

Trade Issues Affecting the US Cotton Industry

Congressional Staff Briefing
January 2015



Producers Cooperatives
Ginners Cottonseed Merchants
Warehouses Manufacturers

The background of the slide features a repeating pattern of the National Cotton Council of America logo. Each logo consists of a stylized cotton plant icon to the left of the text 'National Cotton Council of America'. The logos are arranged in a grid and are semi-transparent, allowing the central text to stand out.

Overview of US Cotton Market & Importance of Trade

US Cotton Industry

- Grown in 17 states on 10-13 million acres
- Farm-gate value of more than \$5 billion
- Direct business revenue of \$27 billion through production, distribution and first use
- Accounts for almost 200 thousand jobs through 7 segments

US Balance Sheet

Million Bales

	11/12	12/13	13/14	14/15	Change
Production	15.6	17.3	12.9	15.9	3.0
Mill Use	3.3	3.5	3.6	3.8	0.2
Exports	11.7	13.0	10.5	10.0	-0.5
Stocks	3.4	3.8	2.5	4.6	2.1
Stocks/Use	22%	23%	17%	33%	

Source: USDA, Dec '14

US Export Customers

Thousand Bales

	10/11	11/12	12/13	13/14
Total	14,376	11,714	13,026	10,530
China	4,863	6,279	5,615	2,642
Turkey	2,078	1,127	1,931	2,084
Vietnam	717	521	894	1,025
Mexico	1,245	956	979	1,009
Indonesia	889	329	533	698

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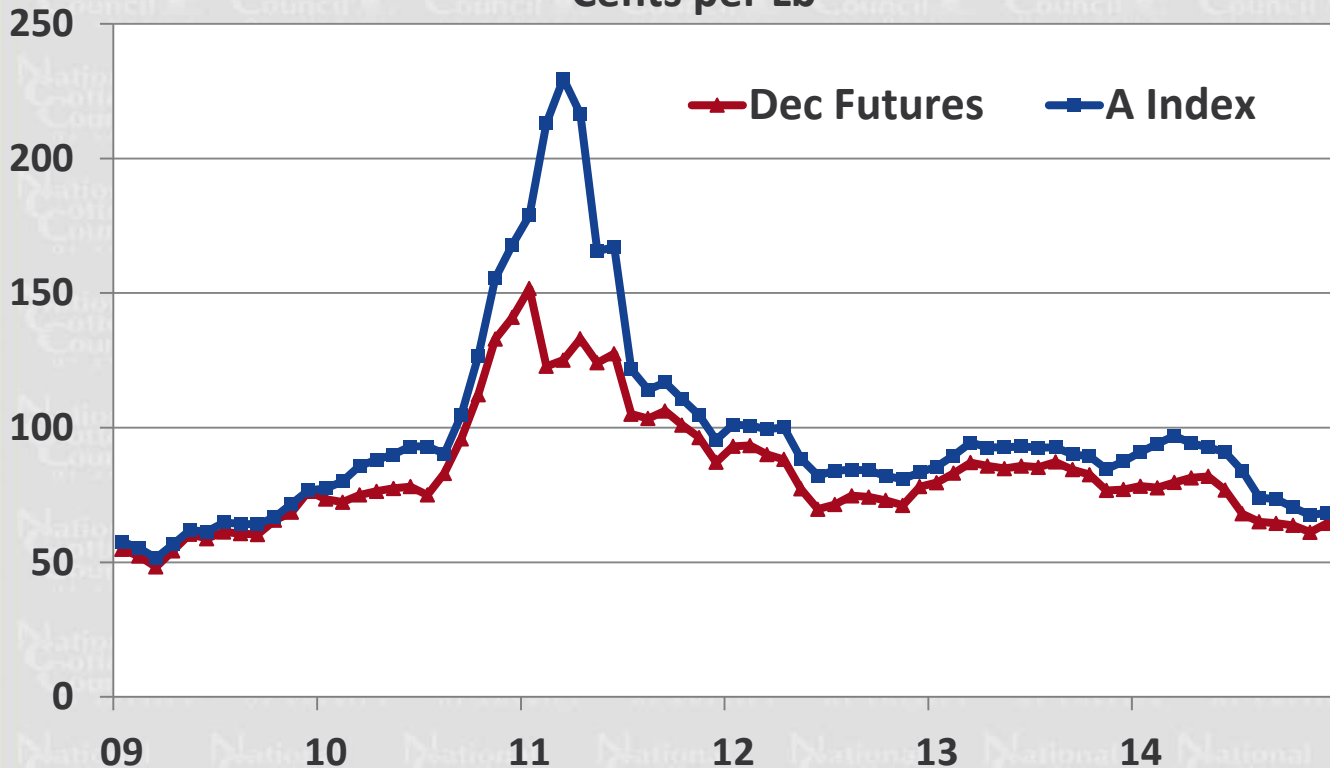
China's Role in the World Market and Cotton Policy

