

**62ND PLENARY MEETING
OF THE
INTERNATIONAL COTTON
ADVISORY COMMITTEE**

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**COUNTRY STATEMENT
THE UNITED STATES OF AMERICA**

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UPLAND COTTON SITUATION AND OUTLOOK:

Overview, Acreage and Production:

U.S. upland cotton production in 2003/04 is forecast at 16.2 million bales, down from 16.5 million bales in 2002/03, 1.8 percent below the 5-year average of 16.5 million bales.

Planted area in 2003 totaled 13.45 million acres, approximately the same as the previous year. Harvested area is forecast at 12.1 million acres, which suggests an abandonment rate of 10 percent. Yield per harvested acre is forecast at 659 pounds, slightly higher than the 5-year average of 637 pounds. In 2002, harvested area reached 12.2 million acres, with an abandonment rate of 11.2 percent. Yields averaged 651 pounds per harvested acre. Currently, production is forecast down 1.8 percent from last season.

Domestic Mill Use:

Mill use of upland cotton in 2002/03 was 7.2 million bales compared to 7.6 million used in 2000/2001. In 2003/04, mill use is projected to decline further to 6.5 million bales.

Foreign Trade:

Upland raw cotton exports are expected to reach a record of 11.3 million bales in 2002/03, up from 10.6 million in the previous year. The top export destination was Mexico, which imported 2.1 million bales from the U.S., representing 19 percent of all upland exports. The top ten upland markets also included China, Turkey, Indonesia, Thailand, Taiwan, Korea, Pakistan, Japan, and India. Together these destinations represented 79 percent of upland cotton exports.

In 2003/04 upland shipments are projected to decrease slightly to 11.2 million bales due to the large U.S. exportable supply and increased world demand. In 2003/04 the U.S. share of world trade of all (cotton) is expected to increase to 39.3 percent, above the 5-year average of 28.9 percent. In 2002/03, the U.S. share of world trade (all cotton) was 39 percent.

U.S. upland cotton imports in 2002/03 are estimated at 5,000 bales. A majority of the imports were from Australia and India. In 2003/04, U.S. imports are projected to remain unchanged at 5,000 bales due to an abundant domestic supply situation.

Supply and Stocks:

The forecasted 120,000 bale-increase in production in 2003/04 from 2002/03, coupled with a 1.95 million bale-decrease in beginning stocks, will reduce upland supply to a projected 21.8 million bales in 2003/04, down 8 percent from 2002/03. Because of the forecast decrease in the U.S. upland cotton supply, U.S. exports are expected to decrease from last season's record 11.6 million.

Total use in 2003/04 is forecast lower at 17.7 million bales, 700,000 bales below 2002/03, as both the mill use and exports decrease. Coupled with the smaller supply, ending stocks for 2003/04 are forecast to decrease by 20 percent to 4.15 million bales. At the end of 2002/03, the upland stocks-to-use ratio equaled 30.2 percent and the ratio is forecast to decline to 21.1 percent in 2003/04.

Manmade Fibers:

U.S. domestic consumption of manmade fibers rose once again in 2002 after the recession-influenced decline of 2001. Domestic consumption reached a record 13.6 billion pounds in 2002, nearly 8 percent above 2001. The gain was a result of the textile import expansion as well as the rebound in mill use of non-cellulosic fibers.

Despite the rise in mill use in 2002, textile exports of manmade fiber products decreased 4 percent from 2001, reaching approximately 2.3 billion pounds. In contrast, 2002 U.S. manmade fiber textile imports jumped nearly 14 percent from the year before to 5.6 billion pounds. Overall, manmade fibers continue to account for over 55 percent of the total fiber consumption in the United States. However, U.S. per capita consumption of manmade fibers rose nearly 3 pounds from 2001 to over 47 pounds in 2002.

Inter-fiber Competition:

Similar to manmade fibers, U.S. cotton domestic consumption expanded in 2002, but U.S. mill use declined again for the fifth consecutive year. U.S. mill use fell to 3.7 billion pounds as a result of the continued rise in cotton textile imports. In 2002, U.S. cotton textile imports increased 13 percent to a record 8.5 billion pounds, while exports rose only 3 percent to 2.2 billion. As a result of the import expansion, total U.S. domestic consumption of cotton reached a new record in 2002 of 10 billion pounds, 8 percent above 2001. Overall, cotton accounts for about 41 percent of 2002's total U.S. fiber consumption, slightly above the previous 5-year average. In addition, U.S. per capita consumption of cotton increased 2 pounds to nearly 35 pounds in 2002.

Despite the reduction in cotton mill use, cotton's share of fibers used in the cotton system in 2002/03 averaged slightly above last season's 81.1 percent and the highest in over 30 years. While only accounting for a small percentage of the final product price, raw cotton prices began the season below those for polyester before rising to a similar level earlier this spring. For the season, U.S. upland mill-delivered cotton prices during 2002/03 averaged about 53 cents per pound, more than 10 cents above a year ago. During the comparable period, polyester staple prices rose slightly to about 62 cents per pound. Meanwhile, rayon staple prices have continued well above those for cotton and polyester, averaging nearly 95 cents per pound for the season.

UPLAND MARKET SITUATION:

Prices:

Prices received by farmers for upland cotton averaged 47.46 cents per pound for the 2002-2003 marketing year, according to the National Agricultural Statistics Service, USDA. This compares with 33.10 cents for the 2001-2002 marketing year and 51.56 cents for the 2000-2001 marketing year.

Table 1. Season average prices, upland cotton, for the base quality, by designated markets, cents per pound, 1997-2002 1/ 2/

Market Areas	1997	1998	1999	2000	2001	2002
Southeast	68.60	62.06	53.81	52.63	33.02	48.28
North Delta	68.36	61.82	53.34	52.32	33.24	48.47
South Delta	68.36	61.82	53.34	52.32	33.24	48.46
East Texas-Oklahoma	65.93	57.66	50.49	51.03	32.59	46.76
West Texas	65.88	57.76	50.12	50.71	32.39	46.51
Desert Southwest	65.63	55.92	48.79	49.47	32.60	46.27
San Joaquin Valley	71.79	63.78	56.67	52.45	34.64	47.52
Average	67.79	60.12	52.36	51.56	33.10	47.46

1 Year beginning August 1.

2/ In mixed lots, net weight, compressed, FOB car/truck.

