

A PROFILE OF THE SOUTH AFRICAN COTTON MARKET VALUE CHAIN

2010

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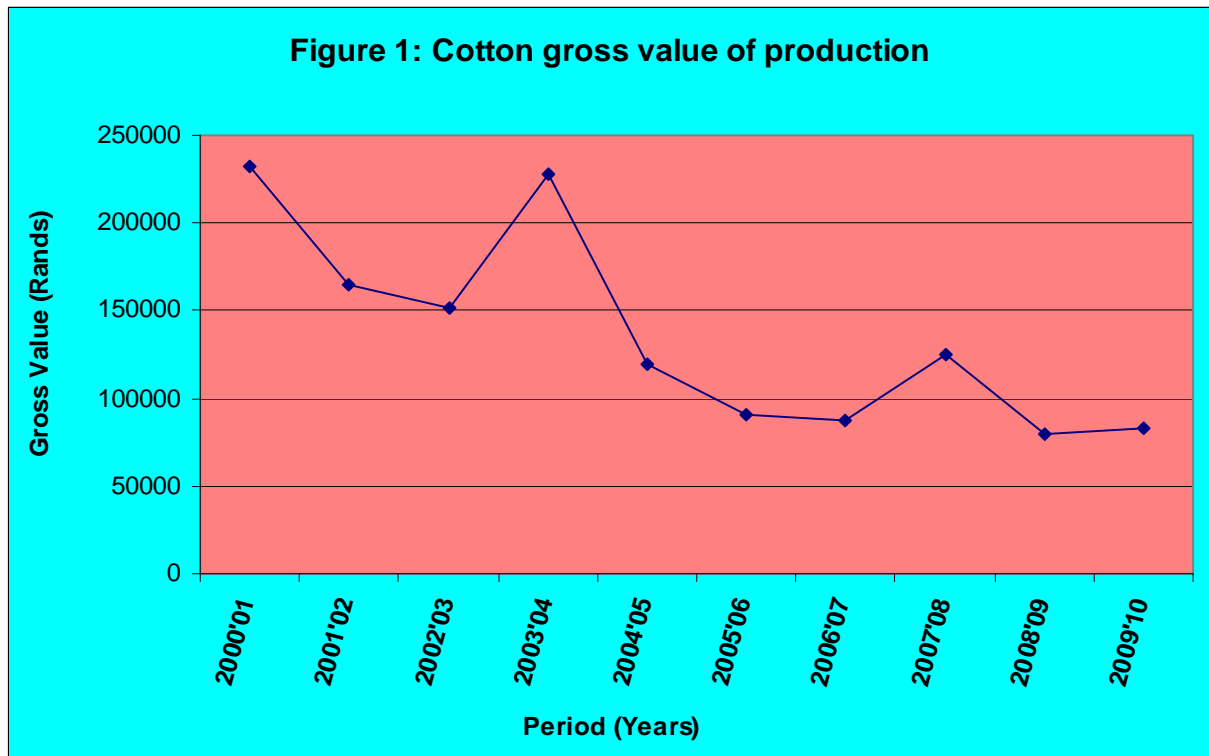
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1. DESCRIPTION OF THE INDUSTRY

Cotton remains the most versatile crop grown by mankind. It is noted for its versatility, appearance, performance and comfort and it provides useful products and used to create thousands of jobs in South Africa as it moved from field to fabric. In 2003 it was estimated that the cotton industry spent an estimated R223 million on agricultural inputs, paid an estimated R38 million in wages and produced raw material for the processing industry worth about R136 million. However, this situation is changing over the years due to a substantial decrease in the local cotton crop size. The contribution of the cotton industry to the Gross Value of Agricultural Production is summarized in Figure 1.



Source: Agricultural Statistics

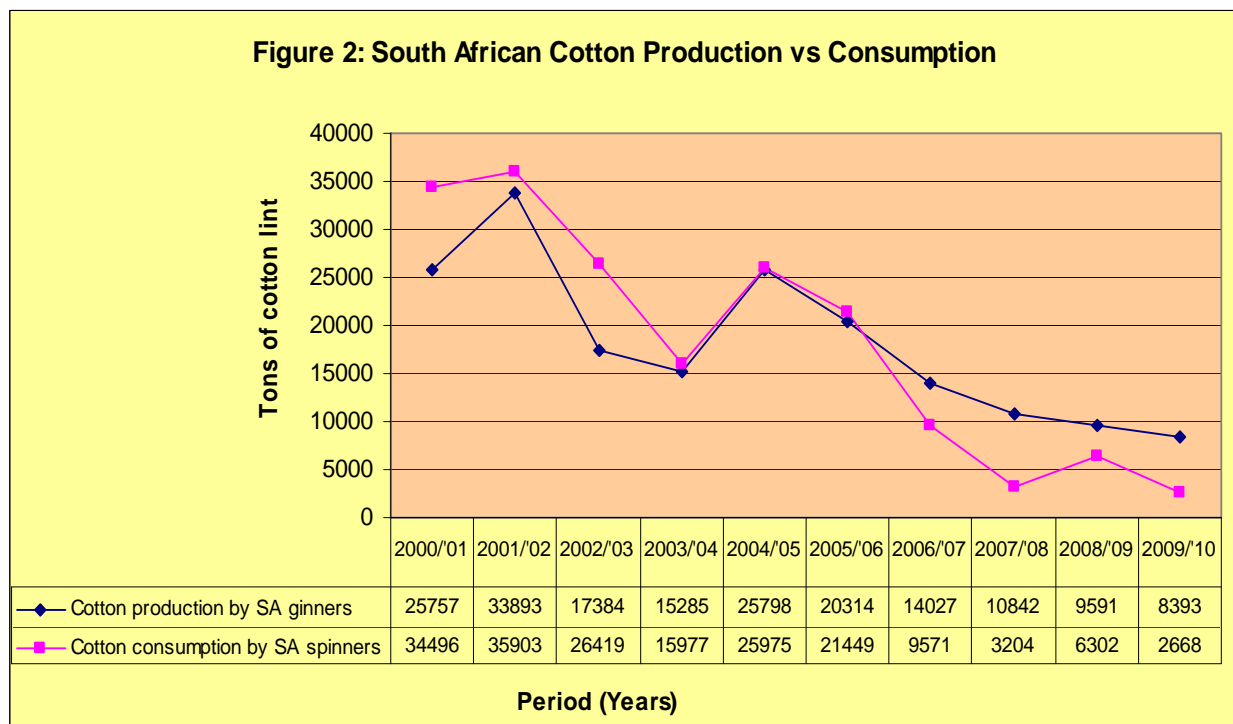
The figure indicates the contribution of the cotton industry in South Africa to the gross value of agricultural production between 2000/01 and 2009/10 period. The graph further indicates that there were fewer fluctuations between the years 2000'01 and 2003'04 with an average decline experienced from the year 2004/05. Cotton gross value of production attained a peak in 2000/01 and 2003/04 at approximately R235 000 and R234 000 respectively. The decline is attributed amongst others, to a decrease in domestic production due to competition from cotton imports arising mainly

from SADC countries and cheap textile imports from the East. Another factor is low international cotton prices due to subsidies in the developed world; and so this depressed local cotton production. The contribution of this industry to the gross value of agricultural production continued to decline even further between 2005 and 2007, with a slight increase in 2007/08 season and a decline again in 2009 with a very slight increase in 2010.

1.1. Production Areas

Traditional cotton production areas in South Africa are as follows: Limpopo Province in the Springbok flats from Bela-Bela to Mokopane, North West Province covering the areas of Taung, Stella, Delareyville and Maratsane, KwaZulu-Natal in the Makhathini Flats, Mpumalanga and Northern Cape in the lower Orange River, Vaalharts, Douglas and Prieska Districts. This situation has slightly changed over the years with the result that during 2008/09 in the North West Province no cotton was grown while in the Limpopo Province cotton production areas also extended to the Weipe and Dwaalboom/Thabazimbi areas.

In the SADC region cotton is produced in countries such as Namibia, Swaziland, Botswana, Malawi, Angola, Mozambique, Tanzania, Democratic Republic of Congo (DRC), Zambia and Zimbabwe.



Source: Cotton South Africa

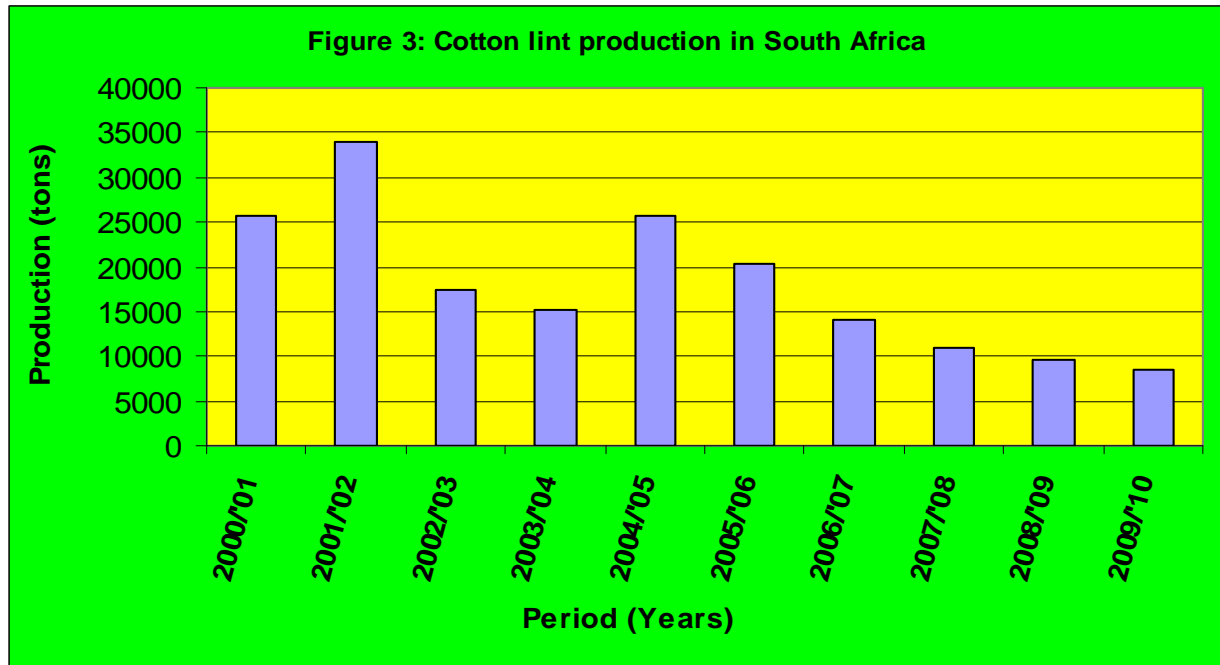
As is evident from Figure 2 that South Africa's production of cotton by South African ginners is far below the domestic demand while other SADC countries such as Malawi, Mozambique, Tanzania, Zambia and Zimbabwe produce far above their domestic demand. On average the production of cotton lint by South African ginners has been declining continuously between 2002/03 and 2009/10 while at the same time is far below the domestic demand by spinners. The deficit shown by Figure 2 above is met through imports, mainly from SADC countries. Cotton consumption by local spinning mills has shown a similar decline as production, as can be seen from Figure 2. This trend can be mainly ascribed to the continued imports of low-priced textiles and apparel from Asia, and also to the relative strength of Rand against the US dollar, all of which impacts negatively on demand for locally manufactured textiles.

South African producers are unable to compete with their SADC counterparts as far as production of cotton is concerned. These SADC countries can produce cotton much cheaper than South Africa because they do not have minimum labor wages, amongst others. It is also clear from Figure 2 that cotton consumption by South African spinners have also been declining over the period under review. A sharp decline in cotton consumption in South Africa was experienced between 2001/02 and 2002/03 marketing season due to global economic downturn, which also resulted in a situation where global cotton consumption fell by 12% during the same period.

1.2. Production

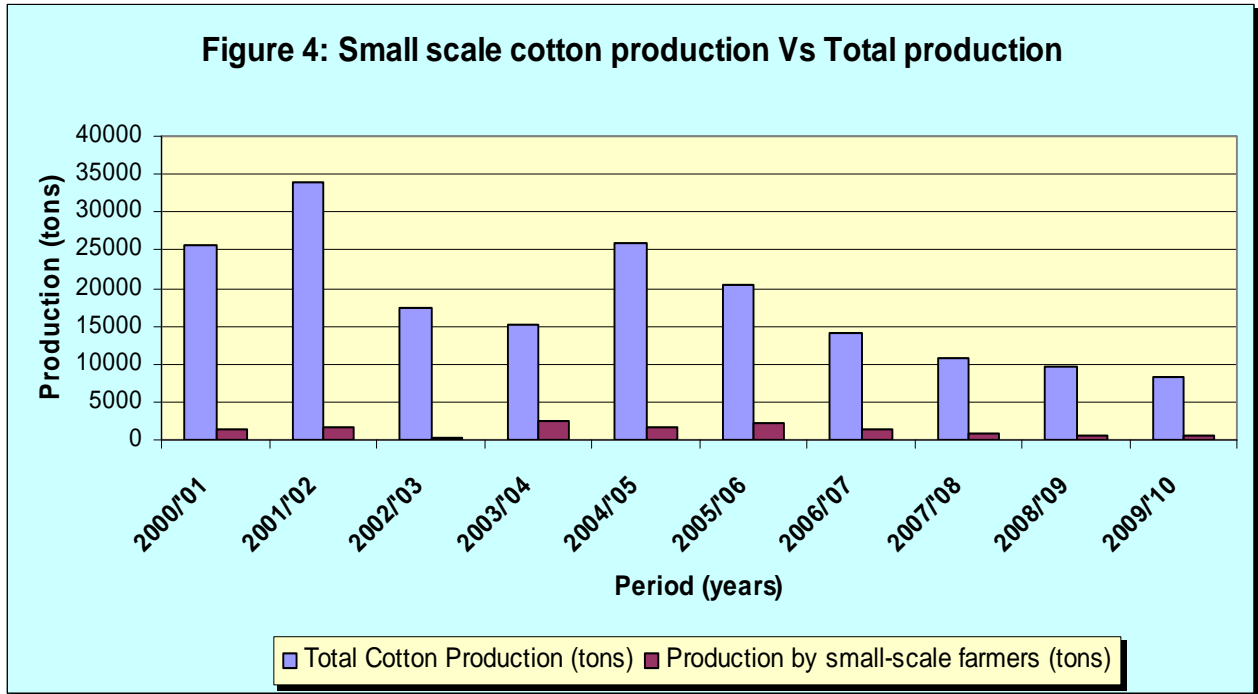
During the 2009/10 production year 9 221 ha (5 979 under irrigation and 3242 under dryland) were dedicated to cotton production in SA, against 18 114 ha in 2005/06 production year. This represents a decline of 49.09% in area planted over a period of five years. The decrease in cotton production over recent years can mainly be attributed to the following factors: to the perception that cotton is no longer a viable option in view of the more favourable prices of other competing summer crops; cotton prices over recent years have not increased to the same extent as in the case of other summer crops; and the low international prices of recent years, which discouraged any growth in cotton production. Cotton faces stiff competition from crops such as maize and sunflower where prices offer farmers greater profitability whilst requiring less management inputs.

According to Cotton SA the following volumes (as shown in Figure 3) of cotton lint were produced over the ten year period starting from 2000/01.



