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EU-27

Cotton and Products Update

Cotton and Products Update 2010

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Report Highlights:

Only two European Union (EU-27) Members States (MS), Greece (80 percent) and Spain (20 percent), grow significant amounts of cotton commercially. EU-27 cotton production, which has declined about 50% since the 2006 reforms, represents less than 1% of world production, consumption, and trade. MY 2011/12 EU-27 cotton production is forecast to increase in response to strong prices. MY 2011/12 EU-27 cotton imports are forecast to remain steady at low levels, as the EU-27 industry remains uncompetitive. MY 2011/12 EU-27 cotton exports are forecast to increase 92,000 MT to 293,000 MT due to increased production.

Executive Summary:

This report presents the outlook for Cotton and Products in the EU-27, based on unofficial data.

Cotton and Products

EU-27

EU-27 Cotton Lint Production (Hectares, Metric Tons)

	2009/10	2010/11	2011/12
Area Harvested	259,000	293,000	370,000
Beginning Stocks	57,000	7,000	2,000
Production	230,000	248,000	355,000
Imports	36,000	28,000	28,000
TOTAL Supply	323,000	283,000	380,000
Exports	237,000	201,000	293,000
Use	66,000	66,000	66,000
Loss	13,000	11,000	11,000
TOTAL Dom Cons	79,000	80,000	77,000
Ending Stocks	7,000	2,000	10,000
Total Distribution	323,000	283,000	380,000

Source: FAS Rome and Madrid estimates

PS&Ds for all EU-27 MS may be found at: <http://www.fas.usda.gov/cots/cotton.asp>

Production

The EU-27 is a minor producer of raw cotton. Current EU-27 cotton policy is detailed in Regulation 1782/2003, revised by Regulation 864/2004, and amended by Regulation 637/2008. EU-27 cotton production has declined by more than 50% following Common Agricultural Policy (CAP) reforms effective in 2006 that decoupled payments and reduced support and market barriers for a number of crops, including cotton (see “*Study on the Cotton Sector in the European Union*” at www.lmc.co.uk). Production may stabilize through 2013 when additional reforms are expected to be implemented that could further reduce incentives to produce cotton.

The EU-27 does not permit farmers to cultivate biotech cotton. Only two EU-27 Members States, Greece (80 percent) and Spain (20 percent), grow significant amounts of cotton commercially. MY 2010/11 EU-27 harvested area increased to 293,000 hectares due mainly to increased area in Greece in an effort to earn foreign exchange. MY 2011/12 EU-27 cotton area and production area expected to increase in response to strong prices.

Consumption

EU-27 cotton lint consumption is forecast to remain steady at low levels. Stiff competition from lower-cost Asian and South East Asian spinners has resulted in a steady decline in the EU-27 spinner and textile industries, which was accelerated by the global financial crisis. This declining trend is expected to continue for the foreseeable future. As a result, EU-27 textile and apparel processors source most of their products offshore. Some EU-27 processors split production between the EU-27 and third countries to take advantage of marketing opportunities. In Italy, for example, goods sourced overseas may carry the 'Made in Italy' label provided more than 50 percent of the value was added in Italy. Cotton Council International works with EU-27 entities to source products made with U.S. cotton.

Trade

MY 2010/11 EU-27 lint exports declined due largely to reduced production and low carry-in stocks in Greece. MY 2011/12 EU-27 cotton lint exports are forecast to increase to 293,000 MT due to increased production. Turkey and Egypt represent about 80 percent of the export market for EU-27 cotton. MY 2011/12 EU-27 cotton import demand is forecast to remain steady at the low level of the previous year, as the EU-27 industry remains uncompetitive. There are no restrictions on importing lint or products produced from biotech cotton.

