

## **Protecting the Cotton & Textile Supply Chain**

### **National Cotton Council Recommendations for COVID-19 Assistance**

The COVID-19 pandemic is creating unprecedented demand destruction for cotton apparel and textiles. Billions of dollars of orders have been cancelled as retail shopping outlets remain closed or operate at reduced capacity. The collapse in demand is being felt across the U.S. cotton industry from textile manufacturers to merchandisers to producers.

Manufacturing facilities in key markets for U.S. fibers and yarns have closed as countries implement a full lockdown. U.S. textile manufacturers have idled much of their production capacity, with the notable exception being the industry's efforts to redirect production lines to manufacture PPE and other health-related textiles. However, that production is costly to maintain when running at less than optimal capacity. The response of the textile manufacturers underscores the importance of supporting and rebuilding a domestic production base.

The economic devastation being felt across the industry is becoming more evident as new data are released.

- U.S. Census Bureau reports clothing sales for April fell by 89% relative to February. This comes after March fell by 49%. The cumulative decline since February represents \$31 billion in lost sales. Clothing sales exhibited the largest percentage decline of all major spending categories.
- The International Textile Manufacturers Federation's survey of 600 global textile companies shows a 41% drop in orders in late April due to cancellations and postponements.
- For April, U.S. textile mills consumed cotton at a seasonally-adjusted annual rate of just 266 thousand bales, down 92% from year-ago levels and the lowest monthly number ever recorded. The lost production value ranges between \$200 and \$300 million per month.
- Since February, USDA has lowered world consumption by a total of 19 million bales for the current and coming crop year. To put that in perspective, the reduction in world demand is essentially the size of total U.S. cotton production. The decline in consumption represents more than \$6 billion in just fiber value.
- Since January 1<sup>st</sup>, U.S. merchandisers have seen 1.3 million bales of export sales cancelled.
- Due to the slowdown in demand, cotton stocks on July 31 (i.e. the end of the marketing year) will approach 8 million bales, reaching the highest level since 2007/08.
- Between January and April, cotton prices fell by 30%, and the December futures price has traded as much 25 cents lower than year-ago levels.
- With the precipitous decline in cotton demand expected to persist into 2021, the economic damage to the U.S. cotton industry is currently estimated to range between **\$4.0 and \$4.3 billion**.

The industry's recommendations are presented as a package of collective solutions necessary for the segments of the industry to survive the current crisis and remain viable into the future.

1. **Support U.S. textile mills using upland and ELS cotton through fixed monthly payments for the period of February through December 2020.**
  - Payments to eligible users of upland and ELS cotton should be based on the average monthly pounds consumed for calendar 2017 through 2019 at a rate of \$0.06 per pound.
  - Payments under this emergency assistance should be applicable to expenses for employee salaries, paid sick or medical leave, insurance premiums, mortgage, rent or lease payments, interest, and utility payments, as well as capital expenses.
  - The Economic Adjustment Assistance for Textile Mills (EAATM) program and Pima Competitiveness Program continue to operate as currently structured under the 2018 Farm Bill.

- Any payments received under the EAATM program, the Pima Competitiveness Program or this emergency assistance will not affect eligibility to qualify or receive benefits under any current or future Federal or State COVID-19 stimulus programs. However, funds from multiple programs could not be used to cover the same payments or costs.
- Total support under this option is estimated at \$85 million.

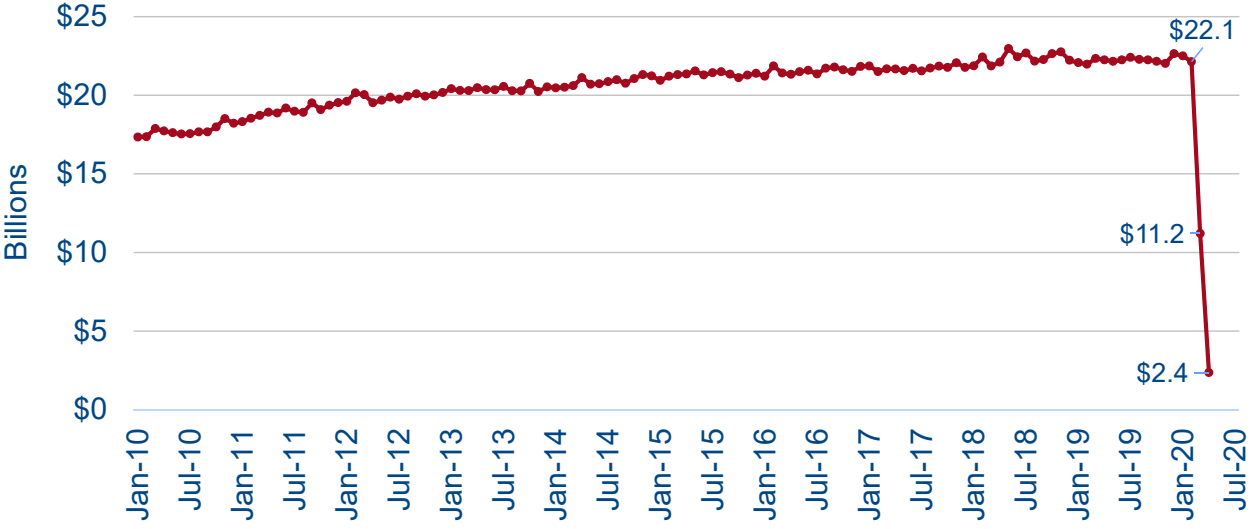
2. **Assist the cotton merchandising supply chain to offset the increased carrying charges, logistical costs, and market disruptions associated with delayed/cancelled sales and shipments and increased stocks.**