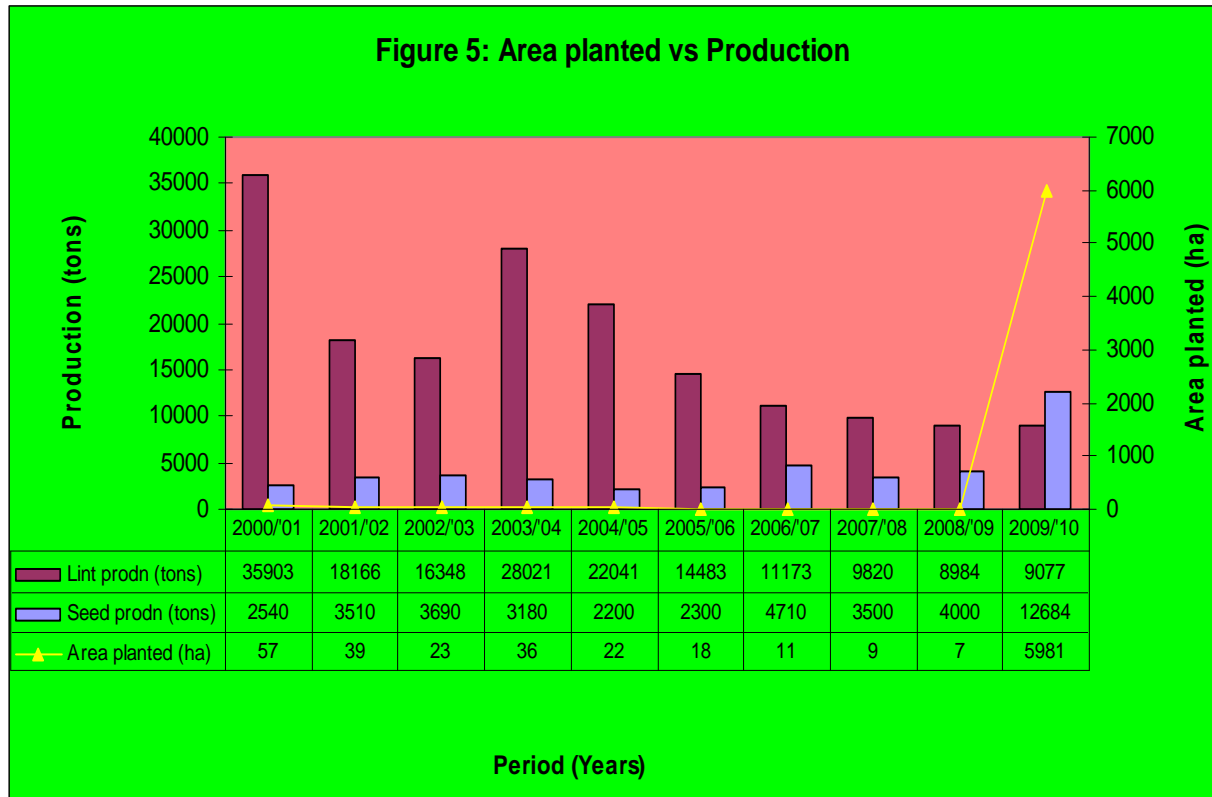
Source: Cotton South Africa

Figure 3 indicates production of cotton lint in South Africa between 2000/01 and 2009/10 period. The graph further indicates that there were greater fluctuations between 2000/01 and 2004/05 then there was a continuous decline on production of cotton lint from 2005/06 up until 2009/10 year due to increasing cotton lint imports. In 2001/02 year, cotton lint production attained a peak at approximately 34 000 tons. In 2009/10 year, cotton lint production reached the lowest levels at approximately 9000 tons.



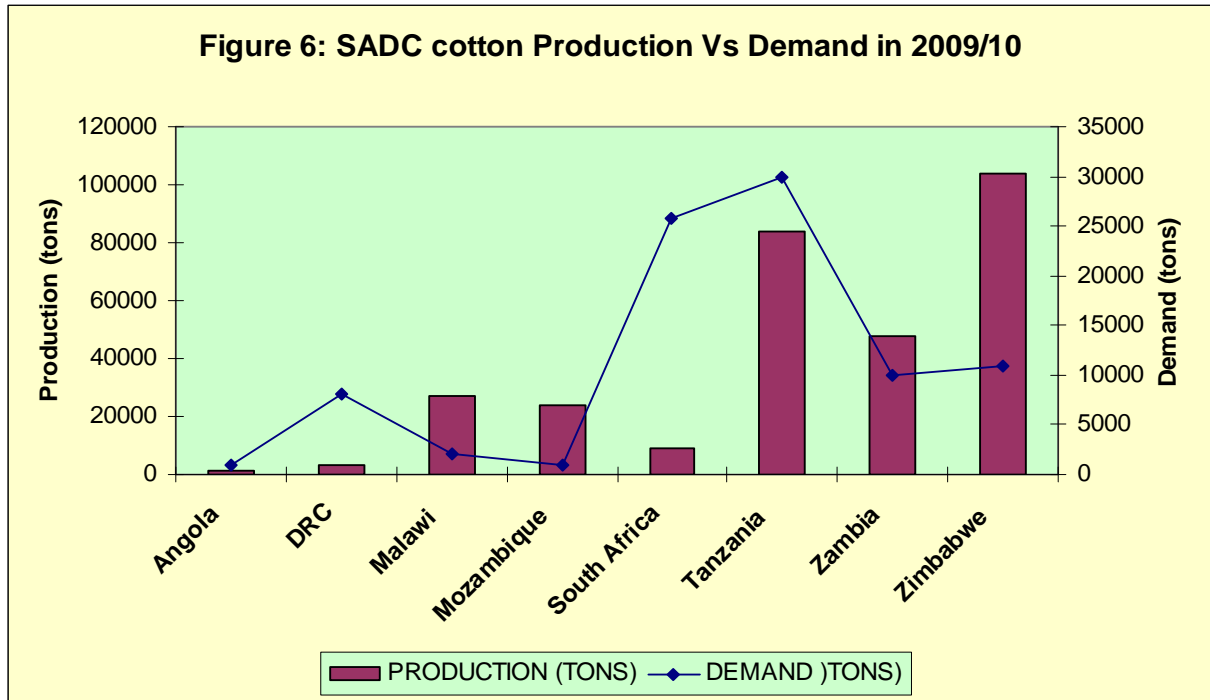
Source: Cotton SA

Figure 4 shows small cotton production as against total production of cotton by all farmers in South Africa. The production of cotton by small scale farmers has followed a similar trend to total cotton production in the country. Total cotton production began declining from 2002/03 to 2003/04 and again in 2005/06 production season until the lowest level was attained in 2009/10. Similarly, production of cotton by small scale farmers experienced a continuous decline from 2004/05 until the 2009/10 season. On average, during the period under review cotton production by small scale farmers has been below 5 000 tons per annum. In spite of increases in the total RSA cotton production during 2000/01, 2001/02 and 2004/05, cotton production by small scale farmers did not follow the same trend.



Source: Cotton South Africa

Figure 5 depicts the area that was planted as against what was produced between 2000/01 and 2009/10 period. The graph further depicts that in 2000/01 year, production of cotton lint attained a peak at approximately 35 000 tons, cotton seed production was very low between the period 2000/01 and 2008/09 at approximately 5000 tons and less. In 2010 cotton seed production increased at the same time a peak was attained at approximately 11 000 tons. Figure 5 depicts that on average during the period under review farmers have continuously decreased the size of land allocated to cotton production since it is easy to substitute cotton with other grain crops. The graph further depicts that there were no fluctuations in terms of the area that was planted to cotton between 2000/01 and 2009/10 period. There were production efficiencies between 2006/07 and 2008/09 as the area planted was less but cotton lint production was relatively high. In 2010 the area planted with cotton lint and cotton seed experienced an increase in terms of the size of the land to approximately 6000 hectares for the first time during the period under review.



Source: Cotton SA

Figure 6 shows various SADC countries that were major producers of cotton as against the demand of cotton during the 2009/10 marketing season. The graph further shows that in the SADC region, Zimbabwe was the biggest cotton producer in the 2009/10 marketing year followed by Tanzania. It is further evident from the figure that Angola, DRC and South Africa were the lowest cotton producing countries in 2009/10 marketing season. When the supply and demand of cotton for the 2009/10 period is compared, countries such as Zimbabwe, Zambia, Malawi and Mozambique produced cotton in excess of their domestic requirements; making them exporters to South Africa. On the other hand, the demand for cotton in South Africa and the DRC during the 2009/10 period far outweighed their domestic production making way for imports to meet domestic demand. Cotton production in Zimbabwe attained a peak at approximately 100 000 tons while Tanzania attained a peak at approximately 81 000 tons over the same period under examination.

1.3 Employment

In 2003 it was estimated that the primary cotton industry employed on average an estimated 58 950 seasonal and 6 550 permanent workers which could increase to 154 215 seasonal and 17 135 permanent workers should local cotton production increase to 74 000 tons annually, or in a scenario where small scale farmers produce 27% of a crop of 74 000 tons of cotton

lint, an increase of 112 534 seasonal and 12 504 permanent workers, as well as an additional 11 533 small farmers can be expected.

In 2008/09 production year, employment figures were estimated at around 7000 cotton farm workers and in 2009/10 production year, employment figures increased to 8000 cotton farm workers due to the increase in the area planted.

2. MARKET STRUCTURE

2.1 Marketing arrangements

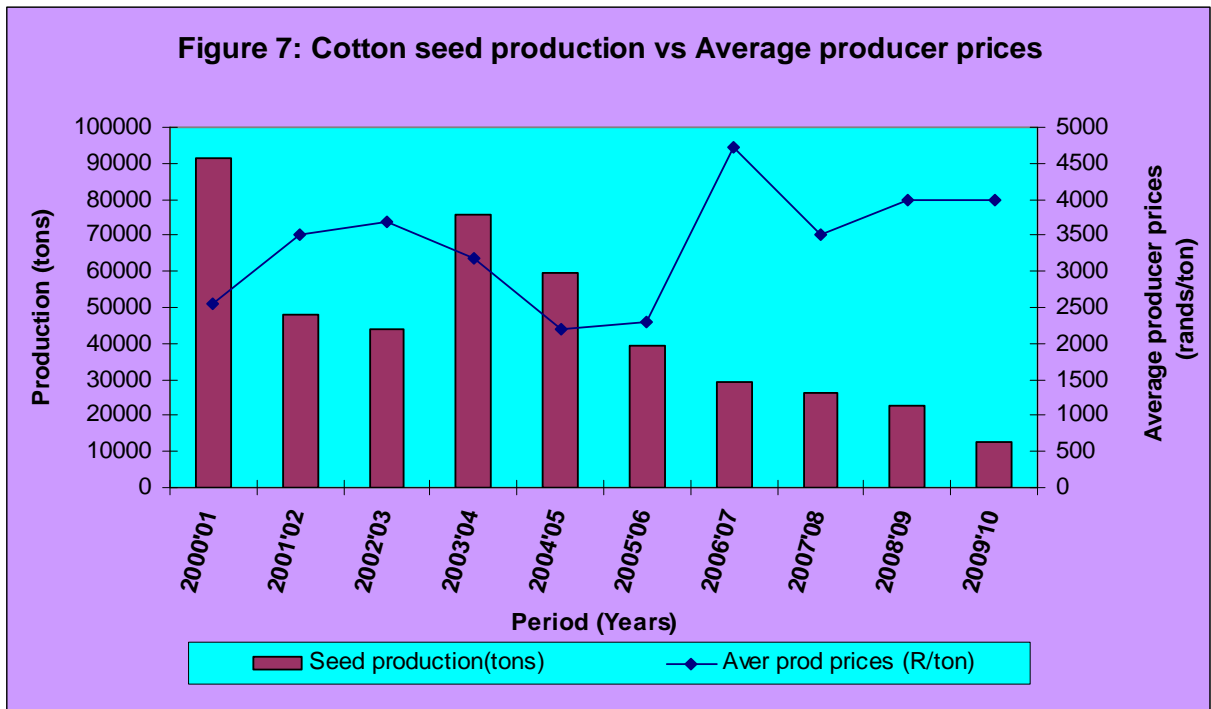
Since deregulation, local seed cotton and cotton lint are marketed in on of the following three ways:

- The seed cotton is sold by the producer to a ginner who gins the cotton and in turn sells the cotton lint for his own account to spinners and the seed to processors, either directly or by making use of agents. The gin determines the price the producer obtains for his seed cotton and the producer relinquishes ownership of the cotton.
- The producer may decide not to sell his seed cotton to the ginner, but contracts the ginner to gin it on his behalf on payment of a ginning fee. The cotton lint and seed remain the property of the producer who then either market these products himself or contracts the gin or someone else to market the cotton lint (and seed) on his behalf.
- Producers can gin their own cotton in their own gins. They then either market the cotton lint and seed themselves or contract someone else to do it on their behalf.

Seed cotton is ginned by the cotton gins where the seed is separated from the fibre – the ginning process. The purchase of seed cotton takes place in terms of the grading standards applicable to hand picked and machine picked cotton and linked to the South African Grading Standards for lint. The latter serves as a norm for the sale of the cotton lint. In the event of any disputes arising during the delivery of the seed cotton that cannot be resolved to the satisfaction of both parties, the Quality Control Department of Cotton SA is accepted as an impartial body in the role of arbitrator.

In the event of a dispute that may arise during the delivery of cotton lint, international organizations such as the Liverpool Cotton Association and the Bremen Cotton Exchange will fulfill this role.

2.2 Domestic Market and Prices

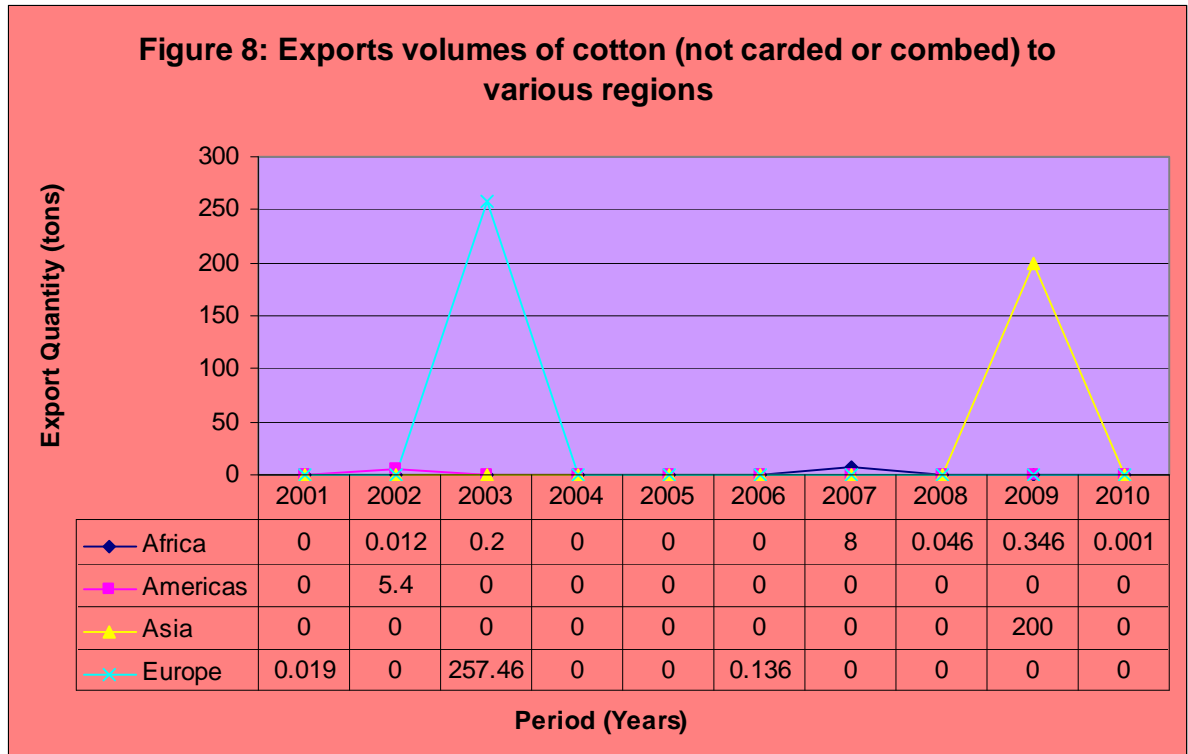


Source: Cotton South Africa & Agricultural Statistics

Cotton production in South Africa has been declining over the past few seasons, mainly because of the low level of international cotton prices due to subsidies and government support by developed countries which are creating serious distortions in the international market. Figure 7 shows greater fluctuations between 2000/01 and 2004/05, continuous declines in the domestic production of seed cotton began in 2005/06 until 2009/10. During the same period of declining cotton production the industry experienced improvement in cotton producer prices which began increasing until a peak in 2006/07 approximately R4 800 per ton in response to improvement in international cotton prices.

