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Date: 4/1/2011

GAIN Report Number: BR0706

Brazil

Cotton and Products Annual

2011 Annual Cotton Report

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Report Highlights:

Post increased 2010/11 cotton production to an estimated 9 million bales and planted area to 1.35 million hectares, representing record year-on-year increases of 65 percent and 62 percent, respectively. Challenges to the 2010/11 crop include limited harvest equipment, ginning capacity and export capacity. Brazil is expected to import a record 615,000 bales of U.S. cotton in 2010/11, nearly double the previous record set in 1994. Post forecasts 2011/12 production to increase to 10.55 million bales with planted area increasing 15 percent. In 2011/12 Brazil is set to increase biotech cotton varieties adoption rate to 30 percent. Post forecasts 2011/12 exports to increase 13 percent to 4.1 million bales. Post forecasts a significant decrease in 2011/12 cotton imports to 50,000 bales.

Brazil's 2010/11 Cotton Production to Increase 60 Percent over Last Year

Post raised 2009/10 cotton production to 9 million bales due to an increased estimated area of 1.35 million hectares. Post's forecast is in line with the Ministry of Agriculture Brazilian Food Supply Company (Conab) whose March survey projects 2010/11 cotton production at 9 million bales on 1.3 million hectares. This significant year-on-year increase in production has strained production inputs and producers now face limits on harvest equipment, ginning capacity and export capacity.

Record domestic cotton prices spurred producers to increase second crop "safrinha" planted areas. The state of Mato Grosso produces over 50 percent of national production and for the first time production in the western half of the state will exceed that of the eastern the half of the state. The rain-delayed soybean harvest in the state resulted in a portion of second crop cotton to be planted well past the recommended date of January 25th (76cm spaced) or February 15th (45cm spaced). The state of Bahia is responsible for 30 percent of production. Incessant rains in March have brought reports of cotton boll rot in the Bahia region. If heavy rains continue throughout April quality and yields could be adversely affected.

Historically high prices brought back some cotton acreage to traditional producing states Sao Paulo and Parana where production had almost disappeared. In addition, the new agricultural frontier region of "Mapito" (adjoining states of Maranhao, Piaui, and Tocantins) is expected to slowly increase its limited participation in cotton production in coming years; a result of new cropland expansion and subsequent crop rotation schemes.

Outlook 2011/12: High Futures Prices to Boost Planted Area by 15 percent

Post forecasts 2011/12 cotton area will increase 15 percent to 1.55 million hectares and produce 10 million bales based on a yield trend of 1.475 mt/ha. Strong domestic demand and positive futures price signals account for the increase in forecast area. Producers face a potential seed shortage relative to heightened demand in 2011/12 due to adverse weather and its affect on seed quality and production. In Mato Grosso, area is expected to increase 20 percent and first crop planted cotton to maintain a greater area than the second crop. This is an inverted pattern compared to two years ago when second crop or "safrinha" area was greater than first crop area with a ratio of 60:40. Second crop narrow-row cotton has been established as a viable production model - expanding from 5,000 hectares in 2007/08 to an estimated 325,000 hectares in 2010/11- following the harvest of early-maturing soybeans. Bahia is expected to increase cotton area planted by 15 percent in 2011/12. Planted area is also expected to increase in the other large cotton producing states of Minas Gerais, Goias, and Mato Grosso do Sul.

Brazil continues to be deficit in fertilizer production. Studies show that Brazil's dependence on imports reaches 65, 50, and 90 percent for nitrogen, phosphorus, and potassium, respectively. More than sufficient phosphorus deposits to satisfy Brazil's demand have been discovered in the center-west; however, mining approvals and environmental assessments are still pending. According to the National Fertilizer Association (ANDA), fertilizer deliveries totaled 24.5 mmt in 2010, up 9.5 percent from 2009. Total annual imports of fertilizer in 2010 reached 15.3 mmt, up nearly 40 percent from 2009. National production was also up 11.5 percent with 9.3 mmt produced. For 2011/12 fertilizer usage is

expected to increase despite price increases due to significant forward purchases of fertilizers by flush farmers.

Arrival of new biotech cotton seeds aid positive outlook for 2011/12

Brazil's National Technical Commission of Biosafety (CTNBio) has approved six biotech cotton events and five have been commercially released. The single event varieties include: Bollgard (Bt1), Roundup Ready (RR1), Liberty Link (LL) and Widestrike. Only limited quantities of Widestrike seed will be available for the 2011/12 season. However, these single-event genetically-engineered varieties do not provide broad protection against regionally specific pests and disease. There will be very limited quantities of the only approved double-stacked trait variety Roundup Ready Bollgard cotton (RR1XBt1).

