Lowenstein, FRANK - ARTICLES and speeches (1962-1964)

THE LONG-TERM OUTLOOK FOR WOOL

Address by: Frank Lowenstein, Economist for the International Bank for Reconstruction and Development before the 108th Annual Meeting of the Northern Textile Association, September 20, 1962, Portsmouth, New Hampshire.

Mr. Chairman, Ladies and Gentlemen:

Before we take a look at the World Outlook for Wool, I would like to say a word concerning the interest of the World Bank in Wool and commodities in general. As you probably know, the World Bank is an international organization whose stock holders are the Governments of 76 countries. Loans are made to these countries based on banking principles. Most of the countries which borrow from the Bank are underdeveloped countries which depend on primary commodities for large parts of their export earnings.

The future prospects for commodities are, therefore, important in evaluating the credit worthiness of countries applying for loans from the Bank and are important to the economic planning for many underdeveloped countries. Accordingly, the World Bank assesses future prospects for many commodities.

Recently, I completed a basic study on wool for the Bank. This study attempts to assess the future prospects for wool with respect to supply, demand and price. I use the word "attempts" with deliberation. There are many aspects of the world picture for wool which are not clear because of inaccurate data, inadequate information, and inability to foresee technological developments 10 years from now. To analyze the demand for wool, we must look at the demand for wool products. Fortunately, data on wool consumption by mills indicate the relative output of wool textiles, with some time lag, as well as the consumption of raw wool. Data indicating the demand for wool and the output of products in this talk are, therefore, expressed in pounds of wool.

Importance of Wool

About 80 per cent of the Free World's wool output occurs in seven countries - Australia, New Zealand, the Republic of South Africa, the United Kingdom, the United States, Argentina, and Uruguay. All of these countries except the United States and the United Kingdom are important exporters of wool. The five major exporters shipped more than 85 per cent of the Free World's wool exports since 1948 and earned an average of 13.5 to 54.5 per cent of their foreign exchange from wool shipments from 1950 to 1960. Better than 95 per cent of the world's imports go to the Communist Bloc, the United Kingdom, the United States, France, Japan, West Germany and Belgium.

These figures simply indicate that five wool exporting countries are dependent upon wool imports by six wool importing countries for significant portions of their foreign exchange earnings. The wool exporting countries are interested in the demand for wool in the manufacturing or importing countries and the wool importing countries are interested in the supply of wool. Both sets of countries are, of course, interested in prices for wool.

Demand for Wool

World wool consumption since 1948 has risen at about the same rate as has world population. The United States, Western Europe, and Japan manufacture about 80% of the Free World's wool textiles. Mills in these countries consumed about 2,100 million pounds of wool in 1960. The Communist countries consumed another 742 million pounds of wool in 1960, or 23% of the world's mill consumption in that year. This percentage has been growing steadily since the end of World War II. In 1948, mill consumption in the Communist Bloc comprised about 11% of the world total.

Mill consumption of wool within an individual country may not be a true indicator of the demand caused by economic forces originating within the country. Wool textiles are traded in fairly large volume between countries. In some countries, textiles manufactured from wool are exported in large volume and small quantities of wool textiles are imported. In such cases the consumption of wool by consumers within the country is actually smaller than mill consumption. In other countries the reverse situation occurs. Mill consumption of wool within an individual country should be adjusted for imports and exports of wool textiles. Wool consumption after such adjustment is termed "domestic consumption" in this talk.

Exports of wool textiles from Japan have been growing at a rapid pace. In 1960, exports from Japan were about 14 times such exports in 1950. Wool textile exports from West Germany, France, Italy, and Belgium have also been increasing, but not nearly as rapidly as such exports from Japan. Wool textile exports from the United Kingdom have not shown a growth trend. The United States exports small quantities of wool textiles and imports large quantities. In 1960, U.S. imports were equivalent to 132,132,000 pounds of raw wool. These imports were about double those of 1950 and 32% of U.S. mill consumption in 1960.

If the trends, described above, in the principal Free World consuming countries were to continue into the future, they would cause some changes in wool trade patterns. The United Kingdom and the United States would import smaller proportions of the Free World's wool imports and Japan would import a much larger proportion. Wool imports into all the large consuming countries in the Free World would probably increase because of slowly rising mill consumption, but the increases probably would be more rapid in Japan than in other countries and increases in the United Kingdom, and the United States would probably not be as

rapid as in other large consuming countries.

World per capita consumption of wool has not increased since 1948 and was about 1.1 pounds per person in that year and in 1960. Wool consumption has remained stable despite substantial increase in economic activity in most of the world which might have been expected to stimulate consumption. At the same time, the stagnation of consumption was accompanied by a decline in wool prices, which also should have caused wool consumption per capita to increase. Why did wool consumption per capita fail to rise in the face of falling wool prices and rising consumer incomes?

The consumption of fibers in any one country is determined by several economic forces working simultaneously. The principal forces which appear to determine fiber consumption are consumer income; real prices for fibers and textiles; and, in the short run, the inventory position of textiles. The distribution of total demand between the various fibers is determined by relative prices and relative quality characteristics.

The qualities which wool possesses and which are generally considered desirable are warmth, resiliency, and durability. Cotton is not warm enough seriously to compete with wool. The cellulosic manmade fibers are not resilient nor do they wear well and they are not serious competition for wool. However, the synthetic fibers do possess qualities which make them serious competitors for wool. Many synthetic fibers have resiliency and have warmth retaining qualities. Furthermore, it takes fewer pounds of manmade fibers than wool to cover a specified area.

