



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 2/25/2005

GAIN Report Number: E35035

EU-25

Cotton and Products

Cotton Policies in the European Union

2005

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Report Highlights:

Cotton in the European Union is only commercially produced in Greece, Spain and Portugal. Support for cotton production is a sensitive subject since the cotton production generally is situated in poor rural areas whose development is lagging behind.

Extensive changes have been made to the aid arrangements for cotton in the EU, with part of the community aid paid to ginneries being converted into a single farm payment.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Brussels USEU [BE2]
[E3]

Introduction

Extensive changes have been made to the aid arrangements for cotton in the European Union, with part of the Community aid paid to ginneries being converted into a single farm payment. In order to safeguard production in certain areas, area aid will continue to make up 35 percent of total aid.

Cotton production in the EU

In the European Union only three Member states produce cotton at a commercial level. These MS are Greece, Spain and Portugal.

The EU production of cotton represents less than 3 percent of world production, while EU exports only accounts for 4 percent of world cotton exports. The EU exports are mainly woven fabrics of cotton that are sold to Romania, Tunisia and Morocco. Whereas imports come mainly from India, China Russia and Pakistan.

National Base Area

Maximum area (Total) 440 000 ha	Greece	Spain	Portugal
National Base Area	370,000 ha	70,000 ha	360 ha
Aid per eligible ha	300,000 > €594/ha 70,000 > €342.85/ha	€1,039/ha	€556/ha
Production estimate for unginning cotton for MY 2004/05	1,103,000 tons	344,640 tons	926 tons
Provisional reduction in the guide price for MY 2004/05	€39.437 /100kg (€394.37/ton)	€27.957 /100kg (279.57/ton)	€0 /100kg

Aid arrangements for cotton

The support for cotton production is a sensitive subject in the EU since cotton, together with other Mediterranean products, production is generally situated in poor rural areas whose development is lagging behind.

Before the CAP reform the aid regime was based on a direct aid per ton of unginning cotton, subject to a National Guaranteed Quantity (NGQ) for each MS. The level of aid, granted to processors, who pay a minimum price to producers, is fixed periodically on the basis of the difference in a "guide price" and the world price. Since 1995/96, the "guide price" has been fixed at €1,063 per ton, with a minimum price of €1,009.9 per ton.

New aid arrangements will apply from January 1, 2006. In these new arrangements for cotton there will be a partial move to a system of decoupling and single farm payments. The move is only partial in that 35 percent of the aid will continue to be provided in the form of an area payment, as direct aid. The remaining 65 percent will be provided as a single farm payment. Under previous arrangements the growers did not benefit from direct aid for cotton but rather from the indirect aid paid to ginneries. During the reference period 2000 to 2002, no direct producer aid for cotton existed in the EU.

The total aid available per hectare in each MS is fixed at 35 percent of the national allocation that producers received indirectly. The reason for the partial move to these new aid

arrangements is to protect areas in which production would cease if there was a full change to single farm payments.

The domestic support for European cotton growers is subject to a production ceiling. If the quantity is exceeded the amount of support is decreased.

The assistance for restructuring programs in production regions will be financed by the European Agricultural Guidance and Guarantee Fund (EAGGF) as a part of the Rural Development policy. The reforms in this sector are estimated to require financial assistance of € 22 million for adjustments. This expenditure will be entered in the 2007 EU budget.

According to a report made by ODI¹ the EU subsidies to cotton may be more damaging to developing countries and to West and Central Africa in particular, than their share in total export subsidies would suggest because cotton production in Greece and Spain actively competes with cotton production from developing countries in third markets and the subsidies Greek and Spanish farmers receive per unit of cotton production is the highest in the world.

The European Commission adopted an "action plan" in 2004. The aim of this action plan is to help developing countries fight agricultural commodity dependency and to support the development of the cotton sector in Africa. To read more about the action plan go to: http://europa.eu.int/comm/trade/issues/global/development/pr120204_en.htm

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¹ ODI, Overseas Development Institute is a UK based independent think-tank on international development and humanitarian issues. <http://www.odi.org.uk/>