USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Required Report - public distribution

Date: 5/14/2004

GAIN Report Number: AS4015

Australia

Cotton and Products

Annual

2004

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Report Highlights:
The 2004/05 season is expected to see the Australian cotton industry recover somewhat from the negative impacts of the drought that began in 2002/03. However, cotton production is forecast to remain below levels experienced prior to the drought. Exports are forecast to rise in 2004/05, in line with higher production. Post forecasts stocks to continue to be drawn down, which along with higher production, will permit the first rise in exports since 2000/01.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Canberra [AS1]
[AS]

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SECTION ONE: SITUATION AND OUTLOOK

The 2004/05 season is expected to see the Australian cotton industry recover somewhat from the negative impacts of the devastating drought that began in 2002/03. Increased area, due to improved irrigation water supplies and average to above average yields, is expected to boost production by 23 percent. However, despite the expected increase, production remains well below the levels experienced prior to the drought.

Post has assumed average weather conditions in forecasting cotton production in 2004/05. Above average rainfall in the lead up to planting the 2004/05 crop would lead to a higher than expected cotton area. Increased irrigation water levels would boost the area planted to irrigated cotton, while improved soil moisture conditions would increase plantings and yields of dry-land cotton. Conversely, below normal rainfall would constrict area of both irrigated and dry-land cotton. The 2004/05 crop will not be planted until later this calendar year.

Output of the 2003/04 cotton crop, which is currently being harvested, has been revised upwards due to better than expected growing season conditions. Despite this upward revision, the 2003/04 crop remains the smallest since 1989/90. Severe drought conditions, which began the previous season, dramatically reduced irrigation water reserves and led to a sharp decline in cotton plantings. A general lack of dry-land cotton during the 2003/04 season kept the national average yield well above average.

Cotton exports in MY 2004/05 (August-July) are forecast to rise, more or less in line with higher expected production. Post anticipates stocks will be drawn down slightly to accommodate an expected rise in exports. Exports still will remain well short of the levels achieved prior to the drought of 2002/03.

Agricultural biotechnology is increasingly important for Australia's cotton industry. The 'Bollgard II' variety was first planted in commercial quantities in 2003/04, and joins other varieties that were first introduced in 1996. Bollgard II contains two genes that are designed to provide insect resistance and is expected to replace the older single-gene 'Bt' variety. Cotton is the only major agricultural crop that is grown in Australia using modern agricultural biotechnology.

SECTION TWO: STATISTICAL TABLES

PS&D Table

PSD Table Cotton							
	2002	Revised	2003	Estimate	2004	Forecast	*UOM*
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		08/2002		08/2003		08/2004	*MM/YYYY*
Area Planted	0	0	0	0	0	0	*(HECTARES)*
Area Harvested	225000	230000	225000	185000	0	230000	*(HECTARES)*
Beginning Stocks	481393	528583	268021	313527	159158	242615	*(MT)*
Production	370135	365000	304817	306000	0	375000	*(MT)*
Imports	0	223	0	265	0	250	*(MT)*
TOTAL SUPPLY	851528	893806	572838	619792	159158	617865	*(MT)*
Exports	578064	578102	419124	375000	0	403688	*(MT)*
USE Dom. Consumption	27216	38102	16329	38102	0	38102	*(MT)*
Loss Dom. Consumption	-21773	-35925	-21773	-35925	0	-35925	*(MT)*
TOTAL Dom. Consumption	5443	2177	-5444	2177	0	2177	*(MT)*
Ending Stocks	268021	313527	159158	242615	0	212000	*(MT)*
TOTAL DISTRIBUTION	851528	893806	572838	619792	0	617865	*(MT)*

Import Trade Matrix

Import Trade Matrix Cotton			
Time Period	**Yr End Jul**	**Units:**	**MT**
Imports for:	**2003**		**2004**
U.S.	35	U.S.	8
Others		Others	
India	61	China	73
Pakistan	57	India	25
Tajikistan	19	Belgium	15
Belgium-Luxembourg	15	Pakistan	8
Turkmenistan	10	Indonesia	6
Germany	9		
Korea South	7		
Indonesia	4		
Vietnam	4		
Italy	1		
Total for Others	187		127
Others not Listed	1		1
Grand Total	**223**		**136**
NB. 2004 figures are August 2003 - Mar 2004			

