Trade Policy Developments Affecting Cotton

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USDA Ag Outlook Forum 2003
Issues to Cover

- US Cotton Industry MEGA Trend
- Brazilian Complaint
- China TRQ Administration
- Implementation of ATC
Cotton Industry Mega Trend
U.S. Cotton Use in Bales

Exports

Domestic Use
Figure 2. FAPRI U.S. Cotton Use Projections

- Exports
- Domestic Use
Upland cotton: Domestic mill use and exports

Million bales

Domestic mill use

Exports


USDA 2003 Baseline
Brazilian WTO Complaint
Brazilian WTO Complaint Timeline

- Request for Consultations September
- Final talks on Dec 4-5
- Formal request for dispute panel February 6
- Request on WTO’s Dispute Settlement Body Agenda (DSB) for February 19

- US can block request for panel, but Brazil can renew request at next DSB meeting on March 18 with automatic acceptance
What are Brazil’s Complaints?

- US support for cotton in 1999-2002 Exceeds Article 13 “Peace Clause” limits equal to 1992 marketing year levels

- Violation of Article 5 (c) of WTO’s Subsidies and Countervailing Measures (SCM) Agreement (Subsidies causing “Serious Prejudice” to their trade interest)

- Violation of Article 6.3 (b) of the SCM (Subsidies that cause displacement or are an impediment to exports of a like product from another WTO member)
“Serious Prejudice” Occurs If a Country’s Subsidy is Found to do one or More of the following:

- Impede or displace the export of a like product into the market of the subsidizing Member or Third Country Market

- Result in a significant price undercutting, price suppression, price depression or loss of sales

- Increases the market share of the subsidizing Member compared to previous 3 year average share and the increase follows a consistent trend over a period when subsidies have been granted
Peace Clause Violation?
CCC Net Outlays For Cotton

$ Million


1, Forcast
Source: USDA-ERS, 2003, Outlook Table 35
Impede Exports?
Brazilian Cotton Statistics

Production (MT) — Exports (MT) — USE Dom. Consumption (MT)
"Cause" Price Declines?
US Cotton Planted Acres and Price
"Cause" Price Declines?
Cotton: World Production, Consumption, Stocks/Use, and “A” Index

- Price and Ratio
- Production
- Consumption
- "A" Index
- Stks/Use

Source: Carl Anderson
Gain Market Share?

U.S. cotton exports
Mil. bales

Crop year

1994 96 98 2000 02

Share of world trade (right axis)

Bales

2002 estimated.
Source: USDA.
The Battle Lines are Drawn
For Cleaver Advocates

• For Brazil: Observations make conclusions obvious

• For the US: Correlation does not mean causation, many reasons for what we observe: Asian financial crisis, faltering Global economy, currency values, tripling of world production capacity for textile polyester, etc.
China TRQ Administration
China Cotton TRQ Under Accession Agreement

<table>
<thead>
<tr>
<th></th>
<th>Jan 1 '02</th>
<th>Jan 1 '03</th>
<th>Jan 1 '04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Million 480 lb Bales</td>
<td>3.75</td>
<td>3.93</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Legend:
- **Red**: STEs
- **Blue**: Non-STE
- **Teal**: Total
Problems with China TRQ Administration

China began by being late, no announcements until March in first year

China did not allocate exactly like it was expected

China’s administrative procedures are complex and cumbersome

China’s quality measures may be a “national treatment” problem
Why Do We Care? Potential for Large Net Imports

![Bar chart showing the number of million 480-lb bales from 1990 to 2001, with bars representing exports and imports.](chart.png)
Exhibit 96

China Cotton Production

Million Bales

85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02
## World Supply and Demand

