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## GENERAL NOTICES ALGEMENE KENNISGEWINGS

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### NOTICE 113 OF 2008

DEPARTMENT OF AGRICULTURE

MARKETING OF AGRICULTURAL PRODUCTS ACT, 1996

(ACT No. 47 OF 1996)

REQUEST FOR A STATUTORY MEASURE:

LEVY TO FINANCE

INFORMATION, PROMOTION, RESEARCH, QUALITY STANDARDS AND

NORMS, AND TRANSFORMATION FOR COTTON

It is hereby made known in terms of section 11 of the Marketing of Agricultural Products Act, 1996 (Act No. 47 of 1996), that the Minister of Agriculture has received a request for a statutory measure in terms of section 10 of the said Act as set out in the Schedule hereto.

Directly affected groups are hereby invited to lodge any objection or representation regarding the proposed statutory measure with the National Agricultural Marketing Council within 11 days of the publication thereof.

Submissions should be in writing and be addressed to:

**The CEO  
National Agricultural Marketing Council  
Private Bag X 935  
PRETORIA  
0001  
Fax No.: (012) 341 1811  
E-mail: Lizette@namc.co.za  
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**Mr Ronald Ramabulana  
CEO: NATIONAL AGRICULTURAL MARKETING COUNCIL**

**APPLICATION FOR A STATUTORY MEASURE ON COTTON IN  
TERMS OF THE MARKETING OF AGRICULTURAL PRODUCTS ACT, 1996  
(ACT NO 47 OF 1996), AS AMENDED**

**1. STATUTORY MEASURE – LEVIES**

The statutory measure that is requested to be established, is that the Minister in terms of section 15 of the Act, by notice in the Government Gazette, direct that a levy amounting to 20 cents per kg cotton lint (excluding VAT), payable by the producers of seed cotton (ginners) to Cotton South Africa, be imposed.

**2. INFORMATION REQUIRED BY SECTION 10 OF THE ACT**

The particulars as required by section 10 of the Act to be included in a request for the establishment of a statutory measure, are as follows:

- 2.1 The statutory measure that is requested, would relate to cotton lint.
- 2.2 The categories of directly affected groups which would probably be effected by the establishment of the proposed statutory measure, are those groups of persons who are party to the purchase of seed cotton from producers, those persons who process seed cotton for the sale of the products derived therefrom, persons who import or export seed cotton or products derived therefrom and those persons who produce seed cotton.
- 2.3 Letters of support for the proposed statutory measure on cotton were received from some of the directly affected groups in the cotton industry.
- 2.4 The proposed statutory measure will apply to the whole of the Republic of South Africa, in order to have a uniform levy.
- 2.5 According to the applicant, the establishment of the statutory measure applied for, will further the objectives of the Act as stipulated in section 2(2) thereof. Such establishment will also not contravene section 2(3) of the Act.
- 2.6 The manner in which the objectives referred to in section 2(2) of the Act will be furthered (namely the increasing of market access for all market participants, the promotion of the efficiency of the marketing of agricultural products, the optimisation of export earnings from agricultural products and the enhancement of the viability of the agricultural sector), are summarised below (more detail available on request):

**2.6.1 "GENERIC INDUSTRY INFORMATION"**

*Since deregulation of the agricultural industry, great value is being placed on products market information which is no longer as readily available and accessible as before. Cotton South Africa has since 1998, established itself as the major local source of cotton market information, in that many role-players in the cotton industry have become dependent on the information services provided by Cotton South Africa, which is regarded as critical for strategic planning by the industry.*

*Unbiased and reliable market information which is available on a continuous and timeous manner, will not only increase market access for all market participants, but also will also promote the efficiency of the marketing of cotton and enhance the viability of the cotton industry and the agricultural sector at large. Market information will furthermore lead to the optimisation of export earnings without being detrimental to the number of employment opportunities or fair labour practice.*

*The market information obtained up to now by way of these statutory measures has also proved to be invaluable to Cotton South Africa in its capacity as industry forum, as well as in the advancement of its main objectives such as the stimulation of the production and the usage of cotton; the enhancement of the marketability of cotton through research; the establishment of quality standards and norms and the facilitation of the development of the emerging cotton production sector.*

## **2.6.2 THE PROMOTION AND MAINTENANCE OF QUALITY, STANDARDS AND NORMS**

*Cotton SA has been accepted by the cotton industry as an unbiased and independent organisation responsible for the drafting and application of grading standards for the RSA which facilitates the orderly marketing of cotton to the benefit of all role-players.*

