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# Spain

# Cotton and Products

# Annual

# 2007

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**Report Highlights:** In recent years, cotton production and export subsidies provided by "rich" industrialized countries have become the focal point for "us vs. them" negotiations on agricultural subsidies in the Doha Development Agenda Round of negotiations at the World Trade Organization. The European Union (EU) has effectively dodged the intense criticism showered on the United States because Europe was reforming its cotton subsidy policies. We are now starting to get a first look at the effects of cotton reform on Spanish cotton production and exports, as seen in the following text and tables.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Madrid [SP1]
[SP]

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## Executive Summary

In response to the cotton reform, Spanish cotton farmers dramatically cut their production during Marketing Year (MY) (Aug/Jul) 2006 (the first year of reform). Farmers reduced their plantings by about 25 percent, and harvested even less because they chose to minimize variable costs (fertilizer, irrigation, and weed control) leaving about 9,000 hectares un-harvested. As a result, during MY 2006 Spanish farmers produced and exported about 60 percent less cotton than the previous year.

For MY 2007, we expect that Spanish cotton farmers will continue to reduce harvested cotton area, resulting in less cotton to export to the world market where it would have competed with cotton grown by poor African farmers. The EC cotton reform, as agreed between the Spanish Ministry of Agriculture and Spanish producers, permits partial subsidy coupling (up to 35 percent), with a 70,000-hectare upside limit. And, while Spanish cotton producers will likely plant the upper limit, it appears that, barring a surge in world cotton prices, they will again do what is necessary to capture the 35 percent payment, but then minimize variable costs and at harvest leave an abnormally high number of hectares un-harvested. Please see the tables below.

The Spanish cotton farmer response to EC cotton sector reform has also had repercussions throughout the cotton-producing region of Spain. Ginning companies are closing or threatening to close plants, laying off workers, and reportedly threatening the survivability of many small farming communities.

The prospects for U.S. cotton exports to the Iberian Peninsula continue to deteriorate even with the decline in domestic production. The Iberian Peninsula textile industry continues in decline as production shifts to lower cost producers.

**Production, Supply and Distribution Table (PSD): Spain**

# PSD Table

## Country Spain
## Commodity Cotton

(HECTARES)(MT)

| | 2005 USDA Official | Post [Old] | Revised Post [New] | 2006 USDA Official | Post [Old] | Estimate Post [New] | 2007 USDA Official | Post [Old] | Forecast Post [New] |
|---|---|---|---|---|---|---|---|---|---|
| **Market Year Begin** (MM/YYYY) | | 08/2005 | | | 08/2006 | | | 08/2007 | |
| Area Planted (Hectares) | 86000 | 86000 | 86000 | 70000 | 70000 | 61200 | 0 | 0 | 70000 |
| Area Harvested (Hectares) | 86000 | 86000 | 86000 | 70000 | 70000 | 52000 | 0 | 0 | 45000 |
| Beginning Stocks (MT) | 37744 | 37744 | 37744 | 36644 | 36644 | 24173 | 0 | 0 | 9273 |
| Production (MT) | 111000 | 111000 | 115366 | 85000 | 85000 | 46300 | 0 | 0 | 40500 |
| Imports (MT) | 8000 | 8000 | 5903 | 10000 | 10000 | 6800 | 0 | 0 | 5000 |
| MY Imp. from U.S. | 1100 | 1100 | 991 | 1200 | 1200 | 600 | 0 | 0 | 500 |
| TOTAL SUPPLY (MT) | 156744 | 156744 | 159013 | 131644 | 131644 | 77273 | 0 | 0 | 54773 |
| Exports (MT) | 64000 | 64000 | 88740 | 44000 | 44000 | 32000 | 0 | 0 | 15000 |
| USE Dom. Consumption (MT) | 55000 | 55000 | 45000 | 50000 | 50000 | 35000 | 0 | 0 | 30000 |
| Loss Dom. Consumption (MT) | 1100 | 1100 | 1100 | 1000 | 1000 | 1000 | 0 | 0 | 1000 |
| TOTAL Dom. Consumption (MT) | 56100 | 56100 | 46100 | 51000 | 51000 | 36000 | 0 | 0 | 31000 |
| Ending Stocks (MT) | 36644 | 36644 | 24173 | 36644 | 36644 | 9273 | 0 | 0 | 8773 |
| TOTAL DISTRIBUTION (MT) | 156744 | 156744 | 159013 | 131644 | 131644 | 77273 | 0 | 0 | 54773 |

