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Brazil

Cotton and Products Annual

Brazilian Cotton Planted Area, Production, and Exports Forecast Up; Clothing Imports Contribute to Domestic Consumption Slide

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Report Highlights:

Thanks to favorable futures prices and the assumption of export opportunities, the 2014/15 area planted to cotton is forecast to grow 18 percent. Cotton production is forecast to increase to 8.4 million bales. 2014/15 exports are forecast to rebound, based on a larger 2013/14 crop, to reach 3.7 million bales. The domestic industry continues to struggle against the tide of imported clothing products.

Brazil's 2013/14 Cotton Production Estimated at 7.2 million bales

Brazil's 2013/14 cotton production is estimated at 7.2 million bales, and production area is estimated at 1.1 million hectares. The 2013/14 cotton production estimate represents a 20 percent increase in comparison to 2012/13 cotton production, based on an expansion of equal proportion in planted area. Post's production estimate is 200,000 bales under the USDA official estimate of 7.4 million bales. This lower estimate reflects the projected yield losses due to dry weather in late February in the state of Goiás. These yield losses could be recovered with ideal rains later in the harvest, but there is current yield loss as this cotton was most likely in the flowering phase. Brazil continues to struggle to supply a consistent quality product to the international market. Periods of dryness reduce the cotton yield but help augment the lint quality. Industry sources have indicated that inconsistent quality has affected Brazil's ability to retain new clients.

The recovery of Brazilian area planted to cotton is primarily a reflection of the large scale producers opting to produce more second crop cotton instead of second crop corn. As large scale producers found 2013/14 corn prices less appealing, they reverted to cotton production and expanded the 2013/14 area to cotton. As the 2013/14 cotton area rebounded an estimated 20 percent, the area did not return to the record 2011/12 area. The first-time cotton producers that entered cotton production in 2011/12 learned the hard lesson that cotton production is extremely capital intensive, high risk, and typically favors economies of scales that small and medium sized producers are unable to achieve. For these reasons, the small and medium sized producers have not reentered the market, and large commercial producers are almost exclusively responsible for the 2013/14 area growth.

At the national level, 50 percent of cotton is first crop cotton, primarily planted in the states of Mato Grosso and Bahia, and 50 percent is second crop cotton, with planting focused in the states of Mato Grosso, Mato Grosso do Sul and Goiás. 2013/14 area planted to cotton grew in every cotton-producing state in Brazil.

The top producing state of Mato Grosso, accounting for approximately 51 percent of national production, increased planted area by 31 percent, from 452,000 ha to 593,284 ha. Mato Grosso planted a 31:69 ratio of first-to-second crop cotton in the 2013/14 season. Mato Grosso plants cotton during two different periods with three predominate row spacing approaches.

1. 2013/14 first crop cotton accounts for 180,000 hectares and was planted in early December in traditionally spaced rows, i.e. 90 centimeter (cm) between rows.
2. The second crop cotton is predominantly planted with two row spacings:
 - a. traditionally spaced rows, in either 90 or 76 cm, by January 25,
 - b. narrow-row spacings ("cultivo adensado") of 45 or 50 cm by February 20.

6 percent of 2012/13 Mato Grosso cotton was planted with narrow-row spacing. Farmers overall were not pleased with the narrow-row cotton because of the added farm management attention needed for the crops. For that reason, many producers were tending more towards the traditional row spaced cotton for 2013/14. However, narrow-row cotton became an attractive option for late planting. Because of constant precipitation late in the season, and in conjunction with low corn prices, there may have been a bump in narrow-row planting. However, even with the rain delays, the state's 2013/14 cotton planting concluded by February 21, well on time for ideal plant development. The second crop plantings occur directly following the harvest of early maturing soybeans. Farmers who intend to plant both second crop corn and second crop cotton typically opt to plant the cotton first, to ensure the plants receive the

maximum rainfall. The fact that the early maturing soybeans are getting shorter in cycle means that farmers are able to plant cotton earlier. 85-day soybean varieties allow farmers to begin second crop cotton planting as early as late December in some parts of the state. Industry sources in Mato Grosso indicate that 500,000 hectares of planted area is an adequate level to ensure proper utilization of ginning and logistics capacities across the state in relation to other crops. With the anticipated larger harvest, the ginning season of the 2013/14 crop will most likely not finish until early January, 2015.