EU-27 Cotton Lint Trade

EU-27 Cotton Lint Imports (MT)

	2008/09	2009/10
EU-27	10,534	6,906
France	3,956	765
Portugal	2,208	1,790
Germany	1,076	1,782
Extra EU-27	28,636	29,094
Turkey	11,410	13,503
Mauritius	2,545	2,021
Honduras	2,328	2,938
Thailand	1,960	1,982
Bangladesh	1,811	1,117
Pakistan	992	1,151
World	39,170	36,000

Source: GTA

EU-27 Cotton Lint Exports (MT)

	2008/09	2009/10
EU-27	52,069	30,659
Italy	14,513	8,114
Germany	10,718	5,767
France	6,541	3,638
Portugal	6,178	5,781
Bulgaria	3,535	4,103
Extra EU-27	280,628	206,341
Turkey	138,466	148,710
Egypt	74,666	26,728
Indonesia	15,271	13,494
Pakistan	12,220	3,488
Morocco	10,102	7,318
World	333,003	237,000

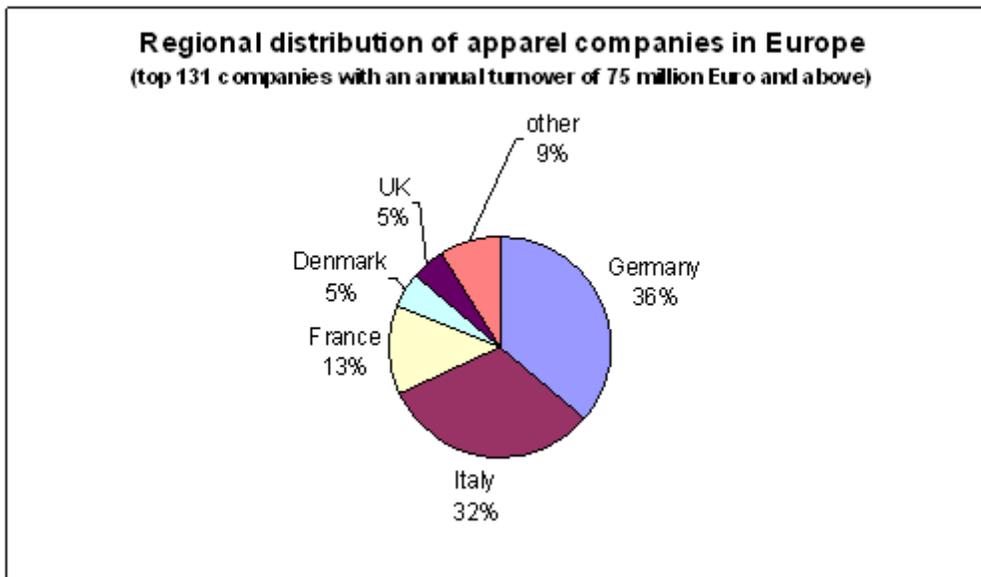
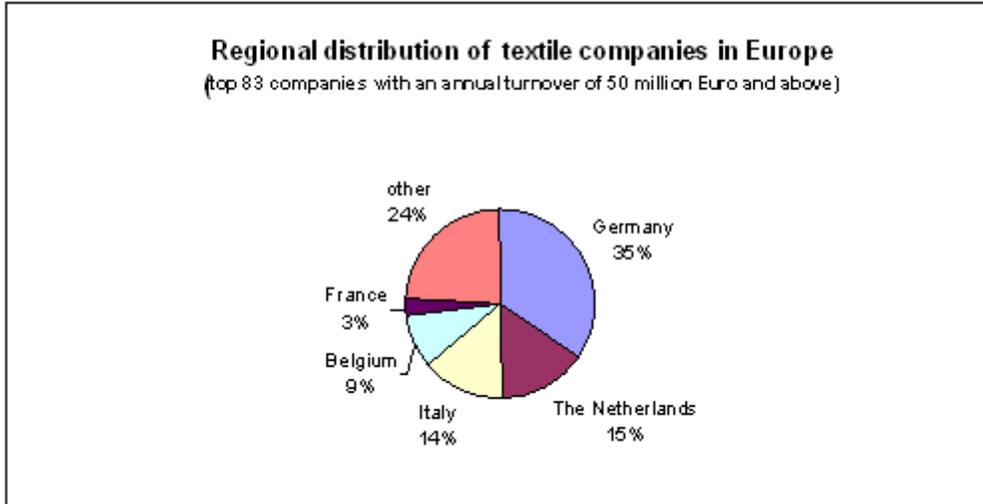
Source: GTA

Stocks

Ending stocks for MY 2011/2012 are expected to be slightly up from the previous year.

