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China - Peoples Republic of

Cotton and Products Annual

Approved By:
Philip Shull

Prepared By:
Jennifer Clever and Wu Xinping

Report Highlights:
In MY14/15, China lost its spot as the world largest cotton producer to India. Recent changes in China's cotton support policy reduced farmer income and lowered domestic cotton production to an estimated 6.5 million tons in MY14/15. Expecting lower earnings in MY15/16, cotton acreage is forecast to fall by 15 percent, and Chinese cotton production is forecast to fall further to 5.8 million tons. After three marketing years of Government cotton purchases, China will hold an estimated 59 percent of the world's cotton stocks, a record 13.9 million tons, by the end of MY14/15. China is now seeking to manage its cotton reserves by selling state stocks and limiting the issuance of additional import quotas. These government actions coupled with a forecast weak consumption recovery are expected to slash China's cotton imports by half and return these to MY10/11 levels prior to the implementation of China's government cotton purchase policy. Post estimates China's cotton imports will plunge nearly 50 percent to 1.55 million tons in MY14/15, and 1.4 million tons in MY15/16. Correspondingly, China's imports of U.S. cotton are also expected to fall.

Executive Summary:

China's MY15/16 cotton production[1] is forecast at 5.8 million tons, down from the estimated 6.5 million tons in MY14/15 and 7.0 million tons in MY13/14. Lower profits resulting from recent changes in China's government cotton support policy led to a 15 percent fall in the planted area to 3.66 MHa. While regionalized government support for cotton production is expected to continue in MY15/16 (see more in Policy Section of this report), earnings for cotton farmers are expected to continue falling. This is true particularly in the Yangtze and Yellow River regions, due to anticipated low government production support and the option of more profitable alternative crops.

Government cotton purchases from MY11/12 through MY13/14 have increased China's total cotton stocks to an estimated record 13.9 million tons at the end of MY14/15, roughly about 59 percent of global stocks. High carry-in stocks, slower consumption growth, and the government's ability to control domestic supplies –through state reserve sales and by limiting additional tariff rate quotas (TRQ)—will continue to reduce cotton imports. China's cotton imports are expected to fall to 1.55 million tons in MY14/16, and further down to 1.4 million tons in MY15/16, from the 3.1 million tons in MY13/14. Given the expected drop in China's total cotton imports and increased competition from other cotton suppliers such as India and Australia, China's imports of U.S. cotton are forecast to fall in MY14/15 and MY15/16.

MY15/16 cotton production expected to fall to 5.8 million tons

Forecast MY15/16 domestic production is 5.8 million tons, down 11 percent from an estimated 6.5 million tons in MY14/15; the forecast reduction is based on 15 percent drop in the planted area of 3.66 MHa. The government's new target price-based support policy for cotton production, introduced in MY14/15, reduced cotton profits and production. This new support policy is expected to continue in MY15/16 with similar results. The Yangtze and Yellow River regions are particularly affected as government support for cotton production in these regions is comparatively low and uncertain (no official confirmation as of this report). In addition, many analysts believe that farmers in these regions may opt for alternative more profitable crops.

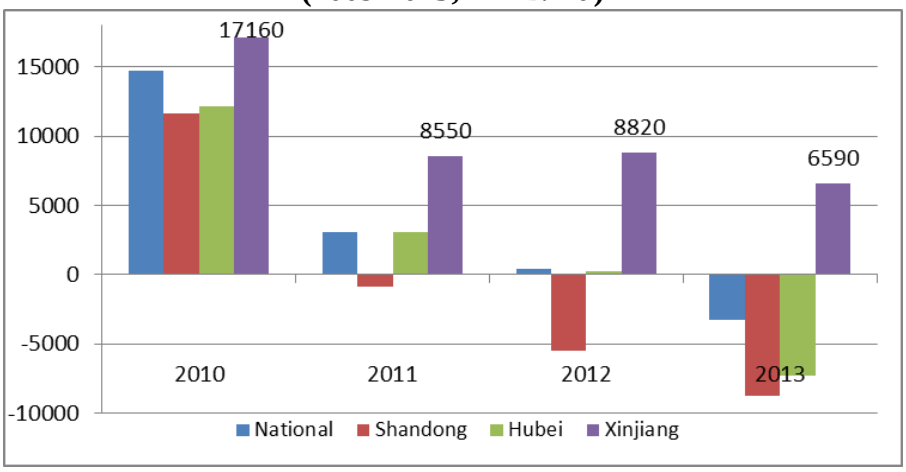
In MY14/15 cotton profits in Xinjiang declined from the previous year. Industry sources report that MY14/15 profits were affected by a reduced target price of RMB19,800/ton ($3,220/ton) offered in Xinjiang compared to the minimum price of RMB20,400/ton ($3,290/ton) received during the previous two years. An increase in production costs and lower yields resulting from unfavorable weather conditions also contributed to the reduction in cotton profits. For instance, in MY14/15, one of the largest cotton producing regions in south Xinjiang reported a 37 percent decrease in cotton earnings from the previous year at RMB4,200/Ha ($683/Ha). A 17 percent rise in input prices such as fertilizer, pesticide and fuel, coupled with low yields and a lower selling price accounted for the lower cotton revenue. Although farmers in Xinjiang are expected to receive the government's new target price-based subsidy, overall Xinjiang cotton earnings for MY14/15 are

[1] Available data regarding China's cotton production, consumption and stocks differs significantly among sources.

estimated to be far lower than RMB7,987/Ha ($1,288/Ha), the average level of earnings received over the past three years.[2]

In provinces outside of Xinjiang cotton earnings are also estimated to fall further from the previous year's low/negative level despite a fixed direct subsidy of RMB2,000 ($325)/ton. According to China's National Development and Reform Commission (NDRC), although the government bought most of the cotton at a price of RMB20,400 ($3,290)/ton, MY13/14 cotton earnings in Shandong and Hubei provinces remained negative at RMB8,765($1,410)/Ha and RMB7,658($1,235)/Ha, respectively. As reported by the local government, MY14/15 cotton earnings are expected to fall further in the areas of Dezhou and Bingzhou in Shandong province. This expected fall is due to increasing production costs (labor and inputs) and a lower cotton selling price. As an example, in MY14/15 most local laborers reportedly opted for higher paying jobs in urban areas. As a result, labor costs increased by 7.9 percent in Dezhou and 9.9 percent in Bingzhou, respectively. Given the current low government support level, Post expects many farmers in the Yangtze and Yellow River producing regions will switch to alternative crops.

Chart 1 - Comparison of Average Net Profit* from Cotton Planting (2009-2013; RMB/Ha)



Source: NDRC; *Excludes labor income

Forecasts for China's cotton area and production differ among sources. For MY14/15, China's National Statistics Bureau (NSB) estimates MY14/15 production at 6.16 million tons based on planted area of 4.22 MHa with yields of 1,460 Kg/Ha. However, under the assumption that the cotton planted area in Xinjiang remains under-reported, industry sources estimate MY14/15 cotton production at around 6.5 million tons. Changes in government policy during MY14/15 also impair accurate forecasting by province as the subsidy amount is contingent upon the area and yield.

Below is a table of estimates by various sources for MY14/15 area and production. For Xinjiang, NSB reported MY14/15 production at 3.68 million tons based on a planted area of 1.95 MHa. This figure is significantly below the processed volume of 4.27 million tons reported by Xinjiang government and the officially classified volume of 4.1 million tons by the China Fiber Inspection

[2] Average earnings based on a subsidy of RMB 9,700 ($1,577)/Ha if the subsidy rate is RMB5,000 ($813)/ton and average yield is 1.94 tons/Ha.

Bureau (CFIB) as of March 10, 2015.

As for all other cotton-producing provinces, CFIB data shows total MY14/15 classified volume[3] for these provinces stood only at 895,000 tons, significantly lower than the previous year. The low level of classified volume in these provinces can be an indication of a lower level of production than the level officially reported. However, prior to MY14/15, ginners were selling most of their cotton to the government and were required to classify their cotton bales. In MY14/15, no longer receiving the minimum purchase price, some ginners opted to sell directly to mills and did not need to classify their bales. This could also account for the fall in classified volume. With the current level of government support to these provinces, this trend is likely to continue and increase the difficulty in estimating production in the coming years.

