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Report Name: Cotton Subsidy Policy Updated

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Report Highlights:

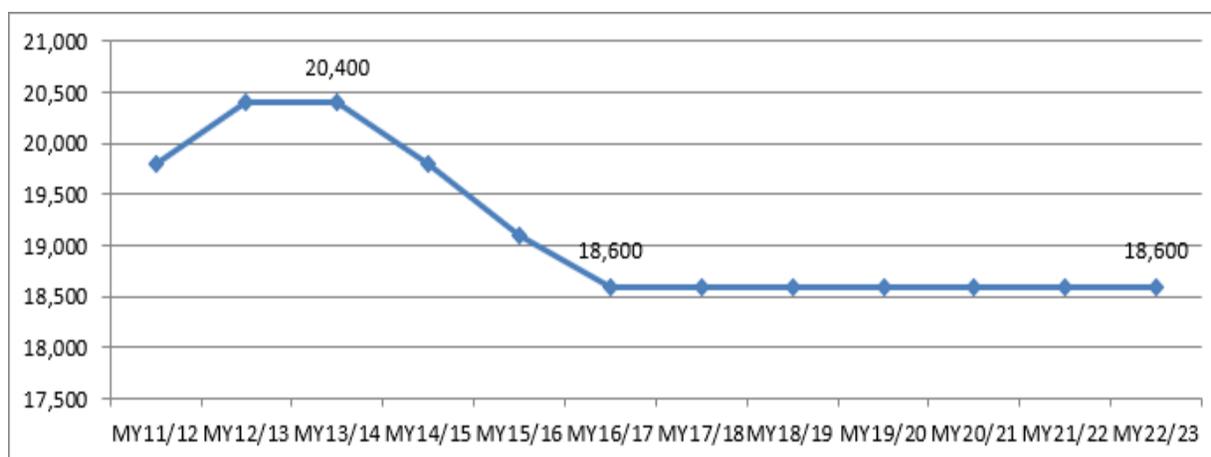
On April 14, 2023, the National Development Reform Commission (NDRC) published Announcement No. 369 on Implementation Measures for Improving the Target Price Policy for Cotton. The announcement maintained the target price for Xinjiang cotton at 18,600 yuan/metric ton (MT) for the period 2023 to 2025, and includes a provision allowing the State Council to make adjustments in the case of “major changes in the cotton market.” The announcement updated the volume of Xinjiang cotton entitled to subsidy, lowering the maximum eligible volume from 5.4 million metric tons (MMT) to 5.1 MMT, based on factors including Xinjiang’s land and water resources. This report contains background on PRC cotton subsidy policies and a preliminary analysis and unofficial translation of the NDRC announcement.

Evolution of PRC Cotton Subsidy Policy for Xinjiang Province

In marketing year (MY) 2014/15, after 3 years of significant state reserve purchases of domestic cotton, the PRC adopted a “Target Price-based Subsidy Program” for Xinjiang province with a trial period of 3 years from 2014 to 2016. Under this program, farmers receive a minimum price for seed cotton sales through a subsidy that pays a wedge payment between the minimum target price and the average market selling price for a specific period. The target price was initially set at 19,800 yuan/MT in 2014 before being reduced to 19,100 yuan/MT in 2015 and 18,600 yuan/MT in 2016. On March 16, 2017, the NDRC announced the “Enhancement Reform to the Target Price-based Subsidy Policy” for Xinjiang Cotton; a three-year policy from 2017 to 2019 with a fixed target price of 18,600 yuan/MT. The same announcement also set a yearly cap on the volume of Xinjiang cotton entitled to subsidy. The formulation of the cap volume is based on 85 percent of the average National Bureau of Statistics (NBS) data on national cotton production between 2012 to 2014. Based on NBS production data during these 3 years, the maximum volume eligible for subsidy is 5.4 MMT per year. The policy was later extended for an additional three years, from 2020 to 2022, with no changes to either the target price or the production cap.

On April 14, 2023, the NDRC issued Announcement No. 369, extending the policy for another 3 years from 2023 to 2025 with the target price unchanged at 18,600 yuan/MT. However, under the updated policy the fixed production cap entitled for subsidy was reduced to 5.1 MMT. This level is in line with the 2018-2022 five-year average NBS certified Xinjiang cotton production of 5.1 MMT but below the record production of 5.39 MMT of Xinjiang cotton set in MY22/23. The announcement also added new language emphasizing quality as a key component of the policy and a factor in determining subsidy allocation.

Cotton Support Prices (yuan/MT; MY11/12 to MY22/23)



Note: MY11/12 to MY13/14 is government reserve purchase price; MY14/15 to MY22/23 is “target price” for Xinjiang only; Source: NDRC

Subsidy Policy for Other Cotton Producing Provinces

In MY14/15, the NDRC established a separate cotton subsidy policy for nine other cotton-producing provinces. The subsidy amount provided to these provinces was set as equivalent to 60 percent of the subsidy rate distributed to Xinjiang in any given year, with a maximum fixed amount not higher than 2,000 yuan/MT. PRC and industry reports on actual subsidy amounts paid to farmers in these provinces are not readily available.

Impact on Cotton Production

Post's analysis of the NDRC's announcement suggests it will likely constrain China's cotton production in the coming years. The updated policy does not change the overall target price paid to Xinjiang farmers for seed cotton. By maintaining this price level for an additional three years, the policy reduces the overall benefit to farmers who will receive the same minimum price originally established in 2016, despite higher production costs for land, inputs, and labor.

