The Economic Outlook For U.S. Cotton 2004

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U.S. and World Economy

Last year at this time, forecasters were cautiously optimistic. For a year and a half, the economy was in a kind of limbo state, where you neither had a recovery nor a recession. In the early part of 2003 that caution was well-founded as businesses held back on new hiring and investing.

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 in the economy bottomed out in March 2003 (Exhibit 1). In response, an economic-stimulus package calling for a unique convergence of tax cuts and government spending was pushed through Congress. Fueled by the stimulus package and low interest rates, the economy responded.

Consumer confidence increased very modestly through November. Then, just in time for the 2003 holiday season, there was a significant boost in consumer confidence. While negative index values indicate that consumers still have their reservations, consumer confidence in January 2004 is the highest that it has been since July, 2002. Improved performance of U.S. equity markets should continue to contribute to the consumer's growing confidence in the economy.

Despite a war in Iraq, a new round of Wall Street scandals, and a struggling economic recovery, Wall Street thrilled investors with a remarkable comeback after a grueling three-year losing streak. If the economy continues to grow next year as expected, most analysts are of the opinion that corporate earnings should improve and be reflected in higher stock prices. However, more evidence of wrongdoing in the mutual fund industry, which first made headlines in September, could weigh on stocks in 2004. Another issue to watch closely is the way markets handle the continued weakness in the dollar. A continued decline in the value of the U.S. dollar might discourage investment from overseas.

In an effort to stimulate the struggling economy, the Federal Reserve Bank made aggressive cuts in the federal funds rate in the second quarter of 2003. The most recent decline brought the rate down to a 45-year low of 0.98%. This cut comes on the heels of a cut made in December 2002. Analysts do not anticipate significant rate changes in the short run.

The soft recovery of the U.S. economy has contributed to the continued weakening of the U.S. dollar. There has been significant weakening relative to the Euro and, to a much lesser extent, several Asian currencies. For an export-oriented commodity such as cotton and an import-vulnerable textile industry, the weaker dollar increases U.S. competitiveness in world markets. The weakened state of U.S. currency has some analysts concerned that further reductions may adversely affect the U.S. equities market as foreign investors begin to pull out.

While too early to celebrate, a contingent of economists believes that the U.S. economy has reached a turning point.

U.S. Gross Domestic Product

After posting a disappointing growth rate of 1.3% in the fourth quarter of 2002 and 2.0% in the first quarter of 2003, the Real Gross Domestic Product (GDP) grew at a more impressive rate of 3.1% in 2003's second quarter (Exhibit 2). The economic stimulus package, signed in March 2003, accelerated personal consumption expenditures, which boosted third quarter GDP growth to 8.2%. This was the strongest performance since early 1984.

While a repeat is not expected, a recent *Newsweek* survey of seven economic analysts shows that expectations for 2004 range from a low of 3.5% to a high of 5.2%, with an average of 4.5%. Even more optimistic Consumer Board economists expect the GDP to grow 5.9% in 2004. If this prediction rings true, we would witness the best economic performance since 1997.

Consumer spending began to accelerate in the second half of 2003 after five consecutive quarters of growth in the 2-3% range (Exhibit 3). For the third quarter of 2003, real personal consumer expenditures grew by 6.9%. Stimulated by mounting consumer confidence and increased personal consumption expenditures, industrial production began to increase and business confidence rose. As a result, capital spending increased by 14.8% in the third quarter of 2003 (Exhibit 4). This is the greatest increase in more than four years. The National Association of Manufacturers reports that capital spending increases are expected to continue into 2004.

U.S. Employment

Except for a slump in August and September, U.S. job market performance in 2003 appeared to stabilize after steadily declining since the beginning of 2001 (Exhibit 5). Improvements took the form of reduced layoffs and modestly increased hiring. New hiring was still quite minimal. Although wage pressures remained generally subdued, health care and other employee benefit costs continued to rise, making hiring new full-time workers extremely costly.

The discouraging increase in the U.S. unemployment rate experienced in 4th-quarter 2002 carried over into 2003. The unemployment rate peaked in both January and June at 6.5%, the highest unemployment rate since March 1994 (Exhibit 6). However, during the second half of 2003, the unemployment rate started an optimistic decline. 2003 closed with a 5.4% unemployment rate.

Since January 2000, 2.8 million manufacturing jobs were lost (Exhibit 7). Until very recently, there was little evidence of recovery. According to the latest *Beige Book* by the Federal Reserve District, manufacturing employment is beginning to stabilize and edge upward after declining for more than three years. A recent National Association of Manufacturers report states that manufacturers across the country generally expect factory conditions to continue to improve in the months ahead.

Despite the positive outlook, over the past five months, just 278 thousand jobs have been generated in the U.S. – a number that is typically achieved in a single month during an upswing in the economy. Having splurged on investment and hiring during the boom years of the 1990s, companies now have tremendous capacity. Experts fear that current productivity is so strong that demand will have to grow more than 5% to generate

the sort of employment gains that will take the unemployment rate down on a sustained basis.

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. Throughout 2001 and 2002, the Federal Reserve aggressively lowered the fund rate from 6.0% at the beginning of 2001 down to 1.25% by December 2002 (Exhibit 8). The Fed was content to leave the rate unchanged throughout much of 2003 as the economy showed slow but unsteady expansion. However, a weak job market and heightened geopolitical uncertainties led the Fed to lower the rate to 1.01% in July 2003. This latest cut, which puts the rate at a 45-year low, was done with the anticipation of stimulating spending and production without a serious threat of inflation.

In June 2003, the average 30-year mortgage rate fell to an all-time low of 5.23% (Exhibit 9). Since reaching 8.5% in mid-2000, mortgage rates have experienced a steady decline. Although rates rose to 5.88% in December 2003, these relatively low rates continue to be a supporting factor in a housing market. It appears that the residential real estate activity will remain robust, with strong home sales and new construction expected to continue. On the other hand, commercial real estate markets and nonresidential construction were described as soft with little improvement expected in the near term.

Little opportunity for inflationary pressures exists because of the excess capacity in the economy. Therefore, it is thought that the Fed would not raise short-term interest rates until we get a real string of extremely strong GDP numbers. However, a sizable loss of foreign funds could certainly exert upward pressure on rates.

Federal Budget Situation

Budget projections by the Congressional Budget Office (CBO) prepared in August 2003 show outlays will continue to exceed revenue for fiscal 2004 (Exhibit 10). The growth in outlays exceeds the growth in revenue, subsequently pushing the 2004 deficit to $480 billion. While more discipline is expected in coming years, CBO projects deficits to persist through fiscal year 2011 (Exhibit 11).

Surpluses are projected to return, but only when certain tax cuts in the stimulus package expire. Bush administration officials have made it clear that they want these temporary tax cuts made permanent. If this were to happen, some economists fear that the long-term budget outlook would deteriorate very sharply.

If the deficit swells to near the $500 billion mark, then some upward pressure will be exerted on interest rates. Furthermore, as the budget situation deteriorates, anxiety heightens over possible budget reconciliations. If budget reconciliation comes about, then it provides a situation where the policies of the 2002 farm bill could be changed to generate budget savings.

Inflation and Energy Prices

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. Both the CPI

and PPI grew modestly in 2003 (Exhibit 12). The 2003 growth rates for the CPI and PPI were 2.3% and 2.5%, respectively. This modest growth validates the Federal Reserve's view that it can afford to keep interest rates low for much of 2004 despite strong economic growth and the slipping value of the U.S. dollar. In fact, a recent Newsweek survey put projected 2004 inflation at 1.7%.

Although the U.S. economy has shown strong growth for more than six months and the dollar has lost value against other major currencies, analysts say businesses haven't gained much power to raise prices. While modest inflation is good for consumers, it is painful for businesses that can not raise prices to keep up with steep and persistent increases in non-production costs. These include costs related to unrestrained litigation, energy supply shortages (particularly of natural gas), regulatory burdens, health care costs and pension payments. Thus, while international competition prevents manufacturers from raising prices, increases in non-production costs squeeze margins – too often to the breaking point where companies have no alternative but to close, cut back or move production abroad. With declines in excess of 10%, the CPI for apparel provides a clear illustration of the lack of pricing power and pressures brought to bear by surging imports (Exhibit 13). The drop in output prices also provides a dampening effect on the ability of raw cotton prices to increase.

A year ago, crude oil prices were approximately equal to today's price of $33.54 per barrel (Exhibit 14). However, the strike in Venezuela and the military action in Iraq pushed prices to almost $38 in February 2003. After the brief spike, prices ranged between $25 and $35 per barrel for the remainder of the year. It appeared that some OPEC (Organization of the Petroleum Exporting Countries) members were allowing production to exceed agreed-upon levels, thus helping to contain oil prices.

Consumers saw similar movements in the price of diesel fuel and natural gas. The highway price of diesel peaked at $1.77/gallon in March and averaged $1.44/gallon for 2003 (Exhibit 15). Natural gas prices, which showed a steady increase through 2002, peaked at $6.69/million cubic feet (mcf) in March 2003 (Exhibit 16). Injection of additional reserves moderated prices, resulting in a $4.90/mcf average price for 2003. Current U.S. Department of Energy (DOE) projections indicate a return to more reasonable fuel prices, with diesel fuel prices dropping to $1.32/gallon and natural gas prices to average $3.88/mcf in 2004.

The market is firmly underpinned by the extremely low level of U.S. oil inventory. A recent report showed crude inventories falling to 269 million barrels, their lowest since October 1975. OPEC, due to meet in Algiers on February 10, is concerned about a price collapse following the partial return of Iraqi crude.

Higher energy prices will increase the cost for manufacturers and ultimately scale back economic growth. A rule of thumb used by economists is that a $10 increase in oil prices cuts economic growth by 0.5% and adds about 1% to inflation.

U.S. Equity Markets

After a dismal performance in 2002, the long bear market finally hit bottom in March just before U.S. forces invaded

Iraq. As financial markets closed out 2003, the Dow Jones Industrial Average stood above 10,400 – up more than 25% from its close a year ago (Exhibit 17).

Movement of the NASDAQ during 2003 can be summarized as a steady recovery after a sluggish start (Exhibit 18). From the low posted in October 2002, the NASDAQ ended 2003 at 2,003. This was a respectable 50% gain. The NASDAQ was last in the 2,000 range in January 2002. The S&P 500 also posted solid gains in 2003, reaching 1,100 by year's end (Exhibit 19).

By traditional price-earnings ratios, stocks are already richly priced, according to many analysts. But the incredibly strong productivity increases during the past year have meant some of the best profit growth in years. If profit growth continues, stocks may well continue their run.

Factors capable of altering this bright outlook include exchange rates, interest rates and geopolitical uncertainty. So far there has been a very orderly transition as the value of the dollar dropped precipitously. However, a major crash in the dollar could prompt foreign investors to pull out from U.S. financial markets. This threat is more real than it's been in 10 years. Even a hint of rising rates could dampen consumer and business spending, and that in turn may weaken stock prices. More geopolitical uncertainty stemming from the U.S. occupation of Iraq and the continuing threat of terrorist attacks also could limit future market's gains.

World Economies

With estimated growth of 3.2% in 2003, the world economy outperformed 2002, but was still well below average growth of the previous decade (Exhibit 20). Better performance in the U.S., China and select developing economies more than offset dismal numbers from the European Union and Japan. For 2004, current expectations are for better growth than last year, but not to the levels observed in the late 1990s.

While China's official growth rate for 2003 is likely to be 8.5%, Jonathan Anderson, a UBS economist, believes that a more realistic figure is closer to 11.5% (Exhibit 21). The Chinese economy is already running much faster than is thought to be sustainable. Anderson also expects the economy to slow this year, with GDP growth of 9.5% in 2004 and 7.4% in 2005. Despite the slowdown, Anderson expects industries such as textiles, aluminum, autos, ethylene, shipbuilding and machinery to double. Industries that do not double will likely increase capacity by 30% to 50%.

Despite the current economic boom, China suffers from chronic high unemployment and an ailing banking system. State-owned banks face mountains of bad loans. While the banks say their nonperforming loans are around 20%, it is believed that the real figure is closer to 40%. Technically many of their banks are insolvent.

Beijing has recently publicized plans to spend $45 billion to bail out two of its four state-owned banks. The two banks to benefit are China Construction Bank (CCB) and Bank of China (BOC), each of which received $22.5 billion. The next in line is the Industrial and Commercial Bank of China (ICBC), but the amount and timing of that injection has not yet been decided, officials say. The fourth of the "big four", Agricultural Bank, is in

such a parlous state that it may take considerably longer to formulate a rescue package.

Performance of Asian stock markets looked very similar to that of the U.S equity markets (Exhibit 22). The Nikkei began the year at 9,366 and closed the year at 12,576, a gain of 34%. This comes on the heels of a 21% decline in 2002. The Hong Kong Hang Seng began 2003 at 8,579, and closed the year at 10,677, up 24% from the start of the year.

Exchange Rates

The dollar continued to weaken throughout 2003, reflecting global investors' preference for foreign assets over U.S. assets. The most notable changes were relative to the euro (Exhibit 23). In December 2002, it took 0.9818 euro to buy 1 dollar. By January 2004, the euro had strengthened to 0.7853 euros per U.S. dollar. The euro's rise, which has been hurting exports in the euro zone, prompted European Central Bank President Jean-Claude Trichet to hint at possible intervention.

The Japanese yen began 2003 at 118.77 against the dollar (Exhibit 24). By January 2004, the yen was trading at 106.36 to the dollar, a gain of 10.4% in purchasing power. Japanese authorities may consider stepping in to sell yen, slowing the currency's export-damaging rise against the greenback. The South Korean won began the year at 1,175 against the dollar. In January 2004, the exchange was 1,185.5 won per U.S. dollar, a loss in value of 0.9% (Exhibit 25).

Calendar year 2003 also saw a weaker dollar against three important currencies for trade in cotton textiles. The values of the Indian Rupee (Exhibit 26), the Indonesian Rupiah (Exhibit 27), and the Pakistani Rupee (Exhibit 28) improved relative to the U.S. dollar. The weaker dollar makes the U.S. a bit less attractive to Asian textile imports.

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. Mexico carries the largest weight, followed by China, South Korea and Taiwan. The index shows a dramatic strengthening of the dollar in 1998 due to currency devaluations associated with the Asian financial crisis (Exhibit 29). Between early 2000 and early-2004, the index rose from 112 to more than 146. The index currently resides at about 142.

Rampant dollar selling has been driven largely by worries over the U.S. current account deficit and expectations that U.S. interest rates will remain low for some time, diminishing the appeal of dollar-denominated assets. If the Fed starts to move to a more neutral policy in 2004 rather than its current inflation policy, the dollar should stabilize.

Election Year Politics

Expectations are that the economy will be a neutral to favorable issue for incumbents. While Bush needs a couple more quarters of data before he can declare victory, historically election years are positive for the stock market.

Incumbents want to keep the economy afloat and therefore rarely move to cut spending or raise taxes. Many observers believe the Federal Reserve is unlikely to raise short-term interest rates, which are already at record lows, until after the November election.

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 very informative. However, the movement in the index from any base point can be revealing.

Although commodity prices fell sharply shortly after the start of 2003, losses were more than recovered by the end of the year (Exhibit 30). The index averaged 248 for January 2003 and climbed to 255 by December. April 1996 was the last time that the index reached 255.

USDA (U.S. Department of Agriculture) publishes monthly indices of prices received by farmers. The index of crop prices was 103 in January and rose steadily throughout the year, closing at 117 (Exhibit 31). Having suffered throughout 2002 with particular pressure in the dairy and pork sectors, livestock prices recovered in 2003. Starting at 96, November livestock prices posted at 117 before settling at 113 in December. The recent decline in beef prices due to the first case of BSE in the U.S. will lead to weaker livestock price index in early 2004.

U.S. Net Farm Income

The latest USDA estimates put U.S. net farm income at $55.8 billion for 2003 (Exhibit 32). This represents an increase of $20.5 billion from the 2002 level.

Market receipts for both crop and livestock products posted strong gains in 2003 due to higher prices. Total production expenses were also sharply higher with gains in almost all major expense categories.

USDA estimates that government payments will total $19.7 billion. Direct payments and counter-cyclical payments are expected to amount to $10.5 billion in 2003.

U.S. Supply

Planted Acreage

U.S. farmers planted 13.48 million acres of cotton in 2003, a drop of 3% from the previous year (Exhibit 33). Upland area for 2003 totaled 13.30 million acres while ELS area fell to only 179 thousand acres. The reduced ELS area, which was 27% below the 2002 level, was largely anticipated by the industry due to depressed ELS prices in the weeks prior to plantings. The decline in upland acres was a departure from early-season expectations. In fact, many in the industry were expecting upland acres to increase in 2003 instead of decline. At the time of the 2003 National Cotton Council (NCC) Annual Meeting, for example, expectations of 2003 upland cotton plantings were in the neighborhood of 13.8-13.9 million acres. However, some adverse weather conditions prevented some acres from being planted to cotton.

Upland area in the Southeast declined 13% to 3.04 million acres in 2003 (Exhibit 34). Much of the decline was in response was to the poor cotton returns that resulted from 2002's disastrous crop. North Carolina planted 810 thousand acres, a decrease of 14% from the previous year. In Alabama, an 11% decrease to 525 thousand acres occurred, while upland area in Georgia declined 10% to 1.30 million acres. With only 220 thousand acres planted, South Carolina experienced the largest percentage decline at 24%. Planted area in Virginia fell 11% to 89 thousand, while Florida's planted area of 94 thousand acres was 22% below the 2002 level.

In the Mid-South, 3.58 million acres of upland cotton were planted in 2003, a decline of only 1% from the previous year (Exhibit 35). Increases in Arkansas, Louisiana, and Missouri were more than offset by declines in Mississippi and Tennessee. In Arkansas, planted area increased 2% to 980 thousand acres. With 525 thousand acres, Louisiana's planted area was only 1% above their 2002 level, while Missouri's 400 thousand acres was 5% higher than the previous year. Acreage in Mississippi fell 5% to 1.11 million acres, and with 560 thousand acres, Tennessee planted 1% less cotton than in 2002.

With 5.87 million acres of upland cotton, growers in the Southwest reduced plantings by less than 1% (Exhibit 36). Acreage in Texas was unchanged at 5.60 million acres. Expansion continued in Kansas with upland area at 90 thousand acres, an increase of 13%. Oklahoma continued its recent trend of reduced acreage as plantings fell 10% from the 2002 level and stood at only 180 thousand acres.

In the West, growers planted 821 thousand acres, an increase of 10% from the extremely low levels of 2002 (Exhibit 37). California accounted for the vast majority of the increase as growers planted 550 thousand acres, up 15% from the previous year. Arizona acreage was unchanged, while New Mexico increased planted area by 4%.

ELS plantings were sharply lower in 2003 (Exhibit 38). In California, 150 thousand acres of ELS cotton were planted in 2003, down 29% from the

previous year. Acreage in Arizona was only 3 thousand acres, a drop of 64% from the previous year. In New Mexico, ELS area decreased 14% to 6 thousand acres. With 20 thousand acres of ELS, Texas plantings were 8% above the 2002 level.

Harvested Acreage

Over the past five years, abandonment has averaged 11.9%. In the 2003 season, growers abandoned 10.6% of their planted acres (Exhibit 39), leaving 12.06 million acres for harvest. As usual, Texas accounted for much of the abandonment. In 2003, growers in the state abandoned 1.20 million acres of upland and ELS cotton, or 21% of the total planted.

Yields

For the U.S. as a whole, growers harvested a record national average yield of 725 pounds per acre in 2003.This is 17 pounds higher than the previous record set in 1994 and 78 pounds higher than the preceding 5-year average (Exhibit 40). The 2003 upland yield is estimated to be 719 pounds, 81 pounds above the 5-year average. The estimated ELS yield of 1,157 pounds is only 4 pounds above the 5-year average and 185 pounds lower than the 2002 yield.

In the Southeast, the regional average yield is an estimated 745 pounds, up 142 pounds from the 5-year average and 259 pounds higher than the drought-reduced yields of 2002 (Exhibit 41). All states in the region saw improved yields in 2003 due to much more favorable weather conditions. At 727 pounds per acre, South Carolina's yields were 413 pounds above the 2002 level – the largest recovery of any of the 6 states. Yields in the remaining states were as follows: 772 pounds in Alabama, up 265; 678 pounds in Florida, up 277; 781 pounds in Georgia, up 224; 686 pounds in North Carolina, up 265; and 678 pounds in Virginia, up 213.

The regional average yield in the Mid-South of 900 pounds is 200 pounds above the 5-year average (Exhibit 42). All states in the region experienced above-average yields. In Louisiana, the estimated yield of 955 pounds is 317 pounds above the preceding 5-year average while an increase of 206 pounds to 925 occurred in Mississippi. In Missouri, the estimated yield of 874 pounds exceeds the 5-year average by 197 pounds. Yields also are well above-average in Arkansas (+157 pounds to 914) and Tennessee (+148 pounds to 792).

The Southwest region suffered the most adverse growing conditions during 2003. As a result, the average yield for the Southwest of 471 pounds is 67 pounds lower than the 2002 level and 17 pounds below the preceding 5-year average (Exhibit 43). However, the state-level numbers within the region show dramatically different situations. In Texas, the estimated upland yield is 464 pounds, 24 pounds lower than the 5-year average. Kansas and Oklahoma fared substantially better than Texas, with yields of 600 and 593 pounds, respectively. Both are record highs for the state as a whole.

The average upland yield in the West is an estimated 1,281 pounds, up from a 5-year average of 1,230 pounds (Exhibit 44). Cool, wet conditions in the spring slowed the early progress of the crop, but nearly ideal conditions in late summer and fall allowed yield prospects to improve. With an average yield of 857 pounds, New Mexico exceeded their 5-

year average by 111 pounds. California's yield of 1,321 pounds was 55 pounds higher than the 5-year average, while the 1,262 pounds per acre produced in Arizona were 2 pounds below the 5-year average.

The national average ELS yield is estimated to be 1,157 pounds, only 4 pounds higher than the 5-year average of 1,153 pounds (Exhibit 45). In California, the estimated ELS yield is 1,192 pounds, down 16 pounds from the 5-year average. In Arizona, an 89-pound improvement to 960 pounds is estimated and Texas reported a 1,008 pound average – up 141 pounds. In New Mexico, the 2003 yield of 880 pounds is 75 pounds above the 5-year average.

Production

USDA's latest estimate places the 2003 U.S. cotton crop at 18.22 million bales (Exhibit 46), 1.02 million bales larger than the previous year as better yields more than offset reduced acreage. The final production was substantially larger than USDA's first objective production estimate (released in August) of 17.10 million bales. In the West, generally good weather in the late summer and fall allowed the crop to recover from a slow start. In parts of the Southeast and Mid-South, record or near-record yields surpassed USDA's early season expectations. The upland crop is an estimated 17.80 million bales, which is 1.26 million bales higher than the 5-year average. In contrast to the upland crop, ELS production is estimated to be 429 thousand bales, which is sharply lower than either of the previous 2 years.

The Southeast produced 4.60 million bales of upland cotton in 2003, accounting for 26% of the total upland crop (Exhibit 47). This is up 520 thousand bales from the 5-year average. Production in each of the 6 states in the region was significantly higher than the drought-reduced levels of 2002. Growers in Georgia produced a crop of 2.10 million bales, up 522 thousand bales from the previous year. North Carolina accounted for 1.10 million bales, an increase of almost 300 thousand bales from the 2002 level. With a crop of 820 thousand bales, Alabama's production was 250 thousand bales higher than the previous year. In percentage terms, South Carolina showed the largest increase as their crop of 330 thousand bales was two and a half times larger than the 2002 crop. Significantly larger crops were also produced in Florida (+34 thousand bales) and Virginia (+25 thousand bales).

Upland production in the Mid-South was 6.50 million bales, some 1.04 million bales above the 5-year average. For 2003, the region accounted for 37% of the total upland crop. Relative to 2002, improved yields produced larger crops in each of the 5 Mid-South states. Each state also exceeded their previous 5-year average levels of production. In order of their crop size, state-level production and change from the 5-year average are as follows: Mississippi at 2.10 million bales (+237 thousand bales), Arkansas at 1.80 million bales (+287 thousand), Louisiana at 1.02 million bales (+170 thousand), Tennessee at 875 thousand bales (+146 thousand), and Missouri at 710 thousand bales (+177 thousand).

