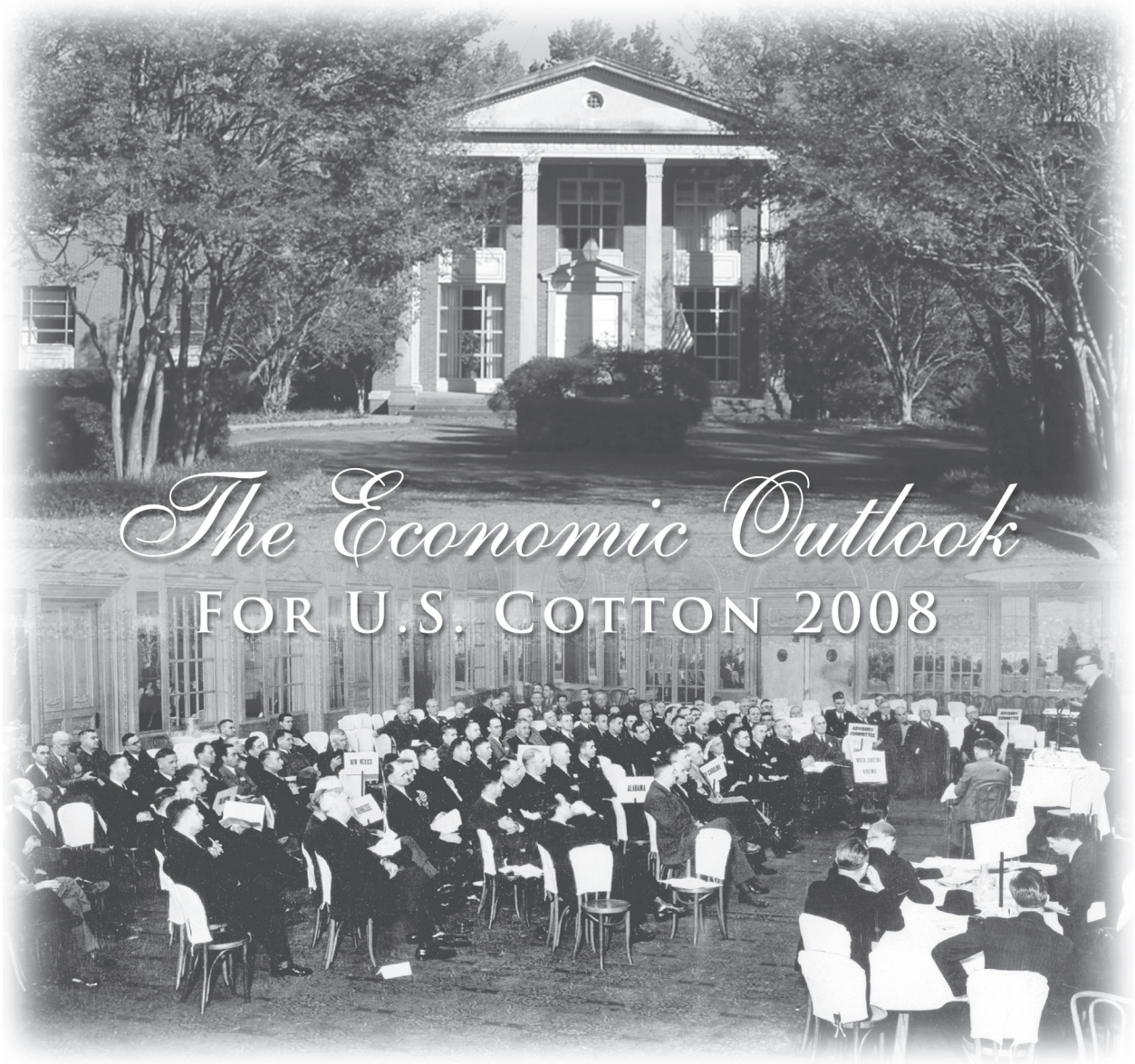


The Economic Outlook
For U.S. Cotton 2008

Prepared by

Gary Adams, Vice President, Economic and Policy Analysis
Steve Slinsky, Assistant Director of Economic Services
Shawn Boyd, Agricultural Economist
Michelle Huffman, Agricultural Economist

National Cotton Council of America

U.S. and World Economy

Despite the effects of record oil prices, a housing market that is plagued by excessive inventories and a sub-prime mortgage lending crisis, the U.S. economy showed respectable resilience in 2007. After robust gains during the summer, economic activity decelerated significantly as the impacts of record energy prices stymied consumption growth and depressed consumer confidence.

The Consumer Confidence Index is a tool designed by the Conference Board's Consumer Research Center to gauge the mood of the American consumer with regards to the economy. According to this index, the American consumer's confidence has been declining since hitting a 6-year high of 111.9 in July 2007 (Exhibit 1). By December, the Index stood at 87 (1985=100). Consumers' apprehension about the short-term outlook is being fueled by volatility in financial markets, rising prices at the pump and the likelihood of larger home heating bills this winter. Consumer confidence is already showing a level below the average seen during the 2001 recession.

Growing foreign demand for U.S. products is helping to keep the U.S. economy expanding despite ongoing weakness in the domestic housing sector. The weaker dollar may continue to spur U.S. exports to Asia and Europe, which continue to show strong demand for U.S. goods. For an export-oriented commodity such as cotton and an import-vulnerable textile industry, the weaker dollar may help increase U.S. competitiveness in world markets.

Going into 2008, economic growth is expected to remain soft as housing and automotive markets need more time to recover. Furthermore, the outlook is dominated by downside risks. In particular, another negative oil shock or an increase in interest rates could result in a much more pronounced downturn.

U.S. Gross Domestic Product

As measured by real Gross Domestic Product (GDP), the U.S. economy experienced robust growth in 2007 despite a dismal first quarter (Exhibit 2). After starting the year with 0.6% growth, the following two quarters exceeded expectations. The acceleration in real GDP growth reflected accelerations in exports, personal consumption expenditures and private inventory investment. These gains were partly offset by an upturn in imports, a larger decline in residential fixed investment and a deceleration in nonresidential structures.

Sharply lower expectations are prevailing for the last quarter of 2007 and early 2008. The rationale behind the expectation includes the effects of higher energy prices on consumer spending, a slowing in business investment, effects from the housing sector and tighter credit, as well as some inventory draw down. Results of the Livingston Survey – a semiannual survey of forecasters conducted by the Federal Reserve Bank of Philadelphia – suggests that the growth rate of economic output will slow to 1.9% in the first half of 2008. For the second half of the year, the survey predicts growth at an annual rate of 2.8%.

Despite higher costs for energy, healthcare, food and other miscellaneous categories, consumer spending remained strong in 2007 (Exhibit 3). Consumer spending should continue to be supported by full employment and strong income growth. However, if layoffs begin to mount and hamper consumer spending, the risk of recession increases.

Private investment dropped significantly in 2006 and continued to fall throughout the first quarter of 2007 – largely a result of the soft housing market (Exhibit 4). New home sales – an important measure of the economy's health – continued to decline due to higher interest rates and tighter lending conditions for jumbo loans. Builders made only limited progress in paring down their substantial inventories. Housing inventories are near a 20-year high and prices may have to sink 15% or more from their peak in order liquidate unsold inventory. Single-family permit issuance continued along the steep downward trajectory that had begun two years earlier, which pointed toward further slowing in homebuilding over the near term. Home construction has to wait for demand to rekindle and inventories to decline before any sustained rise can be expected. Tightened mortgage requirements, rising foreclosures and falling prices will continue to drag on the economy. The wait for a lift may be longer than a year but growing stability should calm the downward effects by mid-year and help growth in the second half.

To date, the economy has resisted allowing the current housing recession to spread to other sectors. With a relatively low unemployment rate and healthy income growth there is no reason to expect the consumer to cave-in. High energy prices and lower home values play in to the weaker pace of consumer spending but do not offset strong fundamentals.

U.S. Employment

The U.S. job market experienced sustained improvement between 2000 and the beginning of 2007 (Exhibit 5). After reaching 63.4% in January 2007, the job market began to contract. By December 2007, employment fell to 62.7% of the U.S. civilian population. The slowing in private employment gains was due in large part to the ongoing weakness in the housing market. Employment in residential construction and housing-related sectors such as finance, real estate, and building-material and garden-supply retailers continued to trend lower. Elsewhere, factory jobs declined again, while employment in most service-producing industries continued to increase.

The number of U.S. manufacturing jobs reached a new low of 13.92 million in December 2007 (Exhibit 6). Industries dependent on the housing market appear to be struggling more than others, while export-dependent sectors appear to be doing better. Slower demand for manufactured goods seems to be a greater problem than excessive inventories. At the same time, higher raw material prices are squeezing margins. As a result, mid-year manufacturing activity increased only to retreat by the end of the year. In fact, analysts at the Bureau of Labor Statistics estimate that an additional 216,000 manufacturing jobs were lost in 2007.

At the end of 2006, the unemployment rate dropped to 4.5% – levels not experienced in almost 6 years (Exhibit 7).

However, in April 2007, the U.S. unemployment rate began to creep upward. By the end of 2007, the unemployment rate had risen to 5.0% – a full half-point above year-earlier levels. Analysts expect the unemployment rate to rise further through June 2008 before beginning to settle by the end of the year. These forecasts are higher than those made six months ago, suggesting a small weakening in the labor market. Respondents to the Fed's Livingston Survey indicated that, on an annual average basis, the unemployment rate will be 4.6% in 2007, 4.9% in 2008, and 4.9% in 2009.

Interest Rates

The Federal Reserve Board's primary tool for influencing the economy is the federal funds rate – the interest rate that banks charge each other for overnight loans. In January 2001, the Federal Reserve Bank began cutting the federal funds rate to stimulate the struggling economy. By December 2003, the effective federal funds rate reached a 45-year low of 0.98% (Exhibit 8). However, as the economy responded, the Fed began to nudge rates up in quarter-point steps to curtail potential inflation. Starting in June 2004, the Fed boosted interest rates 17 times to bring the effective rate to 5.25%, the highest in more than five years.

Seeking to balance inflation concerns against signs that the U.S. expansion was beginning to slow, the Fed left short-term interest rates unchanged at 5.25% for more than a year. Upward pressures on the prices of final goods and services remained modest overall but were significant for products and services that relied heavily on food and energy inputs. Increases in the costs of energy and selected raw materials pushed up production and transportation costs in various manufacturing and services sectors. Cost increases and worsening problems in the housing, credit and financial markets drove the Federal Reserve to begin slicing its key interest rate yet again.

With hope that interest rate cuts would help bolster a faltering economy, the Fed began to incrementally trim the key rate in September 2007. By mid-January 2008, the effective federal funds rate had dropped to 3.99%. Minutes from the Fed's January meeting noted that "While strains in short-term funding markets eased somewhat, broader financial market conditions have continued to deteriorate and credit has tightened further for some businesses and households." Moreover, there are indications that the housing contraction will deepen as well as expectations of continued softening of labor markets.

Given that the federal funds rate remained steadfast since June 2006, changes in the average 30-year mortgage rate could be attributed to seasonal changes in demand for mortgages and/or anticipated changes in the federal funds rate (Exhibit 9). By late summer, a soft housing market and uncertainty about the direction for the economy served to press market interest rates lower. By the end of 2007, the 30-year mortgage rate had fallen to levels not experienced since October 2005. Looking ahead, some analysts believe that we may see 30-year mortgage rates creep lower still if the Fed continues to chip away at the federal funds rate.

Federal Budget Situation

The Congressional Budget Office (CBO) estimates that the deficit for fiscal year

2007 will be lower than it was in 2006, but the budget outlook for the long term remains daunting. CBO budget projections – updated in January 2008 – show outlays exceeding revenue for fiscal 2008 (Exhibit 10), producing a deficit of $219 billion. That deficit could increase significantly in the event that an economic stimulus package is enacted or additional funding is allocated to finance military operations in Iraq and Afghanistan, adding approximately $30 billion to outlays.

CBO's latest projections indicate that budget deficits will persist through 2011 (Exhibit 11). Significant uncertainty surrounds long-term fiscal projections, but under most scenarios, there is a growing concern that federal debt will grow much faster than the economy over the long run. In the absence of significant changes in policy, rising costs for health care and the aging of the U.S. population will cause federal spending to grow rapidly. The long-term fiscal outlook continues to depend primarily on the future course of health care costs – spending on Medicare and Medicaid.

CBO projects that federal spending on Medicare and Medicaid measured as a share of GDP will rise from 4% today to 12% in 2050 and 19% in 2082 – which, as a share of the economy, is roughly equivalent to the total amount that the federal government spends today. If outlays increase as projected and revenues do not grow at a corresponding rate, deficits would climb and federal debt would grow significantly.

Substantial budget deficits would reduce national saving, leading to an increase in borrowing from abroad and lower levels of domestic investment that in turn would constrain income growth in the United States. In the extreme, deficits could seriously harm the economy. Such economic damage could be averted by putting the nation on a sustainable fiscal course, which would require some combination of less spending and more revenues than the amounts now projected.

Inflation and Energy Prices

Inflation acts as a tax on investment by increasing the cost of equity-financed investment and reducing corporate equity values. U.S. inflation is commonly measured by the Consumer Price Index (CPI) and the Producer Price Index (PPI). The CPI measures the change in prices from the perspective of the consumer while the PPI measures the change in prices from the perspective of the seller. The 2007 growth rates for the CPI and PPI were 2.7% and 3.6%, respectively (Exhibit 12).

Consumer price inflation increased in the fall from its low rates in the summer as the surge in crude oil prices began to be reflected in retail energy prices. Excluding food and energy, inflation was moderate, although higher than the low rates experienced early in the year. While core consumer price inflation was down noticeably from a year earlier, the mid-year increase reflected acceleration in select prices – prescription drugs and medical services – that were unusually soft last spring. The producer price index for core intermediate materials was considerably below last year's level. This pattern reflected, in part, a deceleration in the prices of a wide variety of construction materials and in the prices of some metal products. Further aggravating price increases, average hourly earnings rose a bit more slowly than over the

previous twelve months. While readings on core inflation had improved modestly during the year, recent increases in energy and commodity prices, among other factors, may put renewed upward pressure on inflation.

After years of falling prices at the retail level, apparel prices have steadied in 2006 and 2007 (Exhibit 13). This appears to confirm speculation that downward price pressure resulting from the removal of textile trade barriers has likely played out and that cheap apparel imports have largely saturated the market. Apparel prices are also finding support from pressure on manufacturers to pass higher costs down the supply chain. On the other side of the equation, one must consider how higher energy prices continue to eat away at disposable household income, forcing consumers to become more budget-minded. Worsening general economic conditions could lead to downward pressure on apparel prices.

Surging energy demand in China and India, coupled with tensions in oil-producing nations like Nigeria and Iran, have increasingly made investors nervous and invited speculators to send prices soaring over the past year (Exhibit 14). Crude oil prices increased by 65% in 2007. Reports that the Organization of the Petroleum Exporting Countries (OPEC) believes it won't be able to meet global demand by 2024 and speculation by oil traders prompted the price of oil to surpass $97 a barrel for the first time ever. In response, the White House issued a call for an increase in the production of domestic oil. However, global oil markets will likely remain tight through 2008 as world oil demand is expected to continue to grow faster than oil supply outside of OPEC. This situation leaves only increased OPEC production and existing inventories to help offset upward pressure on prices in 2008.

Looking beyond 2008, experts believe that higher non-OPEC production and planned additions to OPEC capacity should more than offset expected moderate world oil demand growth, and relieve some of the tightness in the market. As a result, surplus production capacity could grow by the end of 2009. This balance suggests some price softening, although delays or fewer capacity additions in both OPEC and non-OPEC nations could alter the outlook, as could OPEC production decisions.

Consumers saw similar movements in the prices of diesel fuel (Exhibit 15). The highway price of diesel peaked at $3.44/gallon in November and averaged $2.89/gallon for 2007. According to the Energy Information Administration (EIA), average diesel fuel prices are projected to follow crude oil prices, increasing to $3.29 and $3.15 per gallon in 2008 and 2009, respectively.

Natural gas prices remained relatively flat throughout 2007 – supported by strong demand and inventories lower than the previous year (Exhibit 16). Total U.S. natural gas production is estimated to have increased by 2.5% in 2007, with increases in onshore lower-48 production offsetting declines in the offshore Gulf of Mexico production. Total natural gas consumption increased by approximately 6% in 2007, driven largely by increases that occurred earlier in the year. To fill the deficit, imports of liquefied natural gas increased 34% over 2006. Ending inventories for 2007 were above the 5-

year average (2002-2006) but below 2006 ending inventories.

The EIA forecast, which assumes near-normal weather in 2008, projects a modest annual increase in total consumption (0.6%). Total marketed production is expected to increase by 1.6% in 2008 – primarily because of the start-up of new deepwater Gulf of Mexico supply infrastructure. Looking ahead, the real wellhead price of natural gas is expected to decline from current levels as new supplies enter the market. However, natural gas prices will continue to draw support from increased production costs and higher oil prices.

U.S. Equity Markets

Wall Street generally posted steady gains through October 2007 despite concerns over high energy prices and slow progress in Iraq. However, losses in the 4th quarter left the Dow Jones Industrial Average (Dow) at 13,264, up just 5.0% from its January open (Exhibit 17). Growth of the NASDAQ during 2007 was slightly more impressive, posting a 7.6% gain (Exhibit 18). This growth is an improvement over the 4.7% gained in 2006. Movement of the S&P 500 closely mirrored the NASDAQ. However, this index increased only 2.1%, settling at 1,468 by year's end (Exhibit 19).

Historically, election year politics have had an impact on stock prices. On average, the Dow has risen 11% to 15% during the last year of a Presidential term – much better than a non-election year. However, 2008 could be an exception given the uncertainty in the economic outlook. The relatively flat stock market witnessed over the past six months and mixed economic data have many analysts believing the odds favor a very soft economy in 2008, but not a recession. These conditions are ripe for the Federal Reserve to make additional cuts in interest rates and increase the likelihood of a fiscal stimulus package.

World Economies

Despite a year in which crude oil prices topped $95 a barrel, International Monetary Fund (IMF) economists estimate that world GDP grew by 3.5% in 2007, compared with 3.8% in 2006 (Exhibit 20). Three countries – China, India and Russia – accounted for one-half of global growth over the past year.

China's economy continued double-digit growth that began in 2003, expanding 11.5% in 2007 (Exhibit 21). Strong exports and rising domestic demand continue to fuel China's economy, which for the first time, made the largest contribution to global growth. Many economists believe that China's economy is increasingly being driven by domestic demand, currently representing just over half of GDP. China's 2008 growth rate is forecast at 10.0%.

India continued to grow at more than 9% and Russia at almost 8%. In addition, other emerging market and developing countries have maintained robust expansions. Rapid growth in these countries counterbalanced continued moderate growth in the United States.

Performances of Asian stock markets were significantly different (Exhibit 22). The Nikkei began 2007 at 17,383 and closed the year at 15,307, an 11.9% loss. This comes after a modest 3.5% gain in 2006. The Hong Kong Hang Seng began 2007 at 20,106, and closed the year at 27,813, up an amazing 38.4% from the start of the year.

Exchange Rates

Since late 2005 when $1.18 equaled one euro, the dollar has consistently depreciated against the euro, requiring more than $1.47 to equal one euro (Exhibit 23). The Japanese yen, on the other hand, continued to depreciate against the dollar until July when the dollar began to lose value relative to the yen (Exhibit 24). In real effective terms, the U.S. dollar is now well below its average value.

The U.S. dollar has dropped precipitously against the Brazilian real since 2004 (Exhibit 25). The real derived its strength from a very favorable environment – positive capital flows, wide interest rate differentials and a strong commodity cycle. However, the currency strength continues to exact a toll on Brazil's cotton industry through high interest rates and less-competitive exports.

The value of the U.S. dollar against the South Korean won stabilized in 2007 (Exhibit 26) after consistently gaining strength against the U.S. dollar from 2003 through 2006. Over this period, the value of the U.S. dollar fell 28.8% against the won. It remains to be seen if the recent stability will continue into 2008.

Between 2004 and 2006, the Rupee exhibited a seasonal trend against the dollar, gaining value through the summer before losing most of the value by the end of the year (Exhibit 27). In 2007, however, the dollar lost a significant amount of value early in the year before finding some stability in mid-summer.

To varying degrees, the U.S. dollar lost value (or at least stabilized) against two other important currencies for trade in cotton textiles during 2007. While less dramatic than 2005, the value of the Indonesian rupiah has begun to weaken against the U.S. dollar (Exhibit 28). The value of the Pakistani Rupee (Exhibit 29) largely continued to depreciate against the U.S. dollar.

Under great pressure from the U.S., China initiated a series of changes in their exchange rate policy in 2005. In 2006, Chinese authorities took further steps to reform the currency market. As a result, the value of the Renminbi relative to the U.S. dollar fell 12.2% (Exhibit 30). Many economists and politicians believe this increased flexibility is considerably less than is needed. China's cautious approach to exchange rate reform continues to exacerbate distortions in the domestic economy and impede adjustment of international imbalances.

The Federal Reserve Board publishes a real exchange rate index comparing the dollar to a weighted average of currencies of important trading partners, excluding major developed economies. A collection of European countries carry the largest weight, followed by Canada, Japan and the United Kingdom. Throughout 2007, the index continued to fall and is now below 1997 levels (Exhibit 31).

The U.S. dollar temporarily regained some ground in August in the context of recent financial turbulence, but has since resumed a weakening trend against the background of a wide current account deficit, a slow-growing economy and the cut in the federal funds rate. Some economists are of the opinion that the dollar remains overvalued relative to medium-term fundamentals.

Commodity Prices

The Commodity Research Bureau (CRB) maintains an index of commodity price movements. The commodities included in the index range from traditional U.S. agricultural commodities to heavily traded international agricultural products such as cocoa, coffee and sugar to metals and energy commodities. The Index is a combination of arithmetic and geometric averaging which means its absolute value at any one time is not particularly informative. However, the movement in the index from any base point can be revealing.

The CRB index averaged 394.4 for January 2007 and climbed to 476.1 by December – an increase of more than 20% (Exhibit 32). Robust growth in wheat, soybeans and energy commodity prices fueled the growth in the index. The U.S. Department of Agriculture (USDA) publishes monthly indices of prices received by farmers. The index of crop prices received was 131 in January and eventually rose to 160 in December after a mid-year slump (Exhibit 33). This healthy growth was the result of strong grain demand by the burgeoning renewable fuels industry. Livestock prices in 2007, on the other hand, peaked in July. Starting the year at 116, livestock prices rose to 140 before falling back to an index value of 135 in December. While these price gains are certainly respectable, the loss of strength can be attributed to adjustments in the livestock inventories made in anticipation of higher feed costs and low forage inventories.

USDA also publishes monthly indices of prices paid by farmers for various production inputs. Of particular interest are the indices for energy related inputs: diesel and nitrogen fertilizer. The index of diesel prices paid was 241 in January and grew at a healthy pace before reaching a peak of 332 in November (Exhibit 34). The diesel price index closed at 328 in December. Starting the year at 203, nitrogen fertilizer prices rose consistently throughout the year finally closing at 249. These indices imply that producers will face higher fuel and nitrogen fertilizer costs in 2008 if these trends continue.

U.S. Net Farm Income

The latest USDA estimates put U.S. net farm income at $87.5 billion for 2007 (Exhibit 35). This represents an increase of $1.6 billion from the record $85.9 billion posted in 2004. The increase in net farm income is attributed to higher grain and oilseed prices. Favorable market conditions more than offset higher production expenditures that resulted largely from increased petroleum prices. USDA estimates that government payments will total $12.1 billion in 2007. Direct payments and counter-cyclical payments are expected to amount to $6.4 billion in 2007.

U.S. Supply

Planted Acreage

U.S. farmers planted 10.54 million acres of upland cotton in 2007, a decline of 30% from the previous year (Exhibit 36). The decline in upland acres was larger than early-season expectations with all regions planting less than in 2006. The drop in acreage was driven by a shift in relative returns as high grain prices increased the attractiveness of competing crops while stagnant cotton prices and the loss of the Step 2 provision limited cotton returns.

Upland area in the Southeast fell by one-third, and at 2.26 million acres, was the lowest since 1994 (Exhibit 37). All states in the region reported decreases with the Carolinas and Virginia reducing cotton acreage by 40% or more. Forty-three percent reductions in North Carolina and Virginia lowered acres to 500 thousand and 60 thousand, respectively. South Carolina's decline of 40% brought acres down to 180 thousand. With 400 thousand acres, Growers in Alabama cut cotton plantings by 30%. Georgia showed a similar decline as their acreage fell from 1.40 million in 2006 down to 1.03 million in 2007. In percentage terms, Florida's acreage of 70 thousand represents a 17% decline from 2006. Looking across the states, USDA data indicate that growers expanded acreage of corn and soybeans at the expense of cotton.

Of the four production regions, the Mid-South showed the largest decline in cotton with a 35% reduction across the 5-state region. Acreage of 2.75 million acres was the lowest since 1986 (Exhibit 38). Declines were evident in all states with Louisiana's reduction of 47% being the largest. With 660 thousand acres, Mississippi reduced acreage by 46%. Growers in Arkansas and Tennessee reduced acreage by 26%. In Missouri, cotton area fell by 245 to 380 thousand acres. The planting flexibility of the current farm bill and strong corn prices contributed to the decline in cotton acreage. It is interesting to note that, unlike the Southeast, the acres that moved out of cotton predominantly went to corn and not soybeans. In fact, USDA data indicate that '07 soybean acreage fell in most Mid-South states.

In the Southwest, growers planted 5.12 million acres, a decrease of 25% from 2006 (Exhibit 39). After planting a record 115 thousand acres in 2006, growers in Kansas reduced their 2007 acreage by 59%. Oklahoma planted 175 thousand acres, down 45% from 2006. Growers in Texas planted 4.90 million acres, the lowest level since 1989. Across the region, grain sorghum and wheat joined corn in attracting acreage from cotton.

In the West, growers planted just 411 thousand acres, a decrease of 22% from the 2006 level (Exhibit 40). The 2007 total is the lowest upland plantings in the West region in recent history. Declines occurred in all Western states, with California leading the way both in actual and percentage declines. Competition from specialty crops lowered California upland acreage to 195 thousand acres, down 32% from the previous year. Growers in Arizona planted 170 thousand acres, an 11% drop from 2006. With 46 thousand acres, New Mexico fell 8% below their 2006 level.

In a reversal of recent trends, ELS plantings were down in 2007 (Exhibit 41) as prices weakened from the high levels of 2006. In California, 260 thousand acres of ELS cotton were planted in 2006, down 5% from the previous year. Acreage in Arizona was down 64% to 2,500 acres. In New Mexico, ELS area fell 63%, while Texas planted 25 thousand acres of ELS, a decline of 19% from 2006.

Harvested Acreage

In the 2007 season, growing conditions varied dramatically across the Cotton Belt. While portions of the Southeast and Mid-South experienced one of the driest years on record, moisture in other regions was adequate to above-normal. States in the Southeast experienced above normal abandonment rates due to the prolonged drought conditions. In the Southwest, favorable weather assured that very few acres went un-harvested. Across all cotton acres, abandonment fell to just 3.1%, equaling the low set in 2005 (Exhibit 42). By comparison, the average 5-year abandonment is 9.4%.

Yields

Despite adverse growing conditions in the Southeast and Mid-South, the U.S. average cotton yield is estimated at a record high of 871 pounds. The 2007 yield surpasses the previous record of 855 pounds set in 2004 (Exhibit 43). The 2007 upland yield is estimated to be 857 pounds, 84 pounds above the 5-year average. ELS yields recovered as well and were 135 pounds above the 5-year average. At a national average of 1,374 pounds, the ELS yield was the second highest after 2004.

Even though some areas faced adverse growing conditions, upland yields exceeded pre-harvest expectations. The 2007 results lend further evidence to the thought that new varieties, better management and the success of boll weevil eradication all play an important role in the recent yield experience.

