USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Scheduled Report - Public distribution

Date: 5/15/2008

GAIN Report Number: BR8616

Brazil

Cotton and Products

Cotton Annual Report

2008

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Report Highlights:
Post estimates that 2007/08 production will be 7.15 million bales, with exports of 2.3 million bales and imports of 125,000 bales. Since production in 2007/08 remained largely the same as the previous year (most of which will be harvested in June and July 2008), exports in 2008/09 are expected to increase to 2.9 million bales and imports to decrease slightly to 100,000 bales. Post anticipates that area will decrease eight percent in 2008/09 due to a continuing strong exchange rate and high international prices for soy and corn, leading to 2008/09 production of 6.5 million bales.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Brasilia [BR1]
[BR]

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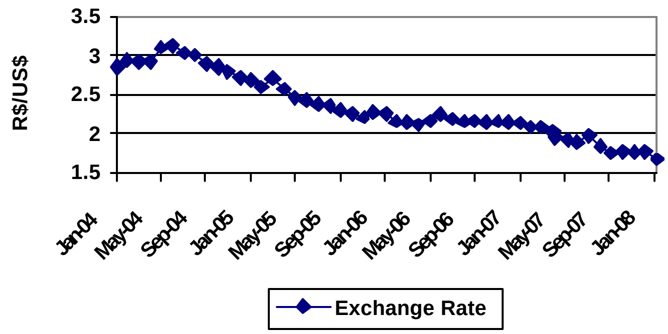
Executive Summary

Post estimates that 2007/08 production will be 7.15 million bales, with exports of 2.3 million bales and imports of 125,000 bales. As cotton is harvested mostly in June and July, the cotton that is harvested in one trade year is consumed and traded in the following trade year. Production in 2007/08 remained largely the same as the previous year. As a result, exports in 2008/09 are expected to increase to 2.9 million bales and imports to decrease slightly to 100,000 bales. Post anticipates that area will decrease eight percent in 2008/09 due to a continuing strong exchange rate and high international prices for soy and corn, leading to 2008/09 production of 6.5 million bales.

Economic Situation

In 2007, GDP growth was 5.4 percent, up from 3.8 percent in 2006, and inflation was under control at 4.3 percent. Per capita GDP increased to $7,000, with unemployment around 8 percent. The domestic market was the main driver of economic growth in 2007. Total exports expanded 18 percent, while imports were up a significant 33 percent, reflecting the 11 percent appreciation of the Real against the dollar. The outlook for 2008 is for economic growth of 4.5 percent, with interest rates down slightly. The Real will likely remain strong, but inflation is becoming a significant concern.



PS&D

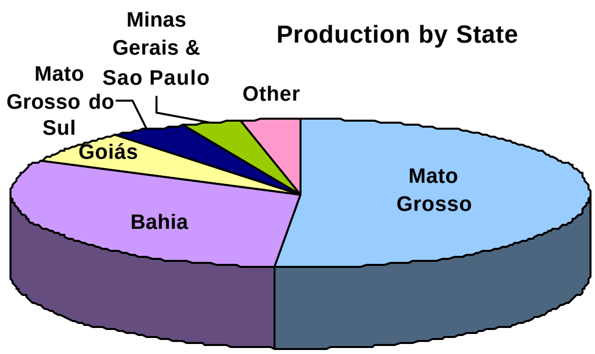
Cotton							
	2006	Revised	2007	Estimate	2008	Forecast	UOM
	USDA Official	Post Estimate [New]	USDA Official	Post Estimate [New]	USDA Official	Post Estimate [New]	
Market Year Begin		08/2006		08/2007		08/2008	MM/YYYY
Area Harvested	1094	1097	1100	1090		1000	('000 HA)
Beginning Stocks	3817	3817	5682	6032		6957	('000 480lb bales)
Production	7000	7000	7175	7150		6500	('000 480lb bales)
Imports	515	515	200	125		100	('000 480lb bales)
MY Imp. from U.S.	0	215	0	0		0	('000 480lb bales)
TOTAL SUPPLY	11332	11332	13057	13307		13557	('000 480lb bales)
Exports	1300	1300	2300	2300		2900	('000 480lb bales)
USE Dom. Consumption	4500	4150	4500	4200		4250	('000 480lb bales)
Loss Dom. Consumption	-150	-150	-150	-150		-150	('000 480lb bales)
TOTAL Dom. Consumption	4350	4000	4350	4050		4100	('000 480lb bales)
Ending Stocks	5682	6032	6407	6957		6557	('000 480lb bales)
TOTAL DISTRIBUTION	11332	11332	13057	13307		13557	('000 480lb bales)
Stock to Use %	97.96552	100.6789	94.22059	107.0308		91.70629	(PERCENT)
Yield	1393	1389	1420	1428		1415	(KG/HA)

