Hearing on U.S.-India Trade Relations
Trade Subcommittee of the Ways and Means Committee
U.S. House of Representatives
Written Statement of the
National Cotton Council
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The National Cotton Council (NCC) would like to thank Ways and Means Subcommittee on Trade Chairman Devin Nunes for the opportunity to submit written comments on cotton and textile trade between the United States and India. As the world's second largest producer, processor and exporter of raw cotton fiber, policy decisions by India significantly impact the global market.

The NCC, the central organization of the United States cotton industry, represents seven segments of the U.S. cotton industry: producers, ginners, cottonseed processors and merchandizers, merchants, cooperatives, warehousers and textile manufacturers. While a majority of the industry is concentrated in 17 cotton-producing states, the downstream manufacturers of cotton apparel and home furnishings are located in virtually every state. Farms and businesses directly involved in the production, distribution and processing of cotton employ almost 200,000 workers and produce direct business revenue of more than $27 billion. Annual cotton production is valued at more than $6 billion at the farm gate, the point at which the producer sells. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 420,000 workers with economic activity well in excess of $100 billion. In addition to the cotton fiber, cottonseed products are used for livestock feed, and cottonseed oil is used as an ingredient in food products as well as being a premium cooking oil.

In recent years, India's erratic policy changes have caused significant market disruption characterized by a historical increase in international cotton contract dispute arbitrations, record numbers of contract defaults, and substantial loss of fiber market share for cotton, while adding to the volatility and uncertainty in the world cotton market. The loss of fiber market share for cotton impacts all cotton producers but especially those growers in the least developed markets that are heavily dependent on exports.

Starting in April 2010, the Government of India has acted in various ways to limit exports of Indian cotton. This has taken varying forms, including an export ban, restrictions on export quantities and licensing requirements. The export ban was initially implemented at the request of Indian textile companies in order help them compete against foreign rivals. The Indian textile industry was very clear about the reasons for the ban or restriction and made those reasons public on many occasions.

When an exporting country institutes border restrictions, the expected impact is for world prices to be pushed higher while internal prices are pressured lower. Based on reported price data, India's export restrictions exactly followed economic predictions. Raw cotton prices in India were 40 to 60 cents per pound below world prices for December 2010 to June 2011. With Indian textile mills able to buy 20 million bales (480 lb.) at a discount averaging 50 cents a pound, the

Indian cotton restraints provided the equivalent of a $5.0 billion subsidy to the Indian textile industry in the 2010/11 crop year.

The impact of this subsidy was clear in the textile and apparel chain. This price wedge in raw cotton then disrupted the world cotton yarn market as Indian cotton yarn began trading at discounts of 15% to 25% below world cotton yarn prices from April 2011 to July 2011. As Indian prices for cotton yarn exports dropped dramatically (compared to world-wide prices), India displaced other producers, including U.S. textile mills, in yarn markets around the world. The $5.0 billion subsidy was also undoubtedly transferred into the fabric and apparel stage of the Indian export sector.

By contributing volatility to the world cotton market, India's actions served to increase the financial strain on world yarn spinners. As India maintained its ban on raw cotton and cotton yarn exports, world cotton prices rose substantially from $1.00 per pound in the spring of 2010 to over $2.20 per pound by February 2011. In many cases, textile mills outside of India responded to the dramatic price increase by failing to honor their contractual obligations on previous cotton purchases. According to a survey of U.S. cotton merchandizing firms, textile companies in 19 countries defaulted on almost 3.5 million bales of cotton valued at $1 billion. Contracts in the following countries were identified as in arbitration, in default, or at risk of default: Argentina, Bangladesh, Brazil, China, Colombia, Guatemala, India, Indonesia, Italy, Korea, Mexico, Morocco, Pakistan, Peru, Taiwan, Thailand, Turkey, the United Arab Emirates, and Vietnam. Of the 19, Bangladesh, Indonesia, Thailand and Vietnam accounted for a significant portion of the contracts.

As world prices increased, world cotton consumption began to decline, eventually falling by 11 million bales. At the same time world mill use of textile manmade fiber was expanding by 13 million bales. The loss in market share and resulting downward pressure on world cotton prices directly impacts all cotton producers in the exporting countries.

While continuing to push for a complete ban on exports, growth in India's textile industry was bolstered by a number of government subsidies. In September 2011, the Indian government released more than $130 million under the Technology Upgradation Fund Scheme (TUFS). The program provides interest reimbursements and capital subsidies for investments in the textiles and clothing sectors.

In March 2012, India abruptly announced another ban on exports after being an aggressive exporter during the first six months of the '11/12 marketing year. However, the ban was short-lived as it was removed by the end of April. Following the export ban, India allowed cotton exports through a relatively strict export registration process. In October 2012, the export registration process was extended with limits placed on the amount of cotton that could be registered for export at a given time. Quantities are limited to 7,800 bales under one export registration and 50 percent of those bales must be exported before another export registration can be processed. In November, the registration quantity was increased to 23,400 bales.

Although India is currently allowing cotton exports, there are renewed concerns that India could again consider export restrictions. Unfortunately, India's recent export restrictions are the latest evidence of increasingly uncertain policy decisions by the Indian government. In 2008, India increased support prices for cotton, in some cases by as much as 48%. Shortly after the higher support prices took effect, world prices declined and the Indian government authorized the purchase of almost 12 million bales of the 2008 crop. In 2009, India disposed of that cotton on the world market by offering an export subsidy scheme for cotton exports equal to 5 percent of the value of the export. In the span of just one year – between the spring of 2009 and spring of 2010 – India moved from an export subsidy to an export ban. It is becoming increasingly clear that India will continue to make dramatic changes to their cotton trade policies, despite the detrimental and trade-distorting effects on the world market and cotton and textile industries in other countries.