In the Southeast, the regional average yield was 711 pounds, down 112 pounds from the record-level of 2005 but still 6 pounds above the 5-year average (Exhibit 44). Unfortunately, the 2007 experience follows on the heels of disappointing yields in 2006. Yields in South Carolina showed the greatest losses due to drought, with an average yield of 486 pounds. With an average yield of 499 pounds, Alabama's crop fell 165 pounds below their 5-year average. At 652 pounds, Florida's yield fell below their 2006 experience but did better their 5-year average by 16 pounds. Although there were pockets of pressure in Georgia, North Carolina and Virginia, each of those states bettered their 5-year average by 60 to 100 pounds.

Despite an extremely hot and dry August, yields in the Mid-South generally exceeded the 5-year average with the notable exception being Tennessee. Across the 5-state region, yields are estimated at 931 pounds per acre, as compared to the 5-year average of 914 pounds (Exhibit 45). Average yields in Arkansas exceeded 1,000 pounds per acre for the fourth consecutive year. In Louisiana, an average yield of 1,004 pounds set an all-time high for the state. Mississippi and Missouri registered average yields of 975 pounds, both exceeding their 5-year averages. Unfortunately, growers in Tennessee did not fare as well as other states in the region. The average yield of 579 pounds

was the lowest since 1989 and almost 275 pounds below their 5-year average.

After disappointing results in 2006, yields in the Southwest region recovered and reached record levels in Oklahoma and Texas. Across the region, the 2007 yield averaged 829 pounds per acre, approximately 200 pounds above the 5-year average (Exhibit 46). Oklahoma recorded the highest yields in the 3-state region with an average of 945 pounds, up more than 300 pounds from the 5-year average. In Texas, growers harvested an average of 827 pounds per acre, as compared to a 5-year average of 628 pounds. Although yields in Kansas did not reach record levels, the 2007 harvest of 558 pounds per acre was 47 pounds better than 2006 and 34 pounds above the 5-year average.

The average upland yield in the West is an estimated 1,471 pounds, 131 pounds better that the 5-year average (Exhibit 47). California led the way with a record yield of 1,559 pounds, surpassing the previous high of 1,543 pounds set in 2004. In Arizona, an average yield of 1,429 pounds is 71 pounds above the 5-year average. Growers in New Mexico also enjoyed a record yield with an average of 1,234 pounds. The New Mexico yield is more than 300 pounds above their 5-year average.

The national average ELS yield is estimated at 1,374 pounds, 135 pounds above the 5-year average (Exhibit 48). Each of the 4 ELS-producing states exceeded their 5-year average. With an average yield of 1,123 pounds, New Mexico had the largest increase relative to its 5-year average. In California, growers harvested an average of 1,419 pounds per acre, as compared to the state's 5-year average of 1,296 pounds. In Texas, an average yield of 980 pounds was 74 pounds above the 5-year average, while Arizona's yield of 960 pounds was 29 pounds above their 5-year average.

Production

USDA's latest estimate places the 2007 U.S. cotton crop at 19.03 million bales (Exhibit 49), which is down more than 2.5 million bales from 2006. Despite the drop from the previous year, the current production estimate exceeded most expectations and is well above some late-summer estimates. Relative to 2006, smaller crops in the Southeast, Mid-South and West more than offset the larger crop in the Southwest. The upland crop, estimated at 18.21 million bales, accounted for the entire decline in all cotton production relative to 2006. The U.S. ELS crop of 825 thousand bales is the largest on record.

The Southeast produced 3.21 million bales of upland cotton in 2007, accounting for 18% of the total upland crop (Exhibit 50). This is down 1.32 million bales from the 5-year average and almost 2 million bales below 2006. The combination of reduced acreage and drought conditions lowered production across the region.

For 2007, the Mid-South accounted for 29% of the total U.S. upland crop. With lower acreage, upland production in the Mid-South fell to its lowest level since 1999, some 1.74 million bales below the 5-year average and almost 3 million bales below the region's 2006 production. All states in the region reported smaller crops with Louisiana and Tennessee showing the largest percentage declines.

Favorable weather in the Southwest allowed the upland crop to dramatically recover from the 2006 level. Despite reduced plantings, lower abandonment and above-average yields contributed to the 8.48 million bale crop. The crop in the Southwest accounted for 47% of total U.S. upland production. By comparison, the Southwest usually accounts for approximately one-third of the U.S. crop.

The West produced 1.24 million bales of upland cotton in 2007, down 190 thousand bales from the region's 2006 crop. The region accounts for 7% of U.S. production. Of the three states, only New Mexico exceeded their 5-year average.

The ELS crop of 825 thousand bales represents an all-time high for U.S. production. At 760 thousand bales, the California ELS crop was 180 thousand bales larger than the 5-year average (Exhibit 51). The state accounted for 92% of total U.S. ELS production in 2007. ELS production recovered in Texas but fell in Arizona and New Mexico due to reduced acreage.

Stock Levels

Disappointing cotton exports, combined with lower mill use, produced a total offtake that fell below 2006 production. As a result, total stocks grew to an estimated 9.48 million bales at the beginning of the 2007 marketing year (Exhibit 52). This is more than 3 million bales above the 2006 level and the highest level in recent history. Upland stocks at the beginning of the 2007 marketing year are estimated at 9.37 million bales. Stocks of ELS cotton recovered to 109 thousand bales during the 2006 marketing year, but are still low when compared to recent historical levels.

During the first half of the 2007 marketing year, stronger market prices reduced the use of the marketing loan. As of December 31, 2007, outstanding CCC loan stocks were 9.71 million bales (Exhibit 53). This is approximately 2 million bales below the same point in the 2006 marketing year. Loan entries from the Mid-South and Southwest dominate the total, accounting for 74% of outstanding loans. Roughly 80% of the cotton under loan was Form G (cooperative) while the remaining 20% was Form A (producer).

Total Supply

Total supply for the 2007 marketing year is estimated to be 28.53 million bales, up from 27.66 million the previous year (Exhibit 54). Increased supplies came about as reduced production was more than offset by higher beginning stocks. For the 2007 marketing year, imports of raw cotton are expected to be 20 thousand bales. The 2007 level represents the second highest total for cotton supply, trailing only 2005.

Upland Cotton Quality

As a whole, the quality of the 2007 crop is exceeding the recent 5-year averages for staple and strength. With more than 16 million bales classed through January 24, the national average staple length (measured in 32^{nd} of an inch) is 35.3, up from a 5-year average of 34.8 (Exhibit 55). The Southwest and West improved relative to their 5-year average with the Southwest exceeding their 5-year average by 1.4 thirty-second's. The West reports the longest staple, with an average of 36.7. Drought conditions in the Southeast and Mid-South contributed to average staple lengths of 34.1 and 34.7, respectively. Both regions fell short of their 5-year averages.

The 2007 upland crop is showing excellent strength characteristics with a national average of 29.2 grams/tex, up 0.3 grams/tex from the 5-year average. Strength is exceeding the 5-year averages in all regions with the West showing the largest gain. At 31.6, the average strength in the West is 1.0 grams/tex better than the 5-year average. In the Southwest, the average strength is 29.6 grams/tex, up from 28.9. The crop in the Mid-South has an average strength of 28.7 grams/tex, which is 0.1 better than the 5-year average, while strength in the Southeast averages 28.6 grams/tex (+0.2).

Color grades for the 2007 crop exceed the 5-year average for all regions except the Mid-South (Exhibit 56). For the U.S., 82.3% of the crop is grading 41 or better, which compares to the 5-year average of 84.4%. In the West, color grades were higher than the 5-year average as 96.3% had a grade of 41 or better. In the Southwest, 91.0% of the bales classed had a color grade of 41 or better. The Southeast followed with 86.2%, as compared to a 5-year average of 81.95%. The 2007 crop in the Mid-South fell below the 5-year average with only 65.3% of the crop achieving a color grade of 41 or better.

The average micronaire of the 2007 upland cotton crop is 43.4, down from the 5-year average of 44.2. With an average micronaire of 41.6, much of the Southwest crop falls in the premium range for micronaire on the loan schedule. The Mid-South and West report similar average mikes of 43.7 and 44.0, respectively. The Southeast reports the highest micronaire with an average of 46.6, as compared to a 5-year average of 45.1. The higher micronaire is not unexpected given the drought conditions in the region.

Cotton Prices

Upland Cotton Prices

Upland cotton prices traded in a relatively narrow range between July 2004 and June 2007 with the "A" Far East (FE) Index generally ranging between 50 and 60 cents per pound (Exhibit 57). New York futures tracked closely with the "A" (FE) Index, but typically trading about 5 cents below the "A". An exception happened during the fall of 2006 when the gap widened to almost 10 cents.

However, in the summer of 2007, cotton prices broke out of the range as futures contracts moved into the low- to mid-60's and the "A" Index (FE) reached 70 cents. A primary factor underlying the increased prices is a spillover from strength in other commodity markets. In the face of competition from stronger grain and oilseed prices, it became evident that a tighter balance sheet for cotton was likely as production was expected to fall short of consumption.

By mid-January 2008, the "A" had risen into the mid-70's. Thus far through the 2007 marketing season, the "A" (FE) Index has averaged about 69 cents/lb., up from 59 cents/lb. the previous year. The nearby NY contract has averaged 63.2 cents, which is also up from year-ago levels.

Thus far into the 2007 crop year, spot 4134 values have averaged 58.4 cents/lb.; the average spot 4134 value for the 2006 crop cotton was about 49 cents/lb (Exhibit 58). Like the "A" Index, US spot prices have improved since the middle part of 2007.

ELS Prices

In late 2006, ELS prices fell from the high levels observed in previous months and continued to weaken during the first quarter of 2007. Throughout 2007, the 3-44 spot price ranged between $0.80 and $0.90 per pound (Exhibit 59). Recent USDA data show a slight improvement in price despite the record crop in 2007. Solid export performance through the first 6 months of the marketing year is providing support to prices.

Cottonseed Situation

Cottonseed Supply

USDA estimates 2007 cottonseed production at 6.60 million tons, down from 7.35 million the previous year (Exhibit 60). A regional breakdown of production shows that the Southwest produced 3.02 million tons or about 46% of the total, the largest of any region (Exhibit 61). This was followed by the Mid-South with estimated production of 1.80 million tons for a 27% share. The Southeast produced 1.03 million tons, or 16% of total production, and the West accounted for 742 thousand tons, 11% of the total. Summing production and beginning stocks of 489 thousand tons gives total cottonseed supply for 2007 of 7.08 million tons (Exhibit 62). The 2007 supplies represent the lowest supplies since 2003. According to USDA, 2006 will mark the third consecutive year with no imports of cottonseed into the United States.

Disappearance and Stock Levels

USDA's latest estimate places 2007 cottonseed disappearance at 6.68 million tons, down 776 thousand tons from the previous year (Exhibit 63). Crush is estimated at 2.65 million tons, down 30 thousand tons from 2006. Use of the whole seed for feed purposes continues to be the dominant category with total feed and seed use estimated at 3.73 million tons. Estimated exports of 300 thousand tons are less than half of the 2006 level. Reduced supplies and stronger cottonseed prices are contributing to the lower exports.

With the smaller production, stocks of cottonseed are estimated to decline during the 2007 marketing year (Exhibit 64). With projected ending stocks of 400 thousand tons, 2007 carryover will be the lowest since the end of the 2002 marketing year.

Cottonseed Prices

Strength in competing feed prices and reduced cottonseed supplies have fueled the recent surge in cotton prices (Exhibit 65). By December 2007, the average spot price of whole cottonseed reached $230 per ton. In the West, prices exceeded $300 per ton. Despite the higher seed prices, crushing margins are being supported by increased prices of cottonseed oil and meal.

Cotton Farm Program

The 2008 crop is scheduled to be the first crop covered by the new farm legislation currently being debated in Congress. As this outlook was finalized for publication, the House and Senate had developed their respective versions of the new farm legislation. A conference committee was to begin work on resolving differences between the two bills in late January.

To a large extent, the bills approved by the House and Senate build upon the general structure put in place in the 2002 farm bill. In statements of support for the two bills, the National Cotton Council noted that both bills maintain the safety net provided by the combination of the marketing loan, direct payments and a

counter-cyclical program. In addition, both bills address several of the cotton industry's concerns with the operation of the marketing loan program.

Base Loan Rates, Marketing Loans and LDP's

Both bills contain the following provisions regarding the operation of the marketing loan program and the determination of loan schedule premiums and discounts:

- Specify the base loan rate for upland cotton at 52.00 cents/lb. (See table of page 19)
- Eliminate warehouse location differentials.
- Develop loan schedule premiums and discounts on a 3-year moving average of spot market information, weighted by region's share of U.S. production.
- Eliminate the split in the micronaire schedule between staple lengths 32 and 33.
- For qualities of cotton in which the leaf grade is more than one grade above the color factor, the premium/discount will be set equal to the premium/discount of the quality with the same color factor but with a leaf grade that is one better than the color factor.
- In the calculation of the Adjusted World Price (AWP), establish a seamless transition between crop years such that current-crop quotes are used through the end of the marketing year, if available.

The House bill specifies the following changes for the determination of the prevailing world market price and the AWP:

- Determine the prevailing world market price as the average of the 3 lowest-priced growths quoted for Middling 1-3/32, C/F Far East (FE).
- Determine the AWP using average costs to market cotton, including average transportation costs.
- Include the quality adjustment as defined in the loan schedule premium for M 1-3/32 cotton, mike 3.7-4.2, strength 30 gpt, uniformity 83 for the determination of the AWP.
- For qualities above M 1-3/32, the AWP will be reduced by a proportion of the amount by which the difference between loan schedule premiums for SM 1-1/8 and M 1-3/32 exceeds the difference in applicable premiums for comparable qualities delivered C/F FE.

Neither bill changes the duration of the loan for the current length of nine months from the first day of the month following entry. In addition, both bills provide for the forgiveness of storage charges if the AWP is below the loan rate plus interest and storage. However, the House bill provides for this authority through the 2010 crop while the Senate bill continues for the life of the legislation, which is the 2012 crop.

Marketing loan gains (MLG) will continue to be payable as the difference between the base loan rate and the adjusted world price (AWP) when the former exceeds the latter. For eligible producers that agree to forego placing upland cotton in CCC loan, the marketing loan gain is available as a loan deficiency payment (LDP).

The loan rate for ELS cotton is maintained at 79.77 cents/lb.

Direct Payments

For upland cotton, the direct payment under both the House and Senate bills is maintained at 6.67 cents/lb. (See table on

page 19). There is no direct payment available for ELS production. Direct payments are paid on 85% of an eligible producer's base production (base acres times program yield) and decoupled from contemporaneous production decisions. Payment acres and yields for direct payments remain unchanged from those established under the 2002 farm bill.

Counter-Cyclical Programs

The House and Senate farm bills continue price-based counter-cyclical programs with some adjustments in target prices. Target prices for wheat, soybeans and some minor feed grains are increased from levels established under the 2002 farm bill, while rates for corn, peanuts and rice are unchanged from current law. For upland cotton, the House bill lowers the target price to 70.00 cents/lb. and the Senate lowers the rate to 72.25 cents/lb. The modest reductions from the 2007 target price of 72.40 cents/lb. were necessary to offset the costs of adjustments in other provisions of the cotton program. Also, as in current law, the next farm bill makes no provision for a target price for ELS cotton.

Target prices are used in the calculation of counter-cyclical payments. The counter-cyclical payment rate is determined as: (target price) minus (direct payment) minus (greater of 12-month marketing year average price or loan rate). When the sum of the direct payment and the marketing year average price exceeds the target price, the corresponding counter-cyclical payment is zero. Counter-cyclical payments are decoupled from production, as are the direct payments. Counter-cyclical payments will continue to be made on payment acres and yields established under the 2002 farm bill. (See table on page 19)

As an alternative to the price-based program, the House and Senate offer producers the option to elect a revenue-based counter-cyclical program. The House bill offers a national-level program with target revenues based on target prices and recent average yield experience. For upland cotton, the target revenue is set at $496.93 per acre. Payments are made when the national actual revenue, defined as the higher of the marketing year average price and the loan rate multiplied by the national average yield, falls below the target revenue. The difference between the target revenue and actual revenue is converted to a per-unit basis by dividing by the national average program yield. For upland cotton, the House bill sets the yield at 634 pounds per acre. Producers electing the revenue-based program will receive the per-unit payment on the same payment units as those determined under the price-based counter-cyclical program.

In the Senate bill, the revenue-based program is based on state-level experience where target revenue is determined as 90% of a rolling average of the crop insurance price election. The program would be available as an alternative beginning with the 2010 crop. Unlike the option in the House bill, producers electing the revenue-option would also forego eligibility for direct payments and the non-recourse marketing loan. In their place, producers would receive a fixed payment of $15 per acre and be eligible for a recourse loan.

Producer Agreement Requirements for Payments

For a producer to be eligible for payments, they must:

1. Comply with conservation requirements;
2. Comply with planting flexibility requirements;
3. Maintain land in an agricultural or conserving use;
4. Submit annual acreage reports.

Payment Limitations and Eligibility Requirements

As expected, payment limits and eligibility requirements were a focal point throughout the farm bill debate. In January 2007, the Administration's farm bill proposal included a number of changes to existing limits and rules, with the most notable change being a $200,000 means test on an individual's Adjusted Gross Income (AGI). As debate in Congress unfolded, it became apparent that tighter limits and more stringent eligibility requirements were a likely outcome. While both the House and Senate farm bills include significant reforms, more draconian amendments were rejected during the floor debate.

The House-passed farm bill includes the following payment limit provisions:

- Elimination of the 3-entity rule;
- Direct attribution of payments to the individual;
- Set limit on direct payments at $60,000;
- Set limit on counter-cyclical payments at $65,000;
- No limit on marketing loan gains and loan deficiency payments;
- Eliminate the use of commodity certificates;
- Maintain separate limits for peanuts;
- Clarify rules for spouse eligibility and give credit for labor and management;
- Modifies AGI means test to exclude any individual from receiving commodity program benefits whose 3-year average AGI exceeds $1.0 million, regardless of income source; excludes any individual whose 3-year average AGI is between $500,000 and $1.0 million unless two-thirds of their income comes from farming, ranching or forestry;
- Expands the definition of farming, ranching or forestry income;
- Applies the same means test to conservation program benefits.

The Senate-passed bill includes the following provisions:

- Elimination of the 3-entity rule;
- Direct attribution of payments to the individual;
- Set limit on direct payments at $40,000;
- Set limit on counter-cyclical payments at $60,000;
- No limit on marketing loan gains and loan deficiency payments;
- Eliminate the use of commodity certificates;
- Maintain separate limits for peanuts;
- Clarify rules for spouse eligibility and give credit for labor and management;
- In 2009, modifies AGI means test to exclude any individual from receiving commodity program benefits whose 3-year average AGI exceeds $1.0 million unless two-thirds of their income comes from farming, ranching or forestry. In 2010, lowers the test to $750,000;
- Expands the definition of farming, ranching or forestry income;
- Maintains the current $2.5 million means test for conservation program benefits.

Cotton Competitiveness Provisions

The House and Senate bills provide the Secretary with discretionary authority to adjust the AWP if the Secretary determines that such adjustment is necessary to minimize forfeitures, allow for the orderly marketing of cotton and maintain international competitiveness.

Both bills continue provisions designed to allow U.S. mills to have adequate access to competitively priced cotton. Special import quotas are triggered when for a consecutive 4-week period the U.S. FE price exceeds the FE price. The 1.25-cent threshold is dropped. Cotton must be purchased not later than 90 days, and entered into the US not later than 180 days, from the date the quota is announced. The limit on imports in any marketing year is expanded to 10 weeks of consumption.

The limited global import quota for upland cotton is maintained in both bills. Whenever the base quality spot price for a month exceeds 130% of the average for the previous 36 months, a limited global import quota equal to 21 days of consumption of upland cotton by domestic mills must be opened for a 90-day period.

Competitiveness payments for eligible domestic users and exporters of American Pima cotton are continued in the bills with no change in the determination of payments. The payment rate reflects the difference between the American Pima quote in the Far Eastern market (APFE) and the lowest foreign quote in the Far East (LFQ), adjusted for quality. If the APFE quote exceeds the LFQ for 4 consecutive weeks and the LFQ is less than 134% of the base loan rate, then the payment rate equals the difference between the APFE and the LFQ in the fourth week of the 4-week period.

Economic Assistance to Users of Upland Cotton

The House and Senate bills establish an economic assistance program for all domestic users of upland cotton at a rate of $0.04/lb on all documented use of upland cotton. Funds shall be used only for infrastructure maintenance, updates, and improvements.

Export Promotion

The House and Senate continue the Market Access Program (MAP) and the Foreign Market Development (FMD). Funding for MAP ranges between $200 and $240 million/year while between $35 and $45 million/year is allocated for the FMD program. These two programs continue to be vital to the industry's efforts to build foreign demand for U.S. cotton and cotton products.

Proposed Support Rates in Preliminary Farm Bill

	Loan Rate		Direct Payment	
	House	Senate	House	Senate
Upland Cotton (lb.)	0.5200	0.5200	0.0667	0.0667
ELS Cotton (lb.)	0.7977	0.7977	N/A	N/A
Corn (bu.)	1.98	1.95	0.28	0.28
Sorghum (bu.)	1.98	1.95	0.35	0.35
Barley (bu.)	1.88	1.85	0.24	0.24
Oats (bu.)	1.35	1.33	0.024	0.024
Wheat (bu.)	2.80	2.75	0.52	0.52
Soybeans (bu.)	5.00	5.00	0.44	0.44
Min. Oilseeds (lb.)	0.096	0.093	0.008	0.008
Rice (cwt.)	6.50	6.50	2.35	2.35
Peanuts (ton)	355.00	355.00	36.00	36.00

	Target Price		Target Revenue (per acre)	
	House	Senate	House	Senate[1]
Upland Cotton (lb.)	0.7000	0.7225	496.93	
ELS Cotton (lb.)	N/A	N/A	N/A	N/A
Corn (bu.)	2.63	2.63	344.12	
Sorghum (bu.)	2.57	2.63	131.28	
Barley (bu.)	2.73	2.63	153.30	
Oats (bu.)	1.50	1.83	92.10	
Wheat (bu.)	4.15	4.20	149.92	
Soybeans (bu.)	5.00	5.00	231.87	
Min. Oilseeds (lb.)	0.1150	0.1274	129.18	
Rice (cwt.)	10.50	10.50	548.06	
Peanuts (ton)	495.00	495.00	683.83	

[1] Average Crop Revenue program guarantee determined as 90% of the product of the expected state yield and the pre-planting price. The pre-planting price is determined as the 3-year moving average of the price election under revenue coverage plans.

2008 Planting Intentions

Farm Bill

The lack of final farm bill specifics is expected to have little impact on early-season acreage intentions. Although growers do not know the exact provisions of a final bill, the versions approved by the House and Senate maintain the same provisions for planting flexibility that growers have been working under since the 2002 farm bill. Market forces will continue to drive acreage decisions.

Price Prospects

As growers approach the 2008 planting season, cotton prices are approximately 15 cents above year-ago levels (Exhibit 66). As of mid-January, December 2008 futures are trading in the mid- to upper 70's. At this time last year, the December 2007 contract was at 60 cents per pound. In addition to spillover effects from other commodity markets, cotton prices have also benefited from tightening balance sheet as consumption is expected to exceed production in the 2007 marketing year.

Driven by the increased demand for corn to produce ethanol, corn prices continue to trade at high levels relative to historical averages. On the Chicago Board of Trade, the December 2008 contract traded above $5.00 per bushel in mid-January (Exhibit 67). In January 2008, USDA reduced the size of the 2007 crop, further tightening the balance sheet. In mid-January, the December 2008 contract is trading about $1.00 higher than the comparable contract in 2007. Heading into the 2008 planting season, it appears that the corn market is moving higher in order to compete for acres with a surging soybean market.

Throughout 2007, soybean prices strengthened and have recently moved to all-time highs. In response to the dramatic drop in 2007 area and production, soybean prices strengthened with the November 2007 contract moving from $7.00/bu. at the start of 2007 and eventually expiring at just under $11.00/bu. As of mid-January, the November 2008 contract is trading near $12.00/bu., approximately $4.00 above the year-ago levels of the 2007 contract (Exhibit 68). Coupled with strong wheat prices, it is widely expected that a wheat-soybean double-cropping rotation will attract acres from both cotton and corn.

As growers consider their 2008 planting decisions, they are comparing prices for cotton, corn, soybeans and other regional crops. Growers will also be influenced by the significant increase in input costs, particularly fuel and fertilizer. While final acreage decisions will consider expected returns of cotton and competing crops, farmers must also take into account agronomic considerations such as crop rotation.

2008 U.S. Cotton Acreage Intentions

In mid-December 2007, the NCC mailed out its annual early season planting intentions survey. Respondents are asked to give their plantings of cotton, corn, soybeans, wheat, and other crops for 2007 and intended acreage for 2008. The response rate on the latest survey was about 10%, comparable to the typical return rate. As always, the survey results should be viewed as a measure of grower intentions prevailing at the time the survey was conducted. Changing climate and market conditions could cause actual plantings to be significantly different from growers' stated intentions.

Beginning with the Southeast, survey results indicate an 11.5% decrease in the region's upland area to 2.00 million acres (See table on page 23). All states indicate declining cotton acreage, with Georgia and Virginia reporting the smallest percentage declines of 5 and 6%, respectively. Respondents in Alabama indicated an 11% reduction in acreage, while Florida growers are planning a 17% cutback. The Carolinas reported similar declines between 20 and 22%. Total 2008 acreage for each of the states is as follows: Alabama at 355 thousand acres, Florida at 70 thousand acres, Georgia reporting 981 thousand acres, North Carolina at 390 thousand acres, South Carolina acreage at 143 thousand acres, and Virginia at 56 thousand acres. In all states, the survey indicates that growers are shifting to a double-crop of winter wheat and soybeans. In many cases, respondents indicated an increase in the 'Other Crops' category, which is most likely peanuts.

In the Mid-South, survey results show that all states intend to reduce cotton area for 2008. Growers in the region intend to plant 2.05 million acres, a decline of 26% from the previous year. All states in the region indicate a shift out of cotton and into wheat and soybeans. The survey results are consistent with USDA's recent winter wheat acreage report that indicated significant increase in wheat area in the Mid-South. Coming on the heels of a sharp decline in 2007, the 2008 intentions put Mid-South cotton area at less than half of the 2006 level. The largest decrease is in Mississippi (-31%) with plantings of 454 thousand acres. Arkansas (-30%) and Tennessee (-29%) also show sizable declines with plantings of 605 thousand and 366 thousand acres, respectively. Smaller declines are expected in Louisiana (-18%) and Missouri (-8%).

Survey results indicate the smallest drop will occur in the Southwest with intentions off 2% from 2007, bringing planted area for the region down to 5.02 million acres. The decline in the Southwest is the result of Texas indicating a 2% decline to 4.79 million acres. Within Texas, respondents from South Texas and the Blacklands region indicate a reduction in 2008 cotton acres, while growers in West Texas plan to increase cotton area. The results for West Texas are consistent with Oklahoma and Kansas, who plan to increase cotton area by 3 and 16%, respectively. In Oklahoma, the 3% increase puts cotton area at 180 thousand acres. Kansas growers indicate that they will plant 54 thousand acres. While up from 2007, their acreage is still less than half of the 2006 total.

All states in the West region show declines in upland plantings, with the region as a whole down 39% to 252 thousand acres. In California, intended area of 91 thousand acres represents a 53% decrease from the previous year. The expected decline in acreage is the result of concerns over water availability and competition from specialty crops. Growers in New Mexico intend to decrease upland area by 27% to 34 thousand acres. Arizona growers indicate a drop of 25% to 127 thousand acres.

Summing across the 4 regions gives intended 2008 upland cotton area of 9.32 million acres, 12% lower than 2007. If realized, U.S. upland area would be the lowest since 1983 – the year of the Payment-in-Kind (PIK) program.

