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

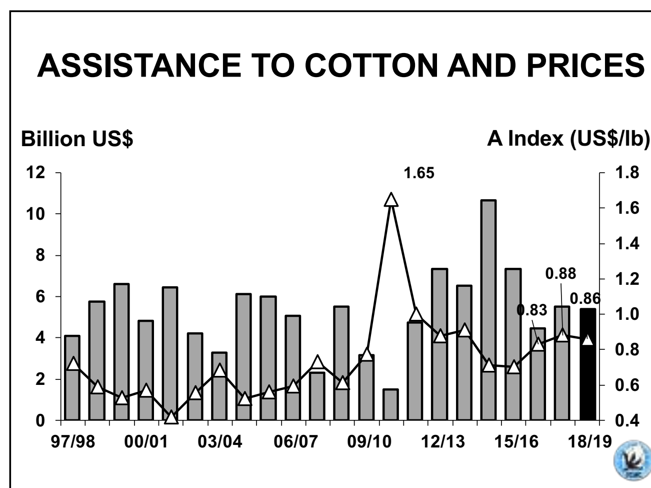
Washington DC, USA

Goverment Support to the Cotton Sector

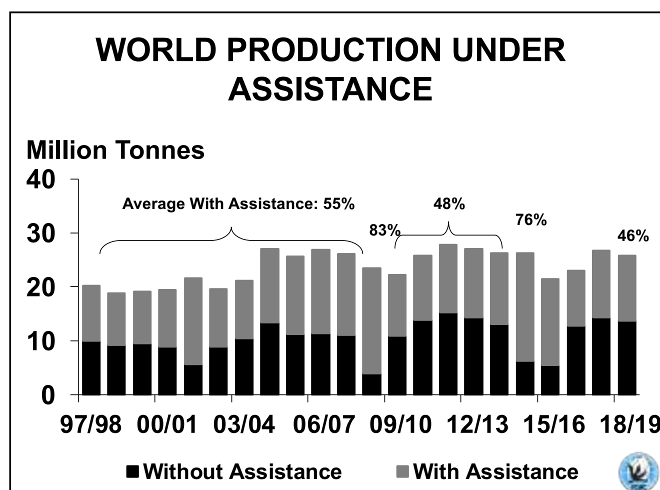
Subsidies to the cotton sector — including direct support to production, border protection, crop insurance subsidies, and minimum support price mechanisms — have been estimated at $5.4 billion in 2018/19, which is a moderate decline from $5.5 billion in 2017/18. Ten countries provided subsidies in 2018/19, and the subsidies averaged 16 cents/pound, down from 17 cents/pound in 2017/18.

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, while in 2018/19 moderate decline in prices was accompanied with a moderate decline in subsidies.



In some countries, including Brazil, Pakistan and India, minimum support price programs were not triggered 2018/19 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 2018/19,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 averaged at 49% between 2016/17 and 2018/19.

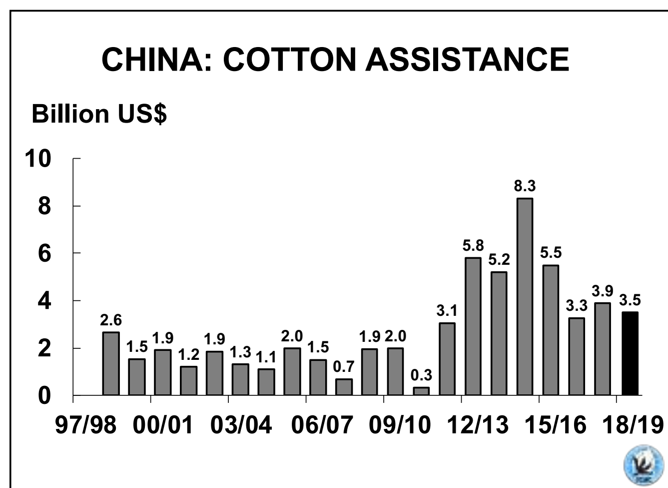
China

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 declined from $1.2 billion (9 cents/pound) in 2017/18, to $800,000 (6 cents/pound) in 2018/19. Lower price differential between domestic and imported cotton during the 2018/19 season contributed to a smaller cumulative border protection benefit.



In addition, starting in 2014/15, 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 2018/19, the target price was set at the 2016/17 level of 18,600 yuan/tonne (about 124 cents/pound at the average seasonal exchange rate in 2018/19). 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 (19 cents/pound) in 2018/19, up from $2 billion (19 cents/pound) in 2017/18. 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 $270 million (13 cents/pound) in 2018/19, down from $335 million (14 cents/pound) in 2017/18. It is reported that typically, the central government calculates the total subsidy amount based on province-level production data and the gap between the market and target prices. The central government then provides the funds to provincial authorities, who develop their own plans to distribute the payments in their respective provinces. Total direct subsidy payments provided to producers in China, in addition to border protection support, are estimated at $2.4 billion in 2018/19, up from $2.3 billion in 2017/18. The increase is attributed to higher production during 2018/19, 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 $3.5 billion (30 cents/pound) in 2018/19, down from $3.9 billion in 2017/18 (26 cents/pound).