**Million Bales**

<table>
<thead>
<tr>
<th></th>
<th>2002/03</th>
<th>2003/04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Stocks</td>
<td>46.63</td>
<td>37.92</td>
</tr>
<tr>
<td>Production</td>
<td>87.40</td>
<td>94.00</td>
</tr>
<tr>
<td>Imports</td>
<td>29.85</td>
<td>30.15</td>
</tr>
<tr>
<td><strong>Total Supply</strong></td>
<td>163.88</td>
<td>162.07</td>
</tr>
<tr>
<td>Mill Use</td>
<td>96.45</td>
<td>97.10</td>
</tr>
<tr>
<td>Exports</td>
<td>29.57</td>
<td>30.00</td>
</tr>
<tr>
<td><strong>Total Offtake</strong></td>
<td>126.02</td>
<td>127.10</td>
</tr>
<tr>
<td>Unaccounted</td>
<td>-0.06</td>
<td>-0.05</td>
</tr>
<tr>
<td>Ending Stocks</td>
<td>37.92</td>
<td>35.02</td>
</tr>
<tr>
<td><strong>Stocks-to-Use Ratio</strong></td>
<td>39.3%</td>
<td>36.1%</td>
</tr>
</tbody>
</table>
Exhibit 122

Chinese Net Trade

Million Bales

[Bar chart showing net trade of Chinese million bales from 2001 to 2002]
China’s Tariff Rate Quota Agreement 3.75 Million Bales

- State Owned: 33%
- Private: 6%
- For Re-Export: 61% (Type B)
Figure 4. China Cotton TRQ Administration

Provincial State Development and Planning Commission
Determination of qualification of application

- Type A Quota
  Domestic Processing
  STEs 33% & Non-STE\textw{s} ?%
  Conditionality

- Type B Quota – 60-70%
  Requires MOFTEC Processing License

Central SDPC determines quota allocations
And makes notifications

- AQSIQ Inspection Permit
  Good for 90 Days

- Signed Contract for Imports
ATC Implementation
### Four steps over 10 years

The schedule for freeing textiles and garments products from import quotas (and returning them to GATT rules), and how fast remaining quotas should expand. This example is based on the commonly-used 6% annual expansion rate of the old Multifibre Arrangement. The actual rates used under the MFA varied from product to product.

<table>
<thead>
<tr>
<th>Step</th>
<th>Percentage of products to be brought under GATT (including removal of any quotas)</th>
<th>How fast remaining quotas should open up, if 1994 rate was 6%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step 1</strong></td>
<td>16% (minimum, taking 1990 imports as base)</td>
<td>6.96% per year</td>
</tr>
<tr>
<td>1 Jan 1995 to 31 Dec 1997</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Step 2</strong></td>
<td>17%</td>
<td>8.7% per year</td>
</tr>
<tr>
<td>1 Jan 1998 to 31 Dec 2001</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Step 3</strong></td>
<td>18%</td>
<td>11.05% per year</td>
</tr>
<tr>
<td>1 Jan 2002 to 31 Dec 2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Step 4</strong></td>
<td>49% (maximum)</td>
<td>No quotas left</td>
</tr>
<tr>
<td>1 Jan 2005</td>
<td>&gt; Full integration into GATT (and final elimination of quotas).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; Agreement on Textiles and Clothing terminates</td>
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The actual formula for import growth under quotas is:
- by $0.16 \times \text{pre-1995 growth rate}$ in the first step;
- $0.25 \times \text{Step 1 growth rate}$ in the second step; and
- $0.27 \times \text{Step 2 growth rate}$ in the third step.
U.S. cotton textile trade
Mil. bales equivalents

2002 estimated.
Source: Economic Research Service, USDA.
Effective Tariff Rates for Textiles

- US < 9%
- Argentina 40% to 50%
- Brazil 40% to 70%
- China 20% to 36%
- India 50% to 70%
- Pakistan 40% to 60%
- Bangladesh 60% to 300%
Regional Fabric & T-Shirt Quotas
CBTPA / ATPDEA / AGOA

New Quotas
Old Quotas

Million SME

<table>
<thead>
<tr>
<th>Year</th>
<th>New Quotas</th>
<th>Old Quotas</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>2003</td>
<td>2,500</td>
<td>1,500</td>
</tr>
<tr>
<td>2004</td>
<td>3,000</td>
<td>2,000</td>
</tr>
<tr>
<td>2005</td>
<td>3,500</td>
<td>2,500</td>
</tr>
<tr>
<td>2006</td>
<td>4,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>
Figure 6. Imports of all MFA Fibers as of end 11/02

102 Countries Export Textiles to the U.S.
Office of Textile Administration