Survey results indicate that U.S. cotton growers intend to decrease ELS plantings 21% to 231 thousand acres in 2008. All states indicate declines ranging between 5 and 21%. In California, a 21% reduction brings acreage down to 204 thousand acres. A decrease of 21% is indicated by Texas growers, bringing acreage to 20 thousand acres. Growers in New Mexico intend to reduce ELS plantings by 5% to about 4,000 acres while a 20% reduction to 2,000 acres is indicated for Arizona.

Summing together the upland and ELS cotton intentions shows U.S. all-cotton plantings in 2008 of 9.55 million acres, 12% lower than the previous year. (See table on page 23 and Exhibit 69)

2008 U.S. Cotton and Cottonseed Supply

In 2007, favorable weather conditions in the Southwest more than offset the weather problems in the Southeast and Mid-South, producing below-average abandonment and above-average yields for the Cotton Belt as a whole. Even in areas hit by adverse weather, final yields often exceeded pre-harvest expectations. Recent results suggest that other factors beyond weather, such as higher-yielding varieties and the success of boll weevil eradication play a significant role in yield performance. For the economic outlook, normal or average weather conditions are assumed. In addition, it is assumed that abandonment returns to levels consistent with historical averages.

Assuming an average abandonment across the Cotton Belt of 8.3%, harvested area would be approximately 8.76 million acres (Exhibit 70). For all states, expected yields are aligned with recent trends. Weighting by 2008 area generates a U.S. average yield of 843 pounds. This compares to a 2007 yield of 871 pounds and a 2002-06 average of yield of 820 pounds. Applying each state's yield to its 2008 projected harvested acres generates a crop size of 15.38 million bales, with 14.75 million bales of upland cotton and 628 thousand bales of ELS cotton. Obviously, weather can have a dramatic impact on the final crop size, particularly in light of the fact that Texas is expected to account for 50% of U.S. cotton area. Under ideal conditions, 18 million bales would not be out of the question, while weather problems could also push the crop to between 12 and 13 million bales.

Using the point estimate of projected yields, upland production by region is: Southeast = 3.15 million bales; Mid-South = 4.18 million bales; Southwest = 6.71 million bales; and West = 0.72 million bales.

Combining projected production with expected beginning stocks of 8.69 million bales gives a total U.S. supply of 24.09 million bales (Exhibit 71). This is a decrease of more than 4 million bales from the 2007 level and the lowest since 2003.

For cottonseed, multiplying the point estimate of lint production by an average lint-seed ratio generates expected production of 5.28 million tons. With 400 thousand tons in beginning stocks, 2008 cottonseed supply totals 5.68 million tons (Exhibit 72).

Prospective 2008 U.S. Cotton Area

	2007 USDA Actual	2008 NCC Intended	Percent Change
	(Thousand Acres)		
SOUTHEAST	**2,255**	**1,996**	**-11.5%**
Alabama	400	355	-11.1%
Florida	85	70	-17.2%
Georgia	1,030	981	-4.8%
North Carolina	500	390	-22.0%
South Carolina	180	143	-20.4%
Virginia	60	56	-6.0%
MID-SOUTH	**2,750**	**2,049**	**-25.5%**
Arkansas	860	605	-29.7%
Louisiana	335	275	-17.9%
Mississippi	660	454	-31.2%
Missouri	380	349	-8.3%
Tennessee	515	366	-28.9%
SOUTHWEST	**5,122**	**5,021**	**-2.0%**
Kansas	47	54	15.6%
Oklahoma	175	180	2.6%
Texas	4,900	4,788	-2.3%
WEST	**411**	**252**	**-38.7%**
Arizona	170	127	-25.3%
California	195	91	-53.3%
New Mexico	46	34	-26.6%
TOTAL UPLAND	**10,538**	**9,318**	**-11.6%**
TOTAL ELS	**292**	**231**	**-21.1%**
Arizona	3	2	-20.0%
California	260	204	-21.4%
New Mexico	5	5	-4.8%
Texas	25	20	-21.4%
ALL COTTON	**10,830**	**9,549**	**-11.8%**

U.S. Market

U.S. Textile Industry

In 2007, the U.S. textile industry experienced more plant closings, job losses, and continued pressure from imports, particularly from China. According to the National Council of Textile Organizations (NCTO), 27 textile mills closed in 2007. Approximately 580 textile mills have closed since the beginning of the Asian financial crisis in 1997. Preliminary data from the U.S. Bureau of Labor Statistics indicate that textile industry employment in 2007 fell by approximately 51,000 workers. These figures represent employment in all three sectors of the U.S. textile industry - textile mills, textile products mills, and apparel mills.

Mill Use

Mill use of cotton declined for the tenth consecutive year in calendar 2007 and is estimated at 4.82 million bales, 11.7% below the amount consumed in 2006 and 23.7% below the 6.32 million bales consumed in 2005 (Exhibit 73). The decline in mill use can be attributed to another year of sizeable cotton textile imports. For calendar 2008, NCC forecasts domestic mill use of cotton at 4.57 million bales. The NCC estimate for mill use in the 2007 crop year is 4.62 million bales (Exhibit 74). NCC forecasts domestic mill use of cotton at 4.40 million bales for the 2008 crop year. The assumed economic assistance program currently included in the House and Senate versions of the farm bill should provide much-needed help to the sector.

Consider that by Department of Commerce accounting methods there are generally 261 effective working days in a calendar year. Hence, a 1,000 bale reduction in daily mill use equates to a reduction of 261 thousand bales in annual mill use (Exhibit 75). By extension, a 4,000 bale reduction in daily mill use implies annual reductions greater than 1 million bales.

Average daily mill use continued to decline throughout 2007. In January 2007, average daily mill use was 18,771 bales. By December 2007, average daily mill use had declined 3,855 bales to 14,922, a 1.0 million bale decline for calendar 2007.

Cotton is not the only fiber that experienced a decline in mill use in 2007; U.S. mill consumption of manmade fibers decreased slightly. NCC estimates mill use of manmade fibers at 18.12 million bales for 2007, a decrease of 4.6% from 2006 (Exhibit 76). Manmade fiber mill use is projected to decrease to 17.84 million bales in calendar 2008.

While reliable mill use and trade data are available for 2007, the most recent annual data for U.S. production of apparel and home furnishings are obtained from NCC's annual publication *Cotton Counts Its Customers.* The latest edition contains production data through 2006. The 2008 edition, containing annual data for 2005, 2006 and 2007, is scheduled to be released in late 2008.

The 2007 edition of *Cotton Counts Its Customers* shows that the apparel industry continues to be hard hit by increasing imports. Total apparel production in 2006 fell to 3.24 million bale equivalents, 19.1% below the 2005 production figure of 4.00 million bales (Exhibit 77). While all apparel segments

experienced a decline in production, men's and boys' apparel experienced the largest decline, dropping 24.5% in 2006. Children's apparel saw the second largest decline (-20.6%) followed by women's, misses', and juniors' with an 11.1% drop in 2006. Cotton's share of production experienced a decrease from the previous year, dropping 10.5% to 54.4% in 2006. Production of cotton apparel fell 32.1% in 2006 to 1.76 million bales (Exhibit 78).

U.S. production of home furnishings, excluding carpeting, also decreased in 2006. Most recent estimates indicate that total production, excluding carpeting, was down 20.6% to 2.82 million bales from 3.55 million bales in 2005 (Exhibit 79). The share of cotton in home furnishings, excluding carpeting, decreased slightly in 2006 to 53.8%. Total cotton consumed in home furnishings, excluding carpeting, for 2006 was 1.52 million bales.

Net Domestic Consumption

Net domestic consumption is a measure of the U.S. retail market's size. It measures both cotton spun in the U.S. (mill use) and cotton consumed through textile imports. Total fiber consumption in 2007 is estimated to be 52.98 million bale equivalents (Exhibit 80). Cotton's share of net domestic consumption decreased 0.2% this past year to 44.0%, placing 2007 net domestic consumption of cotton at 23.33 million bales. As for 2008, NCC projects net domestic consumption of all fibers to increase to 53.13 million bales. Cotton's share of net domestic consumption is projected to decrease slightly to 43.8%, putting net domestic consumption of cotton at 23.28 million bales.

Imported goods make up the largest portion of U.S. net domestic consumption. However, for the first time since 2001, imported cotton textiles declined slightly from 22.83 million bale equivalents in 2006 to an estimated 22.68 million in 2007 (Exhibit 81).

Textile Trade

Increasing imports over the past several years have devastated the U.S. textile and apparel industries. While cotton textile imports did not increase in calendar year 2007, they still made up approximately 97% of U.S. net domestic consumption of cotton. Imports of cotton goods in 2007 are estimated to have decreased slightly by 0.7% to 22.68 million bale equivalents (Exhibit 82). In calendar 2008, NCC projects cotton textile imports to increase to 22.71 million bales.

When looking at imports, it is important to consider that a significant portion of imported goods contain U.S. cotton. Since much of what the U.S. exports to the NAFTA (North American Free Trade Agreement) and the CBI (Caribbean Basin Initiative) countries is in the form of fabric and piece goods that come back in the form of finished goods, the trade gap is not as wide as it appears by just looking at gross imports and exports. NCC analysts estimate that 27.4% of all cotton goods imported in 2007 contained U.S. cotton. This is a 2.3% decrease over the previous year. In bale equivalents, these imported cotton goods contained 6.21 million bales of U.S. cotton (Exhibit 83). This is due, in large part, to our trading partners in NAFTA and the CBI.

U.S. Cotton Product Imports

Apparel was once again the largest category of imported cotton goods when compared to yarn, thread and fabric, and

home furnishings (Exhibit 84). Cotton apparel imports are estimated at 16.75 million bale equivalents for 2007, up 0.8% from 2006. Imports of cotton home furnishings (including floor coverings) increased 6.8% in 2007 to an estimated 4.06 million bale equivalents. Cotton yarn, thread and fabric imports decreased 17.8% in 2007 to an estimated 1.86 million bales.

Once again, countries in NAFTA and CBI represented significant sources of imported cotton goods in 2007 (Exhibit 85). Imports from Mexico in 2007 are estimated at 1.62 million bales, down approximately 17.0% from the previous year (Exhibit 86). This marks the seventh straight year in which imports from Mexico have declined. Imports of cotton goods from Canada also decreased to an estimated 209 thousand bales in 2007, down 28.5% from the previous year (Exhibit 87). Imported cotton goods from CBI for the year are estimated at 3.15 million bale equivalents (Exhibit 88), down 7.5% from the previous year. The CAFTA-DR countries of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic are all part of the CBI region. Imports of cotton goods from CAFTA-DR in 2007 were 2.84 million, or 90.0% of the cotton textile imports from CBI. Combined, imports from NAFTA and CBI countries decreased 11.9% and accounted for 22.0% of total U.S. cotton product imports in 2007.

Other top sources of imported cotton goods in 2007 were China, Pakistan, India, Hong Kong, Bangladesh, Vietnam, and Turkey. For the fifth consecutive year, China was the source of one of the larger percentage increases in cotton textile imports into the U.S. (Exhibit 89). Total cotton product imports from China increased to an estimated 5.84 million bale equivalents in 2007, up 18.6% from 2006 and 580.7% from 2001 when China entered the WTO. China's share of imported cotton goods in the U.S. market increased from 10.9% in 2004, 20.5% in 2005, and 21.6% in 2006 to 25.8% in 2007. Imports of cotton products from Pakistan are estimated at 2.17 million bale equivalents in 2007, a decrease of 173 thousand bales. Although imports from Pakistan decreased in 2007, since 1997, Pakistan imports have increased 220.1%. Pakistan decreased its share of imported cotton goods in the U.S. market last year to 9.5%. Imports from India are estimated at 1.69 million bale equivalents for 2007. This is a 5.2% increase from last year and a 132.3% increase from 1997. India now accounts for 7.4% of all U.S. cotton product imports. Imports from Hong Kong in 2007 are estimated at 394 thousand bale equivalents, down 28.7% from 2006 imports. Hong Kong's share of imported goods in the U.S. declined to 1.7% in 2007. Imports from Bangladesh in 2007 were up 12.0% from 2006 to 1.16 million bale equivalents. Bangladesh accounted for an estimated 5.1% of all cotton goods imported into the U.S. in 2007.

It is important to note in the following discussion that the most reliable data on imports by product category and by country is in the form of square meter equivalents (SME), rather than pounds or bales. Since different products have different weights per square meter, total imports reported in bale equivalents will not necessarily show the same trend as total imports expressed in SME. NCC expresses imports in bale equivalents whenever possible, but the measurement of SME best represents product

categories imported from individual countries.

Mexico

Although declining among individual countries, Mexico was once again one of the larger shippers of cotton goods to the U.S. in 2007. Cotton trousers remained the largest category of imported cotton goods from Mexico. Trousers accounted for 35.5% of all cotton product imports from Mexico based on square meter equivalents (Exhibit 90). Knit cotton shirts were the next largest category of imports, accounting for 20.7%, followed by cotton hosiery (7.4%) and "other cotton manufactures" (6.8%). The U.S. Customs Service category "other cotton manufactures" includes items such as tablecloths, napkins, dishtowels and pillow covers.

Canada

U.S. cotton imports from Canada decreased for the fifth consecutive year in 2007. The largest category of imports from Canada in 2007 was carded yarn, which accounted for 26.7% of total square meter equivalents of cotton product imports from Canada (Exhibit 91). The next largest category was underwear with 10.8% of total imports, followed by "other cotton manufactures" at 8.6% and knit cotton shirts at 5.6%.

CBI

Continuing the trend seen over the past several years, CBI countries shipped more cotton goods to the U.S. than did NAFTA countries in 2007. The largest category of imported cotton goods from the region was underwear, accounting for 36.8% of total imports, based on SME (Exhibit 92). Approximately 93% of the cotton underwear imports from CBI came from the CAFTA-DR countries. The second largest category, knit shirts, accounted for 30.3% of imports, followed by trousers (10.5%) and cotton hosiery (7.4%). Of these imports, 89.6% of the cotton knit shirts, 98.2% of the cotton trousers and almost 100.0% of the cotton hosiery were from the CAFTA-DR countries.

AGOA

Over the past year, total cotton apparel product imports from the AGOA (African Growth and Opportunity Act) region have decreased by 1.7% to an estimated 231.24 million SMEs (Exhibit 93). However during the past year, the percentage of U.S. cotton apparel imports from the AGOA region receiving preferential treatment under the act increased from 98.3% to 99.2%.

Pakistan

The largest category of imported goods from Pakistan in 2007 was "other cotton manufactures" (Exhibit 94). This category accounted for 34.5% of all cotton product imports from Pakistan based on SME. The second largest category imported from Pakistan was cotton sheets with 16.8% of total imports, followed by bedspreads and quilts (7.1%) and cotton hosiery (5.7%).

China

Again last year, the single largest supplier of imported cotton goods into the U.S. market was China. On a SME basis, the largest category of cotton product imports from China in 2007 was "other cotton manufactures", which accounted for 27.4% of all cotton product imports from that country (Exhibit 95). Coats was the second largest category of cotton imports from China in 2007, comprising 7.8% of total cotton product imports from that country. Nightwear

accounted for 7.4% of U.S. cotton textile and apparel imports from China in 2007. Cotton sheets were the fourth largest category and accounted for 6.4% of cotton product imports.

India

As was the case with Pakistan and China, the largest category of imported cotton goods from India in 2007 was the category of "other cotton manufactures" (Exhibit 96). When based on SMEs, this category represented 33.6% of all cotton goods imported from India. The next largest category was cotton sheets (7.5%), followed by knit shirts (6.6%) and woven shirts (6.5%).

Hong Kong

While still a significant source of imported cotton goods, Hong Kong's share of U.S. imports has been declining over the past several years. The largest category of imported cotton goods from Hong Kong in 2007 was trousers (Exhibit 97). When looking at SMEs, cotton trousers accounted for 34.8% of all cotton products imported. The second largest category was sweaters with 22.0% of imports, followed by knit shirts (14.1%) and woven shirts (11.4%).

Bangladesh

Based on SMEs, the largest category of cotton goods imported from Bangladesh in 2007 (27.7%) was trousers (Exhibit 98). The second largest category in 2007 was woven shirts (17.7%). Cotton underwear was the third largest category in 2007, representing 13.8% of total cotton goods imported from Bangladesh, followed by nightwear at 8.6%.

Vietnam

Another country which has emerged as a more significant supplier of cotton product imports is Vietnam (Exhibit 99). U.S. cotton product imports from Vietnam have increased by 2,893.6% based on SME since 2001. In 2001, the U.S. imported 24.35 million SME of cotton goods from Vietnam. This number increased to an estimated 728.86 million SME in 2007. The largest category of imported cotton goods from Vietnam in 2007 was trousers. Based on SMEs, this category represented 26.7% of all cotton goods imported from Vietnam. The next largest category was knit shirts (22.2%), followed by coats (8.6%) and woven shirts (7.9%).

Turkey

Cotton product imports from Turkey continued their recent downward trend. Based on SMEs, the largest category of cotton goods imported from Turkey in 2007 was "other cotton manufactures", which accounted for 23.5% (Exhibit 100). The second largest category in 2007 was cotton sheets (20.3%), followed by cotton trousers (6.7%) and knit shirts (5.5%).

U.S. Cotton Product Exports

For the third consecutive year, exports of U.S. cotton textile and apparel products experienced a decrease in 2007 (Exhibit 101). Exports declined by 11.4% in 2007 to an estimated 4.17 million bale equivalents. This decrease is due to a drop in all of the export categories of cotton home furnishings (including floor coverings), cotton apparel, and cotton yarn, thread, and fabric (Exhibit 102). Cotton apparel exports are estimated to have decreased by 47.2% in 2007 to 452 thousand bale equivalents. Exports of home furnishings (including floor coverings) decreased by 1.7% over the previous year to an estimated 134 thousand bale equivalents. Exports of

cotton yarn, thread, and fabric decreased by 3.4% to 3.58 million bales equivalents over the previous year. For 2008, NCC projects U.S. cotton textile exports to decrease to 4.00 million bales.

The top customers of exported U.S. cotton textiles and apparel in 2007 were once again the NAFTA and CBI countries (Exhibit 103). Exports to the NAFTA countries last year totaled an estimated 1.26 million bale equivalents, down 24.9% from the previous year. Exports to the region accounted for 30.3% of all U.S. cotton product exports. Exports to Mexico decreased to an estimated 916 thousand bale equivalents from 1.23 million in 2006. Cotton product exports to Canada decreased by an estimated 22.7% to 348 thousand bale equivalents for 2007.

U.S. exports to the CBI countries declined last year. In 2007, exports decreased 3.1%, totaling 2.52 million bale equivalents or 60.5% of all U.S. cotton exports. This is 16.3% higher than 2002 exports and 41.3% higher than 2001 cotton product exports to CBI. Approximately 97.9% of the cotton products exported to CBI went to the CAFTA-DR countries.

Exports to Colombia were an estimated 60,000 bale equivalents in 2007, 1.4% of all U.S. exports. Estimated exports to China, Japan, and the U.K were 30,000 bale equivalents, each. Exports to Belgium were 20,000 bale equivalents. Exports to Hong Kong were 10,000 bale equivalents. The remaining 5.1%, or 210 thousand bales, of U.S. cotton textile and apparel exports were shipped to all other customers of U.S. cotton goods.

Other Textile Trade Issues

Regional trade preference agreements continue to be vital to the U.S. textile industry's ability to compete, especially since the removal of quotas for all WTO member countries on January 1, 2005. Since entering office, the Bush Administration has worked to open markets globally in the Doha WTO negotiations, through regional trade negotiations, and bilaterally with free trade agreements (FTAs). Since 2001, FTAs with Australia, Bahrain, Chile, Jordan, Morocco, Singapore, and most of the countries of the CAFTA-DR - Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua - have entered into force. The Bush Administration has completed free trade agreements with numerous countries including Colombia, Panama, Peru, and South Korea. Furthermore, the administration signed a broad agreement with China on Chinese textile imports into the United States.

China

In late 2001, China officially became a member of the WTO. The textile portion of the China agreement subjected the U.S. textile industry to increased competition from imported textiles, as it called for quotas on Chinese textile imports to be phased out within 5 years. China has made full use of WTO provisions to increase their textile imports to the U.S.

A China-specific safeguard allows the U.S. and other WTO member countries that believe imports of Chinese-origin textile and apparel products are, due to market disruption, threatening to impede the orderly development of trade in these products to request consultations with China with a view to easing or avoiding

such market disruption. Upon receipt of the request, imports from China may be restricted to a level no greater than 7.5% (6% for wool product categories) above the amount entered during the first 12 months of the most recent 14 months preceding the request for consultations. The import quotas may last up to one year. China-specific safeguard petitions are filed with Committee for the Implementation of Textile Agreements (CITA). Due to the tremendous rise in Chinese textile exports to the U.S., safeguards have been enacted numerous times since 2003.

On November 8, 2005, the U.S. and China signed a broad agreement on Chinese textile imports into the U.S. The agreement went into effect on January 1, 2006 and ends on December 31, 2008 and places quotas on a broader range of textile and apparel product categories (34) than were subjected to safeguard action (19). The quotas established under the agreement compare favorably to quotas that would have been imposed if China textile safeguards were invoked. Over the life of the agreement, China can export 3.2% more of the covered products to the U.S. than if the safeguards were invoked on all of the covered products for all three years. In general, U.S. imports of Chinese goods covered by the agreement are allowed to grow by 10 to 12.5% in 2006, 12.5% in 2007, and 15 to 16% in 2008, depending on the item. Furthermore, in 2006, the agreement imposed tighter limits on U.S. imports from China of "core" apparel products. The "core" apparel products are cotton knit shirts, MMF knit shirts, woven shirts, cotton trousers, MMF trousers, brassieres, and underwear. Other items covered by the agreement include combed cotton yarn, cotton towels, glass fiber fabric, knit fabric, polyester filament fabric, special purpose fabric, synthetic filament fabric and thread, sweaters, socks/baby socks, swimwear, and blinds.

As part of the agreement, the U.S. promised to exercise restraint in the future use of safeguards on products that are not covered by the agreement. The agreement also contains mechanisms to allow U.S. importers and the Chinese government to manage quotas to avoid overshipments. For example, China will manage its exports with a visa system and can borrow small amounts of quota from future years to cover overshipments.

With the agreement in place, imports from China for the agreement categories were approximately 1.8 billion square meter equivalents in calendar 2006. NCC estimates that imports from China for the categories covered in the agreement were approximately 2.2 billion square meter equivalents in calendar 2007 (Exhibit 104). Imports from China for the categories not covered in the agreement were approximately 16.8 billion square meter equivalents for calendar 2006 and increased to an estimated 20.9 billion square meter equivalents for calendar 2007.

AGOA

On July 13, 2004, President Bush signed legislation which extended AGOA from its planned expiration date of 2008 to 2015. Other key provisions of the legislation included the extension of authority for the use of third country fabrics from September 2004 to September 2007. Rules-of-origin provisions were amended to allow non-AGOA produced collars and cuffs for apparel import categories. The "folklore"

provision was expanded to allow ethnic fabrics that are made on machines to qualify for AGOA duty-free treatment. The legislation also includes provisions for the development of sustainable infrastructure and technical assistance, including the assignment of 20 people to sub-Saharan Africa to assist and advise them on sanitary and phyto-sanitary standards to meet requirements for the U.S. market. In 2006, legislation was passed by Congress and signed by President Bush to extend provisions of AGOA which provide for use of non-US, non-AGOA components to September 2008. However, beginning October 2008, 50% of the fabric used in apparel qualifying for preferential access must be manufactured in AGOA countries. The legislation would also establish tax credits for companies with facilities in AGOA countries or that conduct business in AGOA countries.

The AGOA legislation requires an annual determination to see which countries are eligible to receive benefits under the trade act. Countries must make continued progress toward a market-based economy, rule of law, free trade, and economic policies that will reduce poverty, and protect workers' rights. On June 28, 2007, Mauritania was added back to the list of eligible countries after being removed in 2006. There are now 39 countries that are eligible for economic and trade benefits under AGOA. Of those 39 Sub-Saharan countries, 26 of them are eligible to receive AGOA's apparel benefits. Seventeen of those countries also qualify for AGOA's provisions for handloomed and handmade articles. One country, Nigeria, qualifies for AGOA's ethnic printed fabric benefits.

CAFTA-DR

In the spring of 2004, the Central America Free Trade Agreement (CAFTA) was signed. At that time, the Central American countries included in the agreement were Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. By August 2004, the Dominican Republic was included in the agreement and the agreement became known as the Central America – Dominican Republic Free Trade Agreement (CAFTA-DR). The U.S. Senate passed implementing legislation for CAFTA-DR in June 2005. The House of Representatives passed the legislation in July 2005 and it was signed by the President in August 2005. The initial target date agreed to by all signatories for the agreement to go into force was January 1, 2006. In December 2005, U.S. officials announced that implementation would begin on a rolling basis as soon as the participating countries meet their internal approvals. Under the rolling admissions process, entry into force would occur on the first day of the month with a country that the U.S. Trade Representative determines is ready by the middle of the preceding month. The CAFTA-DR entered into force for El Salvador on March 1, 2006, for Honduras and Nicaragua on April 1, 2006, for Guatemala on July 1, 2006, and for the Dominican Republic on March 1, 2007. The remaining partner country, Costa Rica, approved the agreement in a national public referendum on October 7, 2007. However, as of January 1, 2008, entry into force for Costa Rica is pending passage of necessary implementation legislation by the Costa Rican legislature.

According to the provisions of the CAFTA agreement, textiles and apparel are duty-free and quota-free immediately

if they meet the agreement's yarn-forward rule of origin. This means that only apparel using yarn and fabric from the U.S., Central America and the Dominican Republic qualifies for duty-free benefits. The agreement's benefits for textiles and apparel are retroactive to January 1, 2004.

The textile provisions also include a number of avenues for 3rd-country participation, including 'cumulation', Tariff Preference Levels (TPLs) which authorize the use of a specified quantity of 3rd country components, a fabric-forward rule of origin for certain products and allowances for 'single transformation' for a number of others. 'Single transformation' means only one manufacturing step has to be taken in a country in order for products made from components sourced from anywhere to qualify for benefits.

Cumulation is a concept that brings countries that are not signatories to an agreement into the agreement provided they are signatories to another trade agreement. The signatories of CAFTA-DR agreed to cumulation with Mexico and Canada for woven apparel. This allows a limited amount of inputs from Mexico and Canada to be used in Central American/Dominican apparel that will still qualify for duty-free benefits in the U.S. Cumulation under CAFTA-DR is subject to an annual cap of 100 million SME. This cap can grow to 200 million SME, but the growth is tied to an increase in CAFTA-DR trade. Under the overall cap of 100 million SME, there is a 1 million SME cap on wool, 20 million SME cap on blue denim, and 45 million SME cap on cotton and man-made bottom weights. Mexico and Canada must provide reciprocal benefits to U.S. and Central American textile and apparel exports. Canada and Mexico must also agree to strengthen Customs enforcement measures.

CAFTA-DR provides Nicaragua with a TPL of 100 million SME which phases out over 10 years. CAFTA-DR does not contain TPLs for Costa Rica, El Salvador, Honduras or Guatemala.

CAFTA-DR contains a special textile safeguard which allows the U.S. to impose tariffs on certain goods when injury occurs due to import surges. A safeguard can not last more than 3 years for a specific good. On January 18, 2008, the CITA announced that it had voted to notify Honduras of its intent to apply a textile safeguard measure on cotton socks imported into the U.S. This safeguard is only for cotton socks and does not include wool and man-made fiber socks. CITA determined this safeguard was warranted based on the substantial growth in imports of cotton socks from Honduras. Imports of cotton socks from Honduras were 27.3 million dozen pairs through the first eleven months of 2007, an increase of 99% from the same period the previous year. According to the CAFTA-DR agreement, Honduras may request consultations following the receipt of written notice of the intent to apply the safeguard measure. These consultations must be concluded within 60 days. CITA will then have 30 days to make its final determination on whether to apply a safeguard measure.