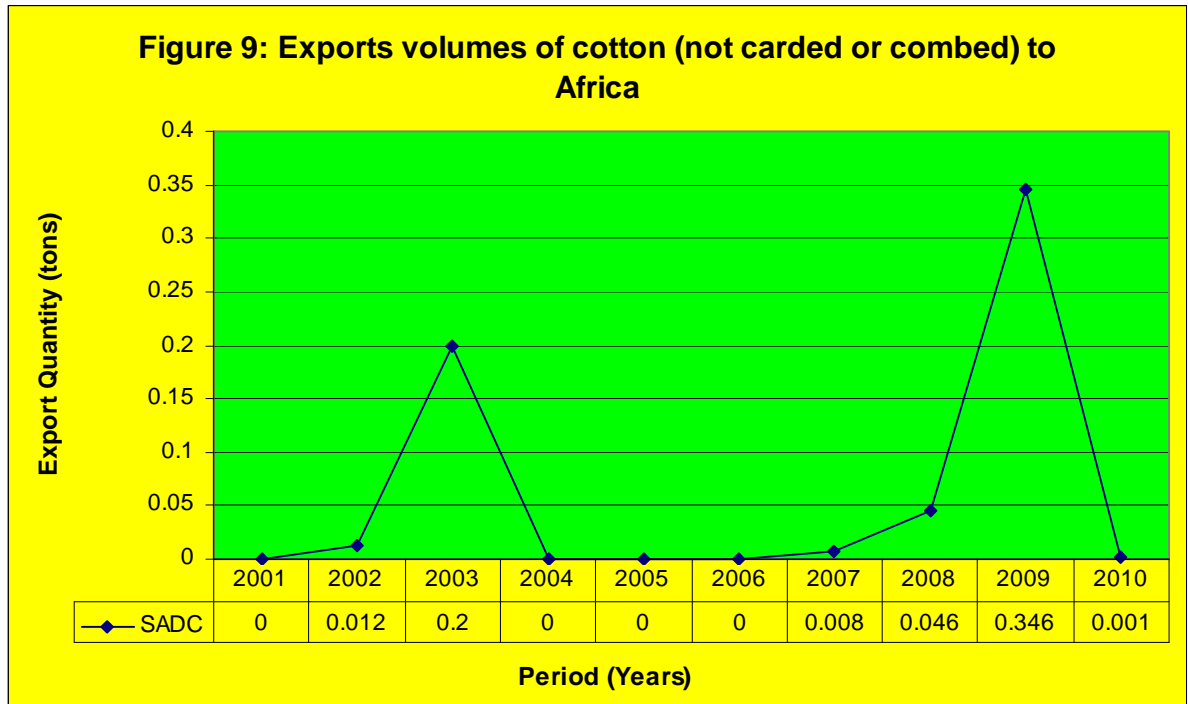
3. COTTON EXPORTS

Figure 8 illustrates exports volumes of cotton from South Africa to the world over a ten year period.



Source: Quantec Easy Data

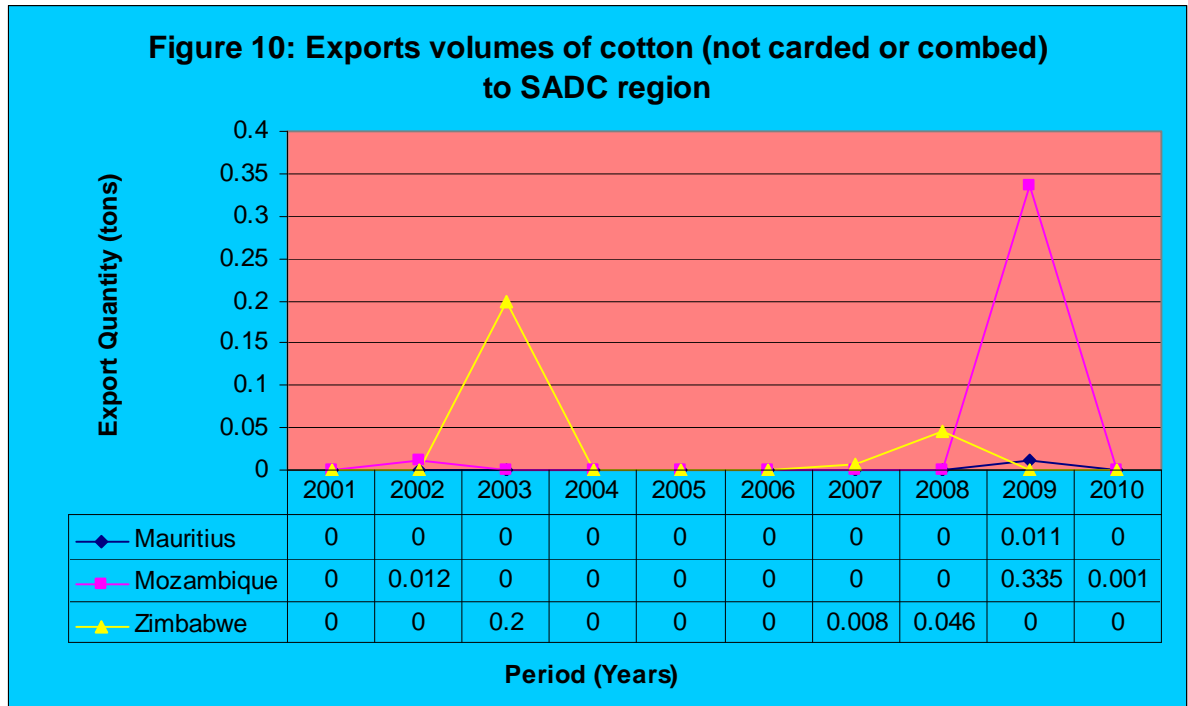
Figure 8 indicates cotton exports from South Africa to the world between 2001 and 2010 period. The figure further indicates that during the period under examination, South Africa exported most of its cotton to Europe and Asia as shown in the Figure. During the same period under review, South Africa exported very few of its cotton to Africa due to the fact that African countries like Zimbabwe and Tanzania are big producers and exporters of cotton. Exports of cotton from South Africa to Europe experienced a peak in 2003 at approximately 257.46 tons while exports to Asia attained a peak in 2009 at approximately 200 tons. Very low or minimal volumes of cotton were exported to the Americas due to long distance and tariffs that exists between this region and South Africa.



Source: Quantec Easy Data

Figure 9 depicts exports of cotton in volume terms from South Africa to Africa between 2001 and 2010 period. The figure further depicts that during period under scrutiny, the greatest cotton exports from South Africa went to SADC region. Over the past ten years our major source of cotton lint in particular is from SADC countries with cotton import volumes increasing every year. Exports of cotton from South Africa to SADC attained a peak in 2009 at approximately 0.346 tons during the period under scrutiny.

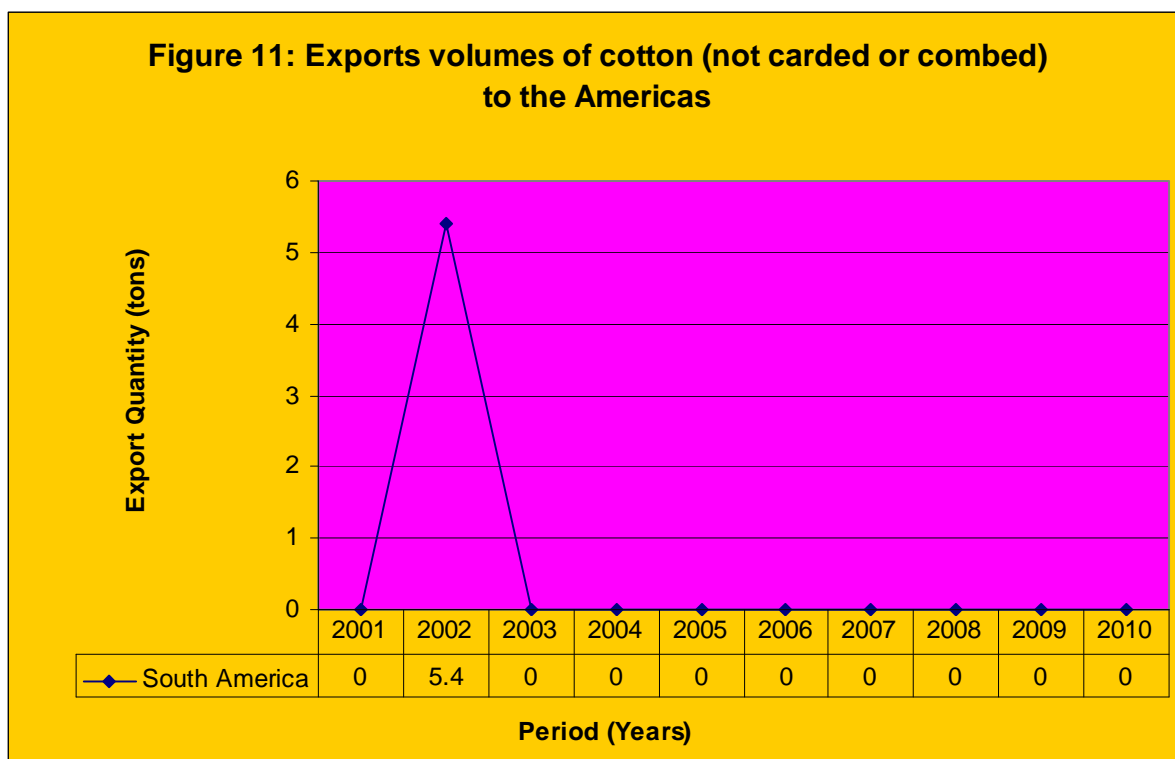
The SADC Free Trade agreement as well as closeness between South Africa and other SADC countries is the main reason behind such a huge flow of cotton exports and imports from the region to South Africa and otherwise. Other SADC countries such as Zimbabwe, Tanzania and Zambia have a comparative advantage in cotton production, and this allows them to produce more cotton at a lower cost and intensifies their potential to export to less producing countries like South Africa.



Source: Quantec Easy Data

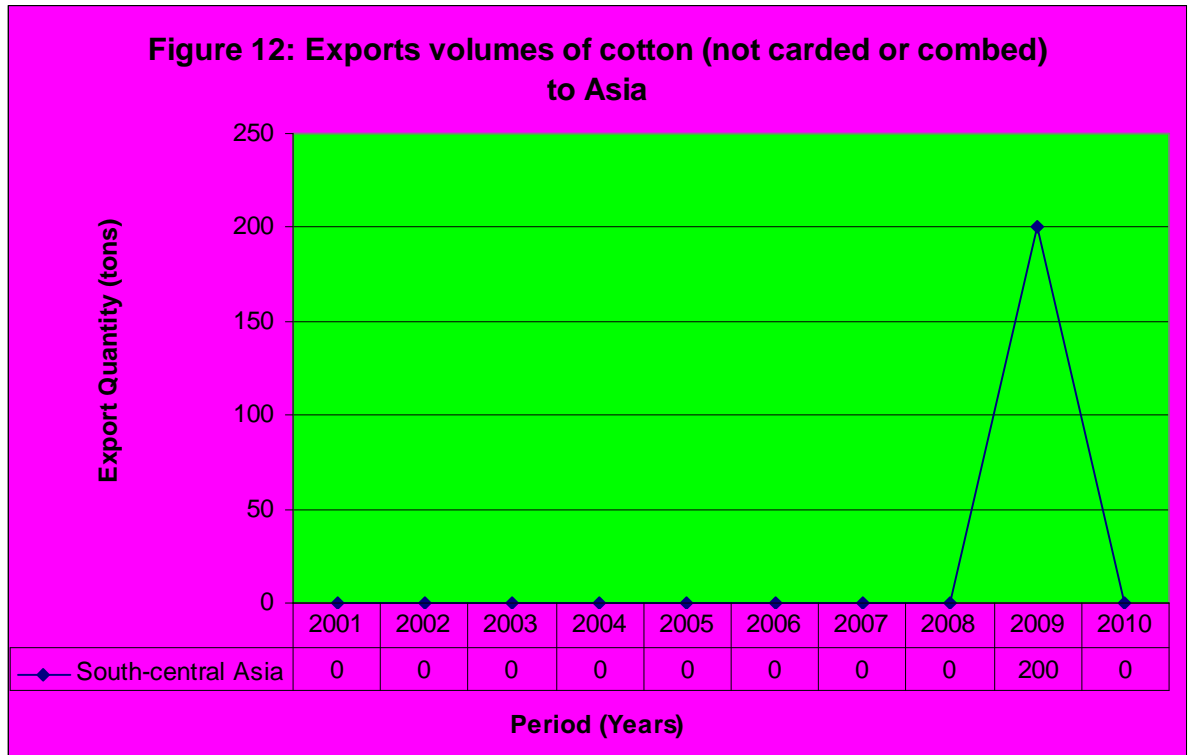
Figure 10 shows exports volumes of cotton from South Africa to the SADC region between 2001 and 2010. The graph further shows that in the SADC region, exports of cotton landed primarily in Mozambique and Zimbabwe during the period under review. Smaller volumes of cotton exports were also recorded in Mauritius in 2009 year. Exports of cotton from South Africa to Mozambique attained a peak in 2009 at approximately 0.335 tons while

The stronger Rand to the US\$ in relation to the weaker SADC currencies contributed to the fact that cotton from SADC can be discounted in the SA market, thereby making the local crop less attractive to take up. Producers in Zambia and Zimbabwe are paid considerably lower prices than SA producers and thus ginners in these countries can be aggressively competitive when selling into the SA market. Many SADC governments are also providing some or other form of support to their cotton growing sectors and this is opposite with South African producers.



Source: Quantec Easy Data

Figure 11 indicates cotton exports from South Africa to the Americas between 2001 and 2010 period. The figure further indicates that during the period under examination, South Africa exported most of its cotton to the Americas as shown in the Figure. During the same period under examination, exports from South Africa to South America experienced a peak in 2002 at approximately 5.4 tons. Very low or minimal volumes of cotton were exported to the Americas between 2001 and 2010 due to long distance and tariffs that exists between this region and South Africa.