Based on all these factors, Post estimates MY14/15 production is 6.5 million tons (of which 4.25 million tons for Xinjiang and 2.25 million tons for all other provinces) on a planted area of 4.32MHa (of which Xinjiang is 2.26 MHa and all other provinces is 2.05 MHa). The following table reflects production estimates/forecasts for MY14/15 and MY15/16 by major industry source.

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

	CCA	NCMMN	CNCE	CAAS	NSB	Post
MY14/15 production	6.5	6.51	6.36	NA	6.12	6.5
MY14/15 planted area	4.23	4.21	4.16	4.77	4.22	4.32
MY15/16 Intended Planting area	3.15	3.6	3.49	4.05	NA	3.66
MY15/16 area change	-25.4%	-14.5%	-16%	-14.9%	NA	-15%
MY15/16 production	NA	NA	5.71	NA	NA	5.8

[CCA- China Cotton Association, NCMMN- National Cotton Market Monitoring Network, CNCE- China National Cotton Exchange, CAAS- China Academy of Ag Science]

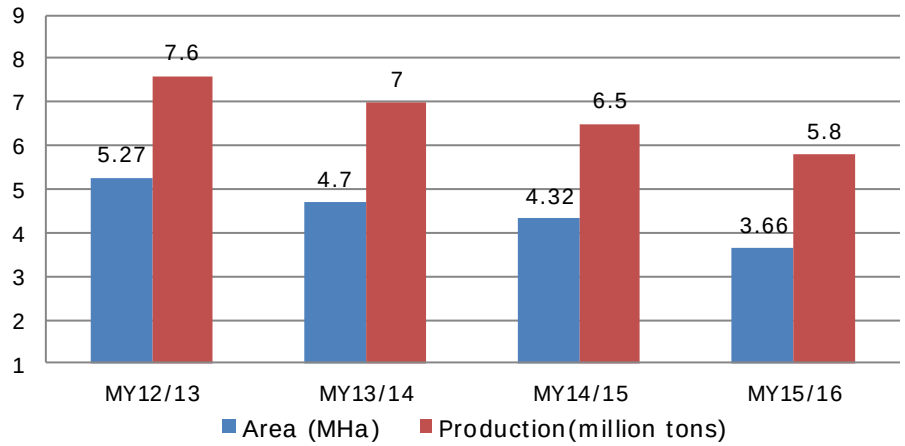
Planted Area

Post forecasts MY15/16 total planted area will continue to fall to 3.66MHa, down 15 percent from the 4.32MHa in the previous year. Specifically, Xinjiang planted area is forecast to fall by 5 percent to 2.14 MHa. As part of the new support policy in MY14/15, only areas certified and designated by the government for cotton planting were eligible to receive support payments. Hence, the Xinjiang planting area could fall further in MY15/16 if the government's subsidy does not extend to include production in uncertified planting areas (or marginal lands) which are not included in official

[3] To facilitate the marketing and sale of cotton, major cotton producing countries classify their cotton (cotton classing) based on its specific physical attributes. Classification can be done manually or through precision instruments.

statistics. Planted area for all other provinces is expected to plummet 26 percent to 1.52 MHa in MY15/16. Reduced cotton earnings due to low cotton prices, less government price support, and an increase in production costs in MY14/15 is expected to impact MY15/16 cotton planting intentions. This is particularly true for the Yangtze and Yellow River regions, where farmers have the option of growing other more profitable crops. Currently, the government's MY15/16 cotton production support policy for all other provinces is still pending.

Chart 2- China Cotton Planted Area and Production (MY12/13 to MY15/16)



Source: FAS/Beijing

A recent survey by the China Cotton Association (CCA) indicates MY15/16 cotton planting intention will decline by 25.4 percent to 3.15 MHa compared to last year. The survey shows that the Yellow River planting intentions will lower by 42.2 percent with planting intentions in Henan, Hebei and Shandong down more than 40 percent. Similarly, planting intentions in the Yangtze River region will lower by 41.9 percent with a high 60 percent drop in Hunan. The survey also shows MY15/16 planting intentions for Xinjiang will fall by 11.5 and the Xinjiang Production and Construction Corp (PCC) will fall 12 percent.

An earlier survey conducted by the China National Cotton Exchange (CNCE) shows a 16 percent decline in planting intention in MY15/16. Specifically, MY15/16 planting intentions will fall in all three cotton-producing regions: Xinjiang down 9 percent, the Yellow River region down 23 percent, and the Yangtze River region down 25 percent. Based on CNCE survey results, cotton will be the only crop with negative earnings in the Yangtze River and the Yellow River regions. Conversely, all other competing crops show profits in MY15/16. For example, combined crop patterns such as "sunflower + corn" and "wheat + corn" show higher profits in the Yellow River region. In the Yangtze River region, rice, corn, or "corn + soybeans" show higher profits than those earned from planting cotton. In Xinjiang, estimated earnings for corn, wheat, tomato, peanuts and watermelon all surpass that for cotton.

The National Cotton Market Monitoring Network (NCMMN)'s November 2014 Survey results show a 14.5 percent drop in planting intention for MY15/16. China Academy of Agricultural Science Cotton Research Cotton Institute (CAAS) January 2015 Survey forecasts MY15/16 cotton planting intentions will be down by 14.9 percent. The drop in cotton planting intentions is also supported by local industry surveys. In Dezhou, Shandong province, the local industry's February survey shows a 42 percent drop in planting intentions for MY15/16.

It is worth noting that some local governments are officially encouraging farmers to plant less cotton in MY15/16, mostly to increase efficiency in cotton production. For MY15/16, the Hubei Provincial Agriculture Bureau requested to phase-out cotton planting in lands where household farms are operating at a loss with historical yields below 1,200Kg/Ha. In the case of Xinjiang province, the local government is asking farmers to plant cotton only in the officially registered areas to ensure farmers are entitled to the government subsidy. On March 7, 2015, the Xinjiang Provincial Government published a notice with a plan to cut the cotton area by 15.7 percent (or a net reduction of 311,000 Ha) in MY15/16 from the previous year. The PCC also plans to reduce cotton planting area by 18.8 percent in MY15/16 by restricting cotton planting in low-yield and marginal lands.

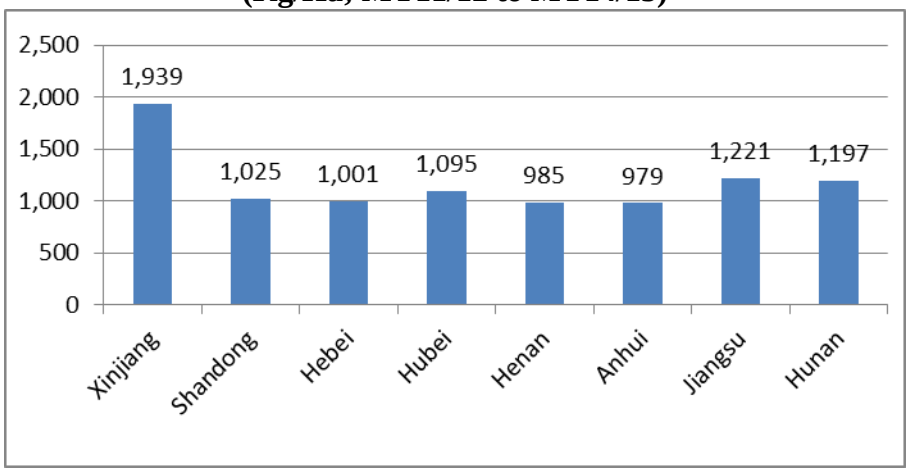
MY15/16 cotton planting intention is likely to rebound slightly from the current survey results when the MY14/15 government's total subsidy finally reaches farmers. Despite the Xinjiang government's call for a smaller cotton area, comparative profits among crops and the traditional advantages of planting cotton will determine farmers' planting decisions. Based on the information currently available, Post estimates that MY15/16 planting area will fall by 15 percent from the previous year.

