
COTTON UPDATE – 12 March 2009

Between financial crisis and protectionist retreat, a hope for cotton?

Squaring the circle...

How do you push your trading partners into opening their markets while yielding to protectionist temptations at home? This is the difficult balancing act that Heads of State are trying to perform at present, as they face a rapidly escalating crisis, rising dissatisfaction, and a need for global solutions despite their unpopularity... It is difficult to reconcile international commitments with domestic interests. And States face another dilemma in times of crisis: incurring massive public spending, especially for economic stimulus plans, while cutting costs to ease budgetary pressure. Taken together, all of these elements inevitably lead to inconsistent policies, or even problems with meeting previous commitments.

US trade policy agenda for 2009 is a good case in point. We already knew that trade (read: relations with other countries) was not going to be a priority in the first few months of Obama's presidency. Now it is clear that there is no point expecting concrete steps for the time being. In fact, the present situation even gives the US Administration a good excuse to review all bilateral and multilateral trade agreements under negotiation, regardless of the stage reached in talks. The US has announced that it would be taking a tougher line with its trading partners and is asking them to offer new concessions before negotiations resume.

An opportunity for cotton?

From a legal perspective, cotton has entered the final phase. The US has lost every single appeal and now stands before a choice: pay the retaliatory measures requested by Brazil or negotiate the reform of its cotton support system to make it WTO compatible. The Americans have already stated that they found Brazil's demands to be unreasonable. The amount of the

retaliatory measures will be set by an arbitration panel, but a decision is not expected until several months hence. However, if retaliatory measures were taken, the African cotton-producing countries would not benefit in the least from a legal battle that they have backed since 2002. Conversely, if Brazil negotiates the reform of cotton subsidies, the African countries would face less price distortion on the world market.

There are legitimate grounds to think that negotiation is possible, for several reasons. First of all, the Obama Administration, in its search for fresh funds, has announced that it intends to make deep cuts in agribusiness subsidies, in particular by limiting direct support to producers. More specifically, it is also proposing to phase out cotton storage subsidies. In addition, the President's trade policy agenda mentions that the US must pay more attention to the way in which "its policies influence the well-being of people struggling both at home and in the poorest regions of the world". Finally, the US has reaffirmed its commitment to WTO's dispute settlement system, its desire to find negotiated solutions during the proceedings and its determination to ensure that trade rules are applied. One could expect these Americans who are inclined to promote consistency with and respect for the rules to reform their cotton support...

Obviously, there is a very long way from announcing cuts in agricultural subsidies and obtaining the agreement of Congress. We know to what extent agricultural issues generate bipartisan support, and even though US farmers were not hit as hard by the subprime crisis as other population groups, their congressmen have already announced that the bill to cut subsidies was dead on arrival at Congress and that reforming a Farm Bill adopted last year for a five-year period was out of the question.

Conclusion

The news of a cut in agricultural subsidies, even though it was motivated by purely domestic considerations, has been relatively well received by America's trade partners,¹ especially from the perspective of the resumption of multilateral trade negotiations. As far as cotton is concerned, the door is not wide open but there are reasonable grounds to think that there is a small window of opportunity to slip through. For a Democratic President like Obama, who is also "naturally" protectionist and stresses the need to defend workers by improving labour and environmental standards, agreeing to apply the recommendations of the Appellate Body would let him demonstrate his attachment to the multilateral system. More broadly, we find

¹ See Bridges Weekly Trade News Digest, Vol. 13, No. 8, 4 March 2009.

ourselves hoping that cotton could jump-start the resumption of talks in Geneva. A negotiated solution between Brazil and the US based on a reform of the US cotton support system would send a clear signal of the importance that the US attaches to the poorest countries, especially the African nations, while removing a thorny question from the negotiating agenda. In times of crisis, we all live in hope...

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