China in the World Market

- Historically, world's largest producer, accounting for 27% of world crop
- Largest cotton spinner with 1/3 of world mill use
- Largest importer of cotton, accounting for 30-35% of world trade
- Holds more than one-half the world's stocks of cotton

Cotton Prices

Cents per Lb



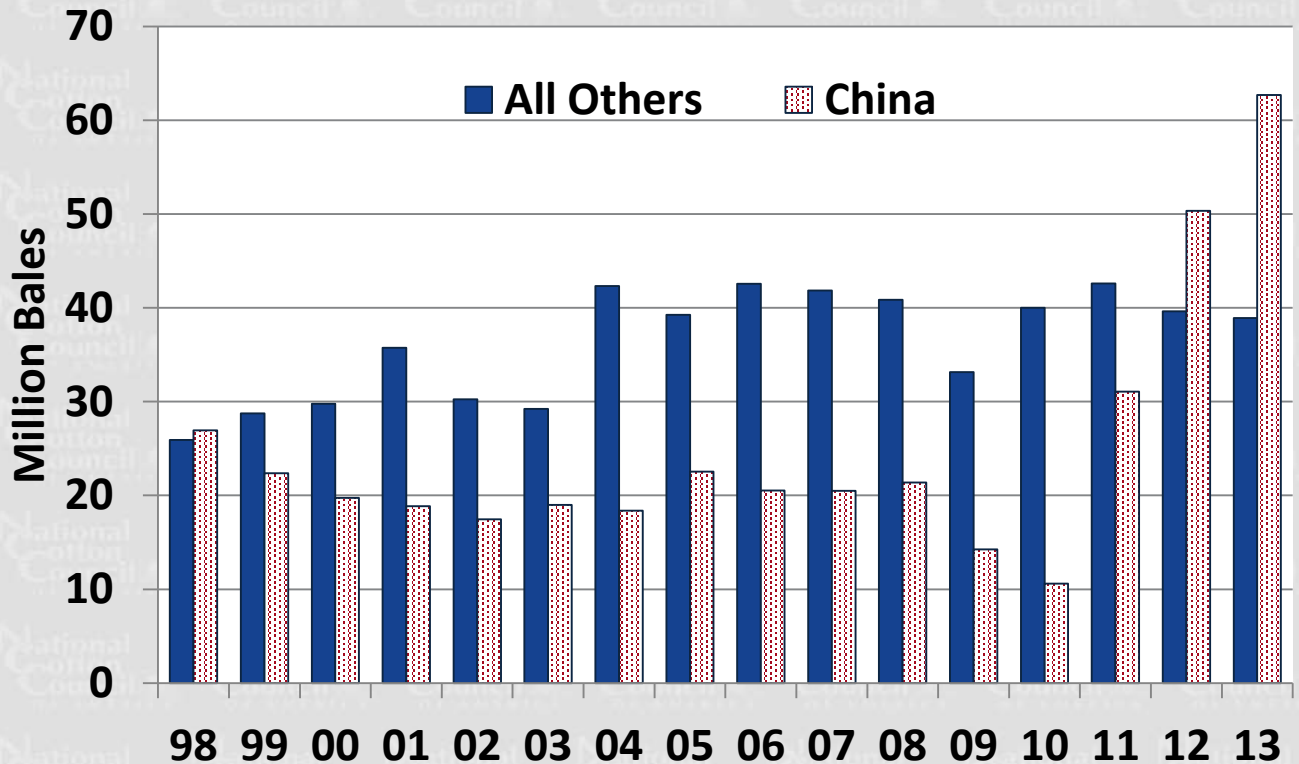
China's Cotton Policy in 2011

- 2011 – Announces intent to support farmers by purchasing domestic crop into reserves at 19,800 yuan/ton (\$1.40 at the time)
- Purchased 18 million bales of '11 crop
- Made no sales from reserves
- Imported 24 million bales in order to meet demand of textile industry

China's Policy in 2012 & '13

- Increased support price to 20,400 yuan/ton (\$1.45-1.50 at the time)
- Purchased 62 million bales over the 2 years and sold roughly 30 million bales
- Imported 35 million bales in order to meet demand of textile industry
- On Aug 1, '14, government owned roughly 50 million bales of cotton