Export Trade Matrix

Export Trade Matrix Cotton			
Time Period	**Yr End Jul**	**Units:**	**MT**
Exports for:	**2003**		**2004**
U.S.	555	U.S.	521
Others		Others	
Indonesia	181519	Indonesia	100215
Korea South	88825	China	40502
Japan	90804	Thailand	34913
Thailand	80478	Japan	34803
China	28311	Korea South	27119
Pakistan	23552	Pakistan	20747
Italy	16306	Hong Kong	3014
Taiwan	12875	Italy	2934
Ireland	8744	Malaysia	2329
India	6847	Spain	2207
Total for Others	538261		268783
Others not Listed	39286		9038
Grand Total	**578102**		**278342**
NB. 2004 figures are August 2003 - Mar 2004			

Reservoir Levels

Northern NSW Reservoir Levels (percent full)					
Region/Dam	**11/01/2001**	**11/01/2002**	**10/01/2003**	**10/27/2003**	**5/01/2004**
MacIntyre River					
- Glenlyon Dam	53.30%	43.80%	9.60%	10.80%	23.50%
- Pindari Dam	91.80%	50.00%	28.10%	39.30%	67.10%
Moree/Gwydir Valley					
- Copeton Dam	60.70%	29.30%	16.60%	16.20%	25.40%
Narrabri/Naomi Valley					
- Keepit Dam	64.40%	30.70%	20.60%	20.50%	37.00%
Dubbo/Macquarie River					
- Burrendong Dam	81.50%	25.20%	28.60%	30.30%	10.00%
Forbes/Hillston/Lachlan Valley					
- Wyangala Dam	75.70%	28.80%	14.50%	16.60%	10.10%
- Carcoar Dam	98.50%	71.90%	31.80%	33.30%	7.00%
Source: NSW Department of Land and Water Conservation.					

SECTION THREE: NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

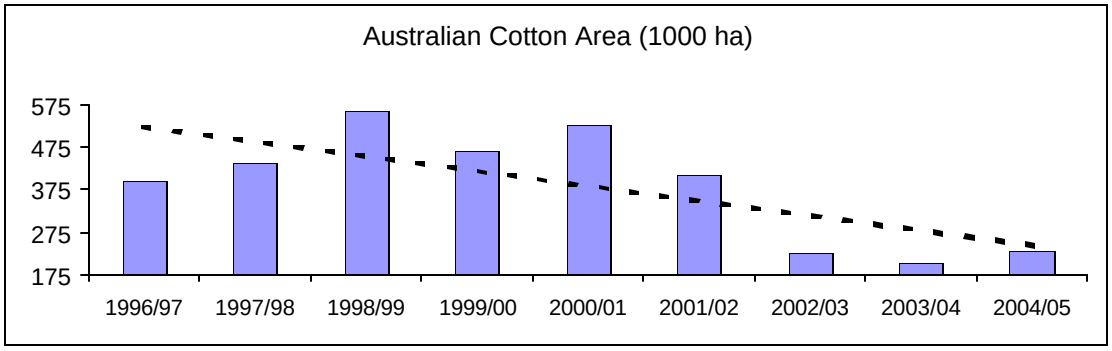
Area

Cotton area is forecast at 230,000 hectares in 2004/05, representing a significant rise from the revised figure of 185,000 hectares for the previous year. Improved reserves of irrigation water, both on-farm and off, have boosted the prospects for the 2004/05 crop.

Despite the increase in forecast area in 2004/05, this area level remains well below the average level in more recent years. According to historical figures from the Australian Bureau of Agriculture and Resource Economics (ABARE), prior to the drought, which began in 2002/03, the five-year average cotton area stood at 480,000 hectares. The record cotton area stands at 561,000 hectares in 1998/99.

Some industry sources are projecting cotton area in 2004/05 as high as 330,000 hectares, significantly higher than forecasts by Post and ABARE. While reserves of irrigation water have improved of late, they remain well below more average levels (prior to drought). To achieve this higher area figure would require above average rainfall and a marked improvement in irrigation water supplies.

