International
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PRODUCTION AND TRADE SUBSIDIES AFFECTING THE COTTON INDUSTRY

trade
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A report by the
Secretariat of the
International Cotton Advisory Committee

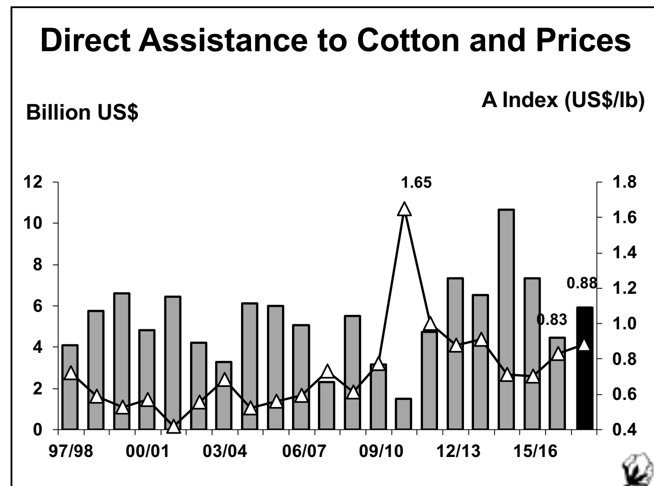
Washington DC, USA

Goverment Support to the Cotton Sector

Subsidies to the cotton sector, including direct support to production, border protection, crop insurance subsidies, and minimum support price mechanisms, have been estimated at $5.9 billion in 2017/18, which is an increase of 33% from $4.4 billion in 2016/17. Ten countries provided subsidies in 2017/18, and the subsidies averaged 18 cents/pound, up from 17 cents/pound in 2016/17.

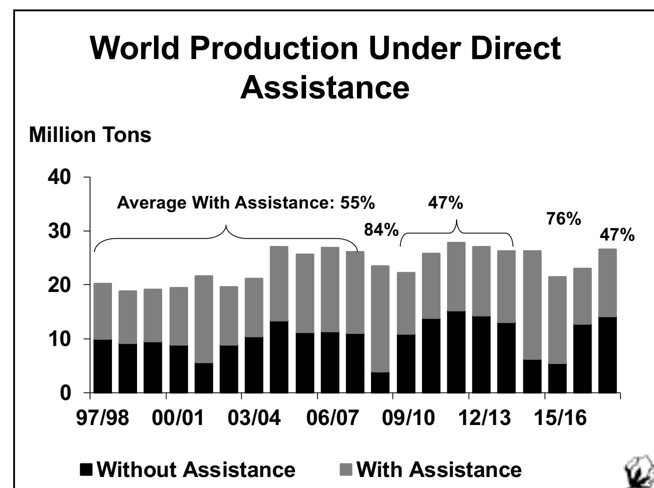
Since 1997/98, when the Secretariat began reporting on government measures in cotton, there has been a strong negative correlation between subsidies and cotton prices:

- In years when prices are high, subsidies tend to decline
- In years when prices are low, subsidies tend to rise.



This relationship has remained fairly consistent during the past several seasons. The Cotlook A Index declined from an average of 91 cents/pound in 2013/14 to an average close to 70 cents/pound in 2014/15 and 2015/16, before rising to 83 cents/pound in 2016/17. Subsidies provided to cotton growers declined in 2016/17 from record levels. However, during 2017/18 average prices rose to 88 cents per pound and subsidies increased as well.

In some countries, including Brazil, Pakistan and India, minimum support price programs were not triggered 2017/18 because market prices were above the government intervention price levels during most of the season. A number of countries implement border protection measures during some seasons, and the Secretariat makes every effort to report on the effect of these measures when they are quantifiable.



Some countries continued to provide subsidies for cotton inputs in 2017/18, especially for fertilisers, storage, transportation, classing services, and other marketing costs. At the same time, the use of crop insurance subsidies is increasing, although still not widespread.

The share of world cotton production receiving direct government assistance, including direct payments and border protection, increased from an average of 55% between 1997/98 and 2007/08, to an estimated 83% in 2008/09. From 2009/10 through 2013/14, this share declined and averaged 48%. In 2014/15 and 2015/16, the average percentage of production receiving direct assistance increased to 75%. That number then declined to 47% in 2016/17 and 2017/18.