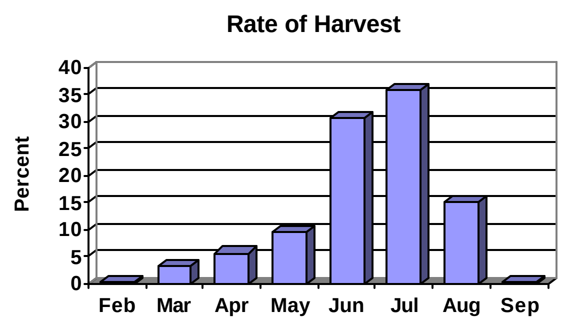
Production

In 2007/08, producers largely maintained planted area. For the second year in a row, farmers in the Southeast (Minas Gerais and Sao Paulo) significantly decreased planted area in favor of sugar cane. However, this was countered by an increase in area in the northeastern state of Bahia.

Reports to date indicate that the current crop looks good, with few problems. If weather continues as normal, 2007/08 production is expected to reach 7.15 million bales (1.56 million mt).

Post expects cotton area to be maintained in Bahia but to decrease in Mato Grosso in 2008/09 due to the strong exchange rate, increasing costs of production (primarily higher fertilizer prices) and the current high returns for soy and corn. Soybeans and corn require less fertilizer than cotton, and require no fertilizer the first year after a cotton crop. With yields following the normal trend, this overall reduction in area would result in production of 6.5 million bales (1.42 million mt) in 2008/09.





Prices/Minimum Prices

The last time that the minimum price for cotton was changed was before the 2003/2004 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 had been below the minimum price since October 2004. However, in early 2007, the average monthly price rose above the minimum price, increasing nearly eight percent between December 2006 and February 2007 (to an average February price of R$1.44/lb). This prompted the federal government to begin selling stocks, resulting in a 5.6 percent reduction in the domestic price (to an average April price of R$1.36/lb). In January 2008, the price again rose above the minimum price, but the government has not intervened.

2007/08 Minimum Price for Cotton

Region	Unit	Price (R$/unit)	Price (R$/lb)	Price (US$/lb)
All	15 kg	44.60	1.3487	0.7976

Source: MAPA/SPA/DEAGRO
Exchange rate: US$1 = R$1.69090 (5/12/08)

Cotton Prices

Prices in cents of R$ per lb

Year	2006	2007	% Change
Jan	135.09	140.55	4%
Feb	138.26	144.31	4%
Mar	136.25	136.87	0%
Apr	130.10	136.41	5%
May	125.17	129.20	3%
Jun	133.04	116.22	-13%
Jul	128.44	114.80	-11%
Aug	132.43	116.58	-12%
Sep	130.13	119.65	-8%
Oct	129.54	118.95	-8%
Nov	128.89	119.28	-7%
Dec	133.77	126.37	-6%

Source: CEPEA

Consumption

In spite of annual variations, Brazilian industrial use of cotton has remained relatively stable over the last 15 years, with an average annual growth rate around one percent. In comparison, industrial use of artificial and synthetic fibers has increased an average of nearly five percent over the last 15 years, evening out slightly in recent years with a 5-year annual growth rate of 1.5 percent. Cotton consumption is expected to remain relatively stagnant in 2008/09, increasing only slightly from 4.05 million bales to 4.1 million bales.

Trade

Due to the small crop in 2005/06 (which was harvested towards the end of the 2005/06 year), there was a 34 percent reduction in exports in 2006/07, to 1.3 million bales (283,000 mt). As a result of the rebound in crop production in 2006/07, exports in 2007/08 are expected to increase more than 75 percent to a record 2.3 million bales (500,000 mt). Approximately 50 percent of these exports are to Pakistan, Indonesia and South Korea.