*Increased processing speeds, newly emerging spinning technologies and heightened quality expectations have changed the yarn manufacturing industry's focus and buying strategy on their requirements, creating the need for up to date and detailed crop information which has become more critical than ever before in fibre purchasing. Cotton SA plays a major role in this respect.*

*The following impartial and objective quality control services provided by Cotton SA can be highlighted in this regard:*

- *the setting and maintaining of grading standards for seed cotton and cotton lint to serve as an objective guideline and aid during the buying and selling of cotton. During the 2006/07 season the hand and machine picked grading standards for seed cotton have been simplified and combined in one set which now represent only six grades. This change follows years of research and many deliberations with local ginner and producers. The new revised standards now comply more fully with the demands of the changing marketing environment and also corresponds more with that which is produced in practice;*
- *the determination of quality profiles of cotton as a voluntary service for the cotton farmer, the ginner, the spinner and other bodies such as the ARC's Institute for Industrial Crops. During the 2006/07 marketing season a total of 65 390 samples of cotton lint were submitted for analysis, 53 214 of which were received from ginner, 1 115 from spinner whilst 11 061 were received from research and other institutions. In addition 63 seed cotton samples were also submitted by producers and ginner for control purposes; and*
- *the rendering of arbitration services as far as disputes are concerned which may arise between producers and ginner.*

*These functions create a tremendous sense of trust and peace of mind especially to the emerging and commercial farming community, knowing that an organisation such as Cotton SA exists which can be approached when they are in doubt with regard to the grade and quality of the seed cotton they produce. It is very important to note that it is virtually impossible for a farmer to determine the actual value of his seed cotton, but by utilising the services provided by Cotton SA, the owner of the seed cotton can determine the exact market value of his product.*

*Quality control functions, such as the objective evaluation of raw cotton which indicates to a large extent the spinning properties and hence the market value of each bale, forms an integral part with regard to accurate market information which have to be available on a continuous and timeous manner. It also enhances export marketing possibilities because reliable and accurate information regarding the quality profile of the SA cotton crop is of great importance to prospective buyers and could therefore contribute to the optimisation of export earnings.*

*Research as far as the improvement of cotton cultivars are concerned, will also not be meaningful without the impartial evaluation of the fibre properties of the various cultivars. Knowing the quality profile of the South African produced cotton crop and how it corresponds to the cotton spinning requirements are essential for future planning, especially for the evaluation and prioritising of the best cotton cultivars.*

*Quality standards with all its facets would also serve no useful purpose unless proper training programs with regard to the grading and classification of seed cotton and lint are provided and implemented. It is therefore imperative that an independent and impartial body such as Cotton SA by way of training courses imparts the skills needed in this regard to*

ensure that uniformity in grade application is maintained where-ever cotton is being traded. Persons responsible for the buying, selling and processing of cotton are therefore trained on a continuous basis by Cotton SA to ensure the uniform application of standards. In this respect more than 200 persons attended grading courses since the inception of Cotton SA, of whom about 50 were from the emerging sector.

The setting up and maintenance of the complex grading standards for seed cotton and lint (there are 6 seed cotton grades and 54 grades and classes for cotton lint – all utilised on a voluntary basis) with accompanying quality control measures, are deemed a basic precondition for the orderly marketing of cotton which can only be rendered by an independent organisation such as Cotton SA.

For the 2006/07 production season it is estimated that cotton was planted by about 2300 small-scale cotton farmers as opposed to less than 400 commercial farmers. Small-scale or emerging farmers in the past also represented the vast majority of local cotton growers. Although commercial growers rely on the unbiased grading and classification function performed by Cotton SA, the vast majority of cotton producers, i.e. the small growers, are much more dependent on this service as it could leave the door open for exploitation should this facility no longer be available. In this regard it must be borne in mind that cotton as picked from the land is basically valueless until such time as it is ginned and graded and only then is its value determined. Cotton SA is also in a position to evaluate the quality profile of the cotton crop of an entire small grower community, which makes it easier for Cotton SA to guide these farmers by way of training and information days, in order to improve the quality and price of their cotton.

It is therefore clear that the grading function is not only of benefit to the small grower, but essential to ensure the continued existence and development of the emerging cotton farming sector. Without Cotton SA's independent and unbiased quality control and grading facility, small grower representation in the industry will not be able to grow, thereby allowing emerging farmers the opportunity to participate to a greater extent in the economy and to the cotton value chain in particular.