EU-27 Cotton Products

Major European textile and apparel producers include Germany and Italy. Textile production across Western Europe is declining due to lower manufacturing costs in Eastern Europe, Asia, and elsewhere.



Source: German textile and fashion confederation

EU-27 Cotton Yarns Trade

EU-27 Cotton Yarns Imports (MT)

	2008/09	2009/10
India	88,462	111,074
Turkey	72,042	70,806
Pakistan	39,786	38,183
Uzbekistan	15,001	19,737
Egypt	12,251	19,306
China	11,426	16,176
Syria	6,797	12,688
Bosnia	3,872	6,933
Indonesia	5,738	4,707
Thailand	3,577	2,801
World	275,659	319,215

Source: GTA

EU-27 Cotton Yarns Exports (MT)

	2008/09	2009/10
Tunisia	6,276	6,271
Morocco	3,326	4,202
Algeria	2,098	2,819
Turkey	3,148	2,574
United States	2,254	2,006
Croatia	1,261	1,745
Hong Kong	1,716	1,554
Egypt	802	1,281
Albania	506	1,187
Serbia	699	944
World	31,754	32,597

Source: GTA

EU-27 Cotton Fabrics Trade

EU-27 Cotton Fabrics Imports (MT)

	2008/09	2009/10
Pakistan	96,477	94,695
China	67,453	63,156
Turkey	51,039	48,914
India	26,040	23,196
Thailand	9,496	8,873
Indonesia	8,686	8,018
Uzbekistan	6,947	7,320
Morocco	6,485	5,432
Tunisia	4,258	5,805
Kazakhstan	3,166	4,172
World	316,039	299,958

Source: GTA

EU-27 Cotton Fabrics Exports (MT)

	2008/09	2009/10
Tunisia	39,417	40,803
Morocco	28,370	29,268
Turkey	14,127	15,185
United States	6,883	6,006
Ukraine	5,336	5,004
Hong Kong	3,090	3,004
Mexico	2,630	2,834
Albania	2,374	2,796
Mali	2,594	2,540
Russia	2,337	2,379
World	158,528	159,832

Source: GTA

GREECE

Cotton Lint Production (Hectares, Metric Tons)

	2009/10	2010/11	2011/12
Area Harvested	200,000	230,000	300,000
Beginning Stocks	52,000	2,000	0
Production	204,000	204,000	306,000
Imports	5,000	5,000	5,000
TOTAL Supply	261,000	211,000	311,000
Exports	217,000	171,000	266,000
Use	34,000	34,000	34,000
Loss	8,000	6,000	6,000
TOTAL Dom Cons	42,000	40,000	40,000
Ending Stocks	2,000	0	5,000
Total Distribution	261,000	211,000	311,000

Source: FAS Athens estimates

Production

Cotton is a major agricultural crop in Greece, accounting for more than 8 percent of total agricultural output. More than 75,000 farmers grow cotton, producing about 80 percent of the EU-27 crop. Cotton is planted from March 1 to April 15; the harvest occurs from October 1 to November 30. Most cotton is irrigated and machine harvested. Thessaly, Macedonia, and Mainland Greece are the major cotton-producing areas.

Area, yields, and production have trended downward in recent years, especially following the 2006 EU cotton reforms. However, following the global financial crisis and the Greek debt crisis, farmers made a concerted effort to maximize MY 2010/11 production, especially since cotton is a major foreign exchange earner. Despite these efforts, severe insect damage (green boll worm) and late-season rains, particularly in northern Greece, reduced the crop approximately 30 percent.

Despite reduced profits from original expectations, overall income from cotton production has been good and observers expect MY 2011/12 to expand in response to near-record world prices. Even so, the Greek government reportedly has requested that the EU allow it to provide state aid to the hardest hit cotton growers.

There are approximately 30 ginning companies in Greece with a total of about 50 ginning units. About 80 percent of the companies are private and the remainder are cooperatives. About 60 percent of ginning capacity is owned by the top 5 companies. Based on pre-damage forecasts, merchants (largely ginners) pre-sold about 25 percent of the forecast crop, which equates to a much larger share of the actual crop. Because many of these sales were made before the steep escalation in world cotton prices, many ginners face difficulties covering costs and obtaining credit.