The per capita consumption of all fibers in the Free World has been increasing. Consumption of cotton, wool and manmade fibers increased from 9.8 pounds per person in 1948 to 11.6 pounds in 1960, an increase of 18.4%, about 1.3% per year. The consumption of synthetic fibers increased much more rapidly than consumption of all fibers, rising by about 29.5% a year. Increases in the use of synthetic fibers have been especially sharp since 1950 in the U.S. and the Free World as a whole.

The lack of growth in per capita consumption of wool in the Free World has been largely caused by the rapid growth in synthetic fiber consumption. This growth has been so quick that it has overshadowed increases in income or gross national product and declines in wool prices. (See Figure 1).

Synthetic fiber production in Western Europe, Japan, and the U.K., was at very low levels in 1950. From 1957 to 1960, production almost doubled in the U.K., better than doubled in Western Europe, and almost tripled in Japan. Plans for 1963 indicate continued rapid growth with production more than doubling in Western Europe and Japan and almost doubling in the U.K. Although the rates of growth may taper off in the late 1960's, production of synthetic fibers by then will be very large

and, therefore, will continue to have a depressing effect on wool consumption. (See Figure 2.)

Domestic consumption of wool per capita in Japan has increased since 1948, as contrasted with a decline in per capita consumption of wool in the rest of the Free World. In Japan synthetic fiber consumption per capita rose from 0.1 pounds in 1950 to 2.6 pounds in 1960, an increase of more than 2500% or an annual rate of about 44% a year. Despite the rapid increase in synthetic fiber consumption, domestic wool consumption per capita also increased, rising about 425% or from about 0.05 to approximately 2.5 pounds per capita. In Japan, GNP per capita more than doubled from 1950 to 1960 rising at an annual rate of 7.5%. The combination of sharply rising income, falling wool prices and changes in apparel style probably caused wool consumption to increase despite the rapid rise in synthetic fiber production.

The projections for wool consumption per capita which follow do not take into consideration the possible effect of future technological improvements in fibers. There have been several improvements introduced for wool in recent years, such as resistance to shrinkage, permanent moth-proofing and permanent creasing. Such improvements will help wool retain some of its markets. However, synthetic fiber producers are constantly introducing new fibers and improvements in existing fibers. At this point in time, it is most difficult to assess the relative advantages of prospective technological improvements for wool versus those for synthetic fibers. At the best, improvements for wool probably will no more than offset those for man-made fibers.

A rapid rise in GNP is assumed for Western Europe and probably will cause wool consumption per capita to hold at about its 1960 level or perhaps increase slightly, despite the assumed rapid growth in synthetic fiber consumption. Analysis of wool consumption in the United States shows that Personal Disposable Income (closely related to Gross National Product) is more important in determining wool consumption than either prices or synthetic fiber consumption. If a similar relationship is true for Western Europe, wool consumption per capita will be maintained at least at the present level of 3.7 pounds per capita in 1970 and could rise about 8% to about 4 pounds per capita, depending on the exact level of synthetic fiber consumption (4.5 to 6 pounds per capita). Also, Europe historically, has consumed more wool than the United States. There is little to indicate that this traditional relationship will be changed.

Under the population assumed for 1970, aggregate domestic wool consumption in Western Europe would be 1,293 to 1,398 million pounds in 1970, compared with 1,171 million pounds in 1960.

The very rapid increase in GNP assumed for Japan would probably cause a continuation of the rise in wool consumption, despite an assumed tripling or quadrupling of synthetic fiber consumption in the 1960's Although westernization of clothing styles has already occurred to a large extent, some continuation of this trend probably will continue. Additional westernization of clothing style, although relatively moderate in relation to the past, will probably cause some increase in wool consumption.

Consumption of wool in 1970 in Japan might therefore, be about 3.0 to 3.5 pounds per capita, depending on the size of synthetic fiber consumption, compared with about 2.5 pounds per person in 1960. Total consumption of wool in Japan in 1970 would on this basis be 327 to 382 million pounds. Consumption in 1960 was 231 million pounds.

United States consumption of wool per capita in 1970 may well be about 3.4 pounds, compared with approximately 3 pounds in 1960. Aggregate wool consumption in the United States in 1970 probably will be about 731 million pounds.

Rising synthetic fiber consumption in the United States will presumably hold the rate of increase in wool consumption to a moderate pace. However, synthetic fiber consumption developed somewhat earlier in the United States than in the rest of the world. The rate of growth in synthetic fiber consumption in the 1960's is expected to be smaller in the United States than in the 1950's. In addition, chemical treatment which give wool permanent creasing, wash and wear qualities, permanent moth-proofing, and resistance to shrinkage are now being used commercially.

The slower rate of increase in synthetic fiber consumption, the use of chemical treatments to improve the quality of wool products, and a moderate increase in GNP may well bring about a slow growth in wool consumption per capita in the United States as contrasted with a declining tendency during the 1950's.

The three main wool consuming areas of the Free World (Western Europe, the United States, and Japan) may thus consume 2,351 to 2,511 million pounds of wool in 1970, compared with 1,936 million pounds in 1960. These projections involve increases of 21 to 30% or 2 to 2.6% a year. On the basis of a similar rate of increase, consumption in the rest of the Free World would rise to about 651 to 695 million pounds of wool by 1970. Consumption of wool in the Free World as a whole would thus total 3,002 to 3,206 million pounds in 1970, compared with 2,472 million pounds in 1960.

Even though the rate of growth in wool consumption per capita in the Communist Bloc may be somewhat slower than the 4.8 per cent of the recent past, production of wool may not increase as rapidly as consumption. It appears likely that wool imports from the Free World will increase and may exceed 200 million pounds (clean basis) annually by 1970.

Total demand for wool from the Free World (consumption plus exports to the Communist countries) would be approximately 3,200 to 3,400 million pounds, about 23 to 31% above demand in 1960.

