

## **COTTON UPDATE – 9 May 2008**

### **An anti-Doha Farm Bill?**

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The ministerial has been postponed once again, the revised texts of modalities for Agriculture and NAMA have not come out yet, negotiations are focusing on a few delicate subjects such as sensitive products and talks on cotton are still stuck. Although the few signs by the Americans in recent days that cannot yet be called proposals point to positive developments in the talks, there is every reason to believe that the long-awaited agreement between the Senate and the House on the Farm Bill will not help matters any.

### **A new Farm Bill**

The five-year Farm Bill governing US agricultural programmes, which officially expired in September 2007, is being prolonged on a day-to-day basis for want of an agreement on Capitol Hill. Senators and Representatives seem to have reached an agreement – but with precious little to show for it. The new Farm Bill does not introduce any real reforms of domestic support in the form of direct production subsidies benefiting US farmers – on the contrary, its budget has reportedly even been increased by 20 billion dollars. In recent weeks, the debate has focused on revenue-based support ceilings for producers, with a new ceiling set at \$750,000. Congress has not paid any heed to the international commitments the US is expected to take on in connection with multilateral trade negotiations. This is not unexpected in itself, as domestic interests often take precedence over international undertakings, but could come as a surprise given the present economic situation. Many observers felt that the timing was perfect, in view of soaring prices for agricultural commodities, to cut domestic support levels, which would not have posed a problem from either a political or a budgetary standpoint.

### **A good grade from the National Cotton Council (NCC)**

The NCC is a good illustration of this unshakeable determination to avoid the slightest drop in support levels. The organization has never stopped arguing that the price rise was cyclical in nature and that it could not take the risk of letting prices drop back down without a safety net to cushion the fall. The NCC even went so far as to say that the demands of African countries at WTO were no longer valid, given that high prices ruled out domestic support. It

will be recalled that the C4 countries have proposed the elimination of trade-distorting subsidies which are both unfair and to a certain extent illegal, regardless of price levels. The NCC press release of 8 May 2008 also confirms that Farm Bill support has an impact above and beyond the purely agricultural sector. The organization is pleased that the bill will ensure the good health of the cotton industry in general. Its eagerness to have the Farm Bill signed augurs well for subsidized US cotton...

### **What is the probability of a presidential veto?**

According to the initial statements of the Bush Administration, made through Secretary of Agriculture Ed Schafer, the congressional agreement does not meet the Administration's expectations because it implies excessive increases in public spending, hence taxes, tackles too many irrelevant side issues and could jeopardize the multilateral negotiations. Consequently, Bush will probably veto the new Farm Bill. It would appear that the Farm Bill has become a more important campaign issue than expected owing to overlapping calendars. Now, Bush seems to be standing on principle and is sticking to his veto. This attitude could play out well with a good many conservatives at the height of the presidential campaign, while restoring some of the outgoing President's image and reuniting his party. Yet a veto does not imply that the law will not be adopted. The general feeling is that Congress could summon up the necessary two-thirds majority to override a presidential veto.

### **Conclusion**

All this could well take even more time, because Congress has to ratify the bill before the President can sign or veto it and before the Farm Bill 2008 (2009) can come into force. Although the Farm Bill is a prerequisite for moving forward and wrapping up Doha, there is every reason to fear that the present Farm Bill, bogged down in domestic support and emptied of any reforming content, will hinder rather than facilitate the ongoing talks in Geneva.