Sources confirm biotechnology adoption for cotton in Brazil should reach 30 percent in 2011/12, mostly Liberty Link, compared to 60-80 percent in most other cotton producing countries. Robust research and development of region-specific seed varieties, a two year process, promise improved yields and crop management in the near future. Producers also anticipate in 2-3 years the benefits of second generation double-stacked trait seed varieties; such as, insect resistant (Bt2) and herbicide tolerant (RR2).

Adoption of GE cotton varieties are expected to spike and surpass 80 percent once the desired traits are made available to producers.

Consumption:

Post lowered Brazil's domestic consumption for 2010/11 to an estimated 4.3 million bales as a result of waning domestic demand in the face of high prices and inflation among other priority consumables. Amidst record prices, mills and textile manufacturers have adopted measures to offset production cost increases that cannot be passed onto the consumer. In 2010, manufacturers increased by 10 percent on average the price of cotton consumables and continue to increase prices in 2011. However, they will not be able to fully pass on significant increases to consumers, only last seen eleven years ago. There has been an increased substitution from natural cotton fiber to man-made fibers as well as more finely spun cotton thread being utilized by the textile industry. Industry sources confirm a lack of financing options including lines of credit, which has forced some in the sector to take drastic measures to cover day-to-day operational expenses, including selling off some cotton stocks. In addition, some mills have reduced shifts or temporarily shut down production lines. Post forecasts 2010/11 domestic consumption at 4.6 million bales.

Brazilian cotton yarn production nearly satisfies domestic demand, except for imports of specialty and fine yarns (30/1 combed) not produced domestically. To a certain extent imports tend to substitute domestically produced yarns when prices are favorable.

Prices:

Over the past year, domestic cotton prices have been consistently high, even higher than historic international prices, as the drought-reduced 2009/10 domestic crop coupled with tight world stocks exacerbated supply shortages amidst increasing demand. On March 4, 2011 domestic prices reached US\$2.419/lb (exchange rate adjusted), an increase of 215 percent year-on-year. Post expects continued high prices throughout the coming year based on rebuilding of world stocks. However, the domestic price ceiling appears to have been reached.

The last time the minimum price for cotton was changed was before the 2003/2004 crop, when it was raised from R\$33.90/15 kg to R\$44.60/15 kg. Brief price spikes above the minimum price occurred in early 2006, 2007, and 2008. A price increase of nearly 8 percent in 2007 prompted the government to sell 20,400 bales in stock and resulted in a 5.6 percent reduction in the domestic price. The government's primary means of intervening in the cotton market during this time was by supporting the marketing of over 1 million tons of cotton through the PEPRO program. (See POLICY section below.)

Cotton Prices

Domestic Prices in cents of R\$ per lb

Year	2009	2010	% Change
Jan	117.35	141.9	17
Feb	115.95	142.69	19
Mar	112.74	149.64	25
Apr	112.17	161.8	31
May	125.26	157.3	20
Jun	120.83	156.11	23
Jul	117.89	164.76	28
Aug	116.98	183.32	36
Sep	115.97	216.82	47
Oct	117.64	223.99	47
Nov	125.06	271.11	54
Dec	133.2	285.89	53

Source: CEPEA

2010/11 Minimum Price for Cotton

Region	Unit	Price (R\$/unit)	Price (R\$/lb)	Price (US\$/lb)
All	15 kg	44.60	1.3487	0.75

Source: MAPA/SPA/DEAGRO

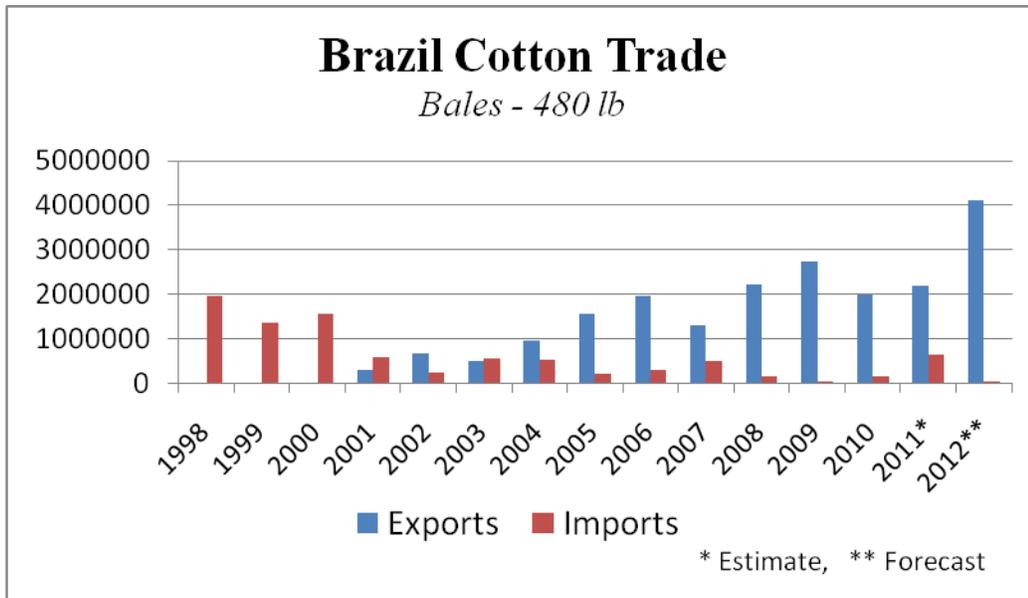
Exchange rate: US\$1 = R\$ 1.66 (3/28/11)