Wool Production

I would now like to take a quick look at prospective supplies or production of wool. World production of wool has been increasing steadily since the end of World War II. Production in 1961 of 5.7 billion pounds (greasy basis) was the largest production since the end of World War II and was 49% larger than average annual production from 1934 to 1938.

From 1948 to 1961 wool production in the world increased at an annual rate of about 3.3% a year.

Production of wool in the Free World increased by 36% or 1.2 billion pounds from 1948 to 1961. (See figure 3). Seven countries produce about 80% of the Free World's wool output. These seven countries are Australia, New Zealand, Republic of South Africa, the United Kingdom, the United States, Argentina and Uruguay. Of these countries, increases in wool production were most rapid in Australia and New Zealand, about 4.0% a year in each country and showed no significant trend in Argentina and Uruguay. Production in the United States increased at a rate of about 1.1 per cent a year.

The growth in sheep numbers in the seven major wool producing countries of the Free World falls into two distinct groups. Sheep numbers in Australia, New Zealand, and the United Kingdom have been increasing at an annual rate of better than 3¼% since the end of World War II. Sheep numbers in the other four major producing countries have shown erratic movements, but there were no persistent trends toward larger sheep population.

Among the seven major producing countries of the Free World, New Zealand has consistently shown the highest production per head of sheep, followed by Australia, the United States, and the Republic of South Africa. The United Kingdom has the lowest production per head of sheep of any of the seven major producing countries.

The fastest rate of increase has occurred in the Republic of South Africa with an average yearly increase of about 2.8%. In 1948, the output per head in the Republic of South Africa was smaller than in Argentina and the United States. Because of the rapid rate of increase, output per head in 1959 in South Africa was about the same as in Argentina and the United States.

The rates of increase in Australia and New Zealand have been small. The slow rate of increase is, however, associated with a high starting level. In 1948 the output per head of sheep in New Zealand was above the 1960 rate for any other country and Australia's 1948 level was above the 1960 level of any country other than New Zealand and the United States.

Data on production by country within the Communist Bloc are not available before 1953, but most of the enlargement of output since 1953 occurred in the U.S.S.R. The U.S.S.R.'s output increased by about 253 million pounds or 50% from 1953 to 1961. China's output was up about 52 million pounds or 42% over the same period. There may be some overestimation of production, particularly for China and Eastern Europe. The increase in production in the Soviet Bloc was caused principally by larger sheep numbers. (See figure 4). Nevertheless, there were significant increases in the output of wool per sheep.

Much of the increase in Free World wool production was caused by higher efficiency in sheep raising. The higher efficiency has resulted in more sheep per acre of pasture land and, in some of the lower yielding countries such as South Africa, more wool per head of sheep. Further

improvements in the efficiency of producing wool probably will be developed in the future. Improved efficiency in wool production has largely offset the rise in the prices paid by sheep farmers in Australia and New Zealand. Despite the steady rise in the prices paid by farmers, sheep farming has continued to be the most profitable farming enterprise in the sheep ranching areas of these two countries.

It appears likely that the trends in wool production in the Free World which have prevailed since 1948 will continue into the foreseeable future. Thus, wool production in the Free World should be capable of expansion in line with demand.

Prices

Projections made earlier in this talk indicate the demand of and supply for, wool in the Free World are expected to increase at about the same rates. Furthermore, the clean equivalent of wool production in 1961 was about the same as wool demand. Therefore, the projected increases would tend to keep the supply of, and the demand for, wool about in balance. At the higher demand level, demand for wool might tend to grow slightly faster than supply, but errors in the data are such that the effect of the more rapid growth in wool demand on prices is doubtful. The same errors in data also would make any price depressing influence of the lower growth rate for demand doubtful.