Estimated cotton area in 2003/04 has been revised upwards to 185,000 hectares in line with recently released industry estimates, but remains below ABARE's most recent forecast of 201,000 hectares (March 2004). The severe drought and the resulting sharply reduced precipitation and irrigation water availabilities resulted in the smallest crop area since 1986/87.



Source: ABARE

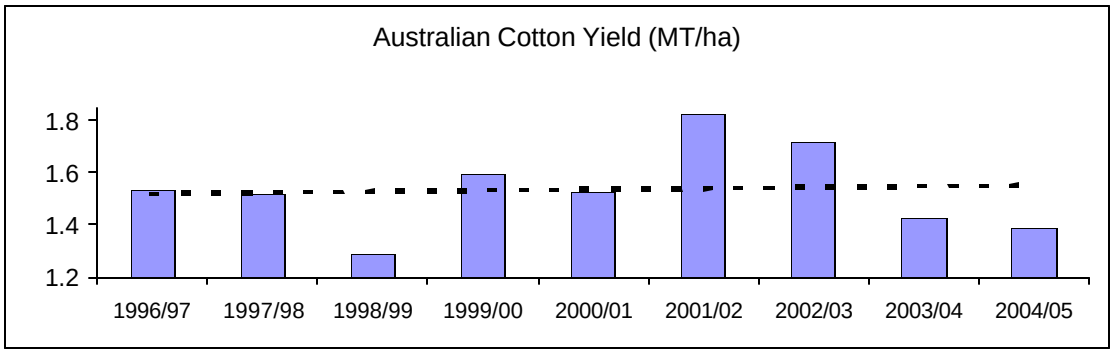
Yield

Australian cotton yield is forecast at 1.63 MT/hectare in 2004/05, or around 7.48 bales/hectare (480-pound bales). This figure remains slightly below industry estimates of 1.65 MT/hectare, but well above the five-year average of 1.55 MT/hectare prior to 2002/03.

Cotton yield in 2003/04 is estimated at 1.65 MT/hectare, or around 7.58 bales/hectare. This is considered to be an above average yield.

ABARE yield forecasts for 2003/04 and 2004/05 are substantially lower than these figures.

Drought conditions experienced since 2002/03 have dramatically reduced the area sown to lower yielding dry-land cotton, and thus sharply reduced its contribution to Australia's total cotton area.



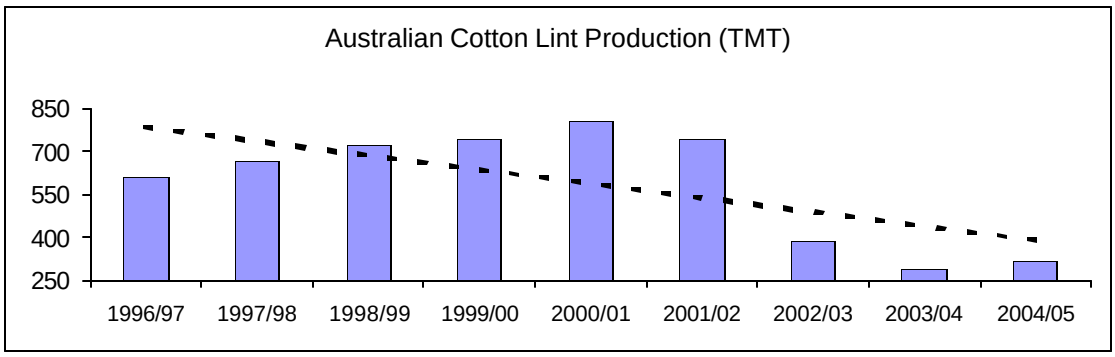
Source: ABARE

Production

Cotton lint production in 2004/05 is forecast at 375,000 MT, 23 percent higher than the revised estimate of 306,000 MT for the previous year. Improved irrigation water reserves and a return to more normal weather conditions in Queensland and northern New South Wales is expected to allow somewhat of a rebound in the 2004/05 season. This production figure is well above ABARE's forecast of 320,000 MT (March 2004), but well below the 544,000 MT forecast by the industry (RCMAC).

Southern New South Wales (NSW) and parts of northwestern NSW remain in drought. Furthermore, despite improvements in irrigation water reserves, current water levels remain well below those typical prior to the 2002/03 drought. Post expects that a generally improved outlook for irrigation water for the 2004/05 season will boost output, but production will remain constrained to a level below that experienced prior to the drought.

