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## Paraguay

### Cotton and Products

### Annual

### 2003

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#### **Report Highlights:**

**Paraguayan cotton output for MY2003 is projected at 100,000 tons, significantly than the previous two crops. The newly appointed government has promised to provide assistance to small producers to plant approximately 300,000 hectares, an important political gesture which has historically made a large influence on the country's social welfare. However, private sources believe that total acreage could be somewhat lower due to difficulties in financing the seed for the entire area. Farmers are expecting good returns as result of stronger world prices. Exports are forecast at 65,000 tons, of which Brazil and Argentina will be the main buyers. Most sources indicate that if world prices continue to rise, total acreage in a few years time will approximate 400,000 hectares.**

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Includes PSD changes: Yes  
Includes Trade Matrix: No  
Annual Report  
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## Section I: Situation and Outlook

### Trade

Paraguayan cotton exports for MY2003 are projected to increase to 65,000 tons, higher than the two previous crops. Despite a stronger domestic demand, the export surplus would reach 94,000 tons due to a larger output. Roughly 45,000 tons are expected to be shipped before August 2004 and the balance of that in MY2004. Although Brazil continues to expand its cotton production, it will still remain the main market for Paraguay for several more years. However, cotton merchants perceive that Paraguayan cotton exports will slowly start shifting towards the EU, Far East and Africa. This trend does not help Paraguay as exports to Brazil are generally done at better prices than to other further away markets. Argentina is also an important market for Paraguay, especially in crops 2002 and 2003, in which production in the neighboring country was extremely low just at a moment in which domestic consumption increased significantly resulting in a significant cotton shortage.

Exports during the first six months of 2003 totaled 34,000 metric tons, of which Brazil accounted for 72 percent and Argentina 18 percent. The balance was distributed among Chile, Hong Kong, Taiwan, Indonesia, South Africa and others. Traders expect average FOB prices for 2004 (March-June) at \$0.57-0.60 per lb., higher than the average of 2003 (\$0.51) and 2002 (\$0.33).

Paraguayan cotton has always been of better quality than that of its neighbors, but Brazilian cotton from Goias and especially Mato Grosso are currently of better quality. Argentina's is still below Paraguay's quality. Exports to Brazil are generally done during March and June, just before Brazil's new crop begins to be marketed.

There are strong rumors that the Government of Paraguay will impose an export tax on cotton of \$12 per bale, representing roughly 5 percent. The money collected would be used to import part of the cotton seed used by producers which will be distributed free by the government.

### Production

Although still not defined, planted area for MY2003 is expected to reach 260,000 hectares. Paraguay's newly elected President will take office in mid-August, and therefore, there is a lot of information, but little confirmed. In the past several years, cotton production has been basically defined by the government as it has distributed free seed among the 200,000 cotton producers in order to offset somewhat low world prices. The average cotton area per producer is between 1-2 hectares. Over 95 percent of producers are small in size. There are very few producers of over 100 hectares. Cotton, together with soybeans, is one of the major economic motors of Paraguay and thus it has a strong influence on the country's social situation.

This year, the newly elected president promised that 300,000 hectares were going to be sown in MY2003, but there is a shortage of funds to provide free seed to cover the total area. Therefore, the government plus the private sector are working on different ideas to try to overcome this situation. Sources indicate that the government has seed for about 150,000 hectares and that the balance will have to be imported at a cost of \$27 per bag (good for a hectare). Therefore, some are talking about the export tax, others state that only half of the seed will be given free and the rest will have to be paid by the producers. As time goes by and definitions continue to lag, sources reduce the expected planted area.