The agreement also contains a new short supply process that includes tighter timelines than in earlier short supply processes, allows items to be deemed in partial short supply, and provides for items to be added to and removed from the short supply list.

Under legislation passed by Congress and signed by the President in the summer of 2006, material for pockets going into apparel made in the CAFTA region will have to be made in the U.S. or CAFTA countries for the product to enter the U.S. duty free. As of December 2006, all five of the Central American signatories to the CAFTA-DR and the Dominican Republic have concluded agreements on pocketing fabric with the U.S. The next step is for all of the CAFTA-DR parties to complete their domestic legislative procedures required to implement the amendments that have been agreed upon. As of October 1, 2007, all CAFTA-DR countries had signed the official "working party" letter agreeing to the pocketing change but none had made the administration or legislative changes needed to actually implement the agreement. The U.S. government expected the CAFTA-DR countries to complete these changes during the month of October. The changes had to be made by January 1, 2008 or new legislation would have had to be introduced in the U.S. Congress which again authorized the President to make the pocketing changes since the current authority under existing legislation expired on December 31, 2007. On December 21, 2007, President Bush issued a proclamation to implement amendments to the CAFTA-DR agreement granting additional textile and apparel concessions to our CAFTA-DR in return for a new rule of origin for pocketing.

Andean

Negotiations on a trade agreement between the U.S., Colombia, Ecuador, and Peru (Bolivia is thus far participating as an observer) continued throughout 2005. The last round of talks occurred in November 2005, but failed to develop a comprehensive agreement. However, Peru decided to continue negotiations and a free trade agreement was concluded between the U.S. and Peru in December 2005. Negotiations with Columbia were concluded on February 27, 2006. Negotiations with Ecuador are ongoing.

The U.S. - Peru Trade Promotion Agreement was signed on April 12, 2006. On May 10, 2007, the Democratic Leadership of the U.S. House of Representatives and the Bush Administration announced they had reached a conceptual agreement regarding labor, environmental and intellectual property provisions of the pending FTAs with Peru, Colombia, Panama, and South Korea. At the end of June 2007, the U.S. Trade Representative announced that it had reached agreements with each of the pending FTA countries to incorporate these changes into the legal text of the FTAs. In November 2007, legislation to implement the Peru Free Trade Agreement was approved by the U.S. House of Representatives. The U.S. Senate approved legislation to implement the U.S. – Peru free trade agreement in early December 2007 and the agreement was signed by the President on December 14, 2007. It has been speculated that the agreement could be implemented by July 2008.

Under the U.S. – Peruvian agreement, 80% of U.S. consumer and industrial product exports and two-thirds of U.S. agricultural exports to Peru will be duty-free immediately. The textile and apparel provisions are based on the yarn-forward rule of origin. There are no provisions for TPLs or exceptions to the requirement that qualifying products contain components manufactured in the U.S. or

Peru. As in NAFTA, a list of components not manufactured in either country has been developed and only those products may be sourced from a third country.

On November 22, 2006, the U.S. – Colombia Trade Promotion Agreement was signed. As mentioned previously, on June 28, 2007, the United States and Colombia signed a Protocol of Amendment revising the Agreement to reflect the bipartisan consensus on trade of May 10, 2007. As of mid-January 2008, the U.S. – Colombia Trade Promotion Agreement had not yet been submitted to Congress for approval.

Under the U.S. – Colombia agreement, over 80% of U.S. export of consumer and industrial products to Colombia will be duty-free immediately, and an additional seven percent will be duty free within five years. All remaining tariffs will be eliminated within ten years. The textile and apparel provisions are generally based on the yarn-forward rule of origin. Exceptions to the rules of origin will be handled through an expedited "short supply" determination process after entry into force, or through a similar process under the Andean Trade Preference Act before entry into force. The U.S. and Colombia agreed on 20 "short supply" items as part of the agreement. The agreement does not make use of TPLs. A "de minimis" provision will allow limited amounts of specified third-country content to go into U.S. and Colombian apparel. Also, a special textile safeguard will provide for temporary tariff relief if imports under the agreement prove to be damaging to domestic producers.

Colombia, Peru, Ecuador, and Bolivia received duty-free benefits under the Andean Trade Preference Act (ATPA). As part of the Trade Act of 2002, Congress renewed and enhanced the trade preferences for all four countries under the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which was scheduled to expire on December 31, 2006. Since it was not possible for Congress to approve legislation implementing the FTAs with Peru and Colombia before the ATPDEA expired, U.S. textile and apparel groups urged Congress to act to ensure that preferential access for products produced in the Andean region containing U.S. cotton, yarn, and fabric was not interrupted. Before adjourning in December 2006, Congress passed legislation to extend the Andean Trade Preference Act. President Bush signed the legislation on December 20, 2006. In June 2007, the U.S. House and Senate approved legislation and the President singed into law another extension of the Andean Trade Preference Act. This extension lasts until February 29, 2008. There has been discussion in Washington of another congressional extension of the Andean Trade Preference Act, but it is not clear that an extension will be voted on in time to avoid a gap in coverage.

Haiti

In September 2006, legislation – the Haitian Hemispheric Opportunity Through Partnership for Encouragement Act (HOPE) - was introduced that would provide expanded duty-free, quota-free access to certain apparel products assembled in Haiti. To qualify, Haitian products are required to have 50% of the value of the finished product be provided by the U.S., Haiti, any U.S. Free Trade Agreement partner or any country in AGOA, Andean or CAFTA. Congress passed the legislation in December 2006

and it was signed by the President on December 20, 2006.

U.S. textile industry organizations expressed strong objections to this legislation due to the very loose rule-of-origin. These organizations argued that the rule-of-origin is unenforceable according to customs and would result in transshipment of Chinese products displacing US exports and disrupting mutually beneficial trade with neighboring CAFTA countries.

HOPE provides that the annual quantity of goods eligible for duty-free benefits will be recalculated for each subsequent 12-month period. HOPE also provides that the annual limit for qualifying apparel imported from Haiti under this provision for the 12-month period beginning on December 20, 2007 will not exceed 1.25 percent of the total square meter equivalents of all apparel articles imported into the U.S. from Haiti in the most recent 12-month period for which data are available. The 12-month limit on duty-free benefits for the one-year period beginning on December 20, 2007 and extending through December 19, 2008 is 313,000,534 square meter equivalents.

Vietnam

The comprehensive trade legislation that was passed by Congress and signed by the President in December 2006 included provisions granting Permanent Normal Trade Relations (PNTR) to Vietnam. PNTR permits the U.S. to enter into the reciprocal "most favored nation" relationship – a relationship necessary for the U.S. and Vietnam to make use of the benefits of Vietnam's membership in the World Trade Organization (WTO). Vietnam's commitments in joining the WTO include wide-ranging reforms to its economy and substantial reduction in tariffs. Vietnam became the 150th member of the WTO on January 11, 2007.

In November 2006, the Bush Administration agreed to institute a Vietnam anti-dumping program at the Department of Commerce. As part of the program, the government agreed to monitor imports of textiles and apparel from Vietnam and to institute dumping investigations if dumping occurs. On January 11, 2007, the Department of Commerce began monitoring imports of textile and apparel products from Vietnam, concurrent with Vietnam's accession to the WTO and the subsequent removal of quotas on Vietnamese imports. This monitoring program is in effect until the end of the current administration. The Department of Commerce initially monitored five sensitive product categories – trousers, shirts, sweaters, underwear, and swimwear – however, products may be added or removed from monitoring based on Commerce's analysis and/or input received from its outreach efforts. In October 2007, the Department of Commerce announced that after reviewing the first six months of data from the monitoring program, there was insufficient evidence to warrant self-initiating an antidumping investigation. Commerce will continue to monitor trade in the previously mentioned five categories during the next six-month review that will begin in March 2008, after receipt of the January 2008 data.

In January 2007, Vietnam announced that it would require export licenses for the product categories being monitored by the U.S. and that it would not allow unduly low priced goods to be exported.

Korea

On April 1, 2007, the final day for Congressional notification under Trade Promotion Authority (TPA), the United States concluded a Free Trade Agreement with South Korea. This agreement was signed on June 30, 2007, the last day it could be signed and still be considered under TPA which expired on the same day. As of January 2008, the agreement (referred to as the KORUS FTA) had not been submitted to Congress for ratification.

The KORUS FTA should have the largest economic impact on the U.S. of any free trade agreement since NAFTA. Korea's agricultural sector is heavily protected from imports and will open significantly under the agreement. However, rice was excluded from coverage and high beef tariffs will phase out over a 15-year period. The US Trade Representative's office reported that more than $1 billion worth of US farm exports to Korea will become duty-free immediately. Trade in cotton fiber is slated to be liberalized quickly under the agreement. The agreement maintained the use of a "yarn-forward" rule of origin for textiles, no tariff preference levels, no cumulation, and no immediate concessions for the Kaesong Industrial Zones. The agreement also includes a textile safeguard and strong customs enforcement language. The KORUS FTA also allows for immediate duty-free access for Korea for most textile and apparel lines (87% of all tariff lines and over 50% of 2006 trade).

Miscellaneous Trade Agreements

In September 2006, the President signed into law the U.S. – Oman Free Trade Agreement. The agreement provides full reciprocal market access for U.S. textile and apparel producers. The agreement contains a yarn-forward rule of origin which requires textile and apparel products to contain U.S. or Omani yarn and fabric in order to qualify for duty-free treatment. However, the agreement also provides, on a temporary basis, duty-free treatment for limited quantities of textile and apparel products that do not meet this requirement. As of January 2008, the U.S. – Oman Free Trade Agreement had not yet entered into force.

On December 19, 2006, the U.S. and Panama announced they completed negotiations on a free trade agreement with the understanding that it is subject to further discussions regarding labor. A conceptual agreement between the Democratic Leadership of the U.S. House of Representatives and the Bush Administration regarding labor, environmental and intellectual property provisions of the pending FTAs including the FTA with Panama was reached in May 2007. At the end of June 2007, the U.S. Trade Representative announced that it had reached agreements with each of the pending FTA countries to incorporate these changes into the legal text of the FTAs.

Looking Ahead

As mentioned previously, Trade Promotion Authority (TPA) expired on June 30, 2007. Under TPA trade agreements are subject to an up-or-down vote, but not amendment, in Congress. When TPA expired, the Administration effectively lost its authority to enter into new FTA negotiations. It is expected that renewal of TPA will be delayed until after the 2008 elections and possibly beyond. Therefore, Doha and FTA negotiations are likely to remain at a standstill until TPA is extended.

Before TPA expired, negotiations were under way or about to begin with other countries including Malaysia, Ecuador, Thailand, the five nations of the Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa and Swaziland) and the United Arab Emirates.

World Market Situation

World Production

Globally, 2007 represents the fourth year of a cotton crop that appears to have stabilized on a new plateau. Current estimates place 2007 world cotton production at 118.25 million bales (Exhibit 105). These large crops are a direct result of many factors including favorable growing conditions, improved planting and harvesting techniques, and improvement in cotton seed varieties. China remains a leading producer while India also enjoyed favorable growing conditions. The United States is projected to produce a crop of 19.03 million bales, 2.56 million bales below the 2006 crop but still the sixth largest crop the U.S. has produced.

In 2006, world production was slightly behind the pace of world consumption. That gap has grown larger for the 2007 marketing year. World consumption is estimated at 127.30 million bales. With production estimates at 118.25 million bales, world consumption is projected to exceed production by 9.05 million bales.

Production Climate

World cotton prices, as measured by Cotlook Ltd.'s "A" (NE) Index, fluctuated between 55.50 cents per pound and 72.60 cents during the course of calendar 2007. Similar to 2006, cotton prices increased during the final months of 2007. Between September 1st and December 31st, the "A" (NE) Index increased 4.75 cents per pound from 67.85 cents per pound to 72.60 cents per pound.

Similar movement was seen in the "A" (FE) Index (Exhibit 106). On January 2, 2007 the "A" (FE) was 60.60 cents per pound. By the end of the year, the "A" (FE) had gained over 11.00 cents to reach 71.60 cents per pound. Throughout the course of 2007, the "A" (NE) Index averaged 1.46 cents higher than the "A" (FE) quote, which ranged between 53.95 cents per pound and 71.60 cents per pound. For the current marketing year to date, the "A" (FE) has averaged 69.24 cents per pound.

In regards to the "A" (NE) Index and the "A" (FE) Index, Cotlook Ltd. formally announced this past year their intention to discontinue the "A" (NE) Index effective August 1, 2008. In 2004, Cotlook began publishing an "A" Index for the Far East markets alongside the Northern Europe Index and will continue to publish the Far East "A" Index. The index is considered to be an objective and representative measure of offering prices in the international cotton market. The loss of the Northern Europe Index has ramifications on the current marketing loan program as several aspects of the program reference the Northern Europe quotes. These include the determination of the adjusted world price and price triggers for Steps 1 and 3.

Cotton industry leaders, in anticipation of the formal announcement, began exploring the impacts of the change in the index and examined options that will allow the program to continue to work effectively. The industry will work with United States Department of Agriculture (USDA) officials and key Congressional committees to ensure an appropriate transition to the Far East Index as part of the development and implementation of the next U.S. farm bill.

China

According to the latest estimates from USDA, China remains the largest cotton producer with a 2007 crop of 34.50 million bales (Exhibit 107). This year's crop is roughly 1.00 million bales smaller than the 2006 crop. China's cotton acreage has fluctuated in recent years in response to price swings and comparative cotton revenue versus other crops. However, a relatively stable price combined with the record yield in 2006 contributed to higher profits in 2006 and resulted in higher plantings in 2007.

In 2007, the Chinese government (GOC) began to subsidize cotton production through a multi-year "seed subsidy" program. In March 2007, the Chinese Ministry of Agriculture (MOA) appropriated a total of 500 million Yuan ($64 million U.S.) to cottonseed producers/traders. Based on industry sources, the subsidy will cover more than 2.2 million hectares, equivalent to about 40 percent of the projected planted area in 2007. The subsidy is allocated to large seed producers/traders for selected "high quality varieties" through open bidding. The rate is 15 Yuan/Mu or approximately $29/Ha.

Initiated by MOA and supported by the China Textile Industry Association (CTIA), the seed subsidy policy is aimed at stabilizing planted area. It is also expected that cotton quality will be more uniform because the selected "high quality varieties" (seeds eligible to be subsidized) are likely to increase in area coverage. Given the increasing cotton supply gap and the importance placed on maintaining a stable planting area, this policy is likely to remain in place for the foreseeable future.

Along with increased planting area, yields play an important role in the high production estimates for the 2006 and 2007 crop years. The growth trend in yield over the past few crop years is mainly attributable to technical advancements in Xinjiang production and in the dissemination of Bt cotton varieties in the Yangtze and the Yellow River regions. A sustained period of favorable weather conditions in most cotton producing regions has also supported recent high yields. For the 2007/08 crop year, yields are likely to stay above average.

Taking into account such variables as growing conditions, improved planting and harvesting techniques, and improvement in cotton seed varieties, this economic outlook estimates China's 2008 harvested cotton area at 15.30 million acres, an increase of 226,000 acres over 2007. This increase takes into account relative crop prices, winter wheat plantings and increased production costs. Assuming trend yields, China is projected to remain the world's largest cotton producer with a projected 2008 crop of 36.18 million bales.

India

India is heading toward increased production for the fifth consecutive year. The latest estimates by USDA have India producing 25.00 million bales for the 2007 crop year (Exhibit 108). Most cotton growing areas received good late-season rains in September establishing excellent growing conditions for the crop. There have been some reports of damage due to heavy rains and some minor pest (white fly/mealy bug) infestations in the north (Punjab/Haryana) and some pockets in Gujarat. However, improved

yield prospects in the major rain fed cotton growing belt in Gujarat, Maharashtra, Madhya Pradesh, Andhra Pradesh and Karnataka will more than offset these losses.

Since the first approval of one event and three hybrid varieties of Bt cotton in marketing year 2002, the government of India (GOI) has approved four events and 62 hybrids for commercial cultivation in different climatic regions. In September 2006, the Supreme Court directed the government not to approve any new genetically modified (GM) crop field trials or varieties based on a public interest litigation filed by a few environmentalists who raised safety concerns about the GM crop approval process. The government filed an application for removal of the ban. On May 8, 2007, the Supreme Court permitted the approval of Bt cotton varieties of the four already approved Bt events. Industry sources report that the Supreme Court ruling will pave the way for approval of about 16 new Bt cotton hybrids during the upcoming season. In addition to the approved varieties, there are over fifty Bt cotton hybrids, illegally bred and marketed by farmers and seed companies, which are available at cheaper rates vis-à-vis approved hybrids. Due to the recent significant reduction in approved Bt seed prices, wider choice of approved Bt hybrids, and growing awareness about the reliability and benefits of approved Bt seeds, cotton farmers are expected to gradually shift from unapproved Bt seeds to approved Bt seeds.

Most of the recent growth in production has been attributed to rapid adoption of Bt cotton hybrids, which is expected to peak in the next few years. With a limited scope of expansion in cotton planting areas, production growth is expected to slow down in the next few years. Although potential exists for a further increase in yields, cotton farmers will have to invest more in production technologies for improved management of irrigation, nutrient, pests and cotton disease. There are several government agencies and research institutions in addition to the Cotton Corporation of India (CCI) that are engaged in cotton development, seed distribution, crop surveillance, integrated pest management, and extension activities. In 1999, the government launched the Technology Mission on Cotton (TMC) to improve the availability of quality cotton at reasonable prices. The TMC focuses on bringing about all around improvement in the production, productivity and quality of cotton through research, transfer of technology and improvement in marketing and raw cotton processing. TMC has so far sanctioned about $345 million for several projects, mostly for modernization of market yards and ginning units.

Another factor involved in the recent growth in production is the substantial improvements in yields. Between 2003 and 2007, the average yield increased from 356 pounds per acre to 511 pounds per acre. With the increased adoption of improved Bt varieties, further increases in yield is expected.

Cotton continues to be very competitive with alternative crops, and further increases in area are projected for 2008. Assuming continued yield improvements, India’s cotton production is forecast at 26.76 million bales in 2008. This is 1.76 million bales above 2007 and well above

their 5-year average of 19.77 million bales.

Uzbekistan

Cotton traditionally has been the cash crop in Uzbekistan and a significant source of employment and foreign exchange. However, for the past several years, Uzbekistan has been experiencing serious problems in cotton production for a number of reasons, including weather, inadequate production incentives (i.e. prices), inadequate and low-quality inputs and deteriorating infrastructure, especially irrigation.

As part of its economic reforms in 2003, the government of Uzbekistan (GOU) adopted a decree calling for all state farms to privatize by the end of 2007. As of May 2007 more than half of the existing state farms already had been reorganized into private farms. In spite of implementing structural reforms in the agricultural sector, the GOU still maintains tight control over all aspects of production including planting area and production targets, prices, inputs, procurement and marketing of most of the cotton in Uzbekistan.

Year by year, Uzbekistan is increasing the area sown with faster-maturing varieties. During the last four years, the government initiated a major program to reform the cotton sector, aimed mainly at improving fiber quality. The reforms are focused on the following areas: 1) the replacement of inferior cotton varieties, particularly those with a high micronaire, with better varieties; 2) in connection with this, the government established a new State Inspection Service in 2005, which controls production and utilization of cottonseed; 3) the government is still seeking to modernize ginning plants by attracting foreign investment. Presently, more than 80% of the nation's ginning equipment dates to the Soviet era and needs to be replaced.

Despite the importance of cotton to Uzbekistan's economy, a number of challenges remain. For 2008, production is projected at 5.47 million bales (Exhibit 109), slightly below 2007.

Pakistan

Cotton is the backbone of Pakistan's economy. The government of Pakistan (GOP) announces the Minimum Support Price (MSP) for cotton at the start of each marketing season. The Trading Corporation of Pakistan (TCP) is held responsible for intervening in the market if the prices fall below the MSP. During the past two years, prices generally remained above the MSP and the TCP did not procure any cotton. USDA currently projects Pakistan production at 8.20 million bales for 2007, down 1.70 million bales from the 2006 estimate (Exhibit 110).

Estimates for the size of the 2007 cotton crop continue to be lowered due to unfavorable weather and severe crop damage in the main cotton belts of Punjab and Sindh, mainly due to the cotton leaf curl virus (CLCV) and mealy bugs.

The cotton leaf curl virus has become an epidemic in Pakistan, affecting over 70% of the 2007 cotton crop. The virus, which causes stunted growth and poor yields, was first reported in 1985. While scientists focus on developing an effective and durable virus resistant variety, the best control at present is application of pesticides against the insect vector.

Over the past two years, Pakistan has seen a growing invasion of mealy bugs. The insect attacked 12% of the 2006 crop and an alarming 30 to 35% of the 2007 crop. The illegal Bt cotton varieties planted in about 40% of Pakistan's cotton region is not the magic bullet many farmers had imagined. It was developed to resist chewing insects, mainly the cotton bollworm. The mealy bug is a sucking insect, unaffected by the Bt toxin, which is best controlled through pesticides. The price of pesticides to combat mealy bugs and the CLCV insect vector nearly doubled in 2007 and supplies were low, allowing the pest infestations to multiply rapidly this growing season.

During the 2007 marketing year, yields were off from the previous year. For 2006, yields were 592 pounds per acre. For 2007, yields dropped 102 pounds to 490 pounds per acre. With better growing conditions, a rebound in yields and a better handle on their current insect problems, Pakistani production should increase in 2008 to roughly 10.35 million bales.

Turkey

Between 2003 and 2006, Turkey has produced an average of 3.93 million bales. For 2007, USDA estimates production at 3.30 million bales (Exhibit 111).

Most of Turkey's cotton is planted between mid-March and mid-May and harvested from mid-August through November. The crop is grown in three main areas; the Aegean region, Cukurova and Southeastern Anatollia (GAP). Small amounts of cotton also are produced around Antalya and Antakya. The most popular variety in the Aegean region is "Nazilli 84" and "Nazilli 88"; in Cukurova "Carolina Queen", "Delta Pine", and "BA 119", "Stone Mill"; and "Diyarbakir Gold" is the most popular variety in the Southeast. Aegean cotton generally is considered to be the best quality and is preferred by the local textile industry. Aegean cotton is longer (1 1/8") than cotton from the Cukurova (1 3/32") and GAP (1 5/32") regions. Quality and properties of cotton have improved significantly in the GAP region due to the improved quality of seeds.

Up until a few years ago, virtually all of Turkey's cotton was handpicked. However, the high cost, estimated at about forty percent of total production costs, and scarcity of labor, was an obstacle for cotton farmers. As a result, farmers have started to invest in cotton harvesters and are expected to total 400 mechanical pickers this season. While the majority of the new harvesters are modern, about 100 are old tractor-pulled harvesters. In all of the cotton producing regions, particularly in the Cukurova and Aegean regions, a significant quantity of local cotton will be collected by harvesters this season making cotton production profitable for farmers.

Yields were down slightly in 2007; however, growers are hoping to increase yields by planting better seed. An increase in the use of certified seed in all regions should help increase yields. The government pays farmers a 10% higher production bonus for certified seed users. Even with the increase in the use of certified seed, pests remain a problem and growers remain upset that the government banned aerial pesticide spraying in May 2006. Growers say they have no other cost-effective way to control infestations. Growers are eager to

learn more about Bt cotton, currently not permitted in Turkey.

In April 2007, the government of Turkey (GOT) announced a YTL 0.348 per kilo production bonus for marketing year 2006 seed cotton. The new bonus represents a 16% increase over last year's bonus, showing the government's desire to support domestic cotton production. Even though the bonus was announced late and it is not known when actual payments will be made, it is still considered to be a useful tool to attract farmers to plant cotton. The government is expected to continue providing production bonus payments for seed cotton for years to come.

The co-ops (Cukobirlik, Antbirlik, Taris) have plans to produce bio-diesel to cut fuel costs as well. However, the GOT announced a higher than expected (YTL 0.65 per liter) consumption tax for bio-diesel and not exempting co-op produced bio-diesel from the tax has caused confusion in the industry and among the co-ops. The high tax diminished the cost advantage of the bio-diesel and until the tax issue is resolved it is not clear if the co-ops will proceed with their plans.

The aim of the government, along with the farmers' cooperatives mentioned above, is to keep cotton and cotton products within the economy and support production. For 2008, yields are expected to increase slightly to 1,175 pounds per acre. As a result, production is projected at 3.38 million bales, up slightly from 2007.

Australia

Australia's crop was 1.35 million bales in 2006. Production in 2007 is estimated at 600,000 bales. If this estimate is reached, it would be lowest level of production since the 1983-84 drought year and would be well below the historically low 1.35 million bales produced in 2006-07 (Exhibit 112).

Cotton growing regions in Australia remain under drought conditions despite significant rainfall during the latter part of 2007. Irrigation water allocations remain critically low and have not been greatly assisted by recent rainfall. Soil moisture in certain growing areas has improved although this will be more likely utilized for the planting of sorghum since the majority of cotton growers are not expected to risk planting cotton if future irrigation water supplies cannot be guaranteed.

Over the longer term, industry officials believe that production levels will increase substantially. However, some believe that the recovery may take a little longer than expected due to high grain prices. Australian production levels should begin to climb back to normal levels in 2008. A crop of 1.46 million bales is projected for the 2008 crop year.

Brazil

Of the main crops in Brazil, cotton is considered to have one of the best returns. This is despite its high cost of production, approximately 40% of which is for agricultural chemicals (pesticides, etc.).

Cotton continues to receive support from the Brazilian government. According to the Ministry of Agriculture, Brazil provided R$255.5 million (US$125.8 million) to the cotton industry in support for the commercialization in 2006. This amount, while significant, is considered to be the *de minimis* spending, as it is less

than 10% 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 almost exclusively through the use of the Equalization Premium Paid to the Producer (PEPRO) program. PEPRO is a subsidy paid to the producer or cooperative to help market cotton. The amount paid is the difference between the reference price (based on the minimum guaranteed price) and the highest bid at the government auction. The recipient then has until a specified date to sell the product and provide proof to the government, with the required documentation determined by whether the product is sold within the state, sold outside of the state, or exported. This program is very popular with the cotton industry which considers it to be critical due to the current strong Real that is making Brazilian cotton increasingly expensive on the international market. A request was made by the industry that the program be used again in 2007. Between April 18 and May 4, 2007, the government of Brazil responded with three PEPRO auctions.

USDA estimates that production for the 2007 marketing year will be 7.00 million bales (Exhibit 113). This is unchanged from the 2006 crop year estimate and up 2.3 million bales from the 2005 crop year estimate. For 2008, harvested area is estimated at 2.86 million acres, an increase of 63,000 acres. Along with this increase in acres will be a slight increase in production to roughly 7.23 million bales.

West Africa

West Africa is made up of the C-4, which includes Mali, Burkina Faso, Benin and Chad. These are the four African countries in which cotton production makes up the largest share of non-oil export earnings (ranging from 25-50 percent) and about 3 to 5% of GDP. The latest estimates have West Africa producing 3.64 million bales in 2006 and 2.78 million bales in 2007 (Exhibit 114). With the increase in cotton production over the past few years, West Africa now produces enough cotton to measurably affect the cotton export market, since virtually all of its production is sold abroad. The region exports between 95 and 98% of its cotton production.

The world cotton industry is well aware of West Africa's claims of economic injury caused by the presence of the U.S. cotton program. However, their potential for growth is not determined by the U.S. cotton program, but instead depends on whether or not they can address a number of internal issues related to their production, ginning and distribution systems.

West Africa's well documented internal inefficiencies in the cotton sector continue to be unresolved and underfinanced. Privatization and structural reforms are moving forward to varying degrees in each country and the financial crisis is often cited as grounds for delaying reforms. In what has become an era of deficits, most planned investments remain unimplemented. Poor roads, poor soils, declining seed quality, lack of storage facilities, aging ginning equipment, and a general lack of market-based risk management techniques persist as endemic problems in each country. Producers in West Africa remain isolated from key decisions that affect the profitability of the sector. Public officials insist that foreign assistance is slow to

arrive and is not sufficient to salvage the sector. As the public sector exerts more control in the sector in response to the crisis, many in the private sector fear a return to misguided policies that further distort the sector.

