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China - Peoples Republic of

Cotton and Products Annual

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Report Highlights:

MY14/15 forecast planting area of 4.41 million hectares (MHa) and production of 6.5 million tons are both down from last year as a support policy change lessens incentives for planting. Government cotton purchases over the past three years have built domestic stocks to a record high 12.3 million tons through MY13/14 which, when coupled with weak consumption growth of 8.2 million tons, further reduces demand for imports which are expected to fall to 1.8 million tons in MY14/15. The U.S., with 1.3 million tons of cotton exported to China in MY12/13, was China's top supplier but faces increasing competition from India and Australia.

China’s official cotton market information collection system covers cotton and yarn production, however, the lack of reliable data (production, consumption, and stocks) has been more pronounced in recent years due to the rapid expansion and diversified scales of production. The numerous players continue to diversify ownership in the industry chain, including the large number of cotton farmers, gins, merchants and mills. All these entities contribute to making the collection of reliable production statistics in China an extremely difficult task.

Executive Summary:

MY14/15 forecast planting area of 4.41 million hectares and production of 6.5 million tons are 7.1 percent and 6.2 percent down, respectively, over the estimated 7 million tons and 4.7 MHa last year. A change in government support policy for cotton is widely expected to lower farmer payments and financial incentives for planting. The government’s new cotton production support policy for MY14/15 narrows eligibility to Xinjiang farmers only and pays a direct subsidy based on a target price instead of price support purchases. In MY14/15, these program changes are expected to prompt a reduction in cotton planting intentions, particularly in Yangtze and Yellow River regions, due to the loss of government production support altogether and the option of more profitable, alternative crops.

Government cotton crop purchases at record prices over the past three years have built domestic stocks to a record high 12.3 million tons through MY13/14. MY 13/14 cotton consumption is forecast at recover slightly to 8.2 million tons from an estimated 8.04 million tons in MY13/14. China’s ability to manipulate domestic supply resources through state reserve auctions and tariff rate quotas continues to impact import demand. The U.S., with 1.3 million tons of cotton exports to China in MY12/13, was China's top supplier but faces increasing competition from suppliers like India and Australia as China's imports fall to a projected 1.8 million tons in MY14/15.

Production

MY14/15 domestic production will fall to 6.5 million tons based on planted area of 4.41 MHa, both down 7.1 percent and 6.2 percent, respectively, over the estimated 7 million tons and 4.7 MHa in the previous year. A recent change in MY14/15 government policy that supplants a nation-wide price support policy with a narrower eligibility pool and direct payments based on a target price has lowered overall profit expectations.

China's policy change reflects a reassessment of its measures to encourage production through ensuring positive returns by paying artificially high prices to cotton farmers. In retrospect, as a result of this support policy, the government has absorbed vast expenses for handling and storage, the textile industry has endured inflated, above market cotton costs and in return, the policy returns in cotton acreage and production gains have been negligible. Going forward, instead of purchasing cotton at a high floor price in all cotton-producing regions, the government will provide a direct subsidy based on a target price only to Xinjiang farmers. Without the government support payments, farmers in the Yangtze and Yellow River production regions are expected to switch to alternative crops, thus decreasing overall cotton acreage and production.

Estimates of China's total cotton production (area and yields) continue to differ among sources. For MY13/14 example, China's National Statistics Bureau (NSB) estimates MY13/14 production at 6.31 million tons based on planted area of 4.35 MHa with yields of 1,450 Kg/Ha. Industry sources, however, estimate MY13/14 production at around 7 million tons, believing Xinjiang planted area remains under-reported. Further clouding the forecast picture, statistics based on official classification data could be skewed by the repeated classification of domestic cotton or even classification of imported cotton (to take advantage of the price difference between imported and domestic cotton). Adding to the difficulty in accurately forecasting production with data inconsistencies, the changes in government policy for MY14/15 also muddy the profit picture and impair accurate forecasting by province. Nevertheless, below is a table of estimates by various sources for MY13/14 and MY14/15 production.

For Xinjiang, in mid-January, the Xinjiang government released estimates that MY13/14 cotton production was 3.4 million tons (based on planted area of 1.57 MHa, both up slightly by 45,000 Ha and 20,000 tons over the previous year). This figure is significantly below the China Fiber Inspection Bureau (CFIB) classified volume for Xinjiang, as of March 16th, of 4.68 million tons (out of the nation's total 7.28 million tons). (See table 10 and more in GAIN CH10033 on inconsistencies in Xinjiang's reported planted area).

For the eastern production regions, MY13/14 production data bears additional explanation. CFIB data shows MY13/14 classified volume for Henan at 75,000 tons (as of Mid-March). However, industry sources suggest that a portion of Henan production is likely being reported under Shandong and Hubei province volume. Large traders/mills purchase seed cotton in Henan which is baled and classified in Shandong/Hubei provinces and reported under their production figures. Additionally, MY13/14 Hubei's stable production seems to be supported by improved profits received in the previous year. Based on all these factors, Post adjusted MY13/14 production estimates for these provinces accordingly.

The following table reflects production estimates/forecasts for MY13/14 and MY14/15 by major industry source.

Cotton Production Estimate/Forecast by Various Sources (million tons)

	CCA	NCMMN	CNCE	CAAS	NSB	Post
MY13/14 production	7.0	6.99	6.85	7.0	6.31	7.0
MY14/15 area change	-10.5%	-14.2%	-10%	-10.7%	-7%**	-6.2%
MY14/15 Production	NA	NA	NA	NA	NA	6.5

[CCA- China Cotton Association, NCMMN- National Cotton Market Monitoring Network, CNCE- China National Cotton Exchange, CAAS- China Academy of Ag Science]
(**MOA March intention survey results)

Planted Area

Cotton planted area is expected to continue its downward trend as rising production costs, variable profits and alternative crops influence planting decisions. Post forecasts MY14/15 cotton planted area will fall to 4.41 MHa from an estimated 4.7 MHa last year.

The Ministry of Agriculture (MOA) estimates MY14/15 planted area will decrease by 7 percent over the previous year based on its March planting intention survey on farmers.