- Support can be provided to eligible merchandisers for the purpose of redeeming cotton on behalf of the producer from the marketing assistance loan program.
- The total value of assistance is based on a per-pound rate of \$0.06 and the quantity of bales of eligible inventory.
- Each bale of eligible cotton, as identified by the unique Permanent Bale Identification (PBI) number, reflects the volume of bales held in inventory as of February 1, 2020 and additional bales from the 2019 harvest acquired by an eligible merchandiser directly from the producer between February 1 and March 31. Merchandisers will be required to document eligible bales through electronic warehouse receipts or other appropriate records.
- Eligible recipients include U.S. merchandisers of upland and ELS cotton to domestic and international textile mills.
- Total support under this option is estimated at \$375 million.

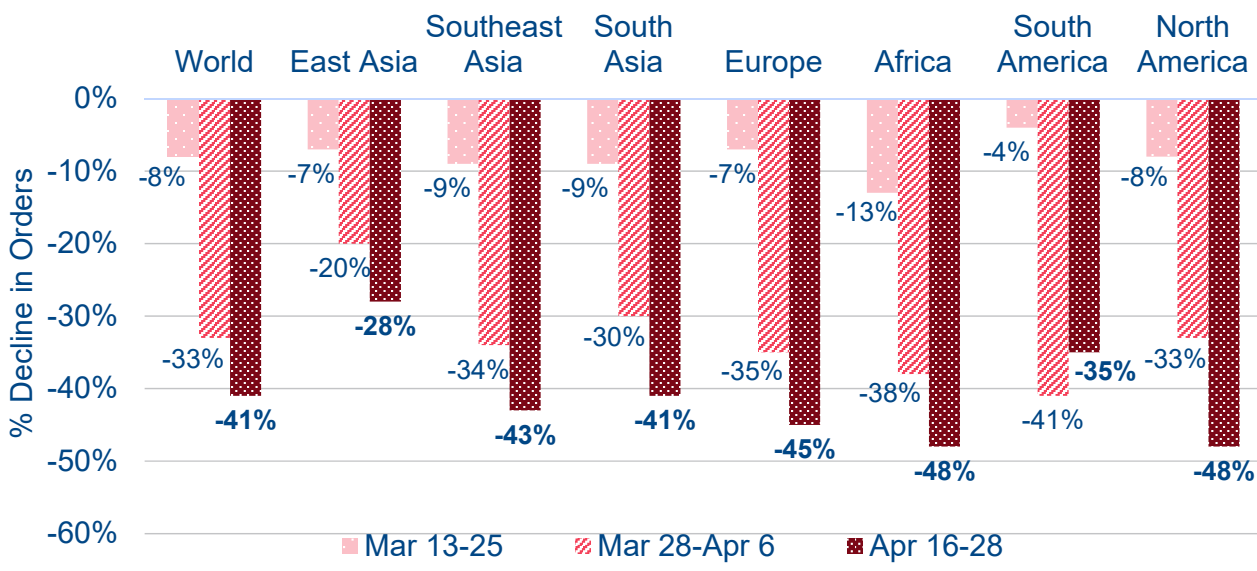
3. **Provide 2020 emergency assistance payments to cotton producers.**

- Based on current market conditions, the emergency assistance for upland and ELS cotton should be at a payment rate that recognizes the significant decline in market prices that has occurred due to COVID-19.
- Recent programs such as the Market Facilitation Payment (MFP) program provide proven structures that will deliver benefits to producers of cotton and other agricultural commodities in a timely manner.
- Payments should be made on the 2020 crop based on a recent historical average of planted and considered planted area.
- If subjected to payment limits, the limit should be at no less than the limits established under CFAP (\$250,000 per person/entity).