Trade:

Post now estimates 2010/11 cotton exports at 2.2 million bales. The Brazilian Real vis-a-vis the U.S. dollar has so far remained stable trading at R\$1.67 to US\$1.00. Nevertheless, post forecasts 2011/12 exports to reach a record 4.1 million bales. The monthly national export capacity has averaged 460,000 bales with the monthly record set at 505,200 bales. The limits on export capacity are due to limited availability of adequate port capacity, storage and handling for cotton that is restricted mainly to Santos, Sao Paulo and Paranagua, Parana. However, new ports are being outfitted to export cotton including, Itajai, Santa Catarina, Pecem, Ceara, and Salvador, Bahia. Trade sources indicate committed sales of the forthcoming 2011/12 crop already have reached 1.8 million bales. The 2010/11 and 2011/12 Brazilian crops are poised to help rebuild global stocks. Global stocks are still tight in the short term given the 2010 U.S. production shortfall and India's use of export quotas.

Post now estimates Brazil to import 650,000 bales of cotton in 2010/11 of which 615,000 is of U.S. origin and almost double the previous U.S. record set in 1994. Record international prices have limited greater imports, despite a domestic shortage and the temporary zero import duty applied on 250,000 metric tons of cotton (1.15 million bales) between October 2010 and May 2011. Post forecasts 2011/12 imports at 50,000 bales with 30,000 of U.S. origin.

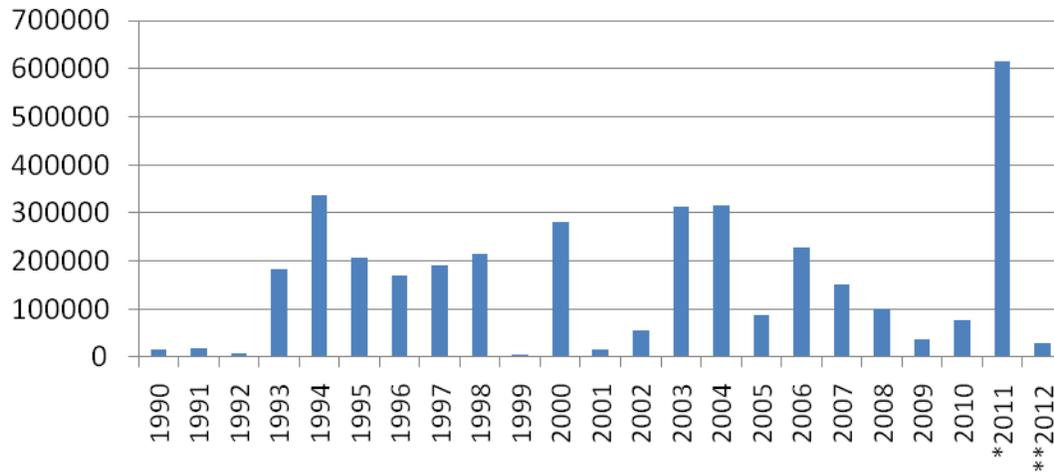
In June 2010, the United States and Brazil signed a Framework for a Mutually Agreed Solution to the Cotton Dispute in the World Trade Organization (WTO). As part of the Framework Agreement, Brazil did not impose countermeasures authorized by the WTO.



