Written Submission of the National Cotton Council
Submitted to the United States International Trade Commission
Regarding Public Hearing Investigating
India: Effects of Tariff and Nontariff Measures on U.S. Agricultural Exports
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The National Cotton Council (NCC) is the central organization of the United States cotton industry. Our members include producers, ginners, cottonseed merchandisers and processors, merchants, cooperatives, warehousemen and textile manufacturers. Approximately 18,000 thousand cotton farmers produce a crop with an annual farm-gate value in excess of $5 billion.

While a majority of the industry is concentrated in 17 cotton-producing states, stretching from Virginia to California, the downstream manufacturers of cotton apparel and home furnishings are located in virtually every state. The industry and its suppliers, together with the cotton product manufacturers, account for approximately 200,000 jobs in the U.S. The total annual economic activity generated by cotton and its products in the U.S. is estimated to be in excess of $100 billion.

The NCC would like to thank the Commission for holding this hearing to review the effects on U.S. agriculture of India's policies and trade barriers. We remain very concerned with the ongoing and expanded subsidies that Indian farmers are receiving in violation of their commitments as members of the World Trade Organization. However, before discussing the U.S. cotton industry's concerns with India's policies, it is important to review the dramatic changes that have occurred in its cotton, cottonseed, and textile industries the past few years.

Trends in Production, Consumption and Trade

The most significant trend in India's cotton sector has been the tremendous increase in production. Focusing on the 10-year period from 1999 to 2008, India's production of cotton fiber doubled, rising from an 11.5 million bale average to as high as 24.6 million bales in 2007, an increase of over 100 percent. India's production growth began in 2003 and is clearly linked to its adoption of Bt cotton hybrids. With the introduction of that technology, India's yields have significantly increased, and India's cotton exports have increased as well. As the United States cotton industry began reducing production in recent years, India's production increases have stepped in to fill the gap, contributing to low world prices.

India's current production ranks them second only to China, and India ranks first in the world in terms of area devoted to cotton production. A recent report by the International Service for the Acquisition of Agri-Biotech Applications indicates that 82% of cotton area in India is devoted to Bt varieties. While this simple adoption of new varieties has spurred a major yield increase, the ability of India to continue this yield growth will be dependent on its ability to implement other changes in production technologies for improved management of irrigation, nutrients, pests and cotton disease.

India's growth in cotton production has been followed by significant increases in cotton mill use. India now ranks second only to China in terms of cotton use by textile mills. In 2007, India's textile industry processed 18.3 million bales of cotton, up from 13.5 million bales in 1999. As with most major cotton-consuming countries, India's mill consumption fell in 2008 to an estimated 17.0 million bales. Due to the global slowdown, industry sources report that most of the mills are scaling back consumption due to weak demand for textile products, both globally and domestically.

The growth in India's cotton production has allowed them to become a major exporter. In 2007, their exports of cotton fiber reached 7 million bales, second only to the United States. This is a significant change from 1999 and 2001 when India's imports averaged 1.8 million bales while exports averaged 75 thousand bales.

As a result of India's trade shift, U.S. cotton exports to India have declined, and U.S. cotton fiber exports have faced much stiffer competition in many important markets. For the 1999 through 2001 marketing years, U.S. exports to India averaged 460 thousand bales per year with a peak of 950 thousand bales in 2001. In recent years, annual U.S. exports to India averaged approximately 150 thousand bales. India's cotton fiber exports have battled the U.S. for market share in China, where India's products have often been priced 3-5 cents per pound under comparable U.S. growths.

Given the co-product nature of cottonseed and lint, India's cottonseed production has also doubled over the last decade. Between 70 and 75% of India's cottonseed production is crushed to produce meal and oil. There are no meaningful levels of trade for either the whole seed or other cottonseed products.

India's growing textile industry has allowed it to increase its position as a net export of textile and apparel products. In 2003, India exported $11.5 billion in textile and apparel products for all fibers and imported $1.4 billion in textile products, giving a net trade surplus of $10.1 billion. By 2007, textile exports had grown to $20.4 billion, while imports had risen to $2.3 billion, giving a positive net export position of $18.1 billion. Through October 2008, trade continued to expand with India's exports up by 12.3% relative to the first 10 months of 2007. Likewise, textile imports through October 2008 were 16.7% above year-earlier trade levels.

The United States is a primary destination for about one-fourth of all of India's textile products. In 2007, 25%, or $5.1 billion of the $20.4 billion total, of India's textile exports were bound for the United States. Of that $5.1 billion, $4.0 billion were classified as cotton textile and apparel products. Conversely, U.S. cotton textile exports to India are minimal.

Cotton's Minimum Support Price

In the face of increasing production and relatively weak world prices, the Indian government, in September 2008, nevertheless announced increases in the Minimum Support Prices (MSP) made available to Indian cotton farmers. The increases range from 26 to 48%, depending on the variety. Based on current exchange rates, the MSP equates to approximately $0.72 per pound for the most commonly-produced qualities of cotton. With the recent weakness in international cotton prices, similar qualities are being offered to importing countries at prices ranging between $0.55 and $0.58 per pound. As a result, the Indian government has authorized the purchase of up to 11.7 million 480 lb. bale equivalents from the 2008 production. Current reports indicate that cotton is being sold from government stocks to Indian mills at discounted prices. A recent USDA attaché[1] report indicates that a bulk discount scheme is being offered with price discounts of $23 to $29 per ton. While the discount scheme is available to local mills and local traders, market sources expect that the local trade may also be using the bulk discount scheme for exports. A decision by the Indian government to be more aggressive with stock releases into export channels could boost their presence in the world market and would likely depress international cotton prices even further.