Bahia, particularly western Bahia, is responsible for 33 percent of national cotton production. The past two cotton crops in Bahia have suffered losses due to dry spells, and in 2012/13 losses were exacerbated by the infestation of the cotton bollworm "*helicoverpa armigera*." Farmers were prepared for the 2013/14 crops, with effective pesticides made available in a timely fashion, and good management practices, which included frequent monitoring and effective pesticide applications. Farmers spent more on production costs to control *Helicoverpa* but the impact on yields is estimated to be negligible. Any further dryness may reduce yields but, on the flip side, increase lint quality. Unlike Mato Grosso, many farmers in western Bahia have invested over the past few years in irrigation systems as insurance against dry spells. Uniform water distribution via irrigation will undoubtedly increase the lint quality and serve as a backstop should there be an onset of dryness in the upcoming months. Many producers from Mato Grosso and Bahia are looking to the adjacent state of Piauí as a good place to produce cotton. The Piauí climate favors cotton production, but the logistics do not. Industry sources have stated that, due to a lack of roads, producers ship their cotton from Piauí to Paranaguá, to be rerouted to textile factories in the northeast city of Fortaleza. In another example of the negative impact of Brazil's deficient infrastructure, it is more economical for Mato Grosso cotton to reach China than for domestic cotton to reach Fortaleza.

Trade sources indicate that break-even production costs in 2013/14 for large vertically integrated producers are estimated at US\$0.60/lb. The relatively-elevated price of cottonseed (lower than 2012/13, but still significant), lower costs of an owned gin, access to cheaper financing, and other synergies serve to lower the break-even production cost. By comparison, the break-even production cost for a producer not vertically integrated is estimated to be between US\$0.80/lb for 2013/14.

Outlook 2014/15: Favorable Futures Prices and Assumption of Export Opportunities Forecast 18 Percent Growth in Area Planted to Cotton

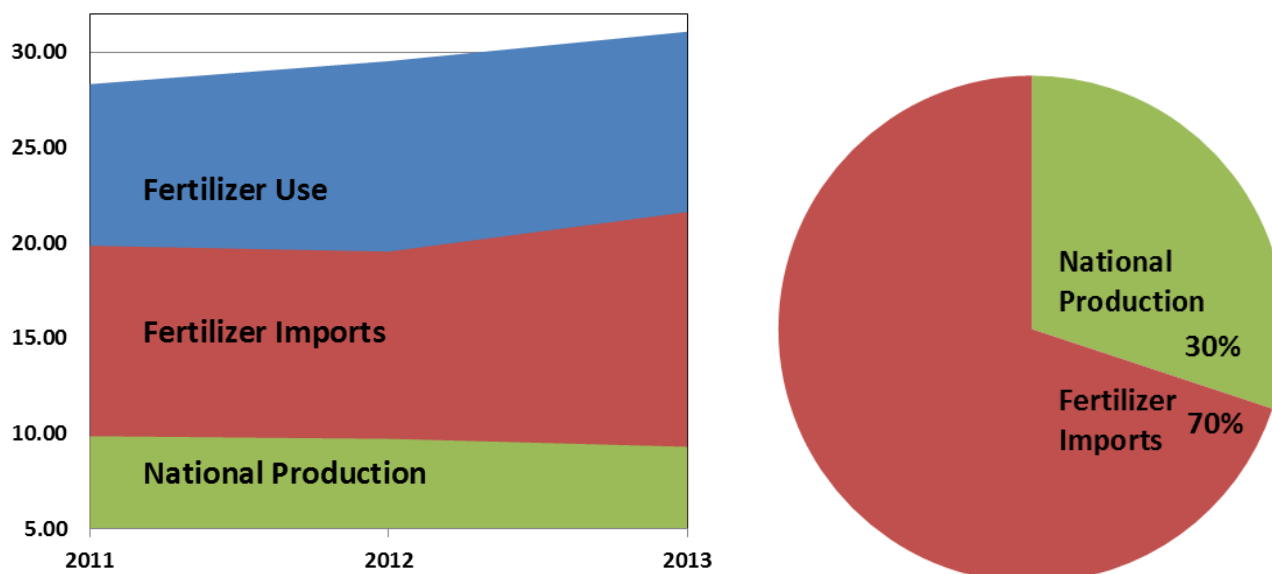
Post forecasts that 2014/15 cotton area will increase to 1.3 million hectares, a 200,000, or 18 percent, increase in area compared with 2013/14. While there is clearly optimism in the air among Brazilian cotton producers, most analysts do not see 2014/15 cotton area reaching the record 2011/12 planted area. Cotton prices are expected to underpin an expansion in cotton area, chiefly among large commercial growers. Most of the growth will be in second crop cotton that will substitute second crop corn. It is forecast that planted area will expand in all cotton-producing states. As demonstrated by the 2011/12 record high, the land is there for conversion into cotton production, should the price be right.