Yield

In the recent four years, China's average cotton yield has varied significantly by individual province/autonomous region, ranging from 979Kg/Ha in Anhui to 1,939Kg/Ha in Xinjiang (see Chart 3). Overall, MY15/16 cotton yield is forecast at an average of 1,587Kg/Ha with Xinjiang yield forecast at 1,939 Kg/Ha and all other province averaged at 1,088Kg/Ha. The MY15/16's national average yield forecast is driven by an increase in Xinjiang's share of total cotton production.

Weather conditions and the use of new technologies, including biotech, continue to be key factors in yield gains. The use of biotech cotton varieties to reduce pest-related yield losses will continue to dominate in the provinces of Henan, Hebei, Shandong, and Anhui. However, weather uncertainties, such as flooding or drought, in the Yangtze River and Yellow River region continue to delay harvest, affect fiber quality, and impact yields.

Chart 3 – NSB Four-Year Average Yield by Province (Kg/Ha; MY11/12 to MY14/15)



Source: NSB; Note: data for 8 major cotton-producing provinces

Conversely, in Xinjiang's dry climate, the use of biotech cotton is less prevalent as a result of fewer pests. Conventional varieties with specific traits, such as a dwarf plant size and early maturity, continue to raise yields. The Xinjiang PCC farms, which are organized on a larger scale than other typical cotton farms, are able to incorporate particular agronomic practices, such as high density sowing, plastic sheet covering, and drip irrigation technology, to improve yields.

Mechanized harvest is increasingly popular in all of Xinjiang province in particular in the PCC farms seeking to reduce the need for labor inputs. Industry sources estimate total mechanized harvested cotton was about 1 million tons for PCC in MY14/15 while the volume for none-PCC farms remained small, roughly 25 percent of MY14/15 total Xinjiang production. However, there have been complaints on yield losses and lower fiber quality as a result of mechanized harvest. For example, the height of a cotton variety may not be suitable for mechanized harvesting. It will take some time for the Xinjiang cotton sector to develop the appropriate cotton varieties and agronomical practices for mechanized harvesting to fully upgrade the overall productivity of its cotton farming.

Stocks

China is expected to hold 59 percent of world cotton stocks, an estimated record 13.9 million tons, by the end of MY14/15. Stocks are forecast to fall slightly to 13.1 million tons by the end of MY15/16. Government purchases of more than 16 million tons of domestic cotton in MY11/12 through MY13/14 coupled with weak cotton consumption contributed to China's cotton stocks level. The stock to use ratio remains high at above 183 percent in MY14/15 but it is expected to fall to 164 in MY15/16.

The majority of the stocks are held by the government and are estimated to exceed 11 million tons, priced high ranging from RMB19,600 ($3,160)/ton to RMB20,400 ($3,290)/ton. This has created a widening gap between international and domestic prices and has left the government with excess stocks that it cannot sell without incurring large losses. Mills, however, continue to keep stocks at

low levels to minimize losses resulting from possible price fluctuations.

In the next few years, the government's priority will be to reduce its high cotton stocks to a more reasonable level through the sale of cotton reserves to mills. While, it is unclear what the government considers a manageable level of stocks, most analysts peg this level between a half-a year to a year's worth of domestic consumption. Most industry insiders believe that the government will theoretically resume stock auctions any time after the sowing of the MY15/16 crop (around May 2015) and that the sale price should be more market-oriented. However, auctions will depend on the recovery of domestic cotton demand, the gap between the domestic and global price, and the size and marketing of the MY14/15 domestic cotton crop. Despite adjusting the sale price down to RMB17,250/ton or $2,800/ton (Grade 328) in May 2014, the government's previous sale of state cotton reserves was disappointing. The purchased rate out of the total volume auctioned was about 40 percent. The sale/auction of state-reserved cotton is unlikely in the coming months given the need to market the estimated 6.5 million tons of the domestic MY14/15 crop.

While the state reserves are massive, industry sources agree that the government will be cautious about how it reduces them. First and foremost the government's plan will not allow the sale of stocks to interfere with the marketing of the current year crop. Second, the government may have to consider accepting auction prices closer to the international market price. There are two factors that could facilitate the government's plan. One is that quality of cotton in state reserves is reportedly good and could be stored for several more years; the other is the likely recovery of global prices in MY15/16 may help narrow the gap between domestic and international prices.

Cotton Trade

Cotton imports expected to return to MY10/11 levels

As China's government has moved away from its cotton purchasing policy in MY14/15, Chinese imports are expected to return to MY10/11 levels, or about half the level of the last three years. MY15/16 cotton imports are expected to continue to fall to 1.4 million tons from the estimated 1.55 million tons in MY14/15, compared to 3 million tons in MY13/14. The government's control over additional import TRQ facilitates the government's ability to reduce cotton imports.

According to China's commitments under the World Trade Organization (WTO) agreement, every year the government is obligated to allocate 894,000 tons of cotton TRQ imports (subject to a one percent import tariff). China also has the option to allocate additional import quotas outside of the WTO TRQ. In 2013, industry sources estimated that the government issued 2.3 million tons of additional TRQs, these include quotas subject to a variable tariff rate and quotas specifically for processing and re-export. While, the government reduced additional 2014 TRQ distributions, it still provided an estimated 1.3 million tons in TRQs for processing trade and for mills that purchased state-reserved cotton (reportedly 3 tons of state reserves for 1 ton of imports).

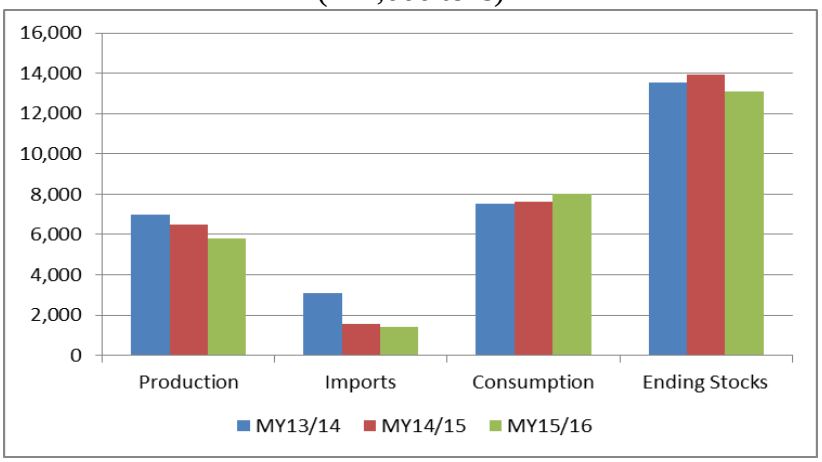
Cotton imports without a TRQ allocation are subject to a stiff 40 percent import duty which normally impedes their price competitiveness. However, industry sources estimate that low global market prices combined with tight domestic supplies, triggered out-of-quota cotton imports in 2013

(roughly 500,000 tons), and in the first months of 2014. Industry experts believe that if the gap between domestic and international cotton prices is below RMB4,000/ton ($650/ton), Chinese buyers will unlikely pay the full 40 percent out-of-quota duty to import cotton.

The government's determination to reduce stocks is another factor likely to reduce or eliminate out-of-quota imports. Furthermore, domestic industry's belief that the government could accept an auction price much closer to market levels would render out-of-quota imports uncompetitive. Barring a reversal in policy or a serious production shortfall, the prospects for cotton imports to return to the high levels maintained during the three years of China's cotton stock building policy are unlikely. Future imports will also depend more on the balance between many factors, including the size of China's production, the strength of China's cotton consumption, and changes in the global cotton price.

