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## Argentina

### Cotton and Products

#### Annual

#### 2003

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#### **Report Highlights:**

**Argentine cotton imports for MY2003 are forecast steady at 40,000 tons, although somewhat lower than the previous year. This is a result of a short MY2002 crop and a strong reactivation of the local textile industry after the devaluation. Exports are forecast at 15,000 tons, very small compared to what Argentina has exported in the past decade. Planted area is projected to almost double at 310,000 hectares, as good returns are expected to continue. Cotton output could reach 125,000 tons, the highest of the past two crops. If world cotton prices continue to slowly escalate, the value of the peso remains relatively weak, and the domestic economy begins to recover, we will see an increase in production in the next few years.**

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***SECTION I. SITUATION AND OUTLOOK***

Argentine cotton imports for MY2003 are projected at 40,000 tons, not as high as the previous year but still much higher than the historic average. Despite an expected larger output, most imports will take place in the later part of CY2003 and the first quarter of CY2004 in order to offset a very short MY2002 crop. Imports of cotton from the U.S. are expected to be small as prices are usually somewhat higher than Mercosur members. The U.S. also pays import duties which cotton from Brazil and Paraguay does not. The GSM program could encourage local spinners to import larger volumes of U.S. cotton. Most imports are forecast to come from Brazil, followed by Paraguay.

Domestic production for MY2003 (harvest will begin in March 2004) is forecast at 125,000 tons, almost twice the size of the previous two crops. Planted area is expected to double at 310,000 hectares. The main reasons supporting such a large increase are: a) good producers' returns in MY2002; b) expected high prices for raw cotton; c) sufficient supply of quality seed (last year there was a shortage of seed and some hectares could not be sown); d) a few provincial programs providing seed to small producers as a loan; and e) although the cost of production against soybeans is expected to be higher, returns of cotton will be potentially higher and less vulnerable to weather problems.

Even though production is forecast to increase significantly, it will still be well below the average of the last decade, estimated at 230,000 tons. Most sources expect greater activity at the farm and gin level as it has slowed down to a minimum in the last two years. Of the 140 gins there are in Argentina, roughly 30 processed in MY2002 and hundreds of harvesters did not operate. On the contrary, many of the spinners, weavers, and manufacturers, which had been closed, or were operating at low capacity in the past several years are now flourishing. Most of the roughly 45 spinning mills that exist in the country are now operating at full capacity as result of the January 2002 devaluation which forced a quick substitution of imported textiles. This strong demand for domestic products plus some exports of denim and yarn is strengthening the demand for cotton and thus encouraging farmers to expand production in MY2003.

The peso is projected to continue weak for the next several years, as the new government's policy is to increase export competitiveness and make imported products expensive. The exchange rate between 1991 and 2001 was pegged to the dollar at a rate of one-to-one. In 2002 when the link it was severed, the dollar peaked to 3.85 pesos in June, but since then it has declined. In early June 2003 the value of the dollar was 2.9 pesos.

Cotton exports for MY2003 are estimated at 15,000 tons. Although this volume is twice as much as the previous year, it is well below the average of the past decade which was nearly 150,000 tons. Practically all exports will be of the new harvest (beginning in March 2004) as exports of the MY2002 crop will be negligible and domestic spinners will take most of it. Countries in South America and the Middle East will be the main markets. Exportable supplies are expected to be of SLM to lower quality cotton.

## ***SECTION II. STATISTICAL TABLES***

PSD Table						
Country	Argentina					
Commodity	Cotton				(HECTARES)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		08/2001		08/2002		08/2003
Area Planted	0	173000	0	158000	0	310000
Area Harvested	165000	165000	149000	148000	0	300000
Beginning Stocks	69019	69019	27216	13849	30699	16849
Production	65318	65000	63141	65000	0	125000
Imports	4790	4830	43545	55000	0	40000
TOTAL SUPPLY	139127	138849	133902	133849	30699	181849
Exports	50077	50000	8709	7000	0	15000
USE Dom. Consumption	59875	73000	92534	108000	0	113000
Loss Dom. Consumption	1960	2000	1960	2000	0	2000
TOTAL Dom. Consumption	61835	75000	94494	110000	0	115000
Ending Stocks	27216	13849	30699	16849	0	51849
TOTAL DISTRIBUTION	139128	138849	133902	133849	0	181849