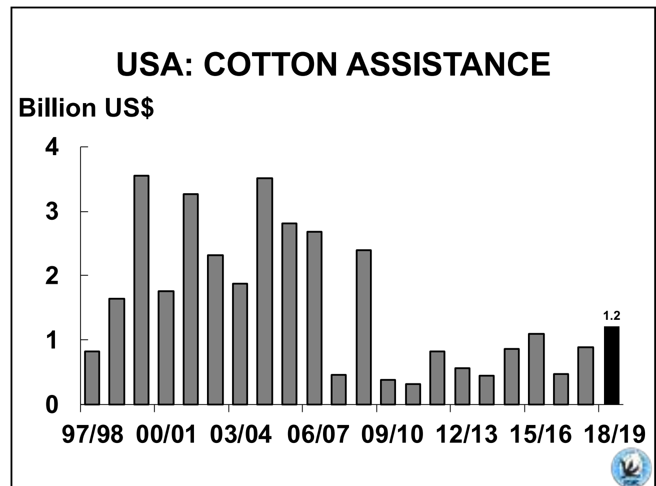
United States

On 20 December 2018, the President of the USA signed the Agriculture Improvement Act of 2018 (Farm Bill). The bill includes continuation of the designation of seed cotton (unginned upland cotton that includes both lint and cottonseed) as a covered commodity under the Title 1 Price Loss Coverage (PLC) and Agriculture Risk Coverage (ARC) programs.

These programs were enacted in February 2018 by the 2018 budget legislation and were already effective for 2018/19 season. The 2018 Farm Bill marks a significant change in cotton farm policies — from mostly insurance programs to guaranteed and enhanced safety net and payments based on reference price, similar to the countercyclical payments that were in effect under the 2008 Farm Bill. This change will mean a significant increase in support to some upland cotton producers (those who control seed cotton base and still produce upland cotton). The new program is based on seed, not lint cotton, however, and will result in increased income support to those who control seed cotton base acres in a manner similar to pre-2014 Farm Bill, and it could result in increased US cotton plantings. However, the payments, if any, are decoupled from actual planting decisions since they are tied to historical, and not current, cotton acreage and yields. In addition to seed cotton ARC/PLC provisions, programs in the new Farm Bill includes full access to the marketing loan program, and crop insurance products.

The price-based program, Price Loss Coverage (PLC), is similar to the counter-cyclical payments program. PLC makes a payment to producers (now at a rate of 85% of base acres) when the market price, or Marketing Year Average (MYA) price for a commodity falls below the fixed reference price. Seed cotton MYA price is a weighted average of the upland cotton lint price and the cottonseed price. The PLC reference price is set at 36.7 cents per pound and the price floor is at 25 cents per pound. To calculate payment, payment yield has to be established. The seed cotton payment yield will be a historical lint yield multiplied by 2.4. Payment is made when the reference price exceeds the higher of the MYA price and the price floor.

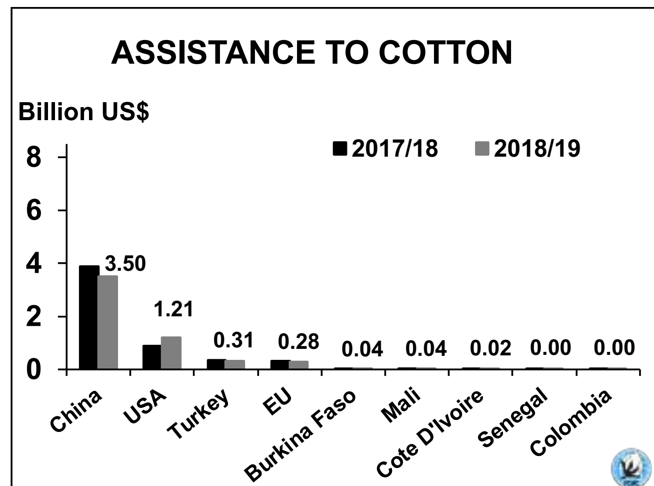
The ARC-CO program provides revenue loss coverage at the county level. Farms select revenue loss protection on a commodity-by-commodity basis at the county level (a county is a unit of government in the United States; there are about 700 counties that produce cotton). The ARC-CO payments are issued when the actual county seed cotton revenue is less than the ARC-CO guarantee. Commodity revenues are benchmarked against county revenues for each commodity, calculated using a moving five-year Olympic average (excluding the years with the highest and the lowest price) of county yields and national prices. Revenue payments are based on 85% of the covered commodity's base acres when county revenue is 86% to 76% below the benchmark county revenue, capped to be no more than 10% of the benchmarked revenue.