2014/15 cotton production is forecast at 8.4 million bales, a 17 percent increase from 2013/14 production. The increased cotton production is based on a respective increase in planted area. Despite better seed genetics on the market, Post is forecasting conservatively at a yield trend of 1.4 mt/ha, slightly lower than the average, based on potentially reduced yields from new areas added to cotton production.

Land Use: By law, farmers must set up legal land reserves on their properties, in accordance with the property's biome. For the "cerrado" ecosystem 65 percent of the native land can be converted to row-crop production with the remaining 35 percent left in native preserve. Land holdings designated in the Amazon biome can only have 20 percent converted to row-crop production, which makes the "cerrado" a more attractive investment. Obtaining environmental licenses for conversion of land usage is a long and expensive undertaking. Transactional costs faced by producers in new frontier areas are high due to extremely deficient service and supply providers, infrastructure, etc. In addition, obtaining land titles is the limiting factor to further expansion in many states where straight-forward bureaucratic procedures are not yet in place.

Inputs: Brazil continues to be deficit in fertilizer production. Studies show that Brazil's dependence on imports reaches 65, 50, and 90 percent for nitrogen, phosphorus, and potassium, respectively. According to the National Fertilizer Association (ANDA), fertilizer deliveries totaled a record 31.1 mmt in 2013, up over five percent from 2012. Total annual imports of fertilizer in 2013 equaled 21.6 mmt, up nearly ten percent from 2012. National fertilizer production in 2013 equaled 9.3 mmt, down four percent from the 2012 national production. For 2014, fertilizer usage is forecast to expand to 33 mmt, a six percent growth from 2013, based on an increase in agricultural production and augmented fertilizer use.

Graph 1: Brazil's 2011-2013 Fertilizer Use, Domestic Production and Imports; Pie-Chart for 2013 (in million metric tons)



Source: The National Fertilizer Association (ANDA)

Irrigation: Possessing 20 percent of the planet's fresh water, Brazil has tremendous potential to expand planted area via irrigation projects that make possible second and third crops rotated over a yearly growing season. Currently, about 8.3 percent of all cropland is under irrigation, which represents 4.5 million hectares. The vast majority of soybeans under irrigation are for seed production. Recent

historically high crop prices have greatly improved the timeframe for return on investment with the main constraints being water use licenses and capital investment requirements. Large irrigation project investments are increasing soybean planted area and are made possible through rotating row crop production – wheat, edible bean, cotton – based on the market’s current highest returns. More recent supplemental irrigation schemes are bringing significant new areas into second or third crop rotation and improving yields and quality.

Technology Investment: Brazilian farmers are continuing to invest in much of the latest farming technology, as the industry has reported that farm machinery sales were up 15 percent in 2013. Farmers view the machinery as essential in their efforts to double crop. Because of the “no-plant period” and precipitation patterns, farmers look to the most efficient farm technologies to meet these various deadlines for planting and for harvesting. In addition, as prices make land purchases prohibitive for farmers to expand their farms, many farmers opt to invest their farm profits in new technologies.

Biotech Cotton Seed Use Forecast to Increase to 65-70 Percent in 2014/15

The adoption of biotechnology in cotton reached 57 percent in 2013/14, a fifteen percent increase from 2012/13. Several varieties derived from modern agricultural biotechnology offer both herbicide resistance (glyphosate, glufosinate, etc.) and insect resistance. While these varieties are not entirely effective in protecting the plants against *Helicoverpa*, the plant technology did repress the infestation of this pest to a significant degree. It was precisely for this reason that farmers invested in newer biotech seed varieties, with insect resistance. Sources confirm the biotechnology adoption rate for cotton in Brazil in 2014/15 should reach 65-70 percent. Bollgard II and Widestrike, providing protection against insects, were in high demand and are forecast to continue to be popular seed varieties for 2014/15. Because of cheaper prices, single-event genetically-engineered (GE) varieties, such as Bollgard, will still be planted even though these do not provide broad protection against regionally specific pests and disease. Under increased pest and weed pressure, producers appear willing to pay for the benefits of second generation double and triple-stacked trait seed varieties. Brazil’s National Technical Commission of Biosafety (CTNBio) has approved 12 biotech cotton events for commercial use. No new biotech cotton varieties were approved in 2013.