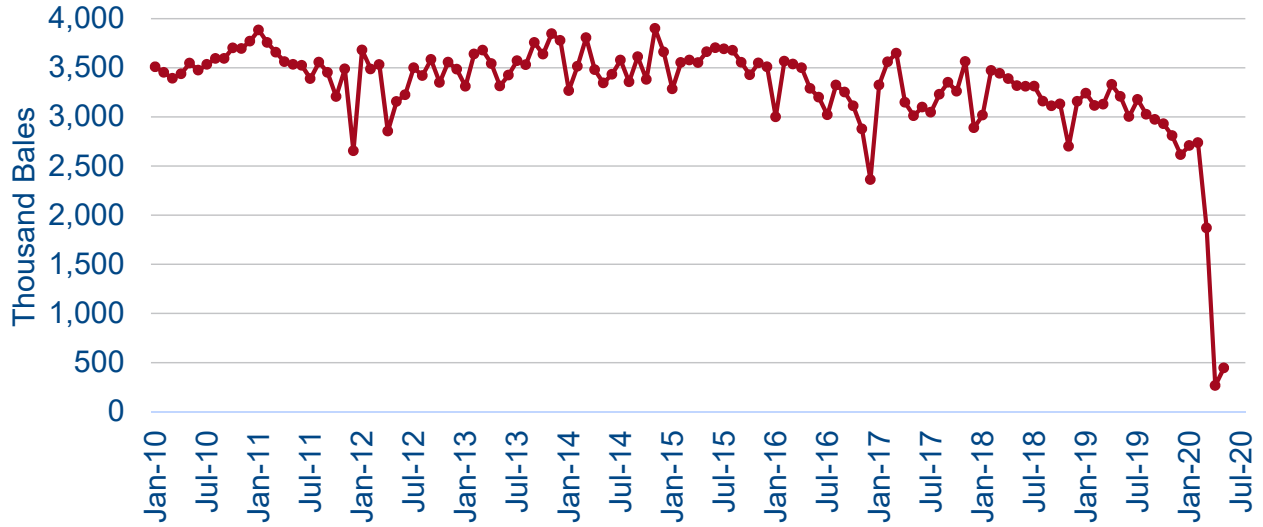
### Figure 1. Monthly Retail Clothing Sales (Census Bureau)



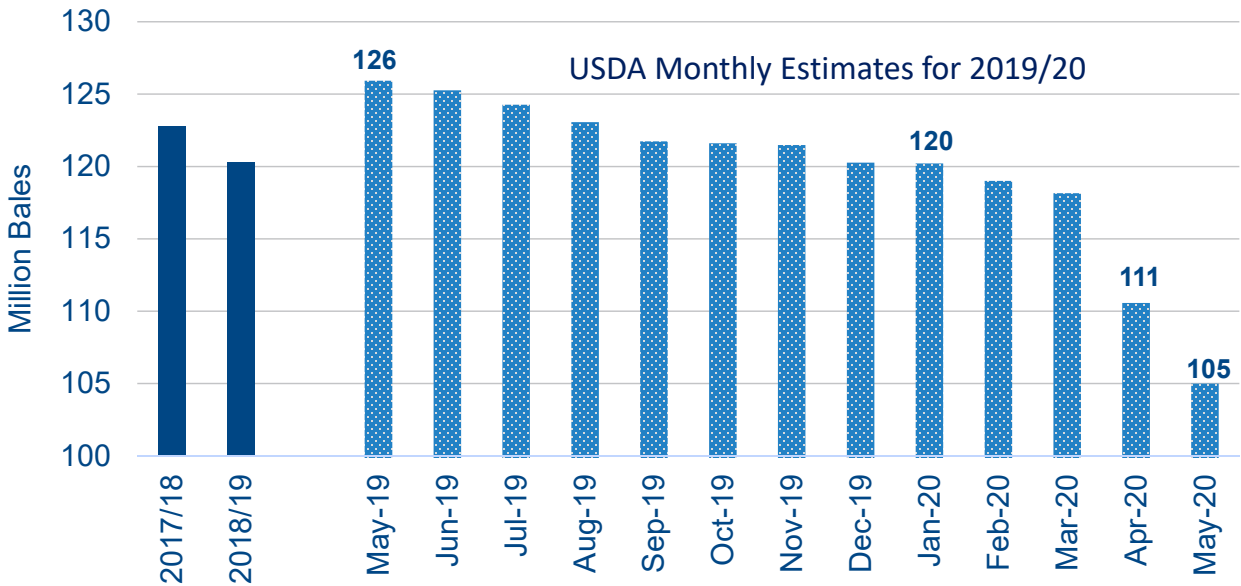
### Figure 2. ITMF Survey of 600 Textile Manufacturers