Meanwhile, any positive internal development and external forces have yet to arrive. For example, technology advancements and yield improvements – driven to a large extent by the adoption of Bt cotton in developing countries in South Africa, Asia and Latin America – are not in use. The absence of other technological developments at the farm level combined with poor soil and seed quality lead to declining yields. The positive link between cotton production, cereal production and food security is also in jeopardy. The fertilizers used to produce cotton provide a secondary benefit to grains planted after cotton, allowing for higher cereal yields in cotton producing areas. Farmers are now able to afford less fertilizer and the declining returns from cotton are forcing them to market their cereals such as corn, sorghum and millet.

Looking forward, West Africa's potential growth depends on correcting the imbalances that harm their competitive position. For 2008, better growing conditions should allow production to increase to 3.98 million bales.

Production Outlook

Current estimates place world production at 118.25 million bales for 2007, 3.82 million bales below production levels in 2006. For the 2008 crop year, production should climb back to roughly 122.41 million bales (Exhibit 115).

World Consumption

The competition from man-made fiber continues to increase. According to PCI, the use of polyester surpassed cotton since 2003, and for 2007, polyester consumption is projected to be 139.86 million bales (Exhibit 116).

Consumption Climate

World cotton mill use was 123.58 million bales in 2006. For 2007, world consumption is projected to increase by 3.72 million bales to an estimated 127.30 million bales (Exhibit 117). The sharp increase in world consumption since 2001 can be attributed to an improved worldwide economy.

China

China's consumption is estimated to grow 4.33 million bales in 2007, and China now accounts for roughly 42.7% of the world's mill use of cotton. Between 1980 and 1998, China's share of world cotton consumption fluctuated between 22.0 and 25.0%. However, in 1999, China's mill use began surging while the rest of the world grew only slightly. China's share of world cotton use rose for the ninth consecutive year in 2007. For 2007, estimates place China's mill use at 54.33 million bales (Exhibit 118).

With China expected to be the primary winner in the post-quota environment, it is expected that the trend will continue in the coming years. In addition, recent data suggest an increase in China's own retail consumption of cotton textile products. For the 2008 marketing year, China's consumption is projected to approach 57.31 million bales.

India

India's mill consumption is estimated to increase in the 2007 marketing year to 19.06 million bales (Exhibit 119). This is up 656,000 bales from the 2006 estimate. India's cotton consumption has been showing double-digit growth over the last three years on strong domestic and export demand. Based on the current pace of investment in the textile industry, continued strong growth in the economy, and an expanding middle class, industry sources expect 10 to 12% annual growth in cotton consumption in the next five to six years. Cotton's share in the textile industry's total fiber use has increased over the last few years on comfortable domestic supplies and relatively lower prices vis-à-vis manmade fiber/yarn. Mills are increasingly shifting their cotton/polyester blends in favor of cotton. Poly-cotton blends are popular in India due to their durability and ease of maintenance under tropical conditions. Future growth in cotton usage is likely to be determined by the relative prices of cotton versus manmade fibers.

India has emerged as a significant player in the world textile industry being the second largest producer of textile and garments after China. The textile industry accounts for 17 percent of the country's export earnings, 14 percent of industrial production, and 21 percent of employment. All textile sectors (yarn, weaving, and finished products) are earning good profits, and most of the industry players are investing heavily in modern equipment in order to expand capacity. Industry sources estimate that the textile sector has attracted an investment of about 12.1 billion U.S. dollars between January 2005 and March 2007.

India is poised to benefit in the current post-quota environment. In addition, strong economic growth and increasing availability of domestically-produced cotton should aid further expansion. For the 2008 marketing year, India's mill consumption is expected to increase by 792,000 bales to 19.85 million bales.

Pakistan

Little growth was seen in Pakistan's consumption numbers between 1991 and 1998. During those years, Pakistan averaged 6.90 million bales of consumption. However, cotton mill use increased sharply in 1999 in response to aggressive export pricing of cotton yarn (Exhibit 120). Consumption continued to climb in 2007. The latest estimates have Pakistan mill use at 12.55 million bales, up 47,000 bales from 2006. The increase in consumption continues to be driven by export-oriented production.

The ginning, spinning and weaving industries have to invest heavily in new equipment as well as to renovate existing mills to keep abreast of new technologies in order to compete in the international market. Looking toward the future, the textile industry knows to remain competitive in the global market, it must aggressively pursue quality improvements and product diversification to include more value-added products, rather than rely on low value yarn-based exports.

Synthetic fiber continues to gain acceptance among consumers who increasingly seek less expensive blended products to compensate for their shrinking buying power. The future growth in cotton versus synthetic fiber will be determined by the relative price of these items. The long-term trend is for

synthetics to comprise an increasing share of domestic consumption. Cotton-synthetic blends are popular due to their durability and ease in washing and maintenance under tropical conditions. The growth in synthetic fiber use has shown an increase despite rising petroleum prices in the international market.

With continued investment in the spinning and weaving industries, Pakistan's mill consumption will likely continue its upward trend in 2008 with consumption projected at 12.87 million bales.

Turkey

Much of the growth in Turkish mill use has been to supply a textile export business that expanded rapidly throughout the 1990's. However, in 2007, Turkish mill use dropped off slightly to 7.18 million bales (Exhibit 121).

The textile industry continues to be one of the most important and dynamic sectors in the Turkish economy, accounting for 10 percent of the GNP, 20 percent of the industrial employment and 26 percent of total exports. Total spinning capacity is estimated at about 2 million metric tons, of which 1.55 million metric tons is for cotton and the remainder is for synthetics.

The worldwide free flow of textile products, which started in 2005, has limited Turkish textile products exports since the cost of production, including electricity and labor, is higher in Turkey compared to newly emerging textile-producing countries. The Turkish textile industry continues to face increasing competition from China, India, Pakistan and the Commonwealth of Independent States (CIS) countries in international textile and yarn markets. The appreciation of the Turkish lira against the U.S. dollar affected textile exports adversely and also caused an increase in imports of low cost yarn and fabric from new competitor countries.

In recent years Turkish companies are struggling to keep their shares in export markets by increasing productivity, lowering profit margins, extending payment periods and replacing raw materials with low cost imports. In order to remain competitive Turkish mills are cutting costs by producing their own energy and increasing fashion and innovation. Turkish textile exporters are benefitting from fast response time for orders and higher quality.

While textile exports to the United States declined during the 2006 crop year due to competition from China and other Asian countries, Europe remained Turkey's main export market. Available Exporters Union data show that textile exports increased about 1 percent to $13.5 billion and textile exports increased 12 percent, reaching $6.5 billion. Exports to the United States were down 17 percent in 2006 compared to 2005 and exports to the EU increased about five percent in dollar terms. Available data also indicate that textile exports to the EU represent about 55 to 60 percent of total annual exports. Domestic demand for textiles is also increasing due to a favorable local economic situation positively contributing to local cotton consumption.

For 2008, competition in world textile markets will remain strong, and as a result, a slight contraction in mill use to 7.16 million bales is projected.

Brazil

Brazilian mill use for the 2007 marketing year is estimated at 4.44 million bales, slightly down from the 2006 crop year (Exhibit 122). Brazilian industrial use of cotton has remained relatively stable over the last 15 years with an average annual growth rate around one percent. In comparison, industrial use of artificial and synthetic fibers has increased an average of nearly five percent over the last 15 years, evening out slightly in recent years with a 5-year annual growth rate of 1.5 percent. With these trends likely to continue in the near future, Brazilian cotton consumption is projected to fall slightly to 4.37 million bales.

Mexico

The Mexican textile industry has been under pressure from more competitive foreign competition, thus growth in consumption within this sector has been somewhat stagnant. Industry analysts do not anticipate any increases in domestic cotton consumption in the foreseeable future. There are two main users of Mexican cotton, the textile industry and the oil industry.

Until 2005 Mexico was the dominant foreign supplier of cotton apparel to the U.S. market. Mexican market share of the cotton apparel market peaked in 2000, but in the last six years Mexican shipments are down by 38 percent. This decline is almost exclusively attributed to the fact that Mexico's apparel and textile industry is losing domestic and U.S. market share to low cost production countries such as China. Industry sources estimate this trend will likely continue in the future. For 2007, Mexico is estimated to consume 1.99 million bales of cotton (Exhibit 123). This is down 115,000 bales from 2006. For 2008, mill consumption in Mexico should fall slightly to 1.92 million bales.

Indonesia

Indonesian mill use is estimated at 2.19 million bales for 2007, up 18,000 from the 2006 marketing year (Exhibit 124).

With a total capacity of 7.8 million spindles and 90,000 rotors, Indonesian textile mills are running at around 71 percent of capacity. Around 35 percent of total spinning machinery and around 66 percent of total weaving machinery are more than 20 years of age. Antiquated machines tend to use power inefficiently and operate at lower productivity levels than newer machines in competing countries. This situation makes it difficult for the textile industry to obtain loans from banks, The increasing price of materials, such as cotton, polyester, and viscose, in the international market greatly affects the price competitiveness of the finished product since the price of raw materials accounts for about 60 percent of total production costs. Around 70 percent of total energy demands from the textile industry is fulfilled by the National Electricity Company (PLN), therefore, every policy imposed by PLN impacts textile industry efficiency. Currently, PLN imposes a premium tariff during the peak hours of 5:00 PM to 10:00 PM which increases production costs by 10 to 15 percent. The 126 percent average fuel price increase at the end of 2005 added another burden to the industry. In addition, the Indonesian textile industry employs 1.8 million workers with higher wages and lower productivity than other Asian textile exporting countries. The shrinking domestic market due to fierce competition from lower-priced imported

products has lowered the total sales of Indonesian textiles and textile products.

If Indonesia's political and economic situation can remain somewhat stable, mill use should remain stable at 2.22 million bales for the 2008 marketing year.

Consumption Outlook

Solid economic conditions should continue to stimulate increases in world consumption. With global consumption estimated at 127.30 million bales for the 2007 marketing year, further growth in 2008 is projected to push world mill use up to 130.38 million bales (Exhibit 125). China is expected to continue to be the primary growth region and will expand their share of world cotton consumption to 44.0%, up from 42.7% in 2007.

World Trade

In 2007, world trade in raw cotton increased slightly to an estimated 32.1% of expected world mill use (Exhibit 126).

Trade Climate

Current estimates put 2007 marketing year raw cotton exports at 40.93 million bales (Exhibit 127), up 3.58 million bales from the previous year. With another large world crop, availability of all grades of cotton should not be a major issue.

United States

For the 2007 marketing year, U.S. exports of raw cotton are estimated at 15.21 million bales (Exhibit 128). This is up 2.20 million bales from 2006. The reliance of the U.S. cotton market on exports has increased dramatically over the past decade as the domestic textile industry has contracted. The shift to the export market became evident in 2001 as contributions of exports exceeded domestic mill use. While exports contributed over 71.6% of total use in the 2006 marketing year, it is estimated that exports will constitute 76.7% of total use for the 2007 crop.

Customers for U.S. exports have changed some in recent years. While Mexico remains one of the top customers, China, Turkey, and Indonesia have emerged as significant buyers (Exhibit 129).

Uzbekistan

After several years of decline, Uzbekistan's cotton exports have recovered over the past three years (Exhibit 130). In fact, 2003 export estimates marked the lowest export level during the past decade, a direct result of low production. For the 2007 crop year, exports are expected to reach 4.72 million bales.

The Government of Uzbekistan still controls both state-order cotton and over quota free cotton through the trading companies associated with MFERIT. MFERIT coordinates sales, export prices and shipments of all cotton. Russia remains the traditional buyer, although since 2005, China has become one of the leading import markets for Uzbek cotton. Bangladesh has also become a promising market for Uzbek cotton. Most cotton is still sold to international shippers through negotiated sales. In addition, annually about 100,000 tons of cotton is allocated by the state for export through the Republican Commodity Exchange. Over 70 percent of all Uzbek cotton is exported. For 2008, Uzbekistan is projected to export 4.64 million bales of cotton.

China

Between 1998 and 2000, China was a net exporter of cotton in an attempt to reduce burdensome stock levels (Exhibit 131). However, their trade position changed to one of a net importer in 2001. With the smaller crop in 2005, China's imports surged as mill consumption continued to grow.

Imports for 2007 are forecast at 13.74 million bales, up 3.15 million bales from the previous year. Origins of Chinese imports have remained relatively unchanged for the past few years, with the United States and Uzbekistan as the top suppliers, although India has recently emerged as a significant supplier.

Since January 1, 2005, marketing of cotton within China was opened up to international traders and investors. This is based on China's WTO commitments, which specified that foreign traders can import and market cotton directly in China, and can be involved in the marketing of domestic cotton. According to industry reports, the government of China already approved some international traders to engage in the domestic cotton trade. The traders, however, are taking a very cautious approach to entering the domestic cotton market. Also, the CCA Cotton Trade Rules (applied to cotton importers only) were published in April 2006. These new rules will replace the "China Textile Trade Rules" and will be adopted gradually. According to the China Cotton Association, the new rules, based on the 1989-revised version of the "China Textile Trade Rules", were finalized through more than one-year of detailed consultations and negotiations with U.S. industry leaders. The new rules highlight contract and quality fulfillment and liability. The CCA rules are aimed to regulate the trade order, establish a credibility system and protect the interests of all parties. A series of training programs were scheduled to be held to educate the Chinese industry leaders about the new rules.

With continued demand from their textile sector and continued progress toward market liberalization, China should continue to be a net importer for the foreseeable future. Imports are projected at 16.70 million bales in 2008.

Australia

Total cotton exports for the 2007 crop year are forecast at 1.31 million bales, down sharply from the 2.13 million bales estimated for the previous year. According to historical ABARE data, this forecast would be extremely low and has been driven down by extremely low production (Exhibit 132).

The Australian cotton crop is harvested from March through May and the crop is then processed over the following year. As a result, the majority of the cotton harvest is processed in the following marketing year. In a typical year, Australia exports the vast majority (around 95%) of total cotton lint production. For 2008, exports are estimated to drop further to 1.10 million bales.

West Africa

West Africa has increased cotton production in recent years in the hopes of building its export business. For the 2007 marketing year, it is estimated that the region will export 3.00 million bales (Exhibit 133).

Burkina Faso exports about 98 percent of its cotton fiber. Most sales are made on

an FOB basis to any one of a number of major cotton traders. Burkina Faso exports approximately 75 percent of its cotton to Asia (China, Pakistan, Indonesia, Bangladesh and Thailand) and 20 percent to Europe (Germany, Italy, Portugal, and Switzerland). A very small percentage is shipped to Latin America and only 2 percent is used domestically. Exports are contracted directly between the cotton companies and international traders.

Approximately 98 percent of Mali's cotton production is exported. COPACO, a French export agency and subsidiary of DAGRIS, handles the majority of exports. Asia remains the dominant destination for their exports with the remainder going to Europe.

Due to low domestic consumption, approximately 98 percent of Benin's cotton production is exported. Asia remains the dominant destination of cotton exports, with about ten percent of exports going to Europe. Nigeria is also an important importer.

Officials in Chad indicate that the majority of exports are destined for Asia, about 60% to China. All exports depart Chad via truck to the rail-head in Cameroon where they are shipped by train to the port.

For 2008, West Africa is expected to export 3.74 million bales of cotton, up 735,000 bales from the 2007 marketing year.

India

India's growth in production has allowed them to emerge as an exporter of raw fiber (Exhibit 134). With a crop of 25.00 million bales in 2007, India will be a net exporter of almost 5.44 million bales.

In 2008, further growth in production will allow India to continue to emerge as a major exporter of 6.69 million bales.

Pakistan

Pakistan is forecast to be a net cotton importer during 2007 (Exhibit 135) of 3.75 million bales.

Pakistani firms often import upland cotton for their export programs due to contamination problems in local cotton, particularly with alien fibers, mainly polypropylene and jute. The problem occurs during the harvest and handling and the inclusion of these fibers wreaks havoc in the industry by creating yarn with differential yarn strength and differential dye uptake. Estimates are that contamination increases a mills' cost by 10 percent or more. Some mills have standardized their blend for export markets, with a predefined origin and percentage of imported cotton in the product. During marketing year 2003 and marketing year 2004, Pakistan remained one of the largest buyers of U.S. Pima/ELS cotton. However, during the 2005 marketing year, pima imports decreased drastically due to more than a 60% increase in its price coupled with the difficulties Pakistani importers face obtaining visas to the United States. Given the focus on higher-count yarns and better quality fabrics for the export market and specialized products demanded by the domestic market, Pakistan's textile industry is expected to increasingly rely on U.S. Pima cotton and contamination-free upland cotton.

Pakistan's import of long staple and other medium to long staple cotton is expected

to be affected by the government of Pakistan's May 10, 2007, decision to allow imports of long staple cotton through land routes from India and Central Asia. Sources indicate it may be as much as $83 per ton cheaper to import Indian cotton via land routes than by sea. For land import, the Ministry of Food, Agriculture and Livestock plans to establish quarantine posts at Wagha, Torkhum and Chaman. For 2008, Pakistani imports are estimated at 2.73 million bales.

Trade Outlook

World cotton trade continues to depend on the potential for increasing world demand for cotton textile products. We are seeing a transfer of textile trade from developed countries to developing countries. Assuming China remains a large net importer, world cotton trade is forecast at 42.43 million bales (Exhibit 136). Once again, China will be the key in the 2008 marketing year.

For 2008, U.S. raw cotton exports are expected to drop slightly to 14.67 million bales, 539,000 bales below 2007 estimates. U.S. market share is expected to fall to 34.6% (Exhibit 137).

World Stocks

World stocks on July 31, 2008 are expected to total 55.20 million bales (Exhibit 138). This will be 5.56 million bales lower than year-earlier levels. Cotton stocks in the U.S. are projected to drop to 8.69 million bales by the end of the current marketing year. This is 790,000 bales lower than 2006 crop levels.

For the 2008 crop, normal weather and average yields should produce a world crop smaller than expected consumption. Under this scenario, world stocks could fall by more than 4 million bales by July 2009, to 50.74 million bales. Again, this outcome largely depends on weather.

Conclusion

The outlook for 2008 is shaped by a number of uncertainties and challenges. While not exhaustive, the following discussion attempts to highlight a few key issues that will impact the economic health of all segments of the U.S. cotton industry.

Between August 2004 and June 2007, cotton prices generally moved between 50 and 60 cents per pound. That changed in the summer of 2007 as futures contracts moved into the low- to mid-60's and the "A" Index reached 70 cents. A primary factor underlying the recent strength is spillover effects from other commodity markets. In the face of competition from stronger grain and oilseed prices, it became evident that a tighter balance sheet for cotton was likely with production expected to fall short of consumption.

The shift in 2007 U.S. cotton acres was dramatic as declines across the Cotton Belt lowered planted acreage to 10.83 million acres. The planting flexibility of the farm program, coupled with the prevailing market signals, contributed to the 29% decline.

USDA's January estimate put the 2007 U.S. cotton crop at 19.03 million bales (Exhibit 139). Favorable weather in the Southwest led to below-average abandonment and record yields. Globally, the 2007 cotton crop is estimated at 118.25 million bales (Exhibit 140). China remains the largest producer with a crop of 34.50 million bales, almost 30% of world production. India now ranks second with 25 million bales, having surpassed the United States in 2006 and widening the gap in 2007. Together, India and China are one-half of the world's production. Pakistan and Brazil complete the list of the top five producers. Together, these countries account for almost 80% of world production.

Prior to last year's planting time, a decline in U.S. cotton acres was widely anticipated with the strong increase in prices of competing crops. While the final decision about which crop to plant takes into account a number of factors beyond relative prices – such as expected yields, input costs and rotational constraints – it is evident that the market was encouraging more acres of other crops.

A simple comparison of futures prices for the harvest-time contracts at planting time shows the increased competition for acreage. At planting time in 2007, the ratio of the corn December 2007 contract, measured in cents per bushel, to the cotton December 2007 contract, in cents per pound, had increased to almost 7. By comparison with the previous years, a corn-to-cotton ratio closer to 4 had prevailed with little deviation. A similar story holds for the soybean-to-cotton ratio, with the 2007 value close to 14, while previous years were closer to 10.

One issue of note is the adjustment in other countries – specifically, those countries that constitute the top five producers. 2007 cotton acreage was either flat, or in most cases, up from the 2006 level. First, the adjustment in U.S. acreage undermines criticisms that we hear about the U.S. cotton program –

particularly in the international arena. It is clear that U.S. producers do respond to market signals and adjust acreage accordingly. Second, it begs the question as to why there have been no responses by other countries. There is no single reason that can be identified. In the case of China, their internal price situation is much different than what is observed in the international market. For India, corn and soybeans are not a significant part of the farmer's rotation and cotton's profitability has improved with recent yield increases. For Brazil, there is the issue of timing of Southern Hemisphere plantings. Now, the focus will be on the 2008 plantings and whether or not there is more adjustment.

World mill use for the 2007 marketing year is estimated at 127.30 million bales (Exhibit 140). This compares to a 2002-06 average of 109.00 million bales. While total mill use has increased in recent years, it has also become more concentrated across countries. For example, the "Big Three" of China, India and Pakistan now account for two-thirds of the world total. A decade ago, the three countries represented less than one-half of total mill use.

Over the three-year span from 2004 through 2006, mill use grew by more than 8 million bales per year. Relative to previous decades, the 2004-06 period represents unprecedented growth in mill use. For the current marketing year, mill use is projected to grow at a slower pace of to grow at a slower pace of 3.72 million bales.

Cotton use by the textile mill not only depends on the price of cotton, but also on the price of their output – the yarn – and the price of competing fibers. A comparison of these prices from January 2004 to the present shows that the recent rally in cotton prices created a gap between the cotton price and both the yarn price and the polyester price. If spinners are not able to pass some of their increased costs along the production chain, then a slowdown in demand would result.

In addition to the largest producer of cotton, China is also the largest processor of cotton. Currently, their mill use is estimated in the range of 55.00 million bales. Future growth in mill use is expected as investment in spinning machinery continues. Also, China will have greater access to the U.S. market as restraints on selected categories of textile imports are scheduled to expire at the end of 2008. Their textile industry is not without challenges that could limit growth. These include rising energy costs, tighter credit access and environmental concerns.

The growth in mill use has outpaced China's cotton production and established China as the largest importer of raw fiber. In 2007, imports are estimated at 13.74 million bales, which is similar to levels of recent years. For the 2008 marketing year, imports are projected to increase to more than 16 million bales. While China is a valued customer, the concern of the U.S. cotton industry is the manner in which they administer their basic import quota of approximately 4 million bales. While a nominal import duty of 1% is applied to imports under this quota, the bigger concern is the manner in which the quota is allocated. In addition, imports above the initial 4 million bales are assessed a variable levy that ranges between 5 and 40%.

The combined effect of the variable levy and the import allocation allows China to support internal cotton prices at levels well above the world market. Regardless of international signals, their prices range between 75 and 80 cents per pound. The result is reduced competitiveness relative to manmade fiber and restricted imports.

After China, India is now the second largest producer and processor of cotton. They also devote more area to cotton production than any other country. While their textile industry has been expanding, the most notable development in the Indian market is cotton production that has more than doubled in the last 5 years. The growth in production is largely the result of improved yields. In 2002, India averaged about 270 pounds per acre. The average across all other cotton-producing countries was 650 pounds. By 2007, India's yield had grown to more than 500 pounds. Much of the yield growth can be attributed to better inputs and better varieties. Currently, more than one-half of India's acreage is planted to biotech varieties. With yields in other countries averaging 760 pounds, India has the potential and is expected to expand production in the future. The improved yields contribute to better profitability for cotton and limit their inclination to switch to alternative crops.

The growth in cotton production has allowed India to establish itself as a significant cotton exporter. They have also been very aggressive in pricing their cotton below comparable growths from other countries. A comparison of India's quote for 31-3-35 type cotton and the average of the other 5 lowest quotes show a consistent gap of 2 to 4 cents.

The U.S. retail market remains the largest market for cotton textile and apparel products, purchasing the fiber-equivalent of 23 to 24 million bales. That comes to roughly 38 pounds per person. Unfortunately, an ever-increasing share of the U.S. retail market is supplied by imported textile products. As a result, mill use remains under pressure and has now fallen below 5 million bales Exhibit 139).

The resulting decline in U.S. mill use has left the cotton industry in a position of being increasingly reliant on exports. That brings its own set of challenges. The necessity of delivering cotton in a timely and competitive manner has never been greater. The reliance on exports also brings greater volatility in overall demand, and potentially prices, as well.

China, Turkey and Mexico constitute the top 3 export customers and account for 60 to 70% of total U.S. exports. For the current marketing year, growing global demand should allow U.S. exports to recover to 15.21 million bales. However, exports need to improve in the second half of the marketing year to reach the projected total, particularly shipments to China.

Since the 2007 planting season, cotton prices have improved with the December 2008 contract trading roughly 15 cents above last year's December contract. However, the competition from other crops is as strong, if not stronger, than last year. Based on current futures prices for the harvest-time contracts, soybeans and wheat are showing the most notable gains relative to cotton. Relative market returns support the results of NCC's annual acreage survey, which pegs 2008 cotton acres at 9.55 million acres.

Average abandonment rates and yields in line with recent trends give a projected 2008 cotton crop of 15.38 million bales (Exhibit 139).

Recent demand patterns are expected to continue for the 2008 marketing year. The contraction of the U.S. textile industry will likely continue but at a slower pace than in recent years. The assumed economic assistance included in the new farm bill should provide much-needed support to the sector. U.S. mill use for 2008 is projected at 4.40 million bales. Exports will once again be the primary outlet for U.S. cotton. However, lower exportable supplies and strong competition from other exporting countries are expected to reduce 2008 shipments to 14.67 million bales (Exhibit 139).

Total offtake of U.S. cotton is projected to be 19.07 million bales in 2008, which exceeds expected production and results in reduced stocks of 5.02 million bales by July 31, 2009.

For the global market, world production is projected to recover to 122.41 million bales in 2008 (Exhibit 140). Larger crops in China, Pakistan, India, Australia and West Africa contribute to the increase. However, production is still projected to fall well short of mill use that exceeds 130 million bales. The result will be a tighter balance sheet for 2008.

The fundamentals are generally supportive of prices. In addition, cotton is strengthened by the spillover from other commodity markets. As of late January, the December 2008 contract was trading in the mid-70's while the '09 contracts have moved into the low 80's. With rising input costs and competition from other crops, the supply side of the equation calls for better prices. Demand remains the wildcard in the face of higher energy prices that require more of the consumer's disposable income and uncertainty about overall economic performance.

For 2008 and beyond, there is no shortage of challenges facing the U.S. cotton industry. These include, but are certainly not limited to: uncertainty about overall economic performance; China and India's impact on world commodity markets; rising input costs and competition for available acres; implementation of a new farm law; resolution of the Brazil cotton case; and the ongoing Doha trade negotiations. As the industry continues to address these challenges, NCC economists will continue to provide accurate and in-depth economic and policy analysis.