**Production**

**Spain**

**Spain 2000-2007 Cotton Production** (ginned fiber: not carded / not combed) in 1000's metric tons

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|
| Spain | 98 | 106 | 102 | 98 | 116 | 115 | 46 | 41 |

Fiber production totals derived from harvest data, assumes a seed:fiber ratio of 2:1.
Source: official MAPA harvest data up till 2006; FAS-Madrid forecast for 2007.

- The reform reduced the area eligible for subsidies from 86,000 ha in 2005 to 70,000 ha in 2006 (see Production Policy on page 5). Farmers however planted only 60,000 ha, choosing to forego subsidies on 10,000 ha.

- Raw cotton yield declined from 4 tons per ha in 2005 to 2.67 t/ha in 2006. According to the Andalusian government, reductions in yield were attributed to producer concern over EU cotton reform and to lack of adequate water.

- Industry sources inform us that farmers did not spend the money to irrigate cotton. Lacking confidence in the season's revenue, savvy cotton farmers also neglected to fertilize, to control weeds, and abandoned 9000 ha of cotton in the field un-harvested.

- We forecast further decline in MY 2007 relative to previous year levels, with producers opting to plant eligible areas to receive subsidies, but harvesting less area than MY 2006.

- The poor 2006 harvest has created widespread effects across the cotton sector. The Spanish Cotton Ginning Association reports €23M losses for the 2006 campaign and projects the closure of several cotton ginning enterprises along with layoffs of more than 100 workers. They blame the EU-proposed reforms and are seeking indemnification from the government.

- Some ninety-six percent of Iberian Peninsula cotton is produced in the Guadalquivir river basin of southern Spain, in the Andalusian provinces of Seville, Cordoba, Cadiz and Jaen. Smaller areas are located in Cartagena, Murcia, in eastern Spain. About 98 percent of Spanish cotton is planted in fields with irrigation infrastructure. Some producers may be converting this land into other currently more lucrative crops.

## Portugal

**Portugal 2000-2007 Cotton Production** (ginned fiber: not carded / not combed) in 1000's metric tons

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|
| Portugal | 0 | 0.2 | 0.3 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 |

Fiber production totals derived from harvest data, assumes a seed:fiber ratio of 2:1.
Source: Official data up till 2004; FAS-Madrid estimates and forecast for 2005-2007.

- Under the pending EU cotton reform, subsidized cotton production in Portugal is limited to a maximum-guaranteed area (MGA) of 360 ha.

- We forecast a decline in Portuguese cotton production for MY 2006 and 2007, as cotton subsidies in Portugal will be limited to about €550 per hectare (see Production Policy below).

**Production Policy**

The Revised EU cotton Policy, instituted under EU Reg. 864/2004, dated of April 29, 2004, came to effect on January 1, 2006.

Under the reform-

- Cotton producers are eligible to receive direct EU subsidy payments determined on the basis of historic cultivated areas and yields and EU supports to the sector.

- Under new regime, 65 percent of subsidy payments will be de-coupled and included in the Single Farm Payment (SFP). The remaining support will be integrated in the country's "financial envelope," and paid to the farmers on a cultivated area-basis. The CAP reform converted the maximum guaranteed quantity regime in place until the end of 2005, into an area-based system. For base (guaranteed) areas and subsidies in place under new cotton regime, please check table below.

- Cotton farmers complying with specific environmental-friendly practices are also eligible for the EU agro-environmental measure (AEM) subsidy regime.

