GLOBAL DEMAND FOR ELS COTTON

Matthew S. Laughlin
Supima Association of America
Phoenix, AZ

Abstract

American Pima cotton exports hit their third highest mark on record in the 1999/2000 marketing year with 447,000 bales shipped, while global Extra-Long Staple (ELS) cotton exports reached 1.2 million (480-lb.) bales, the highest total in six years. Total ELS cotton consumption dropped slightly in 1999/2000 – 1% – because domestic mill use of ELS cotton fell by 10%. Most of the decrease can be attributed to Egypt, which consumed 650,000 bales of its own long staple and ELS cotton in 1999/2000, compared to 856,000 bales (480-lb.) the previous marketing season. ELS cotton importing countries like Indonesia, Taiwan, Italy, Switzerland, Pakistan, South Korea, India, Bangladesh and Thailand all increased their purchases in the 1999/2000 season. The U.S. and Egypt accounted for 77% of global ELS cotton trade. And despite a 5% cut in world ELS cotton supply this marketing season, exports are expected to increase for the second straight year as consumer demand for better quality apparel and home textile products continues.

Introduction

ELS cotton exports have been on the rise since bottoming out in 1995/96. Less than 720,000 (480-lb.) bales were delivered that season, compared to more than 1.2 million bales last season. Prices certainly played a role when exports increased by 45% in 1996/97 while global domestic mill use dropped by just 1%. But since then, the customer base for longer staple cottons has been gradually increasing. More and more textile companies have turned to finer count yarns as a means of distinguishing themselves in an extremely crowded and competitive textile market. At the same time, finer count yarns have expanded into the home textiles industry. Inroads are still being made in the high quality apparel market, but home textiles – including towels, blankets and sheeting – has led the way in ELS cotton sales growth both in the U.S. and abroad. Much of the increase was achieved during improving economic conditions, so whether the growth can be sustained remains to be seen, but textile mills and manufacturers are confident that new production levels can at least be maintained. Perhaps the U.S. textile market best exemplifies the rapid growth in better quality, finer count apparel and home textiles over the past five years. Annual U.S. mill consumption of U.S. Pima cotton averaged 123,000 bales the past five years, a 45% increase over the annual consumption average of the previous five years. Add to that the ELS cotton imports of the last few years – 44,000 bales in 1999/2000 – and domestic use of ELS cotton has by more than 80%. Again, sheeting and towel programs have led this significant increase in ELS cotton consumption.

New Markets Opening Up

American Pima has been able to pick up a large share of the new global demand, which was evident in the 1999/2000 marketing year when exports rose to 447,000 (480-lb.) bales, accounting for 37% of world trade. Southeast Asia and South Asia countries in particular accounted for much of the increase in sales as Taiwan, which had averaged 18,000 bales of American Pima imports the previous four seasons, purchased 63,000 (480-lb.) bales in 1999/00. Indonesia went from a 31,000-bale annual average to importing 46,000 bales last season. Bangladesh maintained its steady pace at 44,000 bales and Pakistan was in at 30,000 bales, respectively. The U.S. government is projecting American Pima exports to reach a record-high level of 475,000 bales this marketing season. Strong demand has continued into the new 2000/01 marketing year (August 1, 2000 – July 31, 2001) as reflected in grower prices that rose by more than 12 cents per pound between March and December last year. New crop Pima export commitments had already reached 395,000 (480-lb.) bales by the end of the calendar year (2000), just five months into the new marketing season.

