SUMMARY OF UNITED STATES REMARKS ON COTTON

It has been stated that United States quantitative restrictions on imports of cotton (both upland and extra-long staple) denies cotton exporting countries the advantages of its free entry treatment of cotton imports and that the United States Cotton Price Support Programme, together with its accompanying export subsidy on upland cotton, tends to maintain production of a commodity in which some less-developed countries have a competitive advantage and which offers, therefore, a suitable field for expansion of their export earnings.

It is difficult to see how this is so.

Reference may be made first to the case of upland cotton. The United States is the world's largest exporter. If the import restrictions were removed, it would mean that the price support programme would also have to be abandoned, in which case domestic needs would be fully supplied by American cotton. In fact, many cotton experts in the United States believe that, if price supports and acreage restrictions were completely abandoned in the United States, the American cotton growers would be able to produce and export at the world price more cotton than they do now, owing to the fact that the removal of all restrictions would permit a far more efficient production of cotton than is now possible. It would mean, of course, a re-organization of cotton growing, larger and fewer cotton farms, use of the most advanced and efficient methods and equipment and of the most suitable land, all of which would result in much lower production costs. In other words, it would mean that the more efficient growers would be able to take full advantage of the great advances made in agricultural technology and of the large-scale economies which such advances make possible.

This points to the fact that the cotton problem in the United States involves important social considerations. Although there is a considerable movement of population from rural to urban areas, it has not been great enough to permit adjustments in agriculture to the full extent that might be desired. The abandonment of the Cotton Price Support Programme and acreage restrictions would mean that thousands of small cotton growers would be forced out of production and left without means of livelihood.
Furthermore, attention may be called to the fact that the United States Cotton Price Support Programme, which began in the middle 1930s, has for a long time been a stabilizing factor in the world cotton market. It tended to govern the world price. However, the United States price was a very profitable one for other exporting countries which undertook to increase their production and sell at something less than the United States, with the result that the United States became a residual supplier and a focal point for the building up of world surplus stocks. At an international cotton meeting in 1954, the United States indicated that this could not go on indefinitely and urged other exporting countries to control their production or exports. This urging was not heeded, and in 1956 the United States Congress passed legislation requiring that United States exports of cotton be sold at competitive world prices with a view to maintaining the United States fair share of the world market. This required subsidization of United States cotton exports and created apprehension among other exporting countries who feared it would lead to excess price fluctuations. Prices were fairly steady, however, until 1958 when a break occurred in the prices of other exporting countries. In June 1959, the United States and Mexico invited the other cotton exporting countries to a meeting in Washington to discuss the problem. The result was the establishment of the Cotton Exporting Countries Study Group, the purpose of which is to facilitate consultation among the cotton exporting countries with a view to seeking greater market stability. The outlook for the current year promises a decided improvement in the world cotton situation.

The administration is, however, seeking to bring about gradual adjustments in the cotton industry in the direction of bringing United States cotton prices more in line with world prices and this has resulted in an increase in American cotton production. Last year, American upland cotton growers were offered a choice between the A Plan and the B Plan. Those who chose the A Plan could benefit from the prevailing support price, 80 per cent of parity, but had to maintain the established restrictions on acreage; those who chose the B Plan could increase their acreage by 40 per cent but were entitled to a support price equal to only 65 per cent of parity. This involved a decrease of several cents per pound in the United States market price for cotton and resulted in a production increase of about 3 million bales. A further 2 cents per lb. decrease in the internal price has been recently announced and the 8 cents per lb. subsidy on United States cotton exports is being reduced correspondingly, from 8 cents per lb. to 6 cents per lb.

The situation in respect of extra-long staple cotton is somewhat similar to that of upland cotton. There is an import quota to protect the domestic price support programme in respect of extra-long staple cotton. The difference is that the United States has traditionally been on an import basis in regard to extra-long staple cotton, the annual output of which is only a few hundred thousand bales compared to about 15 million bales in the case of upland cotton. A reason for establishing such a price support programme was to develop a nucleus extra-long staple industry which could be expanded in an emergency to meet national defence needs, as was done in the last world war. The industry has, however, benefited from improvements in plant varieties and from
technological advancements in farming and ginning methods and has become increasingly efficient. About a year ago it requested on its own initiative that the support price for long-staple cotton be reduced to 60 per cent of parity, believing that it was able to compete with foreign growths. However, the prices of imports were cut below the 60 per cent of parity support price, and, although the industry produces more than enough extra-long staple to meet domestic needs, it is accumulating in surplus stocks. American extra-long staple cotton is not ordinarily exported because it does not have an export subsidy. Because of this, there are only a few isolated instances in which it has been disposed of under P.L. 480, notwithstanding the fact that P.L. 480 sales are made in foreign currencies, not dollars. While the growers believe that they can successfully compete against foreign growths, they have not asked for complete abandonment of price support and acreage restrictions. The results of such action would be hard to predict. They might lead to an increase in American growers of extra-long staple and a larger annual domestic output.

In these circumstances, the industry recently applied under Section 22 of the Agricultural Adjustment Act for a reduction in the present import quotas. After investigation, the United States Tariff Commission recommended that no such reduction be made and the President approved the recommendation.

The situation thus appears to indicate that it is far from certain that abandonment of United States cotton price supports with their accompanying acreage and import restrictions and, in the case of upland, export subsidies would benefit other cotton exporting countries.