Major Developments in World Cotton Trade

Research Associates Program
Washington, June 16, 2015

Cotton Imports

Million tons

- World less China
- China

03/04 05/06 07/08 09/10 11/12 13/14 15/16

World less China: 7.7 million tons
Cotton Exports by Country

2015/16
7.7 Million tons

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>USA</td>
<td>30%</td>
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<tr>
<td>India</td>
<td>15%</td>
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<tr>
<td>Fr. Afr.</td>
<td>13%</td>
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<td>Brazil</td>
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<td>Australia</td>
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Direct Assistance to Cotton Production

- Direct support to production
- Border protection
- Crop insurance subsidies
- Minimum support price mechanisms
- Input subsidies
- Transportation subsidies
WORLD PRODUCTION UNDER DIRECT ASSISTANCE

Million Tons

- Average With Assistance: 55%
- Without Assistance
- With Assistance

CHINA: DIRECT ASSISTANCE

Billion US$

- 97/98
- 00/01
- 03/04
- 06/07
- 09/10
- 12/13
DIRECT ASSISTANCE TO COTTON

Trade Facilitation Measures

- Enforcement of Arbitral Awards
- Harmonization of Trading Rules
- Phytosanitary Certificates, Model FAO
- Electronic Documents
- World Bale Numbering System
- Standardized Instrument Testing System
- Elimination of Government Interventions
- Improved Market access
Price Volatility by Season: Daily Cotlook A Index

Difference with respect to season average

Season highest value

Season lowest value

2013/14: August-September 2013

ARBITRATION CASES AT ICA

Number

250
200
150
100
50
0

2005 2007 2009 2011 2013
2014 Farm Bill

• Eliminated Direct Payments based on Area
• Eliminated Countercyclical Payments based on Target Prices
• Kept Marketing Loan

• Added Revenue Insurance (Price x Yield)

2014 Farm Bill

For Cotton:

• STAX: Stacked Income Protection Plan

  Short-term revenue insurance

  \((\text{yield} \times \text{price})\)
2014 Farm Bill

For Cotton:

**STAX:**

- Yields based on county-wide averages
- Prices based on ICE futures
- Farmers pay 20% of insurance premiums
- **Within Season Insurance Coverage Only!**
  - (Price declines from one season to the next are not covered)

U.S. Government Expenditures on Cotton
U.S. – Brazil WTO Cotton Dispute

- Agreement Signed on Oct. 1, 2014 to End the Dispute
- The Cotton Case is Terminated
- No New WTO Actions by Brazil Against USA

- U.S. Will Make One-Time Payment of $300 Million

Outlook for Merchants

- Fewer and bigger (↑ concentration)
- More multi-commodity merchants
- Fewer cotton-only merchants
Increasing Capital Requirements

2007: $6 loan per $1 equity

2010 & 2012: $3 loan per $1 equity

Bigger merchants command bigger sales

Average Sales Volume, Thousand tons

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales Volume</th>
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<tbody>
<tr>
<td>1994</td>
<td>360</td>
</tr>
<tr>
<td>2006</td>
<td>470</td>
</tr>
<tr>
<td>2010</td>
<td>690</td>
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