Import Trade Matrix			
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Country	Argentina		
Commodity	Cotton		
Time period	CY	Units:	Metric Tons
Imports for:	2001		2002
U.S.		U.S.	
Others		Others	
Brazil	3613	Brazil	20365
Paraguay		Paraguay	4493
Pakistan	148		
Total for Others	3761		24858
Others not Listed			
Grand Total	3761		24858

Export Trade Matrix			
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Country	Argentina		
Commodity	Cotton		
Time period	CY	Units:	Metric Tons
Exports for:	2001		2002
U.S.		U.S.	
Others		Others	
Peru	12872		6185
Chile	12740		4799
Philippines	3176		1615
Brazil	10953		1283
Thailand	8925		810
Taiwan	2833		794
Pakistan	3637		667
India	13200		657
Portugal	2491		459
Indonesia	6362		393
Total for Others	77189		0
Others not Listed	12073		779
Grand Total	89262		779

### **SECTION III. NARRATIVE ON SUPPLY AND DEMAND**

## Production

Crop area for MY2003 is forecast at 310,000 hectares, a big jump from MY2002. Farmers are inclined to increase production due to expected good returns. The province of Chaco is planning to provide small farmers (1-5 hectares) loans for seed. This would amount roughly to 25,000 hectares. Most sources are doubtful about the availability of financing for the coming crop. Last year there was very little credit available. However, better perspectives for cotton and the need to expand the business will probably encourage some input providers and gins to offer some financial support to serious clients.

In the past couple of years cotton has had to face fierce competition from soybeans, which is produced at very low costs thanks to Roundup Ready seed and the no-till system that is used for their production. Cotton production costs are much higher, with several expensive fumigations to control insects and weeds. With low international cotton prices and lack of financing, it was natural that producers would shift to soybeans. However, under weather stress, cotton has proved to perform better than soybeans in this area. Therefore, soybean producers who were affected by climatic problems will probably go back to cotton. The following table compares returns of both crops, for average technology and yields, it does not include overhead costs (in US\$/Hectare):

	<b>BT Cotton</b>	<b>Convent. Cotton</b>	<b>RR Soybeans</b>
Tillage	105	131	60
Ag Chem & Seeds	186	127	54
Harvest	55	50	30
<b>Total Cost</b>	<b>346</b>	<b>308</b>	<b>144</b>
Yield (MT/Hect.)	1.75	1.50	2.10
<b>Net Income</b>	<b>578</b>	<b>495</b>	<b>282</b>
<b>Gross Margin</b>	<b>232</b>	<b>187</b>	<b>138</b>

Returns in MY2002 were very good due to firm prices, good quality and higher yields. Moreover, due to dry weather, there were fewer weed and insect attacks, thus production costs were lower than usual. The average price for raw cotton was approximately 950 pesos a ton, the same price expected for MY2003. Local cotton is expected to be somewhat higher than the cost of imported cotton.

No till is becoming more popular among cotton producers. Sources estimate that roughly 50 percent of the MY2003 acreage will be done under this system. Leading producers are slowly adopting (and testing) sowing in narrower furrows. The availability of Roundup Ready (RR) cotton and adapting some equipment is permitting this system, which in addition to increasing yields and reducing the cycle of the crop, it could potentially expand the borders of cotton production to more marginal areas.

Most sources indicate that Argentina is having problems with the quality of cotton seed. This is a result of the crisis of the sector in the past years, which has led producers to reuse seed without controls. The most popular seeds are locally-developed varieties in addition to a few developed in the U.S. and Australia. A few years ago seed companies started to offer most of these same varieties with Bt, which are resistant to several insects.