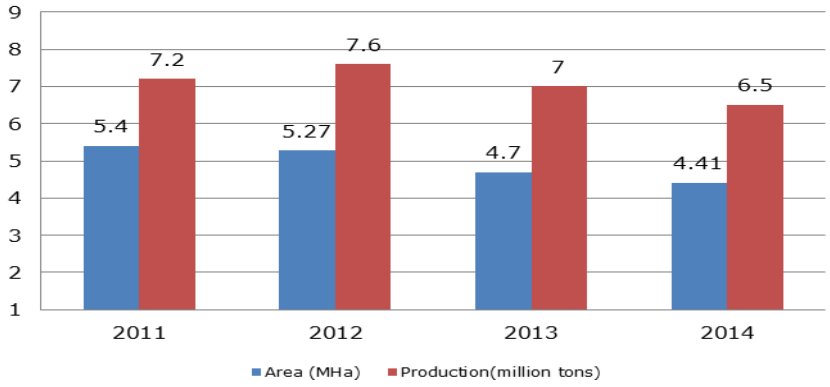
In addition, a China Academy of Agricultural Science Cotton Research Cotton Institute (CAAS) January forecast shows a 10.7 percent fall in MY14/15 cotton planting to 4.37 MHa, a drop from its estimated area of 4.9 MHa in MY13/14, with the Yangtze River region down 12.1 percent, the Yellow River region down 17.4 percent, and the northwest region down 4.9 percent (with north Xinjiang down 5.8 percent, south Xinjiang down 4.8 percent).

A recent China Cotton Association (CCA) survey also indicates MY14/15 cotton planting intention will decline by 10.5 percent over last year to 4.17 MHa. The survey showed the Yellow River planting intentions were down 22 percent with Henan, Shandong both down more than 20 percent and Hebei down 29 percent as higher profits to competing crops pull acreage from cotton. For example, farmers planting both wheat and corn had a profit of RMB6, 600/Ha in Shandong compared to farmers planting cotton who had a negative profit in MY12/13 (chart 2).

More recently, the National Cotton Market Monitoring Network (NCMMN) released a March 27th forecast that MY14/15 planted area will be down by 14.2 percent to 4.13 MHa and readjusted its MY13/14 production data to 6.99 million tons. A China National Cotton Exchange (CNCE) forecast agrees that MY14/15 cotton area will fall by 10 percent over the previous year.

Similar to the national experts, local industry forecasts also show varying forecasts. In Yiyang/Hunan, farmers expect a 13.3 percent decline in cotton planting intention in MY14/15 following comparatively low profit as drought and typhoon conditions lowered yield and quality in the previous year. Farmers in Heze and Liaocheng/Shandong province expect cotton planting intentions to be down 7.7 percent and 25 percent, respectively, in MY14/15.
(See Table 10 for details)

Chart 1- China Cotton Planted Area and Production
(2011-2014, in MHa and million tons)

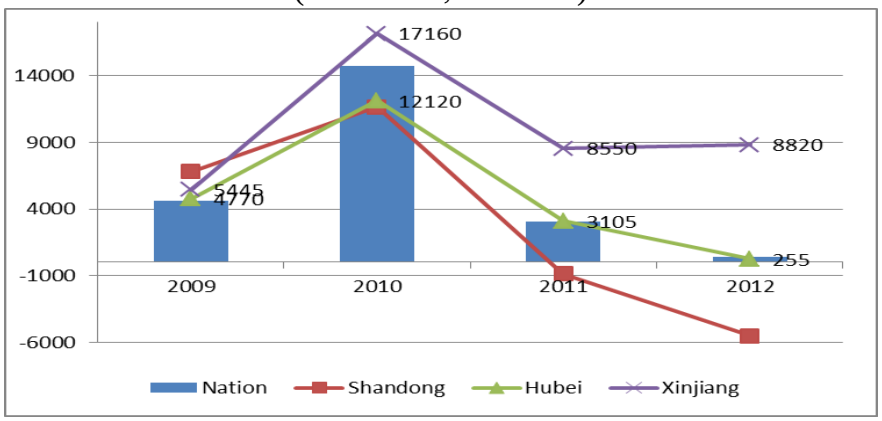


Source: FAS/Beijing)

In MY13/14, low yield, labor shortages and low profits in both the Yellow River rand Yangtze River regions further eroded cotton prospects. The withdrawal of government price support in MY14/15 is expected to further accelerate an eastern region planting decline, as indicated in Chart 2, and exacerbate profit and labor issues.

For the northwest, the Xinjiang Development and Reform Commission reported a 3 percent decline in cotton planting intentions in MY14/15 due to uncertainties following changes in government support policy. Post forecasts, though, that MY14/15 planted area will remain stable at 2.2 MHa. A record of positive profits, which peaked in MY10/11 due to a surge in world prices, has continued strong at RMB8,550 (or $1,357)/Ha in MY11/12 and RMB8,820 (or $1,420)/Ha in MY12/13. Furthermore, the government has reportedly purchased a majority of Xinjiang's relatively high yielding MY 13/14 crop (4.6 million tons as of March 9) at above world market prices (RMB20, 400 or $3,290). Thus, Xinjiang cotton farmers are expected to continue their profitable record which should keep planting intentions high for MY14/15.

Chart 2 - Comparison of Average Net Profit from Cotton Planting
(2009-2012; RMB/Ha)

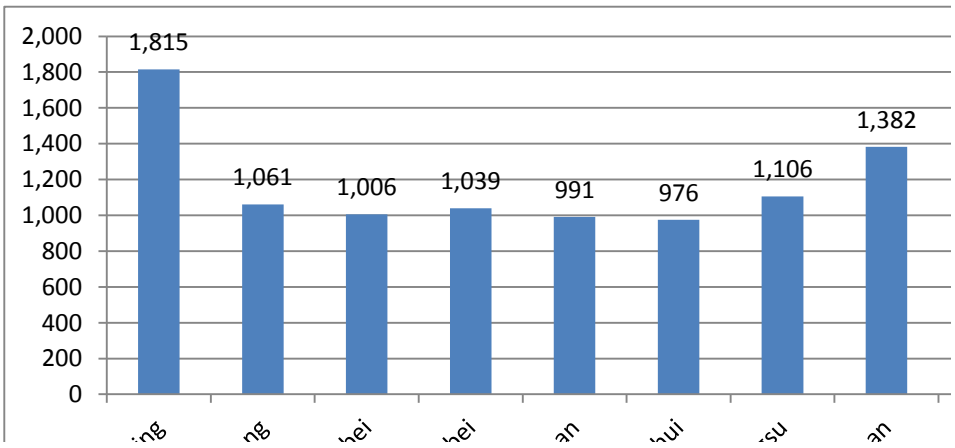


Source: NDRC

Yield

China's average cotton yield varies significantly by individual province/autonomous region, ranging from 976Kg/Ha in Anhui to 1,815Kg/Ha in Xinjiang (see Chart 3). Overall, MY14/15 cotton yield is forecast above average at 1,474Kg/Ha with Xinjiang yield forecast at 1,909 Kg/Ha. MY13/14 cotton yield averaged 1,450 Kg/Ha (NSB total production divided by planted area), with Xinjiang's yield topping 2,009Kg/Ha, according to the Xinjiang Agricultural Working Conference Report.

