

THE IMPACTS OF INCREASED MINIMUM SUPPORT PRICES IN INDIA ON WORLD AND U.S. COTTON MARKETS



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Introduction



- Domestic subsidies are a major area of concern in continued WTO negotiations
- Many countries in developing world insist that subsidies in developed countries like the U.S. represent significant barriers to trade
- BUT, these countries use domestic subsidies as well.
- India, for example, uses a minimum support price program similar to the U.S. loan program

India's MSP



- **The minimum support price (MSP) is not new**

Government of India (GOI) annually sets the MSP for each growth region (seed cotton basis)

September 2008, GOI announced a significant increase in the MSP of between 26 – 48% depending on variety.

Adams (2009) estimated the lint equivalent price to be \$0.72/lb, but other estimates range between \$0.66 – \$0.72/lb depending on the composition of the crop

- ✦ In either case, the MSP is above current market prices.

In 2008, the CCI was authorized to purchase 11.7 million bales from the Indian crop to maintain the MSP.

Methods



- Utilized the Global Fiber Market Model at the Cotton Economics Research Institute at Texas Tech University

Partial equilibrium structural economic model

- Estimated a global market equilibrium under the old MSP and a new market equilibrium under the new MSP to determine the impacts of the MSP on the world market

Assumed the new MSP at 27,500 rupees/mt and a gin turnout rate of 35%

Results—World



Variable	2009/2010	Average 2009-20014
A-Index	Cents/lb	
Without Increase	66.41	69.25
With Increase	62.32	67.34
% Change	-6.16%	-2.80%
Production	'000 Bales	
Without Increase	109,493	115,066
With Increase	110,347	115,398
% Change	0.78%	0.29%
Mill Use	'000 Bales	
Without Increase	109,963	115,272
With Increase	110,481	118,470
% Change	0.47%	2.78%

Results--India



Variable	2009/2010	Average 2009-20014
Market Price	Cents/lb	
Without Increase	63.43	66.68
With Increase	59.82	64.98
% Change	-5.69%	-2.59%
Production	'000 Bales	
Without Increase	21,877	23,347
With Increase	22,712	24,014
% Change	3.82%	2.88%
Exports	'000 Bales	
Without Increase	5,089	5,334
With Increase	5,747	5,925
% Change	12.94%	11.11%

Results—U.S.



Variable	2009/2010	Average 2009-20014
Market Price	Cents/lb	
Without Increase	52.22	53.47
With Increase	49.52	52.17
% Change	-5.17%	-2.48%
Production	'000 Bales	
Without Increase	14,043	14,653
With Increase	14,061	14,522
% Change	0.13%	-0.27%
Exports	'000 Bales	
Without Increase	10,645	11,154
With Increase	10,580	11,110
% Change	-0.60%	-0.40%

Conclusions



- Increase in Indian MSP has significant impact on world cotton production and trade flows
- Not subject to WTO discipline because India designated as developing country
- Indian MSP has roughly the same total impact of world market prices as **TOTAL** U.S. cotton program