Small producers (less than 10 hectares) do not have much alternative than to produce cotton as it is the crop which will yield more money. The technology they use is very basic, but their great advantage is that most of the family works in the field to control weeds and harvest. Medium (+200 hectares) and large (+1200 hectares) farmers are the ones that really define the size of the crop. They typically use good technology, but soybean production, because of better technology and higher returns, has displaced cotton significantly in Chaco, Salta, Santiago del Estero, Cordoba and Santa Fe. Sunflower has also grown significantly in Chaco.

Roughly 10,000 hectares of cotton were lost in MY2002 due to excess rain, strong wind and/or hail. However, after 4 crops in a row suffered from weather problems, MY2002 was very good weather-wise except in the eastern part of Santiago del Estero which suffered a drought. There was plenty of rain throughout the whole cycle and it was dry and frost-free during harvest, resulting in cotton of the best quality in six years. The average of the crop was SLM shy, length 1.3.32 28/29 gram tex and 3.6-4.7 micronaire.

Many producers are concerned about the boll weevil which is found extensively in Paraguay and Brazil. In Argentina it is already in limited areas of Corrientes and Formosa. In early May 2003 a few boll weevils were found in Chaco province, close to the provincial capital. Measures were taken to isolate the area. This disease has been a big threat for several years and it is becoming more difficult to fight against it as conditions in Paraguay are very complicated and the prevention program in Argentina is not working as well as it should.

There is no official policy directed towards the cotton industry. However, some producing provinces would like to have the GOA implement a program to encourage larger plantings through tax exemptions and non reimbursable loans. Most sources believe the implementation of such measures is doubtful, although the new administration is encouraging production in general in order to reduce high unemployment.

## **Consumption**

Argentine cotton consumption for MY2003 is projected at 115,000 tons, the highest in the past 9 years. After the strong devaluation of 2002, the market of domestic textiles began to reactivate strongly due to the need for substituting imported products. During the 90s, when the peso was pegged to the dollar, there were tons of imports of all sorts of textiles, accounting for approximately 50 percent of the local market. Imports have come down to represent only 10 percent of the market. As the country leaves the 4-year long recession behind, we will see a stronger demand for cotton. Per capita consumption of textile products in 2002 was roughly one-third of the average of the last decade.

Exports of textiles in MY2002 were quite strong since the devaluation increased the competitiveness of the local industry as a result of the depressed domestic market. Exports of textiles during MY2003 are expected to slow down as the peso has strengthened and the volumes that Argentina can offer are quite limited. However, exports of good quality yarn and denim are expected to continue.



In CY2002 Argentina produced approximately 60,000 tons of synthetic fibers and yarn (mostly polyamidic monofilament, polyester yarn and nylon) and consumed 2,500 tons of wool produced locally.

### **Stocks**

Ending stocks for MY2003 are expected to increase significantly to 52,000 MT, in large part because exports of MY2003 production will be shipped after July 2003 (MY2004). Large producers have increased the practice of keeping bales of cotton in stock.

### **Trade**

The Argentine textile industry will need to import relatively large amounts of cotton in MY2003 as a result of a short MY2002 crop and increased domestic demand. Imports in MY2002 are expected to be record high at 55,000 MT.

During the first 5 months of CY2003, imports totaled 26,000 tons, of which the first five importing spinners accounted for 75 percent of the total. Brazilian cotton accounted for 73 percent with an average price of \$992 per ton, Paraguayan accounted for 16 percent with an average price of \$1,160 per ton and U.S. cotton completed the balance with an average price of \$990 per ton. The average quality of imports was SLM shy. Most cotton from the U.S. was imported during March and April by four local spinners and the quality was somewhat lower than the average. Most imports prepay 15 percent and pay the balance against receipt.

Imports of cotton from Mercosur members (Brazil, Paraguay) are duty free, while from all other origins pay 7.5 percent duty and 0.5 percent statistical tax. However, some spinners import cotton under a temporary importation, paying no duty and no VAT. This cotton has to be used to manufacture a specific product (typically yarn or denim) which has to be exported within two years of the import. Traders estimate that less than 10 percent of imports is temporary. Argentine cotton exports are taxed with 5 percent, and receive a 2.7 percent rebate.