Chart 3 – NSB Yield by Province
(Kg/Ha; MY08/09 to MY12/13)



Source: NSB

Yellow River provinces of Henan, Hebei, Shandong, and Anhui Provinces could potentially see 100 percent use of Bt variety cotton in the near future which reduces pest-related yield losses. Weather uncertainties in the Yangtze River and Yellow River region though continue to impact yields.

In Xinjiang's dry climate, Bt cotton is less prevalent due to fewer pests. Conventional varieties with specific traits, such as dwarf plant size and early maturity, continue to raise yields in Xinjiang. The Xinjiang Production and Construction Corp (PCC) farms, which are organized on a larger scale than other typical cotton farms, incorporate particular agronomic practices, such as high density sowing, plastic sheet covering, and drip irrigation technology, to improve yields.

Stocks

Government purchases of more than 6.24 million tons of the MY13/14 cotton crop (as of March 24) raises state-held reserves to a record level approaching 12.3 million tons at the end of MY13/14, a sizeable increase from an estimated 11 million tons of beginning stocks.
Post forecasts ending stocks could reach 12.4 million tons at the end of MY14/15, depending on the consumption recovery rate and the price gap between the domestic and world market. The stock to use ratio remains high at above 150 percent in MY13/14 and 14/15.

Record high stock levels prompted recent government auctions of state reserve cotton but the response has been lackluster. As of March 24th, the government had only sold 715,000 tons of reserve cotton, roughly 39 percent of the volume offered for sale at RMB18,000/ton. This reaction reflects stagnation in cotton demand and/or an unwillingness by the textile sector to pay the inflated price. In an attempt to stimulate purchases, the government will lower the state cotton release price from RMB18, 000/ton to RMB17, 250/ton (Grade 328) beginning April 1st, according to the China Cotton Association.

Cotton Trade

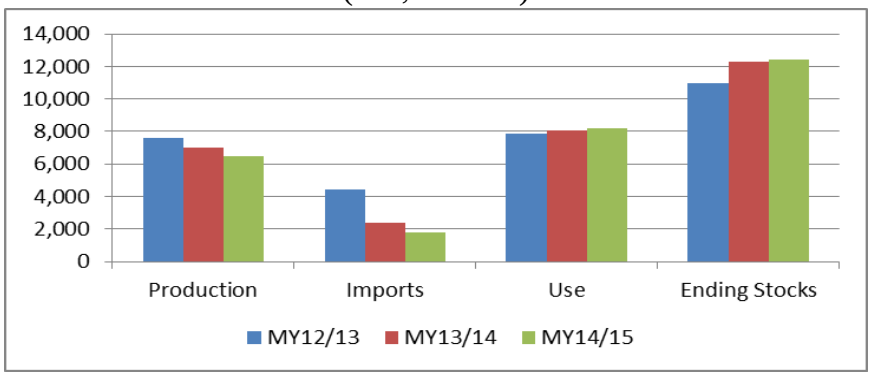
Note: Annual import volume is controlled by the government through a tariff rate quota (TRQ) system. This policy facilitates the government's ability to regulate the supply of cotton imports.

As committed by its WTO agreement, the government allots 894,000 tons of cotton import TRQ (subject to one percent import tariff) every year and then has the option to allocate additional import quantities. In 2013, industry sources estimated that the government issued 2.3 million tons of additional TRQ subject to a variable tariff rate or for processing/re-export. The government has not provided any additional TRQ distributions for 2014, but some analysts believe the government could add 1 to 1.5 million tons for processing trade or combine a purchase of reserve cotton with the distribution of additional TRQ to encourage the mill's purchase of state reserve cotton.

Cotton imports without a TRQ allocation face a stiff 40 percent import duty which normally impedes its price competitiveness. Recent market conditions, however, including a favorably low world market price and tight domestic cotton supply, converged to trigger the import of over quota, full duty (40 percent) cotton in 2013. Industry experts believe that, so long as the price gap between domestic and international markets remains around RMB5,000/ton ($800/ton), Chinese cotton buyers will continue to pay the duty and import cotton outside the TRQ to meet the needs for various grades/quality of cotton.

MY 14/15 cotton imports are forecast down significantly to 1.8 million tons from the estimated 2.4 million tons in MY13/14 as China is expected to expedite the release of state reserve cotton to an appropriate level in 2014. Imports, however, will depend on the balance between many factors, including the size of domestic production, strength of cotton consumption, and the price gap between domestic and world prices.

Chart 4 - Cotton Production, Imports and Use and Ending Stocks
(in 1,000 tons)



Source: FAS/Beijing Estimates/Forecast

Cotton imports affected by yarn imports

Contrary to cotton imports, yarn imports do not face volume import restrictions. In 2013, China imported a record 1.97 million tons of yarn, up from 1.4 million tons in 2012. High net yarn imports at 1.59 million tons in part reduced cotton imports in 2013 and will continue to impact cotton imports in 2014.

U.S. Competes with others for China's Market

In MY12/13, the United States resumed its status as the number one cotton supplier to China with total export volume of 1.3 million tons, followed by India and Australia with export volume of 987,000 tons and 887,000 tons, respectively. While the quality and reliability of U.S. cotton appeals to China's end-users, India's price and transportation advantages provide serious competition. India's cotton production is expected to increase as it incorporates new technology, expands Bt cotton dissemination and actively promotes its product. Competition from India and other suppliers, coupled with expected low demand for imports, is expected to reduce demand for US cotton exports to China in MY13/14 and MY14/15.

Consignment Trade

Due to strong demand for alternatives to high-priced domestic cotton since late 2011, consignment trade has been on the rise. China's small to medium-sized mills choose consignment purchases due to the flexibility they offer, including short delivery time, convenient quality verification and lower financial commitment. However, due to the lack of import TRQ, most mills pay the full duty to take delivery of the cotton on consignment being held in bonded warehouses. Consignment trade is expected to remain a viable source until the world cotton price changes making the cost of import plus full duty unattractive for Chinese mills. Industry sources indicated as of the end of February, total cotton in the bonded zone of Qingdao and Zhangjiagang/Jiangsu ports was about 205,000 tons.

Cotton exports insignificant

China's cotton exports average about 10,000 tons annually, insignificant compared to total cotton use. Yarn exports increased slightly to 387,000 tons, making net yarn imports 1.59 million tons in 2013 showing a significantly rise from 500,000 tons in 2011.

Consumption

MY14/15 cotton consumption is forecast at 8.2 million tons, up from an estimated 8 million tons in MY13/14. Although demand from developed markets, like the US and EU, remains sluggish due to recovering economic performance, strengthening demand from developing countries, and especially China, raises expectations for consumption of apparel and textile products.