The upland crop in the Southwest is an estimated 4.56 million bales, only 19 thousand bales lower than the 5-year average, but 765 thousand bales below their 2002 crop. The region accounted for 26% of total upland production in 2003. Texas suffered the most widespread

losses as their crop of 4.25 million bales was 790 thousand bales below the previous year. The 2003 Oklahoma crop of 210 thousand bales was almost identical to the previous year as higher yields offset lower acreage. Cotton production in Kansas continued its expansion with the 2003 crop reaching 100 thousand bales – this compares to a 5-year average of only 33 thousand bales.

The West produced 2.14 million bales of upland cotton in 2003, about 282 thousand bales below the region's 5-year average. The region accounted for 12% of total upland production in 2003. California growers produced a crop of 1.50 million bales, down 133 thousand bales from the 5-year average. In Arizona, the upland crop of 560 thousand bales was 124 thousand bales below the 5-year average.

The ELS crop of 429 thousand bales represents a decrease of 148 thousand bales from the 5-year average. At 370 thousand bales, the California ELS crop was 139 thousand bales smaller than the 5-year average (Exhibit 48). The state accounted for 86% of total U.S. ELS production in 2003. ELS crops in New Mexico and Texas were each 1,000 bales higher than average while the crop in Arizona fell to 6 thousand bales, which is 10 thousand bales lower than the previous 5-year average.

Stock Levels

USDA estimated U.S. cotton stocks at the beginning of 2003 marketing year at 5.38 million bales, a decline of 2.07 million bales from the previous year (Exhibit 49). The lower stock levels come on the heels of 2 marketing years in which beginning stocks increased. Of total beginning stocks, 5.14 million bales are upland cotton while ELS accounts for 245 thousand bales.

As of December 31, 2003, outstanding CCC loan stocks were approximately 5.50 million bales (Exhibit 50). Mid-South loan entries dominated, accounting for 50% of outstanding loans. The Southeast accounted for 29%, the Southwest 8% and the West about 14%. Almost 90% of the cotton under loan was Form G (cooperative) while the remaining 10% was Form A (producer).

At a comparable point in the 2002 marketing year, loan stocks were 5.01 million bales. Almost all of this cotton was eventually redeemed. Total loan forfeitures of 2002 crop upland cotton through December 31, 2003 (the last available reporting date) were 45 thousand bales; loans for 2 thousand bales were still outstanding.

Total Supply

Total supply for the 2003 marketing year is estimated to be 23.66 million bales, down from 24.72 million the previous year (Exhibit 51). Lower supplies came about as the decline in stocks more than offset the larger crop. For the 2003 marketing year, imports of raw cotton are expected to be 50 thousand bales. Over the past five years, total supply has averaged approximately 22.28 million bales.

Upland Cotton Quality

After a below-average year in 2002, quality characteristics of the 2003 crop are extremely good. With much of the 2003 upland cotton crop classed, the national average staple length (measured in 32^{nd} of an inch) is 34.7, up from a 5-year average of 34.3 (Exhibit 52). While all regions show improved strength

relative to their 5-year average, the Southwest shows the largest gain. The region's average staple length of 34.4 is up substantially from a 5-year average of 33.3. The West is also showing a significant increase with an average staple length of 36.8 – up 0.7 from the 5-year average.

The national average strength for upland cotton is 28.8 grams/tex, marginally higher than the 5-year average of 28.0 grams/tex. Strength is up in all regions with the Southwest again showing the largest improvement. At 29.4, the average strength in the Southwest is 1.4 grams/tex better than the 5-year average. In the West, the average strength is 31.6 grams/tex, up from 29.9. The crop in the Mid-South has an average strength of 28.2 grams/tex, which is 0.6 better than the 5-year average, while strength in the Southeast averages 27.9 grams/tex (+0.4).

Color in the 2003 crop is exceptional with 94% of the crop grading 41 or better, up from the 5-year average of 79% (Exhibit 53). Relative to the 5-year average, the most dramatic improvement is in the Mid-South where 96% of the crop is 41 or better – this compares to a 5-year average of 73%. Similar improvement occurred in the Southeast as 94% of their crop is grading 41 or better, up from the 5-year average 78%. Also, the grades in the Southeast are vast improvements over 2002 when only 44% of the crop was 41 or better. The Southwest crop also had excellent color grades with 89% at 41or better. In the West, 96% of their production is grade 41 or better, which is a modest improvement over the 5-year average of 95%.

The average micronaire of the 2003 upland cotton crop is 44.4, down from the 5-year average of 44.8. The largest decrease is found in the Southeast, dropping 2.5 to 42.3. Micronaire also dropped in the West as the average of 42.8 is 2.2 below the 5-year average. In the Mid-South, micronaire showed a modest decline from 46.5 to 46.3. Only the Southwest had an average micronaire for the 2003 crop that was above the 5-year average (44.3 as compared to 43.1).

Cotton Prices

Upland Cotton Prices

Calendar 2003 ended with the spot 4134 cotton price at 69 cents/lb., some 20 cents higher than at the beginning of the year (Exhibit 54). However, all of the increase in prices occurred in the final 4 months of the year. Through August, upland spot prices moved in a sideways pattern. Short-term fluctuations tested 55 cents on the high side and 45 on the low side, but there was no momentum to sustain prices in a particular direction. By September, growing concerns about the world crop, in particular China, led to a 10-cent rally during that month. Further strengthening occurred in October. On October 1, the 4134 spot price stood at 62 cents/lb. By the end of October, the spot price reached 77 cents, which was the highest prices seen since July, 1998. However, prices stalled, and during November, the market gave back all of the gains that occurred in October. Since early December, spot prices have recovered, and as of mid-January 2004, remain in the upper 60's. Thus far into the 2003 crop year, spot 4134 values have averaged 63 cents/lb.; the average spot 4134 value for 2002 crop cotton was about 47 cents/lb.

World cotton prices have followed a similar path. Beginning calendar 2003 at about 57 cents/lb., the "A" Index

remained in the 60-cent range through August (Exhibit 55). The "A" strengthened through September and October before peaking at just under 80 cents/lb. on October 30. During the remainder of 2003, the "A" Index continued to track closely with the US spot price value. By mid-January 2004, the "A" was approximately 76 cents/lb. Thus far through the 2003 marketing season, the "A" Index has averaged about 70 cents/lb., up from 56 cents/lb. the previous year.

ELS Prices

Through June 2003, ELS cotton prices continued to hover around the ELS base loan rate (Exhibit 56). The 44-3 ELS spot price hovered near 80 cents/lb. as the large crop harvested in 2002 continue to weigh on the market. Plantings fell sharply in the spring of 2003, and prices began an upward movement as the market came to grips with the smaller harvest. By the end of 2003, ELS prices had risen to $1.00/lb.

Cottonseed Situation

Cottonseed Supply

USDA estimates 2003 cottonseed production at 6.69 million tons, up from 6.18 million the previous year (Exhibit 57). A regional breakdown of production shows that the Mid-South produced 2.43 million tons or about 36% of the total, the largest of any region (Exhibit 58). This was followed by the Southwest with estimated production of 1.79 million tons for a 27% share. The Southeast produced 1.57 million tons, or 24% of total production, and the West accounted for 902 thousand tons, 13% of the total. Summing production, imports of 225 thousand tons and beginning stocks of 346 thousand tons, total cottonseed supply for 2003 is an estimated 7.27 million tons (Exhibit 59).

Disappearance and Stock Levels

USDA's latest estimate places disappearance at 6.93 million tons, up 589 thousand tons from the previous year (Exhibit 60). Crush is estimated at 2.70 million tons, up 205 thousand tons from 2002. Use of the whole seed for feed purposes continues to be the dominant category with total feed and seed use estimated at 3.93 million tons. Estimated exports of 300 thousand tons are 70 thousand below the 2002 level.

Despite the increase in cottonseed supplies, stronger growth in disappearance during the 2003 marketing year will result in ending stocks of 335 thousand tons. This is down 11 thousand tons from the 2002 level and the lowest since the end of the 1999 marketing year (Exhibit 61).

Upland Cotton Farm Program

The 2004 cotton crop will be the third crop covered by the farm legislation adopted in 2002. This legislation, titled the "Farm Security and Rural Investment Act of 2002 (FSRIA)," replaced the 1996 FAIR Act. The duration of FSRIA is the 2002 through 2007 crop years. To a large extent FSRIA builds upon the FAIR Act, maintaining many of the provisions of the previous legislation but adding a new counter-cyclical payment program. The counter-cyclical payments are designed to provide additional support in times of low market prices. FSRIA also provided options for producers to update program acres and yields, as well as establishing soybeans and minor oilseeds as program crops.

Base Loan Rates, Marketing Loans and LDP's

The base loan rate for upland cotton is set at 52.00 cents/lb. for the duration of FSRIA (See table on page 18). Local (warehouse) rates will differ from the base loan rate by approximately the transportation cost relative to the Southeast mill district. For the 2002 though 2007 crops, the base loan rate for ELS cotton is 79.77 cents/lb. Non-recourse loans will be available for all loan commodities produced on farm, whether or not base acreage and yield are established for the specific crop. Loans are for nine months from the first day of the month following entry. This is a reduction of one month from the loan term for upland cotton under FAIR. Upland cotton loans may be repaid at the lower of the adjusted world price or the loan rate plus interest and storage. ELS loans will be repaid at the loan rate plus interest and storage. Non-recourse loans will be made available to producers for co-mingled commodities in unlicensed storage facilities if redeemed immediately.

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). In August and September, 2003, marketing loan benefits ranged between 3 and 5 cents per pound, and producers collected approximately $25 million in MLG's and LDP's. However, the subsequent rise in prices eliminated those payments as the AWP moved above the loan rate. As of January 16, 2004, the AWP stood at 62.7 cents/lb, almost 11 cents higher than the base loan rate.

Direct Payments

FSRIA continues the direct payments introduced in the FAIR Act (then known as the AMTA payments). For upland cotton, the direct payment under FSRIA is equal to 6.67 cents/lb. for the duration of the legislation. 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). They are decoupled from contemporaneous production decisions. Producers may make a one time election to establish (update) base acres, as discussed below. The payment yield for direct payments, however, will be equal to the 2002 AMTA payment yield (or its equivalent) for traditional program crops. For oilseeds, the payment yield for an individual producer will be established as: (1998-2001 average yield) times [(national average yield for 1981-1985) divided by (national average yield for 1998-2001)]. The ratio of the 1981-1985 and 1998-2001 average yields is about 78%; this factor is used to adjust oilseed payment yields such that they are comparable to payment yields for traditional program crops. (See table on page 18)

Target Prices

The target price terminology was reintroduced with FSRIA, though operation of the program differs from previous (pre-FAIR Act) farm bills. For upland cotton, the target price for the duration of FSRIA is 72.40 cents/lb. For wheat and feed grains, the target price for 2004-2007 is slightly higher than that for 2002-2003. And, there is no target price for ELS cotton.

These 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. However, a producer can choose to update both base acres and program yields for determination of the counter-cyclical payments. (See table on page 18)

Base Acres and Program Yields

FSRIA allowed producers to make a one time election to establish base acreage of program crops. Their choices are as follows:

1. Establish base by using acreage on which the 2002 AMTA payments were calculated and adding average acreage planted to oilseeds for 1998-2001 (some limits apply); or
2. Update all base acres using average 1998-2001 planted and **prevented** planted acreage.

If a producer does not make a choice, then the Secretary of Agriculture will use the 2002 AMTA payment acres and add oilseeds. The sum of covered commodity base acres, base acres for peanuts and acreage enrolled in CRP, WRP or other conservation programs which restrict or prohibit production, cannot exceed actual cropland on farm with an exception for double-cropping.

As noted above, the FSRIA yield for direct payments is equal to the 2002 AMTA payment yield or its equivalent. However, producers are allowed to update payment yields for counter-cyclical payments if they so choose, provided they choose also to update base acres (option 2 above). Their options for updating program yields are as follows:

1. 2002 AMTA payment yield or equivalent; or
2. 2002 AMTA payment yield plus 70% of difference between 2002 payment yield and 1998-2001 average yield/planted acre; or
3. 93.5% of 1998-2001 average yield/planted acre.

If payment yields are updated using option (2) or (3), years with "zero" planted acreage are excluded and 75% of the county average yield is inserted for any year when average yield/planted acreage is less than 75% of county average. A producer can select only one method for determining program yields, which will apply to all crops on a farm.

Base and Yield Update Results

FSRIA allowed producers to make a one time election to establish base acreage and payment yields of program crops. In December 2003, USDA released enrollment data by state and crop. For the U.S., the enrolled base for upland cotton for 2003 is 18.42 million acres, up from 16.22 million acres enrolled under the previous farm bill (See table on page 19). The Southeast region showed the largest increase in acreage with enrolled acres going from 2.44 million acres under the FAIR Act to 3.61 million acres under the current farm bill. Enrolled acreage in the Mid-South stands at 5.13 million acres, up from 4.72 million under the FAIR Act, while the Southwest has 7.88 million acres of enrolled base. The West is the only production region to show a decline in enrolled base (1.80 million acres,

down from 1.84 million). The regional numbers are the result of declines in California being larger than gains in Arizona and New Mexico.

The national average program yield for direct payments is 604 pounds/acre, while the payment yield for counter-cyclical payments is 638 pounds. The ability to update yields allowed the Southeast to obtain counter-cyclical payment yields that are 8% above their direct payment yield. Yield gains in the Mid-South, Southwest, and West are 5%, 7%, and 3%, respectively.

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

Payment limitations were modified under FSRIA. For direct payments, the limit is $40,000 per person; for counter-cyclical payments, $65,000 per person; and for marketing loan gain/loan deficiency payments, $75,000 per person. There are separate limits for peanuts. The 3-entity, spouse eligibility and actively engaged rules are unchanged from the FAIR Act. Also, marketing certificates will continue to be available for loan redemptions. Payments will now be subject to a means test, however. Entities (excluding general partnerships and joint ventures) with 3-year average adjusted gross income in excess of $2.5 million are ineligible for all programs if less than 75% of this income is derived from farming, ranching or forestry activities. Also, FSRIA created a commission to review the effect of payment limitations, and their report was released in 2003.

Cotton Competitiveness Provisions

The 3-Step competitiveness program was initially written into law under the 1990 FACT Act and extended with minor revisions in the 1996 FAIR Act. Following exhaustion of its funding in 1998, the competitiveness program was reauthorized in 1999 though certain program adjustments were made in order to achieve an industry consensus. Among these, the 10-week count towards opening a Step 3 quota was reduced to 4 weeks and both Step 2 certificates and Step 3 quotas can now be available simultaneously, eliminating the "exclusivity" provision of the earlier program. Another change was the inclusion of an additional trigger for opening a Step 3 quota which allows imports whenever the U.S. stocks-to-use ratio falls below 16%, exclusive of already landed raw cotton imports. Finally, total landed Step 3 imports in any given crop year were capped at 5 weeks of domestic mill use. Previously, imports had been limited only by the number and size of the open Step 3 quotas. FSRIA continues the 3-Step competitiveness program with only one significant change – the 1.25 cent/lb. threshold for the calculation of Step 2 payments and Step 3 quota counts has been eliminated through July 31, 2006.

Export Promotion

The funding for the Market Access Program (MAP) was increased from the current level of $90 million annually to $200 million annually by 2006. Funding

for the Foreign Market Development (FMD) program was increased from $27.5 million to $35 million/year. These two programs have been vital to the industry's efforts to build foreign demand for U.S. cotton and cotton products.

Loan Rates, Direct Payments and Target Prices

	Loan Rates		Direct Payment[1/]	Target Price[2/]	
	2002-03	2004-07	2002-07	2002-03	2004-07
Upland Cotton (lb.)	0.520	0.520	0.0667	0.724	0.724
ELS Cotton (lb.)	0.7977	0.7977	N/A	N/A	N/A
Corn (bu.)	1.98	1.95	0.28	2.60	2.63
Sorghum (bu.)	1.98	1.95	0.35	2.54	2.57
Barley (bu.)	1.88	1.85	0.24	2.21	2.24
Oats (bu.)	1.35	1.33	0.024	1.40	1.44
Wheat (bu.)	2.80	2.75	0.52	3.86	3.92
Soybeans (bu.)	5.00	5.00	0.44	5.80	5.80
Min. Oilseeds (lb.)	0.096	0.093	0.008	0.098	0.101
Rice (cwt.)	6.50	6.50	2.35	10.50	10.50
Peanuts (ton)[3/]	355.00	355.00	36.00	495.00	495.00

[1/] Direct payments are decoupled from production and price;
[2/]Target price (counter-cyclical) payments are decoupled from production;
[3/]Peanut program also authorizes quota buyout of 11 cents/lb. for 5 years.

Upland Cotton Base and Yield Update Results

	FAIR Act Enrolled Acres	FSRIA 2003 Enrolled Acres	Program Yields (Pounds) Direct	Program Yields (Pounds) Counter-Cyclical
SOUTHEAST	**2,443,958**	**3,612,043**	**651**	**702**
Alabama	568,113	698,680	675	696
Florida	79,895	114,232	693	710
Georgia	959,614	1,479,505	688	717
North Carolina	538,145	860,714	564	678
South Carolina	245,609	354,679	692	703
Virginia	52,581	104,233	509	706
MIDSOUTH	**4,716,581**	**5,131,175**	**672**	**706**
Arkansas	1,059,796	1,152,912	617	687
Louisiana	1,053,541	1,086,812	728	734
Mississippi	1,534,263	1,685,100	764	778
Missouri	381,352	439,343	548	621
Tennessee	687,629	767,008	544	586
SOUTHWEST	**7,219,802**	**7,878,924**	**427**	**456**
Kansas	1,656	20,208	362	405
Oklahoma	559,322	596,397	388	401
Texas	6,658,824	7,262,319	430	461
WEST	**1,836,393**	**1,802,095**	**1,088**	**1,116**
Arizona	447,772	474,421	1,239	1,260
California	1,291,407	1,213,176	1,076	1,102
New Mexico	97,215	114,498	589	673
TOTAL U.S. [1/]	**16,216,955**	**18,424,467**	**604**	**638**

[1/] Includes acreage for Kentucky, Maryland, and Nebraska.

2004 Planting Intentions

Farm Bill

The 2004 crop will be the third crop covered under the 2002 farm bill, but only the second crop planted with producers having full knowledge of specific details of the legislation. For assessing acreage intentions, full planting flexibility is maintained under FSRIA (with the exception of planting certain fruits and vegetables on program acres); hence, market forces will continue to drive most acreage decisions.

Price Prospects

Both U.S. and world cotton prices have strengthened significantly over the past year. Beginning calendar 2003 at 57 cents/lb., the "A" Index topped 79 cents in late October before closing the year at 75 cents (Exhibit 62). Likewise, New York contract values have followed a similar pattern. The nearby NY futures contract on January 2, 2003 closed at 51 cents/lb. As calendar 2004 began, the nearby contract was trading at 74 cents/lb., an increase of 23 cents.

December 2004 NYBT futures have traded at significantly higher values than the December 2003 contract at comparable points in their history (Exhibit 63). Over the August 1 through mid-January period for each contract, in fact, December 2004 has averaged 12 cents/lb. higher than the December 2003 contract.

In 2003, corn prices moved in a generally sideways direction with periods of weakness in July and September. In fact, the December 2003 contract, traded on the Chicago Board of Trade (CBOT), began the year at $2.42/bu., and was trading at very similar levels in early December. Unlike cotton, December 2004 corn futures have not consistently traded at a premium relative to December 2003 futures (Exhibit 64). Between August 1 and mid-January, average values of the December 2003 and December 2004 futures contracts are within 2 cents of each other. In early January 2004, the corn market received bullish news, and prices have responded accordingly. On January 15, 2004, the December contract closed at $2.69/bu., which is 30 cents higher than the December 2003 contract traded at this time last year.

Soybean prices underwent a larger rally in the latter half of 2003 than what we saw in cotton. As calendar 2003 began, the November 2003 soybean contract was trading at $5.20/bu. By July 31, the contract had fallen to $5.09 (Exhibit 65). However, concerns about the size of the U.S. crop developed in August, and prices began a significant rally. The contract briefly hit $8.00/bu. before closing at $7.73 in November. Although not as pronounced, the November 2004 contract also posted solid gains. As of mid-January 2004, the November 2004 contract closed at $6.70/bu., a full $1.60 higher than the November 2003 contract at this same time last year.

As growers consider their 2004 planting decisions, they are comparing prices for cotton, corn and soybeans that are substantially higher than the loan value. In fact, as growers enter the coming season, prices are at their highest levels since the beginning of the 1998 planting time. Final acreage decisions will be based on expected returns of cotton and competing crops, but must also take into account agronomic considerations such as crop rotation.

2004 U.S. Cotton Acreage Intentions

In mid-December 2003, 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 2003 and intended acreage for 2004. The response rate on the latest survey was almost 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 a 2.1% increase in the region's upland area to 3.10 million acres (See table on page 23). State-level results within the region are mixed, with Georgia and Florida being the only 2 states in the region to indicate a drop in plantings. Growers in Georgia indicate a reduction of 6.1% to 1.22 million acres. Responses indicated that growers intend to shift acreage from cotton and into soybeans and other crops, most likely peanuts. A decrease of 16.9% to 78 thousand acres is indicated in Florida. In the remaining states in the region, it appears that the higher cotton prices will attract more acres in those states. Alabama shows the largest increase with acreage at 640 thousand acres, an increase of 21.8% from 2003. South Carolina indicates that acres will increase by 6.2% to 234 thousand acres, while growers in North Carolina and Virginia intend to plant 840 thousand (+3.7%) and 90 thousand acres (+1.2%), respectively.

In the Mid-South, survey results show that all states intend to increase cotton area for 2004. Growers in the region intend to plant 3.95 million acres, an increase of 10.3% from the previous year. The combination of higher prices and favorable yields appear to be the factors leading to the increased area. According to the survey, cotton plantings will expand partially at the expense of corn. The largest increases are in Louisiana (+20.0%) and Arkansas (+16.4%) with plantings of 630 thousand acres and 1.14 million, respectively. Smaller increases are expected in Missouri (+5.6%), Tennessee (+5.5%), and Mississippi (+2.8%).

Survey results indicate that growers in the Southwest intend to increase upland area by 12.8% to 6.62 million acres in 2004. Texas growers intend to plant 6.32 million acres in 2004, an increase of 12.9% from the previous year. If realized, it would represent the highest acreage since 2000. However, if current dry conditions persist, the full increase in acreage may be difficult to achieve. Growers in Kansas indicate that they will maintain their recent expansion trend and plant 130 thousand acres in 2004. This outcome stands in stark contrast to the survey results for Oklahoma, where growers are suggesting a decline in acreage of 6.1%. If realized, it would be the fourth consecutive year of falling acreage in the state.

An increase in upland area of 7.0% to 879 thousand acres is indicated by growers in the West. In California, intended area of 562 thousand acres represents a 2.2% increase from the previous year. Growers in Arizona intend to increase upland area by 12.9% to 243 thousand acres while a 31.5% increase to

74 thousand acres is indicated for New Mexico. For Arizona, the recovery in acreage would still be well short of acreage levels observed in 2000 and 2001, while New Mexico would recover to levels comparable to those years.

Summing across the 4 regions gives intended 2004 upland cotton area of 14.55 million acres, 9.3% higher than 2003.

Survey results indicate that U.S. cotton growers intend to increase ELS plantings 18.6% to 212 thousand acres in 2004. In California, intended ELS area of 185 thousand acres represents a 23.0% increase from the previous year. An increase of 83.3% indicated by Arizona growers would raise acreage to 5,500 acres. Although large in percentage terms, Arizona's intended acreage is still well below the 8,000 acres planted in 2001 and 2002. Growers in New Mexico intend to increase ELS plantings by 5.6% to about 6,400 acres while a 20.3% decline to 15,900 acres is indicated for Texas.

Bringing together the upland and ELS cotton intentions shows U.S. all-cotton plantings in 2004 of 14.76 million acres, 9.5% higher than the previous year. (See table on page 23) Assuming average abandonment, harvested area would be approximately 12.94 million acres (Exhibit 66).

