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COMMODITY BRIEF NO 2
Cotton perspectives in Syria

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Introduction

This paper presents a brief picture of the main developments related to cotton, covering the state of production, trade, and policies at domestic and international levels. Cotton production provides an important source of rural income and exports in Africa and Central Asia, where it is widely cultivated.

Cotton is a staple commodity in Syria and it is the most profitable crops among strategic crops¹, i.e., due to its importance, is a crop for which the Government sets prices at which government establishments will purchase from farmers or their cooperatives. Cotton in Syria is irrigated and the total cotton area is about 234,181 H in 2004. .

1. International productions

Although more than 100 countries plant cotton, both production and trade are relatively concentrated in a few countries. World cotton production increased by 62 percent since 1970 for three major reasons: the emergence of new producers, expansion by existing producers, and increase in yields. Some major producers such as Australia emerged since 1970, others such as China, India and Brazil saw their yield nearly double.

In 2004/2005, two major producers, China and the United States accounted for 60% of total world production. Nearly 90% of world production was from 9 countries (Table 1).

The world production is increasing. In 2002, it reached to 19.3 million tones increasing to 23.1 million tones in 2004/05. In 2005, the growth comes in response to increased purchasing power driven by a stronger world economy. In addition, lower cotton prices, at the same time that manmade fiber prices have increased, are encouraging more consumption (FAO, 2005)

Table 1: Cotton World Production by 000 Tones

Countries	Average 1999/2001	2002/03	2003/04	2004/05
World total	20,001	19,299	20,485	23,080
China	4,523	4,916	4,870	6,300
US	3,952	3,747	3,975	4,350
India	2,573	2,312	2,924	2,790
Pakistan	1,837	1,736	1,734	1,950
Area of Former USSR	1,532	1,518	1,461	1,691
Brazil	802	848	1,255	1,242
Turkey	864	900	900	950
Australia	765	322	329	498
EU	541	470	412	449
Syria*	342	272	275	349
Egypt	253	291	200	280
Argentina	122	63	113	108
Others	2,246	2,176	2,312	2,472

Source: Cotton World Statistics- International Advisory Committee

* ASA 2004, MAAR- it's self calculation depended on that cotton is account 34 % from raw cotton.

2. International Cotton Trade

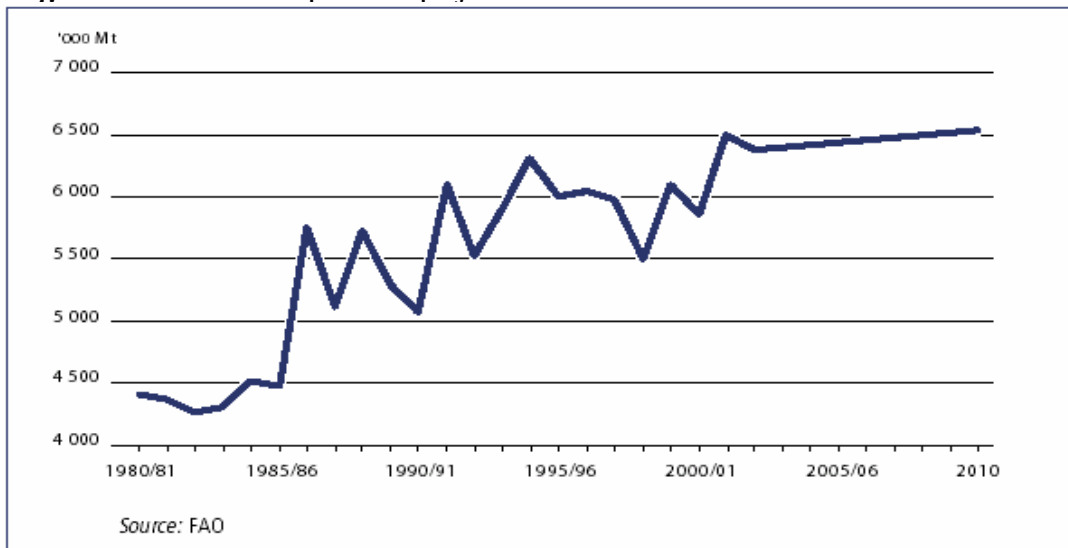
Cotton is an important commodity traded internationally as well as a major employment generator. The (ICAC) estimates more than 100 million farming units globally are engaged

¹ Strategic crops are cotton, wheat, barley, tobacco, sugar bate, Lentils and Chickpeas

directly in cotton production, with many more in ancillary activities. Major players in cotton production and trade include China, India, the USA, the EU and central Asian and African states. China's cotton output has fluctuated considerably, but it is the world's largest exporter of apparel and remains a potential market for raw cotton exporters. With biotech cotton and new, low-cost producers and with the implementation of the Agreement of Textiles and Clothing (ATC), world cotton production is expected to grow by 1.5% annually. This will increase cotton trade to 6.5 million tons by 2010, about 9 percent higher than the current level. (Important commodities in agricultural trade: cotton, FAO).