Exhibit 1

Consumer Confidence Index

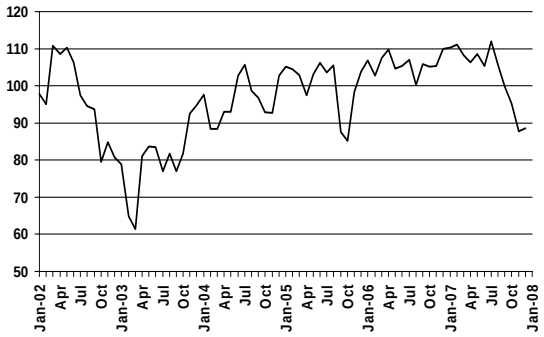
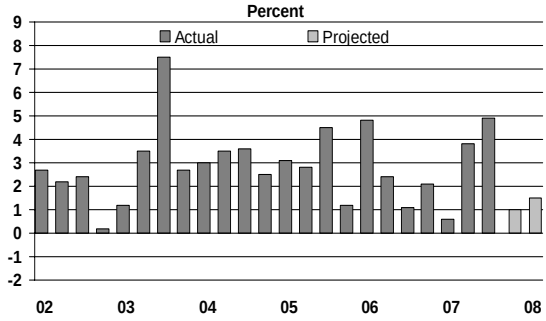


Exhibit 2

Change in U.S. Real GDP



Bureau of Economic Analysis and Federal Reserve Bank of Philadelphia

Exhibit 3

Change in U.S. Real Personal Consumption Expenditures

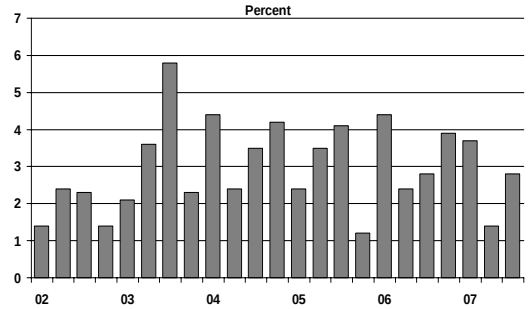


Exhibit 4

Change in U.S. Real Private Investment

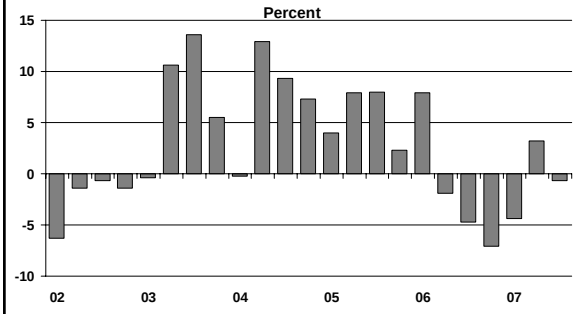


Exhibit 5

Civilian Employment

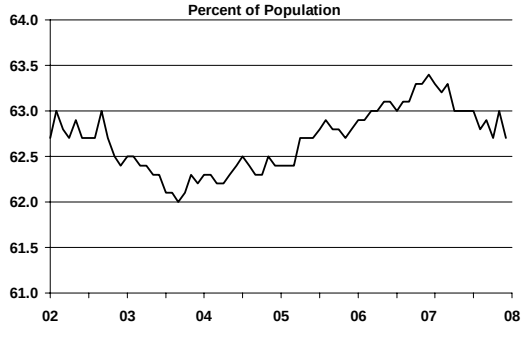


Exhibit 6

Manufacturing Employment

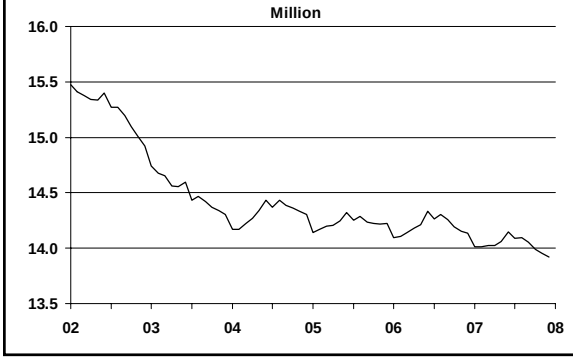


Exhibit 7

Civilian Unemployment Rate

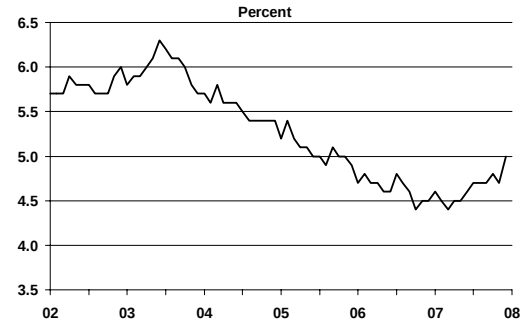


Exhibit 8

Federal Funds Rate

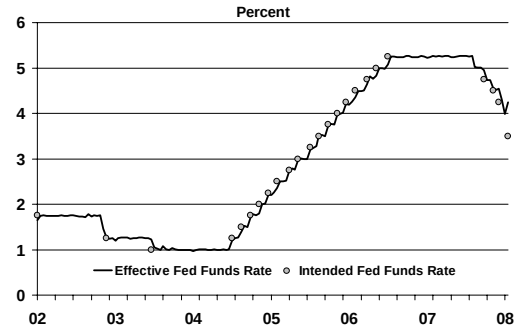


Exhibit 9

30-Year Mortgage Rate

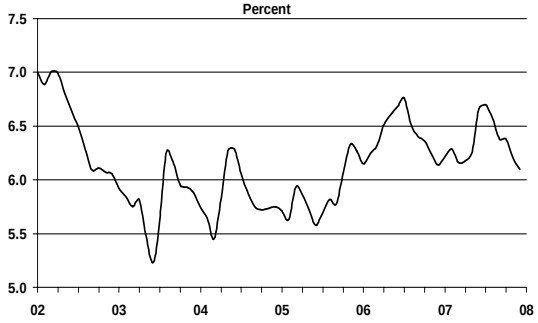
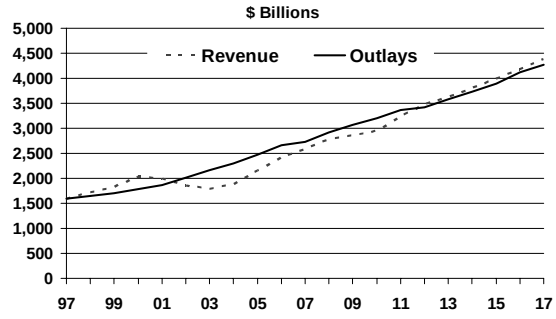


Exhibit 10

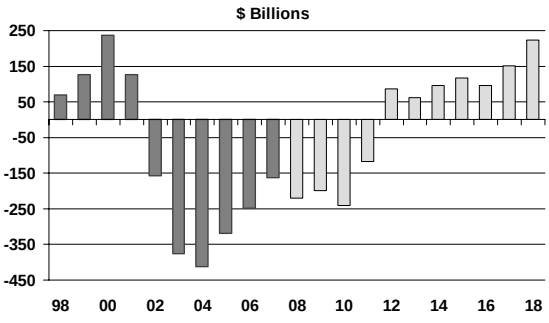
Projected US Federal Budget



Congressional Budget Office, January 2008

Exhibit 11

US Federal Budget Surplus



Congressional Budget Office, January 2008

Exhibit 12

Inflation Measures 1998-2007

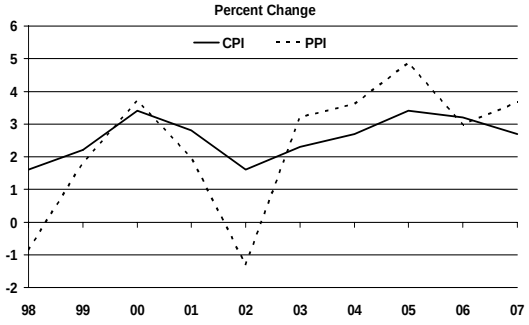


Exhibit 13

Consumer Price Index, Apparel

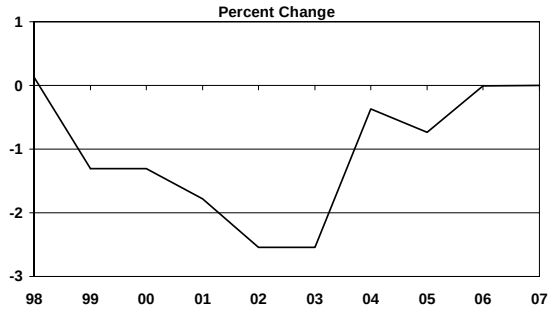


Exhibit 14

U.S. Crude Oil Spot Price

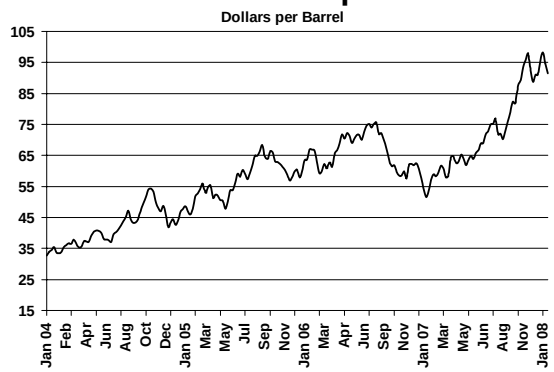


Exhibit 15

U.S. On-Highway Diesel Price

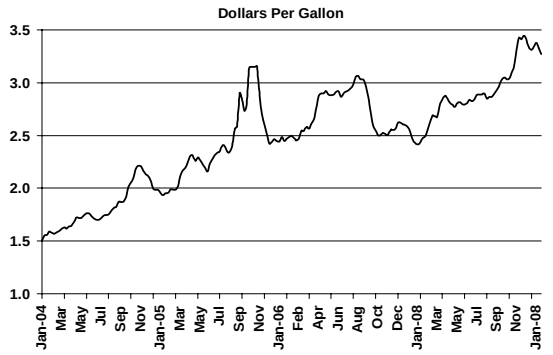


Exhibit 16

U.S. Natural Gas Wellhead Price

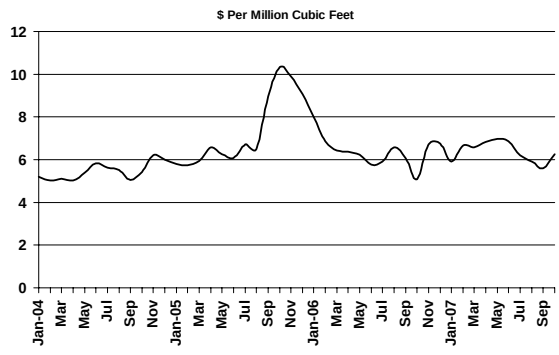


Exhibit 17

Dow Jones Industrials

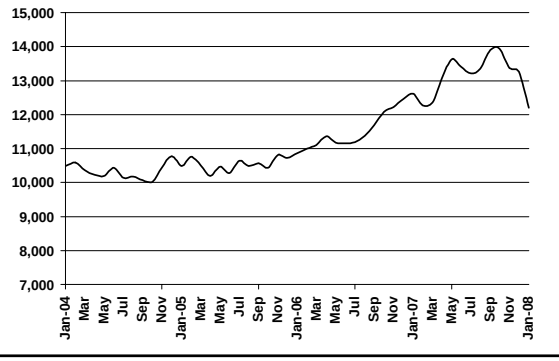


Exhibit 18

NASDAQ

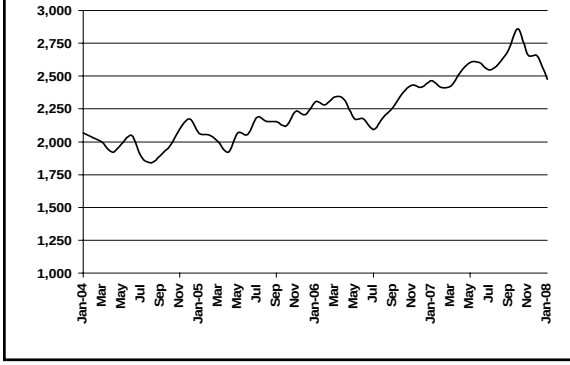
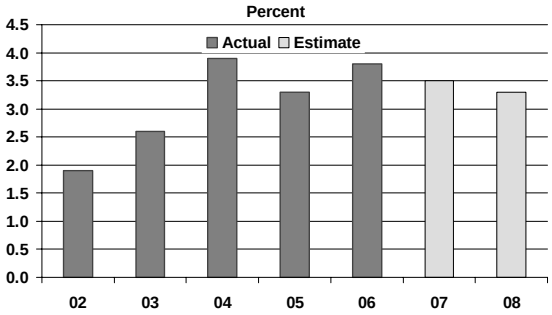


Exhibit 19

S&P 500

Exhibit 20

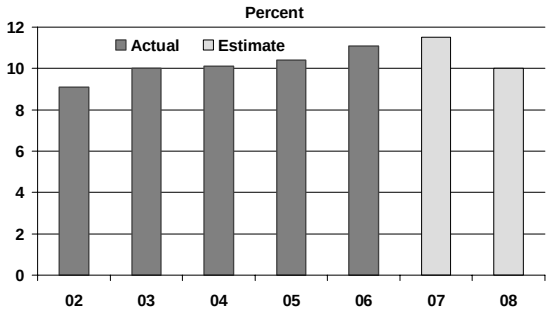
World Real GDP Growth



International Monetary Fund, October 2007

Exhibit 21

China Real GDP Growth



International Monetary Fund, October 2007

Exhibit 22

Asian Stock Indexes

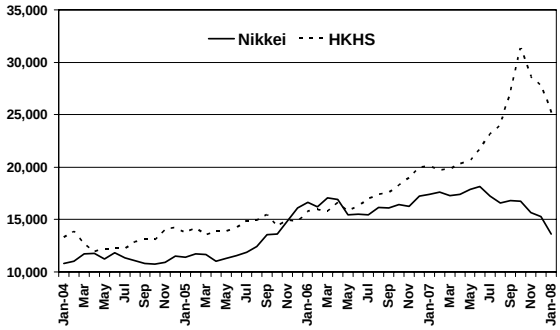


Exhibit 23

Euro

(Currency per U.S. Dollar)

Exhibit 24

Japanese Yen

(Currency per U.S. Dollar)

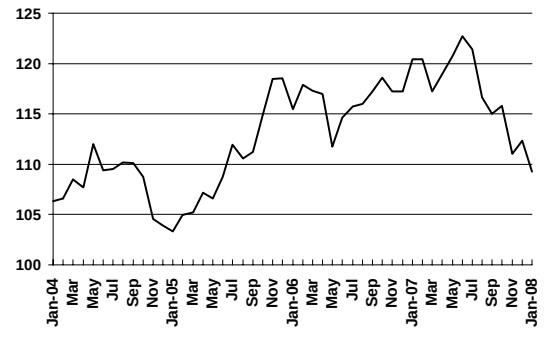


Exhibit 25

Brazilian Real

(Currency per U.S. Dollar)

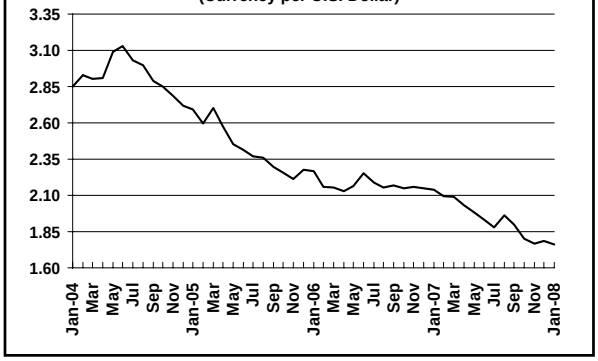


Exhibit 26

South Korean Won

(Currency per U.S. Dollar)

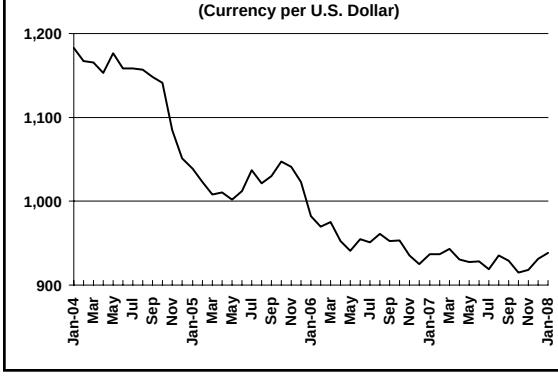


Exhibit 27

Indian Rupee

(Currency per U.S. Dollar)

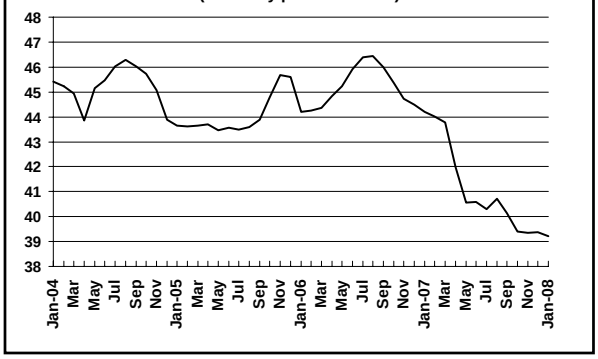


Exhibit 28

Indonesian Rupiah

(Currency per U.S. Dollar)

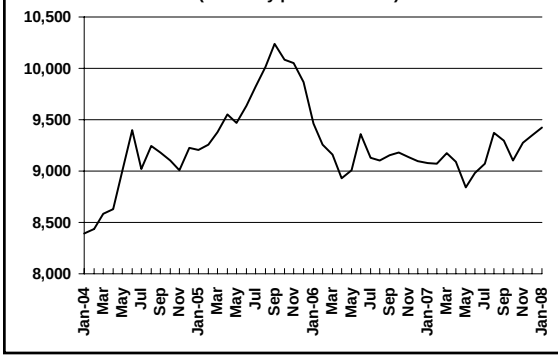


Exhibit 29

Pakistani Rupee

(Currency per U.S. Dollar)

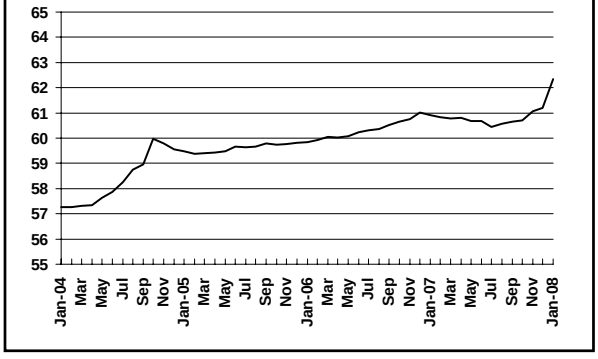


Exhibit 30

Chinese Renminbi

(Currency per U.S. Dollar)

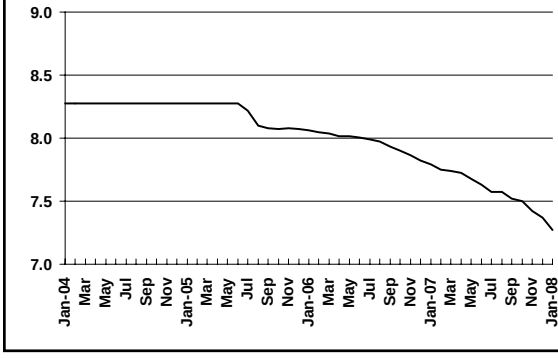


Exhibit 31

Real Exchange Rate Index

(Other Important Trade Partners, Source - Federal Reserve)

Exhibit 32

Reuters/CRB Futures Index

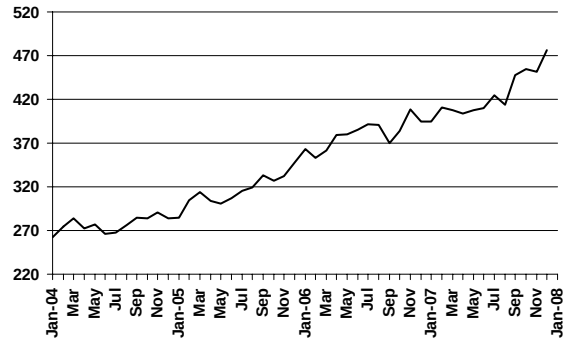


Exhibit 33

Ag Prices Received Index

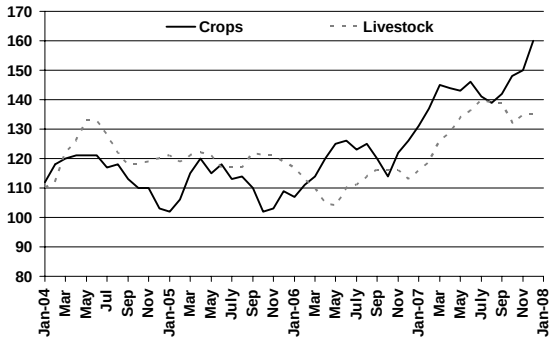


Exhibit 34

Ag Prices Paid Index

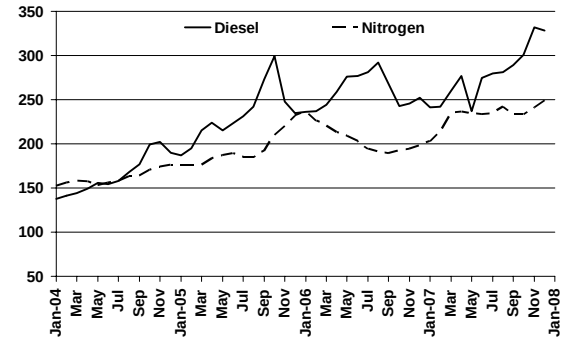


Exhibit 35

U.S. Net Farm Income

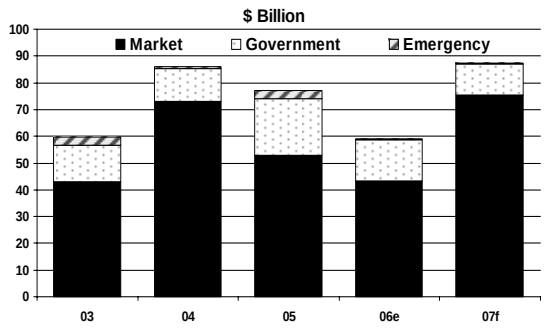


Exhibit 36

U.S. Upland Planted Area

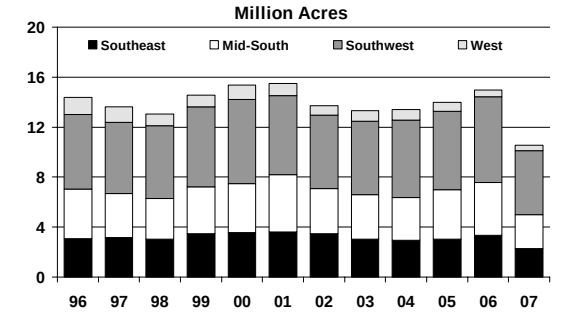


Exhibit 37

Southeast Upland Planted Area

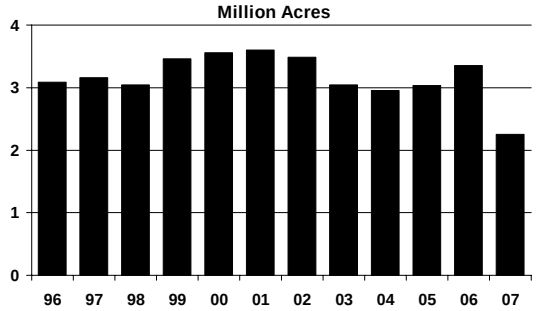


Exhibit 38

Mid-South Upland Planted Area

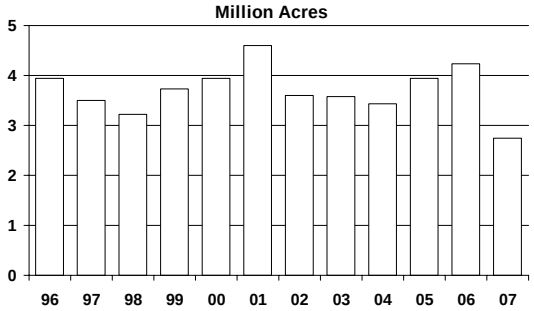


Exhibit 39

Southwest Upland Planted Area

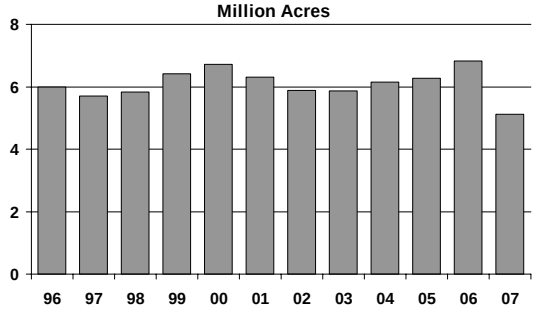


Exhibit 40

West Upland Planted Area

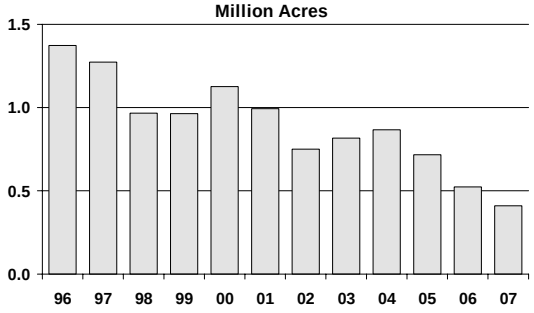


Exhibit 41

U.S. ELS Planted Area

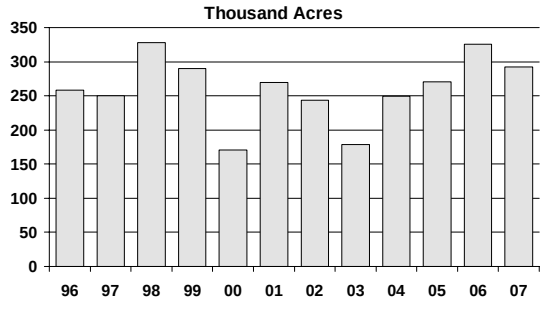


Exhibit 42

U.S. Cotton Abandonment

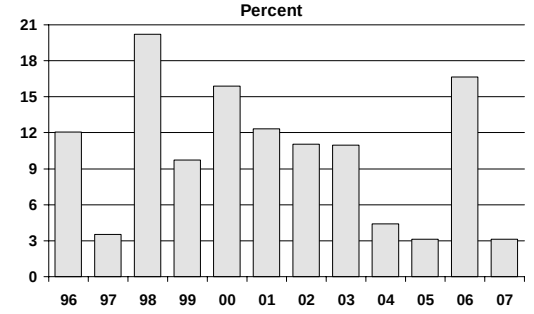


Exhibit 43

U.S. Cotton Yield

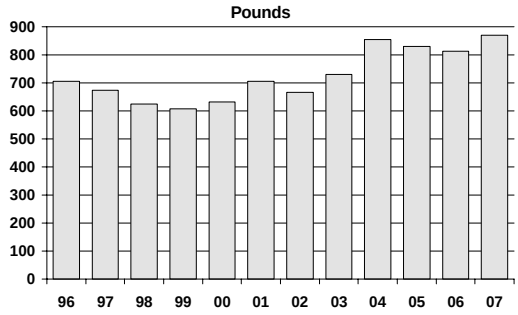


Exhibit 44

Southeast Upland Yields

Pounds per Harvested Acre

	2006	2007	5-Year Average
Alabama	579	499	664
Florida	789	652	636
Georgia	818	796	734
North Carolina	713	769	695
South Carolina	697	486	679
Virginia	717	854	745
SOUTHEAST	735	711	705

Exhibit 45

Mid-South Upland Yields

Pounds per Harvested Acre

	2006	2007	5-Year Average
Arkansas	1,045	1,062	995
Louisiana	946	1,004	879
Mississippi	829	975	888
Missouri	953	975	925
Tennessee	945	579	853
MID-SOUTH	940	931	914

Exhibit 46

Southwest Upland Yields

Pounds per Harvested Acre

	2006	2007	5-Year Average
Kansas	511	558	524
Oklahoma	541	945	639
Texas	679	827	630
SOUTHWEST	669	829	628

Exhibit 47

West Upland Yields

Pounds per Harvested Acre

	2006	2007	5-Year Average
Arizona	1,420	1,429	1,357
California	1,321	1,559	1,381
New Mexico	930	1,234	897
WEST	1,321	1,471	1,340