Producers' returns are forecast to continue to be good as prices in local guaranies are expected to continue to increase, even further than what they increased in MY2002. Prices in MY2003 will depend almost exclusively

on world prices and the exchange rate, but most sources estimate that they could increase between 10-25 percent in real terms. Paraguayan cotton producers use cotton as their cash crop, which they produce on their own and harvest by hand (95 percent of the entire crop). The cost of production for MY2003 is forecast to remain quite similar to the previous year. If producers have to buy all inputs, including the cost for the use of animal-powered labor as well as their own labor, the total cost of production would be about \$315 per hectare. However, the government in MY2002 provided free inputs (seed, cloth bags for harvest, insecticide for boll weevil) for an average value of \$70 per hectare. Of the balance, \$175 was estimated to be the cost of the family's labor and only \$70 were effectively spent. Yields in MY2002 were somewhat lower than normal due to weather problems, resulting in close to 1,000 kilos of raw cotton, which multiplied by \$0.35 per kilo (2,000 guaranies) resulted in an income of \$350 per hectare. Therefore, the family's net return was roughly \$280 per hectare, which they spend throughout the year to pay for the food they do not produce as well as other expenses. If prices continue escalating and weather is normal, returns in MY2003 should be significantly better.

In MY2002 the government distributed free seed for the equivalent of 260,000 hectares, but only 170,000 hectares were estimated to be sown. Much of the free seed received by the producers was reportedly sold to Brazil. In spite of abundant seed use, yields were lower at the farm and at the gin because there was a relatively long dry period in the north of the region and excess rain during the harvest. Cotton technicians state that yields were also lower because in many cases due to degraded soils, incorrect use of seed (too many put together), incorrect sowing density (few plants per hectare), and because weed and insect control were not done at the right moment.

Cotton farmers do not have many production alternatives since labor is done by the same family and cotton is their main source of income. Soybean production has increased significantly in the past few years and competes for resources (especially land) with cotton. However, sources state that operations below 200 hectares of soybeans are not profitable so their farming is left to large companies.

In general terms, raw cotton yields average 1,200 kilos per hectare. Roughly 55 percent is cottonseed and 34 percent fiber. The harvest usually ends by April and the ginning ends by May.

Paraguay has a vast infestation of boll weevil, but producers have learned to live with it. Most sources do not believe this is a major problem, as it is a worm which negatively affects cotton fields from one day to another reducing yields dramatically. Another problem which the government is focusing on solving is the contamination of raw cotton with either plastic bags and/or with foreign matter due to the lack of closed warehouses.

GMO cotton is prohibited in Paraguay. Sources indicate that there is no production of it in the country, despite the general use of several GMO cotton varieties in neighboring Argentina. A French entity continues to develop new and better varieties in Paraguay to improve yields and fiber quality.

Of the 46 gins that exist in Paraguay, less than 25 operated in MY2002 (98 percent are private and there are two owned by cooperatives). The largest two accounted for slightly over half of the total. There are 4 spinners (once upon a time there were 10) and none are in the cotton production business.

## **Consumption**

Cotton domestic consumption for MY2003 is forecast at 6,000 tons, higher than the previous year. A larger cotton output, the opening of a few plants and the possibility of exporting some more textile products to

Argentina is expected to increase fiber demand.

Of the total cotton demand, roughly half is turned into clothes and garments for the local market, and the other half is primarily used to make fabric, of which 90 percent is currently going to Argentina, an amount that previously went to Chile and Bolivia.

Sources indicate that one of the main reasons why the Paraguayan textile industry has not developed further are the strong incentives that Brazil provides to its textile/cotton sector.

**Section II: Statistical Tables**

PSD Table						
Country	Paraguay					
Commodity	Cotton				(HECTARES)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		08/2001		08/2002		08/2003
Area Planted	220000	220000	0	0	0	0
Area Harvested	150000	150000	170000	170000	300000	260000
Beginning Stocks	13281	13281	10015	14813	11104	19813
Production	47900	47900	59875	60000	97977	100000
Imports	0	0	0	0	0	0
TOTAL SUPPLY	61181	61181	69890	74813	109081	119813
Exports	41368	41368	48988	51000	81647	65000
USE Dom. Consumption	9798	5000	9798	4000	9798	6000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	9798	5000	9798	4000	9798	6000
Ending Stocks	10015	14813	11104	19813	17636	48813
TOTAL DISTRIBUTION	61181	61181	69890	74813	109081	119813