Driving the trend toward finer count yarns are three primary components: 1.) Textile mills continuing to look for ways to separate themselves in a crowded, highly competitive business sector. Some countries subsidize their coarse and medium count yarn production, which provides an added burden to competitors already struggling to survive. Fine count yarn production, though serving a much smaller market, can be highly profitable if successful. 2.) Consumers are becoming better informed about quality and value and have demonstrated a willingness to "pay up" for these attributes. And the industry is doing a better job of supporting and promoting these new product lines. 3.) Prices. In addition to competition and consumer awareness, mills have also been responding to cheaper fiber prices for ELS cotton. The U.S. textile industry is a perfect example. The average farm price (the price paid to Pima cotton producers for their full production) for the 1998/99 and 1999/00 seasons was 88 cents per pound, compared to an average price of $1.08 over the preceding four marketing years, which is a decrease of $100.00 per bale. Sales were up by about 30% for the last two seasons from the average annual consumption of the previous four.

World ELS Supply Tightening

Contributing to the early-season rush for U.S. Pima and other high quality ELS cottons was a relative tightening of available supply. The world ELS cotton supply in the 2000/01 marketing year is at its lowest level in five years. The International Cotton Advisory Committee (ICAC) reported in December that global ELS cotton supply would fall from 4.1 million (480-lb.) bales in 1999/2000 to 3.91 million bales this season. Production is estimated to fall from 2.81 million (480-lb.) bales in 1999 to less than 2.38 million (480-lb.) bales this year, a reduction of 15%. Ending stocks are projected to close at less than 1 million (480-lb.) bales for the first time in five years, while the world ELS cotton estimated stocks-to-use ratio of 31% will be at its lowest mark in seven years.

ELS cotton production from the world's two largest suppliers (the U.S. and Egypt) will be cut this year by more than 26% from the previous season, according to the ICAC December 1 report. World ELS cotton stocks began the marketing year (Aug. 1, 2000) at 1.3 million (480-lb.) bales, but will drop to just 934,000 (480-lb.) bales at the same date a year later. In the U.S., the large Pima supply and relative low prices enabled Pima producers to sell 584,000 bales in 1999/2000, the largest single-season offtake total on record. Pima stocks, however, ended high at about 250,000 bales, but strong demand is likely to take care of the stocks and most of new crop production in 2000/01. Despite the cut in 2000/01 production to about 400,000 bales, a total U.S. Pima supply of about 670,000 (480-lb.) bales would still be the third highest ever. Ending stocks are expected to finish at about 70,000 bales for a stocks-to-use ratio of about 11.5%, the lowest mark in four years.

Marketing Playing Larger Role

With a robust economy providing opportunities for better quality, higher-priced consumer goods, manufacturers and retailers have stepped up efforts to entice customers. And in a smaller more specialized market segment occupied by finer count apparel and textile goods, manufacturers and retailers have invested substantial money and resources into pulling customers into these exclusive product categories. Branding has been a popular marketing tool in these promotional campaigns. The U.S. Pima cotton industry has leveraged this trend by intensifying efforts to promote the Supima® trademark, which is used in the marketing of textile and apparel goods made of 100% U.S. Pima cotton. The Supima Association of

Reprinted from the *Proceedings of the Beltwide Cotton Conference*
Volume 1:246-249 (2001)
National Cotton Council, Memphis TN

America has issued licensing agreements with 20 international textile companies from eight different countries in the past year, which illustrates the growing demand around the world for high quality textile and apparel products made of all Supima cotton. The Supima mark is the consumers' only assurance that the textile or apparel product they are purchasing is made with 100% ELS cotton. There are now more than 90 textile and retail companies around the world entitled to use the Supima® brand in the promotion and marketing of textile and apparel products.

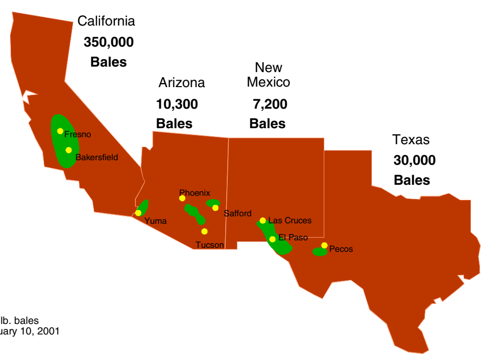
In a continuing effort to go mainstream in the marketing of its cotton, Egypt introduced a new brand logo in the fall of 2000 specifically in support of home textile products manufactured by WestPoint Stevens. Similar to the successful Pima promotional campaign of Supima, Egypt aims to build awareness and, subsequently, demand for its high quality line of apparel and textile products made from its long staple and ELS cottons. The logo features a cotton boll inside of a pyramid. Consumers can expect to see more of these kinds of promotional efforts as manufacturers and retailers lock into long-term product programs using these premium fibers.