Yarn imports are a third factor exerting downward pressure on cotton imports. Unlike cotton imports, yarn imports do not face quota restrictions. China's yarn imports remained strong at 2 million tons in 2014. Most Chinese industry insiders believe yarn imports will stay stable in 2015. High net yarn imports, at 1.61 million tons, partly reduced cotton imports in 2014 and will continue to impact cotton imports in 2015. Although yarn imports also reduce the consumption of state-reserved cotton, most industry experts are confident that China's yarn import policy will remain unchanged. According to industry sources, if the gap between the domestic and international cotton price is less than RMB2,000/ton ($325/ton), yarn imports will be uncompetitive in the Chinese market.

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



Source: FAS/Beijing Estimates/Forecast
*Includes Yarn use

U.S. cotton competes with other suppliers for China's shrinking market

U.S. cotton exports to China are expected to drop to low levels as China's forecast imports are expected to plummet to 1.4 million tons in MY15/16. In MY12/13, the United States was the number one cotton supplier to China with exports of 1.3 million tons, but fell to third place in MY13/14 behind India and Australia, supplying only 639,000 tons. 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 the use of biotech cotton dissemination, and actively promotes its product. Demand for Australian cotton reportedly sparked as Chinese millers favored its length and strength over comparable cotton grades from other suppliers. However, cotton supplies from Australia are expected to decline in the coming years as Australian cotton area declined in 2014 in response to lower global prices.

Chinese cotton exports still insignificant compared to total cotton use

China's cotton exports average about 10,000 tons annually, an insignificant amount compared to total cotton use. However, cotton exports in the first half of MY14/15 exceeded 10,000 tons. Facing a lower domestic target price, these sporadic exports are expected to continue with total exports estimated to increase to 17,000 tons in MY14/15 and grow further to 22,000 tons in MY15/16. Yarn exports are still not competitive and decreased slightly in 2014 to 307,000 tons. Net yarn imports reached 1.59 million tons a significantly rise from the 500,000 tons in 2011.

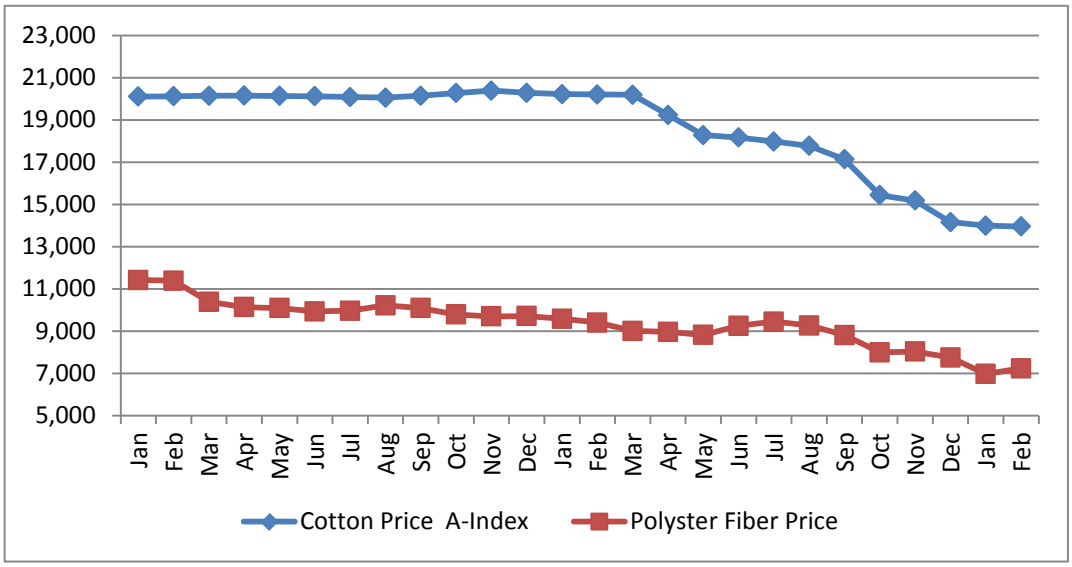
Consumption

MY15/16 cotton consumption is forecast at 8 million tons, up from an estimated 7.6 million tons in MY14/15. A more market-oriented domestic cotton price is expected to boost cotton use moderately. A combination of rising demand for textiles and apparel from developed and developing markets is driving the Chinese demand for cotton. Although demand growth in developed markets like the US and EU continues to recover, strengthening demand in developing countries, and especially domestic consumption, signals growth in purchases of apparel and textile products.

Cotton share is expected to recover in yarn production

Most industry insiders believe cotton fiber will regain its share in yarn production when the price gap between cotton and polyester fiber continues to shrink in 2015. Cotton prices have remained almost double that of polyester fiber prices since 2013 attributed to the rapid increase in the share of polyester fiber in yarn production. In recent years, technological advancement has enhanced the quality of man-made fiber and increased its use in the manufacturing of textiles and apparel.

Chart 5 - China Cotton Price A-Index vs Polyester Fiber Price
(Monthly Jan 2013 to Jan 2015)



Source: cncotto.com

According to NSB, China's total chemical fiber production grew with total chemical fiber production at 43.9 million tons in 2014, up 5.5 percent over the previous year. Similarly, yarn production increased 5.6 percent to 33.79 million tons, up 5.6 percent compared to 2013. However, given the price advantage of polyester fiber, cotton use was estimated at about 7.55 million tons per year in 2013 and 2014.

China's Textile Sector Production/Investment Trends

Year/Item	2011	2012	2013	2014	2014/2013 Change %
Yarn Production (million tons)	**28.7**	**29.84**	**32.0**	**33.79**	+5.6
Fabrics Production (Million Meters)	814	841	883	894	+1.2
Chemical Fiber Production (million tons)	33.9	38	41.2	43.9	+5.5
Fixed Asset Investment in Textile Sector (RMB billion)	366.9	397.1	472.6	NA	

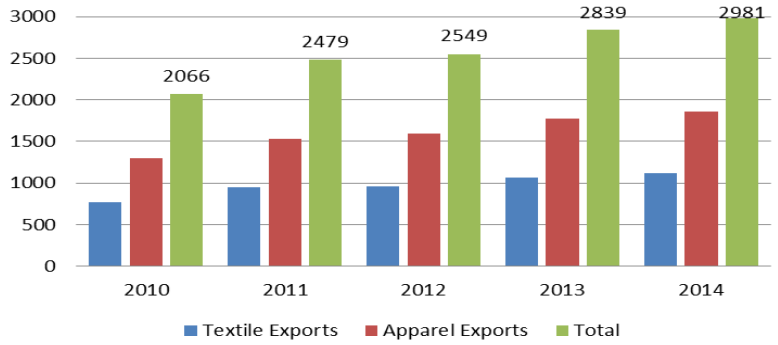
Source: China Economic and Social Development Report by NSB

The rapid growth of cotton yarn imports are expected to level off in MY15/16 as the price advantage for imported yarn decreases encouraging mills to use domestic cotton. High domestic cotton prices forced China's industry to import cotton yarn which has been comparatively low in price and not subject to TRQ restrictions. Yarn imports in the first half of MY14/15 declined slightly to 1.03 million tons compared to the 1.07 million tons in MY13/14.

Export recovery in textiles and apparel may support moderate growth in cotton use

According to NSB, total textile and apparel exports were valued at $298.1 billion in 2014, up five percent over the previous year. While figures reflect lower growth rates compared to 2013, the value of textile exports increased by 4.8 percent to $112 billion, and the value of apparel exports increased by 5.1 percent to $186.1 billion. According to industry reports, preliminary customs statistics indicate that total textile and apparel export value in the first two months of 2015 rebounded by 19.8 percent to RMB289.1 billion or $46.7 billion. During the same period, value for textile exports increased by 23 percent to RMB110.9 billion or $17.89 billion, and the value for apparel exports increased by 17.9 percent. It is worth noting that the export value in the first two months of 2014 was impacted by the timing of the Chinese New Year holiday. The 2015 Chinese New Year fell in late February and thus had less of an impact on export deliveries. Nonetheless, China's industry experts remain optimistic about the prospects for export growth in 2015 given the moderate recovery of overseas markets and lower domestic cotton price as a result of new policy changes.