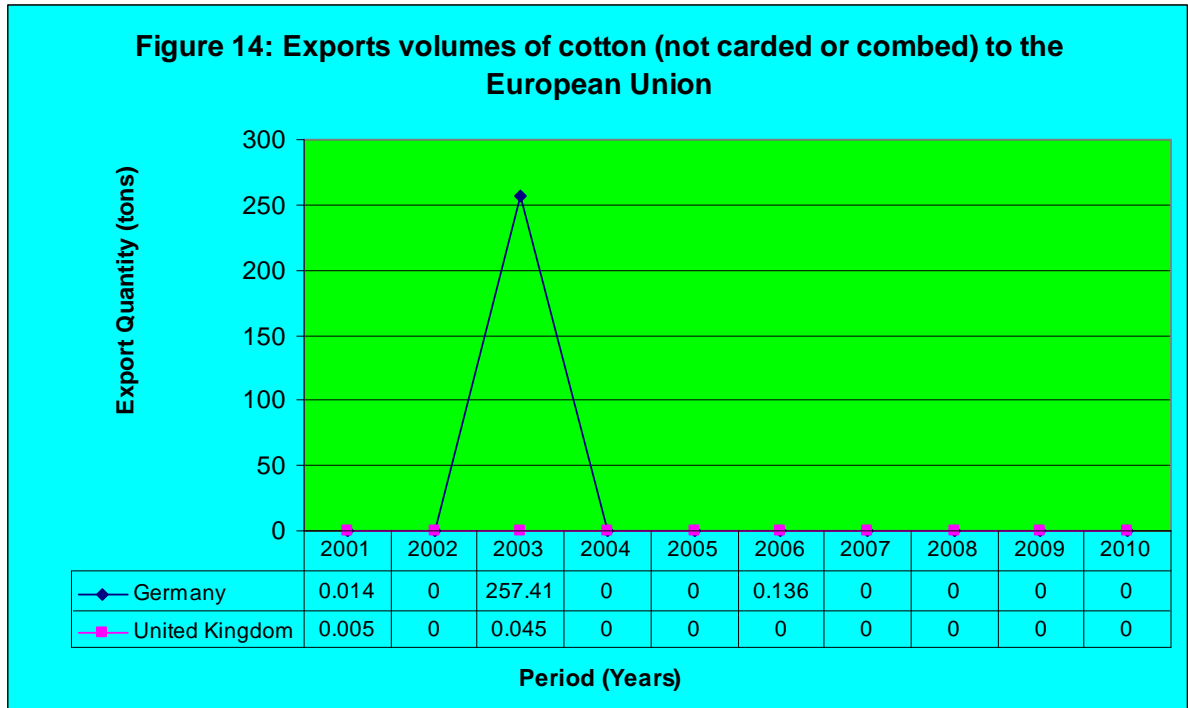
Source: Quantec Easy Data

Figure 11 depicts cotton exports in volume terms from South Africa to Asia between 2001 and 2010 period. The major export market of cotton from South Africa during this period was South-central Asia as shown in the Figure. The graph further depicts that exports of cotton from South Africa attained a peak in 2009 at approximately 200 tons. Between 2001 and 2008 and again in 2010, South Africa did not export its cotton to South-central Asia due to the declining domestic production of the product during the period under scrutiny.



Source: Quantec Easy Data

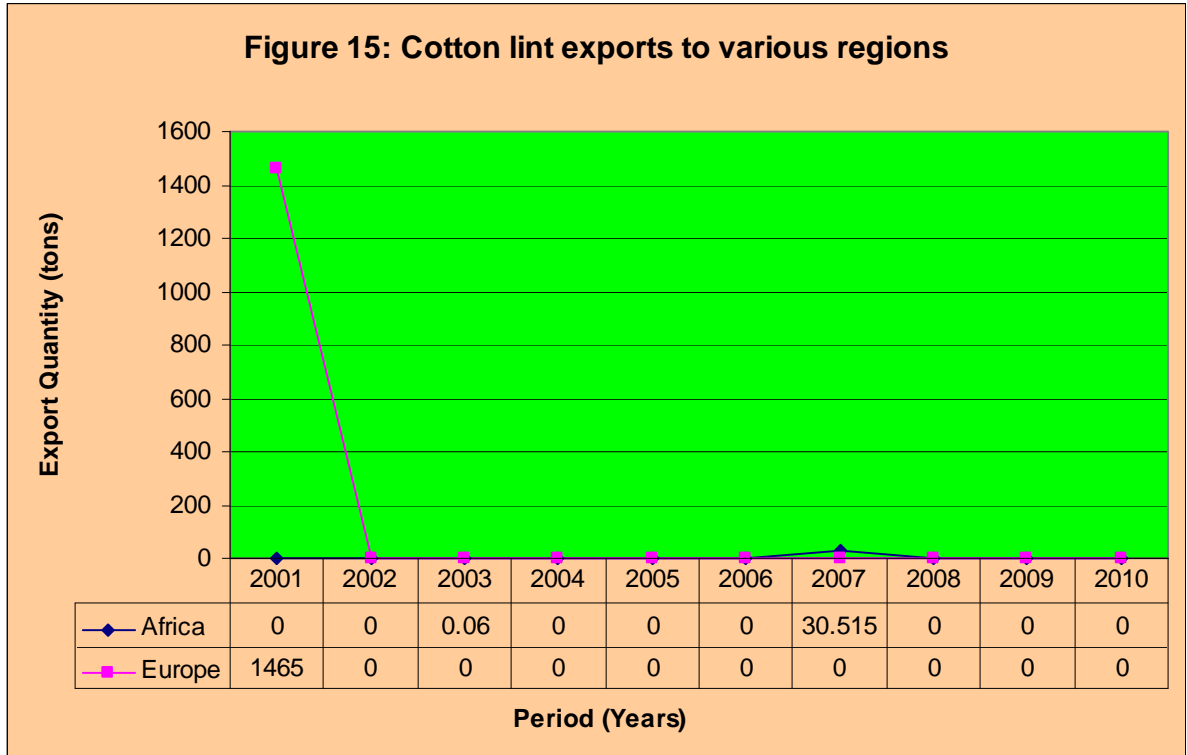
Figure 13 illustrates exports volumes of cotton from South Africa to Europe between 2001 and 2010 period. The figure also illustrates that the major export market for South African cotton during the same period was the European Union with no competition. Exports of cotton from South Africa to the European Union attained a peak in 2003 at approximately 257 tons. The graph further illustrates that in 2001 and 2006, very low or minimal volumes of cotton were exported from South Africa to the European Union. Between 2002, 2004 and 2005 and again in 2007 to 2010, European Union did not receive any exports of cotton from South Africa.



Source: Quantec Easy Data

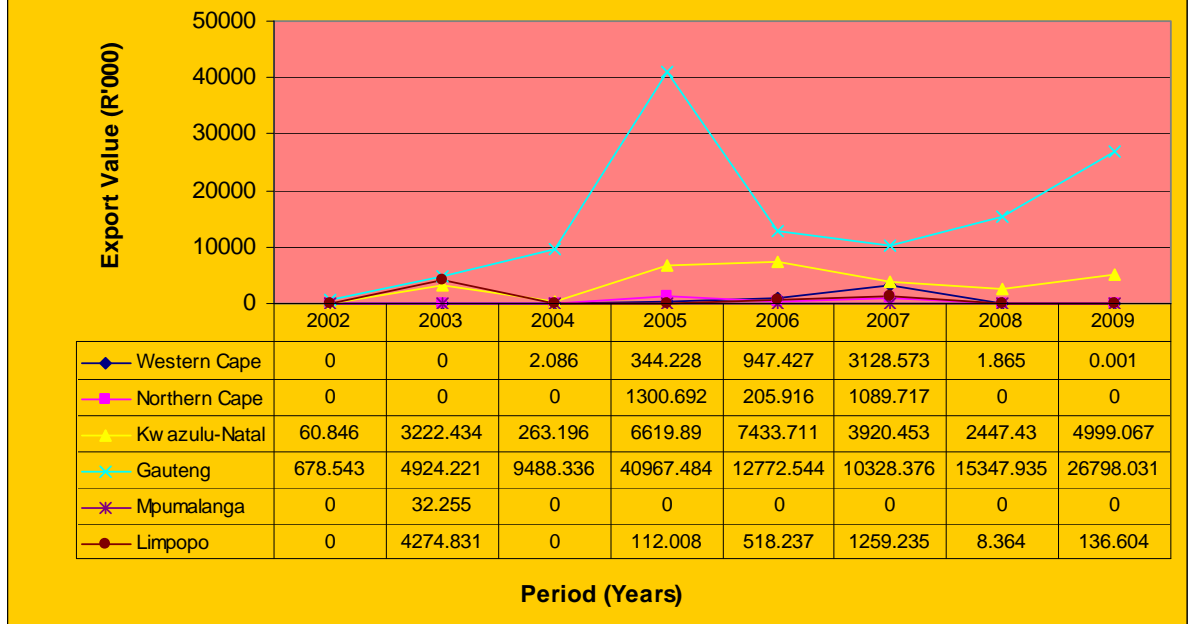
Figure 14 shows exports volumes of cotton from South Africa to the European Union between 2001 and 2010. The figure further shows that the major export markets for South Africa cotton during the period under examination was Germany followed by United Kingdom with very low or minimal exports of cotton from South Africa. The graph further shows that exports of cotton from South Africa to Germany started to increase in 2003 until a peak in the same year and then declined dramatically in 2006. Exports of cotton from South Africa to United Kingdom started to increase in 2001 and in 2003 and then zero exports were experienced from 2002 and again in 2004 to 2010 years. Exports of cotton from South Africa to Germany attained a peak in 2003 at approximately 257.41 tons while exports to United Kingdom attained a peak in 2003 at approximately 0.045 tons during the period under examination.

Figure 15: Cotton lint exports to various regions



Source: Quantec Easy Data

Figure 16: Value of cotton (not carded or combed) exports by Provinces



Source: Quantec Easy Data

Figure 16 depicts values of cotton exports by provinces in South Africa to the world between 2002 and 2009 period. The figure further depicts that the major exporters of South Africa cotton during the period under scrutiny were Gauteng followed by KwaZulu-Natal. During the same period there were very low/ minimal exports values of cotton by the following provinces of the Western Cape, Northern Cape, Mpumalanga and Limpopo. The figure also depicts that exports values by Gauteng Province started to increase in 2003 and 2004 at approximately R4 924 and R9 488 respectively until a peak in 2005 at R40 967. Exports values of cotton by Gauteng Province then declined in 2006 and 2007 until an increase was attained in 2008 and 2009 at R15 347 and R26 798 respectively. Minimal export values of cotton by KwaZulu-Natal to the world were less than R10 000.00 per annum during the period under examination.

3.1 Share Analysis

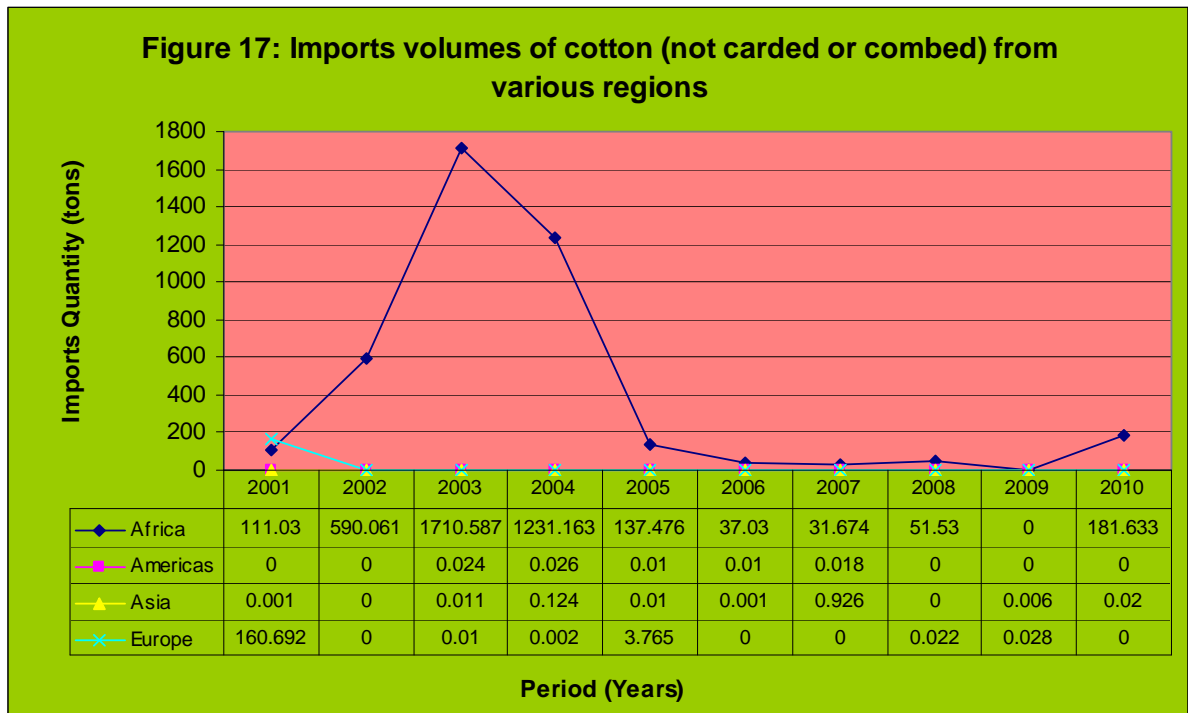
Table 1: Share of Provincial cotton (not carded or combed) exports to the total RSA cotton exports (%)

Years	2002	2003	2004	2005	2006	2007	2008	2009
Province								
Western Cape	0.00	0.00	0.02	0.70	4.33	15.86	0.01	0.00
Northern Cape	0.00	0.00	0.00	2.64	0.94	5.52	0.00	0.00
Kwazulu-Natal	8.23	25.88	2.70	13.42	33.98	19.87	13.75	15.65
Gauteng	91.77	39.54	97.28	83.02	58.38	52.36	86.20	83.92
Mpumalanga	0.00	0.25	0.00	0.00	0.00	0.00	0.00	0.00
Limpopo	0.00	34.33	0.00	0.23	2.37	6.38	0.05	0.43

Source: Calculated from Quantec Easy Data

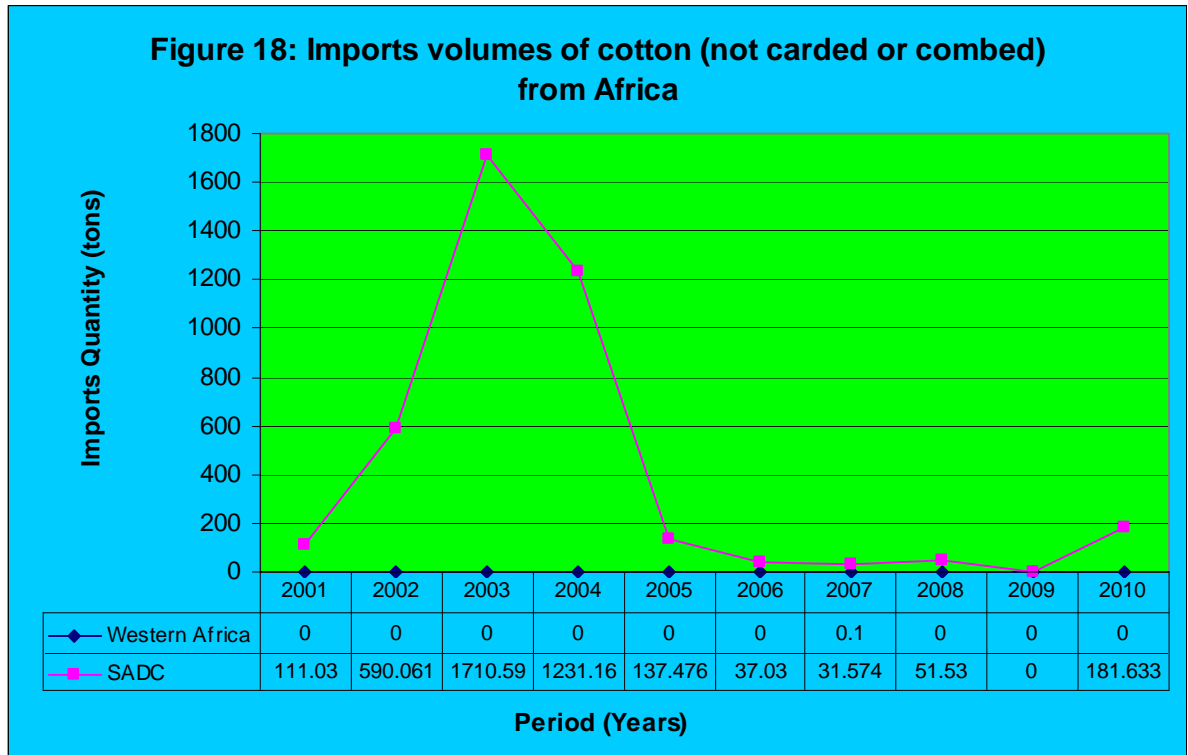
Table 1 indicates the share of provincial exports into South African cotton exports in percentages between 2002 and 2009 period. The table further indicates that between 2002 and 2009, Gauteng Province commanded the greatest share in terms of cotton exported by South Africa to the world throughout the period under review. In 2002, 2004, 2005, 2008 and 2009, Gauteng attained the highest share of cotton exports of between 80% and 98% while in 2006 and 2007 the share in cotton exports was between 52% and 58%.