On the other hand, industry experts anticipate that the share of synthetic fibers and other fibers in cotton yarn production may continue to rise in 2014 due to high domestic cotton prices while the price for synthetic fiber may remain relatively low and competitive. Historically, the price of cotton fiber runs approximately 20 percent higher than that of synthetic fiber. According to NSB, total chemical fiber production in 2013 was 41.22 million tons, up 7.9 percent over the previous year.

China's Textile Sector Production/Investment Trends

Year/Item	2010	2011	2012	2013	2013/2012 Change %
Yarn Production (million tons)	27.17	28.7	29.84	32.0	+7.2
Fabrics Production (Million Meters)	800	814	841	883	+4
Chemical Fiber Production (million tons)	30.9	33.9	38	41.2	+7.4
Fixed Asset Investment in Textile Sector (RMB billion)	257	366.9	397.1	NA	NA

Source: China Economic and Social Development Report by NSB

(Exchange Rate: 2012-$1=RMB6.3; 2013-$1=RMB6.2)

New Challenges for textile sector impact cotton use

The textile industry in China employs over 23 million people and is considered an economic pillar industry. In China's 12th Five Year (2011-2015) Plan, the government confirmed its support to upgrading this sector. According to NSB, while fixed asset investment in the textile industry in 2012 reached $64 billion, up 8 percent over 2011, this figure is significantly lower than the 30.9 percent growth in 2011. The investment value in 2013 is not available, but NSB indicated that the fixed asset investment in general manufacturing industry increased by 18.5 percent over the previous year. Total profit for the sector in 2013 increased 15.8 percent over 2012. The sector's marketing profit margins averaged 5.5 percent, up slightly (0.2 percentage) over the previous year.

Despite this financial influx, the textile industry faces significant challenges, including declining orders from overseas, appreciating Chinese currency and rising production costs for key inputs such as raw materials and labor. Industry statistics show that in 2013 mills paid more than RMB 4,000/ton ($645) above the world price for domestic cotton.

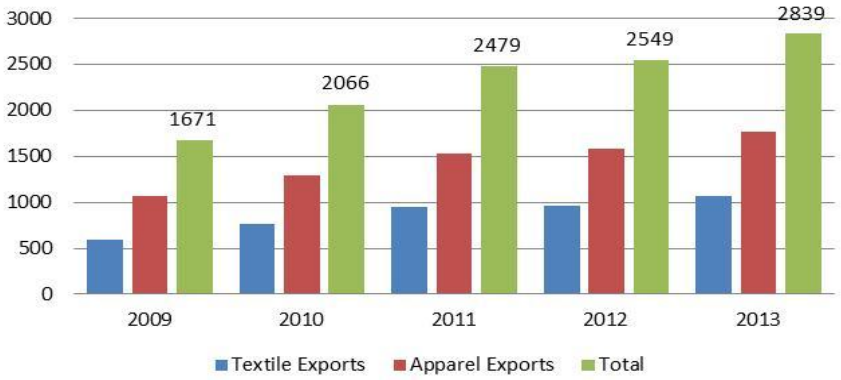
In addition to high prices for raw materials, Chinese Ministry of Labor indicated 27 provinces/municipalities adjusted the minimum wage level in 2013 with average growth up by 18 percent over the previous year. High electricity price coupled with environmental pressure (emission limit) not only adds to production costs, but also inhibits facility expansion.

To address these ongoing hurdles, textile industry leaders use different approaches. Some mills are improving efficiency and productivity to maintain profits. Others have moved operations towards China's central and western regions (Henan, Sichuan, Anhui, Jiangxi, Xinjiang and Ningxia Provinces) and foreign countries (Vietnam and Cambodia etc.) in search of lower raw material/labor inputs and a favorable investment climate. For example, China's industry reported the construction of a 150,000 ton annual spinning capacity project in North Carolina in February which is expected to be operational in October 2014. A Zhejiang Textile Group began a $136 million spinning investment in Vietnam at the end of 2013 that is expected to reduce costs in raw material, labor, logistics and duties, and facilitate access to Southeast Asian Markets. China's industry associations are also organizing trips to Southeast Asia countries for talks on textile investment.

Recovery of exports support moderate growth of cotton use

According to NSB, total textile and apparel exports were valued at $283.9 billion in 2013, up 11.4 percent over the previous year. Specifically, textile export value increased by 11.7 percent to $106.9 billion, and apparel export value increased by 11.3 percent to $177 billion, both figures reflecting growth rates in excess of those in 2012. Although total textile and apparel export value in the first two months of 2014 fell slightly (by four percent) over the previous year (mainly due to China's Spring Festival vacation, analysts reported), China's industry experts remain optimistic regarding export growth prospects in 2014 given a moderate recovery of overseas markets and lowering of domestic cotton price due to policy changes.

Chart 5 - Textile and Apparel Exports (Value in $100 million)

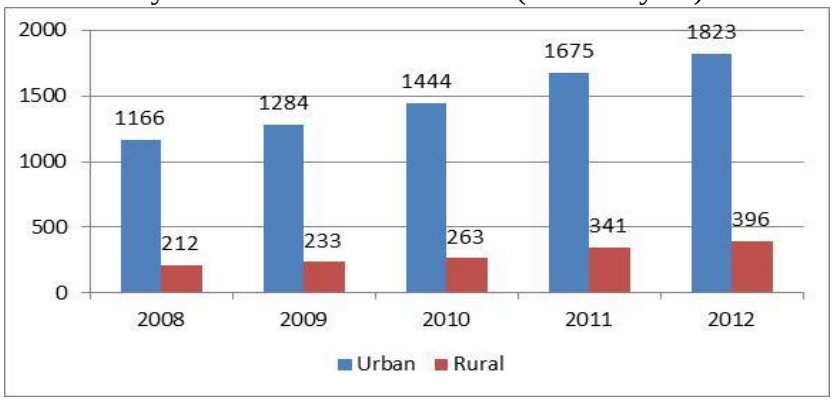


Source: NSB

Domestic demand support cotton use

According to the China Textile Industry Association (CTIA), the domestic market accounted for more than 83 percent of the sector's total sales value in 2012. However, the general sales trend remained weak in 2013. The estimated low cotton use of 8.04 million tons in MY13/14, however, is expected to rebound to a forecast 8.2 million tons in MY14/15. In addition to an anticipated fall in cotton prices, and constant high GDP growth of 7.7 percent in 2013 and likely 7.5 percent in 2014, higher disposable income and rising living standards of Chinese consumers are driving retail consumption to the benefit of cotton products. For example, as indicated in Chart 6, the 2012 per capita expenditures on clothing increased for both urban and rural residents, with urban resident's still far outspending rural counterparts. High urbanization is expected to continue in 2014 (with newly added urban residents at 19.29 million in 2013). The market potential for China's 629.6 million rural residents to increase textile related purchases is expected to rise as rural incomes grow as well. This will support continued demand for domestic cotton products.