- In Spain, there is a regressive subsidy scheme in place for AEM payment, which is regulated differently by the Autonomous Communities (AC). In Andalucia, the chief cotton region, AEM is of € 350/ha for areas below a 40 ha total, € 210/ha for areas between 41 and 80 ha, and of € 105/ha for any areas over 80 ha.

- Farmers are also eligible to receive a quality premium. Cotton farmers who deliver cotton with moisture levels below 12 percent and impurities below 5 percent are entitled to an additional maximum € 190/ha subsidy. Each AC has the authority to set its own modulation scheme for this subsidy.

**Key Parameters of Old and New Cotton Regime in Spain and Portugal**

| | 2005 | From 2006 Onwards | | |
|---|---|---|---|---|
| | MGQ (Tons) | MGA / Base Area | Amount de-coupled | Aid per eligible hectare |
| Spain | 249,000 | 70,000 ha | 1,509 €/ha | 1,039 €/ha |
| Portugal | 1,500 | 360 ha | 1,202 €/ha | 556 €/ha |
| EU | 1,031,000 | 425,360 ha | - | - |

Note: MGQ stands for Maximum Guaranteed Quantity. MGA stands for Maximum Guaranteed Area.

- The Government of Spain (GOS) was a strong opponent to the EU cotton reform, and filed a case with the EU General Attorney to pursue its annulment.

- Recently, the EU General Attorney issued a recommendation to the EU Court of Justice, advising that it issued a sentence having the EU annul the Reform.

- The suspension of the reform is temporary, pending the completion of an impact study. The impact study is considered by most to be a formality that will not affect the continued application of the reform.

**Consumption**

- Spanish domestic consumption of cotton fiber (not carded / not combed) declined from 45,000 MT in MY 2005 to 35,000 in MY 2006, with a forecast of 30,000 MT in MY 2007.

- This is the continuation of a decade long trend of reduced domestic consumption in both Spain and Portugal, indirectly shown through the 10-years data on declining cotton fiber imports, illustrated in the graph in the section below on TRADE.

- Challenges to the industry include competition from Asia, textile trade liberalization, the strength of the Euro against the dollar, as well as relatively high production costs.

**Trade**

**Trade Timelines**

- **Portugal**

Portugal: Imports and Exports of Cotton, Not Carded Not Combed, in Metric Tons
(shown in parentheses, equivalent in 1000's of U.S. bales @ 480 lb/bale)

| | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007*** |
|---|---|---|---|---|---|---|---|---|
| Imports | 135,614 (622) | 121,283 (556) | 105,297 (483) | 84,739 (388) | 71,507 (328) | 63,602 (298) | 56,945 (261) | 50,000 (229) |
| Exports | 80 (0.4) | 531 (2.4) | 360 (1.7) | 415 (1.9) | 476 (2.2) | 467 (2.2) | 283 (1.3) | 200 (0.9) |