2004 U.S. Cotton and Cottonseed Supply

Applying each state's trend yield to its 2004 projected harvested acres generates a crop size of 18.50 million bales, 17.93 million bales of upland cotton and 561 thousand bales of ELS cotton. Allowing for moderate yield and abandonment variations suggests a reasonable production interval of 15.0 million to 20.5 million bales. Using the point estimate of projected yields, projected upland production by region is: Southeast = 3.77 million bales; Mid-South = 6.40 million bales; Southwest = 5.35 million bales; and West = 2.99 million bales. Combining projected production with expected beginning stocks of 4.25 million bales gives a total U.S. supply of 22.78 million bales (Exhibit 67). If realized, it would be the smallest U.S. supply since the 2000 marketing year.

For cottonseed, multiplying the point forecast of lint production by the 3-year average lint-seed ratio generates expected production of 6.78 million tons. Allowing for moderate yield variations generates a reasonable production interval of 5.5 million to 7.5 million tons. Given 335 thousand tons in beginning stocks and assuming imports of 250 thousand tons, along with production of 6.78 million tons, gives 2004 cottonseed supply of 7.37 million tons (Exhibit 68).

Prospective 2004 U.S. Cotton Crop

	2003 Actual (Thou.) 1/	2004 Intended (Thou.) 2/	Percent Change
SOUTHEAST	**3,038**	**3,102**	**2.1%**
Alabama	525	640	21.8%
Florida	94	78	-16.9%
Georgia	1,300	1,221	-6.1%
North Carolina	810	840	3.7%
South Carolina	220	234	6.2%
Virginia	89	90	1.2%
MID-SOUTH	**3,575**	**3,945**	**10.3%**
Arkansas	980	1,141	16.4%
Louisiana	525	630	20.0%
Mississippi	1,110	1,172	5.6%
Missouri	400	411	2.8%
Tennessee	560	591	5.5%
SOUTHWEST	**5,870**	**6,621**	**12.8%**
Kansas	90	130	44.4%
Oklahoma	180	169	-6.1%
Texas	5,600	6,322	12.9%
WEST	**821**	**879**	**7.0%**
Arizona	215	243	12.9%
California	550	562	2.2%
New Mexico	56	74	31.5%
TOTAL UPLAND	**13,304**	**14,546**	**9.3%**
TOTAL ELS	**179**	**212**	**18.6%**
Arizona	3	5	83.3%
California	150	185	23.0%
New Mexico	6	6	5.6%
Texas	20	16	-20.3%
ALL COTTON	**13,483**	**14,759**	**9.5%**

1/ USDA-NASS.
2/ National Cotton Council.

U.S. Market

U.S. Textile Industry

Calendar year 2003 was yet another challenging year for the U.S. textile industry. The year was characterized by more plant closings, bankruptcies, job losses, and continued pressure from increasing imports. According to the American Textile Manufacturers Institute (ATMI), approximately 50 textile mills closed in 2003 compared to over 42 closings in 2002. Preliminary data from the U.S. Bureau of Labor Statistics indicate that textile industry employment in the year 2003 fell by almost 86,000 workers as opposed to a loss of over 118,000 workers in the year 2002. These figures represent persons 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 sixth consecutive year in calendar 2003 and is estimated at 6.8 million bales, 11.3% below the amount consumed in 2002 and almost 15% below the 8.0 million bales consumed in 2001 (Exhibit 69). The decline in mill use can be directly attributed to another year of record levels of imports. For the coming calendar year, NCC forecasts domestic mill use of cotton at 6.1 million bales. The latest USDA estimate for mill use in the 2003 crop year is 6.2 million bales (Exhibit 70). NCC forecasts domestic mill use of cotton at 5.7 million bales for the 2004 crop year.

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 71). A 4,000 bale reduction in daily mill use totals to over one million bales on an annual basis.

Average daily mill use has experienced a decline over the course of 2003. In January 2003, average daily mill use was 27,846 bales. By November 2003, average daily mill use had declined to 24,572 bales.

Cotton is not the only fiber that has experienced a decline in mill use over the past few years. U.S. mill consumption of man made fibers has also been negatively affected by foreign competition as well as rising petroleum costs in the beginning of 2001. NCC estimates mill use of man made fibers at 18.9 million bales for 2003, a decline of 2.8% from 2002 (Exhibit 72).

It is important to note that while reliable mill use and trade data is available for 2003, the most recent annual data for U.S. production of apparel and home furnishings is obtained from NCC's annual publication *Cotton Counts Its Customers.* The latest edition contains production data through 2002. The 2004 edition, containing yearly data for 2001, 2002 and 2003, is scheduled to be released in late 2004.

The 2003 edition of *Cotton Counts Its Customers* shows that the apparel industry continues to be hit hard by increasing imports. Total apparel production in 2002 fell to 6.8 million bale equivalents, 12.9% below the 2001 production figure of 7.8 million bales

(Exhibit 73). While all apparel segments experienced a decline in production, men's and boys' apparel – the largest segment of apparel – experienced the largest decline, dropping 15.9% in 2002. Children's apparel saw the second largest decline of 14.4% and women's, misses' and juniors' followed with an 8.5% drop in 2002. Cotton's share of production also experienced a decline from the previous year, falling from 67% in 2001 to 64% in 2002. Production of cotton apparel fell 16.8% in 2002 to 4.3 million bales (Exhibit 74).

Production of home furnishings in the U.S. also decreased in 2002. The latest available estimates indicate that total production, excluding carpeting, was down 5.7% to 5.3 million bales from 5.7 million bales in 2001 (Exhibit 75). Use of cotton in home furnishings, excluding carpeting, remained unchanged in 2002 at 41.6%. Total cotton consumed in home furnishings, excluding carpeting, for 2002 was 3.1 million bales.

Net Domestic Consumption

Net domestic consumption is another measure of the U.S. market. Net domestic consumption, or equivalently, retail consumption, measures not only cotton spun in the U.S. (mill use), but also cotton consumed through textile imports. Net domestic consumption of cotton increased for the second consecutive year in 2003 (Exhibit 76). Domestic consumption of cotton is estimated at 21.2 million bales for calendar 2003, up 2.0% from 2002 consumption of 20.8 million bales. NCC projects the net domestic consumption of cotton to increase in calendar 2004 to 21.7 million bales. Total fiber consumption in 2003 is estimated at 49.3 million bale equivalents. Cotton's share of net domestic consumption in 2003 is estimated at 43.1%, down slightly from 43.5% in 2002.

All of the increase in net domestic consumption for 2003 was due to the increase in imported goods, especially imports of textiles from China. Imported cotton textiles grew from 17.7 million bale equivalents in 2002 to an estimated 19.3 million in 2003 (Exhibit 77). For the years 1993 through 1996, imports of textile and apparel products grew at an average rate of 6.9%. For the 4 year period following the Asian financial crisis (1997 through 2000), imports of textile and apparel products grew at an average rate of 16.1%.

Subtracting exports of U.S. cotton textile products from annual mill use provides an estimate of retail consumption of domestically produced products (Exhibit 78). Retail consumption of domestic cotton is estimated to have decreased 38.3% to 1.9 million bale equivalents. This increases the share of imported cotton consumed in the U.S. to 90.9% from 85.0% the previous year.

Textile Trade

Increasing imports over the past several years have devastated the U.S. textile and apparel industries and calendar year 2003 was no exception (Exhibit 79). Imports of cotton goods are estimated to have grown in 2003 by 9.0% to 19.3 million bale equivalents, up from 17.7 million the previous year. In calendar 2004, NCC projects cotton textile imports to increase to 20.5 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 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 7.4 million bales of imports into the U.S. in 2003 contained U.S. cotton (Exhibit 80). This means that 38.1% of all imported cotton goods contained U.S. cotton. This is a slight increase over the previous year when the U.S. cotton content of imported textiles was 35.5%. 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 81). Cotton apparel imports are estimated at 14.4 million bale equivalents for 2003, up 13.4% from 2002. Imports of cotton home furnishings increased by 17.7% in 2003 to an estimated 2.1 million bale equivalents, up from 1.8 million the previous year. Cotton yarn, thread and fabric imports decreased in 2003 to an estimated 2.7 million bales, down 6.9% from the previous year.

Once again, countries in NAFTA and CBI represented significant sources of imported cotton goods in 2003 (Exhibit 82). Imports from Mexico in 2003 are estimated at 2.6 million bales, down approximately 4.0% from the previous year (Exhibit 83). This marks the third straight year in which imports from Mexico have declined. Imports of cotton goods from Canada also decreased slightly to an estimated 570 thousand bales in 2003, down almost 2.0% from the previous year (Exhibit 84). Imported cotton goods from CBI for the year are estimated at 3.4 million bale equivalents (Exhibit 85). This is up more than 10.0% from the previous year. Combined, NAFTA and CBI countries accounted for 34.0% of total U.S. cotton product imports in 2003. This is down from 36.0% in 2002.

Other top sources of imported cotton goods in 2003 were Pakistan, China, India, Hong Kong, Bangladesh, Vietnam, and Turkey. Imports of cotton products from Pakistan are estimated at 1.57 million bale equivalents in 2003, an increase of 154 thousand bales. This is up 133.0% from 1997 imports of 676 thousand bales. Pakistan also increased its share of imported cotton goods in the U.S. market last year to 8.2%. For the second consecutive year, China was the source of the largest percentage increase in cotton textile imports into the U.S. (Exhibit 86). Total cotton product imports from China increased to an estimated 1.82 million bale equivalents in 2003, up 30.0% from 2002, 112.0% from 2001 and 121.3% from 1997 imports of 822 thousand bales. China's share of imported goods in the U.S. market increased from 7.9% in 2002 to 9.4% in 2003. Imports from India are estimated at 1.0 million bale equivalents for 2003. This is a 4.3% increase from last year and a 39.1% increase from 1997 imports of 726 thousand bales. India now accounts for 5.2% of all U.S. cotton product imports. Imports from Hong Kong in 2003 are estimated at 557 thousand bale equivalents, down 12.0% from 1997 imports. Hong Kong's share of imported goods in the U.S. declined to 2.9% in 2003. Imports from Bangladesh in 2003 were up 57.8% from 1997 figures to 590 thousand bale equivalents. Bangladesh

accounted for an estimated 3.1% of all cotton goods imported into the U.S. in 2003.

It is important to note in the following discussion that the most reliable data on imports by product category, 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 based on 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

Among individual countries, Mexico was once again the largest shipper of cotton goods to the U.S. in 2003. The largest category of imported cotton goods, by far, from Mexico remained cotton trousers. Trousers accounted for 33.4% of all cotton product imports from Mexico based on square meter equivalents (Exhibit 87). Knit cotton shirts were the next largest category of imports, accounting for 20.6%, followed by combed yarn (8.7%) and carded yarn (5.9%).

Canada

U.S. cotton imports from Canada decreased in 2003. The largest category of imports from Canada in 2003 was carded yarn, which accounted for 18.8% of total square meter equivalents of cotton product imports from Canada (Exhibit 88). The next largest category was underwear with 4.3% of total imports, followed by knit cotton shirts at 3.8% and cotton hosiery at 3.0%.

CBI

Continuing the trend we have seen over the past few years, it is estimated that in calendar year 2003 CBI countries imported more cotton goods into the U.S. than did Mexico. The largest category of imported cotton goods from the region was underwear, accounting for 40.8% of total imports, based on SME (Exhibit 89). The second largest category, knit shirts, accounted for 25.3% of imports, followed by trousers (16.0%) and nightwear (4.3%).

AGOA

Over the past year, total cotton apparel product imports from the AGOA (African Growth and Opportunity Act) region have increased by 43.5% to reach a total of 271.1 million square meter equivalents as of November 2003 (Exhibit 90). Also during the past year, the percentage of cotton apparel imports from the AGOA region that received preferential treatment under the Act increased from 70.3% of total cotton apparel imports to the U.S. from the AGOA region to 74.7%.

Pakistan

Another large shipper of cotton goods to the U.S. is Pakistan. The largest category of imported goods from Pakistan in 2003 was “other cotton manufactures” (Exhibit 91). The U.S. Customs Service category “other cotton manufactures” includes items such as tablecloths, napkins, dishtowels and pillow covers. This category accounted for 38.2% of all cotton product imports from Pakistan based on SME. The second largest category imported from Pakistan was bedspreads and quilts with 7.8% of total imports, followed by carded yarn (7.3%) and sheeting (5.4%).

China

For the second consecutive year, the source of imported cotton goods into the U.S. market showing the greatest rate of growth was China. The largest category of imports from China in 2003, based on SME, was "other cotton manufactures", which accounted for 42.2% of all cotton product imports from that country (Exhibit 92). This category grew by over 334.0% when compared to calendar year 2001. "Other cotton apparel" – which includes items such as jumpers, bodysuits, overalls, and swimwear – was the second largest category of imports from China in 2003, comprising 7.4% of total cotton product imports from that country. Printcloth accounted for 4.7% of U.S. textile and apparel imports from China in 2003. Robes were the fourth largest category and accounted for 4.6% of cotton product imports. This category has increased by more than 127.0% since 2001.

India

As was the case with Pakistan and China, the largest category of imported cotton goods from India in 2003 was the category of "other cotton manufactures" (Exhibit 93). When based on SME, this category represented 60.4% of all cotton goods imported from India. The next largest category was woven shirts (13.2%), cotton sheets (5.9%), and cotton underwear (4.5%).

Hong Kong

While still a significant source of imported cotton goods, Hong Kong's share of the U.S. import has been declining over the past several years. The largest category of imported cotton goods from Hong Kong in 2003 was woven shirts (Exhibit 94). When looking at SME, woven shirts accounted for 19.9% of all cotton products imported. The second largest category was trousers with 18.7% of imports, followed by underwear (15.4%) and nightwear (10.4%).

Bangladesh

The largest category of cotton goods imported from Bangladesh in 2003 was underwear, which accounted for 20.2% based on SME (Exhibit 95). The second largest category in 2003 was woven shirts (19.9%). "Other cotton manufactures" was the third largest category in 2003, representing 11.3% of total cotton goods imported from Bangladesh, followed by "other cotton apparel" at 11.0%.

Vietnam

Another country showing a large growth in cotton product imports into the U.S. is Vietnam (Exhibit 96). Over the past 2 years, U.S. cotton product imports from Vietnam have increased by 2,053.6% based on SME. In 2001, the U.S. imported 24.4 million SME of cotton goods from Vietnam. This number increased to an estimated 524.3 million SME in 2003. The largest category of imported cotton goods from Vietnam in 2003 was trousers. Based on SME, this category represented 33.7% of all cotton goods imported from Vietnam. The next largest category was knit shirts (18.1%), followed by woven shirts (5.2%), and cotton coats (4.8%).

Turkey

Based on SME, the largest category of cotton goods imported from Turkey in 2003 was trousers, which accounted for 9.3% (Exhibit 97). The second largest category in 2003 was nightwear (8.4%), followed by robes (7.7%), and bedspreads and quilts (7.1%).

U.S. Cotton Product Exports

For the second consecutive year, exports of U.S. cotton textile and apparel products experienced a slight increase in 2003 (Exhibit 98). Exports grew by 7.5% in 2003 to an estimated 4.9 million bale equivalents from 4.5 million the previous year. The majority of the increase in exports is due to an increase in cotton yarn, thread, and fabric (Exhibit 99). Exports of home furnishings increased slightly over the previous year, while exports of apparel declined for the second consecutive year. Exports of apparel are estimated to have decreased by 6.6% in 2003 to 1.7 million bale equivalents. Exports of cotton home furnishings increased by an estimated 0.5% in 2003 to approximately 149 thousand bale equivalents. Exports of cotton yarn, thread and fabric are estimated to have increased by 15.8% in 2003 to slightly over 3.0 million bale equivalents.

The top customers of exported U.S. cotton textiles and apparel in 2003 were once again the NAFTA and CBI countries (Exhibit 100). Exports to the NAFTA countries last year totaled an estimated 1.9 million bales, down 4.9% from the previous year. Exports to the area accounted for 39.8% of all U.S. cotton product exports. For the first time in two years, exports to Mexico increased slightly to an estimated 1.49 million bale equivalents from 1.46 million in 2002. Exports of cotton products to Canada declined by an estimated 23.1% to 450 thousand bale equivalents for 2003.

Exports to the CBI countries totaled an estimated 2.6 million bale equivalents or 53.3% of all U.S. cotton exports in 2003. This is up 20.5% from 2002 exports of 2.2 million bales, and almost 46% higher than 2000 cotton product exports to CBI. Exports to Colombia almost doubled from 29,350 bale equivalents in 2002 to an estimated 58,248 bale equivalents in 2003, 1.2% of all exports. Estimated exports to Japan in 2003 totaled 40,000 bale equivalents or 0.8% of all exports. Exports to Belgium were 30,000 bales, followed by the U.K. with 20,000 bales. Exports to China in 2003 totaled an estimated 10,000 bale equivalents. The remaining 3.6%, or 180 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

Trade issues were of major importance in 2003 and will continue to be so in the foreseeable future. Without question, trade liberalization remains a top priority among the Bush Administration. We continue to see trade agreements completed and new ones negotiated.

U.S. Trade Ambassador Robert Zoellick has announced a large number of new bilateral trade initiatives in the past year while concluding several free trade agreements (FTA). It has been noted that the U.S. use of bilaterals may well be part of a larger strategy to influence the WTO (World Trade Organization) Doha Round of talks. If the Doha Round is not reconvened then we should expect an expanded effort on the part of the USTR to engage more countries in bilateral negotiations. Negotiations are occurring or have been announced for Australia, Morocco, and the Dominican Republic. The four Andean countries of Columbia, Peru, Ecuador and Bolivia were introduced as 4 separate FTAs but it now appears that these countries could be part of a regional Andean Free Trade Agreement.

The Administration was given a leg up on negotiations when Congress accorded the President Trade Promotion Authority (TPA), formerly known as "fast track" authority, just before the August recess in 2002. Under TPA, Congress may only vote to approve or reject trade agreements presented by the President to Congress. It can not amend the agreements. Congress is also required to vote on trade agreements within a specified time under TPA. TPA was established through June 1, 2005 with the possibility of a two-year extension. TPA was reinstated as part of the Trade Act of 2002. The Act also extended and expanded the Andean Trade Promotion Act, amended the Caribbean Basin Trade Promotion Act (CBTPA) and the African Growth and Opportunity Act (AGOA), and significantly expanded Trade Adjustment Assistance (TAA) to workers, farmers and fishermen displaced by imports from countries with which the U.S. has preferential trade agreements.

On January 8, 2003, negotiations were launched on a free trade agreement with Central America (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua). A free trade agreement with Central America will be more complex as these nations already participate in textile trade preferences provided by the Caribbean agreement. On December 17, 2003, the Bush Administration announced that an agreement was reached on a Central American Free Trade Agreement (CAFTA). The agreement was reached among four of the five Central American countries with which negotiations have occurred – Honduras, Guatemala, Nicaragua, and El Salvador. Negotiations with the 5th country, Costa Rica, were expected to resume in January 2004. Negotiators expect to review the agreement and complete negotiations with Costa Rica sometime in mid-February 2004. Following that time they will notify Congress of their intent to sign an agreement. Once Congress is advised, the provisions of TPA dictate the process. The Administration has informally indicated it does not expect Congress to consider implementing the legislation before June 2004, at the earliest. The U.S. will also begin negotiations with the Dominican Republic. If a timely agreement is reached, the Dominican Republic could be added to the CAFTA prior to Congressional action.

As of mid-January 2004, detailed provisions for CAFTA were still forthcoming. The textile provisions reportedly 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. '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. In CAFTA, for example, 'cumulation' would allow Mexico to participate as though it were a signatory to the CAFTA agreement because Mexico has a trade agreement with all the CAFTA countries. '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.

Completing a Free Trade Area of the Americas (FTAA) is among the Bush

Administration's highest priorities. The President's goal is to form a 34-nation NAFTA type Western Hemisphere trade area stretching from Alaska to Argentina. This is obviously a far more complex integration of trading economies than NAFTA. For cotton in particular, the nature of any trade agreement with Brazil must be carefully considered. Brazil has a large and diverse textile industry, and Brazil's capacity to increase agricultural production appears to be substantial.

Regional preference trade agreements are vital to the U.S. textile industry's ability to compete after the phase-out of quotas under the Uruguay Round Agreement. All quotas are to be eliminated during a four-stage process that is to be completed by January 1, 2005. The third stage of the phase-out occurred on January 1, 2002 when an additional 18% of quotas on apparel and textiles were eliminated. Currently, all items remaining with quota restrictions will have their quota growth rate increased by 27%. Under the Uruguay Round Agreement, it was agreed that special treatment should be accorded to the least-developed country members.

After all quotas are phased out on January 1, 2005, tariffs on textile and apparel products will remain in place. Unfortunately, textile and apparel tariff rates are not equitable around the world. According to 1998 data, if a textile or apparel manufacturer abroad wants to ship their products to the U.S., the effective tariff rate averages 8.9%. By contrast, the effective tariff rates for textile and apparel products entering Argentina ranged from 40 to 50+%, Brazil ranged from 40 to 70+%, China ranged from 20 to 36+%, India ranged from 50 to 70+%, and Pakistan ranged from 40 to 60+%. While tariffs will remain in place, there is a good possibility that if the World Trade Organization's Doha Round of trade liberalization negotiations is resumed, textile and apparel tariffs will be cut. Even if tariffs remain at present levels or are cut, they will be relatively meaningless where China is concerned. Chinese costs of production are extremely low, and a controlled currency exchange rate amounts to a huge subsidy for its exports. In addition, a current cost of doing business in China is the buying and selling of textile and apparel quotas. A quota-free world would immediately reduce China's costs by as much as 25%, as manufacturers no longer would have to pay for quotas.

Another issue of importance in 2004 regarding quota phase-out is a practice known as "carryforward". "Carryforward" is a provision contained in most of our textile trade agreements that allows an importer to borrow a specific amount of quota from next year's quota for use in the current year. This borrowing feature is reconciled by a reduction of an equal amount from the future or donor year quota. Since there will be no quotas after 2004, there is no quota to borrow from or reconcile in 2005. Therefore, the U.S. textile industry believes that this practice should no longer be permitted.

In 2001, China officially became a member of the WTO. In its WTO accession agreement, China agreed to open its market for 3.75 million bales of imported cotton. Of that total, 33% was reserved for state-owned enterprises, but the rest was to be given what is known as "national treatment". This means imported cotton must be treated the same

as domestic cotton in all respects, including access to it by Chinese textile mills. Upon implementation, only a small portion of the quota was given national treatment, and even that small piece of the pie was awarded to mills in such small individual quotas that importing was impractical. The United States Trade Representative (USTR) agreed that this practice put China in violation of its accession agreement. They asked China to change their implementation practices, but Chinese officials refused and announced their intention to administer the program the same way in 2003. The USTR again engaged China on several occasions, including high-level meetings in Beijing in June 2003. At these meetings, China finally agreed to take steps to address most of the U.S. concerns. China partially followed through in October 2003 by issuing new regulations for shipments beginning January 1, 2004. While those revisions were an improvement and an attempt to simplify procedures, it appears that the processing trade category still exists and that it can still become an impediment to U.S. cotton exports.

The textile portion of the China agreement has 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. The past two years has demonstrated that China has made full use of WTO provisions to increase their textile imports to the U.S. Since 2001, U.S. cotton product imports from China have increased by 195.0%.

Due to the tremendous rise in Chinese textile exports to the U.S., procedures were initiated in 2003 to enact textile safeguards on three categories: knit fabric, cotton/MMF brassieres, and cotton/MMF dressing gowns. China's exports to the U.S. of knit fabric has increased from 390 thousand square meter equivalents in 2001 to an estimated 114.8 million square meter equivalents in 2003 (Exhibit 101). Since 2001, cotton/MMF brassieres imports have increased by 91.0%, while cotton/MMF dressing gown imports have increased by 1,086.0%. In November 2003, the U.S. Department of Commerce announced that the Committee for the Implementation of Textile Agreements (CITA) approved petitions requesting the enactment of textile safeguard provisions on knit fabric, brassieres, and dressing gowns. The special textile safeguard provision is part of the China WTO accession agreement of 2002. The safeguards can only be applied to products no longer subject to quota and where market-disruptive surges of imports have been observed. The approval of the petitions triggers a consultation process with the Chinese to limit the growth of imports to the U.S. in the above mentioned categories. If no agreement on limiting imports is reached, the U.S. may limit the level of shipments from China to a level no lower than 7.5% above the amount entered during the first 12 months of the most recent 14 months preceding the request for consultations.

