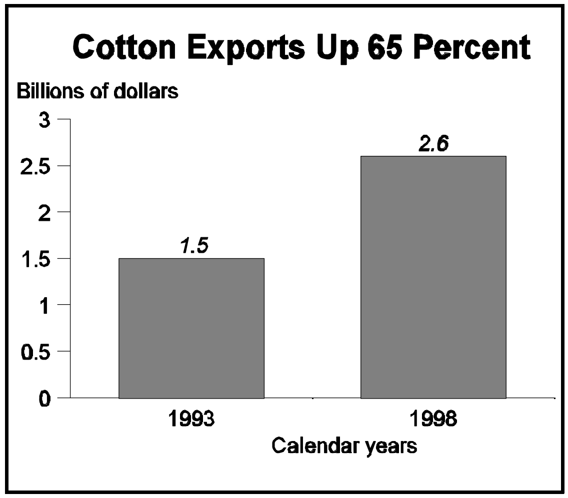
WTO and Agriculture

What's at Stake for Cotton?

Future export prospects for cotton depend, in large part, on the United States' ability to maintain and expand market access, ensure fair competition, and further level the international playing field for U.S. producers and exporters. The World Trade Organization (WTO) and trade negotiations offer comprehensive new trade agreements aimed at achieving these objectives.

Why Trade Matters for U.S. Cotton

U.S. cotton exports were valued at nearly $2.6 billion in 1998, an increase of more than 65 percent since 1993. Export volume reached more than 7.6 million 480-lb bales, up more than 40 percent since 1993. Over that period, cotton exports to Mexico alone more than doubled. During 1998, Mexico accounted for nearly $616 million of U.S. cotton exports, a $426-million increase over 1993 levels. North American Free Trade Agreement (NAFTA) Rules of Origin for textiles have encouraged this growth.



U.S. cotton producers increasingly look to foreign markets to bolster sales, farm prices, and income. In market year 1998/99, exports will account for an estimated 30 percent of U.S. cotton production, up from 15 percent in market year 1985/86.

How Trade Agreements Expand Market Opportunities

Trade agreements have opened markets, reduced unfair competition, brought some discipline to sanitary-phytosanitary barriers, and introduced more effective dispute-settlement procedures in global trade. These agreements have helped to expand export market opportunities for U.S. cotton in a number of ways.

Under the Uruguay Round, cotton utilization was encouraged through bindings to zero or low duties by important customers. For example:

- Hong Kong bound its tariff for cotton at zero. Since 1993, the value of U.S. cotton exports to Hong Kong rose more than threefold, accounting for $91 million in 1998.

- Malaysia bound its tariff for cotton at zero. Since 1993, the value of U.S. cotton exports to Malaysia doubled, accounting for $13.5 million in 1998.

- U.S. cotton exports to Malaysia were encouraged since the tariff was permanently bound at zero and totaled $13.5 million in 1998, more than double exports in 1993.

U.S. cotton exports to Mexico have significantly increased since NAFTA was implemented. Mexico has replaced China as the leading market for U.S. cotton. U.S. trade in raw cotton with Mexico and also trade in value added-cotton owes much to NAFTA. Under NAFTA, Mexico committed to phasing its cotton tariff down from 10 percent to zero over 10 years.

Why Further Trade Negotiations Are Needed

Despite the progress already achieved, trade liberalization is far from complete. U.S. cotton producers continue to face an array of tariff and non-tariff barriers, unfair trading practices, and preferential trading arrangements in key markets around the world. A few examples follow:

Through Mercosur, cotton producers in Argentina and Paraguay have preferential access to Brazil, the world's fifth largest cotton importer. The proposed expansion of this trade pact to include Andean Pact countries could result in reduced U.S. raw and value-added cotton exports to South America. Furthermore, the development of a South American trade pact will likely stimulate investment in production of both raw cotton and textiles in that region and establish trading patterns that could reduce export potential and increase export competition for U.S. raw and value-added cotton.

Turkey, a net importer of cotton, is an important U.S. cotton market with imports totaling $171.8 million in 1998, and is expected to be a top market next year as well. However, the Turkey-EU bilateral trade agreement is encouraging Turkey to expand its cotton textile production for the EU market and to expand its raw cotton production to fill its increasing domestic demand.

U.S. cotton exports have been dependent on markets for which the United States has no secure market access commitment. For example, China was the leading U.S. cotton market, accounting for $729 million of U.S. cotton exports in 1996. However, exports decreased to $578 million in 1997 and to $126 million in 1998 largely due to state trading. Further worldwide liberalization of trade is necessary to broaden the U.S. export prospects to include major consuming countries that have remained highly protected markets for raw and value-added cotton.