Chart 6 - Per Capita Expenditures on Clothing
By Urban and Rural Resident (in RMB/year)



Source: NSB

Misreporting of yarn categories and volume continue

A long standing problem in consumption forecasting is the lack of reliable data to connect cotton consumption data with finished product numbers. For example, according to NSB, total yarn

production for 2011 was reported at 29 million tons, of which 22 million tons (accounting for 75.4 percent) was reported as pure cotton yarn, with the remainder as blended yarn and synthetic yarn. These figures are problematic when compared to China's average cotton consumption of 10 million tons annually in recent years, plus other fibers available for spinning, which cumulatively cannot produce the volume of yarn as reported. Over-reporting of total yarn and pure cotton yarn production and under-reporting of synthetic fiber ratios and cotton consumption, or some combination thereof, distorts accurate analysis. China's industry insiders acknowledge misreporting of yarn categories and volume by mills is the basis of the problem.

Policy

Domestic cotton support policy amended

The State Purchase of Domestic Cotton Program, established three years ago to boost income and stimulate production through fixed price supports and the cotton TRQ regime (sliding scale and processing scale quotas) are government programs enacted to maintain domestic cotton supply/demand balance. The minimum cotton purchase price for domestic cotton started at RMB19, 800/ton in MY11/12 and rose to RMB20, 400/ton in MY12/13 and MY13/14 (approximately $3,100-3,300 per ton). During this same period, world cotton prices declined significantly to an average $2,000/ton in 2014 (based on Global Trade Atlas/China import price), far below the internal cotton price set by the government. The inflated domestic price depressed consumption of domestic cotton thus forcing the government to purchase the majority of the MY12/13 crop. This massive purchase added 6.46 million tons of expensive cotton to state reserve storage facilities. In MY13/14, the government purchased another 6.24 million tons (as of March 24, out of estimated 7 million tons total production in MY13/14) which will push state reserves levels to a record high 12.3 million tons by the end of MY13/14. The policy resulted in an unsustainable situation with huge government stocks and limited stimulus to cotton production.

In 2014, China's government announced an adjustment in this policy to transition toward less market distortion and government intervention. Beginning in MY14/15, only Xinjiang cotton farmers will receive an acreage based subsidy based on a target price (which would exceed world price). The nationwide fixed purchase price policy will be eliminated.

As of this report, the government target price for cotton remains unknown although information suggests it will be RMB19, 400/ton. In general, this policy change will have limited impact on Xinjiang cotton planting intention based on analysis of production costs and yield expectation in this region, but is likely to reduce planting intentions in other cotton-producing regions where alternative crops are an option.

As such, China's total cotton planting area is expected to shrink in the short term (due to the government's significant stocks, a moderate small crop in next few years is desirable for policy makers). However, as an NDRC official hinted, the government's resumption of the state purchase program is possible in the future if the government deems it necessary.

Over the next two years, government decision makers will be deciding whether a Xinjiang only support policy will produce sufficient cotton for domestic needs while staying consistent with its policy of having imported cotton primarily the domain of textile use for export. Policy leaders are unlikely to

accept a situation where a regionalized support policy puts domestic needs and government stock levels into a position where they could be perceived to be vulnerable to imports.

Seed Subsidy
Large seed producers/traders currently compete for the $34/Ha subsidy provided for selected "high quality variety" seeds to improve quality cotton coverage. Total expenditure in 2013, though unpublished, is believed to exceed $155 million (if based on the NSB's 5.04 MHa planted area for MY13/14).

Registration System for Overseas Cotton Suppliers
Overseas cotton suppliers must be registered with China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) to export cotton to China (CH8075 and CH9004). On January 18, 2013, AQSIQ published Decree No.151 on "Supervision and Administration Measures for Inspection of Import Cotton." The measures took effect on February 1, 2013. Preliminary comparison between the draft and final versions shows only slight modifications in Article 26 (CH13003). The impact of the Measures on cotton trade is expected to be limited.

Traders are also recommended to register with AQSIQ to export cotton to China based on these requirements. AQSIQ keeps updating the newly registered or renewed overseas cotton supplier list on its website with the latest dated on December 13, 2013. Post received no complaints on this registration.

Official cotton classification
According to CFIB, as of March 16, 2014, total cotton baled and classed under the new classification system has reached 7.28 million tons, up from 5.56 million tons in MY11/12. The government requirement that only classified cotton qualifies for its purchase support program is stimulating the increase in classified cotton. Although the intent behind requiring classification was to simultaneously upgrade the quality of China's ginning sector and facilitate the collection of production data, the reality is not so clear cut. Industry sources report that some cotton may be presented repeatedly for classification and purchase and even some imported cotton may also be presented for classification to take advantage of the import/domestic price difference. The inclusion of multiple repeat purchases or imported cotton skews the overall production data. The new purchase program for MY14/15 is expected to eliminate some problems in that without the government purchase program, mills may not request ginners to provide official classification data.

Targeted Loans
In MY13/14, the Agriculture Development Bank of China (ADBC) continued to provide targeted loans with favorable terms for the purchase of seed cotton. This program facilitated the marketing of seed cotton when market prices remained weak and demand for cotton was stagnant. Xinjiang government information indicated that total loans exceeded RMB66.3 billion in My13/14, up RMB5.7 billion over the previous year. ADBC will continue to provide financial assistance for domestic cotton marketing in MY14/15.

Marketing

The government continues to provide a transportation subsidy of RMB500/ton ($80) in MY13/14 (up from RMB 400/ton in MY11/12) for Xinjiang origin cotton shipped to mills in coastal and southern cities. Xinjiang province provides 40 percent of China's domestic cotton production yet there is only one rail line to move the raw product cross-country to the textile production areas. Harvest time can be a bottleneck. The shipping congestion improved slightly in MY12/13 and MY13/14 when the government purchased most of the Xinjiang cotton for reserve and stored it locally, thus reducing the pressure on rail transportation.

U.S. cotton exporters interested in exporting cotton to China in need of marketing assistance may contact USDA/FAS's Agricultural Trade Offices (ATO) in Beijing, Chengdu, Guangzhou, Shanghai and Shenyang. They can be contacted via email at, ATOBeijing@usda.gov, ATOChengdu@usda.gov, ATOGuangzhou@usda.gov, ATOShanghai@usda.gov, and ATOShenyang@USDA.gov, respectively. Cotton Council International (CCI) is also actively involved in promoting U.S. cotton in China and throughout Asia. CCI serves China regionally from its Hong Kong Office. CCI can be reached via email at cci-hongkong@cotton.org. Both CCI and the ATO's organize events designed to bring U.S. cotton exporters in close contact with Chinese buyers.