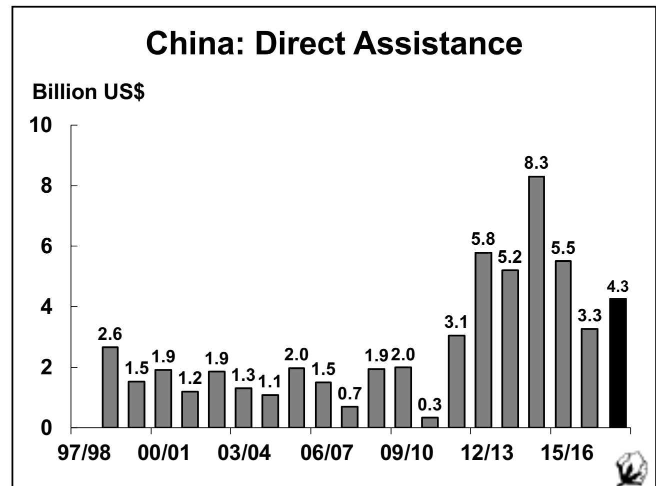
China

The government of China supports cotton production by controlling cotton import volumes and values and by applying border protection measures based on quotas and sliding scale duties, with an effective tariff of 40% on cotton imported without a quota. In addition, China maintains a strategic reserve of cotton, serving as a national buffer stock, which is managed by the China National Cotton Reserve Corporation (CNCRC). China releases cotton to the market from the reserve through a system of auctions when there is a shortage, and replenishes the reserve in times of abundance, thus supporting prices.

Since 2014/15 there have been no purchases by the government into the reserve. Instead, the government paid direct subsidies to cotton growers, in addition to the border protection benefits enjoyed by producers in China.

Under the terms of its accession agreement to the WTO, China is obliged to establish a calendar year tariff-rate-quota (TRQ). The in-quota tariff is 1% for the first 894,000 tonnes of imports each calendar year. Additional import quotas are released by China as required. The additional quotas can carry a tariff of 1%, or quotas can be based on a sliding scale of between 5% and 40%. The purpose of the sliding scale is to ensure that the effective cost of imported cotton exceeds international market prices and thus boosts domestic prices paid to farmers in China. Since 2015/16, China restricted imports by issuing only the TRQ import quotas, with the objective of reducing government stocks. As a result of government interventions and quotas, domestic cotton prices in China have exceeded international prices during the past three seasons.

The Secretariat uses the difference between domestic and imported cotton prices to estimate the border protection support to Chinese cotton resulting from government interventions. The price differential between the CC index (an index of mill-delivered cotton in China) and the FC Index L (an index of imported cotton arriving in China's main ports) adjusted to include value- added tax, port charges and transportation to mills, is used in calculations. The estimated benefit (subsidy) received by producers in China as a result of the government border protection increased from $1 billion (9 cents/pound) in 2016/17, to $1.5 billion (12 cents/pound) in 2017/18. In addition to the higher price differential between domestic and imported cotton, increased production during the 2017/18 season also contributed to a larger cumulative border protection benefit.



In addition, during 2014/15, 2015/16 and 2016/17, the Chinese government provided direct subsidy payments to cotton producers in Xinjiang based on the difference between a target price set for the season and an average market price. For 2017/18 and the next two years, the target price was set at the 2016/17 level of 18,600 yuan/tonne (about 130 cents/pound at the average seasonal exchange rate). Using the difference between the target price and the average CC index (domestic cotton price), it is estimated that direct subsidies paid to producers in Xinjiang totalled $2.1 billion (20 cents/pound) in 2017/18, up from $1.6 billion (20 cents/pound) in 2016/17. In other provinces, a direct subsidy of 2,000 yuan/tonne was provided to producers during both seasons. It is estimated that these direct subsidies totalled $340 million (14 cents/pound) in 2017/18, down from $380 million (13 cents/pound) in 2016/17. Total direct subsidy payments provided to producers in China, in addition to border protection support, are estimated at $2.4 billion in 2017/18, up from $2 billion in 2016/17. The increase is attributed to higher production during 2017/18, while the difference between the target and the market price remained almost unchanged.