In terms of Chinese cotton product imports, the surge during the past two years is expected to continue for the foreseeable future. Areas where Chinese imports have displaced other sources of U.S. imports will continue to worsen. However, the Commerce Department's approval of the China safeguard petitions on knit fabric, brassieres and dressing gowns acknowledges the damage that has been done to the U.S. cotton industry by

surges in Chinese imports. This action sends an important message from the Administration that trade agreements will be enforced.

In December 2002, U.S. Trade Representative Zoellick announced the conclusion of negotiations establishing a free trade agreement between the U.S. and Chile. Under the agreement, more than three-quarters of U.S. farm goods will enter Chile duty-free within 4 years, and all duties on U.S. products will be phased out over 12 years. Trade in textiles and apparel will be duty-free immediately if the articles meet the agreement's rule of origin, which is based on NAFTA fiber-forward rules. The agreement does, however, allow a certain annual amount of textiles and apparel containing non-U.S. or non-Chilean yarns, fibers, or fabrics to qualify for duty-free treatment. Also, the agreement would eliminate the use of export subsidies on U.S.-Chilean farm trade (unless necessary to respond if 3rd countries use export subsidies) and contains an agricultural safeguard provision designed to help protect US farmers and ranchers from sudden surges in imports from Chile. In July 2003, the U.S.-Chile free trade pact was approved by Congress.

The U.S.-Singapore free trade agreement was also given final approval by Congress in July 2003. Under the U.S.-Singapore FTA, Singapore guarantees zero tariffs immediately on all U.S. goods, and the FTA ensures that Singapore cannot increase its duties on any U.S. product. For Singapore products entering the U.S. market, duties are phased-out at different stages, with the least sensitive products entering duty-free upon entry into force of the FTA and tariffs on the most sensitive products phased-out over a ten-year period. Singapore has little significant textile producing capacity, yet exported over $302 million in textiles and apparel to the United States in 2001 and almost $289 million in 2002. Mill use in Singapore is miniscule, indicating that most, if not all, of the textiles exported from that country are shipped to Singapore from other sources, with some degree of final assembly taking place in Singapore. It is reasonable to assume that the free trade agreement with Singapore will not increase U.S. raw cotton exports to that country, nor will it increase to any significant degree U.S. textile exports to that country.

World Market Situation

World Production

World cotton prices, as measured by Cotlook Ltd.'s "A" Index, fluctuated between 56.25 cents per pound and 79.75 cents during the course of calendar year 2003. Between September 1st and the end of October, cotton prices gained over 18.00 cents per pound. Similar increases were seen in the New York futures and the U.S. spot market.

In terms of New York futures, cotton prices increased sharply between August and October. The December '03 futures contract closed at 55.83 on August 15, 2003. By October 29, 2003, the December '03 contract had climbed all the way to 82.73, an increase of almost 27 cents. A late-summer rally of this magnitude is extremely uncommon, occurring in only two of the past twenty-five years. The previous two periods came between June and August of 1980, and between July and September of 1995. Unlike the previous two recoveries, the 2003 rally is the only one to occur in the face of a U.S. crop that is expected to exceed the previous year's production. According to USDA's latest supply and demand estimates, U.S. production is estimated at 18.22 million bales, as compared to 17.21 million in 2002.

The price increases are, in part, due to the fact that world consumption is expected to exceed production by 4 to 5 million bales. If so, ending stocks on July 31, 2004 will be at their lowest level since the end of the 1994/95 marketing year.

During the 2002 crop year, world production fell short of consumption, and cotton stocks were used to meet the shortfall. Although production for the 2003 crop year recovered, it will still not keep pace with consumption, and stocks are expected to fall even further. Also, China continues to be the dominant factor driving the world cotton market. USDA's latest estimates have world cotton production at 92.20 million bales for 2003, an increase of roughly 4 million bales from 2002 (Exhibit 102).

Production Climate

On January 2, 2003, the "A" index was 56.50 cents per pound. At the end of the year, the "A" had gained over 18 cents to 75.45 cents per pound (Exhibit 103). For the current marketing year to date, the "A" Index has averaged 70.05 cents per pound.

China

The People's Republic of China continues to be the dominant factor driving the world cotton market. China remains the world's largest cotton producer with a projected 2003 crop of 22.00 million bales (Exhibit 104). This year's crop is roughly 600 thousand bales less than last season's crop mainly due to adverse weather conditions throughout the growing season. Earlier in the growing season, the Chinese crop was put as high as 27 million bales. Planted area was forecast to increase over 17% from the previous crop year. Higher cotton prices were the motivating factor for producers to switch to cotton from grains and other crops. However, the increase in acres did not result in greater production numbers for China.

Xinjiang remains the most important province in terms of planted cotton area.

In 2003, Xinjiang accounted for 19.3% of the total planted area, followed by Henan (16.9%) and Shandong (15.6%). According to 2002 production data, Xinjiang is also the most important province in terms of production, accounting for 30.0% of total production, followed by Henan (15.5%) and Shandong (14.7%). The data also suggests that Xinjiang's yields are higher than the other major cotton producing provinces.

Even though Xinjiang continues to set the pace in terms of planted area, producers in this region seem slow to adopt new BT cotton varieties. According to industry sources, 60% of all planted area is planted to BT cotton. The greatest concentration is believed to be in the Yellow River region, where it is estimated to account for 79% of planted area. Only about 5% of Xinjiang's planted area is believed to be planted to BT cotton.

Cotton area is expected to grow in the next few years. On February 12, 2003, the Ministry of Agriculture announced its Regional Planning for Farm Products. This plan identifies 11 farm products or commodities, including cotton, which China believes it has a competitive advantage. The plan identifies three major cotton regions with growth potential: 1) the Yellow River basin, consisting of 151 counties; 2) the Yangtze River Valley, consisting of 73 counties; and 3) the Northwestern area, consisting of 55 counties. By 2007, China hopes to reach the following objectives. First, in the Yellow River Basin, China officials would like to expand the cotton planting area to 30 million mu (2 million hectares or roughly 5 million acres) and production to reach 2.1 million metric tons (MMT) (over 9.5 million bales). This area is targeted to be the main production base for cotton which produces yarns of 40 counts. For the Yangtze River Valley, officials plan to expand plantings up to 15 million mu (1 million hectares or 2.5 million acres) and production up to 1.2 MMT (5.5 million bales). This area is targeted to be the main production base for cotton which produces yarns of 50 counts and over and of 20 counts and under. Finally, in the Northwestern Area, planting area is projected to reach 12 million mu (0.8 million hectares or 1.90 million acres) with production goals of 1.2 MMT (5.50 million bales). The area is targeted to be the main production base for cotton which produces yarns of 32 counts.

With internal prices more than 50% higher than last year's level, cotton acreage is expected to increase in 2004. The magnitude of the increase will also be dependent on the competing crop prices. Supplies of grains have tightened dramatically over the last 2 years so there will likely be efforts to ensure adequate grain acreage in 2004. With the return of normal weather conditions and marginally higher area, China's cotton production should rebound to between 27 and 28 million bales.

India

India devotes more land to growing cotton than any other country in the world, but it produces far less per acre. India's cotton yields are among the lowest in the world due to lack of irrigation, limited use of high quality seeds and poor management practices. For 2003, producers in India planted 20.76 million acres of cotton. The latest estimates by USDA have India producing 12.70 million bales for the 2003 crop

year (Exhibit 105), an increase of 2.10 million bales from the previous crop year. Unlike last year, USDA reports that the Indian harvest went well under near ideal weather conditions. There have been no reports of any significant damage due to pest and diseases in any of the cotton growing regions. The quality of the cotton arrivals are also reported to be better than last year's drought affected cotton. Light rains during parts of December may further improve the prospects for late pickings in rain-fed cotton areas of central and southern states. During the past five years, India has produced an average of 11.78 million bales.

In India, area planted to cotton is largely influenced by price relationships with competing crops: paddy rice/fodder crops in the north, coarse grains/pulses/sugarcane in central India, and paddy rice/tobacco/chilies in the south. Due to high cotton prices during the current season and relatively stagnant prices of the major competing crops, cotton farmers have realized better returns from cotton compared to other crops. Other factors influencing the producers planting decisions include the government's action on minimum support prices.

The Government of India (GOI) establishes minimum support prices (MSP) for cotton at the start of each marketing season. The Cotton Corporation of India (CCI), a government parastatal, is responsible for establishing the price support in all states. The state of Maharashtra liberalized their monopoly cotton procurement scheme by allowing private traders to procure directly from farmers. Typically, market prices remain well above the MSP, and CCI operations are generally limited to commercial purchases and sales.

There are various government agencies, research institutions, and CCI-sponsored schemes for development, production, and distribution of seeds, and for crop surveillance, integrated pest management, and extension services. The GOI's Cotton Technology Mission coordinates and supports activities to improve cotton yields, reduce cultivation costs, and improve quality through the upgrading and modernization of existing facilities.

Since cotton continues to be competitive with alternative crops and the Indian weaving industry continues to rely on domestic production, India's cotton acreage should increase slightly in 2004. Assuming no significant weather or insect problems during the growing season, India's cotton production should rise slightly along with the increased acreage devoted to cotton. India's 2004 crop should climb to roughly 12.80 million bales.

Uzbekistan

Historically, cotton has been the salvation and the ruin of Uzbekistan. Cotton has traditionally been the primary cash crop in Uzbekistan and an important source of employment and foreign exchange. At the same time, the environmental effects of years of cotton production have caused an environmental and health crisis in the country. Cotton is grown in a crescent from the Fergana Valley, extending south along the Tien Shan Mountains to Samarkand and Bukhara, and then west along the Amu Darya River. The planting season extends from March through April. Harvest begins in mid-August and continues through October. Almost the entire crop is flood irrigated. Production

in 2003 is projected to be an estimated 4.20 million bales (Exhibit 106).

After becoming an independent state, the Government of Uzbekistan embarked on a policy of self-sufficiency in wheat by shifting land out of cotton. Until 2000, the policy was to maintain cotton at 1.5 million hectares (3.7 million acres) and production at 4.0 MMT (18.4 million bales) of seed cotton (equivalent to 1.2 MMT of lint or 5.50 million bales). Better yields rather than larger area were to lead to increased cotton production. Uzbekistan, however, has not been able to reach its cotton production target for the past several years for a number of reasons, including weather, inadequate and low quality inputs (especially seeds) and a deteriorating infrastructure, especially irrigation. Although Uzbekistan now is nearly self sufficient in wheat, for crop year 2003/04 the government decided to further reduce targeted cotton area and seed cotton production to 1.36 million hectares (3.40 million acres) and 3.6 MMT (16.5 million bales), respectively in order to increase wheat production. Sources believe this shift is largely in response to chronic water shortages and other problems that have hampered cotton production for the past several years.

As in recent years, Uzbekistan is planning to increase the area sown to quicker-maturing varieties and discontinue some of the medium-term varieties. In the future, the area under long staple varieties will reportedly be reduced modestly, but new varieties are to be tested in Navoi and Bukhara with a goal of expanding long staple production to those two regions.

Recently, the government initiated a major program to reform the cotton sector, aimed mainly at improving fiber quality. According to the Uzbek Cotton Ginning Association, reforms are focused on three areas. The first area is the replacement of inferior cotton varieties, particularly those with a high micronaire, with better varieties. Currently, only about 20% of cotton area is sown with high quality varieties. Secondly, the government seeks to modernize Uzbekistan's 145 ginning plants by attracting foreign investment. Presently, more than 80% of the nation's ginning equipment dates back to the Soviet era and needs to be replaced. Finally, the government wants to develop a system of accurate and timely market information so farmers can better react to market conditions and can better service buyers' specific cotton needs.

In December of 2002, the Uzbek government adopted a new decree which allows farmers to sell up to 50% of their cotton output either domestically or abroad. This decree theoretically should bring the government's monopoly on the cotton market to an end. However, as of today, no concrete practical mechanisms have been developed in order to bring this decree to life. Therefore, despite the appearance of reform, the state continues to play a major role in cotton production and marketing. The state determines the area, sets production targets and prices, supplies inputs and procures and markets the bulk of the crop. With continued support of the government, production in 2004 should climb to approximately 4.50 million bales.

Pakistan

Cotton is the backbone of Pakistan's economy and the government continues

to rely heavily on cotton production as a major source of employment and foreign exchange. USDA currently projects Pakistan production at 7.60 million bales for 2003, down 200 thousand bales from the 2002 crop year estimate (Exhibit 107).

The government continues to play a major role in Pakistan's cotton industry. To enhance farmer returns, the government has enacted a number of reforms. Since farmers generally sell seed cotton (as opposed to lint), the government implemented a new grading system for seed cotton that corresponds more closely to lint grades and prices. The system pays a premium for contamination-free cotton. To counter the perception that spinners reap a windfall at the expense of producers (which was somewhat diminished by the better returns realized by producers this year), the government announced that: (a) it would intervene if lint prices fell below Rupees 1,800 per 40 kg of lint for base grade 3 with staple length of 1-1/32" and micronaire value between 3.8-4.9 NCL (about 35 cents per lb. at the current exchange rate), and (b) it would continue the policy of unrestricted cotton exports for the entire season. In the past, the government restricted exports at the beginning of the season until the size of the crop could be determined.

With the continued support of the government and minimal insect and weather related problems, production in 2004 should increase to 8.55 million bales.

Turkey

Cotton production in Turkey remains strong as domestic mill use has surpassed production for the past five seasons. Between crop year 1998 and 2002, Turkey has produced an average of 3.85 million bales. During that same time, domestic mill use in Turkey has averaged 5.56 million bales. For 2003, USDA projects production at 4.10 million bales and domestic mill use at 6.00 million bales (Exhibit 108).

The majority of Turkey's cotton is grown in three main regions: the Aegean region, Cukurova, and Southeastern Anatolia. Smaller amounts of cotton are also grown in Antalya and Antakya. Aegean cotton generally is considered to be the best quality and is preferred by the local textile industry. Aegean cotton is longer than cotton from Cukurova and other regions. While cotton production is increasing in Southeast Anatolia as a result of the Southeastern Anatolian Project (GAP), it is decreasing in the Cukurova region due to environmental problems created by excessive use of chemicals over past years and competition from other crops, mostly corn. The GAP project consists of a series of hydroelectric and irrigation dams. When completed, over 4.20 million acres of land will be irrigated. Currently, about 346 thousand acres on the Harran Plain are irrigated by the Ataturk dam, of which 90% is planted in cotton.

Given the slow pace of extending the irrigation infrastructure in the GAP project area, gradual increases in cotton area is expected to offset declining cotton area in traditional growing areas for the next several years. Currently, the major shift from cotton production is occurring in Cukurova, where farmers are shifting to a wheat-corn rotation or to horticultural production. In the medium-term, cotton production in the Cukurova

region is expected to continue to decline. Despite the declining area in traditional cotton growing areas, Turkey should see an increase in production to roughly 4.34 during the 2004 crop year.

Australia

Australia's crop was 1.70 million bales in 2002. Production in 2003 is estimated at 1.20 million bales (Exhibit 109). An extended drought that began in late 2001 and which is just now dissipating has caused a steep drop in irrigation water supplies and is constraining cotton area. In normal times, more than 90% of the Australian cotton crop is irrigated.

There has been favorable rainfall of late in the cotton growing areas of northern New South Wales. This precipitation has helped to recharge soil moisture profiles and will take some pressure off usage of the limited irrigation water supplies. The rainfall, however, has not been nearly sufficient to provide any significant boost in depleted irrigation water supplies.

According to the Australian Bureau of Agriculture and Resource Economics, the current irrigation water shortage is the cumulative effect of low inflow levels and high water demand over the past three years. This has influenced some in the southern portion of New South Wales to increase plantings of short-season cotton in areas usually devoted to rice. With favorable cotton prices, cotton is seen as a better alternative to rice, which needs twice the amount of water of cotton.

As water supplies begin to build in Australia, production levels should begin to climb back to normal levels. With adequate moisture levels, cotton production should be around 2.70 million bales in 2004.

Brazil

USDA estimates that production for the 2003 marketing year will rise to 5.20 million bales (Exhibit 110). This is 1.31 million bales higher than the 2002 crop year estimate. In 2004, production should continue this upward trend climbing to over 5.50 million bales. Higher profits obtained from recent cotton crops along with strong prices are the major factors encouraging cotton growers to increase their planting area. In addition, the possibility of increased cotton exports represents another driving force affecting planting intentions.

West Africa

The old French colonial region continues to play a significant role in the world cotton market. The cotton producing countries of West Africa have gone from producing less than a million bales in the early 1980's to producing between 3.00 and 5.00 million bales over the last few crop years. The latest estimates have West Africa producing 4.72 million bales in 2003 (Exhibit 111). The larger crop forecast is based largely on expansion in crop area. West Africa now produces enough cotton to measurably affect the cotton export market, since virtually all of its production is sold abroad.

The competitive price of cotton in relation to competing crops remains a driving force in expanding cotton acreage. If cotton maintains its price advantage over competing crops in West African countries, area devoted to cotton production will likely climb in 2004 increasing production slightly to 4.73 million bales.

Production Outlook

The higher world prices in 2003 are expected to lead to increased cotton area in the 2004 crop year. In addition, the assumption of normal growing conditions and average yields will contribute to production increases in certain countries. China, Australia, and Pakistan should see the largest recovery. The net effect for 2004 production will be an increase of over 10 million bales above the 2003 level, putting world production at an estimated 102.28 million bales (Exhibit 112).

World Consumption

Man-made fiber use is challenging cotton in every market. World retail consumption of cotton is estimated at 96.2 million bales and polyester use is estimated to be 101.7 million bales in 2003 (Exhibit 113). All man-made fiber use has soared to 161.50 million bale equivalents in 2003. Cotton use continues to rebound from the decline in 1998. However, polyester use increased steadily through the market turmoil of 1998 and surpassed cotton during the calendar year 2002.

Consumption Climate

World cotton consumption increased by 3.34 million bales to 97.92 million bales in 2002. For 2003, USDA has projected world consumption to drop to an estimated 97.11 million bales in the face of higher prices (Exhibit 114).

The sharp increase in world consumption since 2001 can be attributed to an overall improvement in the worldwide economy. Current estimates put world real GDP growth at 3.0% in 2002 and modest improvement is expected for 2003. The IMF now estimates global economic growth of 3.2% in 2003, up from 3.0% in 2002. The major advanced economies are expected to grow by 1.8%. Growth in the developing economies is expected to reach 5.0% in 2003, up from 4.6% in 2002. Economies in transition (Eastern Europe and the Former Soviet Union) are projected to see growth of 4.9%.

Shifting to the U.S. economy, after contracting during the first three quarters of 2001, the U.S. economy began a modest recovery with growth of 2.7% in the final quarter of that year. After posting solid performance in the first quarter of 2002, the economy struggled throughout much of the remainder of the year. For calendar year 2002, the annual rate of growth was 2.4%. For the first quarter of 2003, the U.S. economy grew by 1.4%. In the second quarter of 2003, the U.S. economy grew by 3.3%. According to the Bureau of Economic Analysis, the economy grew by 8.2% in the third quarter of 2003, the strongest rate of growth in almost 20 years.

China

China accounted for much of the world's 3.6 million bale increase in consumption in the 2002 crop year. China's consumption rose 3.3 million bales and China accounted for 30% of the world's mill use of cotton. Since 1980, China's share of world cotton consumption has fluctuated between 22 and 25%. However, in 1999, China's cotton consumption began surging while the rest of the world grew only slightly. China's share of world cotton use rose for the fifth consecutive year in 2002 as China's share of world textile and apparel exports rose and domestic demand for textiles in China increased. For crop year 2003, USDA projects domestic mill use for China to be 30.20 million bales (Exhibit 115). The increase in Chinese

consumption is a direct result of the continuing growth in China's textile industry.

Chinese cotton consumption has been on the rise since the 1998 crop year and continues to increase. It is expected that the trend will continue in the upcoming year. China consumption should approach 31 million bales in the 2004 crop year.

India

India's mill consumption fell slightly in 2003 to 13.20 million bales (Exhibit 116). This is down 100 thousand bales from the 2002 estimate.

To keep pace with increasing demand for clothing from a growing domestic population, the textile industry must expand production by 3-4% per year. India's textile industry includes both the organized sector (large-scale spinning units and composite mills) and the unorganized sector (small-scale spinning units, power looms, handlooms, and hosiery units). More than 95% of the yarn is produced in the organized sector. The weaving industry is mainly supplied by the unorganized sector with power looms accounting for 60%, handlooms for 18%, and hosiery units for 17% of total cloth production. India's mill consumption is expected to rise slightly in 2004 to 13.34 million bales, although increasing competition from man-made fibers could temper some cotton use.

Pakistan

Little growth was seen in Pakistan's consumption numbers between the 1991 and 1998 crop years. During those crop years, Pakistan had averaged 6.9 million bales of consumption. However, cotton consumption increased sharply in 1999 in response to aggressive export pricing of cotton yarn (Exhibit 117). Consumption continues to climb in 2003. The latest USDA estimates have Pakistan consumption at 9.40 million bales, up 200 thousand bales from 2002. The increase in consumption continues to be driven by export-oriented production. The spinning and weaving industries continue to invest in new equipment as well as to renovate existing equipment. Industry sources generally report that the textile industry is seeking to improve quality as well as to diversify production to include more value-added products, rather than to rely mainly on lower-value yarn exports. With continued investment in the spinning and weaving industries, Pakistani mill consumption will likely continue its upward trend with 2004 consumption projected to approach 9.60 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. In 2003, Turkish mill use fell slightly to 6.00 million bales (Exhibit 118). For 2004, mill use is expected to rebound to 6.15 million bales.

The textile industry is one of the most important and dynamic sectors in the Turkish economy, accounting for 7% of GNP, 20% of industrial employment and 30% of total exports. The industry estimates that 40% of total textile production and 70% of ready-made garment production are exported. The European Union remains Turkey's largest market, with Germany being the leading importer within the European Union. Textile exports to the Former Soviet Union, mainly on a cash basis through a

combination of small scale "suitcase trade" and regular border trade, have stagnated due to customs problems and increasing production in Russia. However, the United States is becoming an increasingly important market, reportedly accounting for 12% of total exports. Exporters point to an increase in U.S. textile import quotas, as well as Turkey's increasing focus on quality, as two reasons for the increase. If Turkey can maintain a strong presence in the textile export market, mill use should climb to 6.15 million bales in 2004.

Brazil

The latest USDA estimate for Brazilian mill use is 3.70 million bales, up 250 thousand bales from crop year 2002 (Exhibit 119).

Brazil's domestic cotton consumption fell 350 thousand bales between 2001 and 2002. Major factors causing a reduction in consumption include the significant retraction in the retail market due to decreased purchasing power of Brazilian consumers and high unemployment rates.

Improvement in Brazil's economy should lead to slightly higher consumption numbers for the 2004 crop year. Another factor influencing the upward trend would be the rise in textile exports, including cotton fiber. According to the Brazilian Textile Industry Association (ABIT), textile exports during the Jan-May 2003 period were approximately $601.60 million, up 30% from the same period in 2002.

Brazilian consumption is expected to climb to 3.83 million bales in 2004.

Mexico

Mexico's mill use is sustained by the North American Free Trade Agreement. The textile industry continues to purchase the majority of their cotton needs from the United States. For 2003, Mexico is projected to consume 2.10 million bales of cotton (Exhibit 120). This is unchanged from 2002. However, mill consumption in Mexico should fall slightly in 2004 to 2.09 million bales. Since the U.S. retail market is the primary destination of Mexico's textile exports, the surge of imported textile products from Asia into the U.S. market is a having a negative impact on Mexico's spinning and processing sectors.

Indonesia

Mill use remained steady in 2003 at 2.20 million bales (Exhibit 121). For the past two years the country's political situation and the domestic economic situation have been relatively stable. As a result, the textile industry was able to survive, especially the export-oriented companies, as cost of production (denominated in rupiah) was low and exports (denominated in U.S. dollars) were quite profitable. However, it is still difficult to predict how the domestic textile industry will perform in the near future, especially with the upcoming general election in 2004.

If Indonesia's political and economic situation can remain somewhat stable, mill use should remain unchanged at 2.20 million bales for the 2004 crop year.

Consumption Outlook

Improving economic conditions should continue to stimulate increases in world consumption. Assuming global consumption of 97.11 million bales for

the 2003 marketing year, further growth in 2004 would push world mill use up to 98.16 million bales (Exhibit 122). China is expected to continue to be the primary growth region and will expand their share of world cotton consumption.

