

## The U.S. Cotton Marketing System

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Presentation to:  
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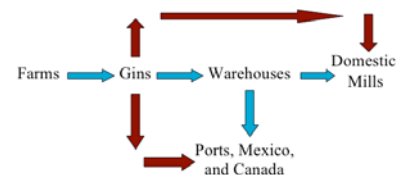
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## Cotton Marketing System

### Primary Function

- Assemble adequate volumes of cotton in specific locations to provide a dependable supply to both domestic and foreign users.
- Complex process involving coordination of many physical services and merchandising activities (interdependent network).

## Physical Flow of U.S. Cotton



## Cotton Marketing Flows

### Physical Movement

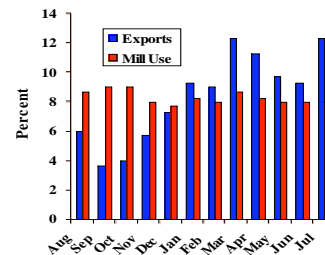
- Harvested seed cotton moves from farms to gins.
- Lint is separated from the seed and pressed into bales of about 480 pounds (218 kg).
- Ginned bales are normally trucked to warehouses for storage.
- Samples are taken and tested for fiber quality in one of 12 USDA classing offices.
- Each bale is uniquely identified with a warehouse receipt that is negotiable. Producer retains ownership until cotton is sold.

## Cotton Marketing Flows

### Physical Movement--continued

- Bales are stored in warehouses until shipment to concentration points or final destination (U.S. mills or export market).
- Textile mills operate on a "just-in-time" delivery of cotton. Mill use throughout the year is fairly even.
- Shipments to the export market depend on a number of varying factors. Exports follow a stronger seasonal pattern.
- Record U.S. exports of the last few years have forced increased efficiency in the flow of cotton.

## Monthly Seasonal Patterns for U.S. Exports and Mill Use, 2002-2004



### Cotton Marketing

- **Marketing Services**
  - Moving cotton from raw product into usable textile or apparel product requires several intermediaries and processing stages.
  - Each stage provides added utility and additional costs.
  - Services include:
    - Seed cotton handling
    - Ginning
    - Storage and handling
    - Cotton merchandising
    - Transportation

### Cotton Marketing Services

- **Seed Cotton Handling**
  - Producers have historically been responsible for transporting cotton to the gin.
  - Harvesting capacity exceeds ginning capacity, causing backups and possible interruptions to harvest.
    - Modules (compressed seed cotton of about 10-12 bales each) provided a solution.
    - Last 15-20 years, most of U.S. production handled by modules.
    - Gins now offer module transport from field to gin.

### Cotton Marketing Services

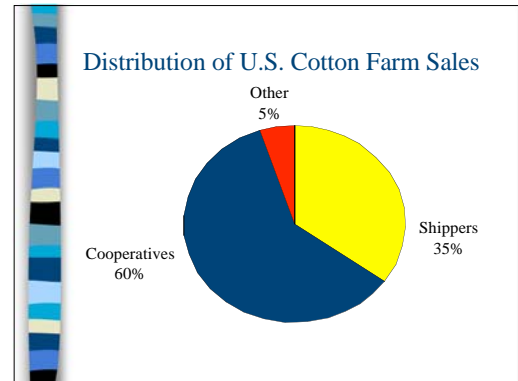
- **Ginning**
  - Provides the initial transformation of raw cotton into a marketable fiber.
  - Ginning process separates lint from the seed and other materials in several stages.
    - Drying—improves grades and increases gin efficiency.
    - Cleaning—removes foreign materials.
    - Extracting—removes foreign materials.
    - Separating—lint and seed are separated.
    - Lint Cleaning—removes additional foreign materials.
    - Packaging—lint transformed into bales that are easily transferred.

### Cotton Marketing Services

- **Storage and Handling**
  - Warehousing system important in process to provide orderly flow of cotton to final destination.
  - Warehouses provide several services to the cotton industry.
    - Receiving—bales are weighed and sampled. Negotiable receipt issued for each bale.
    - Storing—primary service performed.
    - Outhandling—specific bales are identified and prepared for shipment.

### Cotton Marketing Services

- **Cotton Merchandising**
  - Various marketing firms provide critical link between producer and final domestic or export market.
  - Merchant-shippers and cooperative marketing associations handle most of each year's cotton crop.
  - Merchant-shippers (private firms) vary in size, location, and the types of cotton bought and sold.
  - Cooperatives operate the same as merchant-shippers but any equity is rebated to the grower/member.





## Cotton Marketing Services

### ■ Transportation

- Trucks are the primary means of moving cotton from gins and warehouses to U.S. mills or ports for export.
- Competitive rates, flexible scheduling, and quicker delivery have all but replaced rail shipments.
- Regional production patterns and changes in domestic versus export markets have also benefited the use of trucks.



## Final Thoughts

- Cotton marketing system is critically interdependent and more efficient today as the U.S. is an export-dominated market.
- Consolidation will likely continue at all levels of the marketing system but at slower rates than in the past.
- U.S. cotton will continue to play a vital role in the global picture.