Table 2. High and low average prices for upland cotton base quality in the designated markets, by seasons.
1/

Year	HIGH		LOW	
	Date	Price	Date	Price
1997 2/	8-Jul-98	77.79	8-Apr-98	59.82
1998 2/	24-Aug-98	74.19	12-Jul-99	47.21
1999 2/	22-May-00	60.71	20-Dec-99	45.94
2000 3/	30-Nov-00	63.57	20-Jun-01	35.39
2001 3/	10-Jul-02	41.39	25-Oct-01	25.94
2002 3/	14-Jul-03	55.86	04-Oct-02	36.56

1/ Year beginning August 1.

2/ Color 41, leaf 4, staple 34, mike 35-36 and 43-49, strength 23.5-25.4 prior to year 2000.

3/ Color 41, leaf 4, staple 34, mike 35-36 and 43-49, strength 26.5-28.4.

Quotations for color 41, leaf grade 4, staple 34, mike 35-36 and 43-49, strength 23.5-25.4 cotton, in the designated markets averaged 47.46 cents per pound for the 2002-2003 season. This was up from 33.10 cents for the 2001-2002 season. Quotations averaged 39.20 cents per pound in August 2002, the first month of the marketing year. Average quotations dropped to the lowest monthly season level of 37.91 cents per pound in September and then steadily increased to 53.82 in March. The monthly average decreased to 48.94 cents in May and closed with a season high in July of 54.45 cents per pound. The season's lowest average quotation for the base quality occurred on October 4, 2002 at 36.56 cents per pound and the season's highest daily quotations was 55.86 cents on July 14, 2003.

Quality:

Color. The predominant color of upland cotton classed from the 2002 crop was color 41, accounting for 35 percent of classings, according to the USDA, Agricultural Marketing Service, Cotton Programs. Color 31 was the predominant color grade in 2001 and made up 35 percent of classings. In the white color grades, color 41 and better made up 70 percent of classings down from 82 percent in 2001. All white color grades accounted for 77 percent of the 2002 crop, down from 84 percent in 2001. Light Spotted color grades comprised 20 percent of classings, up from 14 percent in 2001. Spotted color grades made up about 3 percent of classings this season, as compared to 2 percent a year earlier. Tinged, Yellow Stained and Below grades accounted for less than 1 percent of classings this season, the same as last year.

Leaf. The predominant leaf grade of cotton classed from the 2002 crop was leaf grade 3, accounting for 44 percent of upland classings. Leaf grade 3 was predominant a year earlier making up 56 percent of classings. Leaf grade 4 comprised the next highest percentage from the 2002 crop at 40 percent against 21 percent a year ago. Leaf grade 1-2 made up 10 percent of classings from this year's crop, compared with 21 percent in 2001. Leaf grade 5-7 made up about 6 percent of classings, as compared to 2 percent last year.

Staple. The average staple length of upland cotton classed from the 2002 crop was 34.3 thirty-seconds inches, down slightly from 34.5 a year ago. The predominant staple length was 34, making up about 27 percent of classings. Staple 34 was the predominant length last year, accounting for 29 percent of classings. Staples 31 and shorter comprised 4 percent of classings this season, up from 2 percent last year. Staples 32 and 33, at 26 percent,

were up from 21 percent the previous year. Staple 35 made up 22 percent of the crop, down from 26 percent last year. Staples 36 and longer accounted for 21 percent of classings, down from 22 percent the previous year.

Mike. The average mike of upland cotton classed from the 2002 crop was 46, the same as last year. Cotton with mike 3.4 and lower made up 2 percent of classings, the same as in 2001. Cotton miking 3.5 through 4.9 comprised 74 percent of the classings this season, down from 76 percent a year ago. Cotton with mike 5.0 and higher made up 24 percent, down from 21 percent in 2001.

Strength. The average fiber strength of upland cotton classed from the 2002 crop was 28.6 grams per tex, compared with 28.3 in 2001. Strengths in the 22 and lower range accounted for less than 1 percent of classings, the same as last year. Strengths in the 23 to 25 range accounted for 7 percent, the same as 2001. Cotton with strengths of 26 to 29 grams per tex accounted for 65 percent of classings, against 68 percent a year ago. Strengths in the 30 and higher range comprised 28 percent of classings, up from 24 percent a year ago.

Varieties Planted:

The Deltapine brand of upland cottonseed was the most popular planted in the United States for the 2002-2003 season, according to the USDA, Agricultural Marketing Service's Cotton Program. The Paymaster brand was the second most popular followed by Stoneville, Aventis, Sure-Grow, All-Tex, Phytogen, and CPCSD.

Transgenic varieties - genetically engineered varieties resistant to worms, herbicides, or both - accounted for about 77 percent of the upland cotton planted in the United States in 2002. This is down about 1 percentage point from the 2001 crop, but up some 5 percentage points from the 2000 crop. Usage of transgenic varieties in 2002 varied from a high of 99 percent in Kansas to a low of 42 percent in California. Texas producers planted transgenic varieties to 60 percent of their 5.8 million cotton acres.

Deltapine brand varieties were the most popular planted in 2002, accounting for 32.2 percent of the United States acreage. This brand accounted for 57.5 percent of the acreage planted in the southeastern states (Alabama, Florida, Georgia, North Carolina, South Carolina, and Virginia). It accounted for 27.5 percent of the acreage planted in the south central states (Arkansas, Louisiana, Mississippi, Missouri, and Tennessee), 19.7 percent in the southwestern states (Texas, Oklahoma, and Kansas), and 36.3 percent of the acreage planted in the western states (Arizona, California, and New Mexico). Deltapine's most popular varieties were DP 451 B/RR, DP 458 B/RR, DP 5415 RR, and DP 5690 RR, accounting respectively for 6.9, 6.0, 4.1, and 3.4 percent of the U.S. cotton acreage.

Paymaster brand varieties were the second most popular planted in 2002, accounting for 26.2 percent of the United States acreage. These varieties accounted for 3.3 percent of the acreage planted in the southeastern states, 23.3 percent in the south central states, 44.5 percent in the southwestern states, and 0.6 percent in the western states. The most popular Paymaster varieties were PM 1218 BG/RR, PM 2326 RR, and HS 26, accounting respectively for 6.4, 6.1, and 3.0 percent of the U.S. acreage.