World Trade

In 2003, world trade in raw cotton remained stable at an estimated 33% of expected world mill use (Exhibit 123). This is up slightly from the 5-year average of 30%. Major raw cotton exporters continue to struggle with stiff competition.

Trade Climate

USDA estimates that 2003 crop year raw cotton exports will reach 32.05 million bales (Exhibit 124). That is an increase of roughly 1.39 million bales over the previous crop year. While concerns continue to be expressed about the availability of higher quality cotton, it appears that the sheer volume of cotton available in the international market continues to overcome quality concerns.

United States

As evidenced by recent strong export sales, U.S. cotton is meeting the price competition and will maintain trade share, despite extremely competitive conditions in the world market. USDA estimates U.S. exports of raw cotton to reach 13.20 million bales for the 2003 marketing year (Exhibit 125).

The reliance of the U.S. cotton market on exports has increased dramatically over the past years as the domestic textile industry has contracted. The shift to an export orientation reflects the shifts that have occurred in cotton mill use. We have seen a complete reversal in the contributions of exports and domestic mill use to total off-take. For the 2002 marketing year, exports contributed about 62% of total use. For the 2003 crop, USDA is estimating that exports will constitute 38% of total use.

Customers for U.S. exports have changed some over the past two years. While Mexico remains one of the top customers, China has emerged as a significant buyer during the 2002 and 2003 marketing years (Exhibit 126).

Uzbekistan

Uzbekistan's cotton exports have dropped considerably over the past several years due to declines in production (Exhibit 127). The export forecast for 2003 is 3.03 million bales. In spite of new regulations, the government of Uzbekistan still controls the export of both state-order cotton and over-quota free cotton through the trade agencies of the Agency of Foreign Economic Relations (AFER), which coordinates sales, prices and shipments.

Most cotton is sold to international shippers through negotiated sales. However, recently, AFER has launched several small auctions with limited success. The government also continues to trade some cotton on a government-to-government basis, mainly to Russia.

The government is in the process of changing its cotton grading system to approximate the U.S. system in order to eliminate a major source of contract disputes. Several years ago, the government established the National Cotton Certification Center (SIFAT), as part of a World Bank project. SIFAT has purchased 16 HVI labs, and is installing these labs in each cotton-producing region.

The government also is interested in working with international cotton traders and other entities to invest in the cotton sector, including production, ginning, warehousing and transport. Officials believe greater cooperation and partnerships in the industry will enhance Uzbekistan's ability to produce and market its cotton. However, analysts believe that the government will need to undertake some very basic legal and economic reforms, including currency convertibility, transparency and sanctity of contracts, as a prerequisite to significant investments. Currently, there are three foreign investors in the cotton industry, one American and two French companies. The American company, the Central Asian American Seed Company, invested more than $10 million in cotton seed production. They are working in cooperation with several cotton farms in the Syrdarya region by providing production credit and ginning the output in its own gin.

Even with continued support from the government, it is highly unlikely that exports will exceed 3.04 million bales in 2004.

China

In 1998 through 2000, China was a net exporter of cotton in an attempt to reduce burdensome stock levels (Exhibit 128). However, their trade position changed to one of net importer in 2001. China remained a net importer in 2003 due to reduced production and continued growth in consumption.

China's 2003 crop has been poor both in terms of yield and in terms of quality. Since China's domestic production fell short of meeting its demand, they have been concentrating on buying the best quality cotton available. This trend will continue into 2004. Recently, China announced their import quota for 2004 at 894 thousand metric tons or 4.1 million bales. On joining the WTO, China was required to establish tariff rate quotas (TRQ) on a number of commodities including cotton, permitting imports of a stipulated amount at a nominal tariff (1% for in-quota cotton). The 2002 TRQ amount was 818,500 tons, scheduled to increase to 856,250 in 2003 and to be capped at 894,000 tons in 2004. Industry officials believe China will import their entire quota.

Implementation of TRQ's has become a controversial trade issue. Allocations, due on January 1st, were delayed until late March in 2002 and late February in 2003. Of greater concern to exporters was that China created separate sub-quotas for domestic consumption and processing for re-export, in violation of the WTO accession document that stipulated no additional requirements on TRQ imports. Furthermore, industry sources said that many allocations were in quantities too small to be commercially viable, also contrary to the accession agreement. USDA and USTR have expressed concerns to Chinese officials both bilaterally and at the WTO in Geneva.

Regardless of these pending trade issues, China should continue to be a net importer for the foreseeable future. However, imports will drop to 4.70 million bales in 2004. Imports of this level assume that China will begin to rebuild stocks from the extremely low levels of the current marketing year.

Australia

Australia's commitment to export cotton is formidable. More than 90% of

Australia's cotton crop is exported each year. The remainder is processed by Australia's five spinners (Exhibit 129). Asian countries including Indonesia, Japan, China, Thailand, South Korea, Taiwan, Bangladesh, the Philippines, Malaysia and Hong Kong dominate Australian raw cotton export destinations.

In 2003, exports dropped substantially due to historically low production. Australia exporting 1.65 million bales of cotton, down over 1.00 million bales from 2002. If production increases in 2004, there should be a rebound in Australian exports to roughly 1.92 million bales.

West Africa

West Africa has increased cotton production in recent years in the hopes of building its export business. USDA estimates that the region's exports will be 4.48 million bales in 2003 (Exhibit 130). Cotton exports from this region will likely remain at the 4.50 million bale level in 2004 provided weather does not adversely affect the region's production.

India

In 1998, India became a significant importer of raw cotton. They have remained a significant importer since that time as production has fallen short of consumption (Exhibit 131).

The latest estimate for 2003 Indian imports is 1.00 million bales, down 400 thousand bales from the 2002 crop year. India has become a growing import market for ELS and high quality long staple cotton, with occasional imports of medium staple in years of tight local supplies or when world prices are favorable. Most mills using ELS are familiar with U.S. Pima and its fiber characteristics. Many mill owners who have imported U.S. upland cotton in recent years have also expressed appreciation for its quality and higher spinning out-turn compared to local cottons. However, prices of U.S. cotton, higher freight costs and longer delivery periods are important considerations for Indian buyers, who can source cotton from closer markets such as Egypt, West Africa, CIS countries and Australia. In 2004, India will continue to be a net importer, increasing imports 160 thousand bales to 1.16 million bales.

Pakistan

Pakistan is forecast to be a net cotton importer during 2003 (Exhibit 132). The latest USDA estimate for Pakistani imports is 1.45 million bales, an increase of 600 thousand bales from the previous year.

In a few short years, Pakistan has emerged as a major importer of ELS cotton, particularly U.S. Pima. The government will continue its free trade policy for cotton exports, which means it will not set export quotas nor restrict exports to certain times of the marketing year, as it has done in the past.

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. Despite an increase in world consumption, world trade is expected to decline slightly in 2004 as production recovers in key cotton-consuming countries. Assuming a net import trade position for China, world cotton trade should fall to roughly 31.60 million bales

(Exhibit 133). Once again, China will be the key in 2004-2005.

With smaller world trade, U.S. raw cotton exports should decline to around 12.50 million bales for a market share of roughly 40% (Exhibit 134).

World Stocks

World stocks on July 31, 2004 are expected to total 32.36 million bales (Exhibit 135). This will be 4.62 million bales lower than year-earlier levels. If realized, stocks will be at their lowest level since the end of the 1994 marketing year.

Cotton stocks in the U.S. are projected to fall to 4.25 million bales by the end of the current marketing year. While this is significantly lower than the 2002 crop levels, it is still relatively high compared to the 3.5 million bales averaged during the 1990's.

For the 2004 crop, normal weather and average yields should produce a world crop that will be larger than expected consumption. Under this scenario, world stocks could climb by 4.00 to 4.50 million bales by July 2005. Again, this outcome largely depends on weather as favorable conditions would likely lead to an increase in stocks.

Conclusion

World and U.S. cotton prices strengthened throughout 2003, as prices ended the year some 20 cents higher than at the beginning. Production problems in countries such as China and Australia contributed to a world crop that fell short of consumption for the second consecutive year. The result will be ending stocks on July 31, 2004 at their lowest level since the end of the 1994 marketing year.

For the 2003 crop year, U.S. production is pegged at 18.22 million bales (Exhibit 136). Despite reduced acreage, particularly in the Southeast, a record national average yield contributed to a crop that was 1.02 million bales above 2002. In the West, generally good weather in the late summer and fall allowed the crop to recover from a slow start. In parts of the Southeast and Mid-South, record or near-record yields surpassed USDA's early season expectations. The most widespread crop losses occurred in the Southwest, particularly in Texas. In fact, upland production in the Southwest fell short of their 2002 crop by more than 750 thousand bales. Despite increased production, total supplies for the 2003 marketing year were below the previous 2 years due to reduced beginning stocks.

The contraction of the U.S. textile industry continued in 2003. Domestic mill use for the 2003 crop year is estimated at 6.20 million bales, 1.07 million bales below the 2002 level. Exports for the current marketing year are running at a strong pace with China being the largest foreign buyer of U.S. cotton. Exports are now expected to total 13.20 million bales – this represents 68% of total off-take. The ability to reach that number will hinge on further purchases by China.

For 2004, the acreage survey conducted by NCC economists estimate U.S. cotton acreage at 14.76 million acres, 9.5% higher than the 2003 level. Assuming normal abandonment and yields, projected production is 18.49 million bales. Adding in beginning stocks and imports, total supplies for the 2004 crop year would be 22.78 million bales. This represents a decline of 878 thousand bales from 2003.

On January 1, 2005, all quotas on textile and apparel imports into the U.S. will be removed. This comes in the middle of the 2004 marketing year, which runs from August 1, 2004 until July 31, 2005. The removal of quotas increases the competition from imported cotton textiles, and further declines are expected for the domestic textile industry. NCC economists expect mill use to fall to 5.70 million bales for the 2004/05 marketing year. As a result, exports will continue to be relied upon as the primary outlet for the U.S. crop. The export projection of 12.51 million bales falls short of our expectations for the current year as the foreign crop is expected to recover in 2004.

With mill use and exports both expected to decline in the coming marketing year, U.S. stocks are expected to build. Ending stocks are projected at 4.57 million bales, up from 4.25 million in 2003/04.

The world situation, as estimated by USDA for 2003/04, is shaped by a recovery in world production to 92.20 million bales (Exhibit 137). USDA estimates world mill use will decline to 97.11 million bales. The drop comes in response to stronger prices and increased competition from man made fibers. Mill use in China is expected to increase to 30.20 million bales, 700 thousand bales above the 2002 level. While this growth is slower than in previous years, China is one of the few countries where any increase is expected. China now consumes one out of every three bales of cotton produced in the world. Despite the downturn in consumption, production for 2003 is almost 5 million bales short of consumption, resulting in a further decline in stocks.

For 2004, increased acreage and the assumption of average yields push world production up to 102.28 million bales. If realized, it would be the largest world crop ever produced and surpass the previous record by 3.76 million bales. China is expected to account for more than half of the recovery in production as they rebound from a 2003 crop that fell well short of initial expectations. Assuming that the recent rains in Australia will ease the drought conditions, their production is expected to bounce back by 1.5 million bales. Smaller increases are expected in Pakistan, the Former Soviet Union, and Brazil.

Better economic conditions and larger supplies of cotton will spur additional mill consumption in 2004. NCC economists project world mill consumption at 98.16 million bales, roughly 1 million bales above the 2003 level. China will account for a full 60% of the increase. Declines are expected in the European Union, Japan, and Taiwan as the shift in mill use from developed to developing economies continues.

The current estimates for production and consumption would lead to a rebuilding of global stocks by July 31, 2005. The global stocks/use ratio is projected at 37.4%, up from 33.3% for the 2003 marketing year and very comparable to the 2002 level. Given the uncertainty surrounding actual stock levels in China, it is useful to look at the stocks/use ratio for the world less China. The current projections put that ratio for the 2004 marketing year at 42.7%, as compared to 38.2% in 2003. The projected 2004 number would be the second highest since 1990, surpassed only by the 2001 value of 50.3%.

In 2003, growers saw improved cotton prices, and in many cases, better yields than in 2002. While cotton prices have improved over the past twelve months, there are a number of issues and challenges that continue to confront the cotton industry. The shrinkage of the domestic textile industry has not stopped. Increasing imports over the past several years have devastated the U.S. textile and apparel industries and calendar year 2003 was no exception. The elimination of quotas is less than 1 year away. At that point, the only protection against surging imports will be tariffs, which are already much lower than those imposed by countries such as Argentina, Brazil, China, India and Pakistan. The Council will continue to actively push for the use of appropriate safeguard measures on products where imports have surged to levels that are disruptive to the domestic industry.

The decline in domestic mill use has transformed the U.S. cotton industry into an export-oriented sector, where success depends on competitiveness and access. Competitiveness entails both price and quality. The U.S. industry must produce fiber that has the characteristics demanded by international buyers. In addition, U.S. fiber must be delivered at a price that is competitive with foreign growths. The marketing loan and Step 2 payments will continue to be essential tools for the U.S. industry. NCC continues to push for increased access into international markets. This is particularly true with regards to China. While it appears that there may be some progress in their implementation of import quotas, it appears that the processing trade category still exists and that it can still become an impediment to U.S. cotton exports.

The 2004 crop marks the third crop covered by the current farm bill. Since its passage in 2002, the legislation has come under a barrage of criticism from sources within the U.S. as well as foreign countries. The U.S. is involved in a formal challenge of its cotton program brought by Brazil through the WTO. The challenge is now being heard by a dispute panel with a finding expected by the middle of 2004. In addition, an initiative is being pushed through the WTO by several West African countries to single out the cotton sector from the rest of agriculture for separate negotiation. The editorial barrage from newspapers such as *The New York Times* continues, as do misleading reports by groups such as the U.K.-based OXFAM. In the face of these challenges, maintaining the legislation as passed remains a priority of NCC.

The issues mentioned here are merely examples of the challenges facing the U.S. cotton industry. NCC economists will continue to provide accurate and in-depth economic analysis in an effort to help the industry meet these challenges.

Exhibit 1

Consumer Confidence Index

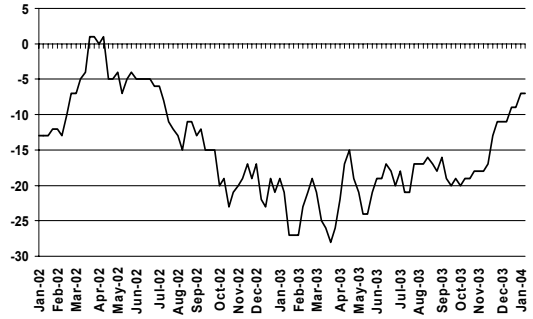

Exhibit 2

Change in U.S. Real GDP

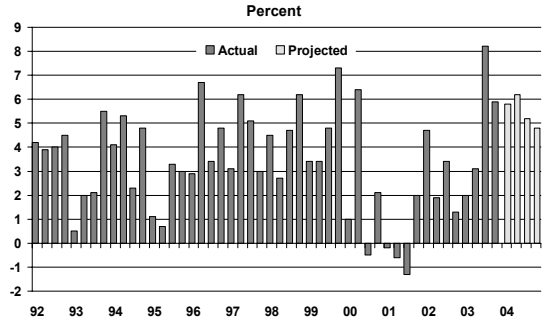

Exhibit 3

Change in U.S. Real Personal Consumption Expenditures

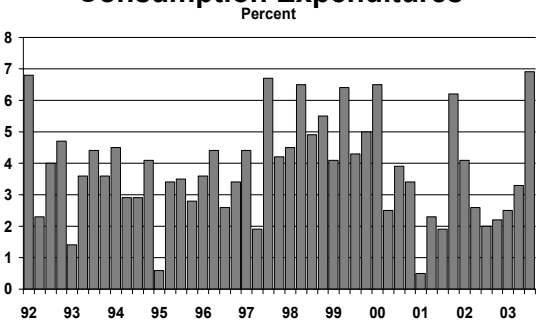

Exhibit 4

Change in U.S. Real Private Investment

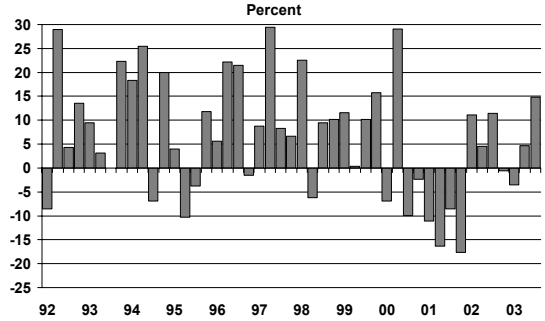

Exhibit 5

Civilian Employment

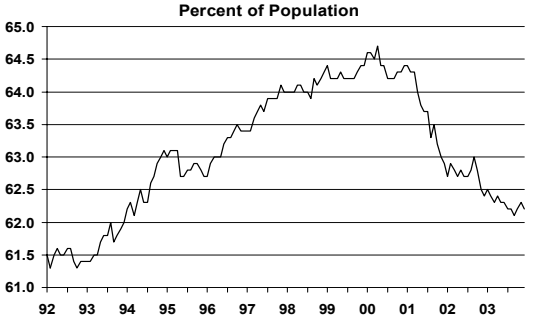

Exhibit 6

Civilian Unemployment Rate

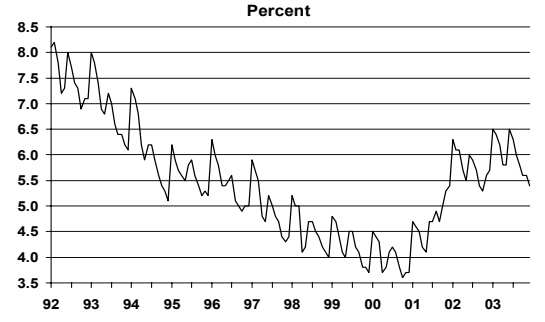

Exhibit 7

Manufacturing Employment

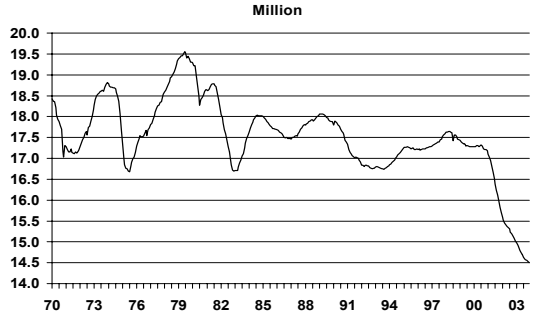

Exhibit 8

Federal Funds Rate

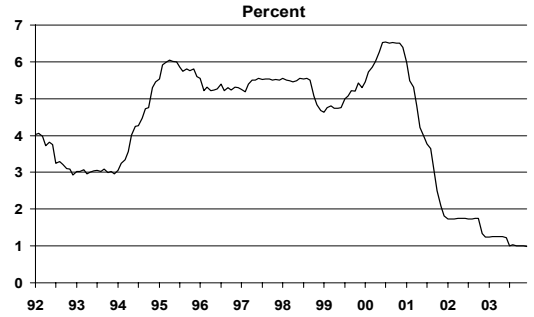

Exhibit 9

30-Year Mortgage Rate

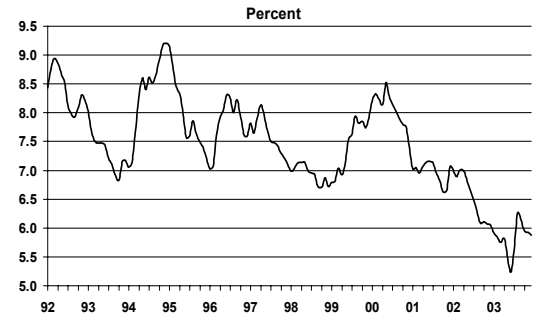

Exhibit 10

Projected US Federal Budget

CBO (August '03)

$ Billions

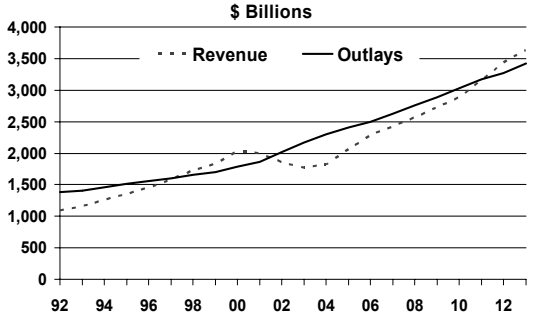

Exhibit 11

US Federal Budget Surplus

CBO (August '03)

$ Billions

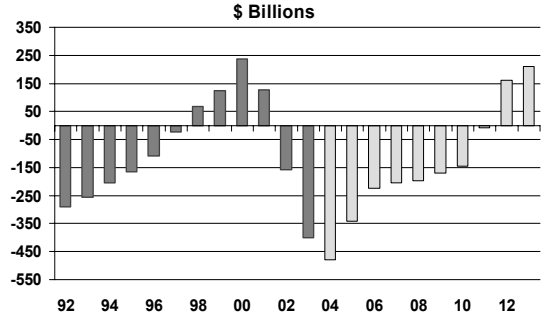

Exhibit 12

Inflation Measures 1970-2003

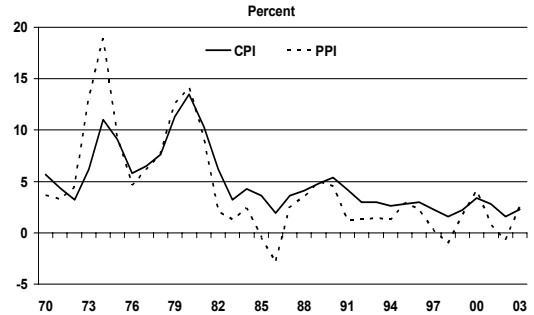

Exhibit 13

Consumer Price Index, Apparel

Exhibit 14

U.S. Crude Oil Spot Price

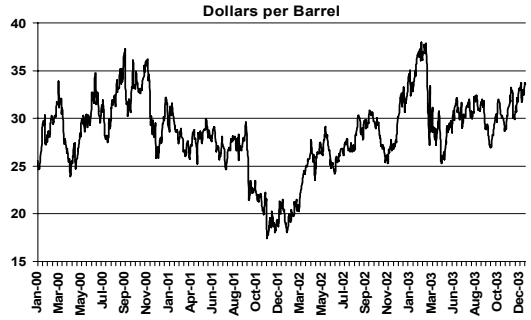

Exhibit 15

U.S. On-Highway Diesel Price

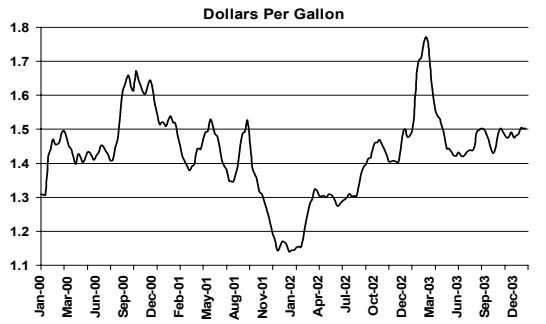

Exhibit 16

U.S. Natural Gas Wellhead Price

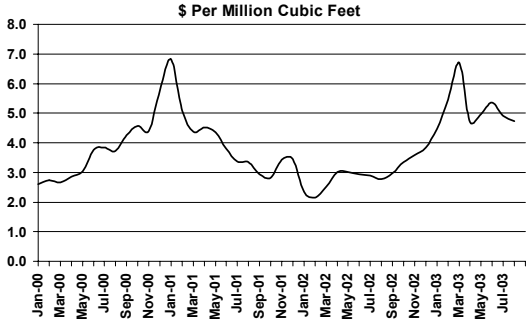

Exhibit 17

Dow Jones Industrials

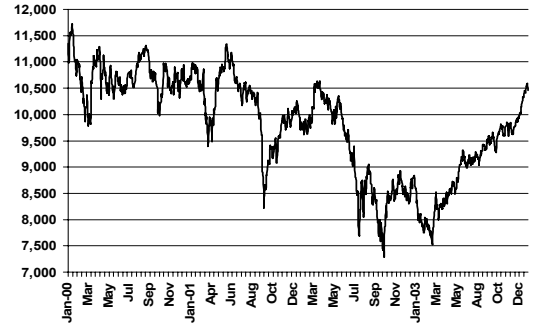

Exhibit 18

NASDAQ

Exhibit 19

S&P 500

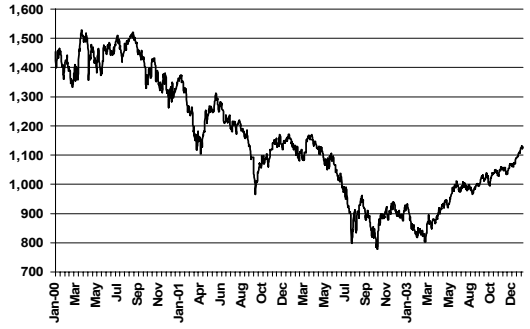

Exhibit 20

World Real GDP Growth

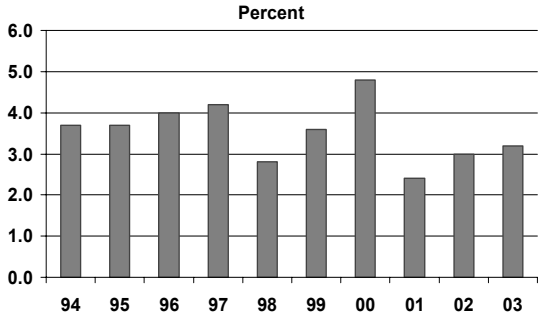

Exhibit 21

China Real GDP Growth

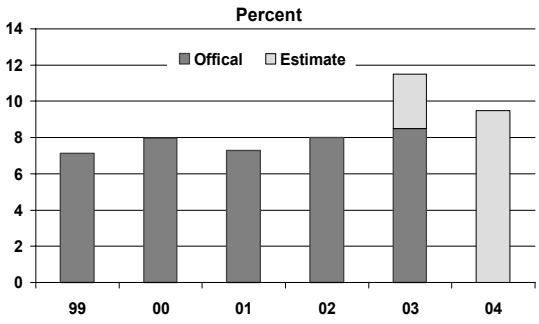

Exhibit 22

Asian Stock Indexes

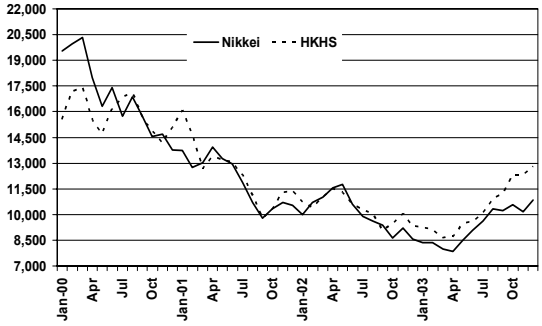

Exhibit 23

Euro

(Currency per U.S. Dollar)