Exhibit 48

ELS Yields

Pounds per Harvested Acre

	2006	2007	5-Year Average
Arizona	919	960	931
California	1,204	1,419	1,296
New Mexico	768	1,123	904
Texas	720	980	905
U.S.	1,136	1,374	1,239

Exhibit 49

U.S. Cotton Production

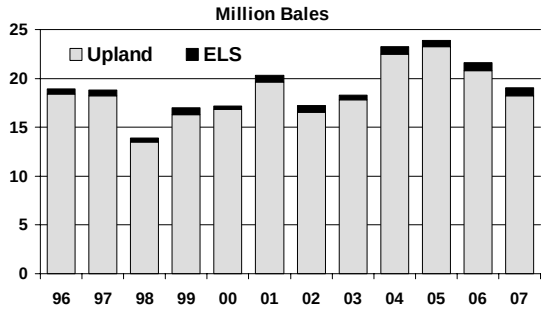


Exhibit 50

U.S. Upland Cotton Production 2007

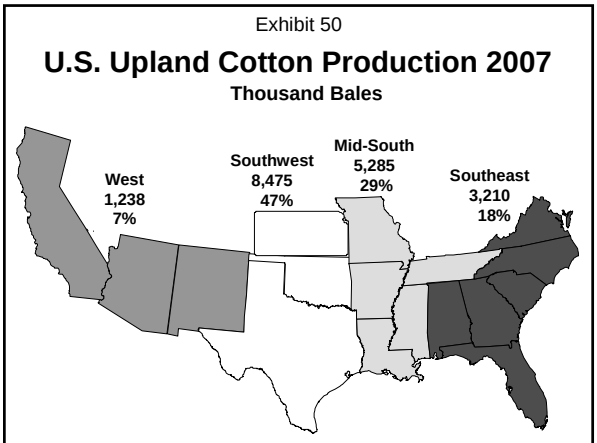


Exhibit 51

U.S. ELS Cotton Production 2007

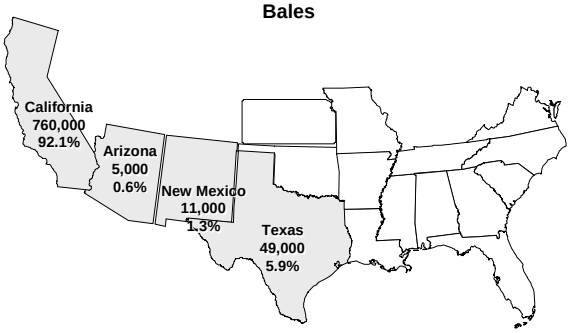


Exhibit 52

U.S. Cotton Beginning Stocks

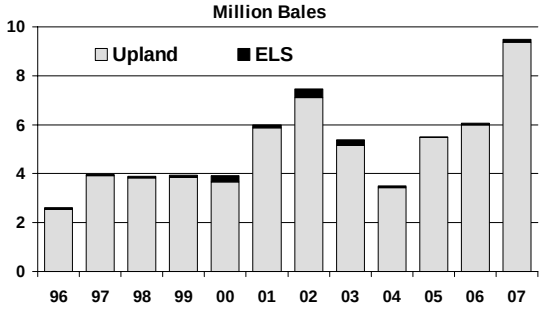


Exhibit 53

CCC Loan Stocks

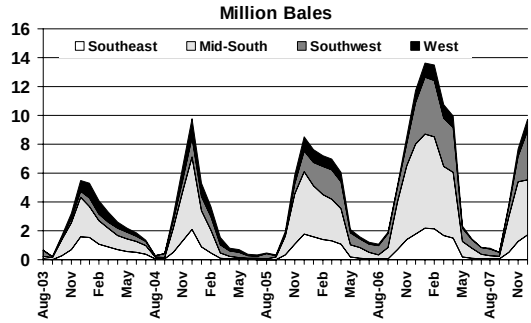


Exhibit 54

U.S. Cotton Supply

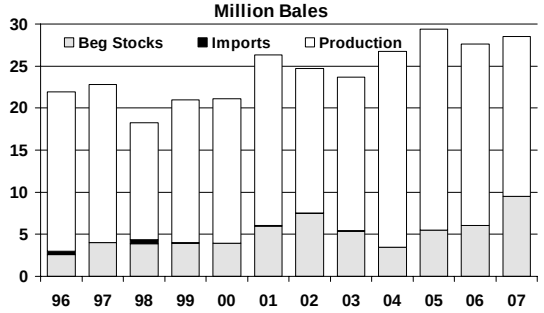


Exhibit 55

2007 Crop Staple and Strength

	Staple		Strength	
	2007	5-Yr.	2007	5-Yr.
Southeast	34.1	34.5	28.6	28.4
Mid-South	34.7	34.8	28.7	28.6
Southwest	36.0	34.6	29.6	28.9
West	36.7	36.5	31.6	30.6
U.S.	35.3	34.8	29.2	28.9

Exhibit 56

2007 Crop Color and Mike

	%SLM+		Micronaire	
	2007	5-Yr.	2007	5-Yr.
Southeast	86.2	81.9	46.6	45.1
Mid-South	65.3	83.6	43.7	46.1
Southwest	91.0	84.0	41.6	41.4
West	96.3	94.3	44.0	44.4
U.S.	82.3	84.4	43.4	44.2

Exhibit 57

Nearby NY and "A" (FE) Index

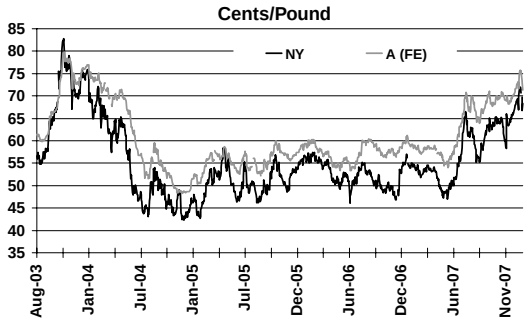


Exhibit 58

Spot 4134 Price

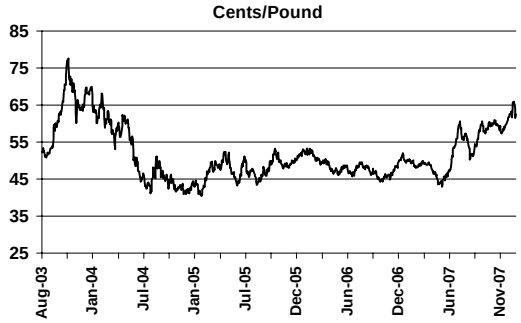


Exhibit 59

ELS Cotton Prices

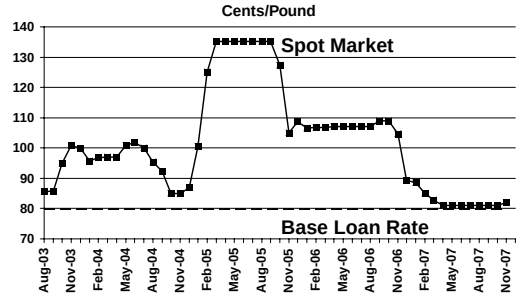


Exhibit 60

U.S. Cottonseed Production

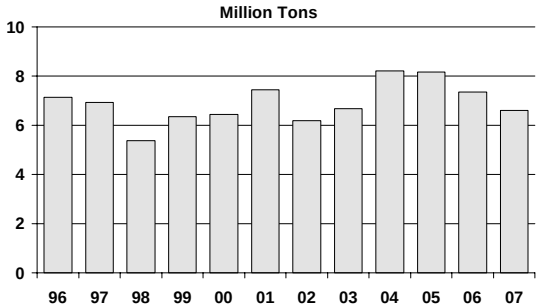


Exhibit 61

U.S. Cottonseed Production 2007

Thousand Tons

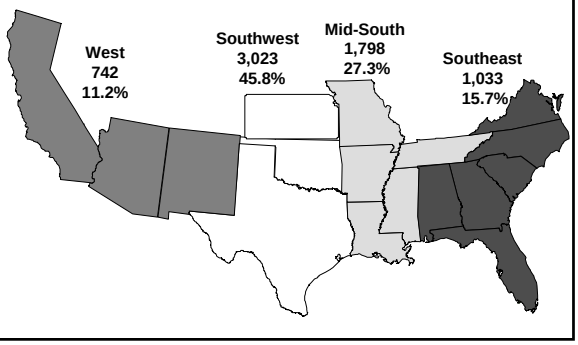


Exhibit 62

U.S. Cottonseed Supply

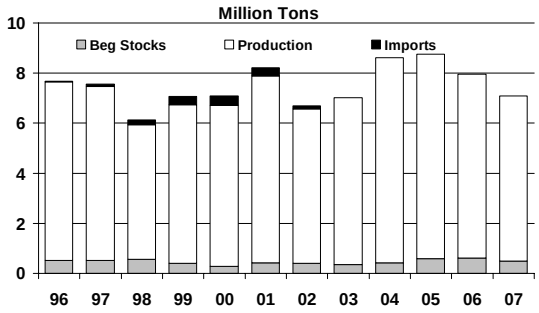


Exhibit 63

U.S. Cottonseed Disappearance

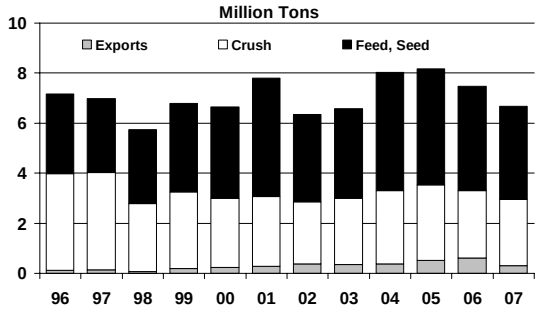


Exhibit 64

U.S. Cottonseed Ending Stocks

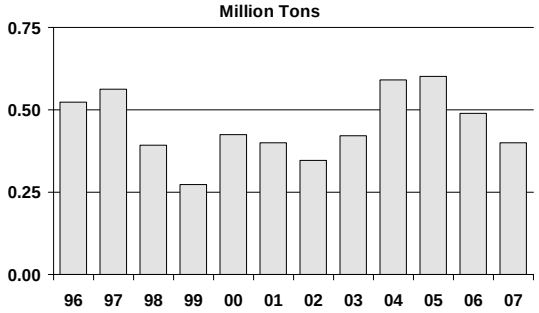


Exhibit 65

Average Cottonseed Spot Price

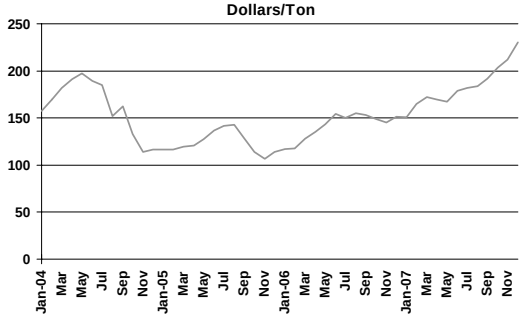


Exhibit 66

December Cotton Futures

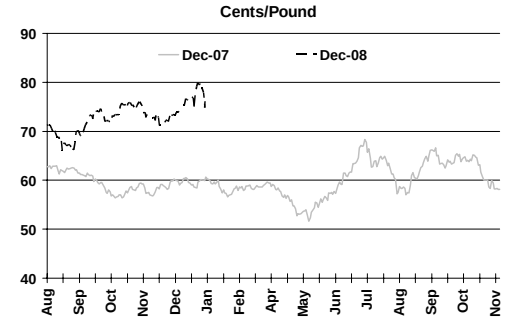


Exhibit 67

December Corn Futures

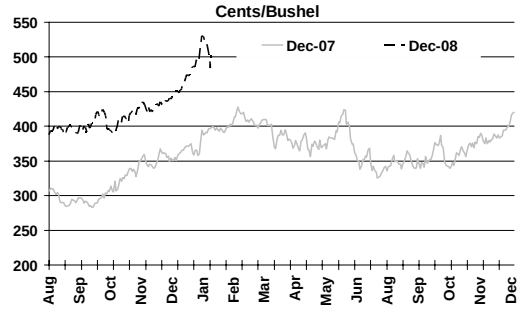


Exhibit 68

November Soybean Futures

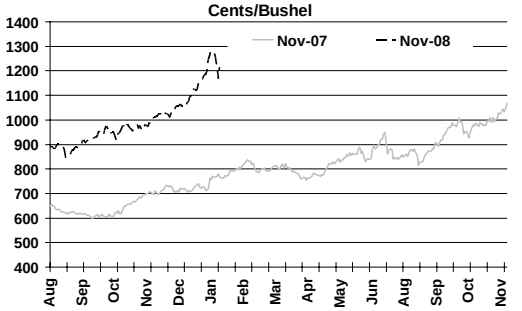


Exhibit 69

U.S. Planted Area

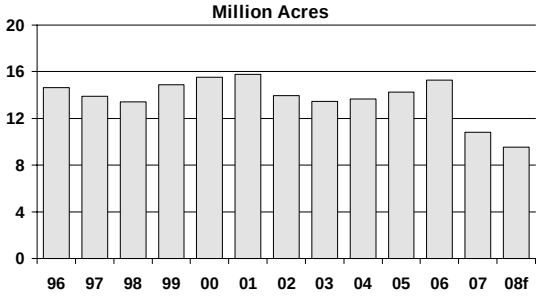


Exhibit 70

U.S. Harvested Area

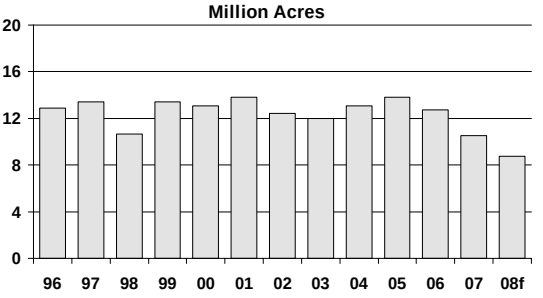


Exhibit 71

U.S. Cotton Supply

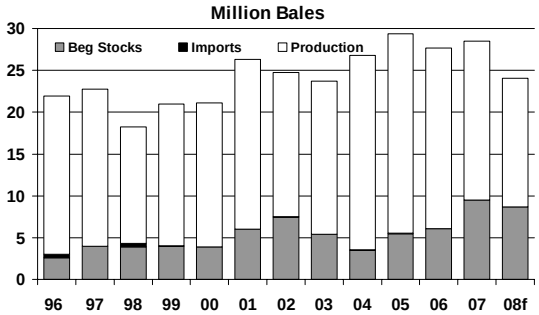


Exhibit 72

U.S. Cottonseed Supply

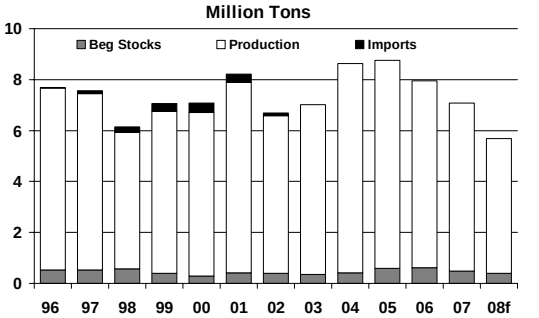


Exhibit 73

U.S. Cotton Mill Use
(Calendar Year)

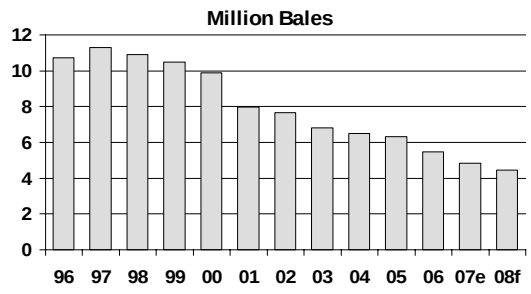


Exhibit 74

U.S. Cotton Mill Use
(Crop Year)

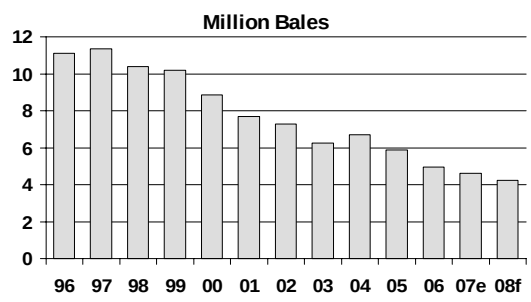


Exhibit 75

Daily Avg. U.S. Cotton Mill Use

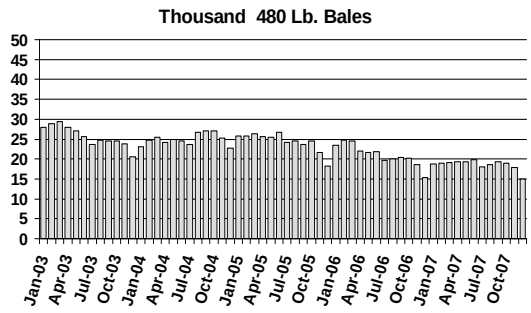


Exhibit 76

Man Made Fiber Mill Use

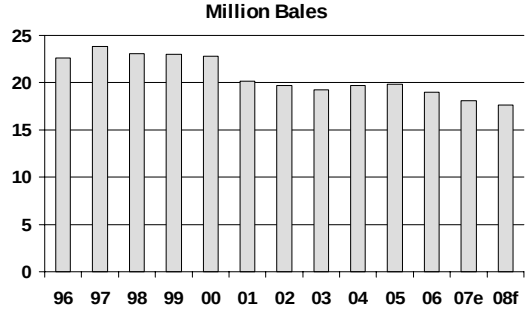


Exhibit 77

U.S. Apparel Production

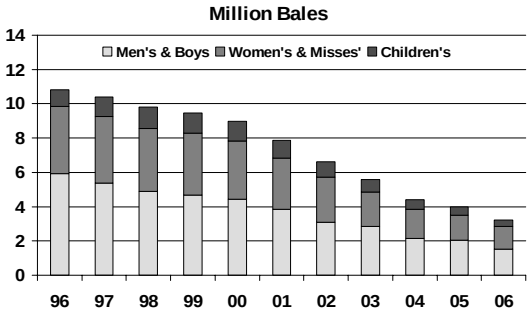


Exhibit 78

Fiber in U.S. Made Apparel

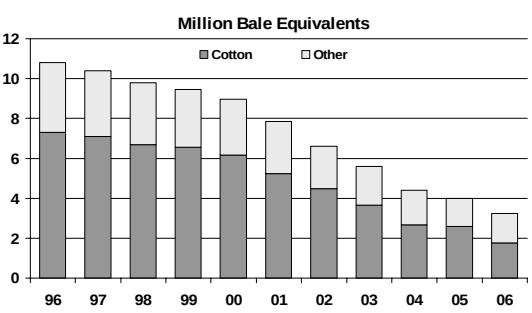


Exhibit 79

Fiber in U.S. Made Home Furnishings (excludes carpeting)