With the high MSP established by the Indian government still in place, cotton area in 2009 is expected to remain close to the 2008 level while other countries, including the United States, are expected to reduce area in response to lower cotton market prices. The sustained production level in India will help maintain India's resurgence in the world cotton market, continue its importance as an exporter of cotton lint and contribute to a suppression of world cotton prices.

Cotton's Export Subsidy

In addition to the higher MSP, the Indian government has introduced new export subsidies for cotton fiber, increasing its market-distorting activities in the world cotton market. According to the same March 2009 attaché report, benefits under this new subsidy scheme "have been extended on a retrospective basis for cotton exports from April 1, 2008 to June 30, 2009, wherein exporters are entitled to a five percent duty credit scrip on the free-on-board (FOB) value, which can be traded and used for availing a duty relief for imports."

It appears that under this new program, exporters of cotton fiber are provided "scrip" equal to 5 percent of the value of their exported product -- an export subsidy of 5 percent, in other words. The exporters can apply this scrip to pay import duties on other products they import or they can sell the scrip in the secondary market to entities that are purchasing imports. An export of cotton valued at 55 cents per pound (which is well under the existing internal support price for cotton in India) would apparently receive an additional export subsidy benefit of about 2.75 cents per pound.

The export subsidy program will support India's internal prices while artificially increasing its competitiveness in world markets. It was already the case that Indian cotton was often offered at a 3-5 cent discount to similar growths from other countries. The addition of an export subsidy allows India to increase this discount relative to their competitors.

While India has been among those who have joined the chorus against U.S. cotton programs, it has chosen to increase its own internal subsidy levels and expand export subsidies to cotton, even though it apparently has never filed any export subsidy schedules as part of the Uruguay Round commitments within the World Trade organization (WTO). Therefore, they have no ability to apply cotton export subsidies without being in violation of their commitments.

Amid the continued attacks by other cotton-producing countries on the U.S. cotton farmer, there has been little appreciation or attention given to the changes in U.S. production and policies. In response to the decision in the WTO case brought by Brazil, we did change our cotton programs, even completely eliminating one provision. Since that time, U.S. production has significantly

[1] USDA Foreign Agricultural Service GAIN Report #IN9028, "India Cotton and Products Quarterly Update – Mar 2009."

declined and our exports have also declined. But as U.S. cotton production has withdrawn, others, like India have stepped into the void, with increased production, exports and even increased subsidy programs.

Cotton and Textile Tariffs

India does not administer any quota restrictions on cotton imports but does impose tariffs. Based on their commitments in the WTO, India can apply a maximum import duty of 100% (bound rate) on cotton. India's applied rate is currently set at 10%. However, in addition to the base rate, cotton imports are assessed other duties and fees that bring the effective tariff to approximately 15%[2].

India maintains import tariffs on most textile products. In contrast to cotton fiber, the bound and applied rates are separated by only a few percentage points. For example, most cotton yarns have a bound rate of 20% and a base applied rate of 10 to 12.5%. However, in addition to the base applied rate, imports of yarn and fabric face local excise taxes and other import fees that can add another 10% for a total applied duty between 20 and 23%.

Textile Subsidy Programs

Another factor limiting India's imports of textile products has been the level of subsidization to their own textile industry. Like many textile industries around the world, India's is heavily supported by government industrial policy. The Textile Upgradation Funds Scheme (TUFS) provides interest rate and capital investment subsidies to a range of textile operations. Since the program's inception in 1999, more than $10 billion has been disbursed for investments in a range of projects including spinning and knitting facilities. In addition to TUFS, India continues to maintain several duty drawback programs, tax holidays for export products, and preferential export financing.

With the a highly competitive and subsidized textile industry, the U.S. textile industry remains concerned about preferences extended under the Generalized System of Preferences (GSP) program. Currently, benefits to India are limited to certain hand-loomed and other specialized craft products.

Other Trade Issues

In general, U.S. exporters selling cotton to Indian textile mills report no major or systemic problems with moving cotton into India. While import permits are relatively easy to obtain, there are reports that Letters of Credit are more lengthy and complicated than in other markets. In addition, problems with contract defaults have been minimal.

The lack of transparency in the operation and scope of India's subsidy programs is a major impediment to trade. Despite India's membership in the WTO, it has repeatedly failed to notify its support levels to the WTO. The United States should continue to press India to make these submissions. Currently, India's most recent notifications were made in 2002.

In closing, I would like to thank the Commission for holding this hearing and for the opportunity to testify. I will be happy to respond to any questions that you may have.

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[2] USDA Foreign Agricultural Service GAIN Report #IN8049, "India Cotton and Products Annual 2008."