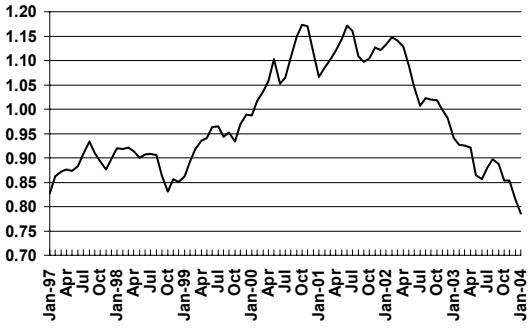

Exhibit 24

Japanese Yen

(Currency per U.S. Dollar)

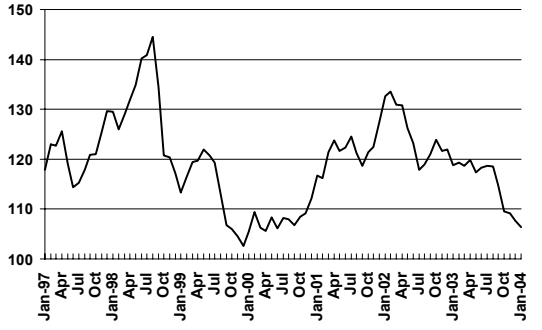

Exhibit 25

South Korean Won

(Currency per U.S. Dollar)

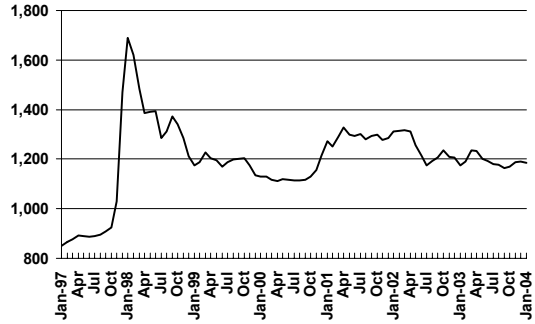

Exhibit 26

Indian Rupee

(Currency per U.S. Dollar)

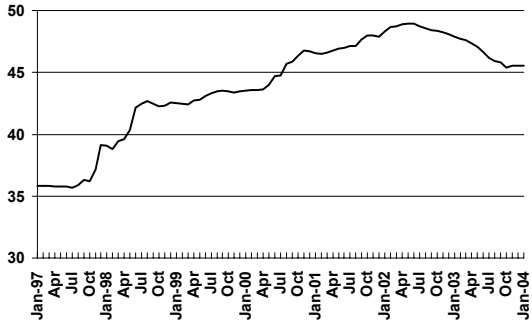

Exhibit 27

Indonesian Rupiah

(Currency per U.S. Dollar)

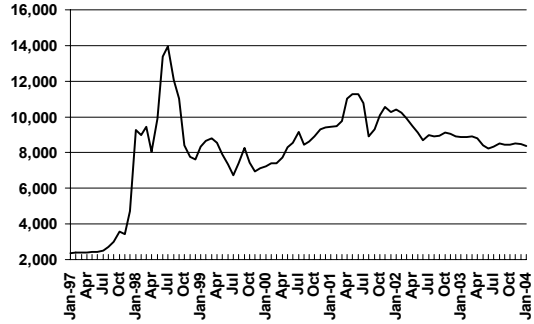

Exhibit 28

Pakistani Rupee

(Currency per U.S. Dollar)

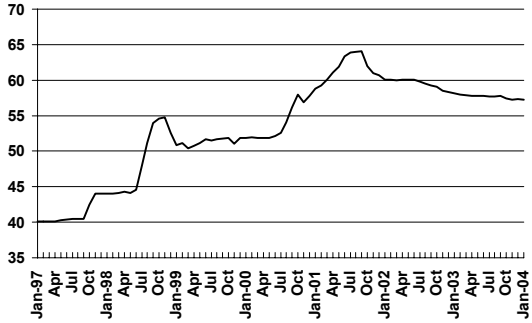

Exhibit 29

Real Exchange Rate Index

(Other Important Trade Partners, Source - Federal Reserve)

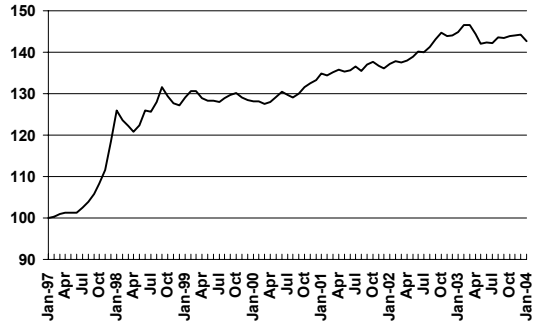

Exhibit 30

Reuters/CRB Futures Index

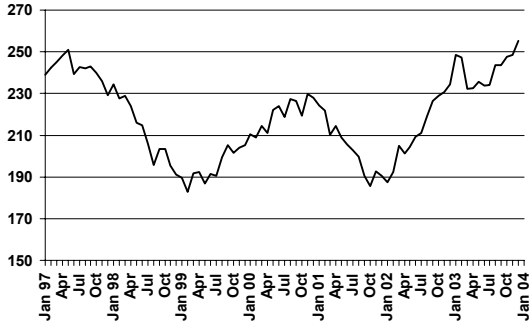

Exhibit 31

Ag Prices Received Index

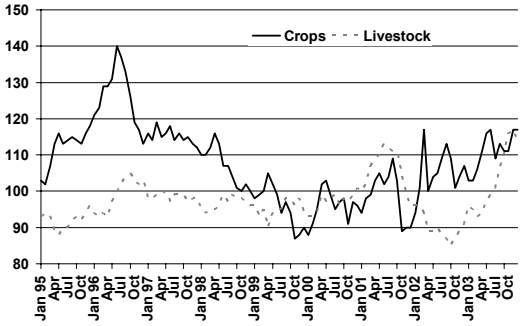

Exhibit 32

U.S. Net Farm Income

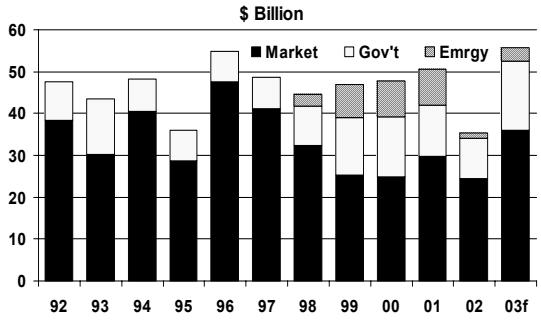

Exhibit 33

U.S. Upland Planted Area

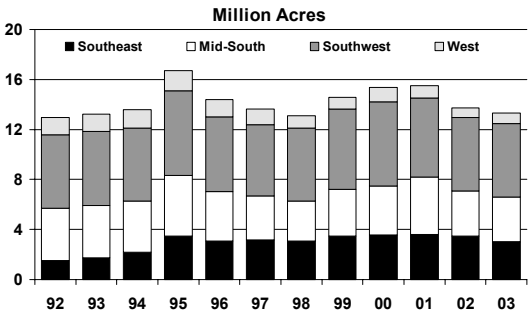

Exhibit 34

Southeast Upland Planted Area

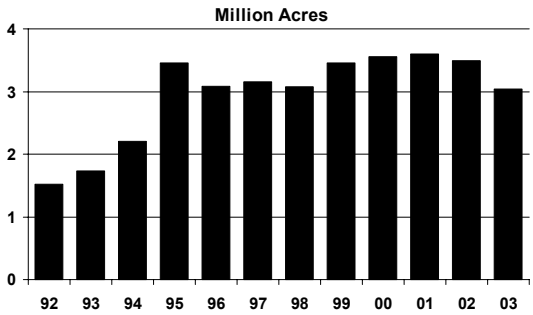

Exhibit 35

Mid-South Upland Planted Area

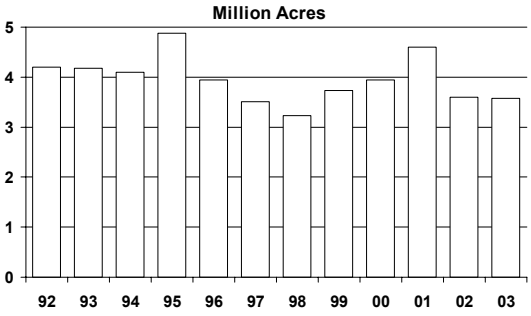

Exhibit 36

Southwest Upland Planted Area

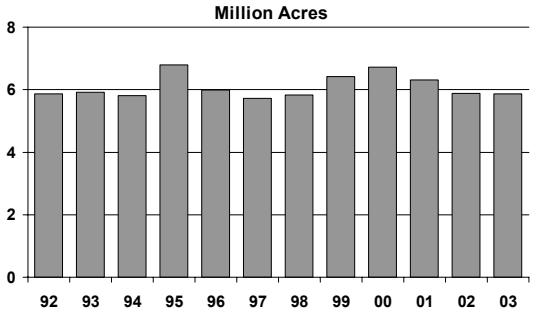

Exhibit 37

West Upland Planted Area

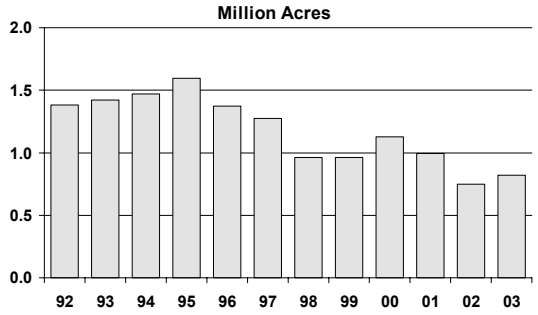

Exhibit 38

U.S. ELS Planted Area

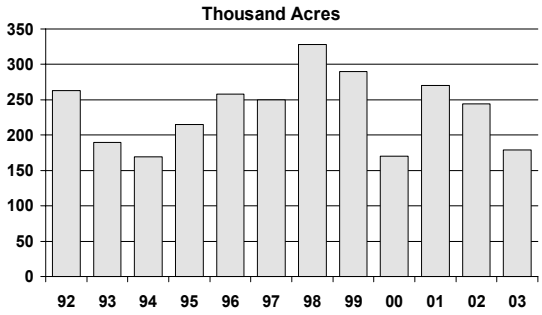

Exhibit 39

U.S. Cotton Abandonment

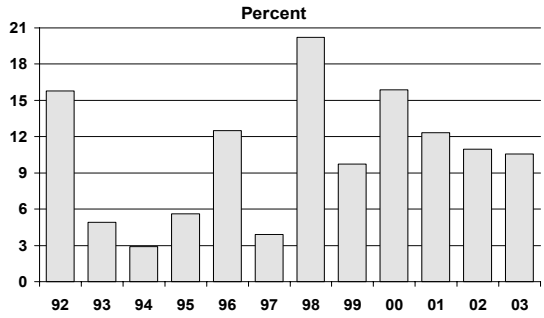

Exhibit 40

U.S. Cotton Yield

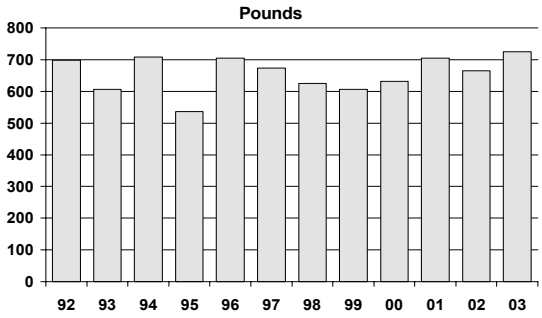

Exhibit 41

Southeast Upland Yields

Pounds per Harvested Acre

	2002	2003	5-Year Average
Alabama	507	772	569
Florida	401	678	502
Georgia	557	781	608
North Carolina	421	686	636
South Carolina	314	727	541
Virginia	465	678	708
SOUTHEAST	486	745	603

Exhibit 42

Mid-South Upland Yields

Pounds per Harvested Acre

	2002	2003	5-Year Average
Arkansas	871	914	757
Louisiana	717	955	638
Mississippi	808	925	719
Missouri	796	874	677
Tennessee	741	792	644
MID-SOUTH	800	900	700

Exhibit 43

Southwest Upland Yields

Pounds per Harvested Acre

	2002	2003	5-Year Average
Kansas	539	600	428
Oklahoma	557	593	518
Texas	538	464	488
SOUTHWEST	538	471	488

Exhibit 44

West Upland Yields

Pounds per Harvested Acre

	2002	2003	5-Year Average
Arizona	1,381	1,262	1,264
California	1,469	1,321	1,266
New Mexico	816	857	746
WEST	1,400	1,281	1,230

Exhibit 45

ELS Yields

Pounds per Harvested Acre

	2002	2003	5-Year Average
Arizona	1,013	960	871
California	1,386	1,192	1,208
New Mexico	1,041	880	805
Texas	1,110	1,008	867
U.S.	1,342	1,157	1,153

Exhibit 46

U.S. Cotton Production

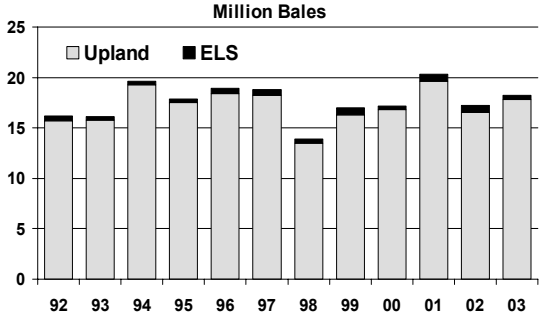

Exhibit 47

U.S. Upland Cotton Production 2003

Thousand Bales

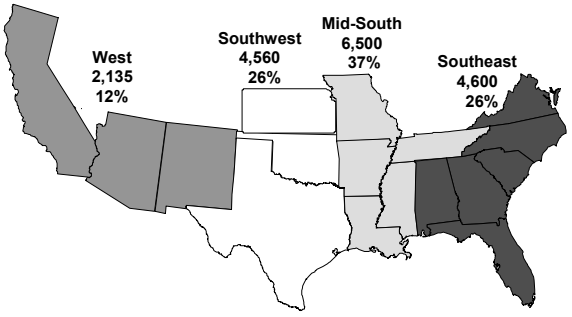

Exhibit 48

U.S. ELS Cotton Production 2003

Bales

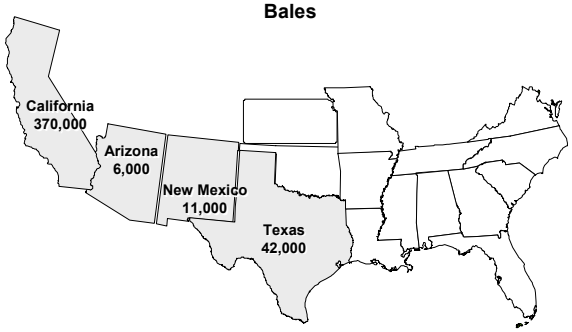

Exhibit 49

U.S. Cotton Beginning Stocks

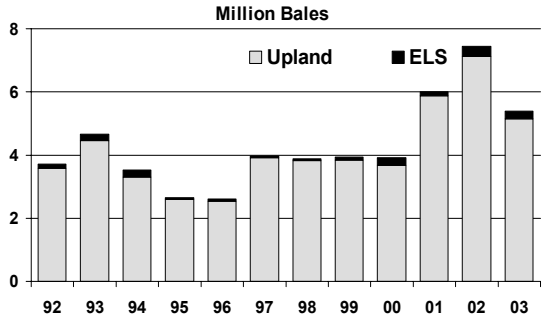

Exhibit 50

CCC Loan Stocks

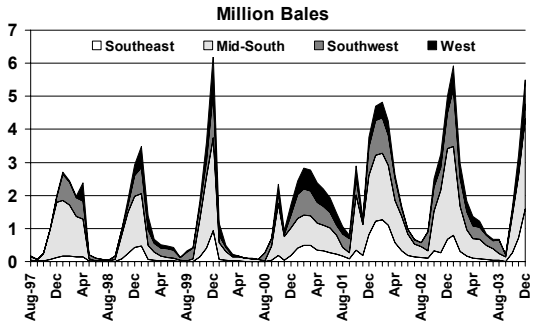

Exhibit 51

U.S. Cotton Supply

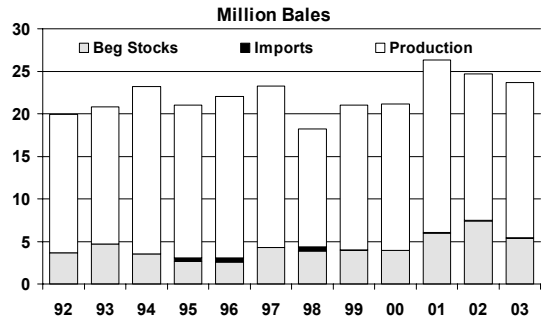

Exhibit 52

2003 Crop Staple and Strength

	Staple		Strength	
	2003	5-Yr.	2003	5-Yr.
Southeast	34.4	34.1	27.9	27.5
Mid-South	34.6	34.4	28.2	27.6
Southwest	34.4	33.3	29.4	28.0
West	36.8	36.1	31.6	29.9
U.S.	34.7	34.3	28.8	28.0

Exhibit 53

2003 Crop Color and Mike

	%SLM+		Micronaire	
	2003	5-Yr.	2003	5-Yr.
Southeast	94.2	77.6	42.3	44.8
Mid-South	95.8	73.1	46.3	46.5
Southwest	89.2	76.4	44.3	43.1
West	96.1	95.2	42.8	45.0
U.S.	93.7	78.6	44.4	44.8

