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Required Report - public distribution

Date: 4/6/2010
GAIN Report Number: BR0608

Brazil

Cotton and Products Annual

2010 Annual Cotton Report

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Report Highlights:

Post increased 2009/10 cotton production to an estimated 5.7 million bales as second crop “safrinha” (January – May) area increased due to favorable prices based on strong domestic demand. Post forecasts 2010/11 production to rebound to 6.4 million bales with planted area increasing 16 percent. Post forecasts 2010/11 exports to decrease nearly 13 percent due to unfavorable exchange rates and continued strong domestic demand and expanded milling capacity.

Production:

Brazil's 2009/10 Cotton Production Rises due to Increased Safrinha Area

Post now forecasts 2009/10 cotton production at 5.7 million bales on an increased estimated area of 820,000 hectares. Post's forecast is in line with the Ministry of Agriculture Brazilian Food Supply Company (Conab) whose March survey projects 2009/10 cotton production at 5.7 million bales on 817,600 hectares. The 2009/10 area planted now represents a slight reduction of 3 percent compared to last year's area of 843,000 hectares in contrast to the pre-planting estimate of over 5 percent reduction in area.

Producers in the states of Mato Grosso and Goiás increased area planted during the second crop cycle "safrinha" based on favorable prices stemming from tight world stocks and increased domestic demand. Producers in the Center-West have highlighted excellent growing conditions for narrow-row (76 cm spaced) cotton planted in January after the early-maturing soybean harvest. Growing conditions have also been favorable for ultra-narrow row (45 cm spaced) safrinha cotton in the Center-West. Western Bahia serves as the main production area for traditional first-crop cotton, planted in 90 cm row spacing, and appears to have recuperated from early season shortage of rainfall.

Outlook 2010/11: Brazil Cotton Production to Rebound on Positive Future Demand

Post forecasts 2010/11 cotton production to be 6.4 million bales based on a yield trend of 1.475 mt/ha and an estimated planted area of 950,000 hectares. Strong domestic demand and positive future price signals account for increased planted area. In Mato Grosso cotton area may increase by more than 100,000 hectares, with substantial increases in second crop cycle or "safrinha" area following the harvest of early-maturing soybeans. Bahia is expected to recuperate 25,000 hectares representing a 10 percent increase in area. However, resource-constrained producers may change planting intentions if they have not yet purchased fertilizer, which accounts for 27 percent of production costs. In 2009/10 the cost of fertilizer was estimated at 16 units (15 kg) of cotton per hectare. Prices for fertilizer have increased over 20 percent in the past month and continue to rise. Only 30 percent of producers are estimated to already be supplied.

Brazil continues to be deficit in producing fertilizer to meet its needs. Studies show that Brazil's dependence on imports reaches 74, 49, and 92 percent for nitrogen, phosphorus, and potassium, respectively. There has been discussion of forming a State-run fertilizer company or new regulatory agency to address import dependency and the need for increased competition in the sector. According to the National Fertilizer Association (ANDA), fertilizer deliveries totaled 22.4 mmt in 2009 even with 2008 levels. Total annual imports of fertilizer in 2009 were down nearly 30 percent from 2008 and national production was also down 5 percent.

Adoption of new biotech cotton seed aids positive outlook for 2010/11 and beyond

Brazil's National Technical Commission of Biosafety (CTNBio) has so far approved five biotech cotton events; however, only two have been commercially released. The three remaining events that carry other needed benefits will enter into the public domain with seed varieties commercialized in 2012. However, these forthcoming and current commercially available biotech varieties do not provide Brazilian producers the necessary broad safeguards against regionally specific pests and disease. Sources confirm biotechnology adoption for cotton in Brazil may reach 15 percent in 2010/11 compared to 60-80 percent in most other cotton producing countries. Robust research and development of region-specific seed varieties, a two year process, promise improved yields and crop management in the near future. Producers also anticipate the benefits of double-stacked trait seed varieties; such as, insect resistant (Bt) and herbicide tolerant (RR).

Consumption:

Brazil's domestic consumption for 2009/10 is estimated at 4.35 million bales. Post forecasts 2010/11 domestic consumption at 4.6 million bales. Increased domestic demand for 2010/11 is supported with the 2010 election year that tends to usher in programs and policies that stimulate consumption.

Textile manufacturers in the Northeast have expanded capacity this year. In addition, the Vicunha Group announced construction of a new textile factory in Cuiba, Mato Grosso that will utilize 300,000 bales (65,000 mt) of cotton fiber per year. The factory is scheduled to open in three years and upon opening will make Vicunha Group the world's largest textile manufacturer.

Brazilian cotton yarn production nearly satisfies domestic demand, except for imports of specialty and fine yarns (30/1 combed) not produced domestically. To a certain extent imports tend to substitute domestically produced yarns when prices are favorable.