Stoneville varieties were the third most popular planted in 2002. These varieties accounted for 13.1 percent of the acreage planted. They accounted for 9.7 percent of the acreage planted in the southeastern states, 31.6 percent of the acreage in the south central states, 5.2 percent in the southwestern states, and 0.8 percent in the western states. The most popular Stoneville varieties were ST 4892BR and ST 4793R, accounting respectively for 5.7 and 3.2 percent of the United States acreage planted to cotton.

Aventis varieties were the fourth most popular planted in 2002. These varieties accounted for 10.5 percent of the U.S. acreage and accounted for 14.0 percent of the southeastern states planted acreage, 3.0 percent in the south central states, 14.2 percent in the southwestern states, and 1.1 percent in the western states. The percentage of acres planted to Aventis varieties more than doubled from the 2001 crop.

Suregrow varieties were the next most popular and accounted for 7.2 percent of the U.S. acreage planted in 2002.

All-Tex varieties, planted primarily in Texas, Oklahoma, and Kansas, were the sixth most popular and accounted for 4.2 percent of the 2002 cotton acreage. Acres planted to All-Tex increased sharply in 2002.

Table 3. Estimated percentage of upland cotton planted to leading specified varieties, by growth area, 2002 crop

South-eastern	DELTAPINE DP 458 B/RR 13.63	DELTAPINE DP 541 B/RR 12.03	DELTAPINE DP 5415 RR 11.59	DELTAPINE DP 5690 RR 7.84	STONEVILLE ST 4892BR 6.15	AVENTIS FIBERMAX FM 989 BR 5.67	SURE-GROW SG 521 R 4.35
South Central	PAYMASTER PM 1218 BG/RR 21.99	STONEVILLE ST 4892BR 13.17	DELTAPINE DP 451 B/RR 12.99	STONEVILLE ST 4793R 8.95	SURE-GROW SG 215 BG/RR 6.43	STONEVILLE BXN 47 5.00	DELTAPINE DP 458 B/RR 4.18
Southwest	PAYMASTER PM 2326 RR 14.23	PAYMASTER HS 26 6.85	ALL-TEX ATLAS RR 6.83	AVENTIS FIBERMAX FM 832 6.31	PAYMASTER PM 2200 RR 6.01	PAYMASTER PM 2379 RR 5.62	AVENTIS FIBERMAX FM 958 4.01
West	PHYTOGEN PHY 72 ACALA 20.39	CPCSD ACALA RIATA RR 17.31	CPCSD ACALA MAXXA 7.16	DELTAPINE DP 388 3.32	DELTAPINE NUCOTN 33 B 3.26	CPCSD ACALA BXN NOVA 3.16	DELTAPINE DP 458 B/RR 2.86
United States	DELTAPINE DP 451 B/RR 6.85	PAYMASTER PM 1218 BG/RR 6.41	PAYMASTER PM 2326 RR 6.13	DELTAPINE DP 458 B/RR 5.97	STONEVILLE ST 4892 BR 5.74	DELTAPINE DP 5415 RR 4.06	DELTAPINE DP 5690 RR 3.39

ELS COTTON SITUATION AND OUTLOOK:

Overview, Acreage and Production:

The U.S. ELS cotton production in 2003/04 is forecast at 451,000 bales, down 33.4 percent from the previous season. U.S. plantings of ELS cotton are estimated at 180,000 acres in 2003, down 25 percent from last season. The national ELS cotton yield is forecast at 1,213 pounds per harvested acre, down 9.6 percent from 2002/03. Harvested area in 2003/04 is forecast at 178,400 acres, indicating an abandonment rate of 1 percent. Persistent wet weather across the south delayed seeding, forcing growers to seed alternative crops. Despite a decrease in area harvested, California remains the dominant ELS producing state, accounting for 83.3 percent of the ELS acreage.

Domestic Mill Use:

Mill use of ELS cotton in 2002/03 was 105,000 bales, compared with 104,000 bales in the previous year. In 2003/04, mill consumption is projected to decline slightly to 100,000 bales.

Foreign Trade:

As of August 2003, U.S. exports for 2003/04 are forecast at 575,000 bales down from last season's 634,000 bales. Due to the larger U.S. supply, exports in 2002/03 of 634,000 bales were up 40 percent from the previous year's level of 397,000 bales. The major export destination was Pakistan, which accounted for 15 percent of total U.S. ELS exports. The other top ten export destinations included Japan, Indonesia, Italy, China, European Union, India, Germany, Taiwan, and Bangladesh. The top 10 markets accounted for 85 percent of total ELS exports.

ELS imports for 2002/03 are estimated at 53,000 bales with over 95 percent imported from Egypt.

Supply and Stocks:

The ELS cotton supply in 2002/03 of 1,066,000 bales was 27.4 percent above the level in the previous year. Ending stocks for 2002/03, estimated at 327,000 bales, resulted in a stocks-to-use ratio of 44.2 percent, compared with 65.5 percent in 2001/2002.

The ELS cotton supply for 2003/2004 is forecast to decrease to 823,000 bales, down 22.7 percent from the previous year. Ending stocks for 2003/04 are expected to decrease 55 percent to 148,000 bales, due primarily to decreased supply. With the expected decrease in stocks, the stocks-to-use ratio is forecast to decrease to 21.9 percent, falling from 44.2 percent a year earlier.

ELS (AMERICAN PIMA) MARKET SITUATION:

Quality:

American Pima. Color grades 1 and 2 made up 93 percent of classings from the 2002 crop, the same as last year. Color grade 2 was the predominant grade in 2002, accounting for 57 percent of the classings. Color grades 3 and lower comprised 7 percent of 2002 classings. Leaf grades 1 and 2 accounted respectively for 74 percent and 20 percent of the 2002 classings. The average staple length was 46.5 thirty-seconds inches, as compared to 46.0 last year. Staple 46 was the predominant length, comprising 54 percent of classings this season, compared to 64 percent in 2001. Average mike was 4.1, the same as last year. Average fiber strength was 40.6 grams per tex, up from 40.1 last year.

Varieties Planted:

Phytogen was the most popular brand of American Pima planted in 2002. Phytogen variety PHY 76 Pima accounted for 66.5 percent of the United States Pima acreage and was the most popular variety planted in California (76.4 percent of California Pima acreage). Deltapine's DP 744 Pima was the second most-planted American Pima variety and accounted for 11.3 percent of the U.S. crop. Deltapine's DP 340 Pima was the next most popular variety and accounted for 9.0 percent of the U.S. Pima acreage. The most popular Pima varieties in Arizona were CPCSD Pima S-7 (39.8 percent) and Deltapine DP HTO Pima (35.9 percent).