Additionally, the reduced production cap of 5.1 MMT for Xinjiang cotton eligible for subsidy indicates the central government's intention to only encourage cotton planting on higher-quality lands that maximize yields and while conserving land and water resources. The policy also calls for Xinjiang province to "reasonably determine subsidy standards based on quality, and use "higher quality for higher subsidies" to guide high-quality cotton production." Unless global prices exceed the target price for Xinjiang cotton (as they did in MY 2021/22), these factors – a less attractive subsidy, reduced eligible volume cap, and linkage of subsidy rate to quality – the expansion of cotton area to marginal land or areas not covered by official statistics will decline.

It is unclear how Xinjiang subsidies will be distributed if NBS certified production exceeds 5.1 MMT. In recent years, the distribution of subsidies to farmers has generally been based on production since the previous eligibility cap of 5.47 MMT was never reached. Going forward, official NBS area will likely also play a determining role, along with any metrics established for quality. It also remains to be seen how the updated policy will affect cotton production in other provinces. Unlike previous NDRC announcements on cotton subsidies, the 2023 announcement does not mention subsidies for other cotton-producing provinces. The removal or reduction of such subsidies would likely result in further area decline in these provinces.

The full Announcement of the National Development and Reform Commission and the Ministry of Finance on Implementation Measures for Improving the Target Price Policy for Cotton is available on the China Cotton Association (CCA) website. An unofficial translation is provided below.

[中国棉花协会 \(china-cotton.org\)](https://www.china-cotton.org/) (<https://www.china-cotton.org//app/html/2023/04/14/94647.html>)

BEGIN UNOFFICIAL TRANSLATION

Announcement of the National Development and Reform Commission and the Ministry of Finance on Improving the Implementation Measures of the Cotton Target Price Policy
NDRC Announcement (2023) No.369

The People's Government of Xinjiang Uygur Autonomous Region, the Xinjiang Production and Construction Corps, the Ministry of Agriculture and Rural Affairs, the Ministry of Commerce, the State Administration for Market Regulation, the Bureau of Statistics, the China Banking and Insurance Regulatory Commission, and the All-China Supply and Marketing Cooperatives: Since the cotton target price policy was implemented in Xinjiang in 2014, it has played an important role in ensuring the income of cotton farmers, stabilizing cotton production, improving cotton quality, promoting the coordinated development of the industrial chain, and maintaining the smooth operation of the economy and society. With the approval of the State Council, continue to implement the cotton target price policy in Xinjiang and improve the implementation measures. The relevant matters are hereby notified as follows:

1. General idea

The current cotton target price policy framework remains unchanged, the support remains stable, and the basic income of cotton farmers and the enthusiasm for cotton planting are guaranteed. At the same time, improve policy implementation measures, stabilize cotton production, promote quality improvement, and ensure the smooth operation of relevant mechanisms.

2. Improve the main content of the implementation measures

(1) Stabilize the target price level. Continue to determine the target price level in accordance with the pricing principle of production cost plus reasonable income, and reasonable income is determined by comprehensively considering factors such as the development needs of the cotton industry, changes in the market situation, and financial affordability. From 2023 to 2025, the target price level of cotton in Xinjiang is 18,600 yuan/MT. In case of major changes in the cotton market situation, the target price can be adjusted in time after reporting to the State Council for approval.

(2) Fixed production entitled to subsidy. Taking into account of the cotton production situation in Xinjiang in recent years and the local water resources and arable land resources, Xinjiang cotton production entitled to subsidy is fixed at 5.1 MMT.

(3) Improve operational measures. The Xinjiang Uygur Autonomous Region and the Xinjiang Production and Construction Corps should focus on improving quality, further make good use of target price subsidy funds, implement quality oriented subsidies on a larger scale, reasonably determine subsidy standards based on quality, and use "higher-quality for higher subsidies" to guide high-quality cotton production; take effective measures to actively promote orderly phase out of cotton planting in regions not appropriate for cotton farming, promote the concentration of cotton planting in conserved cotton production areas; promote the construction of a unified cotton market in Xinjiang, fully implement mutual recognition of seed cotton sales and accelerate the integration of the PCC and non-PCC cotton markets and the convergence of subsidy standards; continue to implement the "professional warehousing supervision + in-

warehouse official classification" system, and arrange relevant measures to ensure the smooth operation of relevant mechanisms when the market price is higher than the target price; carry out insurance pilots according to local conditions.

3. Work requirements

All relevant parties should further improve their political standing, strengthen organizational leadership, implement work responsibilities, and solidly promote the implementation of various measures in an effective manner.

(1) Strengthen departmental coordination. All relevant departments and units must conscientiously follow the division of responsibilities, perform their duties, cooperate closely, discover new situations and new problems encountered in the process of policy implementation in a timely manner, study and adopt targeted measures to coordinate and solve them, and work together to do a good job in the implementation of relevant measures for the cotton target price policy.

(2) Carefully organized and implemented. The Xinjiang Uygur Autonomous Region and the Xinjiang Production and Construction Corps must earnestly assume the main responsibilities, and in accordance with the requirements of this notice, improve the implementation plan as soon as possible, refine and implement various operational measures, standardize the management and use of funds, ensure the implementation of relevant systems, and further increase the effectiveness of policy implementation of the target price of cotton. At the same time, it is necessary to take measures such as promoting the main planting varieties and strengthening field management to pay close attention to the improvement of cotton quality; strengthen the quality monitoring of cotton production and processing, establish a cotton quality traceability system, and realize the traceability of the whole process of production and sales; establish and improve the registration of information on the flow of cotton out of the warehouse system to prevent "circling cotton".

(3) Strengthen publicity and interpretation. All relevant parties should continue to carry out publicity and interpretation of the cotton target price policy, innovate publicity methods, increase publicity efforts, stabilize cotton farmers' production expectations, guide cotton farmers to enhance quality awareness, and further enhance understanding and support for cotton target price policies.

National Development and Reform Commission
Ministry of Finance

April 10, 2023

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Attachments:

No Attachments.