Chart 6 – China's Textile and Apparel Exports (Value in $100 million)

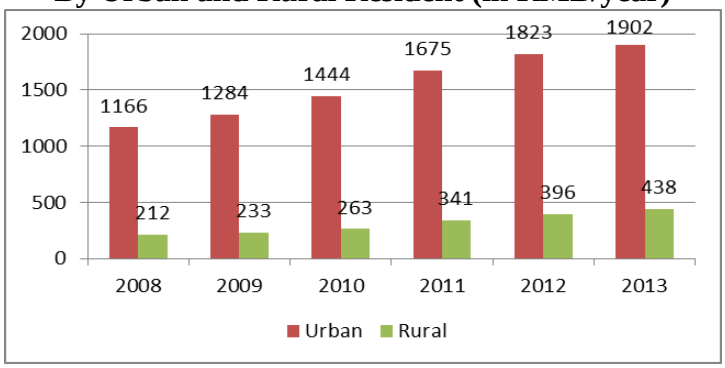


Source: NSB

Domestic demand also encourages use of domestic cotton

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. In addition to a more market-oriented cotton price, and constant high GDP growth of 7.4 percent in 2014 and likely 7 percent in 2015, higher disposable income and the rising living standards of Chinese consumers continue to drive retail purchases and thereby cotton consumption. For example, as indicated in Chart 7, the 2013 per capita expenditures on clothing increased for both urban and rural residents, with urban residents still far outspending rural counterparts. Rapid urbanization continues with annual growth in urban populations averaging 21.42 million from 2008 to 2013, with 19.29 million new urban residents added in 2013. High urbanization is expected to continue in 2015. The market potential for China's 629.6 million rural residents to increase textile related purchases is expected to rise as rural incomes grow. This will undoubtedly support continued demand for domestic cotton products. Additionally, China's average annual net population growth was 6.5 million from 2008 to 2013. Greater demand for clothing, and home textile products will continue to fuel cotton use.

Chart 7 - Per Capita Expenditures on Clothing By Urban and Rural Resident (in RMB/year)



Source: NSB

Upcoming challenges for China's textile sector

The textile industry in China employs over 23 million people and is considered one of China's economic pillars. According to NSB, total fixed asset investment in the textile industry in 2013 grew 19 percent and reached RMB472.6 billion ($72.6 billion). The investment value in 2014 is not yet available, but NSB indicated that the fixed asset investment in the general manufacturing industry increased by 13.5 percent over the previous year. In addition, total sales profit for the textile sector in 2014 increased 6.1 percent over 2013.

Despite this financial influx, the textile industry faces significant challenges, including declining orders from overseas compared to an excessive production capacity, and rising production costs for key inputs such as power and labor. Despite the recent government's policy changes, industry statistics show that China's spinning sector continues to pay well above the world price for domestic cotton.

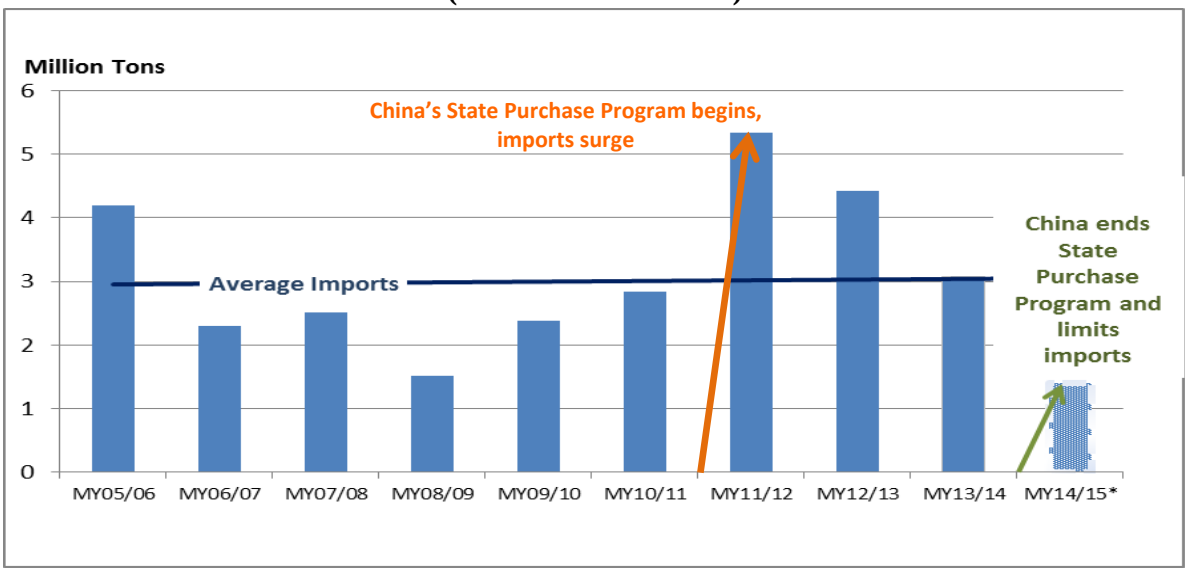
The Chinese Ministry of Labor indicated 19 provinces/municipalities adjusted the minimum wage level in 2014 with average growth up by 14 percent over the previous year. High electricity price coupled with environmental pressure (emission limits) not only adds to the industry's production costs, but also discourages the expansion of facilities.

To address these ongoing hurdles, textile industry leaders use different approaches. In addition to improving efficiency and in order to minimize losses, some mills have temporarily suspended operations holding off for better prices when sourcing domestic cotton. Others in search of lower raw material/labor and more favorable investment environment have moved operations towards China's central and western regions (Henan, Sichuan, Anhui, Jiangxi, Xinjiang and Ningxia Provinces) and foreign countries (Vietnam and Cambodia). Industry sources indicate that the total investment of RMB6.94 billion ($1.13 billion) in textile sector in Xinjiang doubled from the previous year. In 2014, China's industry also reported Chinese investment in spinning in the United States, Vietnam and other southeastern countries. While these developments may currently not have a significant impact in China's domestic cotton use, these may have an impact in the long-term.

Policy

China's Cotton Support Policy Dilemma: How did we get here?

Chart 8 – China's Total Cotton Imports and Major Changes in Support Policy (MY05/06 – MY14/15*)



Source: GTA, * Post MY14/15 Estimate

As the world cotton price skyrocketed as a result of tight global cotton supplies in 2010, China's cotton price surged from RMB18,000/ton ($2,850/ton) in August of that year to more than RMB30,000/ton ($4,760/ton) in November. Seeking to stabilize its market, China's government sold almost all its cotton reserves. However, the sale had limited impact on the surging domestic price. In addition, given rising production costs and stagnant cotton productivity, China's 2011 domestic cotton planting intentions declined. These developments triggered the Chinese government's decision to implement a new temporary policy to boost domestic cotton production and meet the textile sector's increasing demand. Through this policy, the state set out to purchase domestic cotton at a minimum floor price.

The government used this state purchase program along with the cotton import TRQ regime to maintain a balance in the domestic cotton market. In MY11/12, the minimum cotton purchase price for domestic cotton started at RMB19, 800/ton ($3,140/ton) and rose to RMB20, 400/ton ($3,238) in MY12/13 and MY13/14. However, during this same period, world cotton prices declined significantly to an average $2,000/ton in 2014.[4] The artificially high domestic purchase price depressed consumption of domestic cotton and forced the government to purchase the majority of the MY12/13 crop. This massive purchase added 6.51 million tons of expensive cotton to the state reserves. As the price gap continued in MY13/14, the government purchased 90 percent of the estimated 7 million tons of its total domestic production. This second year of state purchases pushed state reserves levels to a record high of 12.3 million tons, while also pushing imports to record levels. A third year of government stockpiling elevated China's cotton stocks to an estimated 13.9

[4] Based on Global Trade Atlas/China import price.

million tons, and turned China into the owner of an estimated 59 percent of global cotton stocks by the end of MY14/15.