U.S. GOVERNMENT PROGRAMS:

Domestic Programs for 2002 through 2007:

Upland Cotton:

The current upland cotton program is authorized by the Farm Security and Rural Investment Act of 2002 (2002 Act). This Act, passed in May, 2002, retains most of the provisions from the previous farm legislation, the Agricultural Market Transition Act of 1996 (1996 Act), in that it again provides no authority for retiring land from production. It retains the separation of most farm payments from farm production or market prices. One exception, however, is that the 2002 Act provides for payments to producers when market prices are below certain "target" levels. Counter-cyclical payments, 2002-style, are made on the basis of historical farm planted area and average yields, not on the basis of actual planted area or production. Thus, counter-cyclical payments are said to be "de-coupled." Only the payment rate per pound is as it was of old, namely, determined by comparison of market price to target price. The 2002 Act continues to provide farmers complete flexibility in their planting decisions and to reduce the influence of government policies in the marketplace for agricultural commodities. In addition to upland cotton, the 2002 Act also provides payments for feed grains, wheat, rice, peanuts, soybeans, and minor oilseeds. These are the "program crops." It provides minimal price support and is designed to enable American farmers to produce for the marketplace. An enrollment period began on October 1, 2002. Farm operators and owners may update their historical average yields and historical planted area by furnishing supporting data for the period 1998-2001. Or, they may retain area and yield averages that were used to make payments under the 1996 programs.

General Provisions Applicable to Program Crops:

"Direct Payments" are made to farm operators and/or owners. These payments are not tied to market prices or to any planting requirement or prohibition, except for compliance with plans on the farm for erosion control or wetland preservation. Hence, they cannot be considered to provide support for prices or as income subsidies to compensate for low market prices.

Each farm's historical planted area (base area) in each of the program crops (corn, sorghum, barley, oats, wheat, rice, peanuts, soybeans, minor oilseeds, and upland cotton) forms the basis for payments under the program. There are no significant planting requirements or prohibitions other than that the land should be used for an agricultural purpose or, if not planted, should be protected from erosion. Plans previously developed for the farm which specify certain cultural practices or which require the installation of certain physical infrastructure to protect against soil erosion or to preserve wetland environments must be complied with. Land formerly dedicated to a program crop which is presently enrolled in the Conservation Reserve Program (CRP), a 10-year leasing arrangement which holds fragile lands out of production to combat erosion, may re-enter production and may begin earning payments at the expiration of the 10-year lease as long as conservation plans for the farm are followed.

The 2002 Act provided direct payment rates for each of the program crops. The **direct payment rate** for upland cotton is 6.67 cents per pound. In each year through 2007, producers with a history of upland cotton production on the farm are projected to receive a total of approximately \$590 million. By contrast, producers of the largest of the program crops, corn, are projected to receive as total of about \$2.1 billion each year. The total land area and the average yields for each program crop that will receive these payments will be essentially fixed at the conclusion of the enrollment process.

Counter-cyclical payments are computed for the farm, rather than for the farmer, and are based on the historical planted area (base area) in each of the program crops and on the historical average yields for each program crop

on the farm. The total land area that will receive the payments will vary only by the addition of base area on such lands as may be released from the CRP. The **target price** for upland cotton is 72.4 cents per pound. The maximum payment rate that can be paid for upland cotton is 13.73 cents per pound. This will be paid if the annual average market price is below 52.0 cents. The counter-cyclical payment rate for the year will reach zero if the average market price reaches or exceeds 65.73 cents.

Many provisions of the upland cotton program that was in effect for the 2001 and earlier crops were retained in the 2002 Act. Producers are entitled to receive "**marketing assistance loans**" as in past programs. The **loan rate** for the 2002-2007 crops of upland cotton is fixed at 52.0 cents per pound. Producers are eligible for loans on their entire production. Loans are available for a period of 9 months from the first full month after the loan is made. Loans are nonrecourse; forfeiture of the cotton pledged to the Commodity Credit Corporation (CCC) constitutes payment of the loan in full, regardless of the current market value of the cotton.

Marketing loan provisions are continued under the 2002 Act with no modifications. If it is determined that the world market price for upland cotton, adjusted to U.S. quality and location (the adjusted world price or AWP), is below the loan rate for any crop, then the Secretary of Agriculture shall implement a marketing loan program to provide for the repayment of loans at the AWP.

Eligible producers who agree to forgo CCC loans may receive loan deficiency payments on their total production otherwise eligible for loan. The loan deficiency payment rate is equal to the difference, if any, between the loan rate and the loan repayment rate (AWP) in effect during the week in which the application for payment is filed. Loan deficiency payments are subject to a payment limitation.

A **3-step procedure** to help keep U.S. cotton prices competitive is continued for the 2002 through 2007 crop years. Under **Step 1** the Secretary has discretionary authority to make a downward adjustment to the AWP when (1) the Friday through Thursday average of the lowest priced U.S. growth as quoted C.I.F. northern Europe for M 1-3/32 inch cotton (U.S. Northern Europe price) is greater than the Friday through Thursday average of the cheapest five northern Europe quotes (Northern Europe price), and (2) the AWP is less than 115 percent of the loan rate. The maximum allowable AWP adjustment is equal to the difference between the U.S. Northern Europe price and the Northern Europe price.

Step 2 requires issuance of marketing certificates to U.S. domestic users and exporters when the U.S. Northern Europe price exceeds the Northern Europe price and the AWP does not exceed 134 percent of the loan rate for each week of a consecutive 4-week period. The value of the certificate will equal the difference in the fourth week between the U.S. Northern Europe price and the Northern Europe price, multiplied by the quantity of cotton exported or purchased by the domestic mill during the Friday through Thursday period following the fourth week. After July 31, 2006, the program will operate only if the U.S. Northern Europe quote exceeds the Northern Europe quote by more than 1.25 cents for the 4-week period, and the payment rate will be the difference between the two quotes, less 1.25 cents.

Step 3 provides for a special import quota if the U.S. Northern Europe price, adjusted for any payment rate under Step 2 in the previous week, exceeds the Northern Europe price in each week of a consecutive 4-week period. The quota would equal 1 week's domestic mill consumption based on the seasonally adjusted average rate for the most recent 3 months for which data are available. This is approximately 28,300 tons or 130,000 bales. Importers would have 90 days to purchase and an additional 90 days to import the cotton. Quotas established under this provision can overlap.