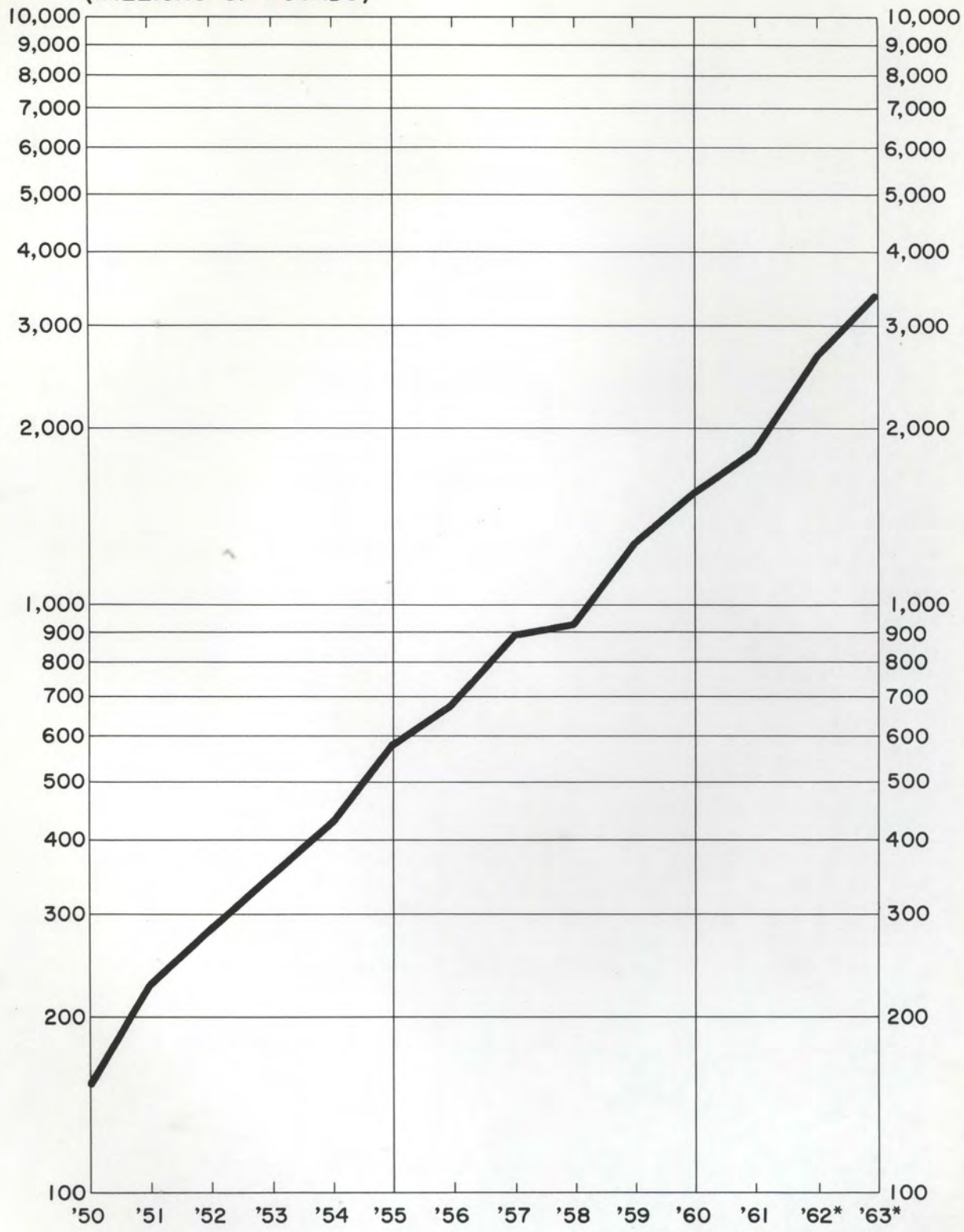
On the other hand, prices for synthetic fibers during the 1960's are expected to decline moderately with the assumed sharp rise in synthetic fiber consumption (3 to 4 times that of 1960 by 1970). A sharper decline in synthetic fiber prices would probably take place if competition within the synthetic fiber industry were more intensive and the possibility of controlling or "administering" prices were correspondingly less. The moderate price decline expected for synthetic fibers may well cause wool prices to decline somewhat. If wool prices fail to respond to change in the prices of synthetics, the market for wool may be smaller than I have indicated.

At 1961 price levels, a price for 64's/70's at London in 1970 of about $1.05 per pound or $1.30 at Boston is indicated. This would be roughly 9% below the average prices in 1961. Thus, a decline in price of close to 1% a year might be expected. Prices for lower quality wools may decline in about the same proportions.

FIGURE 1

WORLD: SYNTHETIC FIBER PRODUCTION

(MILLIONS OF POUNDS)



*Estimated capacity.

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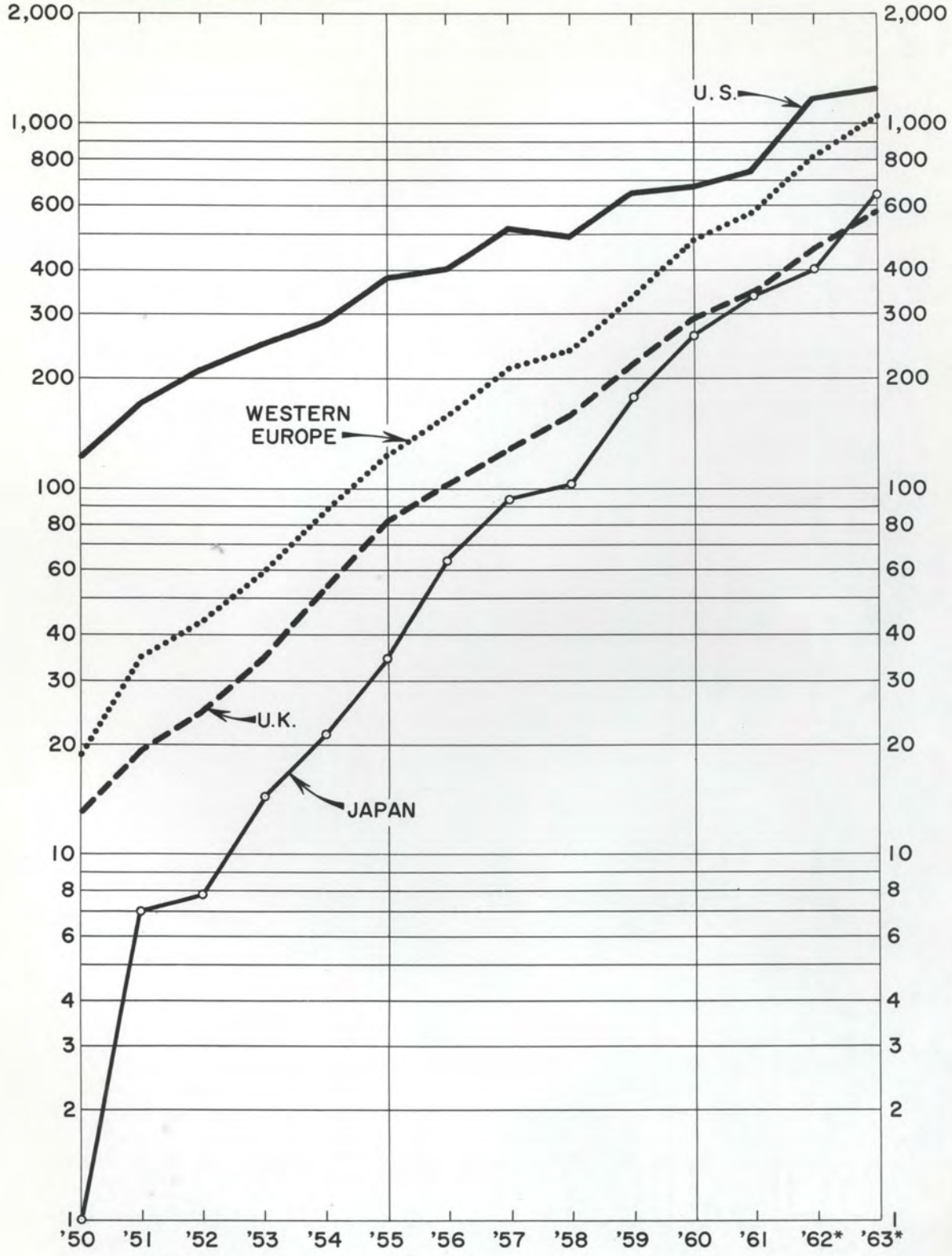
FIGURE 2