Cotton Policy Records - Purchased Volume and Price

	2011	2012	2013	2014	2015
Minimum price (RMB/ton)	19800	20400	20400	19800 (target price)	NA
Covering provinces	13	13	13	For Xinjiang only (The subsidy to all other provinces is RMB2,000/ton based on media reports)	NA
Purchase time	Sept 1 to March 31				
Volume purchased **(million tons)	**3.31**	**6.51**	**6.4**		
Estimate total production**	6.6	6.8	6.6		
Share of total production %)**	50	95	96		

Source: government and industry reports **Based on a research organization of MOA

With the government offering cotton farmers much higher prices than the international market price and successfully procuring the majority of domestic crop, little was left for domestic millers to use. As a result, the state purchase program drove China's cotton imports from MY11/12 to MY13/14 to unprecedented and artificial levels. At the same time, the high domestic price stimulated yarn imports (which are not subject to TRQs) and led with net yarn imports to double from MY11/12 to MY13/14. China's total cotton use averaged 9.3 million tons/year from MY11/12 to MY13/14 – not including net imports of cotton yarn.

Cotton Use and Imports vs Yarn Imports

Million tons\Year	MY11/12	MY12/13	MY13/14	MY14/15	MY15/16
Cotton imports	5.34	4.42	3.1	0.93*	
TRQ					
-WTO committed	0.894	0.894	0.894	0.894	0.894
-Additional subject to sliding duty**	2.7	1.32	1.2	NA	
Domestic mill cotton use***	**8.27**	**7.84**	**7.73**	**7.48**	
Cotton yarn net imports	0.84	1.37	1.61	0.89*	

*GTA--First half of MY14/15;**Data based on industry sources; ***Estimates by CCA and industry sources

The Crossroad: Moving away from a minimum purchase price to target price-based subsidy

In 2014, after three marketing years of implementing the minimum price state purchase policy, China faced the pressure of a huge and expensive cotton stock with little positive impact on sustainable domestic cotton planting. In addition, the combined low global cotton prices also placed

some Chinese spinners out of business. The government recognized that the current cotton support system was untenable and decided to take steps to reduce stocks and move away from setting an artificially high minimum purchasing price.

According to the information currently available, under China's new cotton support policy, the Central Government pays direct subsidies to cotton farmers under two distinct programs. One program is directed to cotton farmers in Xinjiang province; another is directed to the other nine cotton producing provinces. The central government calculates the total subsidy amount based on the provincial production and provides the funds to provincial authorities. Provincial officials must then develop their own plan for the distribution of payments. The Central Government subsidy to Xinjiang is estimated based on Xinjiang's total production and the difference between a set target price and the market price, roughly about RMB18.4 billion or $2.98 billion for MY14/15. The total subsidy for all other cotton provinces is estimated based on their total production and a fixed sum, about RMB4.97 billion or $0.81billion also for MY14/15. The total Central Government combined subsidies for MY14/15 are estimated at RMB23.32 billion ($3.79 billion).[5]

***Cotton Support Policy for Xinjiang Province*:**

On September 18, 2014, China's NDRC published policy details of a trial subsidy program for cotton farmers in Xinjiang province which would set a direct subsidy if the price falls below a set target price. The Central Government estimates Xinjiang's total subsidy amount as:

Total Subsidy for Xinjiang Province = Total Production[6] **X** (target price – market price)

The MY14/15 target price was set at RMB19,800 ($3,225) per ton. The total MY14/15 subsidy for Xinjiang is estimated at RBM18.4 billion or $2.98 billion[7]. After appropriating the funds from the Central Government, the Xinjiang government will distribute these funds to farmers in two direct subsidies (A) 60 percent of the total funds will be based on the certified planted area; and (B) 40 percent of the funds will be based on production.

In other words, Xinjiang farmers' total payments will be a combination of the following:

(A) **Area-based subsidy rate (RMB/Ha) =** $\frac{\text{Total funds} \times 60 \text{ percent}}{\text{Certified planted area}}$

plus

(B) **Raw Cotton Production-based subsidy rate (RMB/ton) =** $\frac{\text{Total funds} \times 40 \text{ percent} \times \text{certified lint ratio}[8]}{\text{Certified production}}$

[5] Total Subsidy is based on a NSB total estimated production for MY14/15 of 6.16 million tons (Xinjiang 3.67 million tons and 2.48 million tons for all other provinces), and a MY14/15 average market price of RMB14,800/ton.
[6] As estimated by the NSB.
[7] MY14/15 Subsidy for Xinjiang= 3,677,000 tons X (RMB19,800/ton – RMB14,800/ton).
8 The lint ratio as certified by the Xinjiang government for each specific region.

According to industry sources, as of March, 2015, the area based subsidy and part of the production based subsidy had been already distributed to cotton farmers in Xinjiang.

Cotton Support Policy for other cotton producing provinces:

On November 4, 2014, NDRC announced that MY14/15 cotton produced outside of the Xinjiang region (the other nine cotton-producing provinces) would receive a direct subsidy based on a fixed amount of RMB2,000/ton (or $325/ton). The central government will appropriate funds to these nine provinces based on this set amount and the NSB estimated production. These provinces were requested to formulate a subsidy distribution plan based on the farmers' area or production. The Central Government estimates the total subsidy amount for other provinces as:

Total Subsidy for Other Provinces = Total Production[9] **X** RMB2,000/ton

The total MY14/15 subsidy for non-Xinjiang provinces is estimated at RBM4.97 billion or $0.81 billion. Payment distribution plans vary by province and details are not yet available for all areas. Based on official media, the Shandong and Jiangsu Provincial Governments announced that they will pay cotton farmers through area-based subsidies of RMB3,525/Ha ($573/Ha) in Shandong, and RMB3,090/Ha (502/Ha) in Jiangsu. For MY14/15, several other provinces including Hebei, Anhui and Gansu have announced they will also distribute payments through similar area-based subsidies to their cotton farmers. However, actual payments are not expected to reach farmers until sometime in April 2015. Given all available information and analysis, while this new policy appeared to have a relatively small negative impact on MY14/15 Xinjiang cotton earnings, it dramatically reduced cotton earnings in other cotton-producing regions.

China's new target price-based subsidy expected to continue in MY15/16

Seeking to manage their state reserves in MY15/16 and beyond, the government will likely be looking at whether a Xinjiang-focused support policy will produce sufficient cotton to meet domestic needs and allow them to continue channeling imported cotton to textile use for export. Given the slow pace of recovery for cotton use and the massive state cotton reserves priced higher than global prices, formulating a well-balanced support policy for MY15/16 and after will remain a challenge for China. Most analysts believe the subsidy program in Xinjiang will continue in MY15/16. As for the subsidy program in other producing provinces, NDRC stated last November that the fixed amount distributed in these provinces would be generally equivalent to 60 percent of the subsidy rate distributed in Xinjiang in a given year, but the maximum fixed amount would not be higher than RMB2000/ton. As of this report, the MY15/16 fixed subsidy for other provinces remains uncertain.

9 As estimated by the NSB.

Seed Subsidy

In MY15/16, the government will continue to provide a long-standing seed subsidy of about $36/Ha for selected "high quality variety" seeds to improve the cotton quality in all provinces. Total expenditures in MY14/15, though unpublished, are believed to exceed $150 million.[10]

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. 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. The implementation of these measures on cotton trade has been limited. Based on these requirements, traders are also recommended to register with AQSIQ to export cotton to China. AQSIQ keeps updating the newly registered or renewed overseas cotton supplier list on its website with the latest updated dated on September 30, 2014. Thus far, post has not received any complaints on this registration process.