#### 2.6.3 PROMOTION OF PRODUCTION AND USAGE OF COTTON

The abolishment of the statutory agricultural marketing boards in 1997 and the exposure of agricultural commodities to international free market conditions, have in many cases created market volatility. To those who have elected to maintain the status quo by means of newly constituted forums, the ride was less traumatic. In the case of the cotton industry, role-players were able to prevent a collapse of marketing arrangements and promotional activities by the formation of Cotton SA and thus retaining the capacity and expertise established over many years.

The cotton industry's visionary approach in this regard resulted in it being selected as the first agricultural sector to develop a cotton sector strategic plan within the realm of President Mbeki's Strategic Plan for South African Agriculture "to generate equitable access and participation in a globally competitive, profitable and sustainable agricultural sector contributing to a better life for all". The recognition of cotton as a strategic crop for the future, and especially focusing on the development of small-scale production initiatives, leads inevitably to the positioning of a proper marketing plan to support and promote the production and usage of cotton on a national basis.

In the case of the cotton industry, the competition is against synthetic or man-made fibres. Globalisation brought about growing imports of fibre, fabric and ready-made products, as well as the onslaught by synthetic fibre manufacturers on the local cotton market share. Despite the fluctuating size of cotton harvests over the years there has been a keen sense of protecting and expanding the cotton market. This was done on the one hand by introducing the Cotton Mark in 1985 and on the other hand by promoting cotton amongst producers. Since then the Cotton mark has established itself as a true symbol of quality. The cotton industry has therefore demonstrated itself as a stable and reliable partner in the South African economy.

#### International cotton promotion efforts

The world's leading manufacturers of synthetic fibres e.g. DuPont, are continuously developing and producing man-made fabrics such as Supplex, Tactel and Sensura to emulate the unique characteristics of cotton. Due to the huge development cost of these fabrics, it is supported by substantial marketing budgets to ensure success in the market place, but in the process decreasing cotton's market share. Although there are no combined expenditure figures available on worldwide

promotional activities, the ICAC (International Cotton Advisory Committee) says it is reasonable to assume that it can be measured in hundreds of millions of US Dollars.

Despite the competition from man-made fibres, world cotton consumption grew by about 5% per annum over the past 8 years. Over this time cotton also maintained its share of the world textile fibre use with a market share of between 39% to 41% annually. This can partly be ascribed to strong programs of national cotton promotion in many countries to orientate consumers.

The USA provides the best example of what is possible with an effective national program of generic cotton research and promotion. Beginning with a relatively modest budget in the 1970s, Cotton Incorporated, a private company owned by US cotton producers and funded by producers and importers, now operates a \$73 million program of cotton research and promotion (research accounts for about 30% of Cotton Incorporated's budget). The work of Cotton Incorporated has increased consumer awareness of fibre content, stimulated consumer preferences for the advantages of cotton and encouraged fashion trends favouring cotton use. Consequently, per capita cotton consumption in the USA rose from 7 kilograms in 1980 to 19 kilograms currently, benefiting all producers around the world.

In addition to the work of Cotton Incorporated in the USA, the US works to stimulate demand for cotton in other countries through the work of Cotton Council International, funded from both private sector and US government sources. Cotton Australia and Cotton South Africa also operate cotton promotion efforts in their countries. However, most other cotton producing countries only have modest programs to boost cotton demand, and many countries have no cotton promotion programmes of any kind.

#### The cotton promotion plan in South Africa

The aim of the local cotton promotion plan is to:

- increase the production of seed cotton production in general;
- to promote cotton consumption and convince consumers of the inherent qualities and benefits of cotton products; and
- to maintain and expand cotton's market share in relation to man-made fibres.

Increasing seed cotton production:

In normal years South Africa on average produces roughly 50% to 60% of the local demand for cotton lint. An enormous opportunity therefore exists to expand production without fear of creating surpluses, not even taking export opportunities into account.

Cotton SA actively promotes the production of seed cotton by:

- the publication of a quarterly industrial journal providing information on international and local subjects covering the whole spectrum of cotton production, management and new technology;
- the provision of production guides to commercial and emerging farmers;
- exhibiting at agricultural shows and information days;
- an internet website covering a wide spectrum of services;
- editorial articles in national agricultural magazines;
- regular dissemination of updated market reports on the local and international cotton situation; and
- the transfer of technology and information at farmers' days.

Advertising and Promotion:

Cotton SA has been appointed as the Cotton SA Trust's sole agent to manage and market its intellectual property known as the Cotton Marks. The Cotton Marks are registered Trade Marks and are managed by the Cotton Certification Scheme which currently has 98 licensed members (users of the Cotton Marks).