In addition, the government of China pays growers a subsidy amounting to about $150 million a year for using high-quality seeds, although smallholder farmers do not benefit significantly from this policy. During the past several seasons, China provided subsidies estimated at about $150 million per year for the transportation of cotton from Xinjiang to mills in eastern and southern China.

The sum of all subsidies provided by the Chinese government are estimated at $4.3 billion (33 cents/pound) in 2017/18, up from $3.3 billion in 2016/17 (30 cents/pound).

United States

The 2017/18 was the last season of the 2014 five-year farm bill, under which Direct Payment, Countercyclical Payment and Average Crop Revenue Election (ACRE) programs have been repealed for all commodities. Upland cotton was eligible for the Stacked Income Protection Plan (STAX). A new Farm Bill is currently being negotiated.

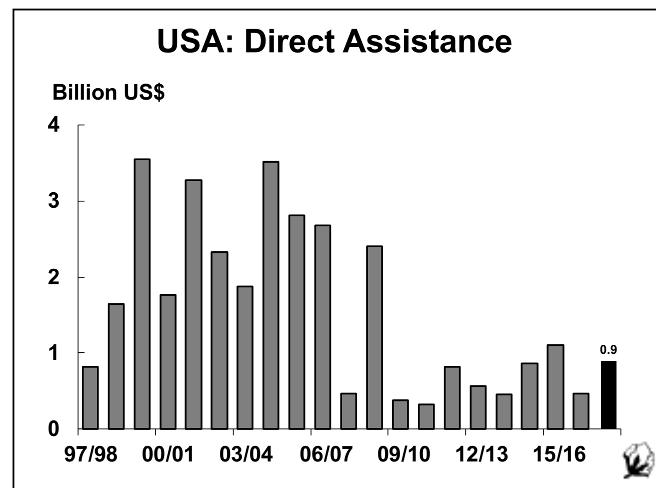
STAX provides upland cotton producers with premium subsidies on the purchase of insurance policies that cover "shallow" revenue losses, those below the level generally covered by standard crop insurance policies. Producers may use this program alone or in combination with existing underlying crop insurance. Under STAX, a payment is triggered if the actual income in a county falls below 90% of the expected income (a county is a unit of government in the United States; there are about 700 counties that produce cotton). STAX provides coverage for revenue shortfalls between 10%

and 30% of expected income; producers may select coverage in 5% increments. The federal government subsidies about 80% of the premium. In addition, the federal government partially subsidises the administrative and operational costs of the insurance companies offering STAX.

STAX came into effect during the 2015 growing season. Total subsidies provided under STAX in 2016/17 are estimated at $74 million, covering about 1.036 million hectares, or about 27% of harvested area in 2016/17. In 2017/18, STAX subsidies are estimated at $105 million covering 1.2 million hectares enrolled (26% of the harvested area). A significant share of STAX policies were purchased in combination with an underlying standard crop insurance policy.

The Marketing Loan Program (MLP) continues with a marketing loan rate based on the world cotton price, calculated as the simple average of the adjusted prevailing world price (AWP) for the two immediately preceding marketing years (announced on 1 October, preceding the next domestic plantings). However, it cannot be lower than 45 cents/pound or higher than 52 cents/pound. The loan rate for extra-long staple (ELS) cotton is set at 79.77 cents/pound. Under this program, upland cotton producers are eligible for a loan deficiency payment (LDP), certificate exchange gains, or marketing loan gains (MLG). The LDP is paid when market prices (AWP) are below the loan rate. Commodity certificate exchange gains and marketing loan gains provide the same gains as the LDP by redeeming a loan at a reduced rate. Only one of these options can be chosen by upland cotton producers. ELS cotton producers must repay the loan at the loan rate plus interest, or may forfeit the ELS cotton used as collateral, if warranted by market conditions. Based on average market prices, it is estimated that there were no LDP or MLG payments made during 2016/17 and 2017/18.

In addition, the U.S. government provides support to cotton production through subsidised crop insurance to protect producers against crop yield and revenue losses caused by natural disasters. This multi-peril crop insurance covers certain causes of declines in crop yields, such as weather, pests and fire, with the exception of producer negligence. The insurance is sold to farmers through private insurance providers, although the Risk Management Agency (RMA) of the U.S. Department of Agriculture subsidises a percentage of the premiums. On average, more than 90% of planted cotton acreage is enrolled in this program.