SELECTED AREAS: SYNTHETIC FIBER PRODUCTION

(MILLIONS OF POUNDS)



*Estimated capacity.

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FIGURE 3

FREE WORLD: WOOL PRODUCTION, NUMBER OF SHEEP, AND OUTPUT PER SHEEP

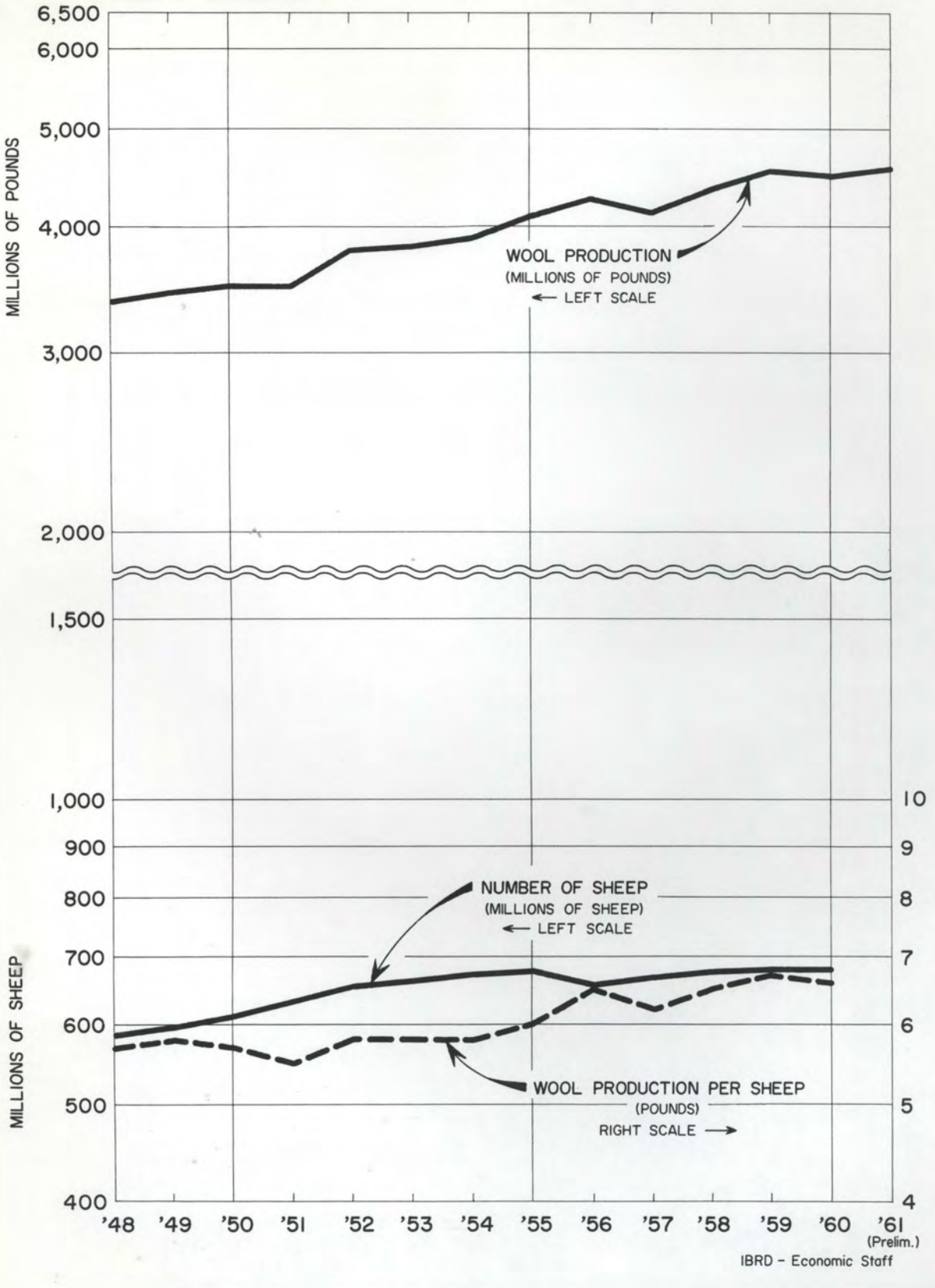
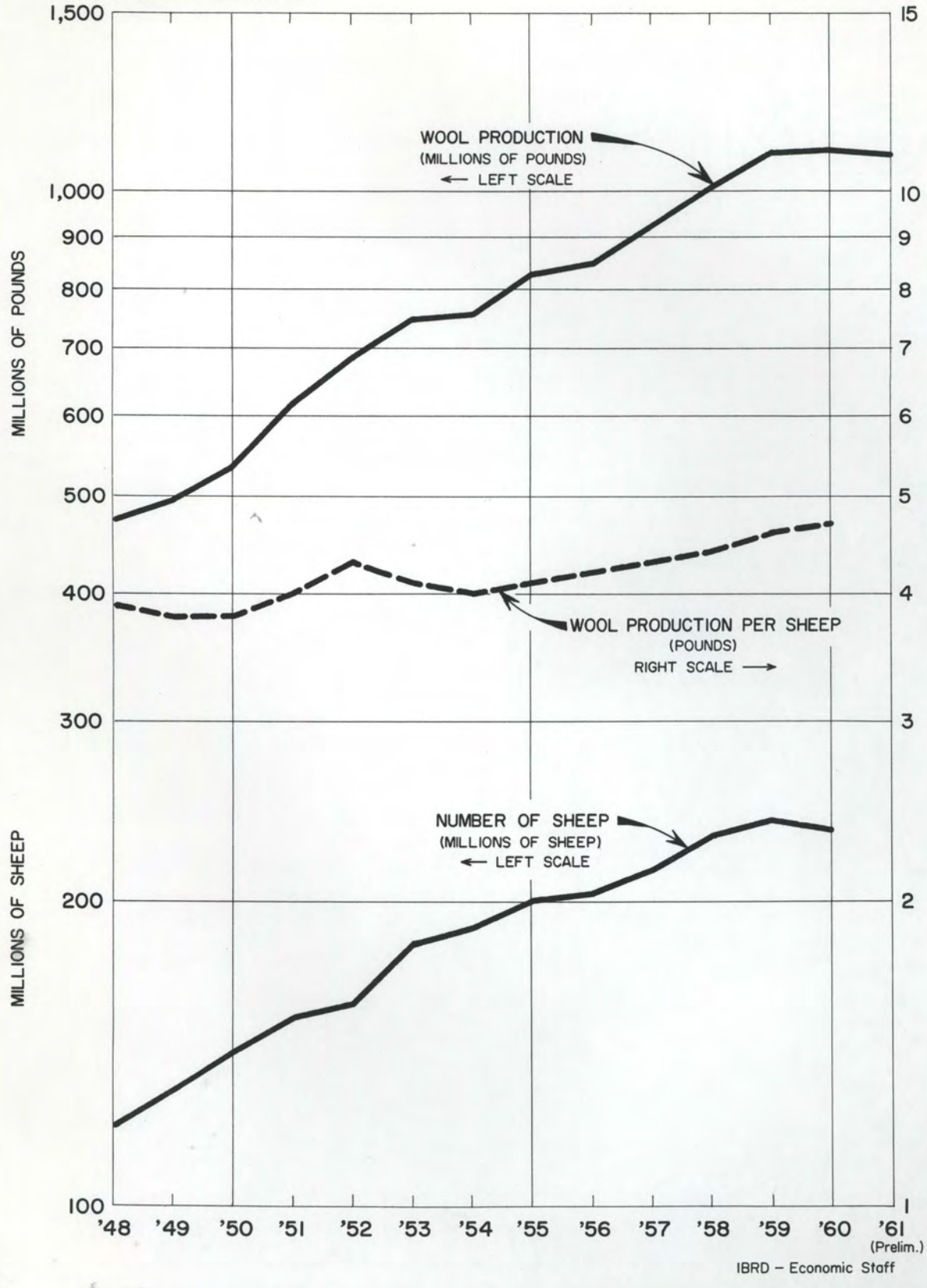