Trade:

Post estimates 2009/10 cotton exports at 1.8 million bales down 33 percent from record 2008/09 levels due to the reduced crop size in 2008/09. The Brazilian Real vis-à-vis the U.S. dollar has remained stable, trading at R\$1.75 to US\$1.00, and continues to adversely impact exports. Post forecasts a reduction in cotton exports for 2010/11 to 1.6 million bales.

Post estimates 2009/10 cotton imports at 100,000 bales compared to 50,000 bales imported in 2008/09. Post forecasts a slight reduction for 2010/11 imports to 85,000 bales due projected higher crop production and ending stocks.

On March 8, 2010 Brazil published retaliatory tariffs under the WTO Cotton Case on U.S. products with an estimated impact of \$591 million that are scheduled to take effect April 7, 2010. Tariffs on U.S. cotton imports will be applied at 100 percent an increase of 90-92 percentage points. Select Brazilian mills and factories retain rights to a duty drawback on raw materials utilized for re-export of fabricated products that may still be applicable for imports of U.S. cotton. Brazil also retains the right

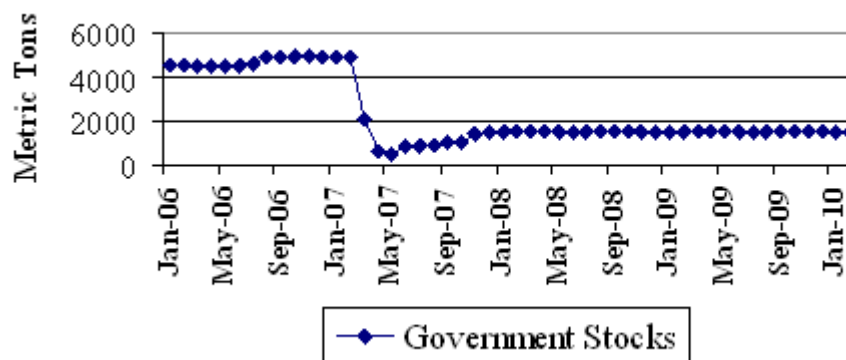
to cross-sector retaliate in 2010 against services and intellectual property, including agricultural biotechnology processes or products, valued at \$238 million.

Trade Tables

Brazil Cotton Exports (1000 480-lb bales)			
Country	2006	2007	2008
	2006/2007	2007/2008	2008/2009
	Market Year Begin: Aug 2006	Market Year Begin: Aug 2007	Market Year Begin: Aug 2008
World	1,300	2,231	2,739
Indonesia	189	430	566
Pakistan	239	403	502
South Korea	219	341	384
China	43	126	195
Thailand	44	106	180
North Korea	58	88	131
Taiwan	90	111	130
Japan	106	139	127
Switzerland	0	95	90
Argentina	130	142	80
EU27	39	26	65
United States	20	52	8
Others	123	267	281

Brazil Cotton Imports (1000 480-lb bales)			
Country	2006	2007	2008
	2006/2007	2007/2008	2008/2009
	Market Year Begin: Aug 2006	Market Year Begin: Aug 2007	Market Year Begin: Aug 2008
World	515	164	50
Egypt	13	14	8
Argentina	11	2	2
Israel	2	3	3
Paraguay	146	40	1.4
Turkmenistan	0	3	0.6
Turkey	0	0	0.2
Hungary	0	0	0.1
Cameroon	18	3	0
Mali	48	0	0
Benin	19	0	0
United States	215	100	32
Others	14	0	2.7

Stocks:



Government stocks of cotton remained unchanged in 2009 at 7,200 bales (1,571 mt).

Policy:

In 2009, the Ministry of Agriculture provided R\$550 million (US\$314 million) to the cotton industry in support of commercialization. This amount, while significant, is considered to be de minimis spending, as it is less than 10 percent of the value of production, and is therefore never counted against Brazil's Aggregate Measurements of Support (AMS) commitment in the WTO. This support was provided exclusively through the use of the PEPRO program (see Government Programs). Government support is expected to utilize PEPRO again this year, as it is extremely popular with producers.

The quantity of cotton supported by the government in 2009 is provided in the table below, as well as descriptions of the major government programs. These programs are utilized to support commodity prices and to assist in the flow of cotton from the production areas to the consumption areas. While some of this cotton is exported, these programs are not considered to be export subsidies since the recipient is not required to export the product. In addition, a waiver for developing countries in the WTO Agriculture Agreement allows them to subsidize transportation.