4. COTTON IMPORTS



Source: Quantec Easy Data

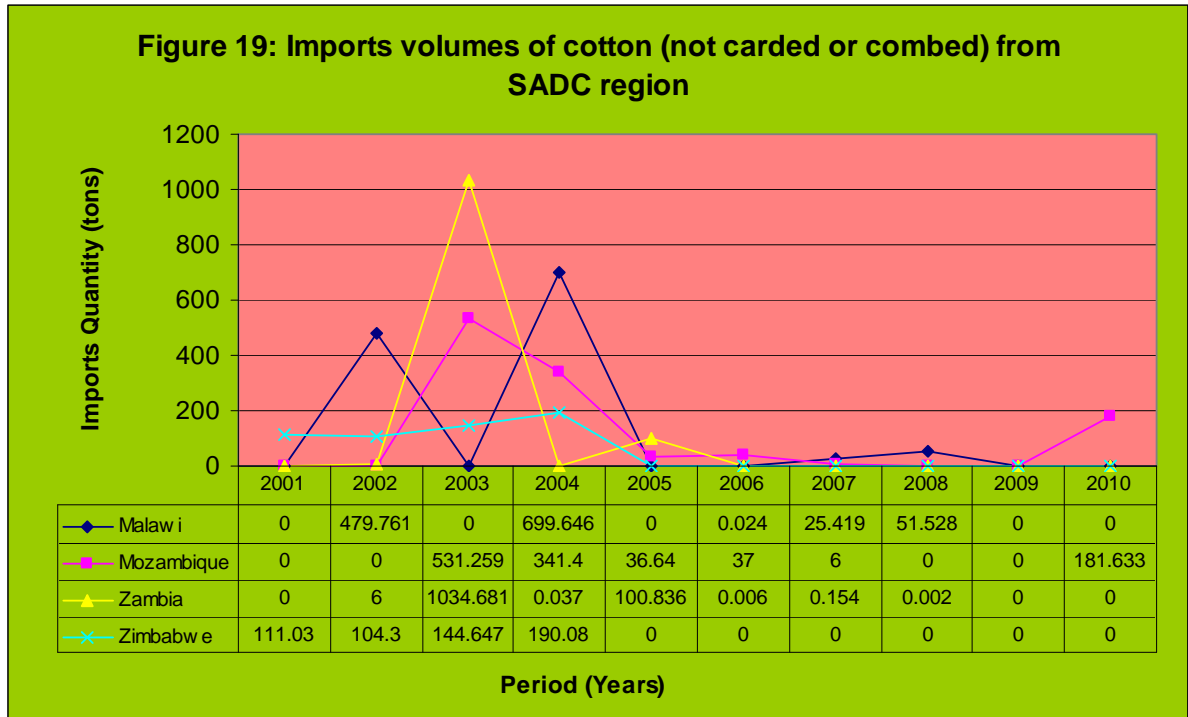
Figure 17 indicates cotton imports from the world to South Africa between 2001 and 2010 period. The figure further indicates that during the period under scrutiny, the major import market for cotton was Africa followed by small quantities from Europe. South Africa’s imports of cotton started to increase in 2002 until a peak was attained in 2003 at approximately 1 700 tons. From 2004 to 2007 imports of cotton from Africa started to decline until a slight increase in 2008 and 2010 years. Minimal imports of cotton from Europe increased in 2001 then declined dramatically in 2003, 2004, 2005, 2008 and 2009 years. In 2002, 2006, 2007 and 2008 years, there were no imports of cotton from Europe. During the period under review, imports of cotton from Africa to South Africa were mainly from Mozambique, Malawi, Zambia and Zimbabwe as they are big producers and exporters of cotton in the region.



Source: Quantec Easy Data

Figure 18 depicts imports of cotton in volume terms from Africa to South Africa between 2001 and 2010 period. The figure further depicts that during period under scrutiny, the greatest cotton imports from Africa to South Africa were from the SADC region. The major source of cotton lint in particular is from SADC countries with cotton import volumes increasing every year. Imports of cotton from SADC to South Africa attained a peak in 2003 at approximately 1710.59 tons during the period under scrutiny.

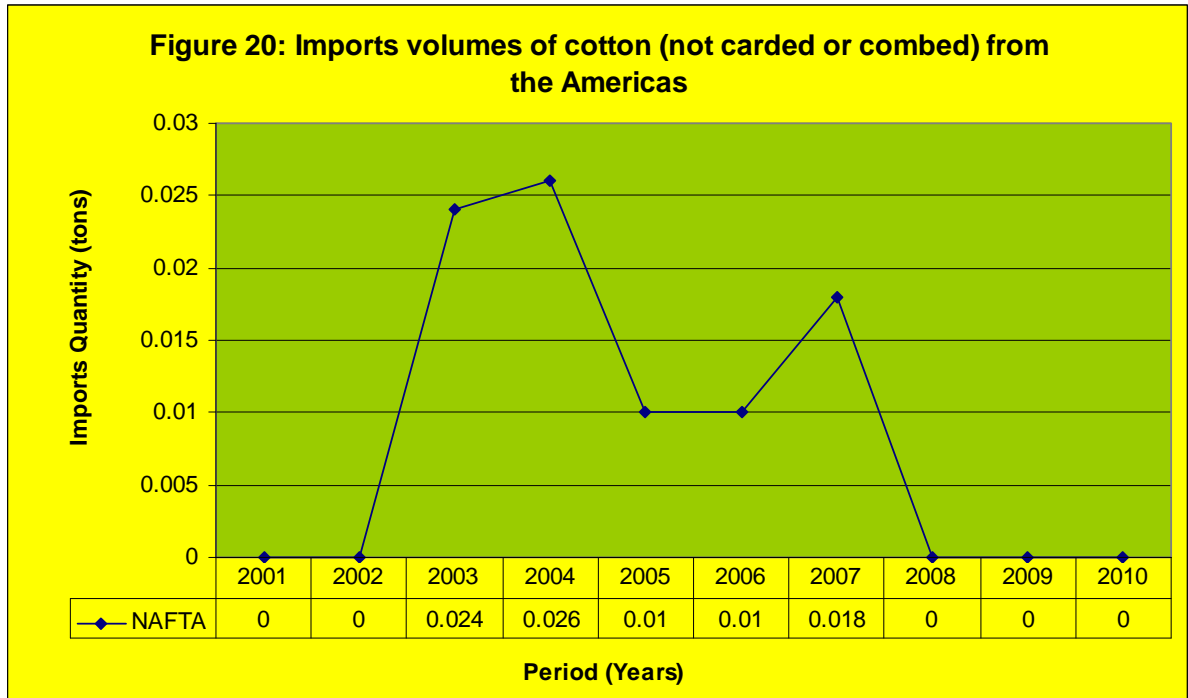
The SADC Free Trade agreement as well as closeness between South Africa and other SADC countries is the main reason behind such a huge flow of cotton imports from the region to South Africa and otherwise. Other SADC countries such as Mozambique, Malawi, Zimbabwe and Zambia have a comparative advantage in cotton production, and this allows them to produce more cotton at a lower cost and intensifies their potential to export to less producing countries like South Africa.



Source: Quantec Easy Data

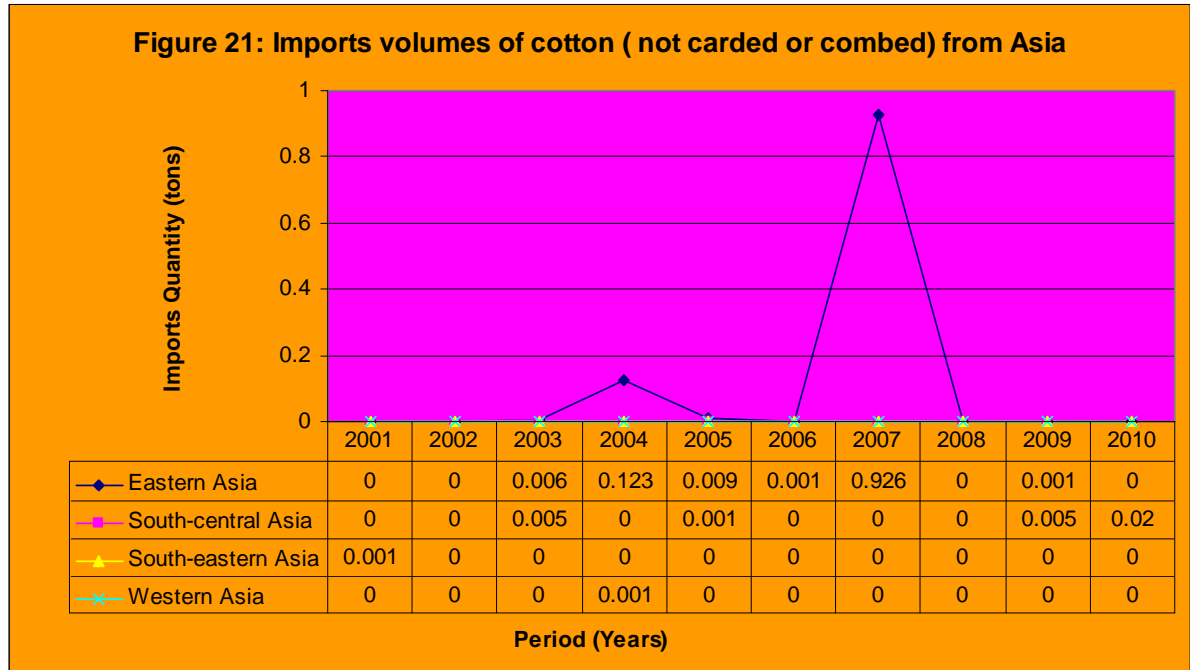
Figure 19 shows imports volumes of cotton from the SADC region to South Africa between 2001 and 2010. The graph further shows that in the SADC region, imports of cotton originate mainly in Zambia, Malawi and Mozambique with few imports volumes from Zimbabwe during the period under review. Imports volumes of cotton from Zambia to South Africa attained a peak in 2003 at approximately 1034.681 tons while the stronger Rand to the US\$ in relation to the weaker SADC currencies contributed to the fact that cotton from SADC can be discounted in the SA market, thereby making the local crop less attractive to take up.

Producers in Zambia and Zimbabwe are paid considerably lower prices than SA producers and thus ginners in these countries can be aggressively competitive when selling into the SA market. Many SADC governments are also providing some or other form of support to their cotton growing sectors and this is opposite with South African producers.



Source: Quantec Easy Data

Figure 20 indicates cotton imports from the Americas to South Africa between 2001 and 2010 period. The figure further indicates that during the period under examination, South Africa imported most of its cotton NAFTA as shown in the Figure. The graph also indicates that imports of cotton from NAFTA to South Africa started to increase in 2003 until a peak was attained in 2004 at approximately 0.026 tons. In 2005 and 2006, a decline in imports of cotton from NAFTA was experienced then a sharp increase in imports of cotton was experienced again in 2007. The figure further indicates that in 2001, 2002, 2008, 2009 and 2010, there were no imports of cotton from NAFTA to South Africa. Very low or minimal volumes of cotton were imported from the Americas to South Africa between 2001 and 2010 due to long distance and tariffs that exists between this region and South Africa.



Source: Quantec Easy Data

Figure 22 illustrates cotton imports in volume terms from Asia to South Africa between 2001 and 2010 period. The major import market of cotton from Asia to South Africa during this period was Eastern Asia as illustrated in the Figure. The graph further illustrates that imports of cotton from Eastern Asia to South Africa started to increase in 2004 until a peak was attained in 2007 at approximately 926 tons. The graph also illustrated that in 2001, 2002, 2008 and 2010, there were no imports of cotton from Eastern Asia to South Africa due to the declining domestic production of the product during the period under scrutiny.

During the period under review, the figure also illustrates that imports volumes of cotton from South-central Asia, South-eastern Asia and Western Asia to South Africa were very minimal, with volumes of not more than 20 tons per annum.