The China International Cotton Conference, a biannual event sponsored by CCA and MOA attracts a worldwide audience from the cotton/textile industry. The 2013 conference was held in June in Qingdao, Shandong Province. CCA, in collaboration with China National Cotton Exchange also holds an annual event, the China Cotton Industry Development Forum, which focuses on analysis and outlook of the market situation. The 2014 Forum will be held in May in Xiamen, Fijian Province.

Tables

Production, Supply and Demand (PSD)

Table 1. PSD (in 1,000 Bales and 1,000 Ha)

	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Aug 2012		Market Year Begin: Aug 2013		Market Year Begin: Aug 2014	
Cotton China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	5,300	5,300	5,050	4,700		4,410
Area Harvested	5,300	5,300	5,050	4,700		4,410
Beginning Stocks	31,081	31,081	50,361	50,361		56,566
Production	35,000	35,000	32,000	32,150		29,855
Imports	20,327	20,327	11,000	11,023		8,267

MY Imports from U.S.						
Total Supply	86,408	86,408	93,361	93,534		94,688
Exports	47	47	50	38		50
Use	36,000	36,000	35,500	36,930		37,660
Loss	0	0	0	0		0
Total Dom. Cons.	36,000	36,000	35,500	36,930		37,660
Ending Stocks	50,361	50,361	57,811	56,566		56,978
Total Distribution	86,408	86,408	93,361	93,534		94,688
Stock to Use %	140	140	163	153		151
Yield	1,438	1,438	1,380	1,489		1,474
TS=TD		0		0		0

Table 2. PSD (in 1,000 Tons and 1,000 Ha)

	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Aug 2012		Market Year Begin: Aug 2013		Market Year Begin: Aug 2014	
Cotton China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	5,300	5,300	0	4,700	0	4,410
Area Harvested	5,300	5,300	5,050	4,700	0	4,410
Beginning Stocks	6,767	6,767	10,965	10,965	0	12,316
Production	7,620	7,620	6,967	7,000	0	6,500
Imports	4,426	4,426	2,395	2,400	0	1,800
MY Imports from U.S.						
Total Supply	18,813	18,813	20,327	20,364	0	20,616
Exports	10	10	11	8	0	10
Use	7,838	7,838	7,729	8,040	0	8,200
Loss	0	0	0	0	0	0
Total Dom. Cons.	7,838	7,838	7,729	8,040	0	8,199
Ending Stocks	10,965	10,965	12,587	12,316	0	12,405
Total Distribution	18,813	18,813	20,327	20,364	0	20,616
Stock to Use %	140	140	163	153	0	151
Yield	1438	1438	1380	1489	0	1474
TS=TD	0	0	0	0	0	0

Trade Tables

Table 3. China's Monthly Cotton Imports

Unit: Tons						
Month	2009	2010	2011	2012	2013	2014
January	77,993	301,359	391,590	326,468	457,490	292,485
February	93,083	221,046	184,216	616,048	378,842	
March	98,763	323,807	276,459	625,196	528,822	
April	145,560	323,819	210,453	509,694	430,878	
May	151,524	197,955	144,569	501,855	345,779	
June	168,619	177,248	120,017	475,971	269,793	
July	131,440	168,882	157,087	405,842	337,799	
August	109,711	240,172	207,048	305,556	275,885	
September	102,162	200,806	252,739	262,924	201,270	
October	118,604	96,136	252,315	272,067	141,185	
November	112,866	126,203	378,152	303,643	173,122	
December	216,776	461,657	790,402	532,187	608,606	
TOTAL	1,527,101	2,841,100	3,367,058	5,137,451	4,151,484	
Marketing Year	Aug/09-Jul/10	Aug/10-Jul/11	Aug/11-Jul/12	Aug/11-Jul/12	Aug/13-Jul/14	
TOTAL	2,374,346	2,609,365	5,341,730	4,425,780		

Unit: 480-lb Bales						
Month	2009	2010	2011	2012	2013	
January	358,222	1,384,142	1,798,573	1,499,468	2,101,252	1,343,384
February	427,529	1,015,264	846,104	2,829,508	1,740,021	
March	453,619	1,487,246	1,269,776	2,871,525	2,428,879	
April	668,557	1,487,301	966,611	2,341,025	1,979,023	
May	695,952	909,207	664,005	2,305,020	1,588,163	
June	774,466	814,100	551,238	2,186,135	1,239,159	
July	603,702	775,675	721,501	1,864,032	1,551,511	
August	503,901	1,103,110	950,971	1,403,419	1,267,140	
September	469,232	922,302	1,160,830	1,207,610	924,433	
October	544,749	441,553	1,158,883	1,249,604	648,463	
November	518,392	579,650	1,736,852	1,394,632	795,149	
December	995,653	2,120,391	3,630,316	2,444,335	2,795,327	
TOTAL	7,013,974	13,041,950	15,464,897	23,596,312	19,067,766	
Marketing Year	Aug/09-Jul/10	Aug/10-Jul/11	Aug/11-Jul/12	Aug/12-Jul/13	Aug/13-Jul/14	
TOTAL	10,905,371	11,984,813	24,534,566	20,327,608		

Source: Global Trade Atlas

Table 4. China's Quarterly Cotton Imports by Country of Origin

Unit: Tons

Marketing Year: 2011/2012					
Country	Jul-Sep /10	Oct-Dec /10	Jan-Mar/11	Apr-Jun/11	TOTAL
India	78,544	602,910	778,250	421,102	1,880,806
United States	98,835	147,563	424,256	584,886	1,255,540
Australia	280,665	208,774	30,258	108,580	628,277
Brazil	17,674	191,260	87,778	46,986	343,698
Uzbekistan	43,257	47,600	111,853	60,442	263,152
Burkina Faso	26,098	22,893	10,397	46,895	106,283
Mali	20,855	10,122	4,774	28,746	64,497
Cameroon	11,153	6,665	5,459	29,973	53,250
Pakistan	7,154	23,471	15,901	24,482	71,008
Other	32,639	159,611	98,785	135,428	426,463
TOTAL	616,874	1,420,869	1,567,711	1,487,520	5,092,974
Marketing Year: 2012/2013					
Country	Jul-Sep /11	Oct-Dec /11	Jan-Mar/12	Apr-Jun/12	TOTAL
India	91,159	148,171	605,491	173,408	1,018,229
United States	255,847	198,658	398,347	465,747	1,318,599
Uzbekistan	57,670	79,788	93,590	83,863	314,911
Brazil	43,500	188,815	76,950	17,925	327,190
Australia	352,003	327,752	56,454	144,505	880,714
Mexico	5,774	15,875	18,698	12,364	52,711
Tanzania	22	15,180	15,701	3,106	34,009
Zimbabwe	1,608	15,411	15,619	1,646	34,284
Zambia	5,820	21,548	10,056	3,441	40,865
Mali	48,838	25,042	2,202	8,627	84,709
Cameroon	28,942	7,118	1,044	19,733	56,837
Other	83,139	64,540	71,002	112,085	330,766
TOTAL	974,322	1,107,898	1,365,154	1,046,450	4,493,824
Marketing Year: 2013/2014					
Country	Jul-Sep /12	Oct-Dec /12	Jan-Mar/13	Apr-Jun/13	TOTAL
Australia	391,661	204,232			595,893
India	59,257	355,375			414,632
United States	173,606	114,114			287,720
Uzbekistan	49,661	36,500			86,161
Brazil	10,852	53,862			64,714
Burkina Faso	29,415	21,873			51,288
Mali	23,953	17,981			41,934
Cameroon	25,352	19,658			45,010
Other	51,197	99,317			150,514
TOTAL	814,954	922,912			1,737,866