Ginners generally do not contract with growers, but compete with each other to purchase the crop. Seed cotton prices have increased from \$0.90/lb at the beginning of the season to nearly \$1.20/lb in mid-November. Current lint prices are reported to be around \$1.45/lb FOT, with a slight premium for pre-rain 'white' lint over post-rain 'dull' lint.

Approximately 70 percent of the Greek lint production had been sold by mid-November. The MY 2010/11 ginning ration is reported to be around 33-to-34 percent. Ginning characteristics of the pre- and post-rain cotton reportedly are essentially the same, except for color.

Consumption

Domestic spinners consume approximately 15 percent of lint production and the remainder is exported. About 50 percent of cottonseed production is exported (mainly to Italy) and the remainder is crushed for oil (and oilseed cake) or retained for seed.

Textile products

According to the Association of Hellenic Textile Industries (SEVK), the Greek textile industry is bouncing back. Greek production of textiles increased 8 percent, compared to a 20 percent decline last year. Accordingly, Greek textile products exports increased 9 percent in the current year.

Trade

Greece is a major cotton exporter. Small amounts of cotton are imported for blending in the domestic spinning industry.

Cotton Lint Exports (MT)

	2008/09	2009/10
EU-27	39,743	19,000
Italy	14,513	8,114
Germany	8,850	4,113
France	4,520	2,150
Bulgaria	3,535	4,103
Extra EU-27	270,306	198,000
Turkey	138,466	148,710
Egypt	74,666	26,728
Indonesia	15,271	13,494
Pakistan	10,781	3,352
Morocco	2,541	1,905
World	310,049	217,000

Source: GTA

Cotton Lint Imports (MT)

	2008/09	2009/10
World	4,744	5,000

EU-27	1,058	1,000
Italy	366	438
Bulgaria	345	433
Extra EU-27	3,686	4,000
Turkey	1,975	3,000
Pakistan	992	1,000

Source: GTA

SPAIN

Cotton Lint Production (Hectares, Metric Tons)

	2009/10	2010/11	2011/2012
Area Harvested	59,000	63,000	70,000
Beginning Stocks	5,000	5,000	2,000
Production	26,000	44,000	49,000
Imports	31,000	23,000	23,000
TOTAL Supply	62,000	72,000	69,000
Exports	20,000	33,000	27,000
Use	32,000	32,000	32,000
Loss	5,000	5,000	5,000
TOTAL Dom Cons	37,000	37,000	37,000
Ending Stocks	5,000	2,000	5,000
Total Distribution	62,000	72,000	69,000

Source: FAS Madrid estimates

Production

Spain's cotton area is concentrated in the region of Andalusia, with minor production in Murcia and Extremadura. Cotton is grown on some of the best agricultural land, competing with other irrigated crops such as corn and, to a lesser extent, forage. Approximately 6,500 farmers grow cotton.

In Andalusia, the largest cotton producing region, a new regulation establishes a minimum yield of 1,000 kg/ha that must be achieved before farmers are eligible for payments. Thus, yields were higher than for the previous season.

MY 2010/11 yields and production are expected to be good mainly due to the low incidence of pests, such as the cotton bollworm and the cotton pink bollworm, during the crop development. Hail in mid-August damaged some cotton in the Seville province. Rains in mid-September, while beneficial for most of the arable crops, caused some bolls dropping. However, the impact of quality and yields was limited. Farm gate prices are strong, due to production problems in major cotton producers.

Good prices for cotton would likely encourage next year's plantings; however, the production increase

will be limited by the ginning capacity available.

Farm Gate Raw Cotton Prices (€/100kg)

Market Year	2007/08	2008/09	2009/10	2010/11
Price	32.95	29.90	22.62	45.00*

Source: MARM (Ministry of Environment and Rural and Marine Affairs) and FAS estimates for MY 2010/11.

Consumption

Cotton yarn and fabric production continues its long term contraction. According to the Association for Industrial Textile Cotton Processing (AITPA), total cotton fabric and yarn production declined about 12 percent during 2009. The production decline was higher in fabric production than in yarn production. According to the industry, production during the first half of the year might have grown in both fabric and yarn production. Although it is still too early to know, cotton production might have been stable in 2010, due to the increase in exports.