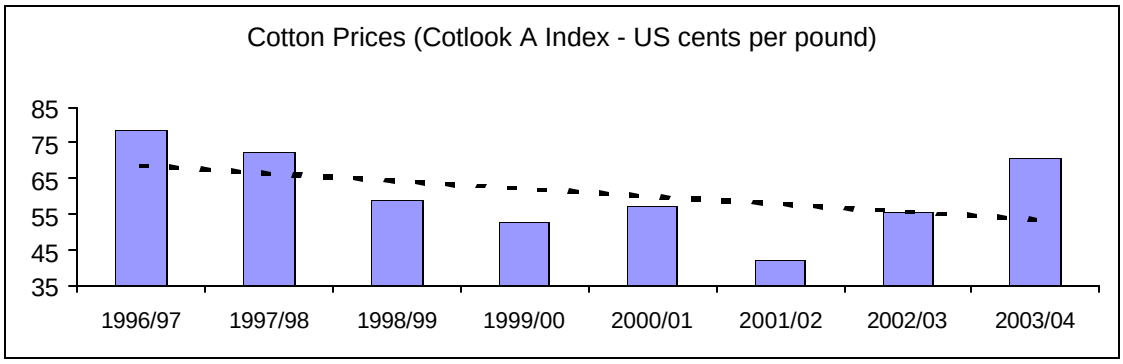
Cotton production in 2003/04 is estimated at 306,000 MT, revised upwards from Post's previous estimate. Despite poor irrigation water availability and sharply lower area, excellent climatic conditions during the season led to higher than expected yields. A very reduced area of dry-land cotton was partly offset by excellent dry-land cotton yields in the major producing area of the "Darling Downs" in Queensland and elsewhere. These excellent dry-land yields are in some cases comparable with that of irrigated crops.



Source: ABARE

Prices

ABARE forecasts cotton prices to decline slightly to US$0.67/pound in 2004/05, from the US$0.71/pound projected for 2003/04. Despite this price drop, the average cotton price remains at the second highest level since 1997/98, according to historical ABARE data.



Source: ABARE

The Australian dollar has appreciated significantly against the currencies of major trading partners over the past several years. For example, the Australian dollar was valued at US$0.70 in mid May 2004, up seven percent from the average of US$0.652 in 2003 and about 29 percent higher than the average of US$0.544 in 2002. Australia's competitiveness in world agricultural markets and returns to domestic producers are heavily impacted by the exchange rate of the Australian dollar.

The appreciation of the Australian dollar has had a dampening affect on agricultural commodity prices generally. Although world cotton prices have recovered significantly since 2001/02, the full effect of these gains has been dampened by the strengthening Australian dollar. Most agricultural industries that compete with cotton for land resources, such as cereal or livestock, are also subject to these fluctuations and, thus, should not lead to any significant switching between cotton and other agricultural commodities.

Consumption

Official up-to-date consumption figures are not available for cotton. A loss factor has been included for consumption.

Historical ABARE data shows cotton consumption at 25,600 MT in MY 2002/03. This has fallen steadily since the record of 42,000 MT in 1996/97.

Trade

Exports

Total cotton exports are forecast to rise to 403,000 MT in MY 2004/05. Increased production and a reduction in stocks are expected to facilitate the rise in exports. Despite the forecast increase in exports, Post expects exports will remain well below levels achieved prior to the drought.

Cotton exports are projected at 375,000 MT in 2003/04. Year-to-date export figures for the period August 2003 to March 2004 show a 35 percent decline in exports. Post has exports in 2003/04 falling in line with these year-to-date figures.

According to official statistics from Australian Bureau of Statistics (ABS), Indonesia was Australia's largest export market in CY 2003, receiving 31 percent of Australia's total exports. South Korea, Japan and Thailand each accounted for around 15 percent of exports. These

top four export markets accounted for over three-quarters of Australia's total exports in 2003. Other significant markets in 2003 were Pakistan, Italy, Taiwan, Ireland and India.

Imports

Cotton imports are forecast to fall slightly in MY 2004/05 to 250 MT. This is down from the estimated 265 MT in the previous year. Australia typically imports only minimal amounts of cotton. In CY 2003, Australia imported 223 MT of which 35 MT was imported from the United States.