5. MARKET INTELLIGENCE

Table 3: List of importing markets for cotton exported by South Africa in 2009

Importers	Trade Indicators								Tariff (estimated) faced by South Africa (%)
	Exported value 2009 (USD thousand)	Share in South Africa's exports (%)	Exported quantity 2009 (tons)	Unit value (USD/unit)	Exported growth in value between 2005 and 2009 (% p.a.)	Exported growth in quantity between 2005 and 2009 (% p.a.)	Exported growth in value between 2008 and 2009 (% p.a.)	Share of partner countries in world imports (%)	
'World	21755	100	19501	1116	-6	-10	321	100	
'Thailand	4265	19.6	3684	1158	1	-4	1028	5.9	'0
'Bangladesh	3850	17.7	3593	1072	114	63	10032	4.1	'0
'China	2816	12.9	1778	1584	-25	-31	372	25.9	'6.5
'Indonesia	2262	10.4	1925	1175	-23	-31	207	9.4	'0
'Chinese Taipei	1478	6.8	1378	1073	-5	-11	131	3	'0
'United Kingdom	1332	6.1	1016	1311				0	'0
'Portugal	1303	6	1373	949	14	113		0.6	'0
'Viet Nam	1027	4.7	1002	1025	19	23		3.7	'0
'Italy	1004	4.6	897	1119	24	103		1.2	'0
'Mauritius	889	4.1	968	918	-31	-26	126	0.4	'0
'Singapore	475	2.2	626	759	118	37	36	0.3	'0
'Malaysia	464	2.1	419	1107	18	-13	31	1	'0
'India	211	1	192	1099	47	-15	31	2.2	'0
'Bulgaria	123	0.6	123	1000				0.1	'0
'Japan	110	0.5	77	1429	-40	-22		1.2	'0
'Colombia	33	0.2	24	1375	-70	-56		1	'10
'Papua New Guinea	30	0.1	202	149				0	'0
'Germany	29	0.1	116	250	-7	-6	-26	0.8	'0
'Zimbabwe	24	0.1	4	6000	75	7	4	0	'2.5
'Republic of Korea	15	0.1	100	150			-95	3.6	'0
'Zambia	6	0	1	6000			-97	0	'15
'New Zealand	4	0	0						'0
'Oman	2	0	2	1000				0	'5
'United Republic of Tanzania	1	0	0		-20			0	'0
'Ship stores and bunkers	1	0	1	1000	-53	-62		0	

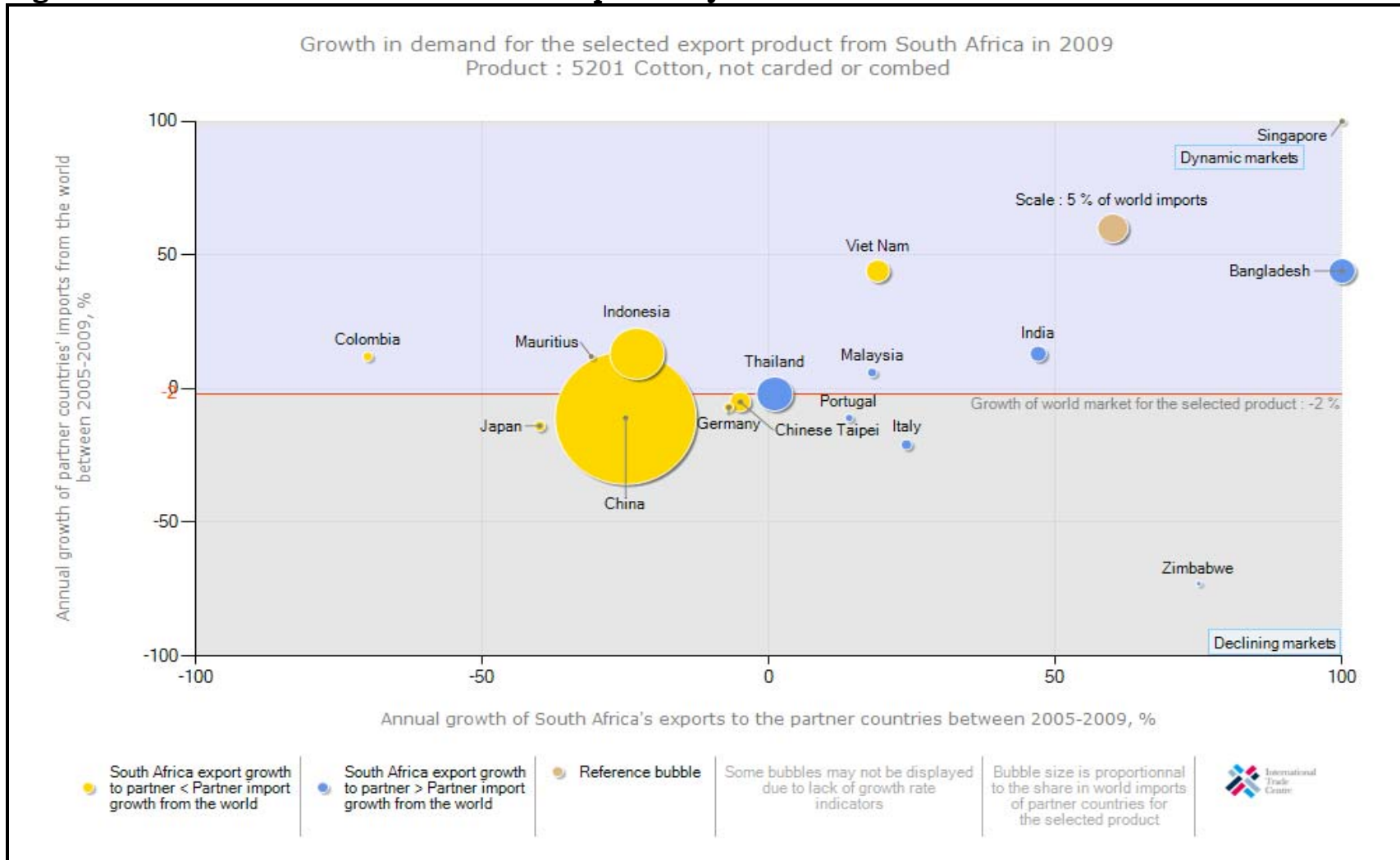
Source: Trade Map

Table 3 shows the list of importing markets for cotton exported by South Africa in 2009. The table further shows that during the period under scrutiny, Thailand followed by Bangladesh, China, Indonesia and Chinese Taipei were the biggest import markets for cotton exported by South Africa in 2009. The table further shows that although Thailand was the leading import market for South African cotton, the exported growth in value was 1% as compared to Bangladesh as the second highest at 114% between 2005 and 2009 period.

The table also shows that although Thailand was the leading import market of South African cotton, the exported growth in quantity was negative 4% as compared to Bangladesh as the second highest at 63% between 2005 and 2009 period.

The table further shows that although Thailand was the leading import market of South African cotton, the exported growth in value between 2008 and 2009 was less than that of Bangladesh during the same period and that simple means Bangladesh was the most attractive import market for South African cotton as both the growth in value and quantity are more than the world average figures.

Figure 23: Growth in demand for cotton exported by South Africa in 2009



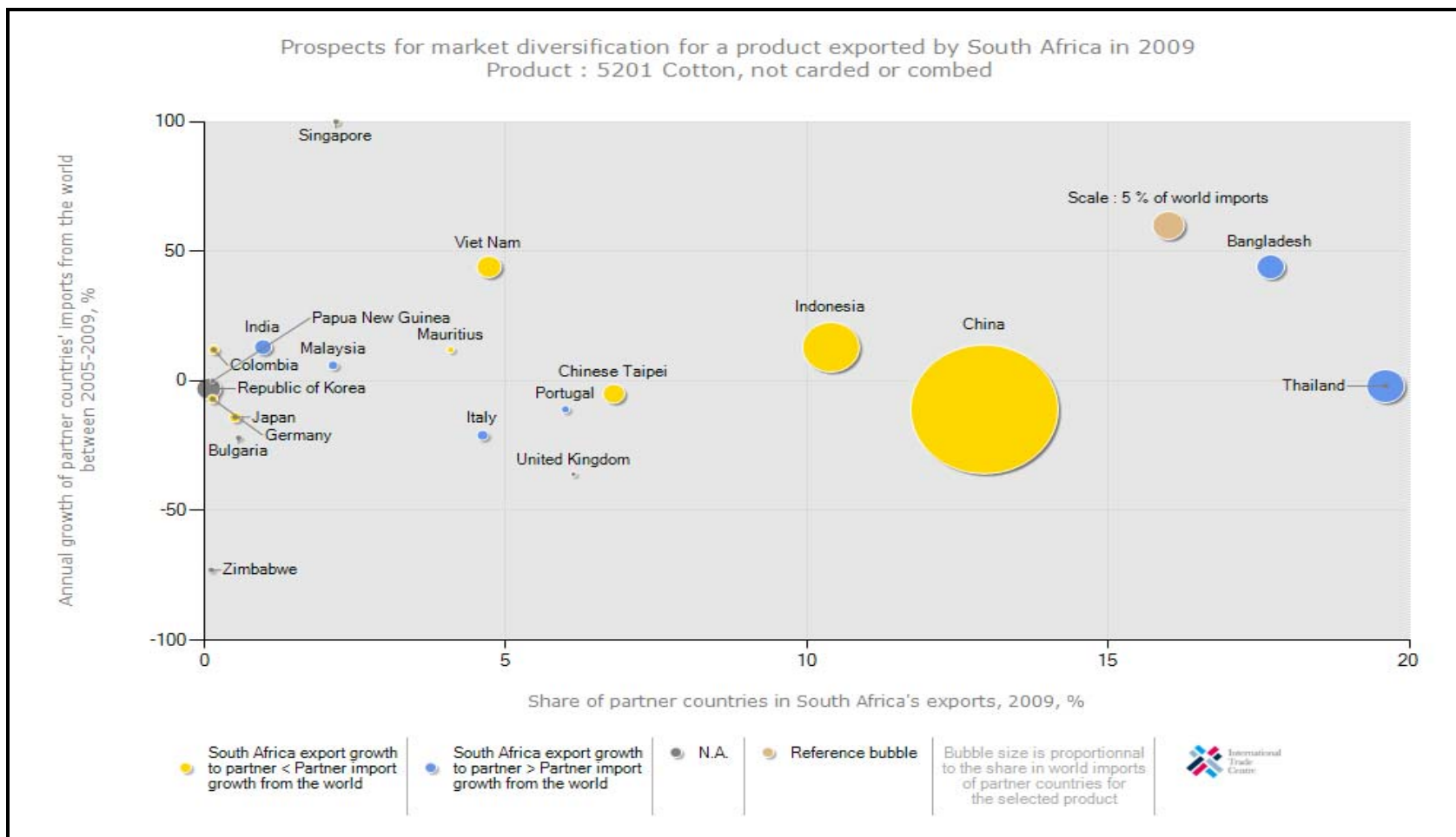
Source: Trade Map

Figure 23 depicts growth in demand for cotton exported by South Africa in 2009. The figure further depicts that the annual growth of South Africa's cotton exports to Bangladesh as a dynamic market is higher at 100% as compared to the annual growth of Bangladesh imports at 48% to the world. This means that Bangladesh is the most attractive market for South African cotton between 2005 and 2009 period. India is the second most attractive market as both the annual growth of South Africa's exports is positive at 49% and also 5% annual growth of India imports to the world.

Interestingly, the figure further depicts that Zimbabwe is also an attractive market for cotton exported by South Africa with an annual growth of South Africa's exports at 70% but as a declining market since in terms of the annual growth of Zimbabwe's imports of cotton from the world the figure is negative 70% between 2005 and 2009.

The annual growth of both Columbia and Indonesia's imports of cotton from the world looks positive at approximately between 5% and 40% but the annual growth of South Africa's exports of cotton to both Colombia and Indonesia is negative 25% and 68% respectively. It is not a good economic decision for South Africa to export cotton to both Colombia and Indonesia as both markets are declining markets for South Africa's cotton exports during the period under review.

Figure 24: Market diversification for cotton product exported by South Africa in 2009



Source: Trade Map

Figure 24 indicates options for market diversification for South African cotton exports in 2009. The figure further indicates that China and Indonesia were the biggest market for South African cotton during the period under review. The graph also indicates that if South Africa had to diversify its markets for cotton, small but attractive markets exists in Bangladesh, Thailand, India and Malaysia.

The graph further indicates that the share of Bangladesh in South Africa's cotton exports was 17% in 2009 as compared to that of Thailand at 19%. Interestingly, the annual growth of Bangladesh imports of cotton from the world is higher at 49% as compared to that of Thailand at negative 3% to 5%.

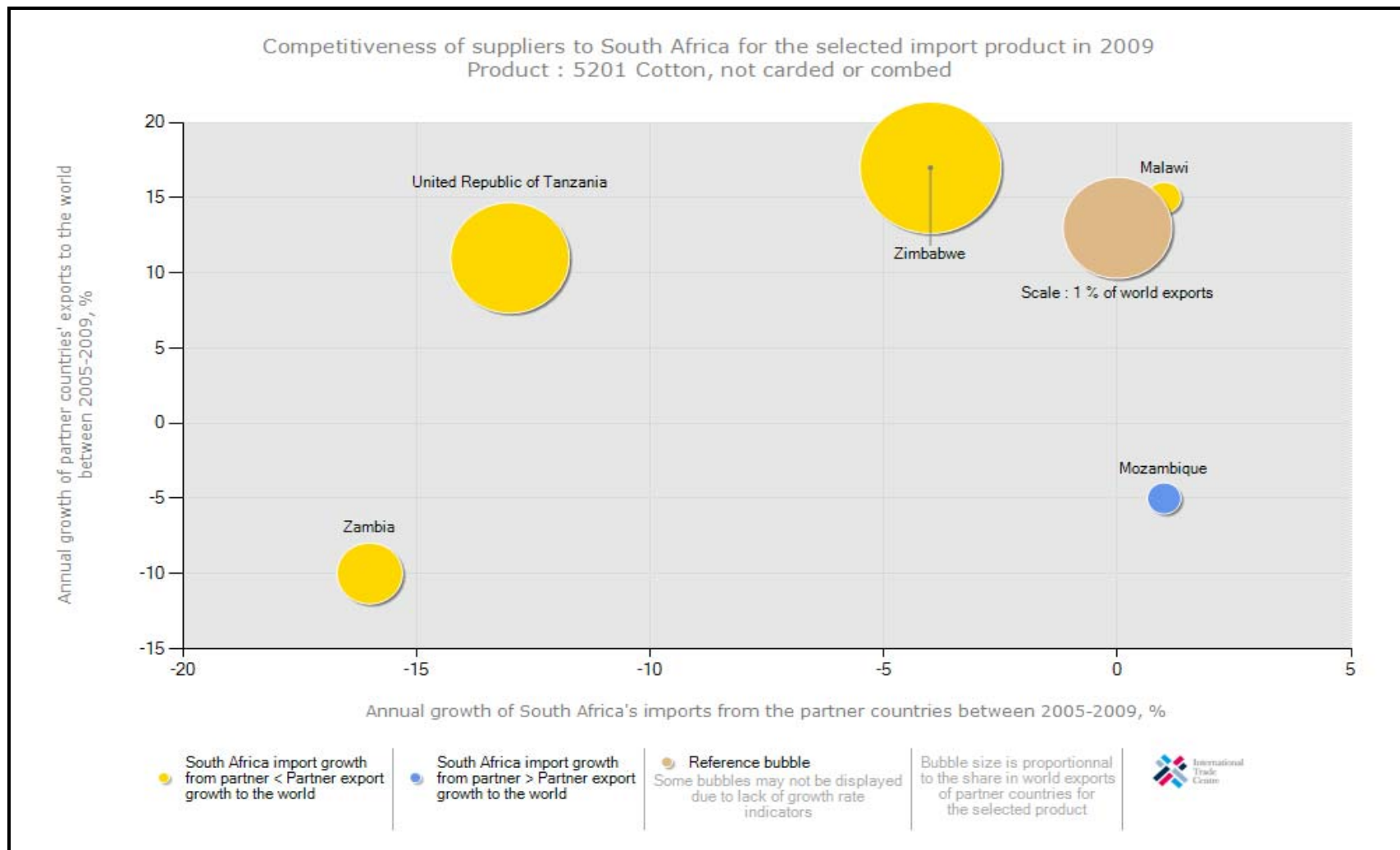
Table 4: List of supplying markets for cotton imported by South Africa in 2009

Exporters	Trade Indicators								Tariff (estimated) applied by South Africa (%)
	Imported value 2009 (USD thousand)	Share in South Africa's imports (%)	Imported quantity 2009 (tons)	Unit value (USD /unit)	Imported growth in value between 2005 and 2009 (% p.a.)	Imported growth in quantity between 2005 and 2009 (% p.a.)	Imported growth in value between 2008 and 2009 (% p.a.)	Share of partner countries in world exports (%)	
'World	46712	100	36044	1296	-7	-12	-8	100	
'Zimbabwe	24337	52.1	18548	1312	-4	-9	20	1.3	'0
'Zambia	16643	35.6	13541	1229	-16	-20	78	0.6	'0
'Malawi	5046	10.8	3448	1463	1	-9	-66	0.3	'0
'Mozambique	561	1.2	413	1358	1	-5	-88	0.3	'0
'United Republic of Tanzania	77	0.2	42	1833	-13	-4	-91	1.1	'0
'India	37	0.1	25	1480				12.4	'12.9
'China	9	0	26	346				0.2	'12.9
'Japan	2	0	0					0	'12.9
'Australia								5.2	'12.9
'Brazil								8.4	'12.9
'Greece								5	'3.2

Source: Trade Map

Table 4 represents the list of supplying markets for cotton imported by South Africa in 2009. The table further shows that during the period under review, Zimbabwe followed by Zambia, Malawi and Zimbabwe were the biggest supplying markets for cotton imported by South Africa. One of the reasons for this result is that all the countries are from the SADC region and are competitive producers of cotton compared to South Africa while the SADC FTA allows duty free entry of cotton into SA.