World Cotton Stocks

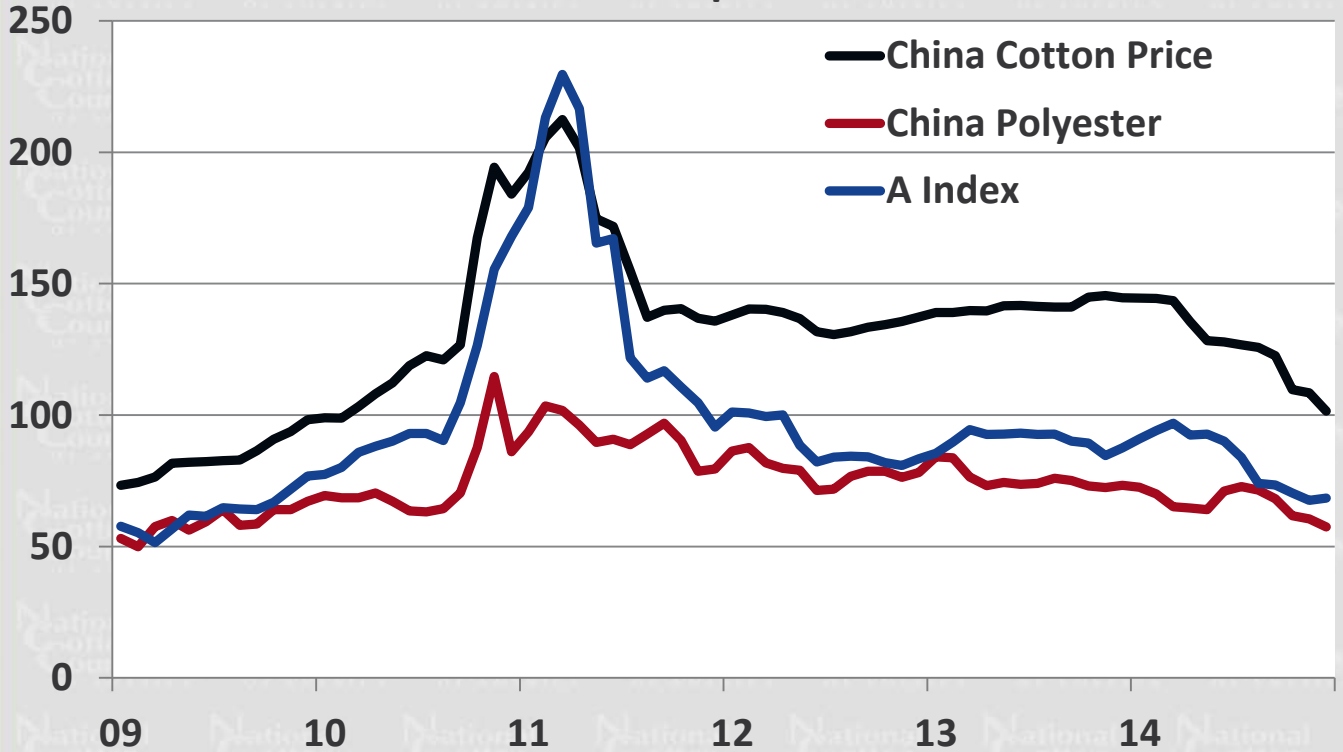


China's Policy for 2014

- Target price of 19,800 yuan/ton (\$1.45) for Xinjiang cotton
- In other provinces, direct support of 2,000 yuan/ton (\$0.15)
- TRQ of approximately 4.1 million bales
 - Announced quota limited to TRQ for '15
- Management of existing reserves remains a question