Conclusions

The underlying component in the recent success of the fine count yarn, high-end apparel and textile business has been the overused term – quality. All of the other contributing factors in the increased sales of higher-priced ELS cotton are rendered meaningless if consumers don't receive the value and product performance they feel they're paying for. The raw material is the foundation of these value-added products. Although American Pima production increased by more than 50% in 1999, it represented the highest quality crop in the last 50 years. More than 92% of the entire crop was classed grade 2 and better, while nearly 98% of the crop came in as high grades (grade 3 and better). This level of fiber quality consistency is absolutely necessary in order to sustain the expanding product base on which Pima depends.

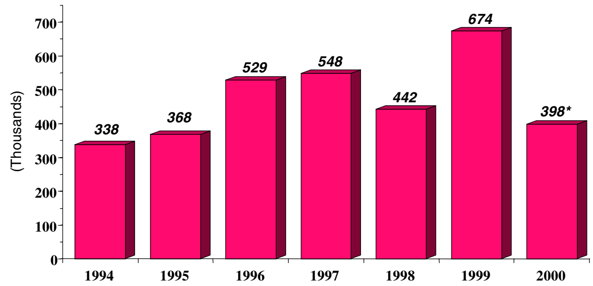
Other fiber quality measurements, including strength, length, micronaire and uniformity, are equally important in the manufacturing process. As total supply remains subject to market signals each season, this level of consistently high quality has separated U.S. Pima from the rest of the ELS cotton crowd. At a time when the world's textile mills are placing a higher priority on better quality, the U.S. Pima industry finds itself in ideal position to leverage rising demand for its product. This is being done through licensing and establishing long-term partnerships with high quality spinning mill, knitters, weavers and textile manufacturers. But most importantly, it is being done by the delivery of high quality extra-long staple cotton fiber.

2000 U.S. PIMA PRODUCTION
397,500 Bales*



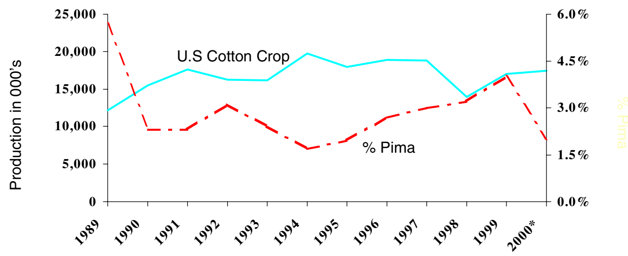
Listed in 480 lb. bales
* USDA, January 10, 2001

AMERICAN PIMA PRODUCTION
1994 - 2000



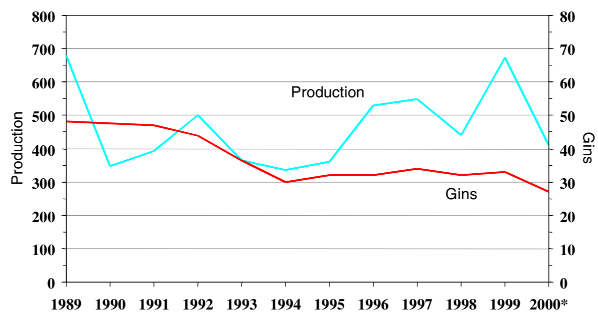
Listed in 480 lb. bales
*USDA estimate, January 10, 2001