New challenge for official cotton classification[11]

In an effort to modernize its spinning industry, the government has limited state purchases to officially classified cotton. This stimulated growth in the volume of classified cotton during MY11/12 to MY13/14. Starting in MY14/15, as the government was no longer the primary buyer in the market and ginners began selling directly to mills, the volume of officially classified cotton declined. A drop in overall production also contributed to the lower volume. As a result of the change in support policy, some ginners in the Yangtze River and Yellow River regions opted to sell cotton to millers who do not require official classification for purchase. However, in Xinjiang the official classified volume remained high mainly because part of the subsidy is based on official production data. According to CFIB, as of March 1, 2015, total cotton under the official classification system was 4.94 million tons, down 30.4 percent over the same period in MY13/14. Out of the 4.94 million tons of classified volume, Xinjiang accounted for 83 percent at 4.09 million tons, while the volume for all other provinces plummeted by 66 percent from MY13/14.

Although the intent behind requiring classification was to simultaneously upgrade the quality of China's ginning sector and facilitate the collection of production data, industry sources report the results are still unclear. During the implementation of the government purchase support program from MY11/12 to MY13/14, some cotton may have reportedly been presented repeatedly for classification and purchase. There are other reports that even some imported cotton might have been presented for classification to take advantage of the import/domestic price difference. If true, this practice could have inflated the overall production data during those years. The subsidy policy enforced in MY14/15 eliminated some of the above problems but did discourage ginners to officially classify their cotton.

[10] Expenditures based on NSB's estimated 4.22 MHa planted area for MY14/15.

[11] To facilitate the marketing and sale of cotton, major cotton producing countries classify their cotton (cotton classing) based on its specific physical attributes. Classification can be done manually or through precision instruments.

Targeted Loans

In MY14/15, the Agriculture Development Bank of China (ADBC) continued to provide targeted loans with favorable terms for seed cotton purchases. This program facilitated the marketing of seed cotton when market prices remained weak and demand for cotton was stagnant. As of the end of 2014, Xinjiang government information indicated that total loans exceeded RMB41.3 billion ($6.71 billion) in MY14/15. This loan was expected to cover 75 percent of the marketing for MY14/15 Xinjiang cotton production. ADBC will continue to provide financial assistance for the marketing of domestic cotton in MY15/16.

Marketing

The marketing of domestic cotton remained slow in MY14/15 as most mills maintained a "low inventory" in response to uncertainty related to price and demand trends. Ginners/traders, however, are more actively engaged in marketing cotton compared to the previous three years when the government remained the only buyer. Marketing of the PCC machine harvested cotton was reportedly difficult due miller's concerns regarding quality and lack of price advantage.

In MY14/15, the government continued to provide a transportation subsidy of RMB500/ton ($80) (up from RMB 400/ton in MY11/12) for Xinjiang-origin cotton shipped to mills in coastal and southern cities. While Xinjiang province provides 40 percent of China's domestic cotton production, there is only one rail line to move the raw product cross-country to the textile producing areas. Harvest time can create bottlenecks. The shipping congestion was not as serious in the recent three years when the government purchased most of the Xinjiang cotton for reserves and stored it locally. That said, the shipping congestion of cotton out of Xinjiang didn't improve significantly in MY14/15. Industry reports indicate that trucks were increasingly used for transport to ease 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 2015 conference will be held in June in Ningbo, Zhejiang 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 was held in May in Xiamen, Fujian Province.

*Exchange Rates: 2012 -$1=RMB6.3; 2013-$1=RMB6.2; 2014-$1=RMB6.15

Tables

Production, Supply and Demand (PSD)

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

	2013/2014		2014/2015		2015/2016	
	Market Year Begin: Aug 2013		Market Year Begin: Aug 2014		Market Year Begin: Aug 2015	
Cotton China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	4,700	0	4,325	0	3,660
Area Harvested	4,800	4,700	4,400	4,325	0	3,660
Beginning Stocks	50,361	50,361	62,707	62,102	0	63,997
Production	32,750	32,150	30,000	29,855	0	26,640
Imports	14,122	14,122	7,300	7,120	0	6,430
MY Imports from U.S.	0	2935	0	2269	0	2269
Total Supply	97,233	96,633	100,007	99,077	0	97,067
Exports	26	31	50	80	0	100
Use	34,500	34,500	35,000	35,000	0	36,750
Loss	0	0	0	0	0	0
Total Dom. Cons.	34,500	34,500	35,000	35,000	0	36,750
Ending Stocks	62,707	62,102	64,957	63,997	0	60,217
Total Distribution	97,233	96,633	100,007	99,077	0	97,067
Stock to Use %	182	179	185	182	0.00	163
Yield	1,486	1,489	1,484	1,503	0	1,585
TS=TD	0	0	0	0	0	0

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

	2013/2014		2014/2015		2015/2016	
	Market Year Begin: Aug 2013		Market Year Begin: Aug 2014		Market Year Begin: Aug 2015	
Cotton China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	4,700	0	4,325	0	3,660
Area Harvested	4,800	4,700	4,400	4,325	0	3,660
Beginning Stocks	10,965	10,965	13,653	13,521	0	13,934
Production	7,130	7,000	6,532	6,500	0	5,800
Imports	3,075	3,075	1,589	1,550	0	1,400
MY Imports from U.S.	0	639	0	500	0	500
Total Supply	21,170	21,039	21,774	21,571	0	21,134
Exports	6	7	11	17	0	22
Use	7,511	7,511	7,620	7,620	0	8,001
Loss	0	0	0	0	0	0
Total Dom. Cons.	7,511	7,511	7,620	7,620	0	8,001
Ending Stocks	13,653	13,521	14,143	13,934	0	13,111
Total Distribution	21,170	21,039	21,774	21,571	0	21,134
Stock to Use %	182	180	185	182	0	163
Yield	1,486	1,489	1,484	1,503	0	1,585
TS=TD	0	0	0	0	0	0

Trade Tables

Table 3. China's Monthly Cotton Imports

Unit: Tons					
Month	2011	2012	2013	2014	2015
January	391,590	326,468	457,490	292,485	161,230
February	184,216	616,048	378,842	246,057	
March	276,459	625,196	528,822	222,100	
April	210,453	509,694	430,878	224,365	
May	144,569	501,855	345,779	191,535	
June	120,017	475,971	269,793	218,246	
July	157,087	405,842	337,799	280,253	
August	207,048	305,556	275,885	204,493	
September	252,739	262,924	201,270	122,903	
October	252,315	272,067	141,185	81,939	
November	378,152	303,643	173,122	92,112	
December	790,402	532,187	608,606	264,459	
TOTAL	3,367,058	5,137,451	4,151,484	2,442,961	
Unit: Bales					
Month	2011	2012	2013	2014	2015
January	1,798,573	1,499,468	2,101,252	1,343,384	740,529
February	846,104	2,829,508	1,740,021	1,130,140	
March	1,269,776	2,871,525	2,428,879	1,020,105	
April	966,611	2,341,025	1,979,023	1,030,508	
May	664,005	2,305,020	1,588,163	879,720	
June	551,238	2,186,135	1,239,159	1,002,404	
July	721,501	1,864,032	1,551,511	1,287,202	
August	950,971	1,403,419	1,267,140	939,236	
September	1,160,830	1,207,610	924,433	564,493	
October	1,158,883	1,249,604	648,463	376,346	
November	1,736,852	1,394,632	795,149	423,070	
December	3,630,316	2,444,335	2,795,327	1,214,660	
TOTAL	15,464,897	23,596,312	19,067,766	11,220,520	

Source: Global Trade Atlas

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

Unit: Tons

Country	**MY11/12**	**MY12/13**	**MY13/14**	**MY14/15***
India	1,941,721	986,887	1,097,372	160,723
Australia	695,238	886,624	677,112	272,075
United States	**1,309,526**	**1,298,051**	**638,621**	**153,372**
Uzbekistan	277,873	323,334	161,403	107,675
Brazil	353,261	322,705	91,395	134,084
Burkina Faso	113,207	76,891	79,905	18,588
Cameroon	60,281	56,266	55,217	8,811
Mali	71,035	76,119	42,214	2,238
Benin	57,119	35,226	39,196	6,582
Mexico	78,403	51,263	27,462	11,271
Cote d Ivoire	43,023	28,438	25,953	3,224
Zimbabwe	27,580	35,420	12,516	12,542
Tanzania	17,589	33,987	11,266	1,994
Others	295,874	214,570	115,477	33,957
Total	**5,341,730**	**4,425,781**	**3,075,109**	**927,136**
Price $/ton	2,458	2,047	2,117	