One-third of cotton production is traded internationally. The four dominant exporters— US, Uzbekistan, Francophone Africa, and Australia—account for more than two-thirds of the world's exports.

Figure 1: World cotton exports and projections



3. International Cotton Policies

Cotton culture has been highly supported in some of the most developed economies, such as US and the EU. In response, the “cotton initiative”, was launched by four African states -Benin, Burkina Faso, Chad and Mali i.e. a proposal to the WTO, calls for an end of "unfair subsidies" granted by developed countries to their cotton producers. As an interim measure, it also proposes that the least developed countries should be granted financial compensation for lost export revenues due to those subsidies.

In February 2004, the European Commission took a number of initiatives to help developing countries enhance their export performance and reduce their vulnerability to price fluctuations of major international agricultural commodities; such as cotton and coffee. The key objectives of these initiatives are to improve the income of commodity producers in developing countries and reduce producers' and states' income vulnerability to price fluctuations. The initiatives involve a comprehensive EU action plan on agricultural commodity dependency and a wide-ranging strategy for the support of the cotton sector in Africa.

The Commission also proposed a specific strategy for an EU-Africa partnership in support of the cotton sector based on obtaining fairer trade conditions on international cotton markets. The EU supports the “cotton initiative” and, in particular, within the agricultural negotiations in the Doha Development Agenda the EU calls for:

(i) Better market access for Least Developed Countries (LDC) exports of cotton and textiles. Developed countries should give duty free and quota free access to cotton and textiles from the world LDCs, in line with the EU.

(ii) Elimination of all forms of export subsidies in this sector;

Domestic Subsidies Distort Trade Patterns, Lower Prices for Cotton

Domestic subsidies in certain developed countries distort cotton production and trade. The USA and the EU, which together account for 25 percent of world output and 35 percent of global exports, support their cotton farmers, encouraging higher production and exports and depressing global prices. Producers in many developing countries including many in Africa, face restricted export markets and lower returns. According to the International Cotton Advisory Committee ICAC, farm subsidies to cotton farmers in 1999 were US\$4 billion in the USA, and US\$800 million in the EU. A study by the ICAC estimated that such subsidies and those of other developed countries have depressed the world cotton price by about 20 percent, a loss of US\$300 million to African cotton exporting countries. Cotton production accounts for 5 to 10 percent of GDP in Benin, Burkina Faso, Chad, Mali and Togo; export earnings contribute significantly to food security in many African countries.

In May 2004, the U.S. government lost the first round of a dispute at the World Trade Organization when a panel ruled that US cotton program violated international trade rules. The WTO found that U.S. cotton subsidies were unfair to farmers in developing countries, but the American government is working to protect its farm subsidies against the WTO challenge. In this regard, Brazil, the world's fifth-largest cotton producer, filed a complaint. Brazil challenged the U.S. cotton program at the WTO because widespread dumping at below cost of production prices was driving global prices down, and hurting Brazilian cotton farmers.

The text agreed in the WTO General Council in July 2004 left the development of the reform of cotton policies to a new "subcommittee on cotton". However, the final decision on the WTO cotton panel concluded that certain U.S. payments constituted trade-distorting support and could not be seen as non-trade distorting "green box" support. (SAT, 2004)

Box 1: Some hints on the 2003 EU Reform for Cotton

On September 23, 2003, the EU Commission proposed to reform its cotton, sugar, and tobacco sectors. Under the cotton reform proposal, the EU support to the cotton sector will consist of the following parts: (i) a single farm payment scheme, (ii) production aid scheme, granted as an area payment, and (iii) development measures. The proposed reform is scheduled to be effective during the 2005 season.

Source: European Commission (2003).