Source: Global Trade Atlas

Table 5. China's Monthly Cotton Exports

Unit: Tons					
Month	**2010**	**2011**	**2012**	**2013**	**2014**
January	86	3,641	0	70	440
February	0	5,108	472	0	
March	578	1,908	617	211	
April	1,136	5,240	42	990	
May	1,474	6,124	1,512	715	
June	461	1,058	5,919	495	
July	86	820	1,653	507	
August	1,052	1,097	1,389	348	
September	1,240	456	3,007	959	
October	255	0	1,168	1,409	
November	55	90	502	717	
December	31	157	1,277	313	
TOTAL	8,464	27,710	17,558		
Marketing Year	**Aug/10-Jul/11**	**Aug/11-Jul/12**	**Aug/12-Jul/13**	**Aug/13-Jul/14**	
TOTAL	5,084				
Unit: 480-lb Bales					
Month	**2010**	**2011**	**2012**	**2013**	**2014**
January	395	16,723	0	322	2,021
February	0	23,461	2,168	0	
March	2,655	8,763	2,834	969	
April	5,218	24,067	193	4,547	
May	6,770	28,128	6,945	3,284	
June	2,117	4,859	27,186	2,274	
July	395	3,766	7,592	2,329	
August	4,832	5,039	6,380	1,598	
September	5,695	2,094	13,811	4,405	
October	1,171	0	5,365	6,472	
November	253	413	2,306	3,293	
December	142	721	5,865	1,438	
TOTAL	38,875	127,272	80,644	40,175	
Marketing Year	**Aug/10-Jul/11**	**Aug/11-Jul/12**	**Aug/12-Jul/13**	**Aug/13-Jul/14**	
TOTAL	121,861				

Source: Global Trade Atlas

Table 6. China's Monthly Cotton Yarn and Thread Imports

Unit: Tons

Month	**2010**	**2011**	**2012**	**2013**	**2014**
January	102,478	90,812	65,637	162,971	172,173
February	58,667	50,986	114,922	94,457	
March	103,588	78,041	113,610	185,939	
April	93,393	53,412	99,090	151,011	
May	85,614	43,123	114,747	158,033	
June	74,473	40,781	97,851	136,010	
July	75,036	54,851	126,778	187,801	
August	80,202	63,562	143,086	194,228	
September	82,571	75,369	129,565	193,729	
October	75,846	83,269	116,731	176,786	
November	94,145	79,225	134,442	168,870	
December	102,953	90,537	149,506	163,395	
TOTAL	1,030,976	805,979	1,405,965	1,973,230	
Marketing Year	**Aug/10-Jul/11**	**Aug/11-Jul/12**	**Aug/12-Jul/13**	**Aug/13-Jul/14**	
TOTAL	847,723	1,124,597	1,749,552		

Source: Global Trade Atlas

Table 7. China's Monthly Cotton Yarn and Thread Exports

Unit: Tons

Month	2010	2011	2012	2013	2014
January	39,795	30,243	19,420	44,249	33,120
February	24,800	20,323	24,823	22,549	
March	48,377	48,893	41,244	40,903	
April	44,305	35,205	28,122	37,983	
May	49,254	23,469	27,809	27,927	
June	48,430	21,395	24,670	23,431	
July	39,325	18,717	19,824	25,594	
August	29,464	18,998	23,196	29,836	
September	24,584	18,095	29,497	32,314	
October	28,400	19,404	31,207	28,577	
November	35,875	17,802	31,866	36,263	
December	28,083	22,684	41,230	37,459	
TOTAL	442,702	297,239	342,908	387,085	
Marketing Year	**Aug/10-Jul/11**	**Aug/11-Jul/12**	**Aug/12-Jul/13**	**Aug/13-Jul/14**	

TOTAL	344,651	355,118	447,211		

Source: Global Trade Atlas

Table 8. China's Monthly Cotton Fabric Imports

Unit: 1,000 Square Meters

Month	**2010**	**2011**	**2012**	**2013**	**2014**
January	47,637	47,059	34,758	53,556	42,962
February	34,968	35,221	56,633	34,273	
March	61,634	60,125	65,647	56,104	
April	67,449	56,649	64,198	58,792	
May	61,830	47,997	68,781	65,729	
June	56,340	45,392	55,770	48,106	
July	63,384	48,742	55,550	63,187	
August	63,203	55,200	59,969	60,578	
September	68,941	56,258	60,501	54,386	
October	61,072	54,614	59,837	55,296	
November	65,074	60,027	56,748	46,965	
December	65,676	53,163	62,782	48,480	
TOTAL	719,218	622,458	701,175	645,453	
Marketing Year	**Aug/10-Jul/11**	**Aug/11-Jul/12**	**Aug/12-Jul/13**	**Aug/13-Jul/14**	
TOTAL	665,152	680,599	679,585		

Source: Global Trade Atlas

Table 9. China's Monthly Cotton Fabric Exports

Unit: 1,000 Square Meters						
Month	2009	2010	2011	2012	2013	2014
January	405,793	548,804	607,713	521,312	690,568	702,301
February	232,178	407,887	273,943	308,968	465,717	
March	472,667	464,281	563,878	678,599	646,411	
April	468,673	593,772	584,655	572,498	740,500	
May	438,233	586,272	535,058	669,145	703,833	
June	437,932	599,377	468,256	600,809	693,315	
July	455,192	600,973	566,527	491,049	688,002	
August	468,003	566,068	520,819	481,100	642,518	
September	563,082	627,066	543,470	595,636	657,223	
October	510,625	598,422	544,839	556,532	584,706	
November	578,917	656,363	613,750	593,591	690,257	
December	669,986	594,502	619,982	626,241	662,751	
TOTAL	5,701,281	6,845,796	6,444,901	6,697,490	7,867,815	