A **limited global import quota** must be established whenever the average spot market price for SLM 1-1/16 inch cotton during the preceding month exceeds 130 percent of such average price during the preceding 36 months. The amount of the limited global import quota is equal to 21 days of domestic consumption except when a special quota has been established during the previous 12 months, in which case the quota would be the smaller of 21 days of domestic consumption or an amount needed to increase the supply of cotton to 130 percent of the demand.

A 90-day period will be allowed for entering cotton under this quota. This quota cannot be in effect while a Step 3 quota is in effect.

Even if neither of the quotas is in effect, cotton still may be imported under the tariff rate quotas (TRQ) established pursuant to the General Agreement on Tariffs and Trade (GATT). Over the next twelve months, approximately 165,000 bales of raw upland cotton (staple 35 or less) may be imported at the "in-quota" tariff level under the TRQ's and about 184,000 bales of extra-long staple.

ELS Cotton:

The 2002 Act provides for a nonrecourse loan program for extra long staple (ELS) cotton.

A national average **loan rate** established for the 2002 through 2007 crops is 79.77 cents per pound. Producers participating in the program are eligible for loans on their entire production. Loans are available for a term of 9 months from the first entire month after the loan is made.

Loans are nonrecourse, i.e., forfeiture of the pledged cotton to the Commodity Credit Corporation (CCC) constitutes payment of the loan in full, regardless of the current market value of the cotton.

The 2002 Act gave CCC the authority to sell ELS cotton for unrestricted use at price levels determined appropriate by the Secretary of Agriculture to maintain and expand domestic and export markets. The announced CCC sales policy set the minimum sales price at the highest price offered, but not less than the market price, as determined by CCC. CCC held no inventory of ELS cotton as of July 1, 2003.

The 2002 Act provided no authority for target prices, counter-cyclical payments, direct payments or for the acreage reduction programs for ELS cotton. ELS cotton may be grown on any farm without restriction, and producers are eligible for marketing assistance loans on all ELS cotton produced on participating farms.

An **ELS cotton competitiveness payment program** was authorized by legislation enacted on November 29, 1999. This program was extended to July 31, 2008, by the 2002 Act.

In authorizing the ELS cotton competitiveness payment program, Congress established that the program will trigger after 4 weeks in which the U.S. domestic spot price of ELS cotton exceeds the lowest price of competing non-U.S. growths. The payment rate is the amount of that difference, if any, determined each week. Under this general guideline, adjustments to price quotations for non-U.S. ELS cotton, C.I.F. northern Europe, were determined so that non-U.S. prices were made equivalent to the U.S. spot price with respect to location and quality. Valid comparisons between the U.S. and non-U.S. prices then could be made to arrive at reasonable payment rates.

A "base" quality for U.S. Pima for purposes of the ELS payment program was defined as Pima grade 3, staple 44, a close approximation of Egyptian Giza-86. As of the time that the program was conceived, only two non-U.S. growths were being quoted, C.I.F. northern Europe. Egyptian Giza 70 is a cotton of superior quality to the "base" Pima, so a "discount factor" of -7.0 cents per pound is being applied to the Giza 70 quotation before the comparison is made with the U.S. Pima spot price. At that time Central Asian Pima was the only other foreign ELS cotton being quoted. To achieve comparability between Central Asian Pima and the "base" quality of U.S. Pima, a premium of +18.0 cents per pound is being applied to the Central Asian Pima quotation. As required in the future, adjustment factors for other non-U.S. growths of ELS will be determined and applied.

The adjustments to the respective non-U.S. prices are designed so that the adjusted quotations would reach just short of the price thresholds thought to imply competitiveness with U.S. Pima. A change in any of the three prices could elicit a response from the competitiveness payment program if the change decreased U.S. competitiveness.

As of May 2003, payments have totaled about \$41.2 million.

Export Credit Programs:

Under Title I of Public Law 480 (P.L. 480) the United States is authorized to sell commodities such as cotton, cotton yarn, and unfinished fabric manufactured entirely from U.S. cotton on long-term credits to participating countries.

To prevent P.L. 480 exports from interfering with normal commercial trade, the United States establishes a usual marketing requirement (UMR) in the Title I agreement, which can be waived or reduced in cases of unusual economic difficulty. In accepting the UMR, the participating country agrees to continue commercial purchasing at levels consistent with recent trade history. Sales of cotton under P.L. 480 are intended to help expand world trade rather than replace normal commercial purchases. For fiscal year 2003, there was no cotton funded under the P.L. 480, Title I program.

CCC Export Credit Guarantee Program GSM-102:

Initiated in 1981, the GSM-102 program attempts to develop, maintain or increase markets for U.S. agricultural commodities. The program assists U.S. exporters in obtaining short-term commercial financing by providing credit guarantee protection against the risk of nonpayment for both commercial and non-commercial reasons. The program requires that export sales be secured by a dollar denominated letter of credit issued by a CCC-approved bank. If the importer's bank defaults on payments for any reason, the CCC will pay the exporter or the lending institution the amounts covered in accordance with GSM-102 regulations.

Whenever the Department of Agriculture (USDA) determines that a country is eligible for a GSM-102 program and there is market demand for U.S. exports, a public announcement is made. This announcement states that CCC will accept applications for guarantees against nonpayment on sales of a particular commodity to that specified country. After such an announcement, but before shipment, any qualified U.S. exporter with a sale of a covered commodity to the specified country must submit an application to register its sales with the CCC. A guarantee fee must also be submitted to the CCC with the written application. Before the application is submitted, the exporter should first determine whether bank financing will be available. The export sale must be secured by an irrevocable letter of credit payable in U.S. dollars from a CCC-approved bank.

The repayment period specified in the announcement is extended for up to three years under GSM-102. Approvals of acceptable applications are made up to the dollar limit stated in the announcement. The exporter is provided with a payment guarantee, which specifies the maximum value to be guaranteed by CCC. Presently, CCC generally covers 98 percent of the port value of the commodity plus 55 percent of the average investment rate of the most recent 26-week Treasury Bill. Coverage is effective from the date of export and continues in force for the period covered. The exporter may assign to a U.S. bank or other financial institution the proceeds payable by CCC under the payment guarantee. Notice of the assignment is sent to the Treasurer of the CCC who then acknowledges its receipt. Within 30 days after export of any commodity covered by a payment guarantee, the U.S. exporter must furnish the export information required by the GSM-102 regulations.