Figure 25: Competitiveness of supplying markets to South Africa for the imported cotton in 2009

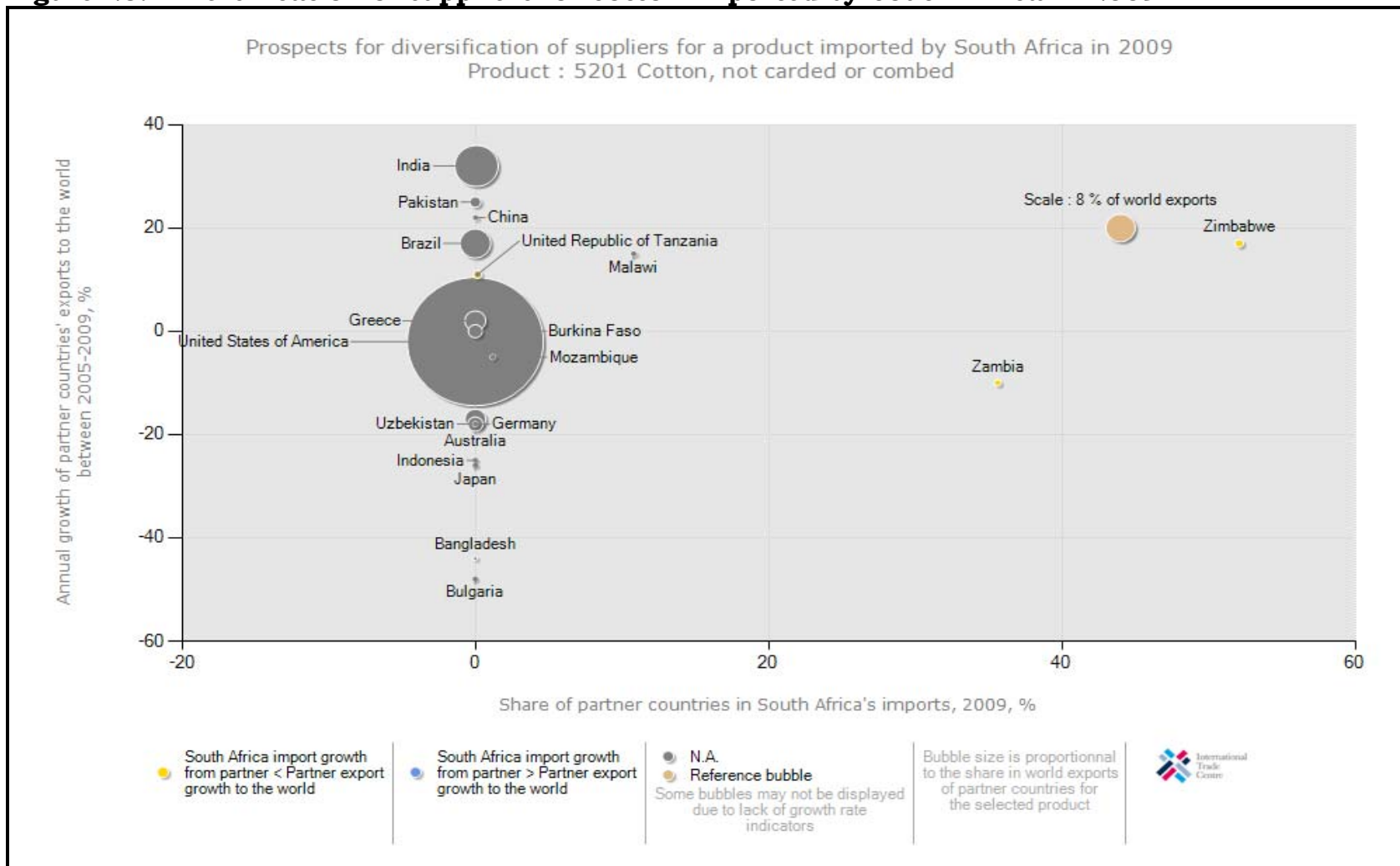


Source: Trade Map

Figure 25 illustrates competitiveness of supplying markets to South Africa for imported cotton in 2009. The figure further illustrates that Zimbabwe, United Republic of Tanzania and Zambia are the biggest supplying markets of cotton imported by South Africa although their annual growth in exports to the world is negative at 4%, 14% and 16% respectively.

The figure also illustrates that during the period under examination, the most competitive supplying market for cotton imported by South Africa was Mozambique with annual growth of South Africa's imports from the partner between 2005 and 2009 at 2%.

Figure 26: Diversification of suppliers for cotton imported by South Africa in 2009



Source: Trade Map

Figure 26 depicts diversification of suppliers for cotton imported by South Africa in 2009. The figure also depicts that United States of America is the biggest supplying market for cotton imported by South Africa during this period. The figure further depicts that if South Africa had to diversify its suppliers of cotton, small and attractive markets exist in India, Pakistan, China and Brazil.

6. MARKET ACCESS

There is no restriction on the importation of cotton, but a duty on imported cotton lint of R1.60c/kg is payable. This duty is, however, in terms of the SADC Free Trade Agreement (FTA) not applicable to cotton lint imports from within SADC. The full duty of R1.60c/kg of cotton lint is still applicable to imports from outside SADC, in respect of imports that do not qualify under the WTO minimum market access provision. Cotton originating from SADC countries such as Zimbabwe, Zambia, Malawi, Mozambique and Tanzania incur no import duty.

Table 5: Tariffs applied by different countries for cotton product exported by South Africa in 2009.

COUNTRY	PRODUCT DESCRIPTION	TRADE REGIME DESCRIPTION	APPLIED TARIFFS	TOTAL AD VALOREM EQUIVALENT TARIFF (ESTIMATED)
ARGENTINA	Cotton, neither carded nor combed, rendered absorbent or bleached	MFN duties (Applied)	6.00%	6.00%
BRAZIL	Cotton, neither carded nor combed, rendered absorbent or bleached	MFN duties (Applied)	6.00%	6.00%
CHINA	Cotton, neither carded nor combed, rendered absorbent or bleached	MFN duties (Applied)	83.62\$/ton	6.48%
GERMANY	Cotton, neither carded nor combed, rendered absorbent or bleached	MFN duties (Applied)	0.00%	0.00%
	Cotton, neither carded nor combed (excl. rendered absorbent or bleached)	MFN duties (Applied)	0.00%	0.00%
UNITED REP OF TANZANIA	Cotton, neither carded nor combed, rendered absorbent or bleached	MFN duties (Applied)	0.00%	0.00%
UNITED KINGDOM	Cotton, neither carded nor combed, rendered absorbent or bleached	MFN duties (Applied)	0.00%	0.00%
ZAMBIA	Cotton, neither carded nor combed, rendered absorbent or bleached	MFN duties (Applied)	15.00%	15.00%
ZIMBABWE	Cotton, neither carded nor	MFN duties	0.00%	0.00%

COUNTRY	PRODUCT DESCRIPTION	TRADE REGIME DESCRIPTION	APPLIED TARIFFS	TOTAL AD VALOREM EQUIVALENT TARIFF (ESTIMATED)
	combed: Other: in staple lengths not exceeding 25,5mm	(Applied)		
	Cotton, neither carded nor combed: Other: in staple lengths exceeding 25,5mm	MFN duties (Applied)	5.00%	5.00%

Source: Mac Map

Table 5 shows countries from various regions, tariffs and trade agreements applied by those countries for cotton exported by South Africa in 2009 period. The table further shows that most countries used the most favoured nation duties to facilitate trade with South Africa in terms of cotton exports.

Table 6: Tariffs applied to different countries for cotton product imported by South Africa in 2009.

COUNTRY	PRODUCT DESCRIPTION	TRADE REGIME DESCRIPTION	APPLIED TARIFFS	TOTAL AD VALOREM EQUIVALENT TARIFF (ESTIMATED)
CHINA	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
	Cotton, neither carded nor combed: Ginned but not further processed	MFN duties (Applied)	209.61\$/ton	18.38%
GERMANY	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	6.00%	0.00%
	Cotton, neither carded nor combed: Ginned but not further processed	MFN duties (Applied)	209.61\$/ton	18.38%
INDIA	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
	Cotton, neither carded nor combed: Ginned but not further processed	MFN duties (Applied)	209.61\$/ton	18.38%
MALAWI	Cotton, neither carded nor combed: Ginned but not further processed	Preferential tariff for SADC countries	0.00%	0.00%
	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
MEXICO	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
	Cotton, neither carded nor combed: Ginned but not further processed	MFN duties (Applied)	209.61\$/ton	18.38%
MOZAMBIQUE	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%

COUNTRY	PRODUCT DESCRIPTION	TRADE REGIME DESCRIPTION	APPLIED TARIFFS	TOTAL AD VALOREM EQUIVALENT TARIFF (ESTIMATED)
	Cotton, neither carded nor combed: Ginned but not further processed	Preferential tariff for SADC countries	0.00%	0.00%
PAKISTAN	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
	Cotton, neither carded nor combed: Ginned but not further processed	MFN duties (Applied)	209.61\$/ton	18.38%
SRI-LANKA	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
	Cotton, neither carded nor combed: Ginned but not further processed	MFN duties (Applied)	209.61\$/ton	18.38%
UNITED KINGDOM	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
	Cotton, neither carded nor combed: Ginned but not further processed	MFN duties (Applied)	209.61\$/ton	18.38%
UNITED STATES OF AMERICA	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
	Cotton, neither carded nor combed: Ginned but not further processed	MFN duties (Applied)	209.61\$/ton	18.38%
ZAMBIA	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
	Cotton, neither carded nor combed: Ginned but not further processed	Preferential tariff for SADC countries	0.00%	0.00%
	Cotton, neither carded nor combed: Ginned but not further processed	MFN duties (Applied)	209.61\$/ton	18.38%
ZIMBABWE	Cotton, neither carded nor combed: Not ginned	MFN duties (Applied)	0.00%	0.00%
	Cotton, neither carded nor combed: Ginned but not further processed	Preferential tariff for SADC countries	0.00%	0.00%
	Cotton, neither carded nor combed: Ginned but not further processed	MFN duties (Applied)	209.61\$/ton	18.38%

Source: Mac Map

Table 6 illustrates countries from various regions, tariffs and trade agreements applied by South Africa when it's importing cotton from various regions in 2009 period. The table further illustrates that during the period under scrutiny, countries from the SADC region prefer to use the preferential tariff for SADC countries to facilitate and fastrack trade with

South Africa and that makes it cheaper to export and import cotton product between the SADC countries and South Africa.

7. PROCESSING AND THE VALUE CHAIN TREE

The first step in the processing of picked cotton occurs at the ginnery where the fiber, which is about 37% of the total mass of the cotton, is separated from the seed. The fiber consists exclusively of cellulose and is the most important product of cotton from a commercial viewpoint. There are currently nine ginneries in South Africa. Seed cotton is either sold by the grower to a ginner who gins the cotton and sells the cotton lint for his own account to spinners (and the seed to processors), or the grower does not sell his seed cotton to the ginner but contracts the ginner to gin it on his behalf on payment of a ginning fee (some growers also own their own gins). In this case the cotton lint and seed remain the property of the producer who then either markets it himself or contracts the gin or someone else to market the cotton lint (or seed) on his behalf. Cotton seed processors use the seed to manufacture animal feeds and the spinners use the cotton lint to spin yarn. Weavers and knitters use the yarn to produce a variety of products such as textiles, towels, denim, canvas, furnishings, etc.

The various products derived from cotton are outlined in Figure 14. During the course of oil extraction, the seed is processed into fuzzy cotton (3%), hulls (30%), pulp (61%), and cotton waste (6%). The pulp is then further processed into the following products: crude oil (21%), oil-cake (74%) and waste (5%). The oil used in the preparation of foodstuffs while the cake or meal is used in the manufacture of fodder. Cotton seed contains a poisonous substance known as gossypol, which is removed from the edible oil during the refining process. The gossypol in the oil-cake is rendered harmless by the addition of chemicals.

The major products of cotton lint are weaving yarns (used for toweling, denim, sheeting, etc) and knitting yarns (used in knitted fabrics for T-shirts, underwear, etc). Major products produced from cotton seed are meal (used in cake/meal for flour, feed and fertilizer); oil (used in soaps, explosives, etc), hulls (used for feed, fertilizer, synthetic rubber, etc), linters (used in pulp, medical appliances, yarns and felts) and planting seed.