U.S. COTTON PRODUCTION
1989 - 2000



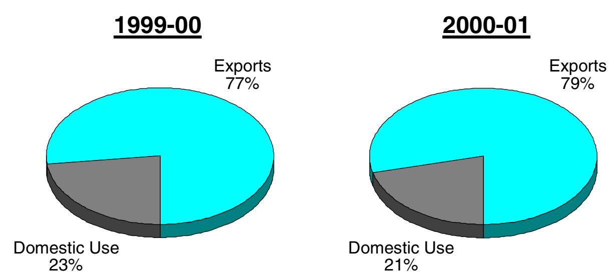
*Source - USDA, December 12, 2000

U.S. PIMA GINS & PRODUCTION
1989 - 2000



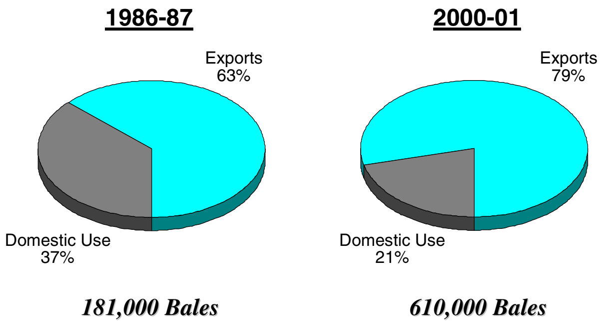
Production listed in thousand 480-lb. Bales
* USDA estimate for 2000 season

U.S. PIMA OFFTAKE

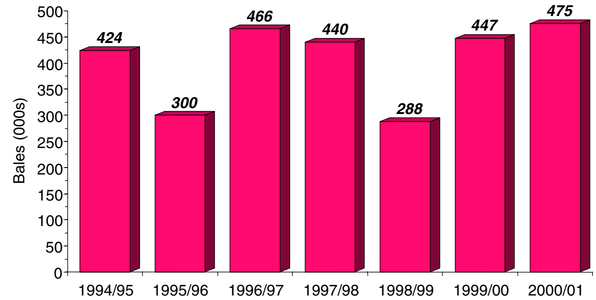


584,000 Bales *610,000 Bales*

U.S. PIMA OFFTAKE

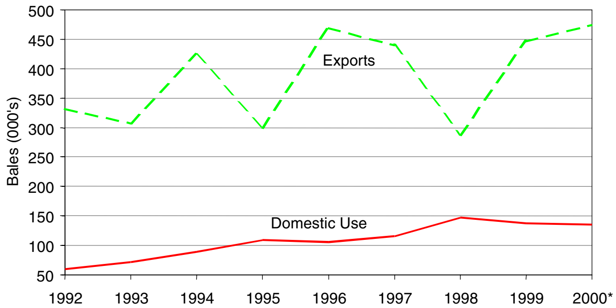


AMERICAN PIMA EXPORTS
1994 - 2000



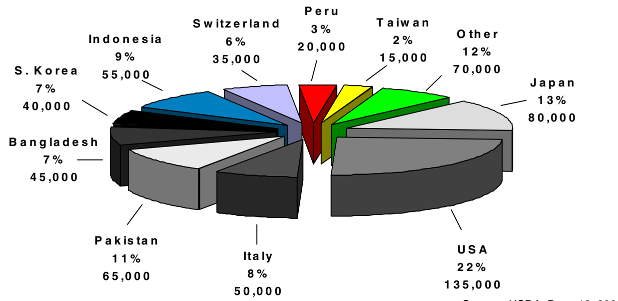
Listed in 480 lb. bales
*USDA Estimate, December 12, 2000