Exhibit 54

Spot 4134 Price

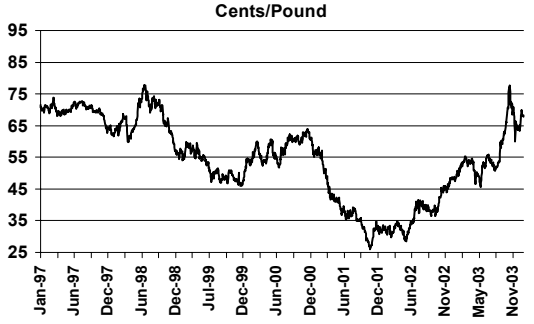

Exhibit 55

"A" Index and Spot 4134

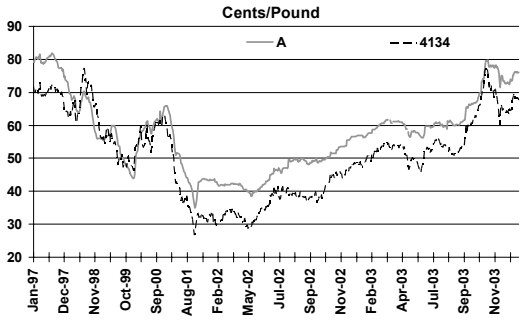

Exhibit 56

ELS Cotton Prices

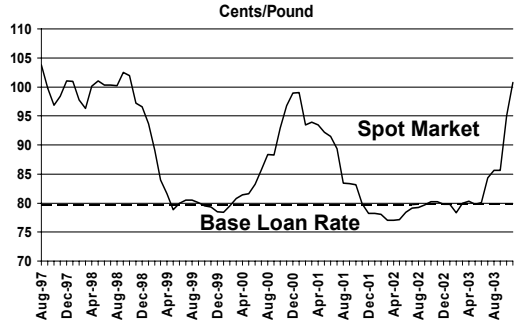

Exhibit 57

U.S. Cottonseed Production

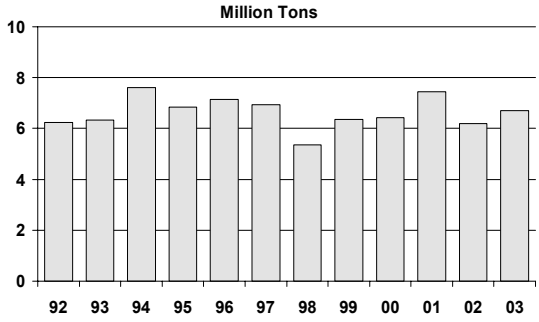

Exhibit 58

U.S. Cottonseed Production 2003

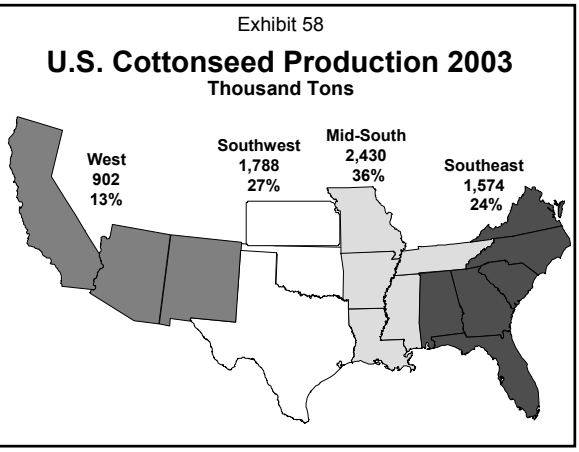

Exhibit 59

U.S. Cottonseed Supply

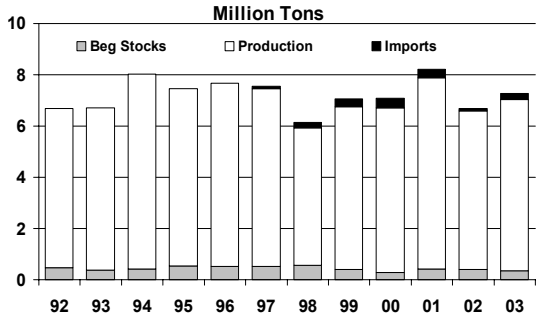

Exhibit 60

U.S. Cottonseed Disappearance

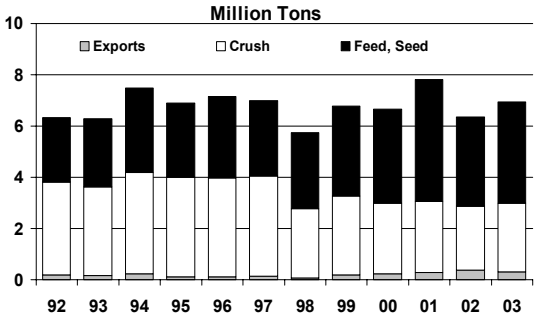

Exhibit 61

U.S. Cottonseed Carryover

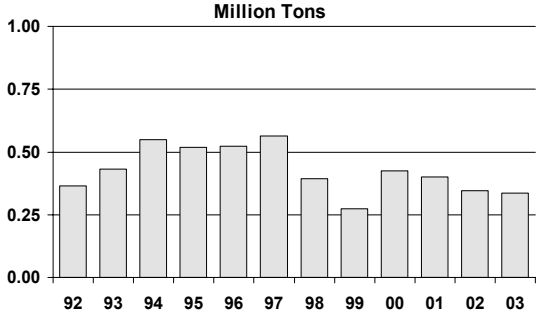

Exhibit 62

Nearby NY and "A" Index

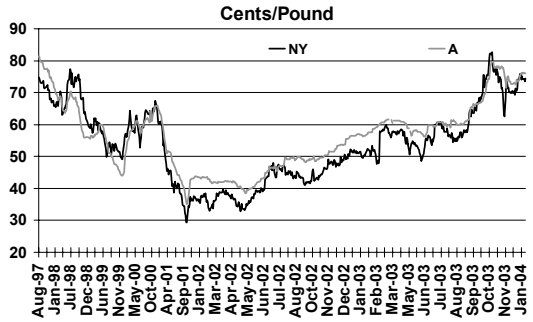

Exhibit 63

December Cotton Futures

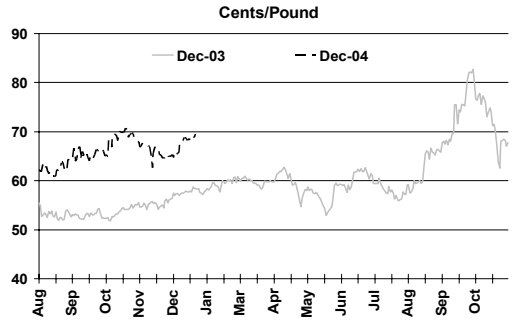

Exhibit 64

December Corn Futures

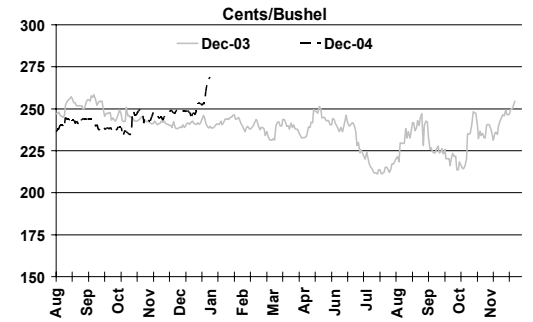

Exhibit 65

November Soybean Futures

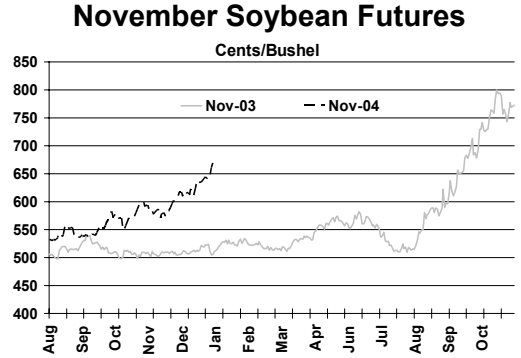

Exhibit 66

U.S. Harvested Area

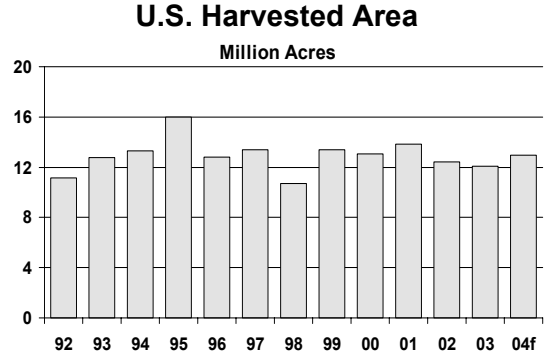

Exhibit 67

U.S. Cotton Supply

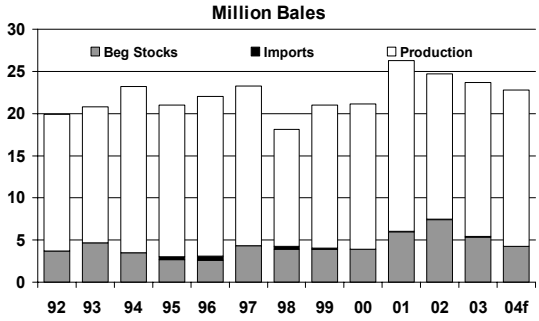

Exhibit 68

U.S. Cottonseed Supply

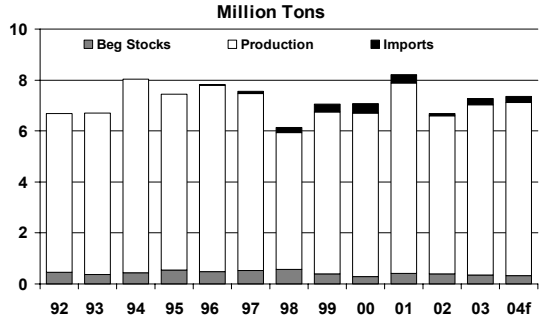

Exhibit 69

U.S. Cotton Mill Use
(Calendar Year)

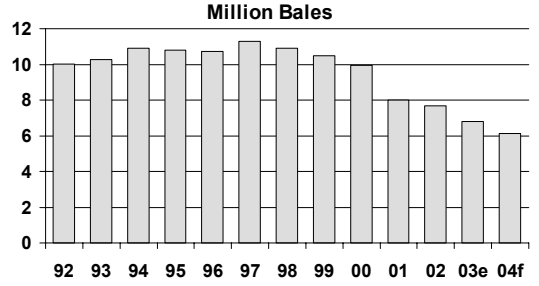

Exhibit 70

U.S. Cotton Mill Use
(Crop Year)

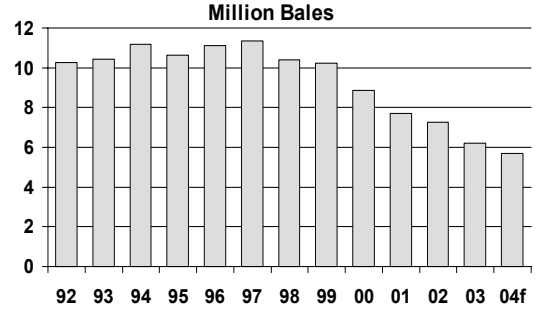

Exhibit 71

Daily Avg. U.S. Cotton Mill Use

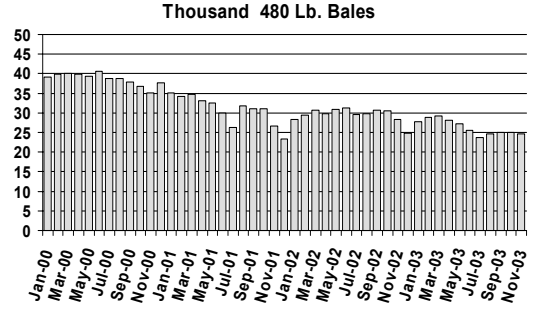

Exhibit 72

Man Made Fiber Mill Use

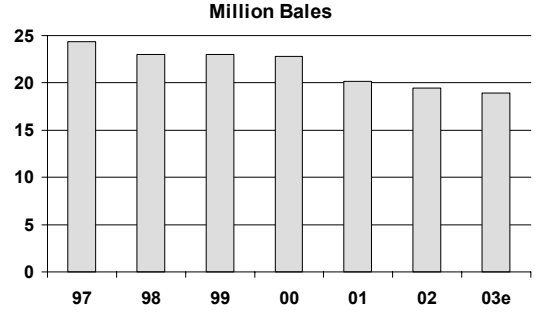

Exhibit 73

U.S. Apparel Production

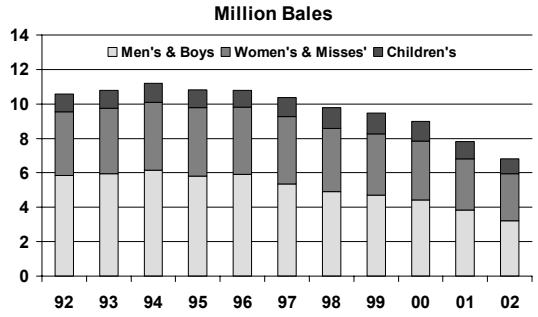

Exhibit 74

Fiber in U.S. Made Apparel

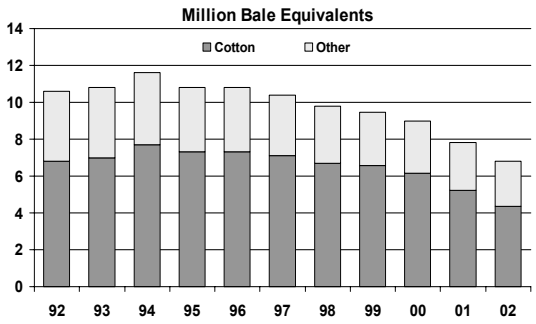

Exhibit 75

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

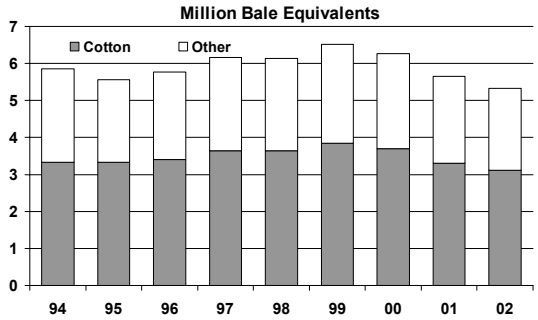

Exhibit 76

Net Domestic Fiber Consumption

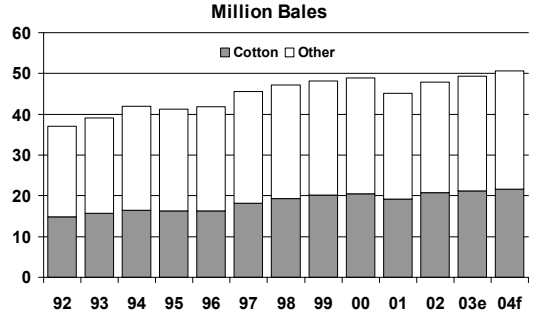

Exhibit 77

Components of Retail Cotton Consumption

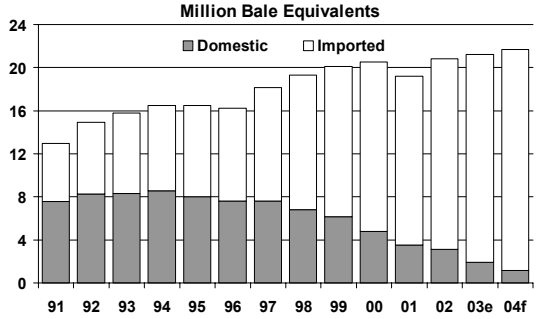

Exhibit 78

Components of U.S. Cotton Mill Consumption

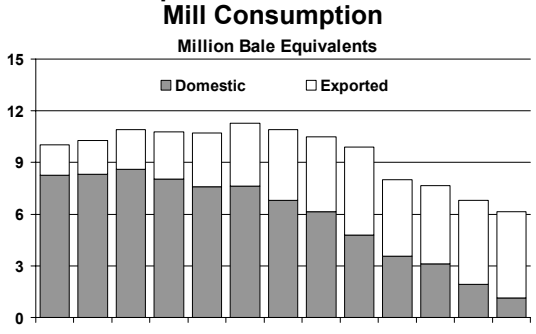

Exhibit 79

U.S. Cotton Textile Imports

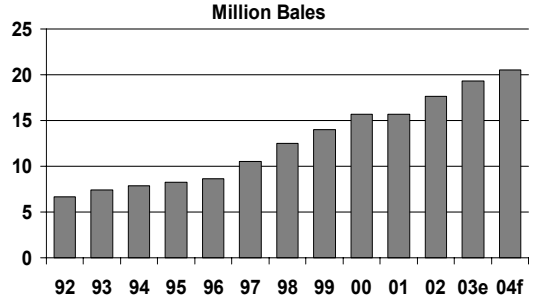

Exhibit 80

U.S. Cotton Content in Textile Imports

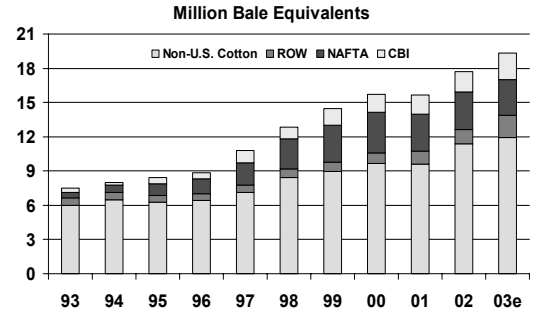

Exhibit 81

U.S. Cotton Product Imports

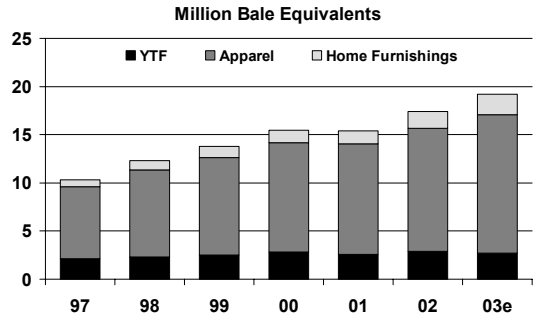

Exhibit 82

U.S. Import Source of Cotton Products

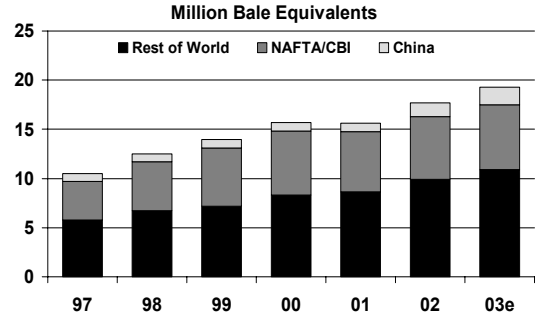

Exhibit 83

U.S. Trade With Mexico

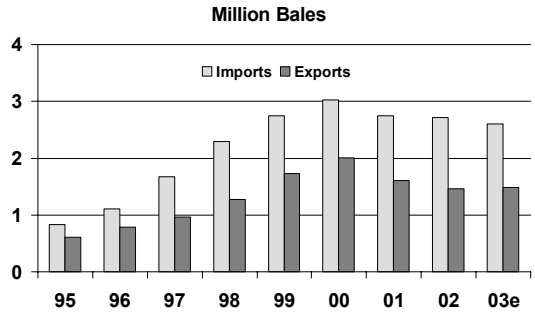

Exhibit 84

U.S. Trade With Canada

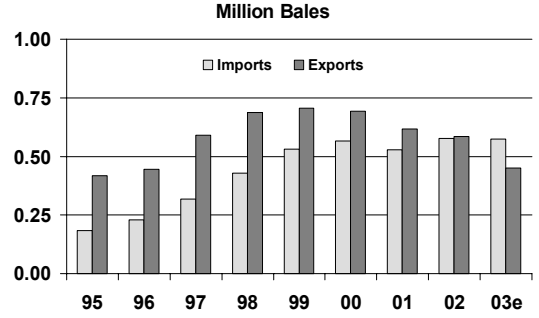

Exhibit 85

U.S. Trade with CBI

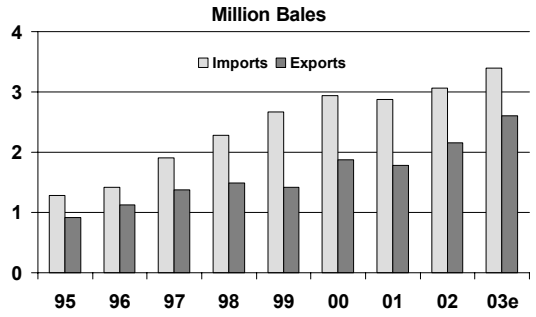

Exhibit 86

U.S. Imports from China

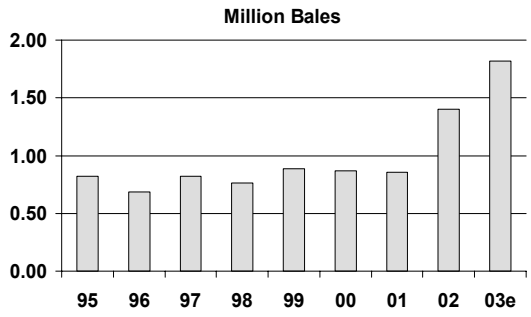

Exhibit 87

Cotton Product Imports from Mexico

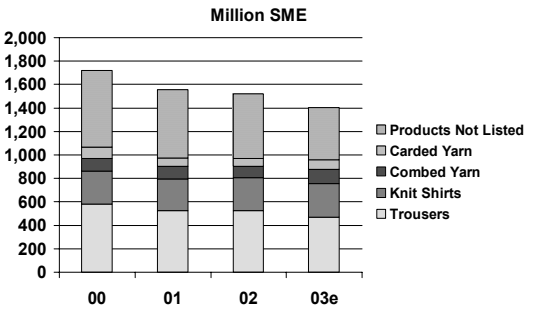

Exhibit 88

Cotton Product Imports from Canada

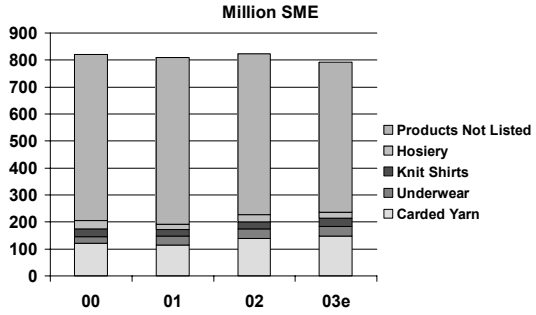

Exhibit 89

Cotton Product Imports from CBI

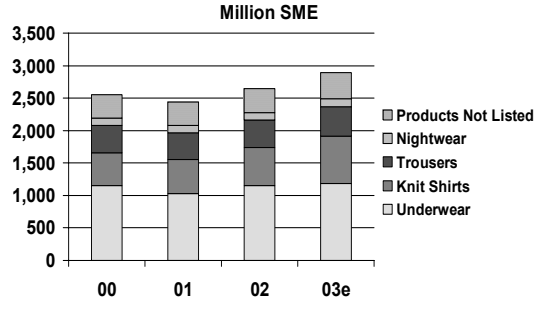

Exhibit 90

Cotton Apparel Product Imports from AGOA

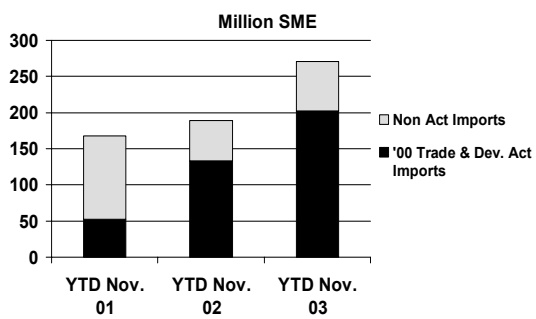

Exhibit 91

Cotton Product Imports from Pakistan

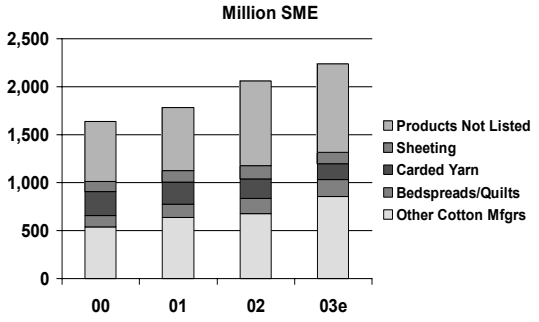

Exhibit 92

Cotton Product Imports from China

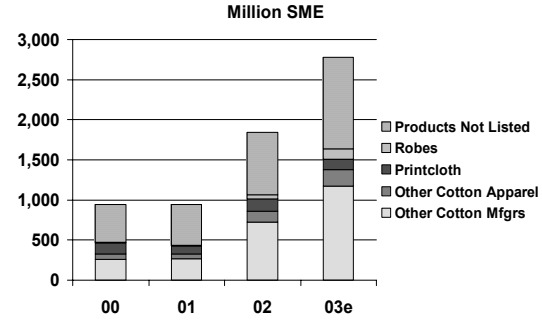

Exhibit 93

Cotton Product Imports from India

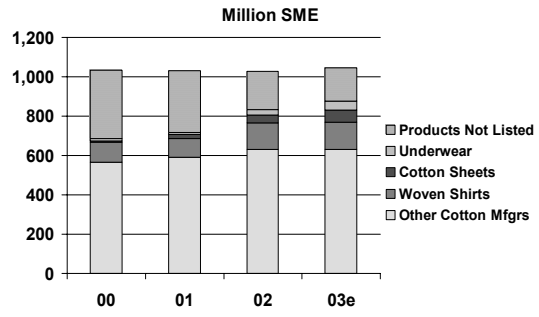

Exhibit 94

Cotton Product Imports from Hong Kong

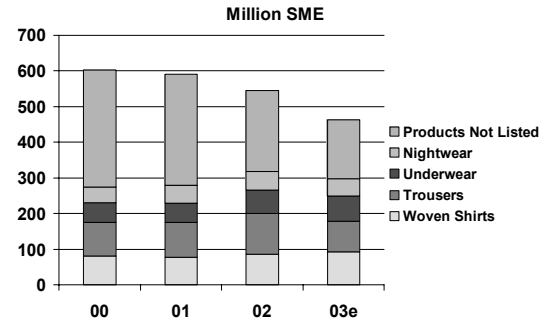

Exhibit 95

Cotton Product Imports from Bangladesh

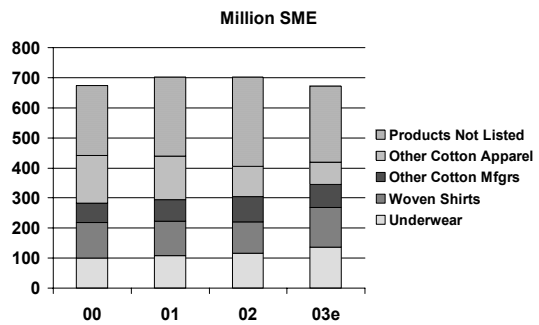

Exhibit 96

Cotton Product Imports from Vietnam

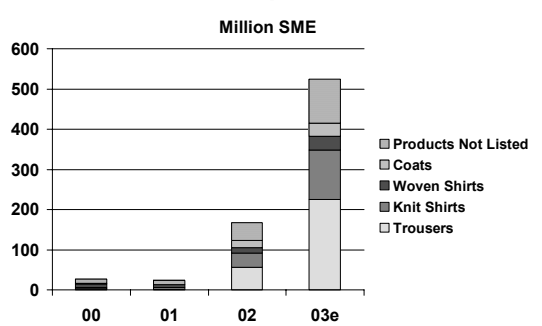

Exhibit 97

Cotton Product Imports from Turkey

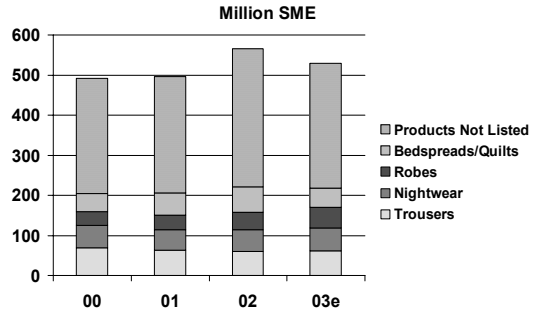

Exhibit 98

U.S. Cotton Textile Exports

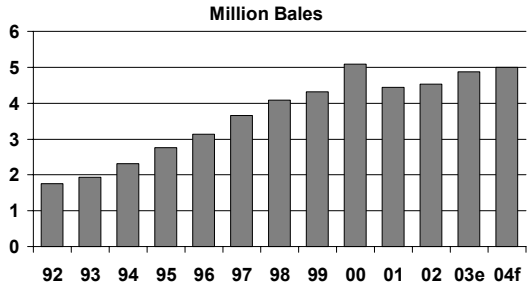

Exhibit 99

U.S. Cotton Product Exports

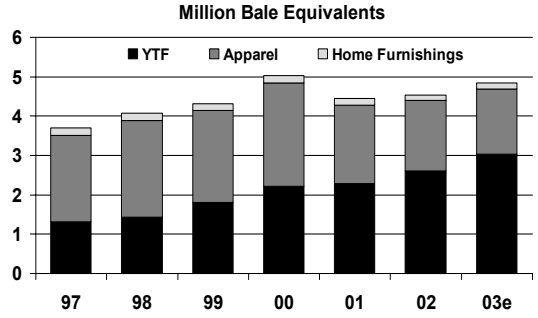

Exhibit 100

U.S. Exports of Cotton Products

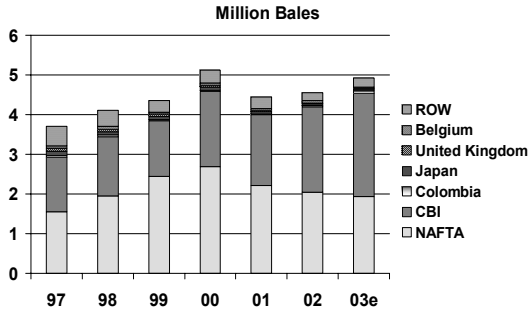

Exhibit 101

U.S. Textile Imports from China

(China Textile Safeguard Categories)