Genetically Modified Cotton

Genetically modified (GM) cotton, a result of technological developments of the 1990s, has the potential of reducing the cost of production and hence increasing profitability of the early adopters of this technology. There are two types of GM cotton: *Bt* cotton (first used in the US in 1996) and herbicide-tolerant cotton (it gained approval by the US Environmental Protection Agency in 1998). *Bt* (*Bacillus thuringiensis*) is a naturally occurring soil bacterium that has been used as a biological pesticide for many years. The gene that produces an insect toxin has been transferred from that bacterium into the cotton plants. In turn, the plants produce their own toxin and there is no need for the grower to apply certain pesticides. Herbicide-tolerant cotton is a cotton plant that has been genetically modified to resist a herbicide that would otherwise kill

both weeds and the cotton plant. Consequently, the herbicide can be applied without exterminating the cotton plant. (BAFFES, 2004)

In economic terms, GM-type cotton (as well as all other GM products) acts as an insurance against pests, insects, or weeds. The growers pay a premium for the resistant-seed (as they would when buying insurance). If the insect attacks the crop, the grower's benefit comes through the lower costs from not spraying. If the insect does not attack the crop growers simply lose their premium (i.e. the cost difference between conventional and GM Cotton) (BAFFES, 2004)

4. Syrian Cotton Production

Cotton is one of the old crops in our region, which planted in summer. Nowadays, Cotton is irrigated by several kinds of irrigation systems such as traditional and modern system. Irrigated lands are increasing annually, which 70% (Westlake, 2001).of it is devoted to strategic crops. The increase in modern irrigated cotton caused more yield stability in last few years.

We notice that cotton's production increased well, from 802,178 ton in 2002 to 1,029,232 ton in in 2004 (See Table 2).

Table 2: Syrian Cotton production and yield, 1996-2004, (Ton and Hectares).

	Average 1996-2000	2001	2002	2003	2004
Area	243,858	257,063	199,773	205,360	234,181
Production	905,540	1,009,826	802,178	811,026	1,029,232

Source: NAPC Database

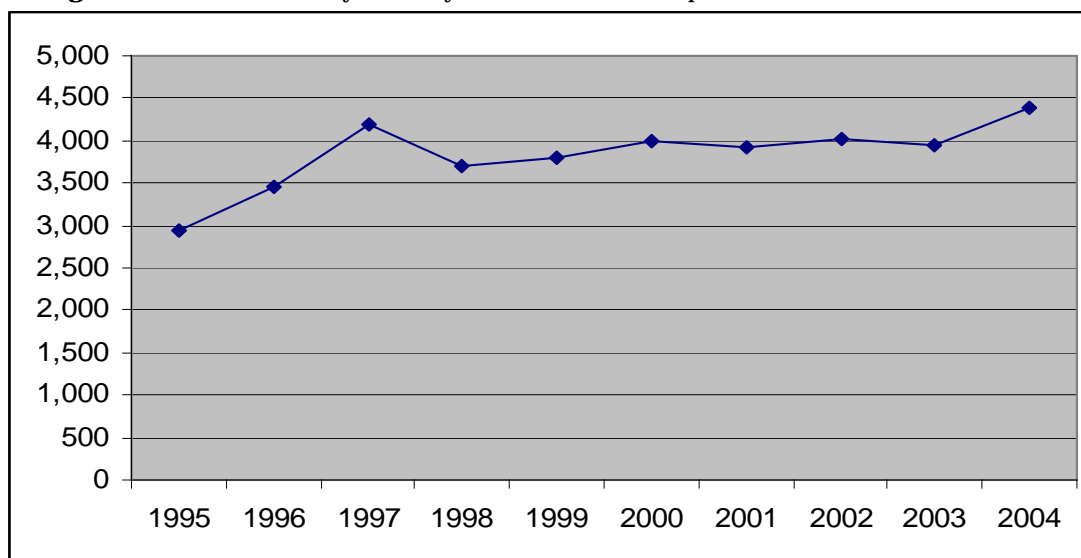
Roughly 20 percent of Syria's irrigated land is used for cotton. Together, wheat and cotton occupy all but a small proportion of the irrigated land available to field crops.² Farmers are encouraged to adopt standard wheat/cotton rotations that result in cotton typically being planted once in every three years on suitable irrigated land. If there were sufficient water, the maximum that cotton could be planted without encountering serious disease and soil fertility problems would be once every two years. This would give a maximum ceiling of about 450,000 hectares to possible cotton production in Syria, were there no water constraints on the presently irrigated land (Westlake, 2001).

Yields per hectare have increased substantially over the past two decades, rising from 1,625 kg/ha in 1970 to a record of 4,180 kg/ha in 1997. Then it is increased from 4003 Kg/ha in 2000 to 4395 Kg/ha in 2004 as it is shown in figure 2. During the 1990s, yields have increased as result of the following factors:

- a producer price structure that further encourages early planting and harvest, involving the payment of price premiums for early seed cotton delivery (this also leads to improved quality since the crop is less likely to be damaged by rainfall or pests and diseases prior to harvest);
- adoption of row planting (that gives a 20% higher yield than broadcasting) and improved irrigation techniques;
- improved agricultural extension.