If the foreign bank, which issues the letter of credit, fails to make scheduled payments, the exporter or assignee must notify CCC of the default within 10 days of the payment's due date (or any extension thereof). Within 30 days after notice of nonpayment, the exporter or assignee files a claim for the date of nonpayment.

In recent years, USDA has used the market basket approach under the majority of GSM programs, where no specific dollar amount is assigned to a commodity. Registrations are made on a first-come, first-served basis. So far, In fiscal year 2003, the United States announced guarantees totaling \$ 4.2billion to 33 countries and regions. Sales of \$298.7 million in cotton were registered in the Central and South American Region, Indonesia, Korea, Mexico and Turkey through July 18, 2003.

CCC Intermediate Export Credit Guarantee Program GSM-103:

The Food, Agricultural, Conservation and Trade Act of 1990 specified that for fiscal year 1992, \$500 million be made available for the implementation of an Intermediate Credit Guarantee Program, covering loans of more than three but less than 10 years in duration. This program is designed to help developing economies make the transition from concessional financing to cash purchases. The operation of the GSM-103 program is similar to that of GSM-102, except for the longer guarantee period and the method of calculating interest coverage, which is determined by a floating rate formula rather than a fixed rate. Although GSM-103 was originally intended for livestock, other commodities have been announced recently.

Supplier Credit Guarantee Program:

Under the Supplier Credit Guarantee Program (SCGP), initiated by the Federal Agriculture Improvement and Reform (FAIR) Act of 1996, CCC guarantees a portion of payment due from importers under short-term financing (up to 180 days) that exporters have extended directly to the importers for the purchase of U.S. agricultural commodities and products. These direct credits must be secured by promissory notes signed by the importers. A substantially smaller portion of the value of exports (currently 65 percent) is guaranteed under SCGP than under the Export Credit Guarantee Program GSM-102 where CCC is guaranteeing foreign bank obligations. So far, in fiscal year 2003, the United States announced guarantees totaling \$1.4 billion to 36 countries and regions. As of July 18, 2003, \$6.07 million of cotton was registered under this program.

COTTON MARKET DEVELOPMENT:

Domestic Market Development:

Under provisions of the Cotton Research and Promotion Act of 1966, a Cotton Research and Promotion Program was started in the United States in 1967. The program is intended to provide the means to establish and finance a coordinated program of research and promotion designed to strengthen cotton's competitive position, and to maintain and expand domestic and international markets and uses for United States cotton.

From 1967 to 1990, the program was financed through refundable assessments paid by producers. Amendments to the Act, contained in the 1990 Farm Bill, expanded the funding base for the program by authorizing assessments on imported cotton and cotton-containing products while eliminating refunds of producer paid assessments. These changes became effective in 1992. The import assessment is \$1.00 per bale of non-upland cotton imported and supplemental assessment not to exceed 1 percent of the value of such cotton, the same rate is applied to domestic cotton.

The Act provides for the establishment of a Cotton Board to administer the program. The Board is currently comprises 21 members representing U.S. cotton producers and eleven organizations of importers of cotton products. Board members are nominated by producer and importer organizations certified by the Secretary of Agriculture. The Secretary appoints the Board members who administer the program and submit plans and budgets to the Secretary for approval.

Research, promotion and technical assistance activities are carried out by a contracting organization, Cotton Incorporated. Since 1975, cotton's domestic market share at retail, excluding carpets, has increased from 34 to over 60 percent. Research activities funded under the Cotton Research and Promotion Program effectively develop of innovative processes and treatments for cotton to provide consumers with the latest in fiber technology.

International Market Development:

Cotton Incorporated:

Cotton Incorporated's overseas operations began in 1973, with the purpose of expanding export markets for U.S. cotton by providing technical and marketing assistance abroad. Cotton Incorporated maintains headquarters in Cary, North Carolina, with other offices in New York City, Los Angeles, Dallas, Osaka, Mexico City, Shanghai, and Singapore. Overseas activities include technical servicing to mills to enhance cotton processing technologies, introduction of new fabric and technological advances, and the presentation of color fabric trend forecasting.

Cotton Council International:

Cotton Council International (CCI) is the export promotions arm of the National Cotton Council of America. CCI's primary mission is developing markets for U.S. cotton exports of cotton fiber and value-added cotton products through cooperation with the U.S. Department of Agriculture, industry groups and firms in program countries. CCI's headquarters is in Washington, D.C., with overseas offices in Hong Kong, Korea, and the United Kingdom.

CCI coordinates advertising campaigns for 100 percent cotton products containing 50 percent or more U.S. cotton under the COTTON USA program. This program reaches over one billion current and potential customers of U.S. cotton in more than 50 countries worldwide. Special projects have been undertaken to expand cotton consumption around the world. Examples of CCI activities include: foreign cotton spinner and manufacturer's representative's orientation tours to the United States; trade missions of producers, exporters and government representatives from the United States to consuming countries; conferences and seminars addressing issues of on cotton trade, processing, and promotion.

