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**BACKGROUND NOTE – 23 November 2006**

**How will the US elections, Fast Track and the Farm Bill impact cotton?**

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In the mid-term legislative elections in the US, all seats in the House of Representatives and one-third of the seats in the Senate were up for grabs. When the dust settled, the Democrats had won a 15-seat majority in the House and a 1-seat majority in the Senate. Even though it is too early for answers to all questions, this Newsletter attempts to pinpoint the impact of the US elections on multilateral negotiations in general and African cotton in particular.

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**A win for the Democrats**

The Democrats have taken the House and the Senate. Yet their win is not necessarily a win for multilateral negotiations. If anything, the Democrats are even less pro-liberalization than the Republicans.

During an AITIC<sup>1</sup> presentation at the WTO on Friday, 10 November 2006, Mr. Craig VanGrasstek<sup>2</sup> analyzed the results of the elections and their possible impact on trade issues. As he saw it, the outcome was not exceptional and tended to follow usual trends for mid-term elections, when political power often changes hands. The leading campaign issues were the war in Iraq, the fight against terrorism, energy independence and immigration. The low approval ratings, for not only President Bush but for Congress as well (owing to legislative gridlock and corruption scandals), were the backdrop. An analysis of trade policy in the Democratic electoral campaign revealed that job protection (often synonymous with protectionism) came up often. Moreover, even though the Democrats regularly attack bilateral free trade agreements, they have kept a low profile with regard to the multilateral system, WTO and the Doha Round. President Bush has become an institutional 'lame duck' for the next two years. The Senate and the House

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<sup>1</sup> Agency for International Trade Information and Cooperation

will hold 'lame duck' sessions up until the end of the year, and the new Congressmen will take up office in January 2007. Even though they are 'rival partners', the President and Congress will have to get along.

### **The new faces on the US political scene**

**Nancy Pelosi** is the key woman in the new Congress. As the leader of the Democrats, she will become Speaker of the House. Trade policy has never really been one of her pet subjects. She specializes in domestic issues (such as the minimum wage, social questions, etc.). Although she is not naturally inclined towards protectionism, she is no staunch supporter of the multilateral trade system. Her voting record for the past few years is a mixed bag: she voted for NAFTA, the Uruguay Round and the Free Trade Agreements (FTA) with Chile and Australia and voted against America's withdrawal from WTO. On the other hand, she voted against the granting of Fast Track authority in 2001, against CAFTA and against the FTA with Oman.

The chairmen of a few key committees will also play a decisive role in shaping US trade policy, and their actions will have a direct impact on the Farm Bill and the possible conclusion of the Doha Round. In the House, the Ways and Means Committee will be headed up by the Democrat **Charles Rangel**. From a trade perspective, he prefers preferential trade arrangements for the Caribbean and Africa to multilateral liberalization. The Agriculture Committee will be chaired by a Representative from Minnesota, **Collin Peterson**, who is viewed as a very conservative, protectionist Democrat and a backer of the sugar industry (hence subsidies) in his region. However, he is reportedly prepared to give Doha a chance. In the Senate, **Max Baucus**, from Montana, will chair the Finance Committee. He sees trade policy as a congressional prerogative and stresses ongoing trade consultations with the White House. He is against certain aspects of the multilateral system, such as WTO's Dispute Settlement Body. More generally, he is relatively protectionist. As a Congressman from a rural state, he backs subsidies for farmers. The same applies to **Tom Harkin**, from Iowa, who will be at the head of the Committee on Agriculture. He is seen as a populist Democrat who is generally against the bilateral free trade agreements that the US has been signing.

As we can see from this overview, the key figures in the future legislature are rather less open to multilateral trade issues than their predecessors and relatively more inclined to back subsidies for farmers, a factor that does not augur well for the renewal of Fast Track Authority, for the drafting of a Farm Bill that relies less on direct support for farmers, and hence for the fight for African cotton.

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<sup>2</sup> Craig VanGrasstek is a professor of Trade Policy at the Kennedy School of Government,

### **Fast Track renewal?**

C. VanGrassteck has tried to describe the potential impact of the elections on the future of the Trade Promotion Authority, or TPA, a procedure usually known as 'Fast Track'. This 'expedited procedure' is granted by Congress and empowers the Bush Administration to negotiate an overall 'package' on international economic issues, which Congress must then accept or reject on a whole. The last Fast Track was granted in 2002 for a three-year period and then extended from 2005 to June 2007. It cannot be extended again, and its renewal must be based on a new proposal and new modalities.

The defining moment on the international agenda will come when Congress decides whether or not to renew the TPA. Renewal is by no means a sure thing:

- From the perspective of political competition rather than trade policy, the Democrats could refuse to give President Bush an opportunity to score points with the conclusion of the Doha Round;
- Negotiations on the very terms of the TPA could take so long that trade negotiations stagnate up until the presidential elections;
- Congress could ask President Bush for too much in exchange for a TPA, on various subjects.

If the TPA is not renewed, the Doha Round has little chance of a successful conclusion because Congress will reclaim its power to amend any trade agreement it examines. Negotiations could drag on and on as a result. To top it off, the other WTO Members, who would be less sure of obtaining genuine undertakings from the United States, might be less eager to resume negotiations.

