The U.S. Cotton Marketing System

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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

- Farms → Gins → Warehouses → Domestic Mills
- Ports, Mexico, and Canada

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.
  - Sorting—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.

Distribution of U.S. Cotton Farm Sales

- Shippers 35%
- Cooperatives 60%
- Other 5%
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.