



Due Shortage in Cotton Supply, China Likely To Ease Tariff-Rate Quotas for Cotton Imports

Zhang Xiaoqiang, Deputy Commissioner of China's National Development and Reform Commission (NDRC), said during the Chinese National Cotton Tele-Conference held on Sunday, September 27, 2009, that the Chinese government will closely follow the domestic cotton supply and demand situation, as well as the dynamics of textile production and exports to determine the quantity and timeline for issuing tariff-rate quota (TRQ) certificates on cotton imports in order to meet the domestic demand for cotton.

China is the biggest cotton consumer and importer in the world. The global financial crisis and economic slowdown hit China's textile and garment industry hard in 2008, resulting in reduced demand for cotton and decreased cotton production acreage. However, the economic stimulus policies adopted by economies around the world have effectively stopped the global economy from slipping into deeper recession and the global economy is now showing signs of recovery. China's textile and garment industry has steadily increased its production and exports, resulting in steady increases of cotton demand. As a consequence, cotton supply has not kept up with cotton demand in 2009.

According to the Ministry of Agriculture (MoA), China's cotton production acreage in 2009 is 75.92 million *mu* (5.1 million hectares)¹, down by 10 million *mu* (671 hectare), or more than a ten percent decrease, from 2008. Hence, China's cotton production this year is expected to fall by ten percent to be about seven million metric tons, 500 thousand metric tons less than in 2008. Another source, the China Cotton Association (CCA), recently predicted that the shortage of cotton supply in China is expected to be about two million metric tons in 2009, one million metric tons short of that in 2008, a figure bigger than what NDRC and MoA had predicted.

In addition to decreases in domestic cotton production and steady increases in textile production which fuels cotton demand, China's trade and reserve policies for cotton have also contributed to the widening shortage of cotton supply this year. On the one hand, from October 2008 to April 2009, while the global financial crisis was in full force, China's national cotton reserve entity increased procurement and storage efforts in an attempt to prevent domestic cotton prices from falling and to give cotton farmers incentives for continued cultivation. This policy resulted in increased cotton storage of 2.72 million metric tons and more than 3.8 million metric tons in total cotton reserves, marking the highest level in history of cotton reserves in China. Although, as of September 25, 2009, 1.8 million metric tons of cotton has been sold through auction from the Chinese national cotton reserves, China still holds about 2 million metric tons in cotton reserves. On the other hand, the Chinese government has adopted strict trade policies to limit cotton imports, resulting in a sharp decrease of cotton imports in 2009. As of September 2009, the total issuance of cotton TRQ certificates in China was 1.29 million metric tons, a decrease of 2.2 million metric tons since

¹ 1 hectare = roughly 15 *mu*.

last year, and the total amount of cotton imports from January to August 2009 was 976 thousand metric tons, down 664 thousand metric tons from the same period in 2008.

In order to “balance” domestic cotton supply and demand, the Chinese government may release more cotton reserves to fill the gap between cotton supply and demand in the short-term, while reopening the door for more cotton imports through TRQ certificates, although these trade policy changes are expected to take time before they effectively increase the cotton supply in China. (Jianwen Liu)

Sources: The article is based on information from the Xinhua News Agency (www.xinhuanet.com) and the China Cotton Association (www.china-cotton.org).