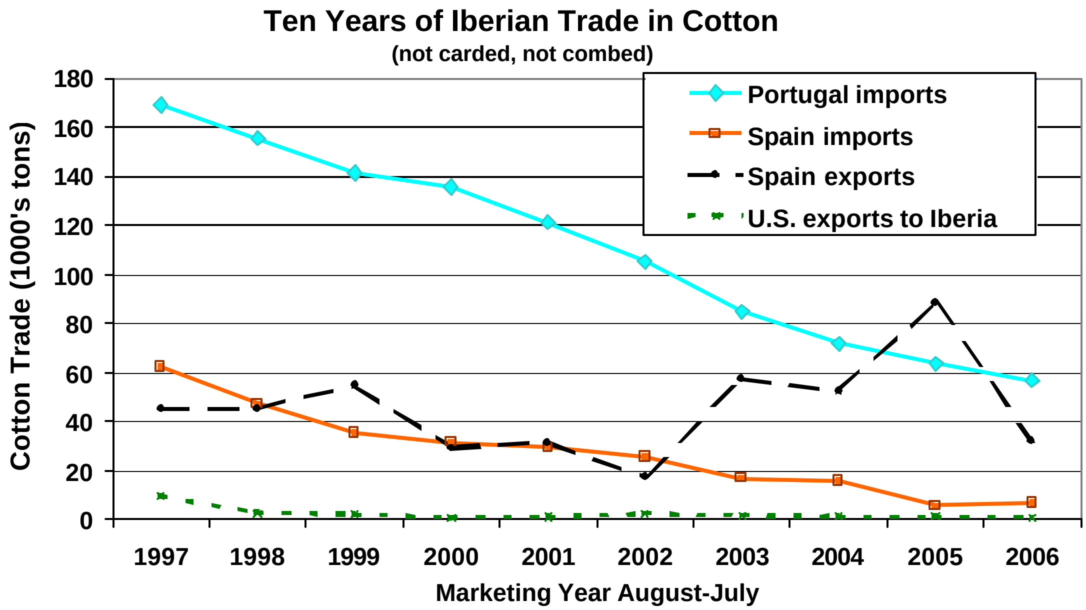
Source: GTA. 2000-2005 final. MY 2006 estimate based on YTD figures from Aug-Dec 2006.
*FAS-Madrid forecast for MY 2007.

- **Spain**

Spain: Imports and Exports of Cotton, Not Carded Not Combed, in Metric Tons
(shown in parentheses, equivalent in 1000's of U.S. bales @ 480 lb/bale)

| | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007*** |
|---|---|---|---|---|---|---|---|---|
| Imports | 31,501 (144) | 29,313 (134) | 25,785 (118) | 16,912 (78) | 16,032 (74) | 5,903 (27) | 6,790 (31) | 5,000 (23) |
| Exports | 29,339 (135) | 31,664 (145) | 17,392 (80) | 57,515 (264) | 52,232 (240) | 88,740 (407) | 32,246 (148) | 15,000 (68) |

Source: GTA. 2000-2005 final. MY 2006 estimate based on YTD figures from Aug-Dec 2006.
*FAS-Madrid forecast for MY 2007.




- Iberian imports of cotton have declined steadily over the last ten years due to slowdown in cotton spinning activity. Between 1997 and 2006, Portuguese cotton imports have declined 66 percent and Spanish imports have decreased 90 percent, see graph above. Industry sources expect this trend to continue.

- Spanish cotton exports attained their all-time high (89,000 MT) in MY 2005, the last year of the old subsidy regime, due to a bumper crop and declining domestic consumption.

**Trade Matrices - Portugal**

# Import Trade Matrix

updated 4/17/2007

**Country** Portugal

**Commodity** Cotton **Fiber: not carded / not combed**

Time Period: Aug/July

**Units: Metric Tons**

| Imports for: | 2004 | | 2005 | | 2006 |
|---|---|---|---|---|---|
| U.S. | 1359 | U.S. | 298 | U.S. | 427 |
| Others | | Others | | Others | |
| Brazil | 10643 | Spain | 12352 | Chad | 13766 |
| Chad | 8179 | Chad | 10503 | Mali | 8126 |
| Spain | 7644 | Brazil | 6737 | Spain | 6504 |
| Mozambique | 6536 | Mozambique | 6023 | Zimbabwe | 5093 |
| Uganda | 5440 | Tanzania | 3120 | Russia | 2702 |
| Zimbabwe | 4937 | Uganda | 2932 | Brazil | 3530 |
| Paraguay | 2747 | Egypt | 2535 | Egypt | 2597 |
| Turkey | 2412 | Zimbabwe | 2511 | Uganda | 1394 |
| Cameroon | 2301 | Cameroon | 2091 | Tanzania | 1930 |
| Egypt | 2262 | Mali | 1758 | Burkina Faso | 1728 |
| Total for Others | 53101 | | 50562 | | 47371 |
| Others not Listed | 17232 | | 12742 | | 9147 |
| Grand Total | 71692 | | 63602 | | 56945 |