Fiber Prices

Cents per Lb



China Balance Sheet

Million Bales

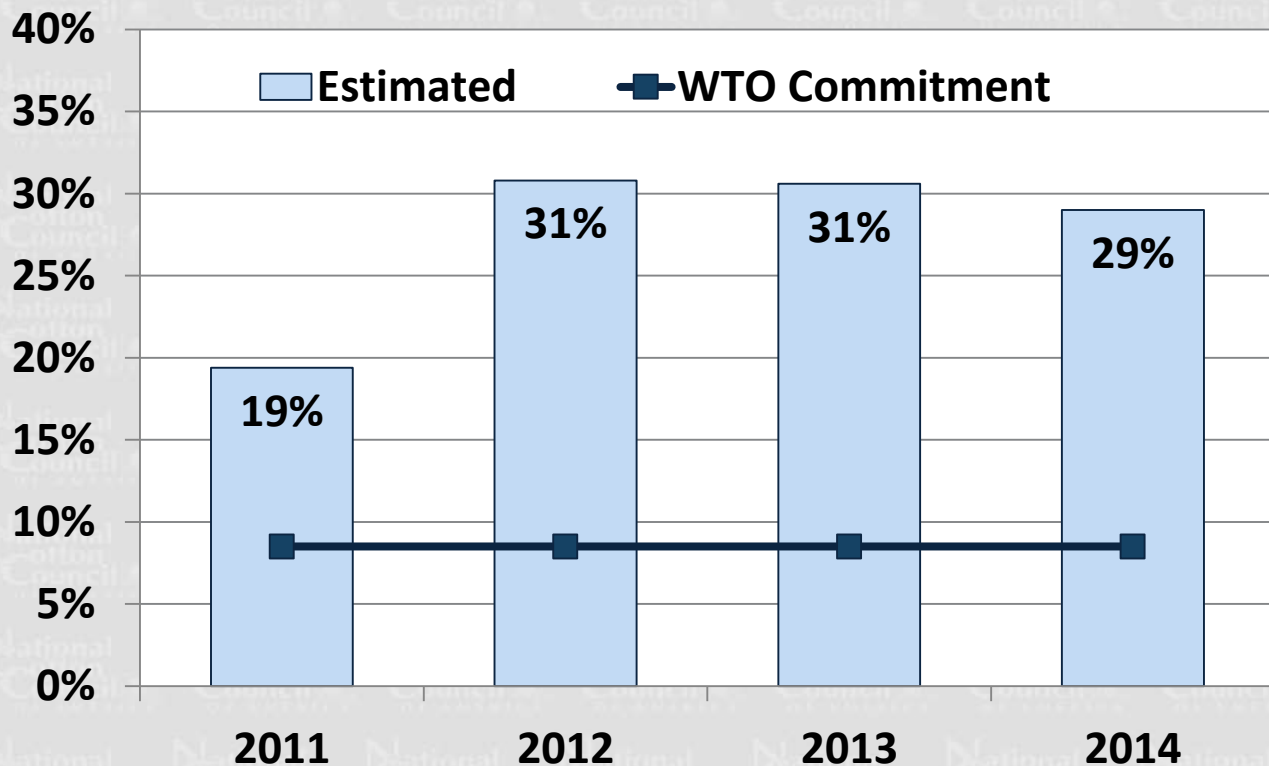
	11/12	12/13	13/14	14/15	Change
Production	34.0	35.0	32.8	30.0	-2.8
Mill Use	38.0	36.0	34.5	37.0	2.5
Imports	24.5	20.3	14.1	7.0	-7.1
Stocks	31.1	50.4	62.7	62.7	-0.1
Stocks/Use	82%	140%	182%	169%	