Table 4: COTTON: SUPPLY AND DISAPPEARANCE, BY TYPE, 1983-2003

Year	Beginning Stocks 1/	Production 2/	Imports	Total Supply 3/	Mill Use 4/	Exports	Total Demand	Loss 5/	Ending Stocks
1,000 480-POUND NET WEIGHT BALES ALL KINDS									
1983	7,937	7,771	12	15,720	5,921	6,786	12,707	238	2,775
1984	2,775	12,982	24	15,781	5,539	6,215	11,754	-74	4,102
1985	4,102	13,432	33	17,567	6,413	1,960	8,373	-154	9,348
1986	9,348	9,731	3	19,082	7,452	6,684	14,136	-80	5,026
1987	5,026	14,760	2	19,788	7,617	6,582	14,199	-182	5,771
1988	5,771	15,411	5	21,187	7,782	6,148	13,930	165	7,092
1989	7,092	12,196	2	19,290	8,759	7,694	16,453	-163	3,000
1990	3,000	15,505	4	18,509	8,657	7,793	16,450	-285	2,344
1991	2,344	17,614	13	19,971	9,613	6,646	16,259	8	3,704
1992	3,704	16,218	1	19,923	10,250	5,201	15,451	-190	4,662
1993	4,662	16,134	6	20,802	10,418	6,862	17,280	-8	3,530
1994	3,530	19,662	20	23,212	11,198	9,402	20,600	-38	2,650
1995	2,650	17,900	408	20,958	10,647	7,675	18,322	27	2,609
1996	2,609	18,942	403	21,954	11,126	6,865	17,991	-8	3,171
1997	3,971	18,793	13	22,777	11,349	7,500	18,849	41	3,887
1998	3,887	13,918	439	18,244	10,401	4,298	14,699	-394	3,939
1999	3,939	16,968	97	21,004	10,194	6,750	16,944	145	3,915
2000	3,915	17,188	16	21,119	8,862	6,740	15,602	-483	6,000
2001	6,000	20,303	21	26,324	7,696	11,000	18,696	180	7,448
2002 6/	7,448	17,209	60	24,716	7,300	11,600	18,900	-17	5,800
2003 7/	5,800	16,600	50	22,450	6,800	11,800	18,600	50	39,00
UPLAND									
1983	7,844	7,677	8	15,529	5,861	6,750	12,611	225	2,693
1984	2,693	12,852	21	15,566	5,491	6,125	11,616	74	4,024
1985	4,024	13,277	33	17,334	6,338	1,855	8,193	-148	9,289
1986	9,289	9,525	3	18,817	7,385	6,570	13,955	-80	4,942
1987	4,942	14,475	2	19,419	7,565	6,345	13,910	-209	5,718
1988	5,718	15,077	5	20,800	7,711	5,883	13,594	180	7,026
1989	7,026	11,504	2	18,532	8,686	7,242	15,928	-194	2,793
1990	2,798	15,147	4	17,949	8,592	7,378	15,970	-283	2,262
1991	2,262	17,216	13	19,491	9,548	6,348	15,896	12	3,583
1992	3,583	15,710	1	19,295	10,190	4,869	15,059	-221	4,456
1993	4,456	15,764	6	20,226	10,346	6,555	16,901	22	3,303
1994	3,303	19,324	18	22,645	11,109	8,978	20,087	-30	2,588
1995	2,588	17,532	400	20,520	10,538	7,375	17,913	64	2,543
1996	2,543	18,413	403	21,359	11,020	6,399	17,419	20	3,920
1997	3,920	18,245	13	22,178	11,234	7,060	18,294	62	3,822
1998	3,822	13,476	427	17,725	10,254	4,010	14,264	-375	3,836
1999	3,836	16,294	53	20,183	10,055	6,303	16,358	160	3,665
2000	3,665	16,799	8	20,472	8,738	6,303	15,041	-448	5,879
2001	5,879	19,603	10	25,487	7,592	10,603	18,195	17	7,120
2002 6/	7,120	16,531	7	23,657	7,195	10,965	18,160	16	5,481
2003 7/	5,481	16,200	5	21,686	6,700	11,250	17,950	-50	3,786

Table 4 continued: COTTON: SUPPLY AND DISAPPEARANCE, BY TYPE, 1982-2002

Year	Beginning Stocks 1/	Production 2/	Imports	Total Supply 3/	Mill Use 4/	Exports	Total Demand	Loss 5/	Ending Stocks
1,000 480-POUND NET WEIGHT BALES EXTRA-LONG STAPLE									
1983	93	95	4	192	67	36	103	-7	82
1984	82	130	3	215	49	90	139	2	78
1985	78	155	0	233	61	105	166	-8	59
1986	59	206	0	265	67	114	181	0	84
1987	84	285	0	369	52	237	289	27	53
1988	53	334	0	387	71	265	336	-15	66
1989	66	692	0	758	73	452	525	31	202
1990	202	358	0	560	65	415	480	-2	82
1991	82	398	0	480	65	298	363	-4	121
1992	121	508	0	629	60	332	392	31	206
1993	206	370	0	576	72	307	379	-30	227
1994	227	338	2	567	89	424	513	-8	62
1995	62	368	8	438	109	300	409	-37	66
1996	66	529	0	595	106	466	572	-28	51
1997	51	548	0	599	115	440	555	-21	65
1998	65	442	12	519	147	288	435	-19	103
1999	103	674	44	821	139	447	584	-13	250
2000	250	389	8	647	124	437	561	-35	121
2001	121	700	16	837	104	397	501	8	328
2002 6/	328	678	53	1059	105	635	740	0	319
2003 7/	319	400	45	764	100	550	650	0	114

1/ Compiled from bureau of the census data and adjusted to an August 1 480-Pound net weight basis. Excludes preseason ginnings.

2/ Includes preseason ginnings.

3/ Totals made from unrounded data.

4/ Adjusted to August 1-July 31 marketing year.

5/ Difference between ending stocks based on census data and preceding season's supply less disappearance. For supply less disappearance. For upland cotton, this difference primarily reflects an increase of an estimated one percent in average bale weights due to moisture absorption once cotton is ginned and begins to flow through marketing channels. Additional moisture is absorbed by cotton moving in export channels. For ELS cotton, this difference reflects in part, reporting discrepancies for stocks, mill consumption and exports.

6/ Estimate.

7/ Forecast.

Table 5: U.S. PER CAPITA DOMESTIC COTTON CONSUMPTION, 1983-2002 1/

Calendar Year	Mill Use	Textile Imports	Textile Exports	Net Trade 2/	Domestic Consumption 3/
Pounds					
1983	12.00	4.84	0.94	3.90	15.90
1984	11.50	4.84	0.87	5.31	16.81
1985	11.80	6.75	0.87	5.88	17.20
1986	13.54	7.94	1.14	6.80	20.34
1987	15.46	9.62	1.23	8.39	23.85
1988	14.32	8.66	1.33	7.33	21.65
1989	16.36	9.52	2.05	7.47	23.83
1990	16.47	9.67	2.66	7.01	23.48
1991	17.15	10.20	2.67	7.53	24.69
1992	18.53	12.38	3.09	9.29	27.82
1993	18.97	13.74	3.51	10.23	29.20
1994	19.86	14.53	4.10	10.43	30.28
1995	19.44	15.34	4.99	10.35	29.79
1996	19.38	15.66	5.65	10.01	29.38
1997	19.94	18.63	6.57	12.06	32.00
1998	18.96	21.83	7.09	14.74	33.70
1999	17.77	24.03	7.42	16.61	34.37
2000	16.81	26.70	8.65	18.05	34.86
2001	13.48	26.42	7.44	18.98	32.47
2002	12.80	29.46	7.57	21.89	34.69

1/ U.S. apparent consumption of cotton and cotton textiles.