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

Program	2005	2006	2007	2008	2009
Acquisition (AGF)	4.5	0	1.1	0	0
PEP	136.5	1.8	0	0	0
PROP	272.2	0	0	0	0
PEPRO	0	461.5	428.9	1,023.6	792.2
Total	413.2	463.3	730.0	1,023.6	792.2
Production	1,298.7	1,037.8	1,524.0	1,602.2	1,213.7
Participation %	31.8%	44.6%	47.9%	63.9%	65.3%

Source: Brazilian Ministry of Agriculture/SPA/DEAGRO

Government Programs:

The Equalization Premium Paid to the Producer (Prêmio Equalizador Pago ao Produtor, PEPRO) is a premium granted to the farmer or cooperative which sells its products at public auction, where the government pays the difference between the Reference Value established by the government and the value of the premium (the maximum value paid by the government as a guarantee of the Reference Value).

Risk Premium for Acquisition of Agricultural Products Deriving from Private Contracts of Sales Options (Prêmio de Risco para Aquisição de Produto Agrícola Oriundo de Contrato Privado de Opção de Venda, PROP) is a subsidy program granted in the form of a public auction for the consumer to acquire, at a future date, a determined product directly from the producer and/or cooperative at a prefixed price, utilizing a private contract for the option to sell.

The Premium for Marketing of Products (Prêmio de Escoamento de Produto, PEP) provides the minimum guaranteed price to producers and cooperatives by paying the difference between the minimum guaranteed price and the market price. The objective is to supplement the supply of commodities in areas of the country considered to be deficient in agricultural production, such as the Northeast of Brazil. In PEP, the product is taken from private stocks.

Federal Government Acquisition (Aquisição do Governo Federal, AGF) allows the government to acquire agricultural products at the minimum price when the market price is below the minimum. It also allows the government to acquire products at market prices for use in the *Agricultura Familiar* Program and to build strategic stocks.

Marketing:

Year-on-year, prices have increased nearly 30 percent to R\$155/lb (US\$ 0.868) in March as 2008/09 crop supplies dwindle amidst increasing domestic demand. Post expects continued high prices throughout the coming year based on rebuilding tight world stocks and strong domestic demand.

The last time that the minimum price for cotton was changed was before the 2003/2004 crop, when the price was raised from R\$33.90/15 kg to R\$44.60/15 kg. Brief price spikes above the minimum price occurred in early 2006, 2007, and 2008. A price increase of nearly 8 percent in 2007 prompted the government to sell 20,400 bales in stock and resulted in a 5.6 percent reduction in the domestic price. The government's primary means of intervening in the cotton market during this time was by supporting the commercialization of over 1 million tons of cotton through the PEPRO program. (See POLICY section below.)

Cotton Prices

Prices in cents of R\$ per lb

Year	2008	2009	% Change
Jan	137.59	117.35	-17
Feb	138.7	115.95	-20
Mar	143.11	112.74	-27
Apr	136.09	112.17	-21
May	129.58	125.26	-3
Jun	126.84	120.83	-5
Jul	127.83	117.89	-8
Aug	121.71	116.98	-4
Sep	121.66	115.97	-5
Oct	123.02	117.64	-5
Nov	117.08	125.06	6
Dec	113.02	133.2	15

Source: CEPEA

2000/10 Minimum Price for Cotton

Region	Unit	Price (R\$/unit)	Price (R\$/lb)	Price (US\$/lb)
All	15 kg	44.60	1.3487	0.75

Source: MAPA/SPA/DEAGRO

Exchange rate: US\$1 = R\$ 1.8 (3/30/10)

Production, Supply and Demand Data Statistics:

Brazil Cotton (Local) 1000 HA and 1000 480 lb. Bales							
	2008/2009		2009/2010		2010/2011		% (b/a)
	Official Data	Post	Official Data	Post (a)	Official Data	Post (b)	
Market Year Begin		08/2008		08/2009		08/2010	
Area Planted	0	0	0	0		0	
Area Harvested	843	843	820	820		950	15.9
Beginning Stocks	6,251	6,250	4,992	4,991		4,691	-6.0
Production	5,480	5,480	5,750	5,785		6,435	11.2
Imports							-
	50	50	100	100		85	15.0
MY Imports from U.S.	0	0	0	0		0	
Total Supply	11,781	11,780	10,842	10,876		11,211	3.1
Exports							-
	2,739	2,739	2,000	1,835		1,600	12.8
Use	4,200	4,200	4,200	4,500		4,750	5.6
Loss	-150	-150	-150	-150		-150	0.0
Total Dom. Cons.	4,050	4,050	4,050	4,350		4,600	5.7
Ending Stocks	4,992	4,991	4,792	4,691		5,011	6.8
Total Distribution	11,801	11,780	10,842	10,876		11,211	3.1
Stock to Use %	72	72	77	74		79	6.8
Yield	1,415.	1,415.	1,527.	1,536.		1,475.	-4.0

Other Relevant Reports:

[BR9634 - Cotton Planting Update - December 2009](#)

[BR9614 - Cotton Annual Report 2009](#)

FOR INTERNAL USE ONLY:

[BR8004 - Cotton Transport and Handling Overview](#)