted that India is well positioned to expand processing of agricultural products and to become a significant exporter of such goods.