FIGURE 4

COMMUNIST BLOC: WOOL PRODUCTION NUMBER OF SHEEP, AND OUTPUT PER SHEEP



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2015

Mailings Dec 1962 of Lowenstein Speech &

(4) Australian Wool Bureau
Wool House
578 Bourke Street
Melbourne, Vic., Australia

f. 1953; promotes use of wool in Australia & overseas

(5) United Farmers' and Woolgrowers' Association of New South Wales
10 Castlereagh Street
Sydney, Australia

f. 1962 as result of merger of Farmers & Settlers' Assn. of N.S.W. with Wheat and Woolgrowers' Assn.; 340 rural brs.; 17,000 mems.; direct representation on mktg. bds., commodity committees, education councils, etc. pubs. The Land (weekly), United Farmer (fortnightly); has own radio programme weekly.

(6) The Land Newspaper
57-59 Regent St.
Sydney, N.S.W., Australia

1911. Thurs. 9d. Sub. 45s per ann.

(Can't find United Farmer)

Uruguay

(nothing apparently on wool)

✓ Boletin Informativo del Ministerio de Hacienda
Montevideo
Uruguay

(Monthly; commerce & statistics)

New Zealand

Meat and Wool
Box 6309, Te Aro P.O.
Wellington, New Zealand

The journal of the N.Z.pastoral and stud stock industries. 1921. m. 20s. illus. (Stock and stock-breeding)

England (cont.)

3 Wool Record and Textile World.
Thomas Skinner and Co., Ltd.
91 Kirkgate
Bradford 1, England

1909. w. 85s. charts. mkt. pat. stat. index.

4 Wool Review
British-Continental Trade Press Ltd.
222 Strand
London W.C.2, England

(Wool textile and felt industries). 1927. m.40s. charts. illus. mkt. stat.

5 World Wool Digest
Dorland House
18 Regent St.
London S.W.1, England

International Wool Secretariat

(International wool secretariat, London; Wool bureau inc., New York) 1950. fortn. Price not given. charts. mkt. stat.

Textile Manufacturer
Emmott and Co., Ltd.
31 King St. West
Manchester 3, England

(1875. m. 30s. bibl. charts. illus. mkt. pat. Indexed: Chem. Abstr. Eng. Ind.)