Australia-US FTA: Australia completed free trade agreement (FTA) negotiations with the United States in February 2004, which would ultimately result in duty-free trade for all bilateral agricultural trade, except for tariffs on certain dairy products and raw cane sugar.

Under the FTA, new duty free Tariff Rate Quotas (TRQ) will be established for cotton exported from Australia to the United States. The TRQ will be set at 250 MT in year one of the agreement and will grow by 3 percent in subsequent years. Exports, which fall outside this TRQ, will be subject to a tariff, which will be eliminated over a period of 18 years.

Imports of U.S. cotton into Australia are currently tariff free, and so will not be impacted by the FTA.

Australia-Thailand FTA: Australia completed FTA negotiations with Thailand in October 2003. Thailand is Australia's fourth largest export market for cotton.

Current raw cotton exports to Thailand face a zero tariff rate, unlike many processed cotton products. Under the FTA, the tariffs on all cotton products are to be reduced to zero by 2010, with many products reaching zero by 2008.

Stocks

Official up-to-date data is not available for cotton stocks. Post mostly derives cotton stocks from production, net exports and domestic consumption.

Policy

Raw Cotton Marketing Advisory Committee

The Raw Cotton Marketing Advisory Committee (RCMAC) has traditionally been the industry body responsible for collecting production data and generating estimates and forecasts. RCMAC was supported by the Cotton Research and Development Corporation (CRDC), which provided the secretariat and other small-scale support.

According to industry reports, RCMAC held its last meeting on April 16, 2004 and has now been disbanded. The Australian Cotton Industry Council (ACIC) will assume the responsibilities of RCMAC. The ACIC represents all sectors of the Australian cotton industry, including growers, seed producers, merchants, shippers and other service providers.

Biotech Cotton

Genetically modified cotton has been grown commercially in Australia since the approval and introduction of Bt, or Ingard, cotton in 1996. 'Ingard' cotton contains a gene from a soil bacteria, Bacillius thuringiensis, or Bt, that provides insect resistance. Commercial plantings of 'Ingard' cotton in Australia are restricted to 30 percent of total cotton area for insect

resistance management purposes. Australia's Commonwealth Scientific Industrial Research Organization (CSIRO) developed 'Ingard' cotton, using a gene owned by Monsanto.

Roundup Ready cotton (herbicide tolerance) and Roundup Ready/Bt cotton (herbicide tolerance/insect resistance) were subsequently approved and grown commercially for the first time in 2001. Roundup Ready/Bt cotton was developed using conventional breeding of the two GMO varieties.

In 2003, Australia's Gene Technology Regulator approved an additional cotton variety – 'Bollgard II' – for commercial release and the first major commercial plantings were made during the 2003/04 cotton season. 'Bollgard II' contains two 'Bt' genes (as opposed to the one in 'Ingard' cotton), which delays the development of insect resistance to the Bt toxin. 'Bollgard II' will be phased in as 'Bt' cotton is phased out. Once 'Bt' cotton is phased out, 'Bollgard II' can be used on up to 80 percent of Australia's cotton area. 'Bollgard II' was developed by CSIRO using genes under license from Monsanto.

In addition, there are a number of biotech cotton varieties that are currently undergoing trials. These include insect-resistant and herbicide-tolerant varieties, as well as a high oleic acid content variety being developed by CSIRO.

Biotech cotton, carnations and canola are the only GMO varieties approved for commercial release by Australia's Gene Technology Regulator. Biotech cotton is estimated at over 50 percent of Australia's cotton area. The commercial releases of two biotech canolas were approved in 2003. Commercial plantings of biotech canola, however, are being held up due to moratoriums that have been implemented in all Australia's major canola producing states.

CSIRO analysis indicates that 'Bt' cotton allowed Australia's cotton farmers to reduce pesticide applications by about 50 percent, compared to conventional cotton varieties. CSIRO research shows that 'Bollgard II' will reduce pesticide applications by up to 75 percent.

Australian food standards require approval and labeling of food or food ingredients that contain new genetic material or protein or have altered characteristics as a result of gene modification. Refined oil from biotech cottonseed, however, does not require a label because the oil contains no genetic material and the cottonseed oil is identical to conventional cottonseed oil.