Cotton Consumption:

Brazil’s domestic consumption for 2013/14 is estimated at 4.1 million bales. 2013/14 domestic consumption remained flat, equal to 2012/13 consumption. Many in the industry had initially anticipated that 2013/14 domestic consumption would grow, driven in large part by the hotel sector. The sector expected a boost, with large investments being made in preparation for Brazil’s hosting of the World Cup soccer tournament in 2014 and the Summer Olympics in 2016. While investments were made, this additional consumption merely offset a real decrease in national textile consumption. Brazilian consumer preferences are trending in favor of imported clothing products and the domestic industry has subsequently lost market share.

Brazil is the world’s 5th largest textile producer, but the industry faces challenges from imported clothing products. Furthermore, with the cotton price returning to levels over US\$1.00/lb, there has been some increased substitution from natural cotton fiber to man-made fibers. Brazil enjoys one the highest cotton usage ratios in world with cotton representing 60 percent of all fiber usage compared to

the worldwide average of 35 percent. However, the Brazilian Textile and Apparel Industry Association (ABIT) estimates cotton usage in the apparel sector will decrease from 60 percent to 50 percent in approximately 12 years. Brazil continues as the world's second largest denim manufacturer and third largest denim consumer. The drastic oscillation in cotton prices in recent years has resulted in a permanent reduction of at least 15 percent in Brazil's textile industry capacity. The industry is facing many challenges, among which price volatility stands out. Many companies are still recovering from volatile prices in recent years and have little access to financial credit. The Brazilian government (GOB) does not have financial programs available for the industry. After two years of decreased textile production—a 15 percent decrease in 2011 and a 4.5 decrease in 2012—textile production in 2013 remained flat. Any potential loss was most likely buoyed by the 2014 World Cup and 2015 Summer Olympics. Nevertheless, due to higher production costs, industry profits in 2013 are estimated at US\$53 billion¹, nine percent less than 2012 industry profits. Smaller textile manufacturers are also operating hand-to-mouth with an estimated 4-6 weeks of stocks-to-use ratio.

The textile industry reports that imports of ready-made clothing continue to impact domestic production. It is estimated that imports grew eight percent, equivalent to over 120,000 mt of cotton fiber in 2013. It is shown that 70,000 mt, or more than half of this increase, is derived from imports via tourism (70 percent from the United States) with each Brazilian tourist estimated to return to Brazil with clothing purchases equivalent to 10kg of cotton.

Prices:

According to the University of Sao Paulo's Superior Agricultural School Research Center (CEPEA/ESALQ), current domestic prices are hovering at R\$2.20/lb (US\$0.94/lb), representing 41-4 type, delivered to Sao Paulo. As shown in the below graph, nominal prices have been some of the highest on record, thanks to stable demand. 2103 average prices were the second highest in the last 15 years, trumped only by the record-high 2011 Q1 and Q2 cotton prices. However, when factoring the exchange rate (US\$1.00=R\$2.40), which has undergone significant depreciation over the past year, real prices appear more in trend with 2012.

On February 11, 2014, the GOB announced the new minimum price for cotton at R\$54.90/15kg, equivalent to US\$0.69/lb, and an almost 10 percent increase. Cotton producer groups had made the case to the government that production costs—as calculated by the Brazilian National Food Supply Company (CONAB)—had risen and hence argued that the minimum price should be at R\$57/15kg, equivalent to US\$0.72/lb. The Ministry of Agriculture, Livestock and Food Supply (MAPA), however, stated these cost calculations will enter into the cotton minimum price discussions for 2014/15.

Cotton Prices

(Domestic Prices* in cents of R\$ per lb)