U.S. PIMA OFFTAKE
1992 - 2000



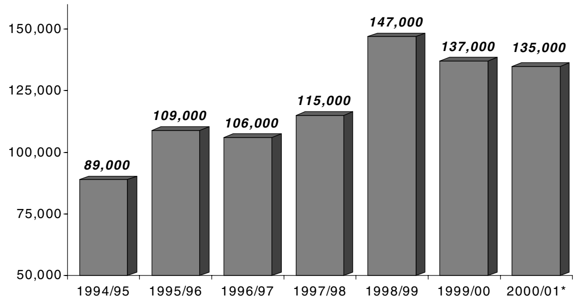
Listed in 480 lb. bales
*Estimate - USDA, December 12, 2000

2000/01 WORLD CONSUMPTION AMERICAN PIMA COTTON
610,000 Bales



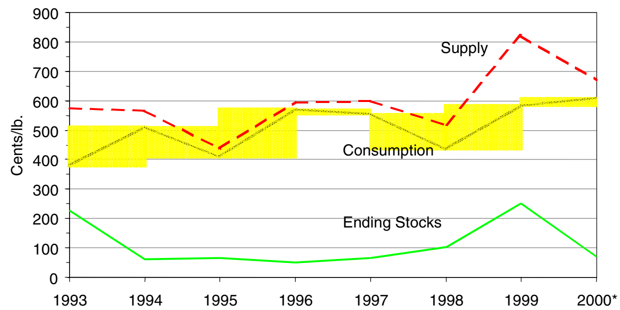
Source: USDA, Dec.. 12, 2000

DOMESTIC CONSUMPTION
1994 - 2000



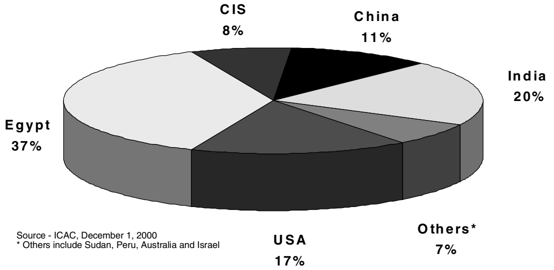
Listed in 480 lb. bales
*USDA estimate, December 12, 2000

U.S. PIMA SUPPLY, CONSUMPTION & STOCKS
1993 - 2000



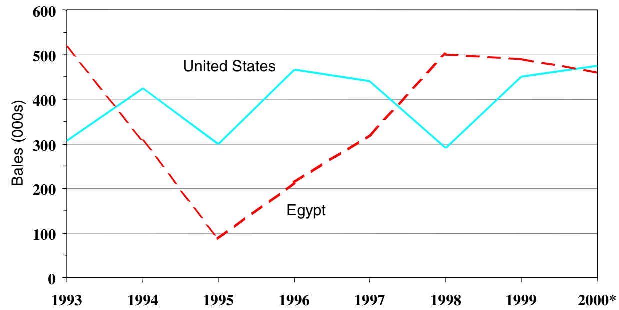
Listed in 480 lb. bales
*USDA estimate, January 10, 2001

ELS COTTON PRODUCTION 2000/01 2.4 Million Bales



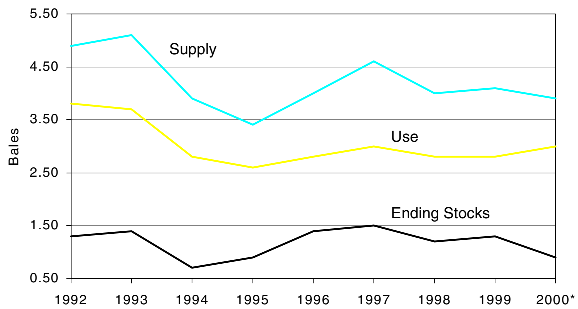
Source - ICAC, December 1, 2000
* Others include Sudan, Peru, Australia and Israel