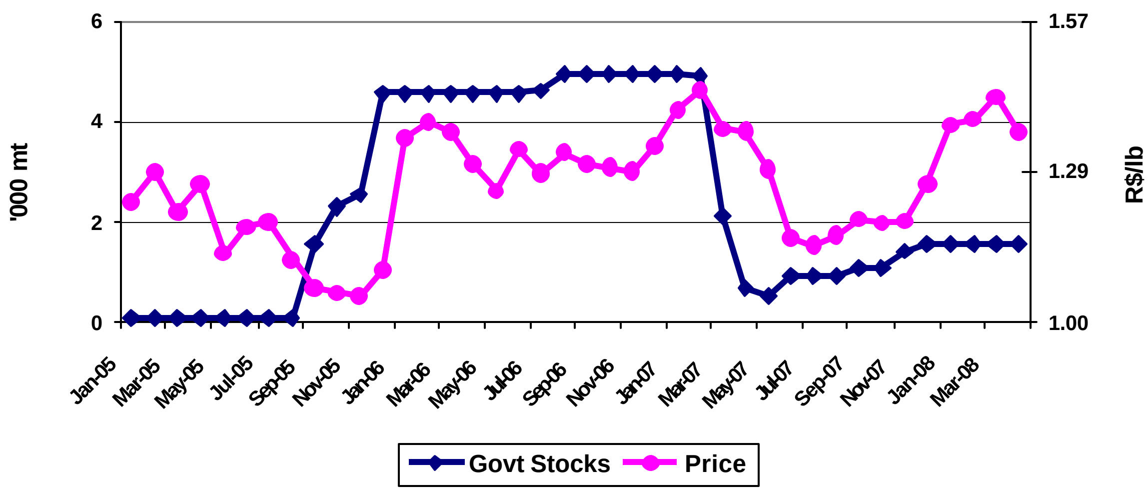
As most of the 2007/08 production will be harvested towards the end of the trade year, exports from this crop will be made in 2008/09. Post expects exports will increase to 2.9 million bales (630,000 mt), a 25 percent increase over the record expected in the current year. More than 60 percent of the cotton crop was sold in advance in exchange for seeds, fertilizer and other inputs. Nearly half of this amount is destined for export. Farmers are already purchasing fertilizer and other inputs for next year's crop, even though the current harvest has barely begun.

The majority of Brazilian cotton imports is supplied by the United States and Paraguay. In recent years, the next largest suppliers have been Benin and Mali. However, so far in 2007/08, Benin and Mali have shipped no cotton to Brazil, whereas Egypt has maintained the same volume as the previous year. Brazil is expected to import 125,000 bales (27,000 mt) in 2007/08 as a result of the improved domestic production in 2006/07 (which was harvested primarily in June and July 2007).

As Brazil is expected to maintain its high levels of domestic production in 2007/08, imports are forecast to remain low at 100,000 bales (21,800 mt) in 2008/09.

Stocks

The Brazilian government (GOB) purchases and sells cotton as part of its effort to control prices. When prices were low in the second half of 2005, the government purchased 4,500 mt of cotton, increasing government stocks to the highest level in two years (but still well below the March 1987 high of 166.5 million tons). In January 2007, prices rose above the minimum guaranteed price and continued to rise in February. In response, the GOB sold nearly 2/3 of its stocks during March and April in an effort to lower the domestic price. In the second half of 2007, the government purchased only about 1,000 mt of cotton in its effort to stabilize domestic cotton prices.



Policy

According to the Ministry of Agriculture, Brazil provided R$547 million (US$326.7 million) to the cotton industry in support for commercialization in 2007. This amount, while significant, is considered to be *de minimis* spending, as it is less than 10 percent of the value of production, and is therefore never counted against Brazil's Aggregate Measurements of Support (AMS) commitment in the WTO. This support was provided almost exclusively through the use of the PEPRO program (see Government Programs). The government has already announced PEPRO auctions totaling R$550 million (US$325 million) this year, with the first auction to be held on May 15 for 341,000 mt.

The quantity of cotton supported by the government in 2007 is provided in the table below, as well as descriptions of the major government programs. These programs are utilized to support commodity prices and to assist in the flow of cotton from the production areas to the 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 Agriculture Agreement allows them to subsidize transportation.

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

Program	2004	2005	2006	2007
Acquisition (AGF)	0	4.5	0	1.1
PEP	89.6	136.5	1.8	0
PROP	0	272.2	0	0
PEPRO	0	0	461.5	428.9
Total	89.6	413.2	463.3	730.0
Production	1,309.4	1,298.7	1,037.8	1,524.0
Participation %	6.8%	31.8%	44.6%	47.9%

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.