



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

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## Brazil

### Cotton and Products

### Cotton Update: A Year of Recovery

### 2006

**Approved by:**

Alan Hrapsky, Counselor  
U.S. Embassy

**Prepared by:**

Elizabeth Autry, Agricultural Attaché

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**Report Highlights:**

Cotton area is expected to regain much of the area lost in recent years, as high internal prices and a stable exchange rate encourage planting.

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Includes PSD Changes: Yes  
Includes Trade Matrix: No  
Unscheduled Report  
Brasilia [BR1]  
[BR]

Reports indicate that cotton will be the first crop to recover from several years of liquidity crisis. Strong internal prices and an expected stable exchange rate have led farmers in Mato Grosso and Bahia to make plans to significantly increase acreage planted to cotton. This increase is significant enough that, even with a slight decrease in area in the south of Brazil, overall area is expected to increase approximately 20 percent. As a result, Post has increased 2006/07 area to 1.03 million hectares (from 856,000 hectares in 2005/06) and production to 6.1 million bales (from 4.767 million bales in 2005/06).

The low production in 2005/06 (resulting from low prices) succeeded in raising domestic prices. As a result, it was more appealing for producers to sell in the domestic market, putting at risk approximately 460,000 tons worth of already-signed export contracts. The Brazilian government decided to utilize PEPRO (Prêmio de Equalização pago ao Produtor), for which it had budgeted R\$253.5 million (USD 118.6 million) in 2006, in order to allow the export contracts to be filled. PEPRO is a subsidy paid to the producer or cooperative to help them sell their product. The amount paid is the difference between the reference price (based on the minimum guaranteed price) and the highest bid at the government auction. The recipient then has until a specified date to sell the product and provide proof to the government, with the required documentation determined by whether the product is sold within the state, sold outside of the state, or exported. By August 24, the government had spent R\$209.3 million (USD 97.95 million) for 380.6 thousand tons of cotton. This amount, while significant, is less than one percent of the value of the Brazilian crop, and therefore considered to be a *de minimis* domestic support expenditure according to Brazil's WTO commitments. This program was very popular with the industry, which has requested that it be used again in 2007. To date, the government has not made a decision regarding the use of PEPRO in 2007.

The minimum guaranteed price for cotton was last changed before the 2003/04 crop, when the price was raised from R\$33.90/15 kg to R\$44.60/15 kg. Except for a brief spike in prices in early 2006, the average monthly price of cotton has been below the minimum price since October 2004.

Reports indicate that farmers have already committed up to 60 percent of the future cotton crop in exchange for inputs (fertilizer and pesticide) to plant cotton, soybeans and other crops this year. In addition, cotton is reported to be the one crop in Mato Grosso that will return a profit, leading farmers to plant cotton to cover losses in other crops.

As most of the 2006/07 production will be harvested towards the end of the trade year, exports from this crop will be made in the 2007/08 trade year.

## PS&amp;D

Cotton							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official	Post Estimate [New]	USDA Official	Post Estimate [New]	USDA Official	Post Estimate [New]	
Market Year Begin		08/2004		08/2005		08/2006	MM/YYYY
Area Planted	0		0	0	0	0	('000 HA)
Area Harvested	1172	1172	850	856	1000	1030	('000 HA)
Beginning Stocks	4626	4626	5081	5081	4067	4134	('000 480lb bales)
Production	5900	5900	4700	4767	5500	6100	('000 480lb bales)
Imports	212	212	308	308	500	500	('000 480lb bales)
MY Imp. from U.S.	0	0	0	0	0	0	('000 480lb bales)
<b>TOTAL SUPPLY</b>	10738	10738	10089	10156	10067	10734	('000 480lb bales)
Exports	1557	1557	1972	1972	1475	1475	('000 480lb bales)
USE Dom. Consumption	4200	4200	4050	4050	4050	4100	('000 480lb bales)
Loss Dom. Consumption	-100	-100	0	0	0	0	('000 480lb bales)
<b>TOTAL Dom. Consumption</b>	4100	4100	4050	4050	4050	4100	('000 480lb bales)
Ending Stocks	5081	5081	4067	4134	4542	5159	('000 480lb bales)
<b>TOTAL DISTRIBUTION</b>	10738	10738	10089	10156	10067	10734	('000 480lb bales)
Stock to Use %	88.25777	88.25777	67.5357	68.64829	82.20814	92.53812	(PERCENT)
Yield	1096	1096	1204	1213	1197	1289	(KG/HA)