### **A new Farm Bill?**

As far as the Farm Bill is concerned, the elections have not answered the question of whether it would be extended or recast. As we saw above, all we can say at this stage is that the new players do not appear to be strongly in favour of phasing out subsidies for farmers. However, it might be worthwhile to take a look at certain aspects of the debate on this instrument.

The Farm Bill, which is reviewed every five years, regulates federal support to agriculture, trade in food, food security, marketing and rural development. Congress is due to debate the Farm Bill in 2007. This timing offers the Administration and Congress an opportunity to reform agricultural policy; to send a clear message, especially to developing countries; and, on a more mundane level, to ward off probable complaints to

the WTO if no changes are made to subsidies. Given that the US economy is doing well, there is a possibility that the US may downsize its planned reforms (particularly with regard to subsidies).

Under the previous Farm Bill (2002), domestic support skyrocketed and federal aid to agriculture hit USD 175 billion over a 10-year period (which works out to an increase of USD 73.5 billion compared with the previous programme). At the time, this was a radical change of course in relation to the 1996 'Freedom to Farm Bill', which called for the gradual elimination of subsidies. The 2002 Farm Bill came in for sharp criticism by America's main trading partners and was deemed protectionist and trade-distorting.

In 2005, the United States Department of Agriculture (USDA) revised its export credit programmes to comply with the ruling of the Brazil-US cotton panel. In early 2006, Congress phased out Step 2 payments (effective as of summer 2006). However, these programmes account for only 10% of all cotton subsidies.

In a series of recent reports, the USDA identifies the problems generated by the Farm Bill's traditional manner of functioning:

- Unequal distribution of support to both producers and products, whereby some 20% of producers receive 80% of subsidies and 93 % of all subsidies goes to five products (wheat, rice, corn, soybeans and cotton).
- Inconsistent federal programmes;
- Negative side-effects on farm production and operating structures that favour large farms;
- Significant costs in a budget-cutting phase;
- Incompatibility of certain programmes with WTO rules.

Influential figures outside government have spoken out in favour of shaking things in the next Farm Bill, because certain provisions not only fail to promote a competitive, market-driven agricultural sector but also undermine America's credibility in the multilateral trade system. The Chicago Council on Global Affairs<sup>3</sup> recognizes that America's stand on agriculture helped to block the Doha Round. Without Doha, the Americans run the risk of losing their farm programmes (by court ruling) without winning new markets in other sectors in return (via the lowering of customs barriers in industry). Rather than relying on subsidies, production should meet the need to win new markets. Agricultural policy should focus on support for tailoring the sector to fit these new trends and on non-trade-distorting aid.

The possible failure of the Doha Round should not serve as an excuse to avoid reforming domestic support in the US. A report by the Congressional Research Office evaluates the potential challenges to US agricultural subsidies within the WTO<sup>4</sup>. While minimizing the risk of disputes, it considers that certain products, such as cotton, are vulnerable if complaints are lodged with the Dispute Settlement Body (DSB). The report suggests decoupling subsidies and therefore stepping up 'Green Box' aid to avoid running afoul of WTO rules. Unlike the Congressional Research Office, the American Farmland Trust (AFT), reflecting the high degree of vulnerability of US agricultural policy to the WTO, has responded rather constructively by proposing to adjust subsidies to eliminate their trade-distorting effects; to make farmers more competitive; and to win new markets<sup>5</sup>. The AFT is urging US farmers to get involved in the debate and to lobby for changes in their Farm Bill now to avoid a future situation where the WTO tells them what they must put in their Bill. The Farm Bill has not been finalized, but at least there is a debate. And it is clear that views on the burning issue of subsidies differ even among US farmers, a group that is less homogeneous than it might appear.

### **Conclusion**

In a way, the US presidential campaign is under way, and there is no guarantee that the Democrats will take electoral risks on subjects like trade or agricultural that could dent their approval ratings. George Bush may be a lame duck, but he still wields veto powers. And to override a presidential veto, Congress must muster a two-thirds majority, which means that the Democrats would have to enlist Republic support on some issues. Appearances to the contrary (whereby the Democrats are anti-liberalization and pro-subsidy), a few opportunities might open up for cotton: not only do the Democrats seem to prefer the multilateral system to bilateral free-trade agreements, but the key Democratic Congressmen are not from cotton-producing States. So if subsidies are cut, there might be less support for cotton than for other agricultural products (such as sugar, for example).

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<sup>3</sup> The Chicago Council on Global Affairs, *Modernizing America's Food and Farm Policy : Vision for a new direction*, Report of the Agriculture Task Force.

<sup>4</sup> CRS Report for the Congress, "Potential challenges to U.S. Farm subsidies in the WTO", October, 25, 2006, <http://farmpolicy.typepad.com/farmpolicy/files/RS22522.pdf>

<sup>5</sup> See Press release

<http://www.farmland.org/news/pressreleases/2006/11102006WTOVulnerability.asp> and AFT, "Agenda 2007": A New Framework and Direction for U.S. Farm Policy, [http://www.farmland.org/documents/AFT\\_Agenda2007\\_May06.pdf](http://www.farmland.org/documents/AFT_Agenda2007_May06.pdf)

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