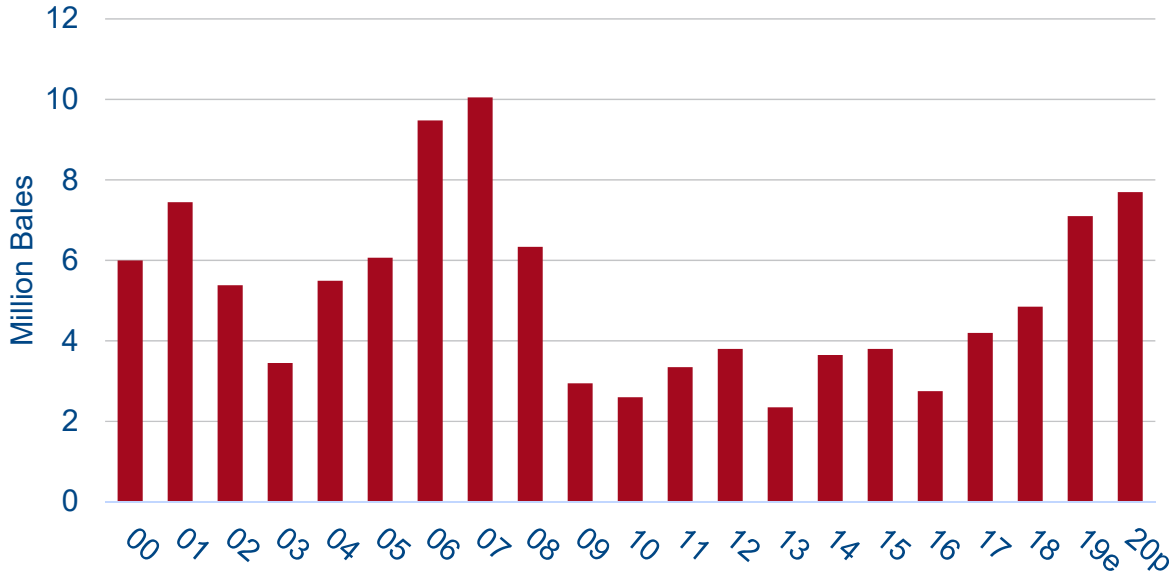
**Figure 3. U.S. Mill Use at All-time Low after 90% Drop**  
Based on Monthly Annualized Rates (NCC)



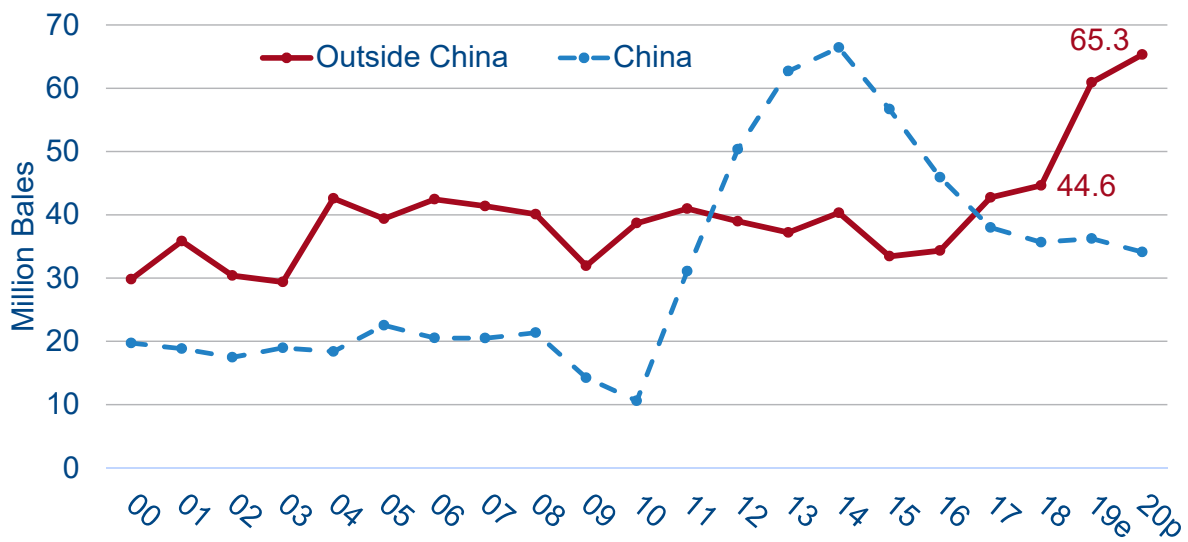
**Figure 4. World Mill Use Sharply Lower**  
(USDA)



**Figure 5. U.S. Cotton Ending Stocks Highest Since '07 (USDA)**



**Figure 6. Cotton Stocks Outside China at Record Levels (USDA)**



### Figure 7. December Cotton Futures