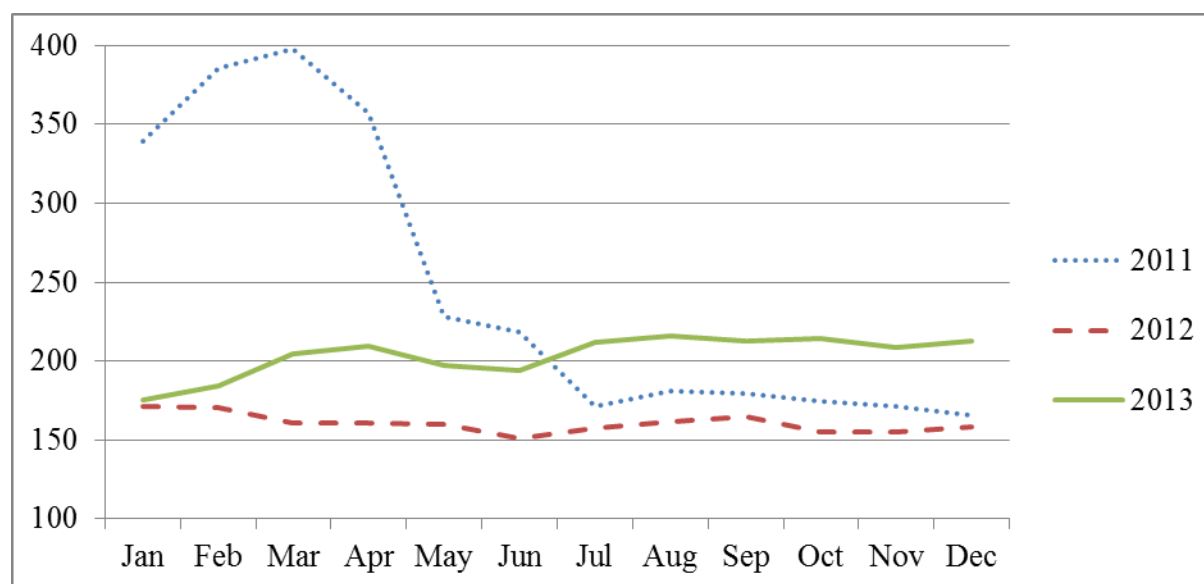
Year	2011	2012	2013	2012/13 % Change
Jan	339.14	171.06	175.01	2%
Feb	385.24	170.23	184.47	8%
Mar	397.56	161.17	204.98	21%

Apr	357.2	160.47	209.48	23%
May	227.94	160.02	197.08	19%
Jun	218.44	151.06	193.73	22%
Jul	171.07	157.56	211.80	26%
Aug	181.17	161.91	216.38	25%
Sep	179.42	165.19	212.80	22%
Oct	174.63	155.21	214.04	27%
Nov	171.42	155.49	208.74	26%
Dec	165.81	158.41	212.46	25%

Source: CEPEA

* Cotton grade 41-4, staple 30/32mm, 8-day term payment, no ICMS included (interstate commerce tax), includes freight for point of delivery Sao Paulo city.

Graph 2: Brazil's 2011-2013 Cotton Prices



2013/14 Minimum Price for Cotton

Region	Unit (“Arroba”)	Price (R\$/unit)	Price (R\$/lb)	Price (US\$/lb)
All	15 kg	54.90	1.66	0.693

Source: MAPA/SPA/DEAGRO
Exchange rate: US\$1.00 = R\$ 2.40

Cotton Fabrics

Approximately 58 percent of fabrics in Brazil are made of cotton. 39 percent of fabrics are made from synthetics, and three percent from other natural fibers. 60 percent of clothing in Brazil is made of cotton. Brazil's most significant exports made from cotton fabrics consist of towels, socks, and undergarments.

Cotton Yarn

Brazil's yarn production is estimated to use 1.5 mmt of fiber—natural, synthetic, and artificial. Brazil uses 1.26 mmt of natural fibers, primarily cotton, jute, flax, ramie, sisal, silk, and wool. Synthetic yarn production utilized 240,000 mt of viscose, polyamide, polyester, polypropylene and acrylic. Roughly 80 percent of domestic cotton lint is used for cotton yarn production. Brazil is also the world's third largest weaver, and roughly 52 percent of all woven materials have been produced with cotton yarns, the rest coming from synthetics. Annual weaving production is estimated at 500,000 mt.

Trade:

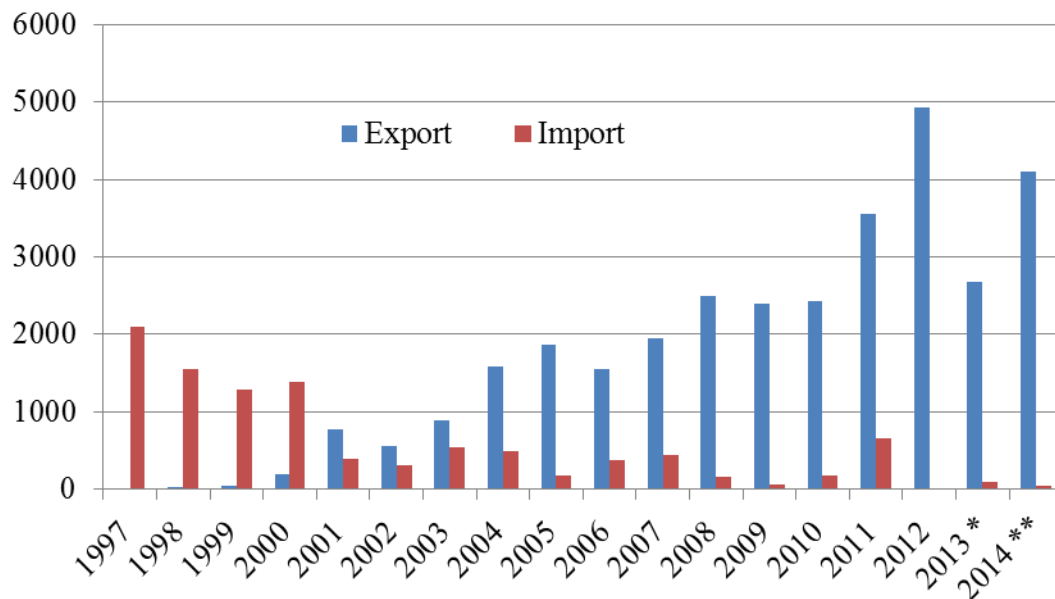
Post estimates that 2013/14 cotton exports at 2.1 million bales, a whopping 51 percent decrease from 2012/13, based on a significantly reduced 2012/13 production year, which goes into 2013/14 exports. Exports are on track to achieve 2.1 million bales, but Brazil is anticipated to lose significant market share because of unstable production and a smaller cotton supply available for export. With the depreciation of the Brazilian Real, cotton exporters have been more competitive. The limits on export capacity are due to limited availability of adequate port capacity, storage and handling for cotton that is restricted mainly to Santos, Sao Paulo and Paranagua, Parana. Santos is responsible for almost all cotton exports, which are exclusively containerized. However, new ports are starting and/or preparing to export cotton, including, Itajai of Santa Catarina state; Suape of Pernambuco state; Pecem of Ceará state; and Salvador of Bahia state. Imports are estimated at 150,000 mt. Due to the ample supply available in the market, it is unlikely that Brazil will grant a temporary exemption to the Common Export Tariff (TEC) for cotton imports. The textile industry has come together to request such a tariff exemption in past moments of critical supply, where imports are needed as a stopgap to continue stable supplies for the industry, traditionally at periods between harvests.

ABIT is assisting sector efforts to reverse Brazil's trade deficit across clothing and textiles that reached US\$5.5 billion in 2013, in comparison to a US\$5.3 billion trade deficit in 2012. Brazil's 2013 export revenue from clothing sales was valued at US\$1.26 billion, a two percent decrease from 2012. The industry is promoting Brazilian clothing brands overseas and has a goal to reach US\$6 billion in exports in ten years. Joint marketing programs between ABIT and the GOB's Market Promotion Agency (APEX) for 2012/13 reach R\$17.5 million (US\$8.5 million). The combined textile and clothing sector is Brazil's second largest in value terms for manufactured goods, following the beverage sector, and employs 1.7 million workers.

Post forecasts Brazil's 2014/15 cotton exports at 3.7 million bales, based on the increase in area planted to cotton in 2013/14. Cotton exports are forecast to surpass US\$1 billion in value. Exports are forecast

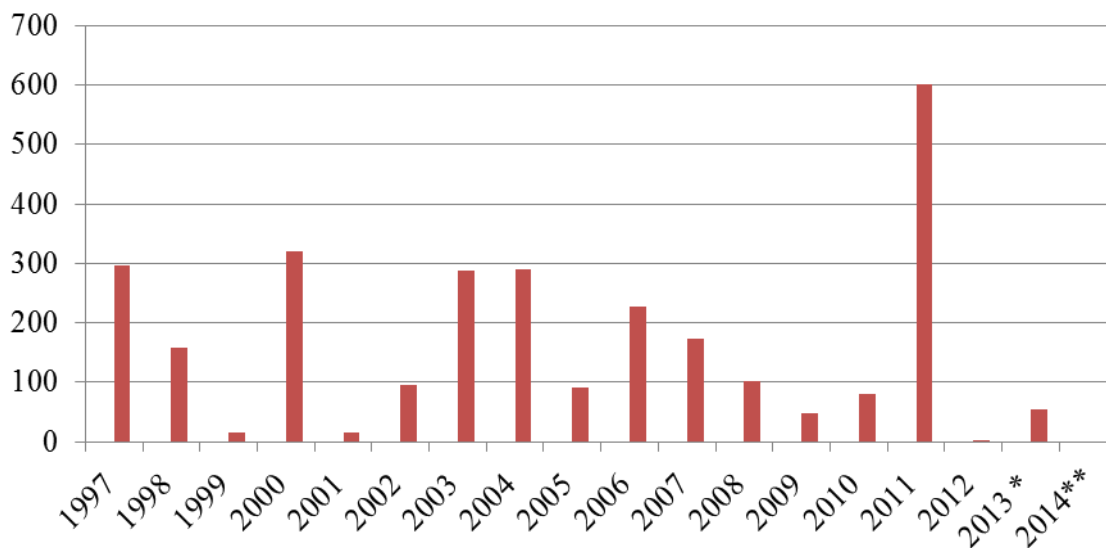
based on the assumption that China will preserve its status quo in cotton imports. While Brazil is interested in maintaining its international market presence, it recognizes that its own worst enemy is the oscillation in domestic production. The scale of domestic production is in direct correlation with the prices, since farmers are able to quickly opt for the production of another crop if cotton prices are deemed too low. While such planting decisions may benefit the farmers' bottom line, exporters struggle to stay in the game and preserve market share. Brazil traditionally only begins to export after supplying its domestic industry's needs. Brazil still sells over 80 percent of its cotton only after the merchant or buyer has conducted his own visual inspection of the lot samples at the ginneries as opposed to relying on the HVI (high volume inspection) classification data and visual classification done by the laboratory technician. Progressive producers and industry players have begun to meet the sustainability standards of the Better Cotton Initiative (BCI) which should improve marketability of Brazilian cotton and products. Industry sources indicate that committed forward sales for the current 2013/14 crop to be harvested are between 450,000-500,000 mt (2.07-2.3 million bales).