Source: USDA, Dec '14

China's Support to Cotton

- In 2001 WTO Accession Protocol, China agreed to limit support to a de minimis level of 8.5% of the value of production
- An Aug 2013 USDA/ERS report concluded:
“China appears to have exceeded its product-specific de minimis for cotton in 2011 and 2012 due to the country’s large purchases of cotton at a high support price.”

NCC Estimates of China's Support



China's Lack of Notifications

- Countries commit to providing notifications to the WTO on implementation of market access, use of export subsidies and amount of domestic support
- China has not notified domestic support since the 2008 crop
 - China has notified export subsidies through 2012



**Turkey Antidumping
Investigation of US Cotton**

Turkey Balance Sheet

Million Bales

	11/12	12/13	13/14	14/15	Change
Production	3.4	2.7	2.3	3.2	0.9
Mill Use	5.6	6.1	6.3	6.4	0.1
Imports	2.4	3.7	4.2	3.6	-0.6
Stocks	1.2	1.3	1.4	1.5	0.1
Stocks/Use	21%	21%	21%	23%	

Source: USDA, Dec '14

AD Action Defined

- The importing country conducts an investigation showing its domestic industry has been harmed by “dumped” foreign goods and, if so, a special offsetting import tax may be levied on that imported good.
- Elements of proof: Dumping occurred; there is injury to the domestic market; and the dumping caused that injury.
- Compare with a countervailing duty action: A CVD investigation determines whether the subsidies of a foreign government are causing harm to the domestic market. AD looks at company specific marketing practices.

“Dumping” Defined

- A company is “dumping” a product when it exports a product at a lower price than it is sold in its domestic market. The remedy is to apply an extra import duty on the product to bring it closer to the “normal value” or to remove the injury to the importing country’s competing industry.

Political Context

- First time Turkey has self-initiated an AD investigation
- Weak case: Publicly available data show cotton prices in Turkey on par with global and US domestic prices
- Trade retaliation:
 - Early Sep. 2014: US imposes AD/CVD tariffs on Turkish steel exports
 - Turkey's Minister of Economy publicly warned retaliation against the US by imposing three obstacles against US exports for every one imposed by the US on Turkish exports
 - Turkey self-initiated investigation of US cotton on Oct. 18
- TTIP: US Commerce Secretary Pritzker: Turkey is not ready

Current Status

- Questionnaires sent to U.S. cotton exporters/traders/merchants on Oct 20, 2014
- NCC and recipients requested an extension for responses. Two week extension granted with responses due Dec 11, 2014
- Turkish contacts report strong possibility that provisional AD duties will be imposed
- NCC submits preliminary injury arguments on Dec 22, 2014 – Additional arguments to be submitted in January

Administration's Response

- USTR, USDA, State and Commerce have met with NCC and briefed member companies
- Nov. 25: USDA submits comments for the record highlighting transparency, due process and procedural problems with the investigation
- Dec. 4: State delivered a *demarche* to Turkish authorities highlighting potential WTO concerns with the process of the investigation and expressing the close attention the USG is focusing on the investigation itself

Congressional Actions

- Dec.: House and Senate members sent letters to USTR and Commerce pressing for strong engagement in the investigation and to the Turkish Ambassador raising concerns over trade impacts
- Letters sent by Reps. Smith (R-MO), Lucas (R-OK), Peterson (D-MN), and eight members of the Texas delegation, led by Conaway (R) and Neugebauer (R); and Sens. Boozman (R-AR), Burr (R-NC), Cochran (R-MS), Corker (R-TN), Cornyn (R-TX), Isakson (R-GA), Moran (R-KS), and Wicker (R-MS)

Next Steps

- Wait: Turkish government currently reviewing data submitted by US firms. Expect either provisional duties or preliminary report on findings
- Possible hearing in Turkey in February
- Final determination due 1-year from initiation (6 month extension possible)