Figure 27: Cotton value chain tree explaining its various uses (Cotton South Africa)

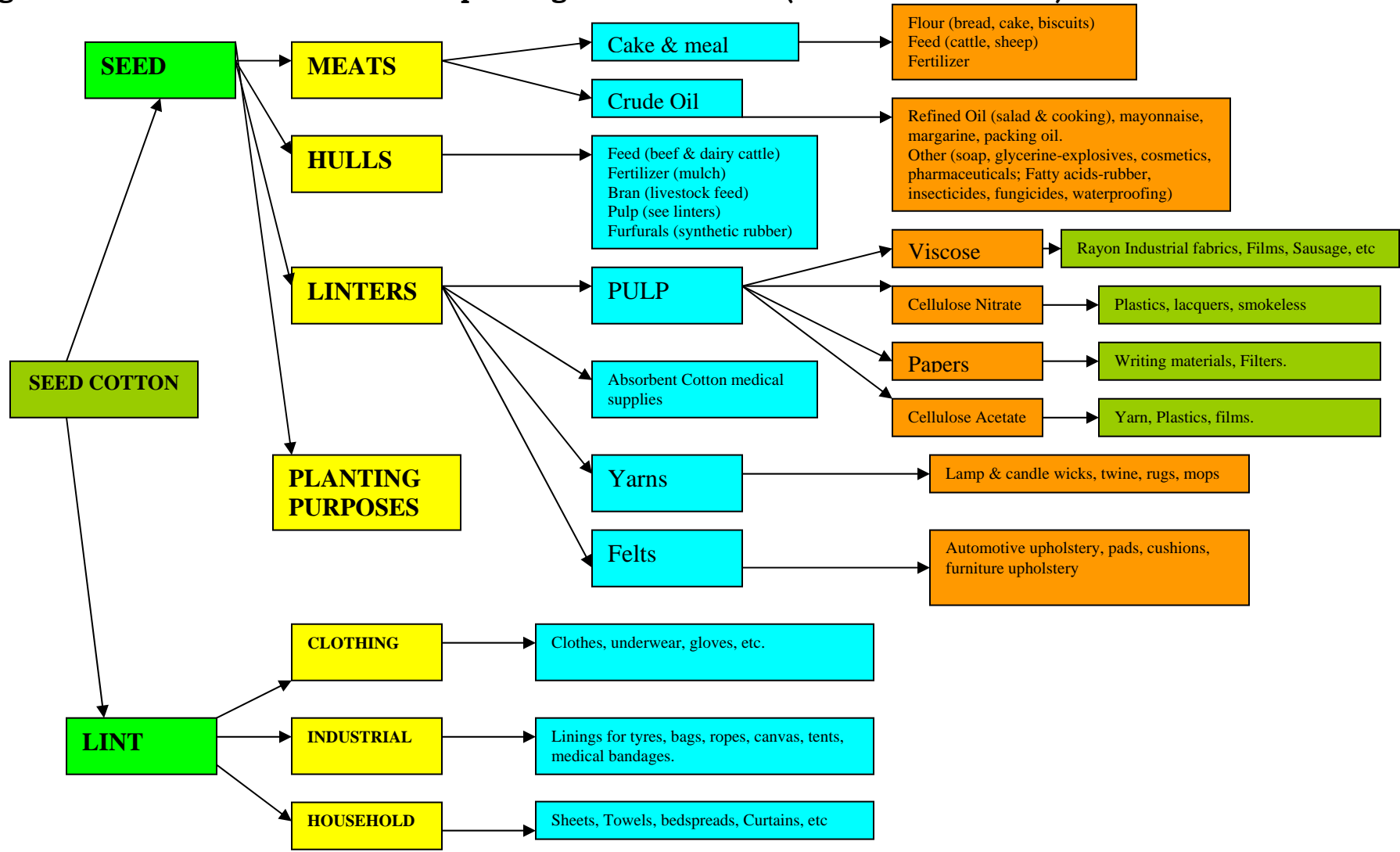
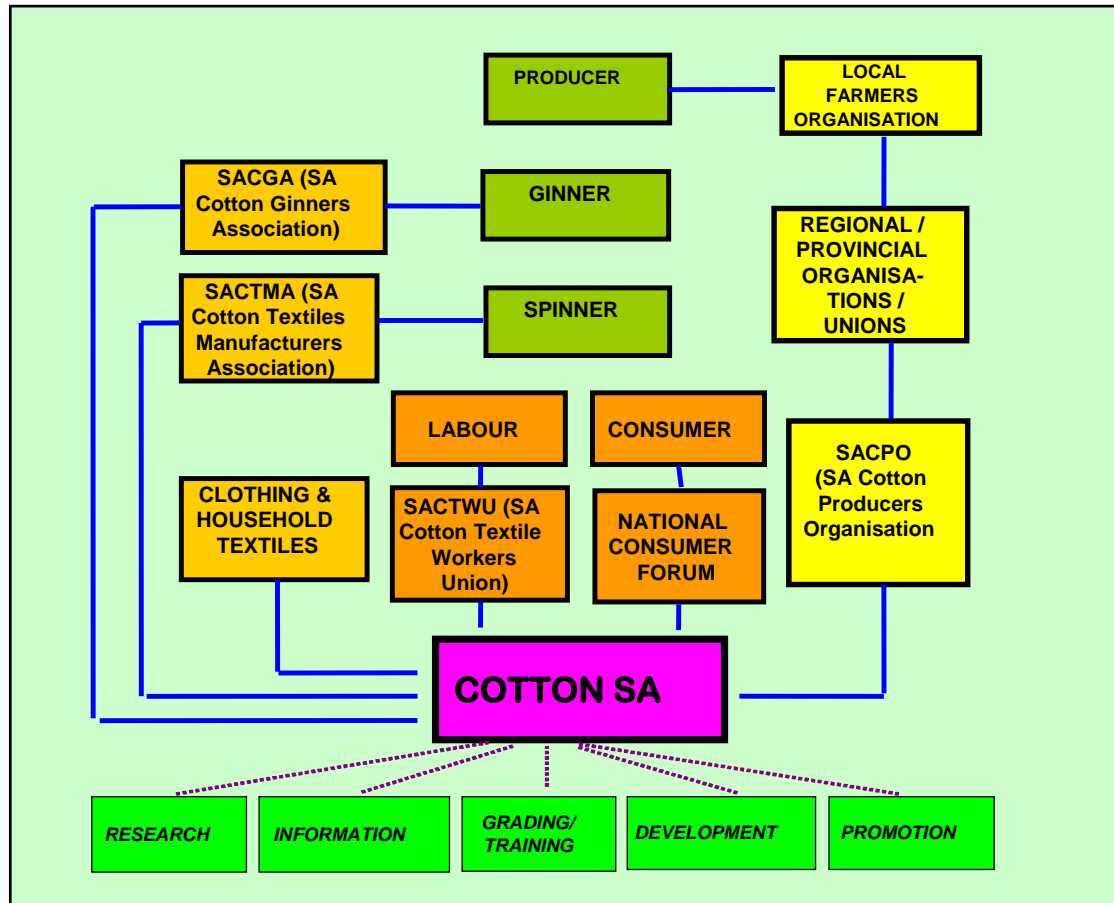


Figure 28: Structure of the South African Cotton Industry



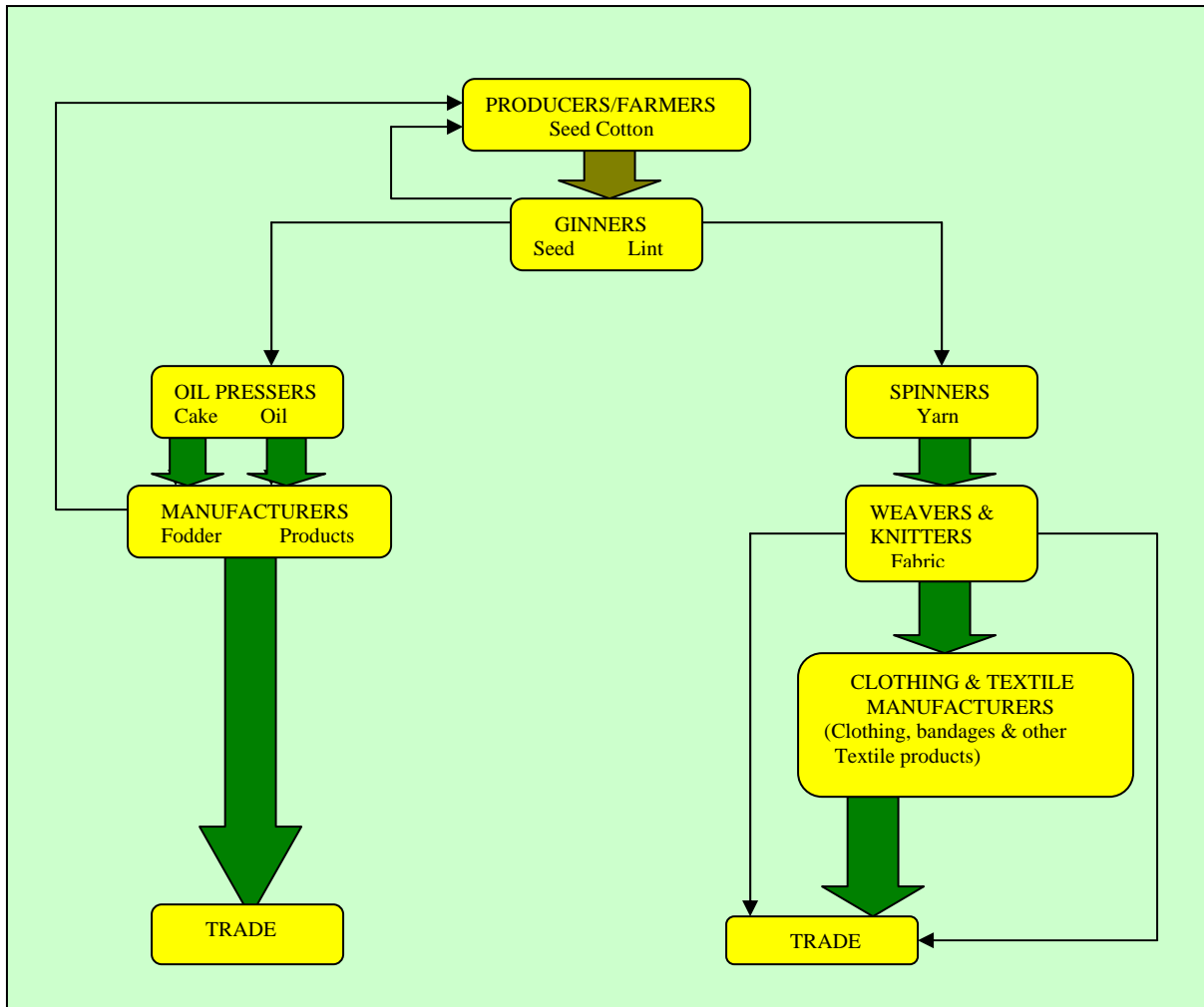
Source: Cotton South Africa

There are five important stakeholders in the cotton industry. These are producers of seed cotton, ginners, spinners, oil pressers and clothing and garment manufacturers. For the 2006/07 production season it is estimated that cotton was planted by approximately 2 849 small scale cotton farmers (representing between 15% and 20% of total cotton lint production), as opposed to approximately 300 commercial farmers. Small scale farmers in the past also represented the vast majority of local cotton growers. The ginning industry is made up of only eight companies or gins. They buy seed cotton from producers, gin it and sell the lint. Ginners also gin the cotton for the farmers who could retain ownership of the lint and the seed, at a cost. In this case, the farmer is then responsible for the marketing of his won product. The output of the ginners is lint and seed. The lint is sold to the spinners and the seed to the oil pressers. There are nine spinners in the spinning industry (from 16 in 2003), of which the biggest are Frame Textiles

and Da Gama Textile Co. Ltd. These spinners buy the cotton lint from ginners, process the lint and deliver the output (yarn) to the clothing and textile industry. Most of the spinners also perform the task of weavers and knitters and are thus vertically integrated. There is only one oil presser in South Africa. Cotton oil is pressed from the seed, and the oil cake is used as input in animal feeds.

8. MARKET VALUE CHAIN

Figure 29: Cotton value chain



Source: Adapted from Cotton South Africa

In order to fulfill South Africa's commitment under the World Trade Organization: Marrakesh Agreement regarding market access, the Directorate: Marketing issues rebate permits under the Market Access rebate scheme to importers of cotton lint for a total of 17 101 tons (85 505 bales of cotton lint) (for 2010) per annum. The import arrangements for cotton lint are as in Table 2.

Table 7

TARIFF HEADING	DESCRIPTION	EXTENT OF REBATE	OF	ANNUAL QUOTA TONNAGE
52.01	Cotton, carded or combed	not or 12%	Full duty less	17 101 (85 505 bales of cotton lint)

Source: Government Gazette Notice 1297 of 2009

a. Developments in the cotton industry.

A trend that has emerged over the past few years is the establishment of farmer-owned gins as well as the incidence of contract ginning (where the farmer retains ownership of the cotton lint after ginning). About 54% of cotton lint produced for the 2005/06 marketing year was by way of contract ginning. This means that farmers are increasingly getting involved in the marketing of their produce than before, although the majority of sales are still being brokered by local cotton traders.

As 40-60% of South Africa's cotton requirements are imported annually, three international cotton traders (namely Cargill, Plexus Cotton and Dunavant) are also involved in the local market, in addition to the local commodity traders who also offer import services. Some of these international cotton traders own their own gins in SADC and Cargill also owns gins in South Africa having acquired Clark Cotton in 2006. The above two developments show market fragmentation within the industry.

9. EMPOWERMENT ISSUES AND TRANSFORMATION IN THE SECTOR

South Africa's cotton growers together with the input suppliers, output processors and the Department of Agriculture have developed a Strategic Plan for the South African Cotton Sector with the following objectives: broadening participation to enable developing farmers to contribute on average 25% of the national crop by 2007 and 35% by 2014, raising productivity by training at least 60% of developing farmers by 2007 and by improving research, extension services and technology transfer.

A cotton gin has been commissioned by cotton farmers in the Vaalharts irrigation area during 2004. The gin is a joint venture between IDC and cotton farmers with a BEE component of at least 25% reserved for workers and emerging farmers.

Makhathini Cotton Company in KZN is also a BEE firm with 65% black empowerment shareholding.

The Cotton Project in the Eastern Cape is a joint initiative by the Eastern Cape Development Corporation and Da Gama Textiles. It involves 500 emerging farmers from Addo, Tyefu, Middelrift, Keiskammahoek, Qamata, Kat River and the Karoo. A new gin has been commissioned in 2005/06 and will eventually jointly be owned by farmers and Da Gama Textiles (the off-take partner of their produce), with small scale farmers having a major share.

From 2001, Cotton SA established a formal training program for small scale cotton growers at various centres mainly at the Lowveld College of Agriculture in Mpumalanga province, Tompi Seleka College of Agriculture in the Limpopo Province, Mjindi Training Centre and Owen Sithole College of Agriculture in Kwazulu-Natal and Fort Cox Rural Development Centre in the Eastern Cape Province. Up to the end of 2006 close to 600 small scale cotton farmers have attended these courses.

10. BUSINESS OPPORTUNITIES AND CHALLENGES

- The fact that South Africa is a net importer of cotton indicates that there is scope for substantial increases in production without fear of creating surpluses. As cotton is a Summer crop cultivated on the same land as maize, many hectares which are currently under maize can be switched to cotton, which would not only lessen South Africa's dependence on cotton imports but will also contribute to alleviating the overproduction which occurs in the maize industry from time to time. In this respect it should also be noted that because of cotton's

drought tolerant ability, it is much more suited for marginal agricultural lands than maize.

- Domestic support and export subsidies provided by governments of many cotton producing countries create serious distortions in the international market. This factor together with the strength of the rand against the dollar and combined with uncertain weather conditions, have placed serious pressure on the domestic cotton production in recent years. International markets for cotton and derived products remain distorted because of the huge amounts of trade and production distorting support granted to cotton producers mainly in the USA, China and the European Union.
- The South African cotton production industry also faces strong import competition from SADC countries. About 99% of cotton lint imports during the 2005/06 season originated from SADC countries. Since January 2004 when the SADC Free Trade Agreement allowed duty-free cotton lint imports from SADC countries, South African producers are finding it increasingly difficult to compete with SADC imports.

10.1 Factors constraining commercialization of emerging

farmers' cotton products.

- Access to productive land. In most cases small scale farmers do not own the land they farm on.
- Lack of land tenure as well as own equity make these farmers high risk customers to financial institutions.
- Lack of institutional support such as limited extension services.
- Lack of credit since the ginning companies no longer act as intermediaries.
- Lack of irrigation infrastructure.
- Lack of regional and provincial structures for emerging farmers in order for them to participate in partnership programs with commercial companies.
- Lack of knowledge and expertise among small scale farmers relating to cotton agronomy.

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Website: <http://www.intracen.org>

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