The crop insurance program is statutorily mandated to be actuarially sound, meaning that total premiums are supposed to cover total indemnities over time. Underwriting gains and losses are allocated between the companies and government according to formulas contained in the reinsurance agreement between the parties. During 2017/18, cotton insurance subsidies are estimated at $560 million (5.6 cents/pound), compared with $396 million (4.8 cents/pound) in 2016/17.

In addition to described support, on 3 March, 2018, the USDA authorised renewal of the Cotton Ginning Cost Share (CGCS) program, which originally was initiated in 2016. The Program is administered by the Farm Service Agency (FSA) and will allow cotton growers to receive cost-share payment based on their 2016 acreage as reported to FSA, multiplied by 20% of the average ginning cost for each production region. Enrolment for this program ran from 12 March, 2018, through 12 May, 2018, and was extended to 31 May, 2018. To be eligible, the producer:

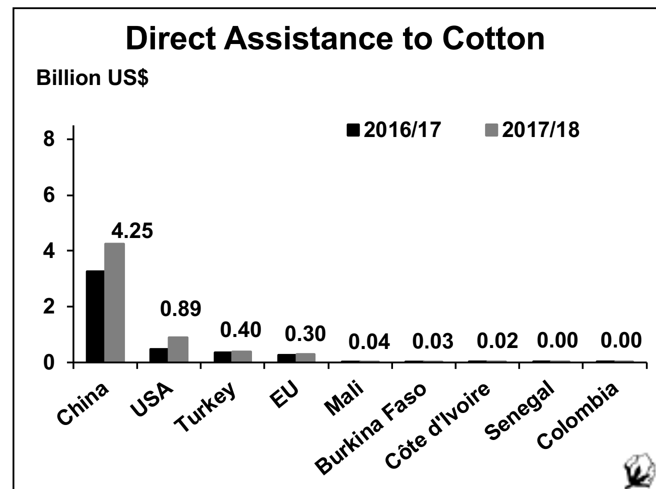
- Must be actively engaged in farming,
- Must comply with conservation standards, and
- Have a $900,000 adjusted gross income limit

There is a $40,000-per-producer payment limit that does not count against the 2014 Farm Bill payment limitations. Payment rates vary by region and the program is expected to provide approximately $220 million in economic support to eligible producers.

The sum of all types of support provided to U.S. cotton producers, including crop insurance, STAX, and the Cotton Ginning Cost-Share program, is estimated at $469 million (6 cents/pound) in 2016/17. During 2017/18, total support to U.S. cotton producers increased to an estimated $890 million (9 cents/pound).

Turkey

The government of Turkey pays a premium per kilogram of seed cotton to producers. In the past, the premium for seed cotton produced from certified seeds was higher than that from non-certified seeds. No premium has been paid for non-certified seed since 2012/13. The premium for 2017/18 was increased to 0.8 TRL/kg, from 0.75 TRL/kg in 2016/17, for seed cotton produced from certified seeds. Assuming that 90% of Turkish cotton production is produced from certified seeds, and that all cotton producers applied for the premium, the Secretariat estimates that total payments to cotton producers in Turkey increased from $349 million (23 cents/pound) in 2016/17, to $398 million (22 cents/pound) in 2017/18.



European Union

Changes were introduced in the EU Common Agricultural Policy starting in 2009/10. As before, cotton producers receive 65% of EU support in the form of a single decoupled payment (income aid) and the remaining 35% in the form of an area payment (coupled, or production aid). Greece and Spain are the major cotton producers in the EU. For production aid, the maximum base eligible areas are set at 250,000 hectares for Greece and 48,000 hectares for Spain. To be eligible for aid, the area must be:

- Located on agricultural land authorised by the EU member states for cotton production,
- Sown under authorised varieties, and
- Be harvested under normal growing conditions

The aid is paid for cotton of sound, fair and merchantable quality. It is paid per hectare of eligible area by multiplying fixed reference yields by the fixed reference amounts for each country. To calculate the aid, the seed cotton yield per hectare is fixed at 3.2 tonnes/hectare for Greece and at 3.5 tonnes/hectare for Spain. The amounts per hectare are fixed at 234.18 euros for Greece and 362.15 euros for Spain. If the eligible area exceeds the maximum base area, the aid per hectare is reduced proportionally.

