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Partnership for development

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COTTON UPDATE – 2 July 2010

Brazil and the US play extra time

Background

After intensive discussions for nearly 60 days, the US and Brazil seem to have found a common ground – nevertheless still temporary. No solution came out from these talks but a framework to allow searching for a solution. It would have been an illusion to believe that a final solution would be found after two short months when the US did not move during 8 years in the Dispute Settlement and even less in the multilateral negotiations. Playing realistically, the Brazilians acknowledged that they had to wait for the 2012 Farm Bill for any meaningful reform of US subsidies.

In a nutshell, the Framework deal agrees upon the following elements:

- The US allocates $ 147 million a year to the Brazilian cotton growers in the form of a "technical assistance fund";
- The US will work on new benchmarks for the GSM-102 programme related to Export Credit Guarantee. Discussions with Brazil will be held every 6 months;
- The US will define a cap to trade distorting subsidies for cotton. Bilateral talks will be held four times a year.

In return, Brazil agrees to maintain suspended the implementation of cross-retaliation until a solution – acceptable **for them** – is included into the Farm Bill and voted by the US Congress. And the problem relies in this 'for them': within the DSB framework, Brazil looks for compliance of the US cotton support regime with WTO rules as defined by the Uruguay Round. African cotton producing countries' expectations go further, as these countries ask for additional concessions to be validated by the current Round and implemented in the post-Doha era. In fact, what is at stake in the US-Brazil discussions exceeds the bilateral framework and affects the multilateral negotiation which aims at defining a solution acceptable for all parts. Indeed, the 2012 Farm Bill will have to comply with the Doha Round and not only with the Uruguay Round commitments.

A temporarily satisfactory solution, yes, but for whom?

The US administration seems to be satisfied as it has obtained suspension of the retaliation and in return has only committed to continue to talk with Brazil on the above mentioned issues. What the administration has first won is time.
Generally speaking, when the National Cotton Council of America (NCC) gives a glowing report on a decision regarding cotton, this rarely means that the measure is beneficial to other cotton producing countries. On that specific deal, the NCC has clearly claimed its satisfaction regarding the "efforts" made by the US administration to find an agreement that was "difficult to negotiate", which "preserves the normal policy process in the United States" and suspends "the imposition of damaging retaliatory trade action". The NCC has also announced that it will work in collaboration with Congress and the administration to define a solution that continues to "provide the safety net needed by US farmers" without distorting the world cotton market. It is now under the responsibility of the US authorities to design a safety net that satisfies both its cotton growers and WTO rules (existing rules + Doha results). This will not be easy task as a safety net is, by definition, rarely non-distortive.

What Brazil obtains thanks to this framework deal is leverage on the Farm Bill, a mean to influence the future US cotton support regime. However, Brazilian authorities have to acknowledge that it is only – once again – a temporary agreement. According to more critical Brazilian observers, the framework agreement does not embody any future change in the US cotton policy. Their analysis focuses on the fact the US administration hides behind the omnipotence of Congress to avoid initiating a reform immediately. It is true that some instruments can only be modified within the framework of the Farm Bill but, for these observers, export credit guarantee programmes are under the administration control and could be modified earlier. An overloaded political agenda in the US could be responsible for this opposition to change.

Regarding the role of the WTO, as long as the two actors of the dispute agree on negotiation modalities, there is no more reason why the Dispute Settlement Body should intervene into this game.

African cotton producing countries on the sidelines?

African cotton producing countries seem to be excluded from a game which is being played in Washington or Brasilia more than in Geneva. Although some ‘friendly’ declarations invite them to believe that they could benefit from a fund that is not dedicated to their cotton producers, African cotton producing countries are aware that their focus should not be on the compensation fund but on the subsidy reform process.

Is there a chance for them to be reintegrated into the game and refocus the discussions on Doha? From a political point of view, they continue to push the multilateral talks. However, it looks very unlikely that an agreement is reached between US mid-term elections and the vote on the Farm Bill. The latest G-20 declaration, which for the first time does not fix any deadline for the conclusion of the Doha Round, combined with President Obama’s declarations on the lack of concessions on the table, reinforce an already bearish atmosphere. This may well encourage other WTO members to use other means to create a breakthrough in the cotton negotiations. From a legal point of view, as long as the US are not WTO conform, every country except Brazil would be allowed to initiate a case at the DSB.

Conclusion

The agreement between the US and Brazil confirms that the end of the game will be played on the Farm Bill’s ground. The challenge faced by the African cotton producing countries is to avoid that the deal negotiated by the US and Brazil and incorporated within the Farm Bill becomes the US bottom line on the Doha negotiation table. First, such a position would never fulfil the Hong Kong commitments. Second, the fact that the US sells as a concession its compliance with rules that have been agreed more that 15 years ago, would send a strong and bad signal within the multilateral negotiations. This is the reason why African cotton producing countries should not watch the game coming to an end without them participating. Today, extra time is neither beneficial to these countries nor the multilateral trading system. The danger is that African cotton producing countries are eliminated before the finals. We hope that both Ghana will bring Africa to the finals in South Africa and the C-4 will make sure that Africa is in the finals in Washington.

IDEAS Centre is dedicated to facilitate the integration of developing countries into the world economy and has assembled over the last 8 years substantial experience on this issue. Its mission is to support policy makers around the world working to develop approaches to assure that globalization can be harnessed for development and to fight against poverty both within their countries and in a more inclusive and fairer world trading system.

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