U.S. & EGYPTIAN ELS EXPORTS
1993 - 2000



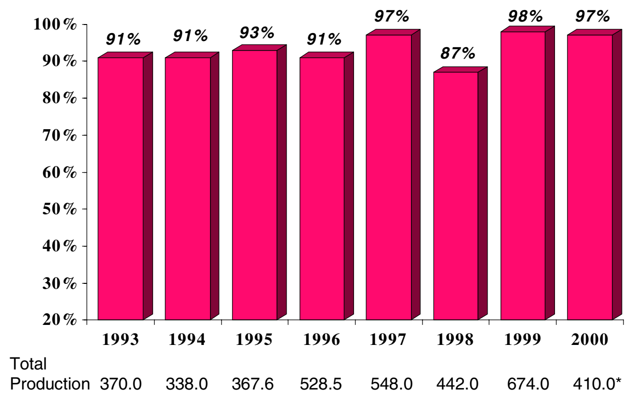
*Source: ICAC – December 1, 2000 and USDA, Dec. 12, 2000
Listed in 480-lb. bales

WORLD ELS SUPPLY/USE
1992 - 2000



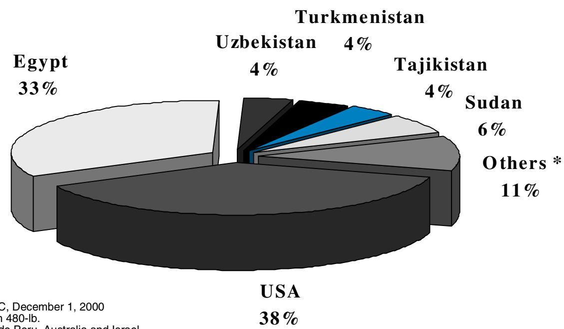
Listed in million (480-lb) bales
*Estimate, ICAC, December 1, 2000

HIGH GRADE PERCENTAGE OF U.S. PIMA QUALITY
1993 - 2000



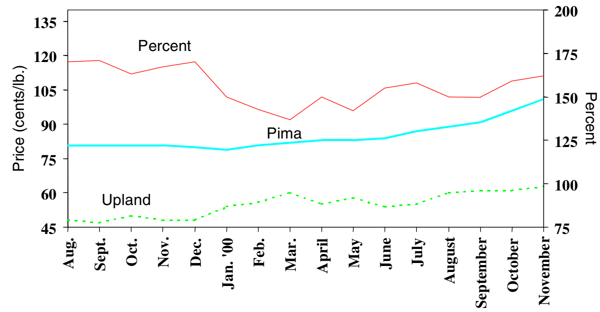
Production listed in thousand 480 lb. bales; High grades equal to grade 3 & better
*Source: USDA/AMS, December 28, 2000 (294,803 running bales classed)

ELS COTTON AVERAGE EXPORTS 1995/96 – 2000/01 1.06 Million Bales/Year Avg.



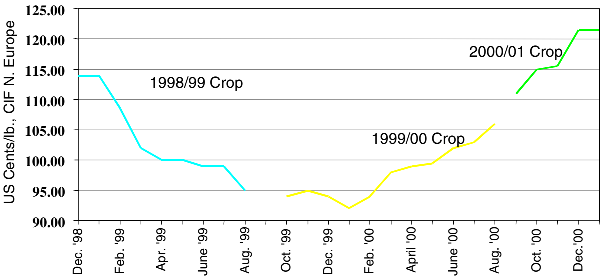
Source - ICAC, December 1, 2000
Bales listed in 480-lb.
*Others include Peru, Australia and Israel

U.S. UPLAND, PIMA PRICES & PERCENT OF UPLAND PRICE
August 1999 – November 2000



Pima prices are average of desert southwest grade 3, staple 44 and SJV
Upland prices are for desert southwest, 4134, leaf 4, and SJV
Both are grower spot prices in mixed lots, net weight

AMERICAN PIMA EXPORT PRICES
November, 1998 – January, 2001



Source – Cotton Outlook, CIF North Europe Quotes, Jan. 4, 2001

U.S Pima quality basis grade 3, staple 46 through July, 2000

Beginning with 2000/01 crop, quote is basis grade 2, staple 46