In 2017/18 the amount of direct subsidy to production in Greece was estimated at $225 million (46 cents/pound, up from $205 million (44 cents/pound) in 2016/17). The subsidy in Spain is estimated at $73 million (50 cents/pound) in 2017/18, up from $67 million (55 cents/pound) in 2016/17). The increase is mostly the result of a weaker U.S. dollar in relation to the euro.

India

India has a Minimum Support Price (MSP) system that was operational during the 2014/15 and 2015/16 seasons through direct cotton purchases by the government, because market prices were below the MSP during at least part of those seasons. During 2016/17 and 2017/18, the MSP system was not in effect because market prices were above the MSP levels.

The MSP (medium staple J-34) for 2017/18 was increased to Rs4,020 per 100kg of seed cotton, equivalent to 83 cents/pound of lint, at the season average exchange rate. Domestic prices in India stayed above the MSP so there were no MSP payments made in India in 2016/17 or 2017/18.

Cotton farmers in India benefit from debt forgiveness and fertiliser subsidies from their government. India also provides some backing in the form of subsidies for crop insurance, although the value of this support is unknown. In addition, the government of India provides support to cotton production through several programs, such as the development of infrastructure facilities for production and distribution of quality seeds. Under the government's Technology Mission, support was provided for the modernisation of ginning and pressing units and the improvement of cotton marketing in recent years. No information on these programs is publicly available. In addition, the government supports the textile sector with a number of programs that provide direct support and soft loans.

Colombia

In Colombia, direct government payments to producers declined during the past several seasons. In 2016/17, direct assistance to cotton producers in Colombia was estimated at $3 million (17 cents/pound). In 2017/18, direct government payments declined further to just $1 million (5 cents/pound). Actual payments in Colombian pesos declined by 63% during 2017/18, but payments in U.S. dollar equivalent declined by 61% due to the depreciation of the domestic currency.

West Africa

Several countries in West Africa provided subsidies for cotton inputs in 2016/17 and 2017/18, especially for fertilisers and planting seeds. In 2017/18, Mali provided an estimated $35 million (5 cents/pound); Burkina Faso $30 million (5 cents/pound); Côte d'Ivoire $15 million (4 cents/pound); and Senegal $1 million (6 cents/pound).

Estimated Assistance Provided by Governments to the Cotton Sector*

Country	2016/17			2017/18 **		
	Production	Average Assistance per Pound Produced	Assistance to Production	Production	Average Assistance per Pound Produced	Assistance to Production
	1,000 tons	US cents	US$ Millions	1,000 tons	US cents	US$ Millions
China	4,900	30	3,267	5,890	33	4,252
USA	3,738	6	469	4,555	9	886
Turkey	703	23	349	840	22	398
Greece	213	44	205	220	46	225
Spain	55	55	67	66	50	73
Mali	265	6	35	321	5	35
Burkina Faso	285	5	32	273	5	30
Cote D'Ivoire	140	5	15	185	4	15
Senegal	7	13	2	7	6	1
Colombia	8	17	3	11	5	1
All Countries	**10,314**	**17**	**4,444**	**12,367**	**18**	**5,916**

* Credit assistance not included. ** Preliminary.

Estimated Assistance Provided by Governments to the Cotton Sector*

	World Production	Average Assistance per Pound Produced	Assistance to Production
	1,000 tons	US cents	US$ Millions
1997/98	20,181	9	4,108
1998/99	18,810	14	5,772
1999/00	19,194	16	6,588
2000/01	19,527	11	4,833
2001/02	21,668	13	6,446
2002/03	19,580	12	4,193
2003/04	21,129	7	3,270
2004/05	26,989	10	6,114
2005/06	25,679	11	6,008
2006/07	26,832	9	5,045
2007/08	26,163	4	2,292
2008/09	23,551	11	5,492
2009/10	22,310	6	3,155
2010/11	25,868	3	1,477
2011/12	27,856	8	4,866
2012/13	27,079	12	7,351
2013/14	26,225	11	6,513
2014/15	26,235	18	10,653
2015/16	21,476	16	7,382
2016/17	23,075	9	4,444
2017/18**	26,866	10	5,916

* Credit assistance not included. ** Preliminary.