² There are roughly 1.3 million hectares of irrigated land in Syria, of which about 140,000 hectares are occupied by tree crops.

Figure 2- Trend in cotton yield in Syria, 1996-2004 (Ton per Ha)



Source: NAPC Database

5. Syrian Cotton Policies Development

Since 1960, the Syrian Government intervention in agriculture has been based on the implementation of medium term plans (five years), supplemented by annual executive plans. The stated aim of the annual plans is to steer farmers towards the pattern of land use that the government perceives the best one to meet national objectives. Given its importance, cotton has always been at the core of Syrian agricultural planning.

There are many instruments through which the Government aims at enforcing the plan. The main instruments used for the agricultural cotton sub-sector are the setting of a controlled price and the control of total production by means of a licensing system

The dispositions on planting cotton depend on production plans, according to the decree No.222/1958, known as the “law of cotton planting management”.

The prices for domestic markets were determined on the base of the costs, plus a profit margin of 2%. Exports have been traded at the world price. This price policy prevented the cotton fiber of Syrian yarn and textile companies from being profitably exportable. For example, in the marketing year 1999/2000 the average price for cotton fiber for the domestic market was 85.56 SP/Kg, while the average price for exports was 56.18 SP/Kg. This price policy also reduced the profitability that Syria can get from exports of garments and other textile products. (NAPC, 2005)

Cotton marketing is restricted to the General Establishment for Cotton Ginning and Marketing (CMO) of the Ministry of Economy and Foreign Trade that procures cotton according to the prices defined by the Prime Minister’s Office. Starting from 2000, the agricultural production tax imposed on cotton exports has been eliminated. The CMO is the only domestic seller and exporter of cotton fiber. Prices paid for cotton produced in licensed areas have not been changed since 1996. they are differentiated as follows: (i) grade one delivered by 15/11 receives the best price 30.75 SP/kg; (ii) grade two delivered by 16-31/11 receives 26.25 SP/kg; (iii) grade three delivered after 31/11 receives 19.75 SP/kg. (SAT, 2004)

In 2002, Decision no. 60 of the Supreme Agricultural Council (SAC) adopted the world price for cotton as the (lower) price to be paid by the CMO for cotton cultivated out of the area indicated in the agricultural plan. This decision was accompanied by the reduction of the area planned for cotton cultivation and the promotion of the establishment of additional processing plants with

the aim at reducing export of raw cotton in favor of processed cotton products so as to capture a larger value added share. (SAT, 2004)

6. Syrian Cotton Trade

Cotton is the most important agricultural export. In 1993-95 and 2000-02, average exports were equal to 148,444 and 214,402 tons, respectively, and were valued at US\$ 193 and 201 million. Exports significantly increased in quantity, but only slightly in value terms in case of Cotton, not carded or combed. This can be explained by the downward trend of the world price in the last decade. In 2004 exports value were equal to 162,149 tons, and were valued at US \$ 271.0 million. This can be explained by the downward trend of the world price in the last decade. The main destination countries were Italy, Pakistan, Thailand, Turkey, Indonesia, and Belgium. (Tables 3 and 4) . We note that the top 10 destinations accounted for 84% of Syrian Export.

Table 3- Syrian Cotton (CH52) Exports, 2001-2004, (Ton and Million US\$)

Years	Exports		Main destination Countries (%)
	Ton	Million US\$	
2001	238,633	273.4	Italy 18.7, Egypt 13.5, Turkey 13.0
2002	309,801	279.4	Italy 25.7, Pakistan 9.4, Thailand 8.4
2003	209,428	274.9	Turkey 23.6 , Italy 22.8, Belgium 8.7, Egypt 7.3
2004	162,149.4	271.0	Italy 21.6, Turkey 13.8, Pakistan 12.2, Egypt 11.4

Source: General Department of Customs

Table 4: Top destinations for Syrian cotton exports value, 2004, (Million US\$ and %)

COTTON (CH 52)	Exports Value Million US\$	% Exports value
Italy	58.6	21.6
Turkey	37.5	13.8
Pakistan	33.1	12.2
Egypt	30.9	11.4
China	19.3	7.1
Belgium	14.0	5.2
Portugal	11.2	4.1
Indonesia	10.3	3.8
Korea, Republic of	6.5	2.4
Spain	6.1	2.2
Bangladesh	5.2	1.9
Germany	3.6	1.3

Source: NAPC Database

The main Syrian exports from cotton are cotton not Carded or Combed and Cotton Linters. Cotton not Carded or Combed trade has been declining with exports decreasing annually. Export value was US\$ 273.7 million at 1998 and US\$165.3 million at 2004. This reflects the decreasing role of cotton in the international fiber market. However, Cotton Linters export value is increasing. Last few years it was US\$ 5.6 million in 1998 and US\$ 8.1 million in 2004.

