

## 1994 Cotton Management Economic Notes

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### A Global Market Indeed

The Uruguay Round of multinational trade negotiations concluded on December 15, 1993, and over 120 nations signed the agreement on April 15, 1994 in Morocco. *Each nation must now ratify the agreement and pass legislation to comply with general terms before January 1, 1995.* World trade negotiations, generally termed as General Agreement on Tariffs and Trade (GATT) reached their first agreement in Geneva in 1947 with 23 participating countries. The Uruguay Round was the eighth GATT round and the first one to focus on agriculture. Historically, agriculture has been coined sacred by most countries for "national security" reasons. Major gains have been declared for freeing up world trade for agricultural products. What are the implications for US cotton under a freer trading environment?

Given the flexibility written into the agreement, impacts for cotton will largely depend on how fast trade barriers for

textile and apparel are reduced. Most impacts will be negligible until after 2000, due to the 6-year phase in. The table below gives the estimated impacts for Upland for 2000 and 2005. Estimates are from USDA's Office of Economics and Economics Research Service. Commodity supply and demand analysis was used to determine estimated impacts. In



**Estimated Impacts of the Uruguay Agreement for Upland.**

	Units	2000		2005	
		Uruguay Round	Percentage Change from Baseline	Uruguay Round	Percentage Change from Baseline
World Trade <sup>1</sup>	mil. bales	28.6 - 28.9	-1 to 0	30.4 - 30.9	-2 to 0
United States:					
Planted Acres	mil.	13.2 - 13.3	2 to 2	13.7 - 14.2	1 to 4
Production	mil. bales	18.2 - 18.3	2 to 2	19.8 - 20.5	2 to 5
Exports	mil. bales	6.8 - 7.0	5 to 8	7.5 - 8.0	7 to 14
Domestic Use	mil. bales	11.3 - 11.4	-2 to -1	12.1 - 12.3	-3 to -2
Farm Price <sup>2</sup>			1 to 2		2 to 5
Gross Farm Receipts	bil. \$	5.20 - 5.27	3 to 4	5.99 - 6.35	3 to 9
Deficiency Payments	bil. \$	0.77 - 0.74	0 to 3	0.61 - 0.54	-19 to -9

<sup>1</sup> Includes a small amount of ELS.

<sup>2</sup> USDA is prohibited from publishing projected cotton prices.

Recent Prices	June 24, 1994	
	Upland (¢/lb)	Pima (ELS) (¢/lb)
Spot - uncompressed	74.19	92.00
Target Price	72.90	102.00
Loan Rate	50.00	85.03
Dec '94 Futures	75.14	

Note: Upland Spot for Desert SW grade 31-3, staple 35, add 300 points for compressed bales, Pima Spot for grade 03, staple 46, 6/10/94, 1994. Phoenix Base loan rates without discounts or premiums for quality.

order to show the impacts of the Uruguay Round, estimates are compared with a baseline or what would be expected without a trade agreement. A range is given to reflect differences in the outcome of world income growth and demand. Higher incomes result from productivity gains as resources and production tasks are reallocated with freer trade.

Most of the increase in fiber trade will be with textiles and apparel. World trade of all cotton is expected to remain unchanged or decline

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marginally from the Uruguay agreement. High-income countries like Japan, Taiwan, Korea, and Hong Kong will reduce cotton imports and increase their imports of textile and apparel imports from lower-wage countries. Textile and apparel trade will tend to transfer manufacturing from developed to developing countries. Countries like Indonesia and Thailand are expected to show large increases in the imports of raw cotton and their exports of textile products. Countries like India, China, and Pakistan are also expected to increase textile and apparel exports, but with an accompanying decline in their raw cotton exports. More favorable prices for other crops, especially grains, will cause other US competitors like Australia to decrease their cotton exports. **The reduction in exports from several US competitors is why the US is expected to increase raw cotton exports around 5 to 8 percent by 2000 and 7 to 14 percent by 2005.**

Higher US exports translate to lower stocks and lower Acreage Reduction Program rates. With increased production and higher prices, gross farm receipts are expected to increase 3 to 4 percent by 2000 and 3 to 9 percent by 2005. Farm prices are expected to improve marginally from the Uruguay agreement, 1 to 2 percent by 2000 and 2 to 5 percent by 2005. But higher farm prices lead to a reduction in deficiency payments. By 2005, deficiency payments are calculated at 9 to 19 percent below the baseline estimates without the Uruguay agreement, assuming current farm policy.

The agreement concerns four basic areas; market access, internal supports, export subsidies, and sanitary and phytosanitary rules. General market access conditions are that import quotas must be converted to tariffs for a common playing field, and tariffs must be reduced by 36 percent average over 6 years from the 1986-88 base period. All converted tariffs and pre-existing tariffs will be reduced by a minimum of 15 percent.

Using the same 1986-88 base period, internal support programs that are directly linked to production or price (e.g. loan rate) must be reduced by 20 percent in 6 years. Support measures agreed upon as "non-trade" distorting are exempt from reduction. US government programs like deficiency payments, disaster assistance, conservation programs, and extension programs have been classed as "non-trade distorting support measures." **No changes in domestic commodity programs are required to meet the internal support commitments.** Total

internal support is measured by the sum of specific commodities and sectors to determine an "Aggregate Measure of Support."

Export subsidies (e.g. Export Enhancement Program) must be reduced by 21 percent in volume and 36 percent in budget outlays from the 1986-90 base period. Products that did not receive export assistance between 1986 and 1990 are ineligible for any future export subsidies.

## **Issues Under Debate**

Concerns have been issued by farmers and other groups over the Uruguay agreement in the US and abroad. US farmers are concerned about having to pay a disproportionate share of the *lost tariff revenues through more reductions in appropriations benefiting farmers*. This "proportion" estimated for agriculture would be about **5 percent** of the \$13 billion dollar revenue shortfall. In contrast, President Clinton's proposal will charge agriculture with about **40 percent** of the shortfall.

Agricultural trade associations and Senators on the Agricultural Committee and House Representatives have said they will vote against the GATT if agriculture has to pay more than its fair share. Combined with other opponents, there could be enough votes to defeat ratification. Consumer groups have also raised challenges and concerns over food safety, health, and environmental laws allowed under GATT. A report, "Trading Away US Food Safety," from Public Citizen Publications, cites 241 foods and substances allowed under GATT changes that US regulations do not currently allow.

## **No CCC Loan Extensions**

Upland cotton loans mature 10 months from the first day of the month in which a loan was made. An 8 month extension may be requested providing the average price of Upland (base quality) for the preceding month has not exceeded 130 percent of the average spot price for the preceding 36 months. The spot market average equaled 59.15 cents for May 1991 through April 1994, yielding a trigger price of 76.90 cents. The average May 1994 spot market price exceeded 76.90 cents. Thus, outstanding CCC nonrecourse Upland cotton loans that have a maturity date of June 30, 1994 will not be extended. This determination is made on a month-to-month basis.