2/ Imports minus exports.

3/ Mill use plus net trade.

Compiled by Economic Research Service, USDA, from Bureau of the Census data.

Table 6: RAW COTTON EQUIVALENT OF U.S. EXPORTS OF DOMESTIC COTTON MANUFACTURES AND IMPORTS FOR CONSUMPTION OF COTTON MANUFACTURES, 1983-2002

Calendar Year	Total Exports		Total Imports	
	1,000 Bales 1/	1,000 Pounds	1,000 Bales 1/	1,000 Pounds
1983	219,614	457.5	1,135,502	2,365.6
1984	206,081	429.3	1,465,475	3,053.1
1985	213,224	444.2	1,629,166	3,394.1
1986	274,828	572.6	1,910,474	3,980.2
1987	298,004	620.8	2,335,696	4,866.0
1988	330,266	688.1	2,118,775	4,414.1
1989	491,067	1,023.1	2,353,918	4,904.0
1990	638,822	1,330.9	2,416,410	5,034.2
1991	676,308	1,409.0	2,592,913	5,401.9
1992	794,973	1,656.2	3,193,165	6,652.4
1993	914,725	1,905.7	3,574,387	7,446.6
1994	1,080,823	2,251.7	3,795,927	7,908.2
1995	1,330,810	2,772.5	4,048,669	8,434.7
1996	1,524,678	3,176.4	4,171,553	8,690.7
1997	1,792,384	3,734.1	5,084,073	10,591.8
1998	1,957,103	4,077.3	6,026,211	12,554.6
1999	2,073,505	4,319.8	6,711,432	13,982.2
2000	2,442,982	5,089.5	7,541,382	15,711.2
2001	2,123,784	4,424.6	7,545,249	15,719.3
2002	2,186,115	4,544.4	8,502,165	17,712.8

1/ Bales of 480-pound net weight.

Compiled by Economic Research Service, USDA, from Bureau of the Census data.

Table 7: MANMADE FIBERS: U.S. CONSUMPTION, 1983-2002

Year	Cellulosic	Noncellulosic	Total
Million pounds			
1983	598.6	7,585.5	8,184.1
1984	587.9	7,378.2	7,966.1
1985	545.6	7,679.9	8,225.5
1986	608.3	8,044.4	8,652.7
1987	585.6	8,480.1	9,065.7
1988	612.9	8,595.0	9,207.9
1989	600.8	8,616.8	9,217.6
1990	598.9	8,448.1	9,047.0
1991	556.5	8,535.7	9,092.2
1992	557.7	9,173.2	9,730.9
1993	606.2	9,566.2	10,172.4
1994	544.7	10,217.6	10,762.3
1995	507.8	9,832.7	10,340.5
1996	472.9	10,053.4	10,526.3
1997	448.3	10,675.0	11,123.3
1998	382.4	10,744.0	11,126.4
1999	331.5	11,013.8	11,345.3
2000	301.1	11,144.1	11,445.2
2001	234.9	10,079.4	10,314.3
2002	NA	10,270.4	10,270.4

NA = Not available.

Compiled by Economic Research Service, USDA, from Fiber Organon and Bureau of the Census data.

List of USDA Web Sites:

FAS Cotton Group website: <http://www.fas.usda.gov/cots/cotton.html>

Cotton and Wool Outlook (CWS): Economic Research Service, U.S. Department of Agriculture. Description: Monthly. Provides information and statistics on domestic and world cotton and wool production, consumption, export sales, use, and prices, including data on raw fibers and textiles. <http://usda.mannlib.cornell.edu/reports/erssor/field/cws-bb/>

The USDA Economics and Statistics System: Contains nearly 300 reports and datasets from the economics agencies of the U.S. Department of Agriculture. These materials cover U.S. and international agriculture and related topics. Most reports are text files that contain time-sensitive information. Most data sets are in spreadsheet format and include time-series data that are updated yearly. <http://usda.mannlib.cornell.edu/>

The USDA Baseline provides: Longrun projections for the U.S. agricultural sector through 2009. Projections cover selected agricultural commodities and agricultural trade, and aggregate indicators such as farm income and food prices. As "baseline" projections, they represent one plausible scenario for the next ten years, and reflect both model results and judgment. The projections assume no shocks and are based on specific assumptions for the macroeconomic conditions, policy, weather, and international developments. <http://www.ers.usda.gov/briefing/baseline/>

AMS The Cotton Program: The program promotes the orderly and efficient marketing of cotton by preparing, distributing, and encouraging the use of universal cotton classification standards, and by providing cotton classification and market news that meet the needs and expectations of the cotton and textile industries. <http://www.ams.usda.gov/cotton/index.htm>

USDA AMS Market News Reports - Cotton Reports: AMS provides current, unbiased price and sales information to assist in the orderly marketing and distribution of farm commodities. Reports include information on prices, volume, quality, condition, and other market data on farm products in specific markets and marketing areas. Reports cover both domestic and international markets. The data is disseminated within hours of collection via the Internet and made available through electronic means, in printed reports, by telephone recordings and through the news media. <http://www.ams.usda.gov/cotton/mncs/index.htm>

USDA - National Agricultural Statistics Service Reports by Commodity:
<http://www.usda.gov/nass/pubs/estindx1.htm> - cotton

World Agricultural Outlook Board WASDE REPORT: The World Agricultural Supply and Demand Estimates(WASDE) report is available electronically within one hour of release. <http://www.usda.gov/oce/waob/wasde/wasde.htm>

Farm Service Agency(FSA): The Farm Service Agency provides "Program Fact Sheets" in Portable Document Format (PDF) on all commodity programs including cotton. <http://www.fsa.usda.gov/pas/publications/facts/pubfacts.htm>

Export Credit Guarantee Programs: The Commodity Credit Corporation (CCC), U.S. Department of Agriculture, administers export credit guarantee programs for commercial financing of U.S. agricultural exports. The programs encourage exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without CCC guarantees. <http://www.fas.usda.gov/export.html>

United States Farm Bill: Information on the 2002 U.S. Farm Bill <http://www.usda.gov/farbill/index.html>