Textile Recorder
Harlequin Press Co., Ltd.
Old Colony House
Manchester 2, England

(Annual. 1883. m. 3s. per no. bk. rev. illus. mkt. stat. index. Indexed: Chem. Abstr. Eng.Ind.)

South africa

Die Wolboer
South African Wool Board
Private Bag 245
Pretoria, South Africa

(Wool Grower), 1947. M. 6d. Sub. 6s. 6d. per ann. Printed in Eng. & Afrikaans)

Southern Africa Textiles
South African Publishers (Pty.) Ltd.
P. O. Box 667
Cape Town, South Affica

1952. Illus.
(M.-15th. 3s.6d. Sub. 40s per ann.

Japan

Japanese Textiles Exports
Institute of Textile Trade Research
and Statistics
No. 26, 2-chome, Honmachi, Higashi-ku
Osaka, Japan

(Vol.6, 1955. m. Price not given. stat.)

Society of Textile & Cellulose Industries
of Japan
(Sen-i gakki shi)
Tokyo Institute of Technology
Ohokayama, Meguro-ku
Tokyo, Japan

(Text in Japanese; Title and summaries in English) 1935. m. $7. abstr. bibl. charts. illus. Indexed: Chem. Abstr.

Journal of Textile Machinery Society of Japan
2-Bancho Namba Shinchi
Minami-ku
Osaka, Japan

(Text in English) 1955, s-a. $3. abstr. bibl. charts. Indexed: Chem. Abstr.

Japan Wool Industry Association
Seni Kaikan, 9, 3-chome,
Nihonbashi Hon-Cho, Chuo-ku
Tokyo, Japan

4

France

Comite Central de la Laine
(Groupement General de l'Industrie et du Commerce Lainiers Francais)
12 rue d'Anjou
Paris 8, France (no publication listed) 2,400 members

Belgium

~~Nothing on wool~~

Bibliotheek van de Rijkslandbouwhogeschool
(Library of the State Agricultural University)
Coupure Links 233
Ghent, Belgium

or

Institute Agronomique
(Agronomical Institute) (attached to the Faculty of Science:
72 Avenue Cardinal Mercier, Heverlee
Publishes: Agriculture

(under Universite Catholique de Louvain, Louvain, Belgium

Germany

German Wool Research Institute
Aachen (under Rheinisch-Westfaelische Technische Hochschule
Templergraben 55
Aachen, Germany

Argentina

Panorama Agropecuario
c/o Libraries' Department of the Argentine
Ministry of Agriculture and Livestock
Paseo Colon 974
Buenos Aires, Argentina

Frank Lowenstein, Bangalore, India, April 25, 1963
to International Cotton Advisory Committee meeting

Statement by the Observer for
The International Bank for
Reconstruction and Development

The International Bank for Reconstruction and Development (World Bank) has a deep interest in cotton because of its importance, in raw and manufactured form, to the economies of so many of our member countries. We follow developments in this commodity most carefully. We are grateful to the International Cotton Advisory Committee (ICAC) for its outstanding work in collecting, publishing, and analyzing information on cotton.

At the time of the last plenary meeting, the World Bank was considering a request by ICAC for a study of the market for extra-long staple cotton in the world. Requests for such a study also were made by individual countries which are interested in such cotton. On October 18, 1962 the President of the World Bank, Eugene R. Black, wrote the Chairman of the Standing Committee of ICAC, John P. Duncan, agreeing to conduct the study. Immediately following this commitment, work on the Extra-Long Staple Cotton Study was started by the staff of the World Bank.

The principal objective of this study is to estimate future demand for extra-long staple cotton. The period to be covered by the projection will go through 1970. The assumptions which form the foundation for projecting demand relate to prices for extra-long staple cotton, prices for other cotton, consumption for synthetic fibers, the economic well being of consuming countries, and general price levels in these countries. Before projections can be made certain measurements of various aspects of demand are needed. The study, therefore, is designed to:

1. Measure the effects of price variations for ELS on the consumption of ELS.

2. Measure the effect of competition between ELS and other cotton on the consumption of ELS.

3. Measure the effects of competition between ELS and synthetic fibers on the consumption of ELS.

4. Measure the effect of general economic activity on the demand for ELS.

5. Indicate future technological developments which may affect the demand for ELS.

6. Indicate the effect of marketing practices on the demand for ELS.

7. Appraise the effects of promotion programs on the consumption and prices of ELS and the effectiveness of such programs in strengthening demand for ELS.

The study is not designed to provide measures of forces which affect the production of extra-long staple cotton. However, information that is readily available on production costs and future production plans will be included.

The preliminary phase of the study - planning - is about completed. The professional staff for the study includes two economists, a statistician, and myself. A questionnaire to be used in the field surveys has been developed. Country assignments for the field surveys have been made and the analysis of published information has been planned.

The actual work will consist of three phases:

(1) Analysis of published data and information.

(2) A survey in the field concerning forces which affect consumption of extra-long staple cotton, including, product mix, prices, technical developments, competition with other fibers, marketing practices, and promotion.

(3) Preparation and writing of a report.

The first phase, the analysis of published information, has been started. Various statistical series have been compiled. Statistical methodology which may be useful has been studied and is being applied to the data. The results of these analyses will be included in the final report.

The second phase, the field survey, is now being conducted. The survey is being conducted in 12 countries, as follow:

1. Belgium
2. France
3. West Germany
4. India
5. Italy
6. Japan
7. Peru
8. Spain
9. Sudan
10. Switzerland
11. United Arab Republic
12. United Kingdom

In addition, information already available on the United States will be incorporated into the report. (A similar survey was conducted in the United States in 1959.)