Graph 3: Brazil's 1997-2014 Cotton Exports and Imports (1,000 480lb bales)



Source: SECEX *Estimate **Forecast

Graph 4: U.S. 1997-2014 Cotton Exports to Brazil (1,000 480lb bales)



Source: U.S. Census Bureau *Estimate **Forecast

Trade Tables

Cotton

Brazil Cotton Exports (1,000 480lb bales)			
Country	2010	2011	2012
	2010/2011	2011/2012	2012/2013
	Market Year Begin: Aug 2010	Market Year Begin: Aug 2011	Market Year Begin: Aug 2012
World	2,066	4,893	4,375
Indonesia	448	655	697
Korea South	379	628	668
Malaysia	18	278	152
China	376	1,633	1,430
Taiwan	81	172	162
Thailand	129	201	186
Japan	102	131	115
Vietnam	61	207	252
Pakistan	116	206	273
Morocco	11	28	5
Portugal	6	19	27
South Africa	2	19	0
Italy	5	32	23
Bangladesh	64	79	38
Turkey	148	392	233
United States	10	18	0

Source: SECEX

Brazil Cotton Imports (1,000 480lb bales)			
Country	2009	2010	2011
	2009/2010	2010/2011	2011/2012
	Market Year Begin: Aug 2009	Market Year Begin: Aug 2010	Market Year Begin: Aug 2011
World	703	29	65
United States	605	9	43
Egypt	12	1	6
Israel	5	3	3
Argentina	66	14	3

Source: SECEX

Cotton Fabric

Brazil Cotton Fabric Exports (1,000 480lb bales)			
Country	2011	2012	2013
World	9.51	10.20	9.91
Argentina	4.29	5.20	5.50
Paraguay	0.82	0.58	0.62
Bolivia	0.54	0.77	0.51
Colombia	0.75	0.27	0.41
Peru	0.11	0.14	0.38
United States	0.34	0.41	0.38
France	0.56	0.54	0.34
Germany	0.41	0.45	0.31
Ecuador	0.23	0.16	0.29
Uruguay	0.31	0.27	0.27
Venezuela	0.07	0.51	0.17
Chile	0.16	0.12	0.13
Mexico	0.24	0.11	0.10
Spain	0.11	0.10	0.08
El Salvador	0.08	0.08	0.08
Sweden	0.05	0.07	0.06

Source: SECEX

Brazil Cotton Fabric Imports (1,000 480lb bales)			
Country	2011	2012	2013
World	178.37	125.31	104.00
China	136.34	87.30	76.76
Pakistan	8.98	16.15	11.44
United States	9.36	5.80	4.71
Paraguay	2.94	2.76	1.81
Italy	0.50	0.46	0.45
Spain	2.81	1.51	1.08
Turkey	0.11	0.30	0.27
Hong Kong	1.34	0.71	0.85
Korea South	0.77	0.22	0.22
India	5.61	4.56	3.53
Peru	0.28	0.23	0.39