Cotton Yarn and Fabric Production (MT)

	2004	2005	2006	2007	2008	2009
Yarn	110,768	79,527	72,507	65,949	44,013	38,030
Fabrics	112,466	96,501	80,608	47,766	30,815	27,888

Source: AITPA (Association for Industrial Textile Cotton Processing)

Textile products

Since 2006, EU-27 and extra-EU-27 imports of cotton products have declined steadily reflecting reduced domestic supplies and increased competition in world markets.

Texfor, the association of the Spanish textile industry, an umbrella association that groups the cotton, silk, wool, and tints industries associations, believes that it is necessary to develop the presence of Spain's textile products in third countries markets to reinsure its continuity.

According to data from the Ministry of Commerce, Industry, and Tourism, textile exports to China have increased about 78% between January and July 2010 amounting to 57.6 million Euros in value. The Chinese demand for textile products throughout the first half of 2010 was encouraged by a favorable exchange rate.

Trade

Turkey is the main supplier of cotton lint, representing one third of total imports. The second largest

supplier is the EU-27, led by Portugal.

Exports from Spain to other EU-27 MS represent more than 50 percent of total cotton lint exports, followed by Morocco where some Spanish textile companies have relocated their plants to produce finished products – much of which is then re-exported back to the EU-27.

Cotton Lint Imports (MT)

	2008/09	2009/10
EU-27	9,476	5,906
France	3,935	693
Portugal	2,208	1,790
Germany	1,076	1,538
Extra EU-27	24,950	25,094
Turkey	9,435	10,503
Mauritius	2,545	2,021
Honduras	2,328	2,938
Thailand	1,960	1,982
Bangladesh	1,811	1,117
World	34,426	31,000

Source: GTA

Cotton Lint Exports (MT)

	2008/09	2009/10
EU-27	12,326	11,659
Portugal	6,178	5,781
France	2,021	1,488
Germany	1,868	1,654
United Kingdom	1,262	1,846
Extra EU-27	10,628	8,341
Morocco	7,561	5,413
Pakistan	1,439	136
United States	487	774
World	22,954	20,000

Source: GTA

Policy

Since MY 2008/09 the national guaranteed area was reduced to 48,000 ha. As a result, the budget is

fully used even though correction factors are needed. The coupled aid has increased in value, but less acreage can benefit from this payment. The budget under Article 69 payment remains the same, although the value of this payment for farmers will depend on total cotton acreage.

Cotton Policy

	MY 2008/09	MY 2009/10	MY 2010/11
National Guaranteed Area (ha)	70,000	48,000	48,000
Coupled payment	1,039 €/Ha.	1,400 €/Ha.	1,400 €/Ha.
Budget for coupled payment	€72,730,000	€67,200,000	€67,200,000
Budget for Article 69 aid	€13,430,000	€13,430,000	€13,430,000
National envelope for cotton gin restructuring process and machinery contractors	-	€6,134,000	€6,134,000

Subsidies per Hectare

	2006/07	2007/08	2008/09	2009/10	2010/11
Coupled payment (€/ha)	1,039	1,039	1,039	1,400	1,400
Coupled payment adjusted (€/ha)	1,039	1,039	1,039	1,190	1,050*
Article 69 payment (€/ha)	259.35	323.81	562.85	480.47	N/A
Integrated farming aid:					
Under 40 ha.	350	350	350	350	350
Between 40 and 80 ha.	210	210	210	210	210
More than 80 ha.	105	105	105	105	105

*FAS estimates.

Restructuring process

As a result of the cotton gin restructuring program, regulated at the Member State level by the Royal Decree 169/2010, only 8 ginning plants processed cotton in MY2009/10. In MY 2010/11 the number of working gins has been reduced to seven.

Number of Cotton Gins

	Total	Working	Temp Closed	Dismantled
2006/07	28	28	-	-
2007/08	28	24	4	
2008/09	28	20	8	
2009/10*	8	8	-	20
2010/11	7	7	1	20

The PSD tables are prepared based on an August 1 to July 31 marketing year. HS codes considered for Lint Cotton trade data: 5201, 5202, 5203.

