

## ***Why Cotton Matters: the importance of multilateral trade negotiations***

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I wish, first and foremost, to acknowledge the important role played by the ICAC, the leading international forum of the cotton industry. In particular, I would like to thank ICAC Secretariat for taking the initiative in collaboration with World Bank for organizing the Conference on the subject of Cotton and Global Trade Negotiations. This Conference should provide solid foundation for a successful outcome to the negotiations on agriculture, which are being conducted under the auspices of the WTO.

2. Cotton is one of the important cash crops and the most important raw material for the textile industry. Cotton and cotton textile industries are engines of economic growth in both developed and developing countries. A revolution on cotton production is occurring in many developing countries. Many Governments recognize that this can increase their export earning and can contribute to socio-economic development of rural areas.

3. The cotton industry is, however, passing through one of the most difficult times since the invention of the cotton gin. The average price realization in cotton this season has been the lowest since 1972-73. One of the reasons attributed to the decline in cotton prices is the sanction of subsidies for cotton cultivation/export of cotton. This has caused irreparable damage to economies of developing countries, where a significant portion

of foreign exchange earnings is from export of cotton lint while other associated activities of growing, handling and ginning cotton are a source of income to more than 1 billion people every year.

4. In India too, we are facing the impact of global fall in prices of lint cotton forming a significant part of the Indian economy. We in India have the largest area under cotton cultivation in the world covering about 9 million hectares of cultivated land, which constitute about 27% of the total area under cotton in the world. In the current year, the latest estimates indicate cotton production of 16 million bales (each bale of 170 kg). The Indian farms, like those in many developing countries are very small in size, thus making cotton cultivation an important means of sustenance for millions of farmers engaged in cotton cultivation.

5. The Textile industry, which is significantly dependent on cotton, is the second largest provider of employment after agriculture, providing direct employment to 35 million persons including a substantial segment of socially disadvantaged population of Indian society. It constitutes about 14% of industrial production and about 5% of GDP. The textile industry contributes 1/3<sup>rd</sup> of total export. It is the largest net foreign exchange earner. Growth and development of this industry has a significant bearing on the overall development of the Indian economy.

6. Although Indian textile industry uses a wide range of fibers including natural fibers like cotton, jute, silk etc. as well as man-made fibers like polyester, nylon, acrylic and multi-blends of such fibres and filament yarn, it continues to be predominantly cotton based. In contrast to the world

consumption pattern of textile fibre, which is tilted towards non-cotton fibers in the ratio of 3:4, the consumption ratio in India is 2:1 in favour of cotton. Thus cotton plays an important role in Indian economy and is of vital importance to the nation being provider of employment to millions of farmers, raw material supplier for the huge domestic textile industry and a major contributor to country's foreign exchange earnings.

7. In view of the importance of cotton in the Indian economy, Government of India has launched a Technology Mission on Cotton, which aims to address the issues of productivity, improving quality and reducing the cost of production. Research and development on cotton is being strengthened for genetic improvement of cottonseeds, resource management for quality cotton production and post harvest technology. Dissemination of technology to farmers through field demonstration, and farmers' training has been initiated to increase the production and productivity. Existing marketing yards have been improved. Ginning and pressing factories, which use the technology of colonial times, are being provided assistance for modernization and acquisition of latest machinery and equipments.

8. It is very well studied and documented that Government measures like direct or indirect subsidies in any form including income support programme have affected the world cotton production including ginning and trade significantly. With the integration of the economies of the world, Government policies of providing large assistance to cotton producers in countries like China, Egypt, Greece, Mexico, Spain, Turkey and United States are adversely affecting the economies of other countries particularly developing countries. Such assistance distorts the trade in cotton and in turn

the cotton industry. Protecting the domestic industries has adverse affect on international markets, reduce the world demand for cotton, and reduce income of cotton producers in developing countries which are in no position to provide similar subsidies. This may also bring down the standards of living of consumers in these countries. Hence the need of the hour is elimination of subsidies and rationalization of production, which would result in increase in world cotton consumption and prices of cotton, and thereby increase the income of cotton growers in the developing countries, who are practising subsistence farming that barely provides income enough for sustenance of their families. Such measures would result in more efficient global trends in cotton production as well as trading environment for fibers, yarns, etc.

9. A number of member countries, most of them developed, are taking measures that insulate their producers from variations in the market prices and lead to increase in cotton production in these countries, in spite of the depressed prices in the world market. This contributes to current imbalance between world cotton supply and demand. The ICAC Secretariat has identified eight countries accounting for 59% of cotton production that provide direct income or price support subsidies to the producers in those countries and that the season average of the COTLOOK-A index would have been 70% higher, had these government measures to subsidise the production been not in place. In place of a season average price of 44 cents per pound of lint, world market prices would have been averaging 75 cents this season if government subsidies of direct income/price support were absent.

10. Low cotton prices are expected to reduce the supply of cotton in the developing countries where governments have no resources to provide the

kind of income support that the developed countries have been providing. Government measures to protect some producers and encourage continued production of cotton in these countries is prolonging the period of below-average international prices. This will only result in reduction of acreage under cotton in developing countries and may force millions of farmers to give up cultivation of cotton altogether and plunge into abject poverty.