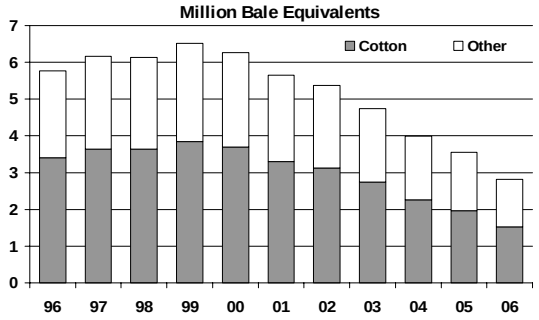


Exhibit 80

Net Domestic Fiber Consumption

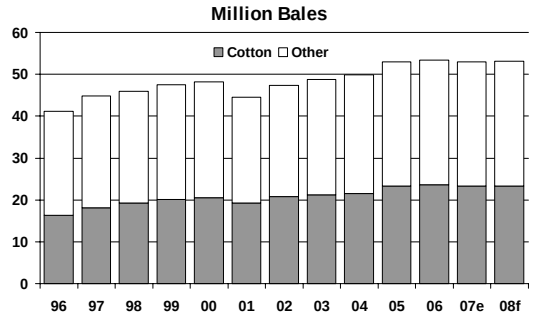


Exhibit 81

Components of Retail Cotton Consumption

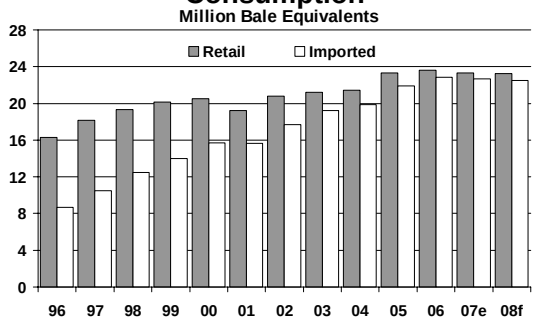


Exhibit 82

U.S. Cotton Textile Imports

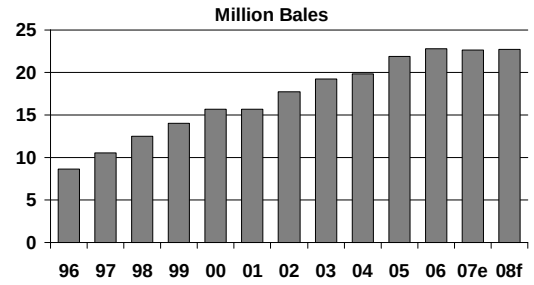


Exhibit 83

U.S. Cotton Content in Textile Imports

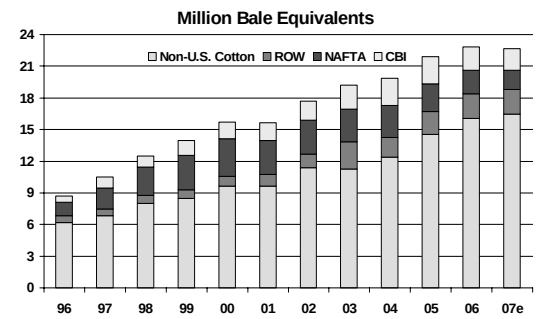


Exhibit 84

U.S. Cotton Product Imports

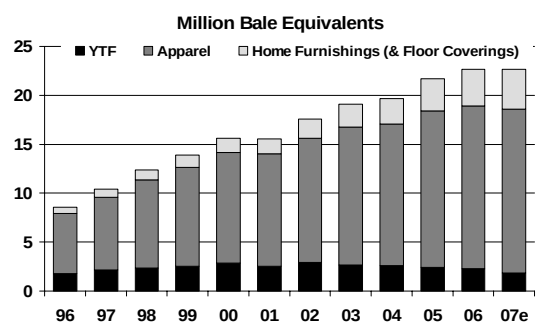


Exhibit 85

U.S. Import Source of Cotton Products

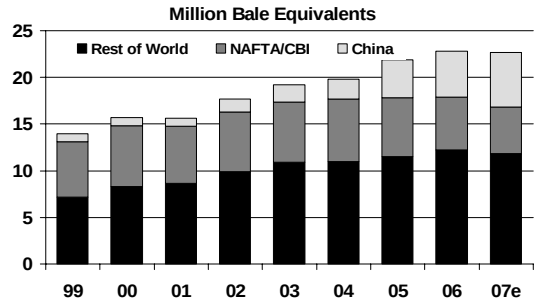


Exhibit 86

U.S. Trade With Mexico

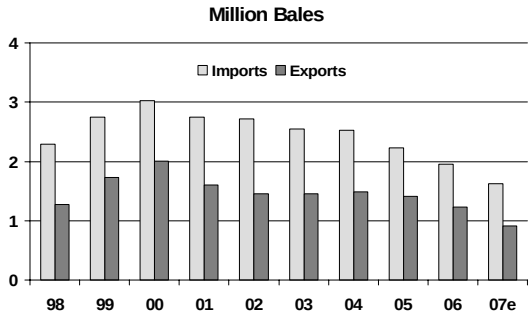


Exhibit 87

U.S. Trade With Canada

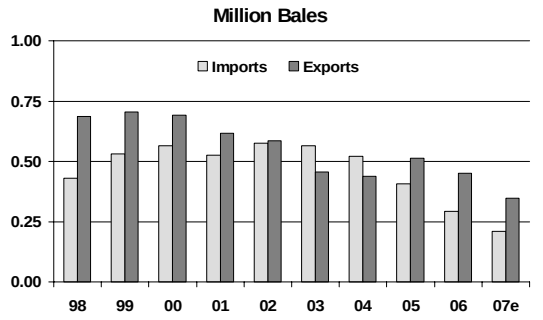


Exhibit 88

U.S. Trade with CBI

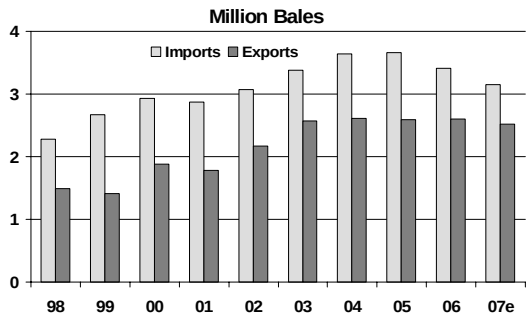


Exhibit 89

U.S. Imports from China

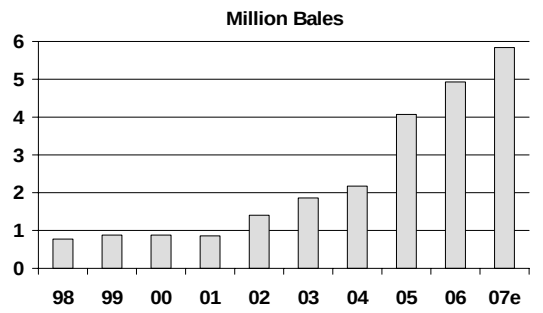


Exhibit 90

Cotton Product Imports from Mexico

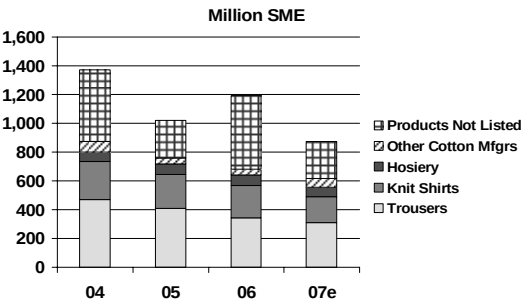


Exhibit 91

Cotton Product Imports from Canada

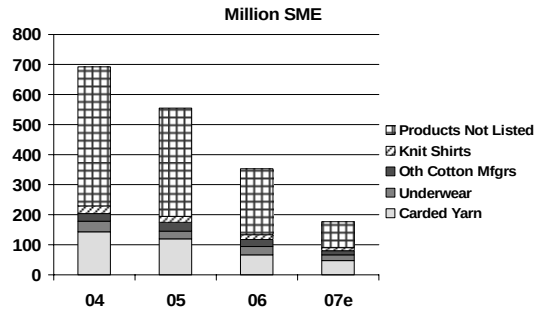


Exhibit 92

Cotton Product Imports from CBI

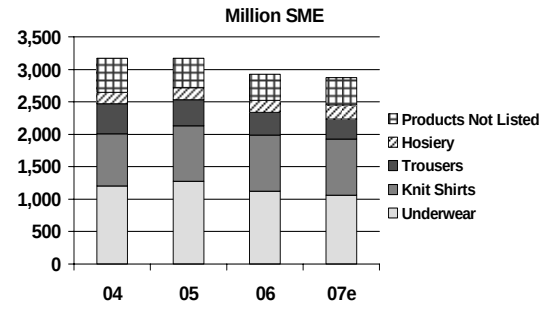


Exhibit 93

Cotton Apparel Product Imports from AGOA

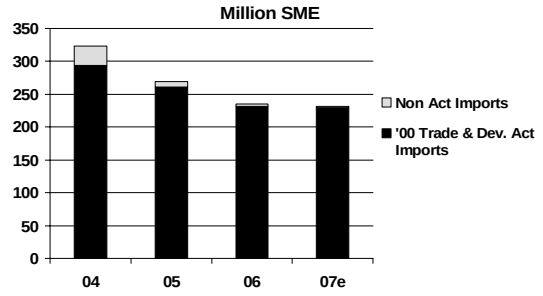


Exhibit 94

Cotton Product Imports from Pakistan

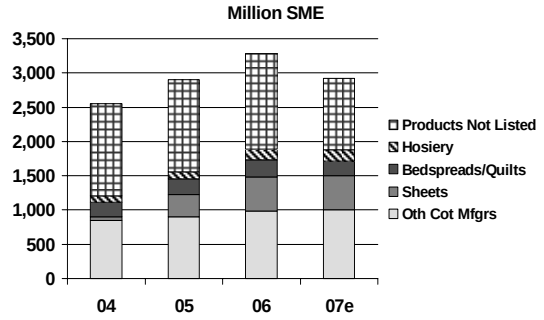


Exhibit 95

Cotton Product Imports from China

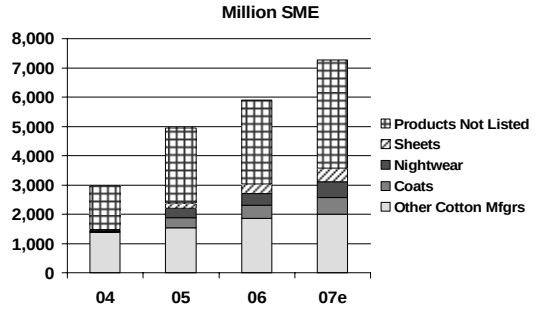


Exhibit 96

Cotton Product Imports from India

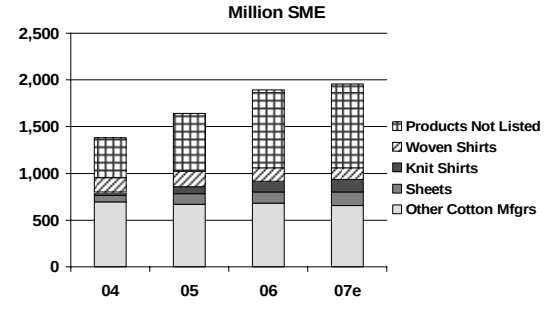


Exhibit 97

Cotton Product Imports from Hong Kong

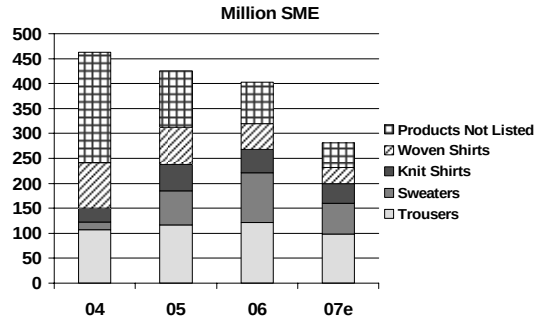


Exhibit 98

Cotton Product Imports from Bangladesh

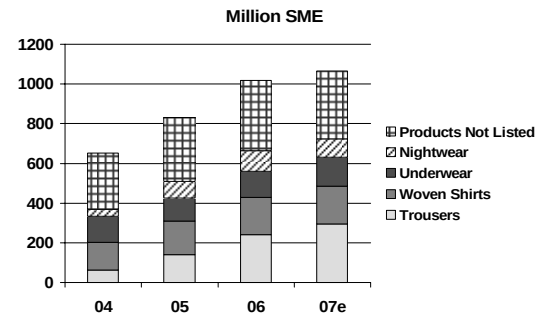


Exhibit 99

Cotton Product Imports from Vietnam

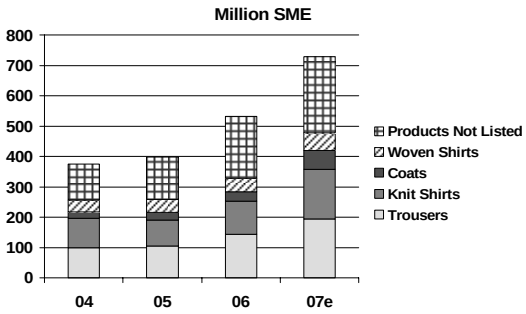


Exhibit 100

Cotton Product Imports from Turkey

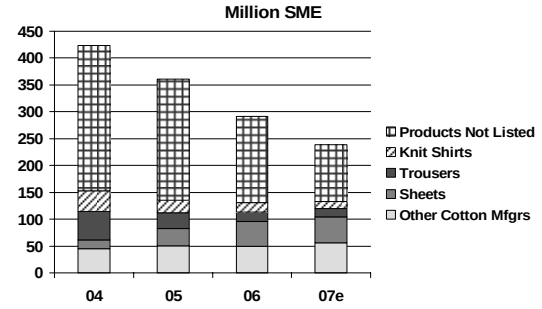


Exhibit 101

U.S. Cotton Textile Exports

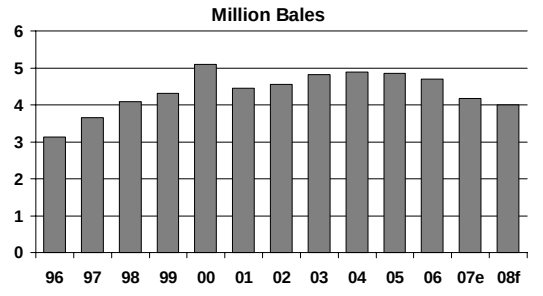


Exhibit 102

U.S. Cotton Product Exports

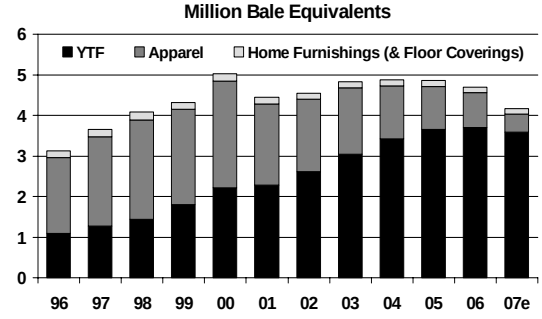


Exhibit 103

U.S. Exports of Cotton Products

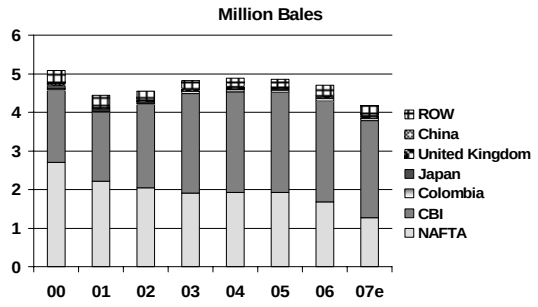


Exhibit 104

U.S. Textile and Apparel Imports from China (All Fibers)

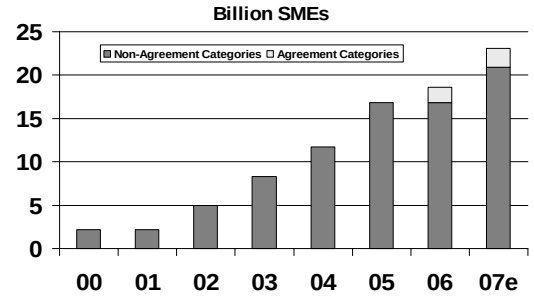


Exhibit 105

World Cotton Production

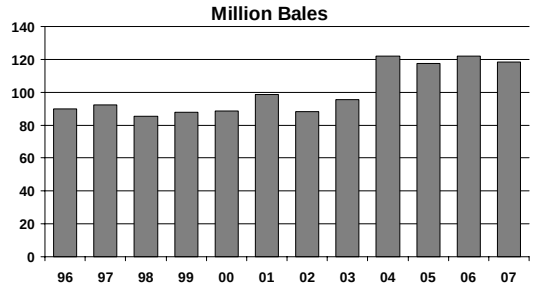


Exhibit 106

"A" (FE) Index

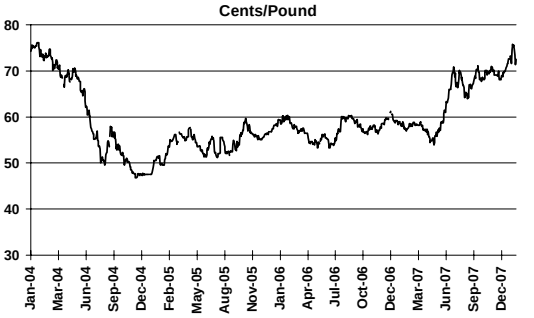


Exhibit 107

China Cotton Production

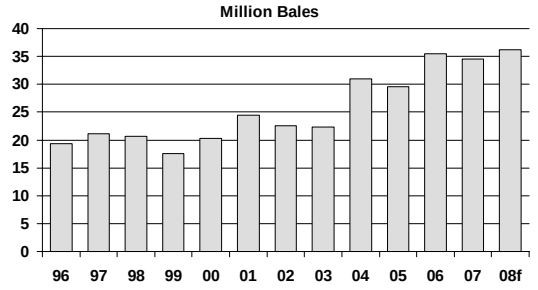


Exhibit 108

India Cotton Production

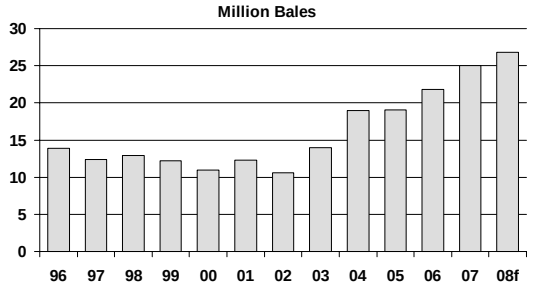


Exhibit 109

Uzbekistan Cotton Production

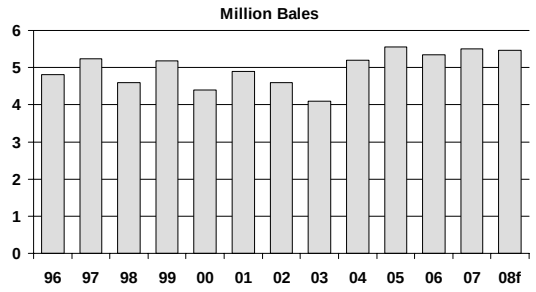


Exhibit 110

Pakistan Cotton Production

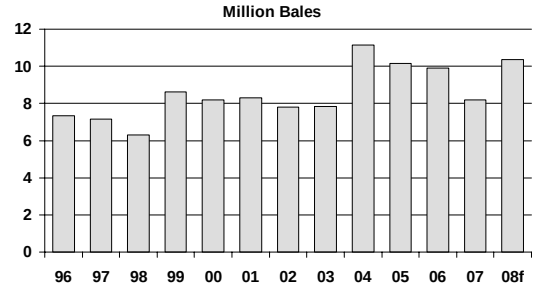


Exhibit 111

Turkey Cotton Production

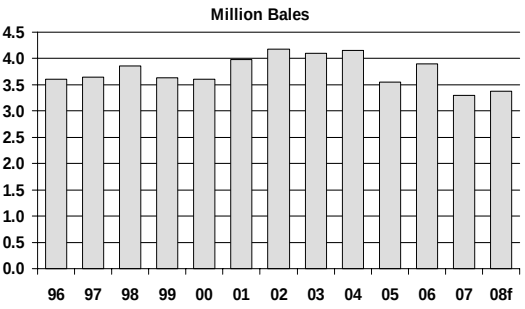


Exhibit 112

Australia Cotton Production

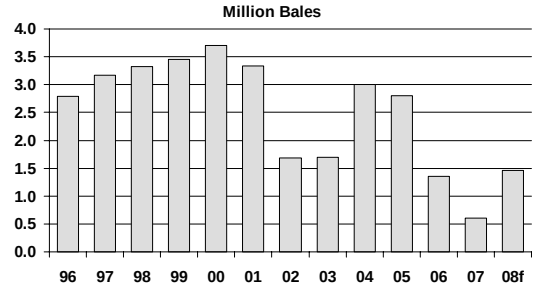


Exhibit 113

Brazil Cotton Production

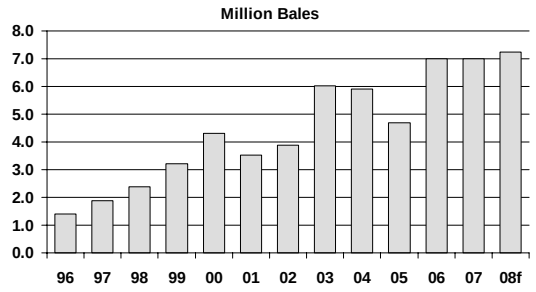


Exhibit 114

West Africa Cotton Production

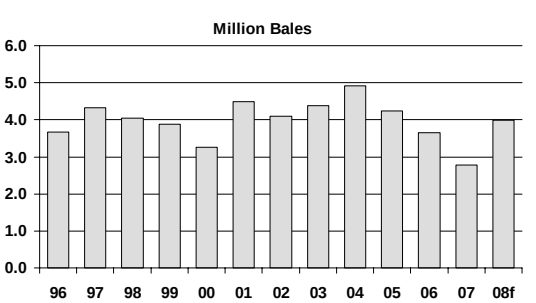


Exhibit 115

World Cotton Production

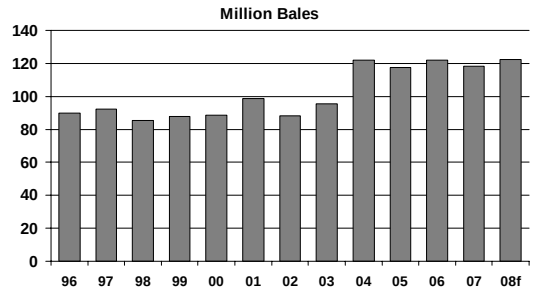
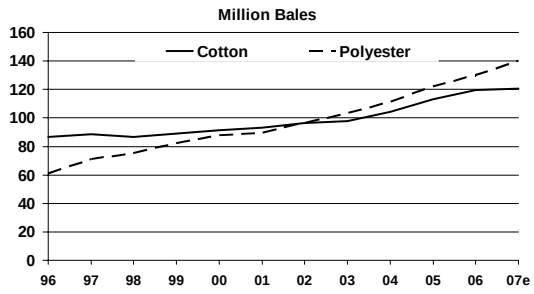


Exhibit 116

World Fiber Demand



**PCI*

Exhibit 117

World Cotton Mill Use

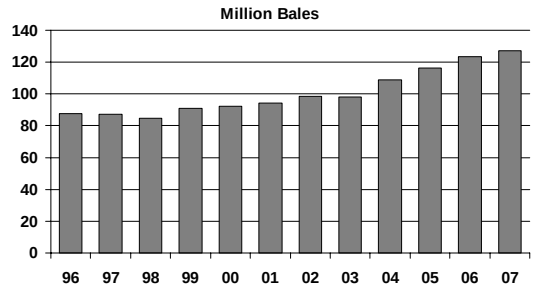


Exhibit 118

China Cotton Mill Use

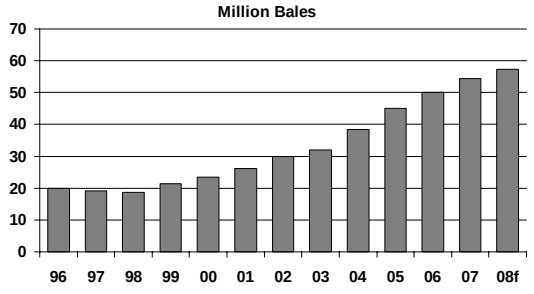


Exhibit 119

India Cotton Mill Use

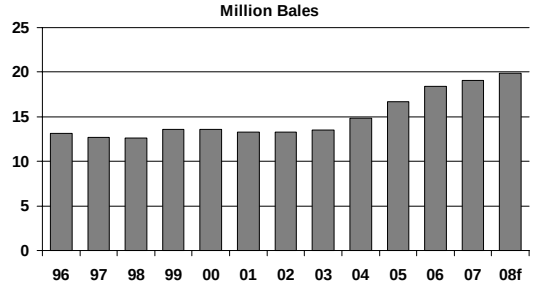


Exhibit 120

Pakistan Cotton Mill Use

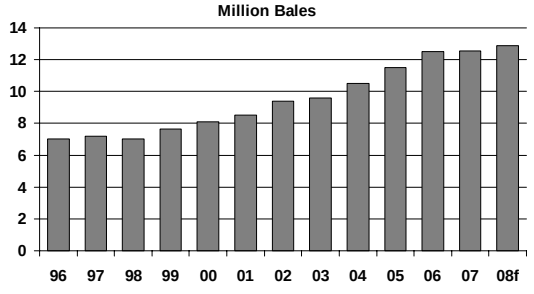


Exhibit 121

Turkey Cotton Mill Use

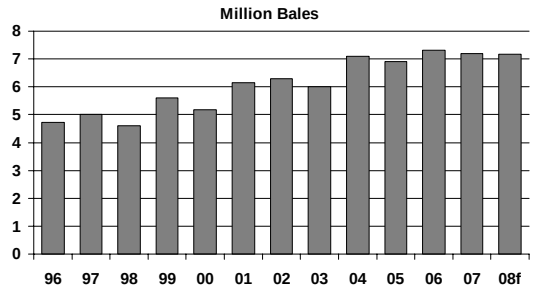


Exhibit 122

Brazil Cotton Mill Use

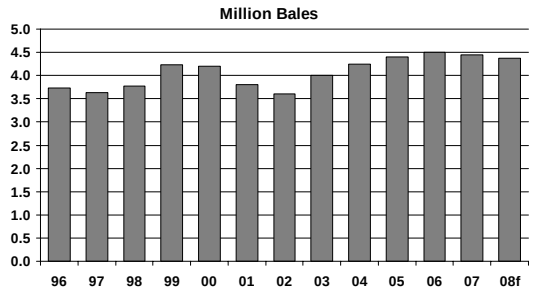


Exhibit 123

Mexico Cotton Mill Use

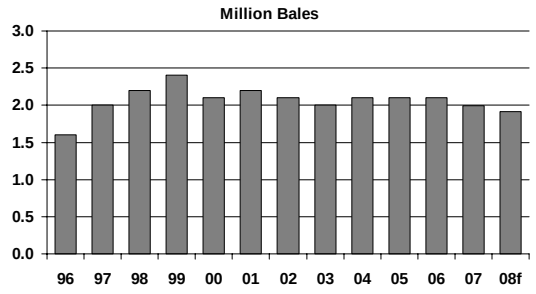


Exhibit 124

Indonesia Cotton Mill Use

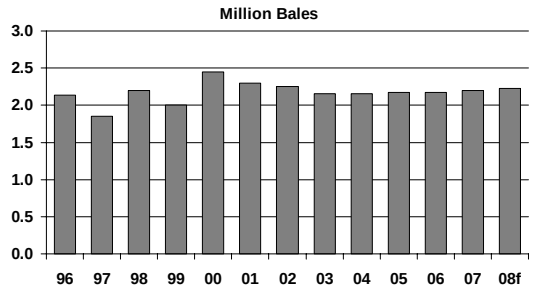


Exhibit 125

World Cotton Mill Use

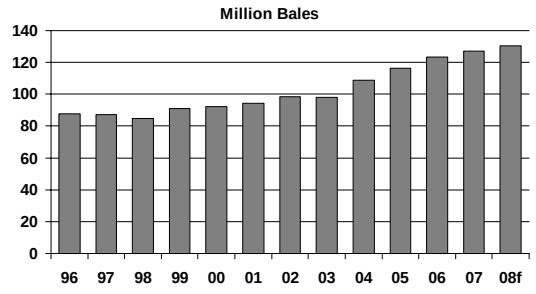


Exhibit 126

World Trade Share of Mill Use

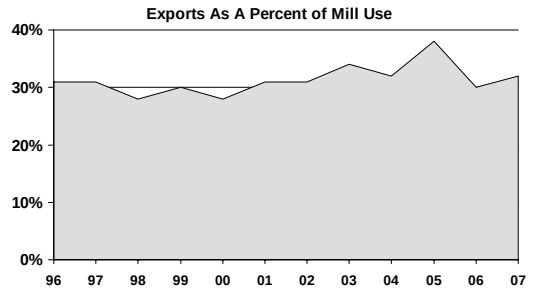


Exhibit 127

World Cotton Exports

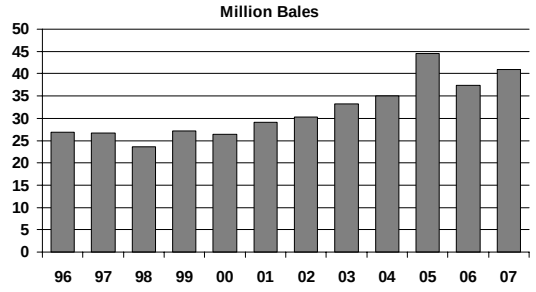


Exhibit 128

U.S. Cotton Exports

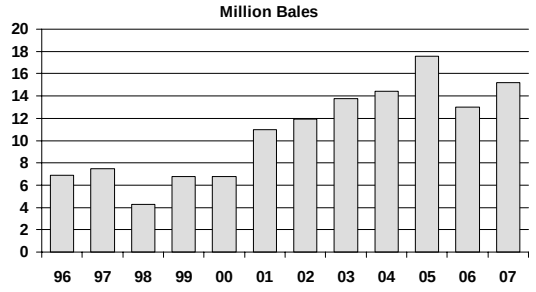


Exhibit 129

Top U.S. Raw Cotton Export Destinations

1990		2007YTD	
Country	(000 480-Lb. Bales)	Country	(000 480-Lb. Bales)
Japan	1,538	China	2,166
China	1,347	Mexico	1,629
South Korea	1,185	Turkey	1,320
Indonesia	552	Indonesia	833
Italy	424	Thailand	453
Taiwan	354	Pakistan	390

Exhibit 130

Uzbekistan Cotton Exports

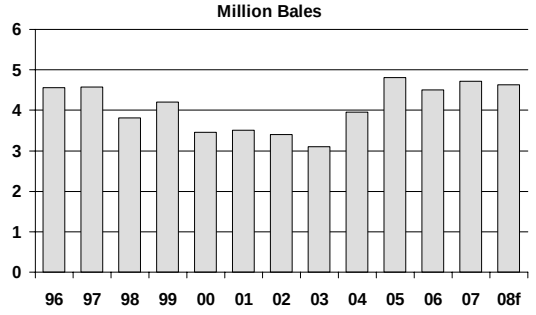


Exhibit 131

China Net Imports

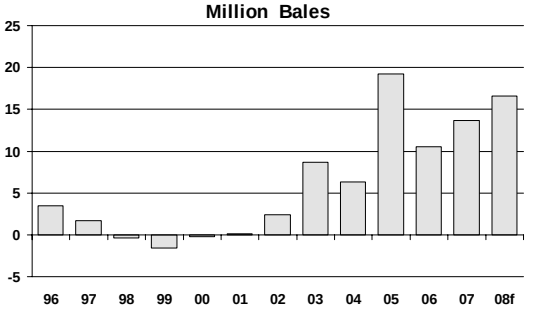


Exhibit 132

Australia Cotton Exports

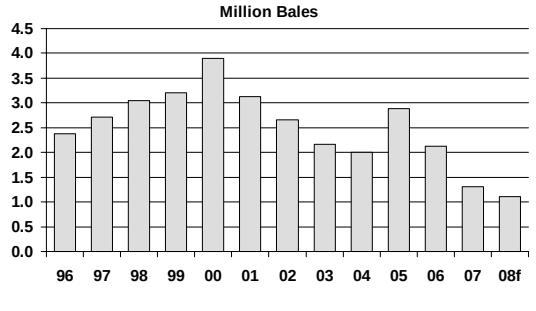


Exhibit 133

West Africa Cotton Exports

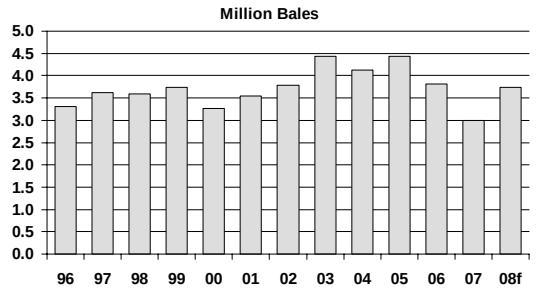


Exhibit 134

India Net Exports

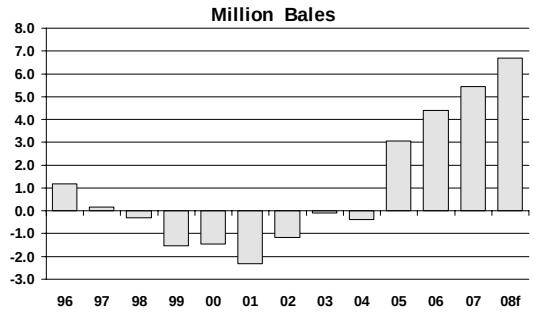


Exhibit 135

Pakistan Cotton Imports

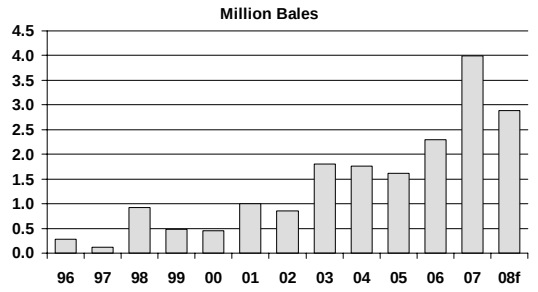


Exhibit 136

World Cotton Exports

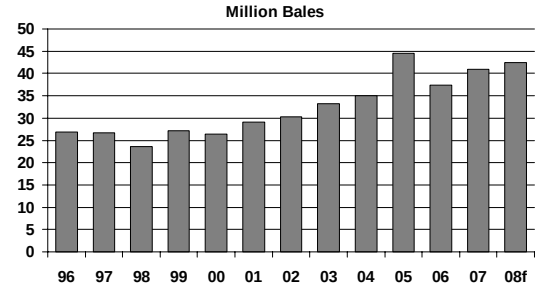


Exhibit 137

U.S. Cotton Exports

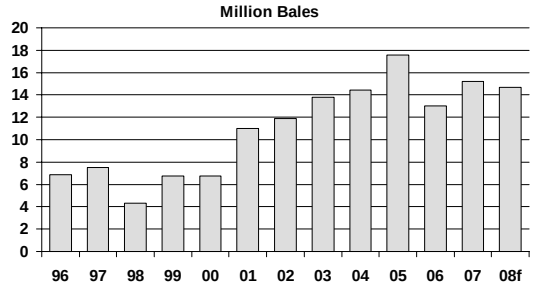


Exhibit 138

World Cotton Ending Stocks

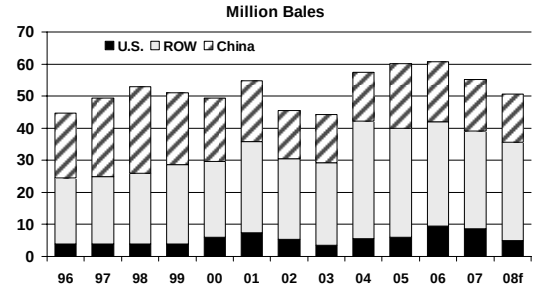


Exhibit 139

U.S. Supply and Demand

Million Bales

	2007/08	*2008/09*
Beginning Stocks	9.48	8.69
Production	19.03	15.38
Imports	0.02	0.02
Total Supply	28.53	24.09
Mill Use	4.62	4.40
Exports	15.21	14.67
Total Offtake*	19.84	19.07
Ending Stocks	8.69	5.02
Stocks-to-Use Ratio	43.8%	26.3%

*Includes unaccounted

Exhibit 140

World Supply and Demand

Million Bales

	2007/08	*2008/09*
Beginning Stocks	60.76	55.20
Production	118.25	122.41
Imports	40.93	42.43
Mill Use	127.30	130.38
Exports	40.93	42.43
Ending Stocks	55.20	50.74
Stocks-to-Use Ratio	43.4%	38.9%