We hope to complete the study and issue a report before the next plenary meeting of the International Cotton Advisory Committee. We hope that we can hold to this timing, but the analysis of large quantities of data and writing the report are no small job. It is possible that the writing of the report will take longer than is now anticipated. Our primary consideration, as far as issuing the report is concerned, is to take the time needed to develop an objective and meaningful study. Therefore, we must inform you that our schedule may be changed. At the same time we can report, that up to the present the study has moved according to the original schedule developed last fall.

Statement Frank Lowenstein proposes to deliver at plenary meeting of International Cotton Advisory Committee at Frankfurt from May 26 to June 10, 1964 (copy sent to Paris)

May 27, 1964

Statement by the Observer for the International Bank for Reconstruction and Development to the Twenty-third Plenary Meeting of the International Cotton Advisory Committee, Frankfurt Germany, June 1964.

On October 18, 1962, the President of the World Bank wrote the Chairman of the Standing Committee of the International Cotton Advisory Committee agreeing to "undertake the study of the market prospects for extra-long staple cotton." That study has been completed and copies of it have been distributed to country representatives and observers to this meeting. The report is titled Extra-long Staple Cotton Demand and Price Prospects, and is Report No. EC-125.

The report is a staff study by the Economic Department of the World Bank. It is in no way an official document and should certainly not be regarded as reflecting views or policies of the Bank. However, we hope it will be of interest to those, who like yourselves, are concerned with the demand and price prospects for extra-long staple cotton.

At the Bangalore meeting of I.C.A.C., last year, I presented a short summary of the objectives of this study and a progress report. At that time I stated that a field survey was in progress in twelve countries. In that survey, we interviewed more than 400 officers and officials of various governments, intergovernmental and trade organizations, and private firms. All of these people gave generously of their time and the completion of the study would not have been possible without their cooperation. Our wholehearted appreciation and thanks are extended to the numerous organizations and individuals involved in the survey.

Work on the study was performed over a period of 19 months. We started working on this report in October 1962. The field survey was carried on in the spring and summer of 1963, and the report was printed in April 1964.

The World Bank has a stock of the report and copies, strangely enough free ones, can be obtained by writing our Paris[1/] or Washington[2/] office.

In the front part of the report you will find an eleven page summary, which I think requires no explanation. However, I would like to highlight certain conclusions of the report.

Before talking about the conclusions we should emphasize that any projections of demand and prices are based on economic models. These models are in turn based on measurement of important economic relationships of the past. These relationships are then applied to assumed values for important economic variables in the future - in our case 1970. Even though every effort was made to use values for these variables for 1970 which are reasonable, some actual values will undoubtedly differ from those assumed for the models. The analyses and the projections do,however, indicate the important relationships which should be watched closely in the future. The assumptions we used for projection purposes are listed in paragraphs 42 and 51 of the Summary of the report on ELS.

1/ International Bank for Reconstruction and Development
4 Avenue d' Iéna
Paris 16e, France.

2/ International Bank for Reconstruction and Development
1818 H. Street, N. W.
Washington 25, D. C., U. S. A.

Based on the analyses and models explained in the report, prices for ELS by 1970 probably will decline substantially. Under assumptions of exports to the Eastern Countries of about 1,500,000 bales, and production in the world of approximately 3,000,000 bales,[1/] prices for Karnak cotton at Liverpool would drop about 22 percent from the level of 1962-63. Such a drop in price probably would be necessary to maintain consumption in the Western Countries of about 1-1/2 million bales. Such a model is based upon analysis which assumes little benefit from promotion programs in stimulating ELS consumption and sharply increasing competition from synthetic fibers in the future.

The projected price decline of around 22 percent for ELS from 1962 to 1970 compares with an assumed production increase of around 17 percent. Thus the larger production assumed for 1970 would appear to mean less cash income for cotton producers than the smaller production of 1962. However, the projections of both prices and production are subject to many qualifications. Production could be somewhat more or less than that projected because of alterations in production plans, development and planting of different varieties, more rapid or less rapid use of improved cultural practices, etc. The price projections could be somewhat higher or lower than those described above. Regardless of whether income from ELS production is somewhat lower, somewhat higher, or about the same in 1970 as in 1962, the returns per pound of ELS or per harvested acre are expected to decline sharply. In view of this analysis, producing countries may wish to reconsider their plans for future production of ELS. Such reconsideration would require a careful study of prices for, and profits from, other crops in relation to prices for, and profits from ELS.

1/ Excluding production in the Eastern Countries.

Under an assumption of exports of about 1,000,000 bales of ELS to Eastern Countries, the quantity of ELS available to Western Countries would be about 2,000,000 bales - an increase of roughly 60% over the quantity consumed in 1962-63. Such a large increase probably would not be used by mills in Western Countries unless prices for ELS dropped very sharply. The use of such a large volume of ELS would require its consumption in products for which medium staple lengths of American-type cotton could be used. Such competition would mean even lower prices for ELS than mentioned above. Under the pressure of a very sharp increase in ELS supplies to Western Countries, such as is being discussed here, the whole schedule of premiums for cotton above Middling 1-inch in quality might narrow - both for American-type cotton and for ELS.

In conclusion, I call your attention to four important aspects of the future market for ELS. In the first place, future prices for ELS in relation to prices for American-type cotton will probably decline from present levels. Secondly, the level of exports of ELS to the Eastern Countries is quite important in the determination of prices for ELS in Western Countries. Thirdly, future production of ELS and future exports of ELS to Eastern Countries probably will have important effects on the price differentials for various qualities of upland or American-type cotton as well as for various qualities of ELS. Lastly, the nature of the market for ELS is shifting from one of specialized uses and semi-monopoly for such uses to one of more intense competition with synthetic fibers and with other cotton.