11. You would recall that in the last plenary meeting, the concerns of developing countries were recorded that **“Since 1997 volume of subsidies has increased and with these subsidies cost high prices paid by consumers and the loss of income by producers in developing countries”**. It was further emphasised that **“...attempts of developed countries to push developing countries out of world market are totally unacceptable”**. Accordingly ICAC had resolved :

- (i) To adopt policies to reduce and eventually eliminate the negative effects on trade caused by direct government assistance to cotton production and trade implemented by some countries.
- (ii) To encourage the WTO to urgently consider trade distortions on the world market caused by measures taken by some governments.

12. India has opened up its markets for import and export of cotton. The textile industry is totally free to source its cotton requirements from any part of the world. Consequentially, there has been significant increase in cotton imports, even though India is one of the largest producers of cotton. The prices in India are governed by the demand and supply of cotton in the world market. The cotton prices in India have been generally lower than the international prices, but in the current year taking advantage of the steep

decline in the price in the world market, Indian textile industry has resorted to large scale import, causing serious financial strain on Indian farmers. I foresee some decline in the area under cultivation of cotton in the forthcoming season. However, a large number of farmers may not be able to shift to cultivation of new crops due to historical compulsions and may continue to suffer the low prices available to them for their produce, unless the major cotton trading countries like US, China etc. agree to reduce various kinds of subsidies including export subsidy given to their farmers and traders.

13. India used to produce exportable surplus of cotton, but on account of very low international prices of cotton vis-à-vis domestic prices, Indian traders are finding it extremely difficult to export cotton. India was an exporter of cotton but has now become a net importer. Its domestic stocks have been increasing during the last 4 to 5 years. The area under cultivation of cotton in India has steadily declined from 9.17 million hectare in 1996-97 to about 8.6 million hectare in 2000-01. The production which was 17.8 million bales in 1996 had declined to 14 million bales in 2000-01. The loss to the economy due to low production in the year 2000-01 is of the order of US\$ 1 billion. In addition there was a loss due to low prices estimated at US\$ 1.3 billion. Due to low production, transport and ginning industry suffered a loss of US\$ 200 million in the last 5 years.

14. More serious is the loss of employment, including those employed for picking and even farmers' own family, due to lower cotton production, which is difficult to quantify. There has been substantial increase in stocks due to large scale import and negligible export that has resulted in higher interest costs on bank borrowings, expenditure on insurance etc. Such losses cannot

be estimated. The total injury to the national economy that can be quantified during the last 5 years shows a gradual increase from US\$ 651 million in 1997-98 to US\$ 1788 million in 2001-02.

15. It is, therefore, very important for all of us to appreciate the fact that unless we scale down production subsidy and export subsidy currently provided to cotton growers and traders, there will be tremendous injuries to the national economies of the developing nations. Farmers of the developing countries may lose interest in cotton cultivation. This will have a cascading effect on the textile industry which provides employment to a billion across the world. This may push people into poverty and even some un-lawful and undesirable activities, which may not be suitable for the global order.

16. We sincerely hope that during the negotiations on agriculture, pragmatism would prevail to establish fair and market-oriented agricultural trading system through the establishment of effective GATT rules and disciplines. One such discipline comprised the domestic support reduction commitments, which were undertaken with an aim to correct price distortions and allow market forces to determine the level and composition of cotton production. All support measures that are considered trade distorting would be subject to discipline, and only those with “no or at most minimal trade distorting effects” would be allowed to be maintained without any ceiling or reduction commitments.

17. Agriculture is a way of life in most developing agrarian economies. Rapid growth of agriculture is essential for ensuring household food security and alleviation of poverty. The land holdings are very small, un-irrigated and

dependent on the vagaries of nature. The agricultural practices are labour intensive and with low intensity of farm inputs. With these characteristics of agriculture in developing economies, with very meagre domestic support and the virtual absence of export subsidies, the resource-rich countries need to appreciate and agree that all direct payments along with de-coupled income support and governmental financial participation in income insurance and income safety net programme as well as direct payment under production limiting programme should be included in the non product specific Aggregate Measurement of Support (AMS) and should be subjected to reduction commitment. Product specific support provided to low income resource poor farmers should be excluded from AMS.

18. Without going into the specifics of our proposals in WTO, I would like to conclude with the sincere belief that all members of WTO participating in the negotiations on agriculture would appreciate that the distortions in the market are caused not just by limiting the market access and export subsidies but by the production subsidies, which needs to be capped. They may perhaps appreciate that the farmers of the resource poor countries would not like to be pushed out of the cotton trade in which they are participating since time immemorial.



## Summary of “Injury to National Economies due to Low Cotton Prices”

(in million US dollar)

	<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>
Loss due to production	619	337	523	973	483
Loss due to Low price	-	406	939	483	1272
Loss to industry	21	12	21	34	21
Loss to transport industry	11	6	11	20	12
<b>Total</b>	<b>651</b>	<b>761</b>	<b>1494</b>	<b>1510</b>	<b>1788</b>