# Export Trade Matrix

updated 4/17/2007

**Country** Portugal

**Commodity** Cotton **Fiber: not carded / not combed**

Time Period: Aug/July

**Units: Metric Tons**

| Exports for: | 2004 | | 2005 | | 2006 |
|---|---|---|---|---|---|
| U.S. | 0 | U.S. | 0 | U.S. | 0 |
| Others | | Others | | Others | |
| Spain | 286 | Spain | 315 | Spain | 277 |
| France | 91 | France | 78 | Angola | 6 |
| Bangladesh | 90 | Pakistan | 75 | | |
| Hong Kong | 7 | Cape Verde | 1 | | |
| Cape Verde | 1 | | | | |
| Angola | 1 | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| Total for Others | 476 | | 467* | | 283 |
| Others not Listed | 0 | | 0 | | 0 |
| Grand Total | 476 | | 467 | | 283 |

*list is greater than total of partners due to rounding errors
Source: GTA- Global Trade Atlas.
MY 2006 estimates derived using Aug-Dec 2006 data.

**Trade Matrices –Spain**

## Import Trade Matrix

updated 4/13/2007

**Country** Spain

**Commodity** Cotton **Fiber: not carded / not combed**

| Time Period | Aug/July | | | | Units: Metric Tons |
|---|---|---|---|---|---|
| Imports for: | 2004 | | 2005 | | 2006 |
| U.S. | 34 | U.S. | 991 | U.S. | 578 |
| Others | | Others | | Others | |
| Belgium | 4668 | Belgium | 1847 | Belgium | 2561 |
| Brazil | 2598 | Benin | 1508 | Cameroon | 962 |
| Australia | 1979 | Pakistan | 296 | Mali | 862 |
| Zimbabwe | 1469 | France | 204 | Cote d'Ivoire | 480 |
| Cameroon | 1444 | Syria | 202 | Pakistan | 266 |
| Syria | 905 | Cote d'Ivoire | 190 | France | 242 |
| Chad | 737 | Cameroon | 160 | Benin | 218 |
| Benin | 602 | Mali | 142 | Zimbabwe | 178 |
| Pakistan | 312 | Sudan | 125 | Taiwan | 163 |
| Egypt | 273 | Zimbabwe | 99 | Togo | 134 |
| Total for Others | 14987 | | 4773 | | 6067 |
| Others not Listed | 1011 | | 139 | | 144 |
| Grand Total | 16032 | | 5903 | | 6790 |

## Export Trade Matrix

updated 4/13/2007

**Country** Spain

**Commodity** Cotton **Fiber: not carded / not combed**

| Time Period | Aug/July | | | | Units: Metric Tons |
|---|---|---|---|---|---|
| Exports for: | 2004 | | 2005 | | 2006 |
| U.S. | 0 | U.S. | 0 | U.S. | 0 |
| Others | | Others | | Others | |
| France | 12265 | China | 22930 | Portugal | 7567 |
| China | 10033 | United Kingdom | 10846 | Morocco | 5849 |
| Portugal | 5605 | France | 9779 | Turkey | 3348 |
| Belgium | 4700 | Portugal | 8924 | United Kingdom | 3230 |
| Morocco | 4578 | Thailand | 8182 | Algeria | 2993 |
| United Kingdom | 4489 | Morocco | 7680 | Italy | 2570 |
| Algeria | 3880 | Algeria | 7393 | Pakistan | 1951 |
| Italy | 2057 | Belgium | 4837 | Indonesia | 1248 |
| Germany | 1273 | Tunisia | 2271 | France | 1224 |
| Thailand | 1128 | Italy | 1781 | Germany | 600 |
| Total for Others | 50008 | | 84623 | | 30581 |
| Others not Listed | 2224 | | 4117 | | 1666 |
| Grand Total | 52232 | | 88740 | | 32246 |

Source: GTA- Global Trade Atlas. MY 2006 estimates derived using Aug-Dec 2006 data.