Marketing Year	Aug/09-Jul/10	Aug/10-Jul/11	Aug/11-Jul/12	Aug/12-Jul/13	Aug/13-Jul/14	
TOTAL	6,591,978	6,642,450	6,444,901	7,481,447		

Source: Global Trade Atlas

Other Tables

Table 10. Cotton Planted Area and Production by Province

Planted Area (in 1,000 Ha)				
Year	**MY11/12**	**MY12/13**	**MY13/14**	**MY14/15**
Xinjiang	1,980	2,160	2,250	2,200
Shandong	766	740	610	525
Hebei	633	550	400	385
Hubei	489	473	450	440
Henan	390	250	220	195
Anhui	340	305	200	180
Jiangsu	220	171	100	88
Hunan	192	202	175	152
Gansu	48	71	70	70
Other	322	353	225	175
Total	**5,380**	**5,275**	**4,700**	**4,410**
Production (in 1,000 tons)				
Year	**MY11/12**	**MY12/13**	**MY13/14**	**MY14/15**
Xinjiang	3,500	4,430	4,450	4,200
Shandong	785	698	650	560
Hebei	653	571	385	395
Hubei	523	571	540	455
Henan	382	269	200	190
Anhui	378	270	180	175
Jiangsu	247	210	95	95
Hunan	227	251	192	180
Gansu	78	107	108	100
Other	429	223	200	150
Total	**7,202**	**7,600**	**7,000**	**6,500**
Average Yield (Kg/Ha)	1,339	1,441	1,489	1,474

Note: FAS/Beijing estimate and forecast

Table 11. Cotton Tariffs as of January 1, 2014 (continued)

Description	HS Code	M.F.N.(%)	Gen(%)	VAT	ED	Unit
Cotton, not carded or combed	5201-0000					Kg
Cotton, not carded or combed, including degreased cotton -in quota	5201-0000.01	1	125	13	13	
Cotton, not carded or combed, including degreased cotton - tariff and out of quota, interim	5201-0000.80	40(*)	0	13	13	
Cotton, not carded or combed, including degreased cotton -out of quota	5201-0000.90	40	125	13	13	
Cotton waste, yarn waste	5202-1000	10	30	17	13	Kg
Cotton waste, garnetted stock	5202-9100	10	30	17	13	Kg
Cotton waste, other	5202-9900	10	30	17	13	Kg
Cotton, carded or combed	5203-0000		125	17	13	Kg
Cotton, carded or combed, in quota	5203-0000.01	1	125	17	13	
Cotton, carded or combed, out of quota	5203-0000.90	40	125	17	13	
Cotton sewing thread, containing	5204-1100	5	40	17	16	Kg
85% or more by weight of cotton						
Other	5204-1900	5	40	17	16	Kg
Put up for retail sale	5204-2000	5	50	17	16	Kg
Cotton yarn (other than sewing	5205-1100	5	40	17	16	Kg
thread), containing 85% or more	to					
by weight of cotton, not for retail sale	5205-4800					
Cotton yarn (other than sewing thread) containing less than 85% by weight of cotton, not put for retail sale	5206-1100 to 5206-4500	5	40	17	16	Kg
Cotton yarn (other than sewing	5207-1000	6	50	17	16	Kg
thread), containing 85% or more	5207-9000	6	50	17	16	Kg

Note: (*) subject to sliding tariff rate based on a formula; VAT--Value Added Tax; ED--Export Drawback Rate; Source: PRC Customs Import & Export Tariff, 2014

Table 11. Cotton Tariffs as of January 1, 2014 (continued)

Description	HS Code	M.F.N.(%)	Gen(%)	VAT	ED	Unit
Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing not more than 200 g/square meter	5208-1100 to 5208-5990*	10	70	17	16	M/Kg
	*Except: 5208-2300	12	70	17	16	M/Kg
Woven fabrics of cotton, containing 85%	5209-	10	70	17	16	M/Kg

or more by	1100					
weight of cotton, weighing more	5209-1200	10	70	17	16	M/Kg
than 200 g/square meter	5209-1900	10	70	17	16	M/Kg
	5209-2100	12	70	17	16	M/Kg
"	5209-2200	12	70	17	16	M/Kg
	5209-2900	12	70	17	16	M/Kg
	5209-3100	10	70	17	16	M/Kg
	5209-3200	10	70	17	16	M/Kg
	5209-3900	10	70	17	16	M/Kg
"	5209-4100	10	70	17	16	M/Kg
	5209-4200	10	70	17	16	M/Kg
	5209-4300	10	70	17	16	M/Kg
	5209-4900	10	70	17	16	M/Kg
	5209-5100	10	70	17	16	M/Kg
	5209-5200	10	70	17	16	M/Kg
	5209-5900	10	70	17	16	M/Kg

Note: VAT--Value Added Tax; ED--Export Drawback Rate;
Source: PRC Customs Import & Export Tariff, 2014

Table 12. Tariff Rate Quota

Description	HS Code	Initial Quota and Tariff Rate	Final Quota and Tariff Rate	Implementation of Final Quota
Cotton		780,750 MT	894,000 MT	2004
	5201 - 0000	1%	1%	
	5203 - 0000	1%	1%	
Other terms and conditions:				
1) STE share = 33% (See Note)				
2) Staging of TRQ for cotton:				
Year TRQ quantity:				
2002 - 818,500 MT				
2003 - 856,250 MT				
2004 - 894,000 MT				
2005 - 894,000 MT (China added 1.4 MMT TRQ in 2005)				
2006 - 894,000 MT (China added 2.7 MMT TRQ in 2006, subject to variable import duty)				
2007 - 894,000 MT (China added 2.6 MMT TRQ in 2007, subject to variable import duty)				
2008 - 894,000 MT (China added 2.6 MMT TRQ in 2008, subject to variable import duty)				
2009 - 894,000 MT (China added 400,000 MT TRQ only for processing trade, due to weak demands for cotton)				
2010 - 894,000 MT (China added 2.67 MMT TRQ subject to variable import duty)				
2011 - 894,000 MT (China added 2.7 MMT of TRQ subject to variable import duty)				

2012 - 894,000 tons (China added 1.32 million tons of TRQ subject to variable import duty)
2013 - 894,000 tons (China added an estimated 2.3 million tons additional TRQ subject to variable duty or for processing trade)
2014 - 894,000 tons (as of this report, no additional TRQ has been allocated; China's WTO commitment does NOT mandate a TRQ for CY05 and after, but China maintained an identical quantity of TRQ as CY04. In addition to those volumes, based on market demand, China adds TRQs yearly. The added TRQs are subject to a variable import duty)