* First six month data of MY14/15; Source: Global Trade Atlas

Table 5. China's Monthly Cotton Exports

					Unit: Tons
Month	2011	2012	2013	2014	2015
January	3,641	0	70	440	516
February	5,108	472	0	408	
March	1,908	617	211	440	
April	5,240	42	990	363	
May	6,124	1,512	715	766	
June	1,058	5,919	495	296	
July	820	1,653	507	258	
August	1,097	1,389	348	2676	
September	456	3,007	959	4194	
October	0	1,168	1,409	1633	
November	90	502	717	1646	
December	157	1,277	313	349	
TOTAL	27,710	17,558	8,747	15,483	
				Unit:	480-lb Bales
Month	2011	2012	2013	2014	2015
January	16,723	0	322	2,021	2,370
February	23,461	2,168	0	1,874	
March	8,763	2,834	969	2,021	
April	24,067	193	4,547	1,667	
May	28,128	6,945	3,284	3,518	
June	4,859	27,186	2,274	1,360	
July	3,766	7,592	2,329	1,185	
August	5,039	6,380	1,598	12,291	
September	2,094	13,811	4,405	19,263	
October	0	5,365	6,472	7,500	
November	413	2,306	3,293	7,560	
December	721	5,865	1,438	1,603	
TOTAL	127,272	80,644	40,175	71,113	

Source: Global Trade Atlas

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

Unit: Tons

Month	2011	2012	2013	2014	2015
January	90,812	65,637	162,971	172,173	207,687
February	50,986	114,922	94,457	144,956	
March	78,041	113,610	185,939	166,263	
April	53,412	99,090	151,011	170,422	
May	43,123	114,747	158,033	143,064	
June	40,781	97,851	136,010	131,470	
July	54,851	126,778	187,801	146,183	
August	63,562	143,086	194,228	141,641	
September	75,369	129,565	193,729	165,534	
October	83,269	116,731	176,786	165,894	
November	79,225	134,442	168,870	155,989	
December	90,537	149,506	163,395	197,488	
TOTAL	805,979	1,405,965	1,973,230	1,901,077	
Marketing Year	Aug/11-Jul/12	Aug/12-Jul/13	Aug/13-Jul/14	Aug/14- Jul/15	
TOTAL	1,124,597	1,749,552	1,971,539		

Source: Global Trade Atlas

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

Unit: Tons

Month	2011	2012	2013	2014	2015
January	30,243	19,420	44,249	33,120	27,526
February	20,323	24,823	22,549	27,967	
March	48,893	41,244	40,903	31,096	
April	35,205	28,122	37,983	30,264	
May	23,469	27,809	27,927	25,657	
June	21,395	24,670	23,431	24,960	
July	18,717	19,824	25,594	23,497	
August	18,998	23,196	29,836	24,420	
September	18,095	29,497	32,314	26,010	
October	19,404	31,207	28,577	19,363	
November	17,802	31,866	36,263	19,788	
December	22,684	41,230	37,459	21,713	
TOTAL	297,239	342,908	387,085	307,855	
Marketing Year	Aug/11-Jul/12	Aug/12-Jul/13	Aug/13-Jul/14	Aug/14-Jul/15	
TOTAL	355,118	447,211	489,384		

Source: Global Trade Atlas

Table 8. China's Monthly Cotton Fabric Imports

Unit: 1,000 Square Meters

Month	2011	2012	2013	2014	**2015**
January	47,059	34,758	53,556	42,962	37,275
February	35,221	56,633	34,273	40,429	
March	60,125	65,647	56,104	50,594	
April	56,649	64,198	58,792	60,366	
May	47,997	68,781	65,729	46,247	
June	45,392	55,770	48,106	39,731	
July	48,742	55,550	63,187	44,237	
August	55,200	59,969	60,578	37,979	
September	56,258	60,501	54,386	41,738	
October	54,614	59,837	55,296	43,946	
November	60,027	56,748	46,965	38,112	
December	53,163	62,782	48,480	42,675	
TOTAL	622,458	701,175	645,453	529,015	37,275
Marketing Year	Aug/11-Jul/12	Aug/12-Jul/13	Aug/13-Jul/14		
TOTAL	680,599	679,585	590,271		

Source: Global Trade Atlas

Table 9. China's Monthly Cotton Fabric Exports

Unit: 1,000 Square Meters

Month	2011	2012	2013	2014	2015
January	607,713	521,312	690,568	702,301	550,266
February	273,943	308,968	465,717	236,633	
March	563,878	678,599	646,411	544,449	
April	584,655	572,498	740,500	661,831	
May	535,058	669,145	703,833	626,164	
June	468,256	600,809	693,315	547,612	
July	566,527	491,049	688,002	545,390	
August	520,819	481,100	642,518	604,286	
September	543,470	595,636	657,223	572,285	
October	544,839	556,532	584,706	620,901	
November	613,750	593,591	690,257	631,127	
December	619,982	626,241	662,751	592,102	
TOTAL	6,444,901	6,697,490	7,867,815	6,885,080	550,266
Marketing Year	Aug/11-Jul/12	Aug/12-Jul/13	Aug/13-Jul/14		
TOTAL	6,442,890	7,481,447	7,101,835		

Source: Global Trade Atlas

Other Tables

Table 10. Cotton Planted Area and Production by Province

Planted Area (in 1,000 Ha)				
Year	MY12/13	MY13/14	MY14/15	**MY15/16**
Xinjiang	2,160	2,250	2,258	2,145
Shandong	740	610	593	
Hebei	550	400	400	
Henan	250	220	140	
Hubei	473	450	345	
Anhui	305	200	180	
Jiangsu	171	100	88	
Hunan	202	175	130	
Gansu	71	70	40	
Other	353	225	151	
Total	5,275	4,700	4,325	**3,660**
Production (in 1,000 tons)				
Year	MY12/13	MY13/14	MY14/15	**MY15/16**
Xinjiang	4,430	4,450	4,250	4,160
Shandong	698	650	632	
Hebei	571	385	420	
Henan	269	200	133	
Hubei	571	540	360	
Anhui	270	180	178	
Jiangsu	210	95	110	
Hunan	251	192	129	
Gansu	107	108	76	
Other	223	200	212	
Total	7,600	7,000	6,500	**5,800**
Average Yield (Kg/Ha)	1,339	1,441	1,503	1,587

Note: FAS/Beijing estimate and forecast

Table 11. Cotton Tariffs as of January 1, 2015 (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 qouta	5201-0000.01	1	125	13	13	
Cotton, not carded or combed, including degreased cotton - out of qouta, 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, 2015 (continued)

Description	HS Code	M.F.N.(%)	Gen(%)	VAT	ED	Unit
Woven fabrics of cotton,	5208-1100	10	70	17	16	M/Kg
containing 85% or more by weight of cotton, weighing not more than 200 g/square meter	to					
	5208-5990*					
"	*Except:					
Woven fabrics of cotton,	5208-2300	12	70	17	16	M/Kg
containing 85% or more by	5209-1100	10	70	17	16	M/Kg
weight of cotton, weighing	5209-1200	10	70	17	16	M/Kg
more	5209-1900	10	70	17	16	M/Kg
than 200 g/square meter	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
	5209-5900	10	70	17	16	M/Kg

Note: VAT--Value Added Tax; ED--Export Drawback Rate;
Source: PRC Customs Import & Export Tariff, 2015

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 2.4 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 2014 - 894,000 tons (China added about 1.3 million tons additional TRQ subject to variable duty were distributed but not officially announced)				
2015 – 894,000 tons distributed (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, China adds TRQs based on market demand. The added TRQs are subject to a variable import duty)				