Source: SECEX

Cotton Yarn

Brazil Cotton Yarn Exports (1,000 480lb bales)			
Country	2011	2012	2013
World	2.07	2.93	3.37
Argentina	0.17	1.18	1.80
Morocco	0.00	0.00	0.48
Uruguay	0.01	0.17	0.39
Chile	1.14	1.02	0.42
United States	0.11	0.07	0.08
New Zealand	0.29	0.22	0.07

Source: SECEX

Brazil Cotton Yarn Imports (1,000 480lb bales)			
Country	2011	2012	2013
World	131.58	94.50	84.54
India	87.31	72.68	58.02
Argentina	19.10	6.53	9.23
Egypt	4.48	3.87	6.26
Paraguay	3.75	6.16	4.04
Peru	3.60	1.43	2.70
Portugal	0.23	0.19	1.03
Pakistan	2.39	0.11	1.01
Indonesia	1.06	1.61	0.76
Turkey	4.49	0.23	0.53
China	1.63	0.83	0.43

Source: SECEX

Policy:

In 2013, the Brazilian Ministry of Agriculture did not make any official government payments to cotton producers. Domestic prices have been above the guaranteed minimum revenue levels for producers and exceeded the minimum trigger cotton price set by the GOB.

The quantity of cotton supported by the GOB from 2005-2013 is provided in the table below, as well as descriptions of the major government support programs. These programs are utilized to support commodity prices and to assist in the flow of cotton from production areas to consumption areas. As some of this cotton is exported, particularly via the PEPRO program, it is questionable whether such

programs are considered to be export subsidies. In addition, a waiver for developing countries in the WTO Agricultural Agreement allows for Brazil to subsidize transportation.

Government Support for the Commercialization of Cotton (1,000 mt)

Program	2005	2006	2007	2008	2009	2010	2011	2012	2013
Acquisition (AGF)	4.5	0	1.1	0	0	0	0	0	0
PEP	136.5	1.8	0	0	0	0	0	0	0
PROP	272.2	0	0	0	0	0	0	0	0
PEPRO	0	461.5	428.9	1,023.6	792.2	0	0	0	0
Total	413.2	463.3	730.0	1,023.6	792.2	0	0	0	0
Production	1,298.7	1,037.8	1,524.0	1,602.2	1,213.7	1,194.1	1,959.8	1,877.3	1,310.3
Participation %	31.8	44.6	47.9	63.9	65.3	0	0	0	0

Source: Brazilian Ministry of Agriculture/SPA/DEAGRO

Government Programs:

Risk Premium for Acquisition of Agricultural Products Deriving from Private Contracts of Sales Options (PROP): 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 Equalization Premium Paid to the Producer (PEPRO): PEPRO is a premium granted to the farmer or cooperative which sells its products at a public auction. The government pays the difference between the Official Reference Value and the value of the premium (the maximum value paid by the government as a guarantee of the Reference Value).

Premium for Product Outflow Program (PEP): Through this program, the government pays the difference between the prevailing market price and the minimum price of the product. The federal government through MAPA's National Company of Food and Supply (CONAB) conducts public auctions to set a premium for buyers of a given product. These buyers then contact producers interested in selling their production at the current minimum support price. Buyers must transport the product to the destination previously established by the program. The objective of PEP is to move commodities from areas of high product concentration to areas of need, typically in the demographically-sparse parts of the North, and also to the Northeast, of the country. In PEP, the product is taken from private stocks.

Federal Government Acquisition (AGF): This program 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 Family Agriculture Program and to build strategic stocks.

Production, Supply and Demand Statistics:

Cotton Brazil	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Aug 2012		Market Year Begin: Aug 2013		Market Year Begin: Aug 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0		0
Area Harvested	900	900	1,100	1,100		1,300
Beginning Stocks	7,993	7,993	5,801	5,801		7,101
Production	6,000	6,000	7,400	7,200		8,400
Imports	65	65	75	150		50
MY Imports from U.S.	0	0	0	100		0
Total Supply	14,058	14,058	13,276	13,151		15,551
Exports	4,307	4,307	2,400	2,100		3,700
Use	4,100	4,100	4,200	4,100		4,100
Loss	-150	-150	-150	-150		-150
Total Dom. Cons.	3,950	3,950	4,050	3,950		3,950
Ending Stocks	5,801	5,801	6,826	7,101		7,901
Total Distribution	14,058	14,058	13,276	13,151		15,551
1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA						

Other relevant reports:

[BR0824 Cotton and Products Update](#)

[BR0808 Cotton and Products Annual- 2013](#)

ⁱ Source: <http://www.abit.org.br/Imprensa.aspx#3|LR|C>