Source: SECEX

U.S. Cotton Exports to Brazil

Bales - 480 lb



Source: USDA

Trade Tables

Brazil Cotton Exports (1000 480-lb bales)			
Country	2007	2008	2009
	2007/2008	2008/2009	2009/2010
	Market Year Begin: Aug 2007	Market Year Begin: Aug 2008	Market Year Begin: Aug 2009
World	2231	2739	1990
Indonesia	429	566	480
Korea South	341	384	432
Pakistan	403	502	196
China	126	195	190
Thailand	106	180	132
Taiwan	111	130	103
Turkey	68	62	91
Argentina	142	80	69
Japan	139	127	53
Switzerland	95	90	47
Vietnam	21	61	44
Malaysia	10	20	34
Ecuador	2	17	30
EU 27	26	65	24
Bangladesh	2	21	23
Paraguay	6	6	10

United States	52	8	0
Others	151	226	33

Brazil Cotton Imports (1000 480-lb bales)			
Country	2007	2008	2009
	2007/2008	2008/2009	2009/2010
	Market Year Begin: Aug 2007	Market Year Begin: Aug 2008	Market Year Begin: Aug 2009
World	164	50	151
United States	100	32	94
Paraguay	40	1	40
Egypt	14	8	8
Argentina	2	5	7
Israel	3	3	2
Cameroon	3	0	0
Turkmenistan	3	1	0

Stocks:

Government public stocks were nearly all sold in the fourth quarter of 2010 with 170 bales (37 mt) remaining in storage. This intervention by the government had no effect on rising domestic prices. The 2010/11 and 2011/12 crops will serve to rebuild private domestic stock levels due to increased carryover stocks.

Policy:

In 2010, the Brazilian Ministry of Agriculture did not make any official government payments to cotton producers. The historic market prices in 2010 guaranteed minimum revenue levels for producers and well exceeded the minimum trigger cotton price set by the Federal Government.

The quantity of cotton supported by the government from 2005-2010 is provided in the table below, as well as descriptions of the major government support programs. These programs are utilized to support commodity prices and to assist in the flow of cotton from production areas to consumption areas. While some of this cotton is exported, these programs are not considered to be export subsidies, since the recipient is not required to export the product. In addition, a waiver for developing countries in the WTO Agricultural Agreement allows them to subsidize transportation.

Government Support for the Commercialization of Cotton ('000 mt)

Program	2005	2006	2007	2008	2009	2010
Acquisition (AGF)	4.5	0	1.1	0	0	0
PEP	136.5	1.8	0	0	0	0
PROP	272.2	0	0	0	0	0
PEPRO	0	461.5	428.9	1,023.6	792.2	0
Total	413.2	463.3	730.0	1,023.6	792.2	0
Production	1,298.7	1,037.8	1,524.0	1,602.2	1,213.7	1,194.1
Participation %	31.8%	44.6%	47.9%	63.9%	65.3%	0%

Source: Brazilian Ministry of Agriculture/SPA/DEAGRO

Government Programs:

The Equalization Premium Paid to the Producer (Prêmio Equalizador Pago ao Produtor, PEPRO) is a premium granted to the farmer or cooperative which sells its products at public auction, where the government pays the difference between the Reference Value established by the government and the value of the premium (the maximum value paid by the government as a guarantee of the Reference Value).

Risk Premium for Acquisition of Agricultural Products Deriving from Private Contracts of Sales Options (Prêmio de Risco para Aquisição de Produto Agrícola Oriundo de Contrato Privado de Opção de Venda, PROP) is a subsidy program granted in the form of a public auction for the consumer to acquire, at a future date, a determined product directly from the producer and/or cooperative at a prefixed price, utilizing a private contract for the option to sell.

The Premium for Marketing of Products (Prêmio de Escoamento de Produto, PEP) provides the minimum guaranteed price to producers and cooperatives by paying the difference between the minimum guaranteed price and the market price. The objective is to supplement the supply of commodities in areas of the country considered to be deficient in agricultural production, such as the Northeast of Brazil. In PEP, the product is taken from private stocks.

Federal Government Acquisition (Aquisição do Governo Federal, AGF) allows the government to acquire agricultural products at the minimum price when the market price is below the minimum. It also allows the government to acquire products at market prices for use in the *Agricultura Familiar* Program and to build strategic stocks.

Production, Supply and Demand Data Statistics

Cotton Brazil	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Aug 2009		Market Year Begin: Aug 2010		Market Year Begin: Aug 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	836	836	1,300	1,350		1,550
Beginning Stocks	4,992	4,991	4,353	4,366		7,641
Production	5,450	5,465	8,800	9,000		10,550
Imports	151	150	650	650		50
MY Imports from U.S.	0	0	0	615		30
Total Supply	10,593	10,606	13,803	14,016		18,241
Exports	1,990	1,990	2,700	2,225		4,100
Use	4,400	4,400	4,500	4,300		4,600
Loss	-150	-150	-150	-150		-150
Total Dom. Cons.	4,250	4,250	4,350	4,150		4,450
Ending Stocks	4,353	4,366	6,753	7,641		9,691
Total Distribution	10,593	10,606	13,803	14,016		18,241
1000 HA, 1000 480 lb. Bales						

Other relevant reports:

BR0624 Cotton and Products Update

BR0608 Cotton and Products Annual