At this time no hard data is available on PLC/ARC enrolment and actual payments. It is expected that most seed cotton base acres are enrolled in PLC in 2018/19. Total payments are estimated based on an assumed yield of 630 pounds/acre, multiplied by a factor 2.4 and seed cotton base acres of 13.17 million. PLC/ARC payments for seed cotton are subject to the payment limit of $125,000 applicable to covered commodities (other than peanuts), with the adjusted gross income test set unchanged at $900,000. It is estimated that PLC/ARC payments will total $400 million for the 2018/19 crop.

STAX was still available during 2018/19 for the last season. 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. 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.

Total subsidies provided under STAX in 2017/18 are estimated at $105 million. In 2018/19, STAX subsidies are estimated at $140 million covering 1.6 million hectares enrolled (38% 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 95 cents/pound beginning with the 2019 crop year (previously 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. Based on average market prices, it is estimated that there were no LDP or MLG payments made during 2017/18 and 2018/19.

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, morethan 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 2018/19, cotton insurance subsidies are estimated at $670 million (7.6 cents/pound), compared with $561 million (5.6 cents/pound) in 2017/18.

The sum of all types of support provided to U.S. cotton producers, including PLC/ARC, crop insurance, and STAX is estimated at $1.2 billion (14 cents/pound) in 2018/19, up from $890 million (9 cents/pound) in 2017/18.

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 2018/19 was unchanged from 2017/18, at 0.8 TRL/kg 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 declined from $361 million (21 cents/pound) in 2017/18, to $314 million (14 cents/pound) in 2018/19. The decline was caused by a sharp devaluation of the Turkish Lira.

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 2018/19 the amount of direct subsidy to production in Greece was estimated at $214 million (35 cents/pound, down from $232 million (48 cents/pound) in 2017/18). The subsidy in Spain is estimated at $69 million (48 cents/pound) in 2018/19, down from $75 million (52 cents/pound) in 2017/18). The decline is mostly the result of a stronger 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.

The MSP (long staple Shankar-6) for 2018/19 was increased substantially to Rs5,350 per 100kg of seed cotton, equivalent to 101 cent/pound of lint, at the season average exchange rate from Rs4,320 (89 cents per pound) in 2017/18. In 2017/18 Cotton Corporation of India (CCI) purchased 70,000 tonnes of cotton from producers and 180,000 tonnes were acquired during 2018/19. However, it is believed that these quantities were marketed by the CCI without incurring any losses. In this case these operations were of commercial nature and did not constitute subsidies to producers.

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 2018/19, direct assistance to cotton producers in Colombia was estimated at $200,000 (1 cent/pound). In 2017/18, direct government payments were at $100,000 (0.5 cents/pound). The increase was caused by a larger production. Colombian pesos exchange rate to US dollar declined by more than 30%, so payments in U.S. dollar equivalent declined deeper compared with the domestic currency.

West Africa

Several countries in West Africa provided subsidies for cotton inputs in 2017/18 and 2018/19, especially for fertilisers and planting seeds. In 2018/19, Mali provided an estimated $35 million (6 cents/pound); Burkina Faso $39 million (9 cents/pound); Côte d'Ivoire $15 million (4 cents/pound); and Senegal $1 million (4 cents/pound).

Estimated Assistance Provided by Governments to the Cotton Sector*

Country	2017/18 Production	2017/18 Average Assistance per Pound Produced	2017/18 Assistance to Production	2018/19** Production	2018/19** Average Assistance per Pound Produced	2018/19** Assistance to Production
	1,000 tonnes	US cents	US$ Millions	1,000 tonnes	US cents	US$ Millions
China	5,890	30	3,874	6,040	26	3,498
USA	4,555	9	886	3,999	14	1,211
Turkey	792	21	361	988	14	314
Greece	220	48	232	275	35	213
Spain	66	52	75	65	48	69
Burkina Faso	257	5	30	183	10	39
Mali	299	5	35	275	6	35
Cote D'Ivoire	176	4	15	194	4	15
Senegal	6	8	1	6	7	1
Colombia	10	0.5	0.1	13	1	0.2
All Countries	**12,270**	**17**	**5,509**	**12,038**	**16**	**5,396**

*Credit assistance not included. **Preliminary.

Estimated Assistance Provided by Governments to the Cotton Sector*

Year	World Production	Average Assistance per Pound Produced	Assistance to Production
	1,000 tonnes	US cents	US$ Millions
1997/98	20,181	9	4,108
1998/99	18,810	14	5,772
1999/00	19,193	16	6,588
2000/01	19,527	11	4,833
2001/02	21,667	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	25,678	11	6,008
2006/07	26,832	9	5,045
2007/08	26,162	4	2,292
2008/09	23,550	11	5,492
2009/10	22,309	6	3,155
2010/11	25,868	3	1,477
2011/12	27,855	8	4,866
2012/13	27,078	12	7,351
2013/14	26,224	11	6,513
2014/15	26,234	18	10,653
2015/16	21,476	15	7,321
2016/17	23,075	9	4,454
2017/18	26,678	9	5,509
2018/19**	25,752	10	5,396

*Credit assistance not included. **Preliminary.