Table 5- Share of Cotton not Carded or Combed and Cotton Linters in general trade, Av 95/97-2004.
(Million US\$ and %)

Source: NAPC Database

Also, we notice that Cotton not carded or combed is the main Syrian export among all cotton's products. Its the export value in 2004 is about US\$ 165.3 Million and its main destination countries are Italy, Turkey, Indonesia, Belgium, and Thailand, as it shown in table 6.

Table 6- Syrian Trade in Cotton not carded or combed

Years	Exports		Unit value US\$/Ton	Main destination Countries (%)
	Ton	Million US\$		
Av 95-97	116337.5	210.6	1,810.6	Italy 23.8, Turkey 10.1, Spain 9.6, Morocco 8.0, Indonesia 7.0,
Av 01-03	189825.1	181.6	956.7	Turkey 20.2, Italy 13.3, Thailand 7.7, Indonesia 7.4,
2000	201,352	198.1	984.0	Turkey 29, Italy 13.8, Indonesia 6.1, Thailand 5.6, Algeria 5.6,
2001	187,069	204.2	1,091.3	Turkey 18, Italy 10, Indonesia 8, Thailand 5, Belgium 5, Pakistan 3
2002	254,784	201.2	789.5	Italy 15.6, Pakistan 13.6, Thailand 12.2, Turkey 11.1, Indonesia 7.3,
2003	127,623	139.5	1,093.3	Turkey 36.7, Italy 15.1, Indonesia 6.6, Belgium 5.2, Thailand 4.8,
2004	113,923	165.3	1,451.0	Pakistan 20.0, Turkey 19.4, Italy 15.7, China 11.7, Indonesia 6.2

Source: NAPC Database

Cotton Linter is one of the main Syrian exports among all kinds of cotton and the export value in

Commodity	Av 95-97	1998	1999	2000	2001	2002	2003	2004	Av 02-04	AGR 2004-95/97
Cotton not Carded or Combed	210.6	273.7	155.8	198.3	204.1	201.2	139.5	165.3	168.6	-3.4
% of Syrian Agricultural Exports	23.6	29.4	19.6	25.2	24.8	15.1	12.3	14.7	14.1	-6.6
Cotton Linters	7.2	5.6	5.7	7.1	13.6	10.6	7.2	8.1	8.6	1.7
% of Syrian Agricultural Exports	0.8	0.6	0.7	0.9	1.7	0.8	0.6	0.7	0.7	-1.7

2004 is about \$8.1 Million and the main destination countries are Germany, Japan, Saudi Arabia, Egypt, and China, as it shown in table 7.

Table 7- Syrian trade in Cotton Linters

Years	Exports		Unit value US\$/Ton	Main destination Countries (%)
	Ton	Million US\$		
Av 95-97	14400.46	7.2	500.8	Japan 43.2, Germany 38.5, S. Arabia 12.4, Italy 3.5, China 1.7
Av 01-03	37123.52	10.5	282.2	Germany 54.6, Japan 25.2, Belgium 5.2, Egypt 3.6, S. Arabia 3.1
2000	27,302	7.1	259.1	Germany 39.8, Japan 14.6, Sweden 16.2, USA 13.5, Turkey 6.9,
2001	35,490	13.6	384.4	Germany 43.5, Japan 28.9, Belgium 11, Tunisia 4.3, USA 3.9,
2002	44,077	10.6	240.8	Germany 62.9, Japan 25.5, Egypt 4.5, S. Arabia 3.8, Belgium 1
2003	31,803	7.2	225.5	Germany 63.7, Japan 17.9, S. Arabia 5.6, Egypt 4.3, China 4.1
2004	26,251.6	8.1	308.1	Germany 65.2, Japan 16.7, China 11.2, S. Arabia 3.5, Egypt 2.2

Source: NAPC Database

Recommendations

- Maintaining and strengthening research, extension, and phyto-sanitary regulations where the government has an essential role;
- To improve supply potential of developing countries, adopt new technologies, and facilitate growth in production, employment and trade;
- Gradual reduction in price subsidy presented to cotton to be consistent with WTO rules and depend more on processing it domestically.

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