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Other Trade Policy Issues

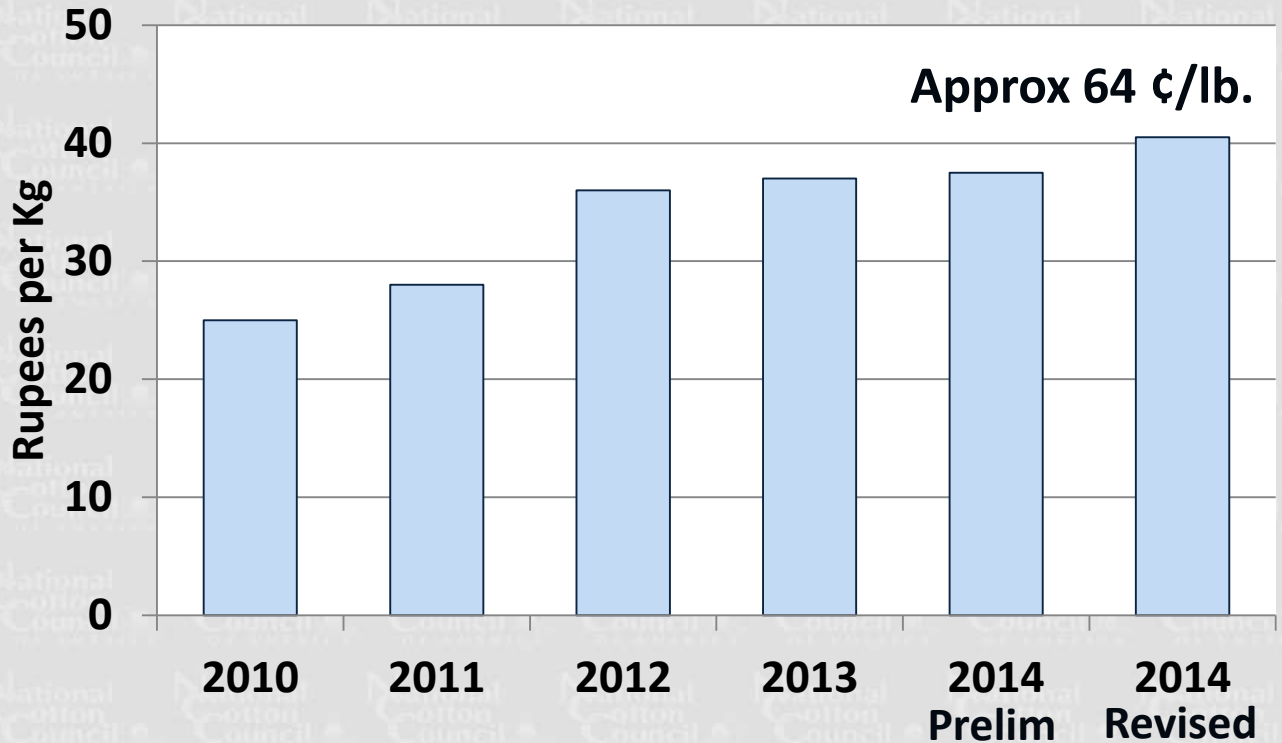
India Balance Sheet

Million Bales

	11/12	12/13	13/14	14/15	Change
Production	29.0	28.5	31.0	31.0	0.0
Mill Use	19.5	21.9	23.4	24.0	0.6
Exports	11.1	7.8	9.3	5.0	-4.3
Stocks	10.9	11.9	11.5	14.6	3.1
Stocks/Use	36%	40%	35%	50%	