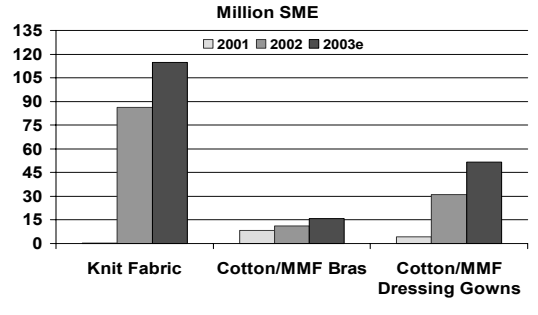

Exhibit 102

World Cotton Production

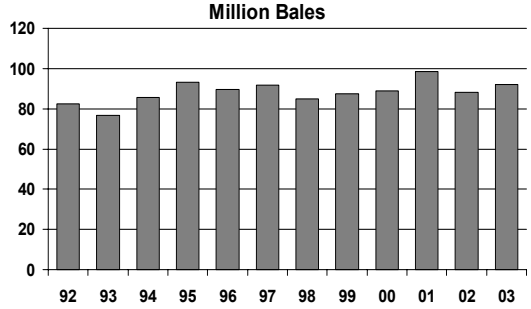

Exhibit 103

"A" Index

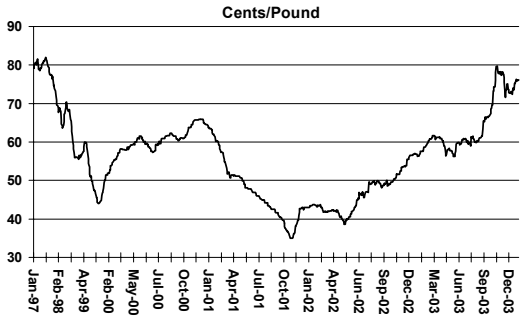

Exhibit 104

China Cotton Production

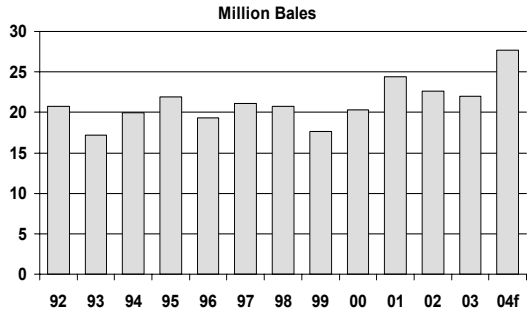

Exhibit 105

India Cotton Production

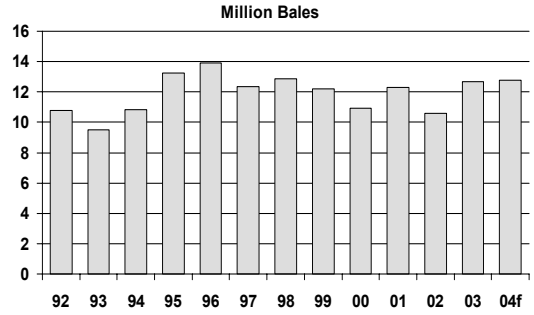

Exhibit 106

Uzbekistan Cotton Production

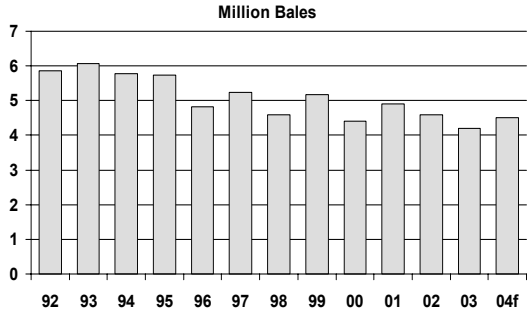

Exhibit 107

Pakistan Cotton Production

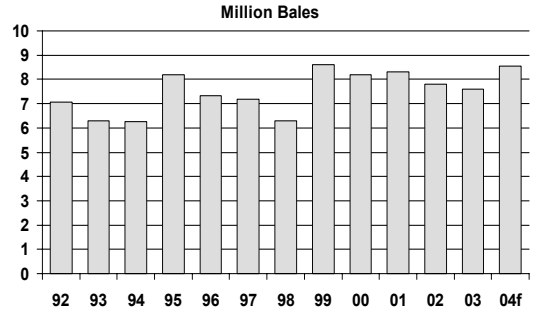

Exhibit 108

Turkey Cotton Production

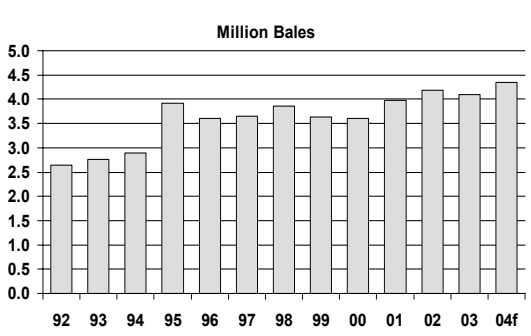

Exhibit 109

Australia Cotton Production

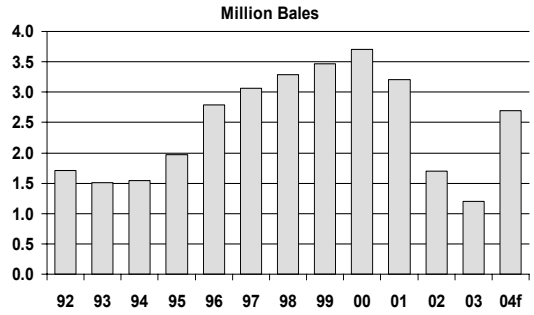

Exhibit 110

Brazil Cotton Production

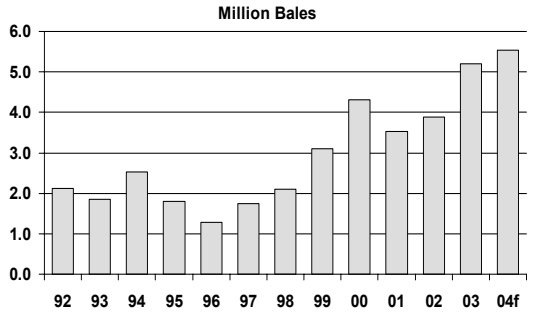

Exhibit 111

West Africa Cotton Production

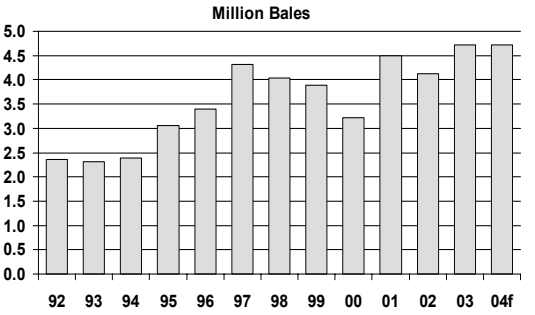

Exhibit 112

World Cotton Production

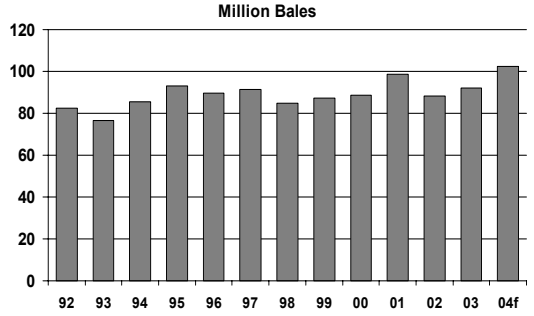

Exhibit 113

World Fiber Demand

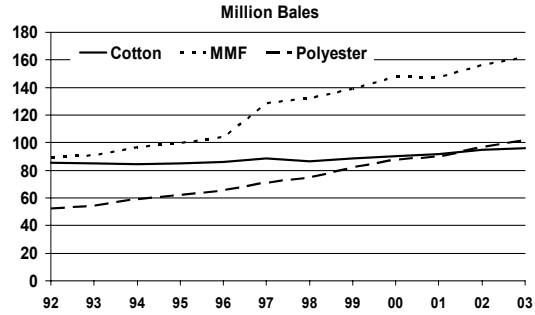

Exhibit 114

World Cotton Mill Use

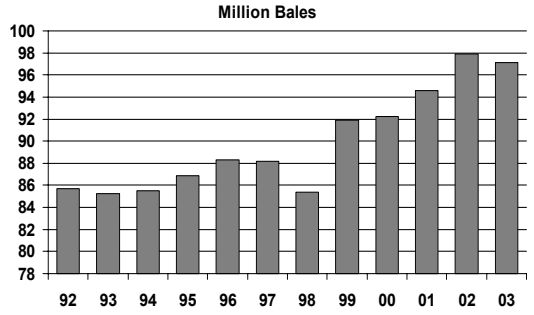

Exhibit 115

China Cotton Mill Use

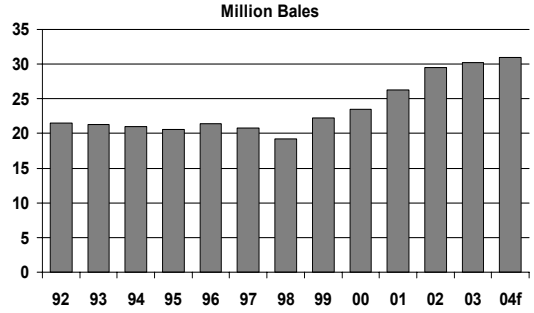

Exhibit 116

India Cotton Mill Use

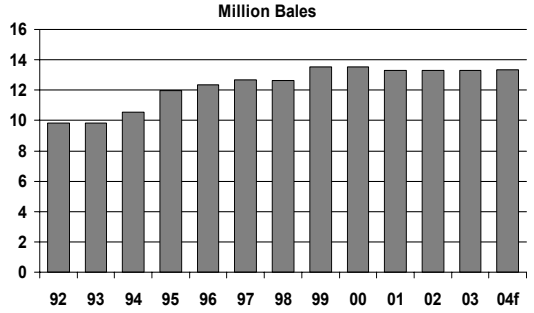

Exhibit 117

Pakistan Cotton Mill Use

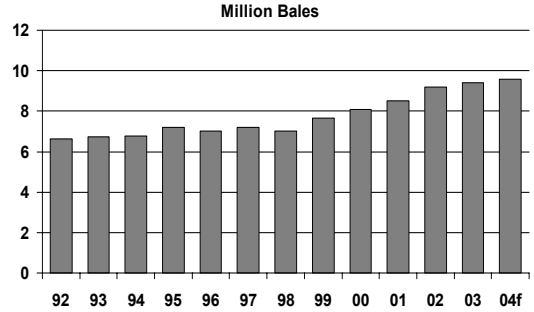

Exhibit 118

Turkey Cotton Mill Use

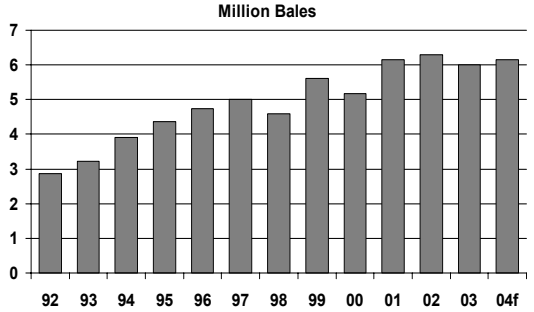

Exhibit 119

Brazil Cotton Mill Use

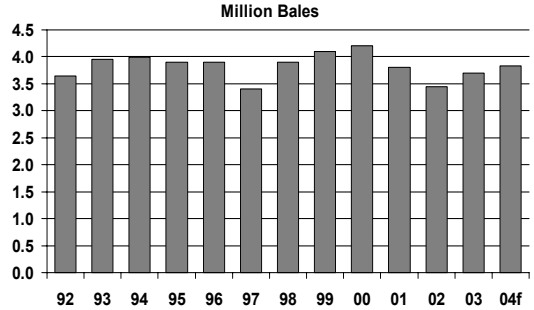

Exhibit 120

Mexico Cotton Mill Use

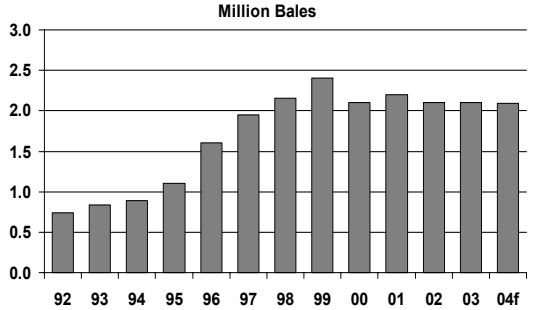

Exhibit 121

Indonesia Cotton Mill Use

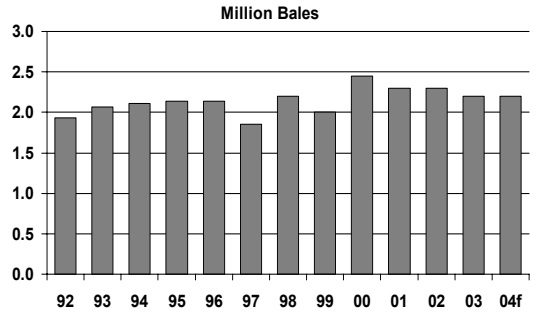

Exhibit 122

World Cotton Mill Use

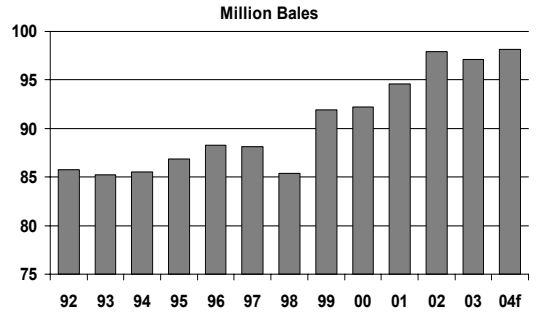

Exhibit 123

World Trade Share of Mill Use

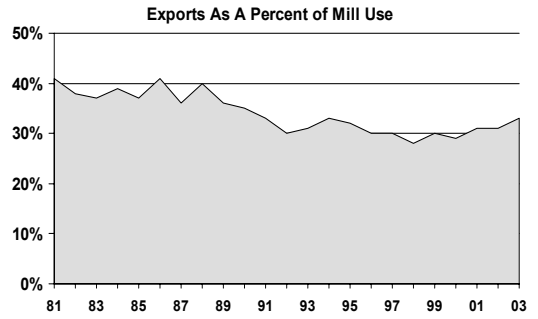

Exhibit 124

World Cotton Exports

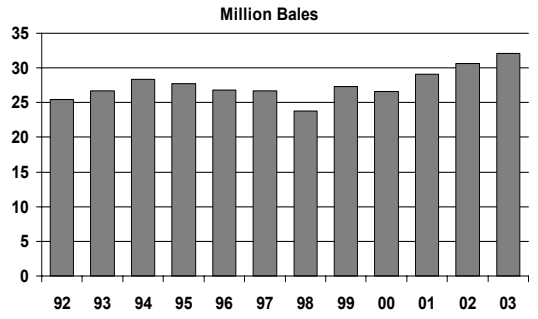

Exhibit 125

U.S. Cotton Exports

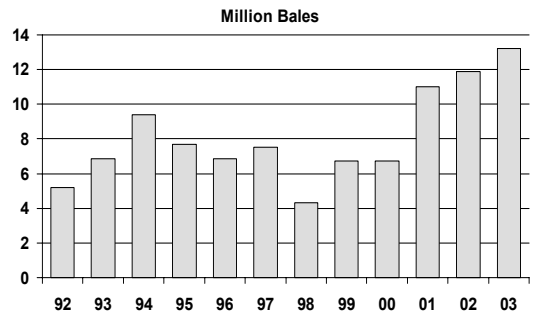

Exhibit 126

Top U.S. Raw Cotton Export Destinations

1990		2003YTD	
Country	(000 480-Lb. Bales)	Country	(000 480-Lb. Bales)
Japan	1,538	China	3,438
China	1,347	Mexico	1,590
South Korea	1,185	Turkey	752
Indonesia	552	Indonesia	591
Italy	424	Canada	437
Taiwan	354	South Korea	371

Exhibit 127

Uzbekistan Cotton Exports

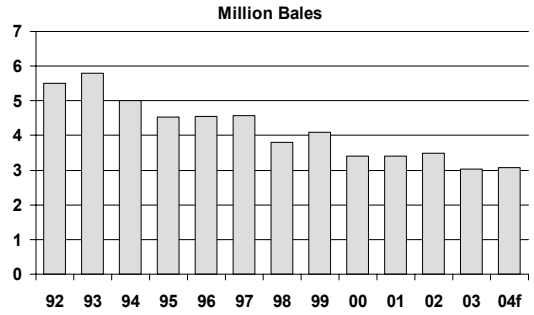

Exhibit 128

Chinese Net Trade

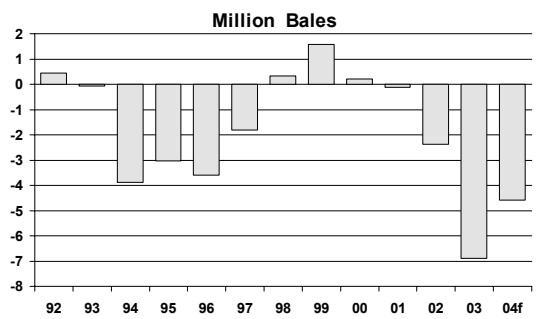

Exhibit 129

Australia Cotton Exports

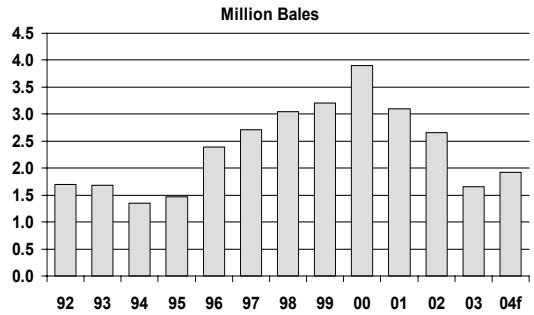

Exhibit 130

West Africa Cotton Exports

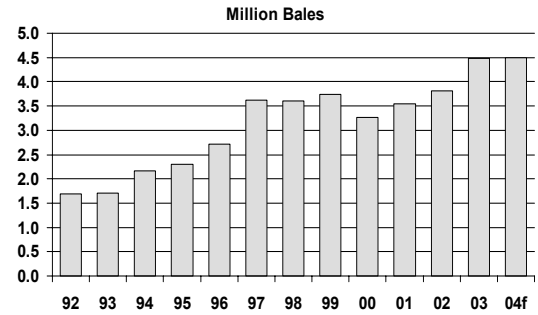

Exhibit 131

India Cotton Imports

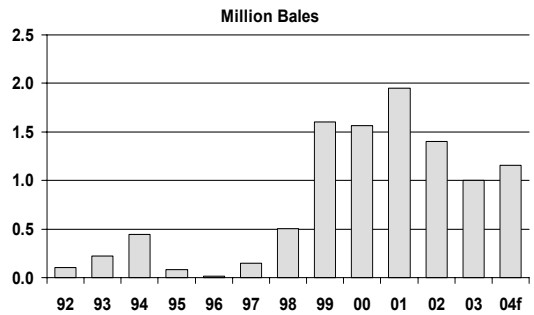

Exhibit 132

Pakistan Cotton Imports

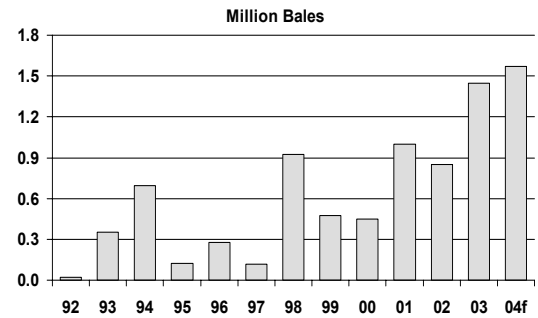

Exhibit 133

World Cotton Exports

Million Bales

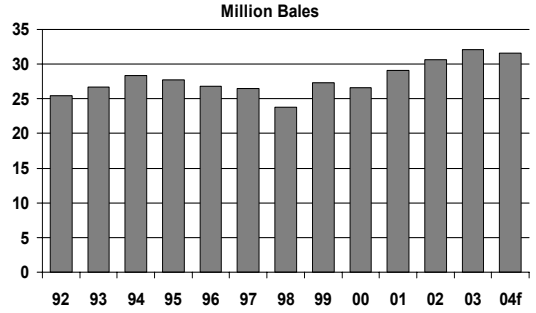

Exhibit 134

U.S. Cotton Exports

Million Bales

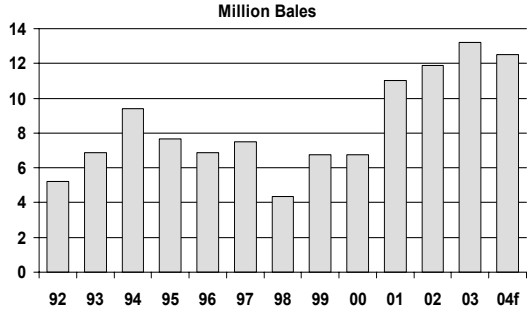

Exhibit 135

World Cotton Ending Stocks

Million Bales

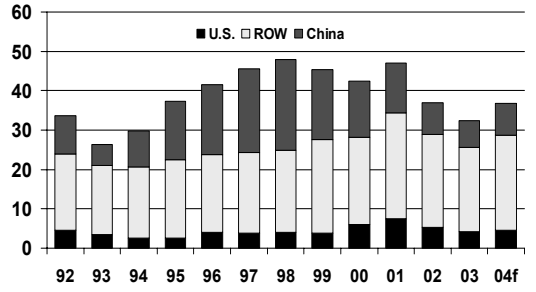

Exhibit 136

U.S. Supply and Demand

Million Bales

	2003/04	*2004/05*
Beginning Stocks	5.38	4.25
Production	18.22	18.49
Imports	0.05	0.04
Total Supply	23.66	22.78
Mill Use	6.20	5.70
Exports	13.20	12.51
Total Offtake	19.40	18.21
Ending Stocks	4.25	4.57
Stocks-to-Use Ratio	21.9%	25.1%

Exhibit 137

World Supply and Demand

Million Bales

	2003/04	*2004/05*
Beginning Stocks	36.97	32.36
Production	92.20	102.28
Imports	32.40	31.90
Mill Use	97.11	98.16
Exports	32.05	31.60
Ending Stocks	32.36	36.75
Stocks-to-Use Ratio	33.3%	37.4%