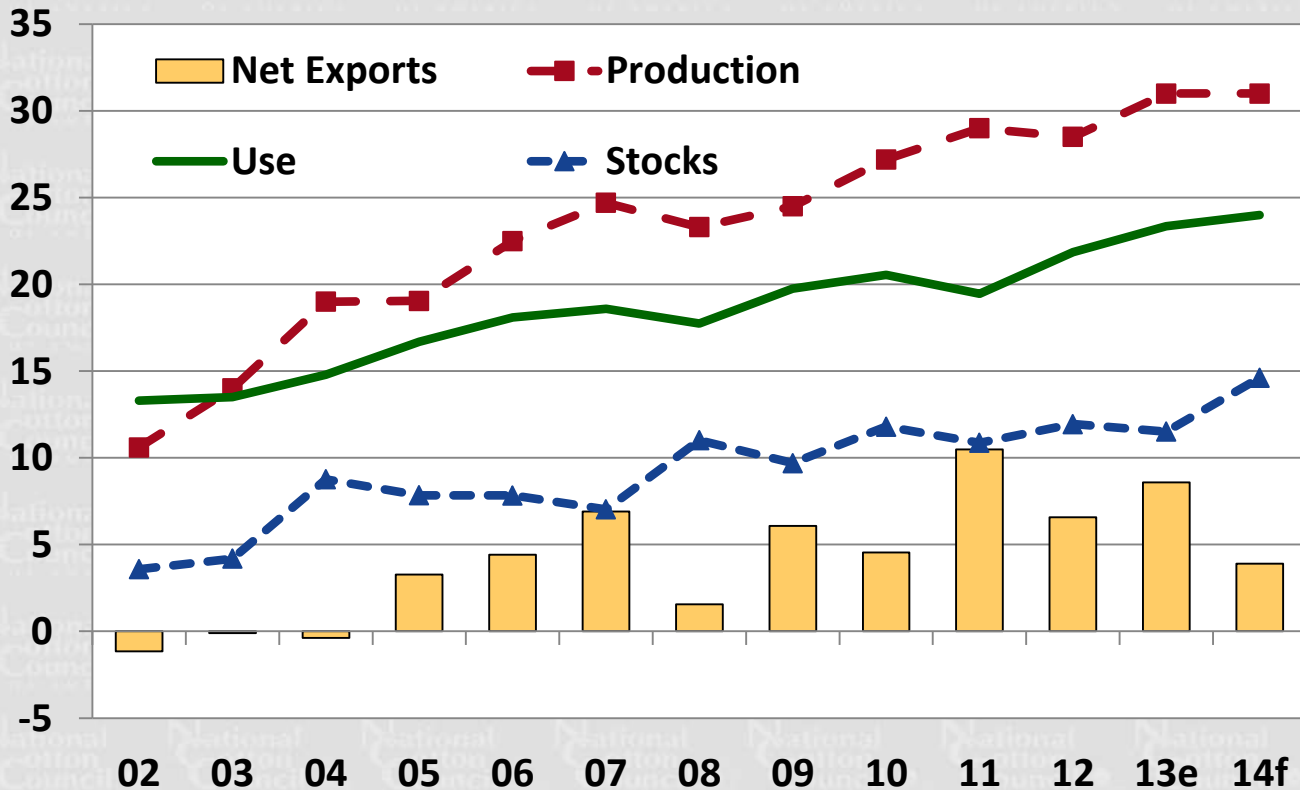
Source: USDA, Dec '14

India's Support Price Up 62% Since '10



India Cotton Supply & Use

Million Bales

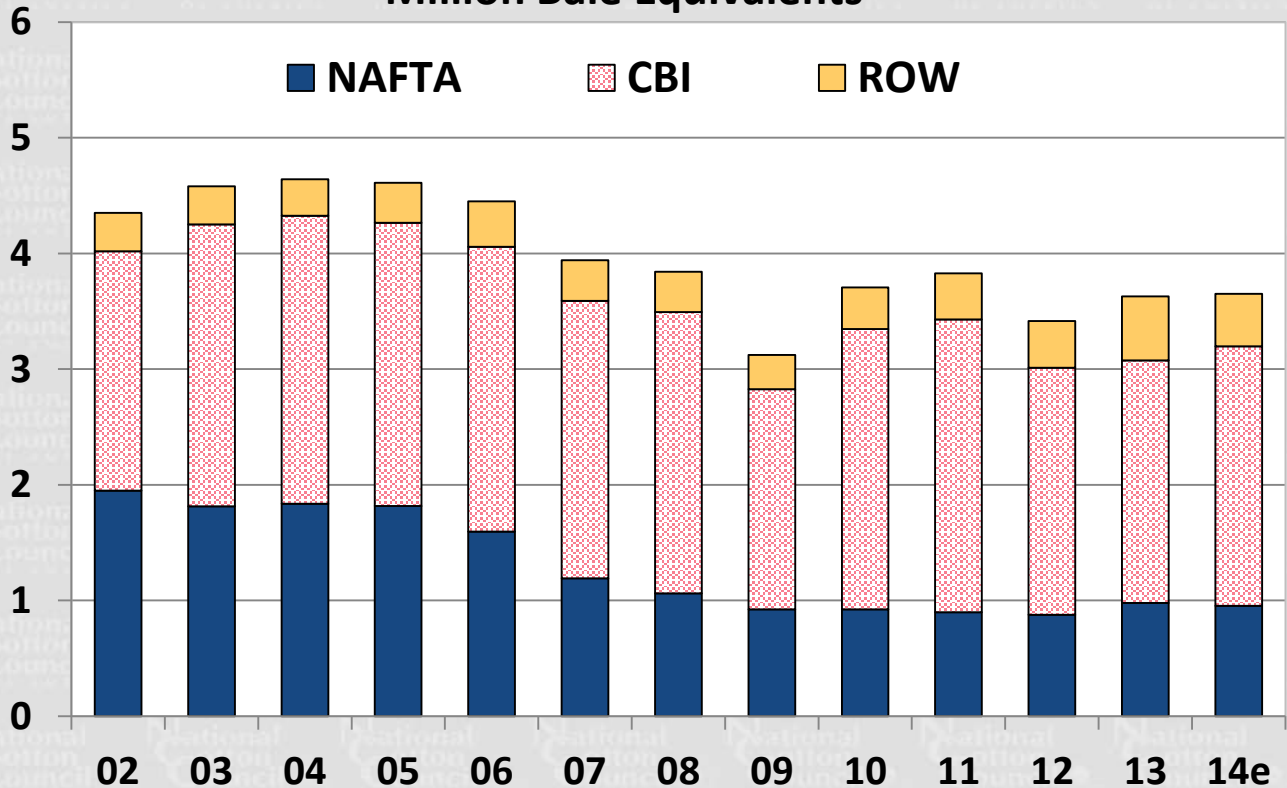


Cotton and Trade Agreements

- With exception of China and India, U.S. cotton faces few trade barriers or duties
- U.S. textile production exports rely on hemispheric agreements, NAFTA and CAFTA
- Concern in TPP is Rule of Origin (ROO) for cotton yarn
- NAFTA and CAFTA have a yarn forward ROO
- Hemispheric trade and investment put at risk if TPP or TTIP ROO is inconsistent

US Export of Cotton Products

Million Bale Equivalents



WTO Bali Cotton Statement

- Affirm '05 Hong Kong mandate address cotton “ambitiously, expeditiously and specifically.”
- Hold dedicated biannual cotton discussion on 3 pillars: market access, domestic support and export competition
- “The dedicated discussions undertaken on basis of factual information and data compiled by the WTO Secretariat from Members’ notifications, complemented, as appropriate, by relevant information provided by Members to the WTO Secretariat.”

Cotton in the 2014 Farm Bill

- Fundamental changes in cotton's safety net
 - DP and CCP programs discontinued
- New farm law increases market orientation
 - Primary safety net conveyed through insurance products
 - Products must be purchased by farmer
 - Insurance coverage purchased by farmer is based on actual market prices
 - Futures market prices determine RMA price elections
 - STAX and SCO use RMA price elections
 - Loan rate established well below market prices and costs of production

US Cotton Concerns

- Turkey's Anti-Dumping Investigation
- China's reserves and domestic support
- India's reserves and domestic support
- Brazil considering higher support price
- U.S. cotton's safety net based on market signals – Countries that support cotton above market prices harm the US cotton industry

Q & A



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