
COTTON UPDATE – 30 June 2011

New twists and turns in the cotton film: how can/should the debate in the US Congress serve the cause of cotton in Geneva?

Introduction

One film, about cotton. Two parallel stories, which for the time being seem to be playing out independently of each other, at two places in the world: on the one hand, the debate and the votes – for or against – in the US Congress in Washington, on subsidies in general and compensation to Brazilian cotton growers in particular; on the other hand, the negotiations in Geneva aimed at an early harvest, including for cotton. Yet these two stories will end up by intersecting and influencing each other, even if it means that some actors are pushing a bit to ensure a happy ending for cotton. Here, it is time for a summary of previous episodes, in order to show how the debate in the US Congress can facilitate progress on the cotton issue in Geneva.

A gripping plot in Washington

The US House of Representatives has a flair for drama, and the debate on reducing the budget deficit has us on the edges of our seats. From amendments to rejections, from proposals to votes, both advances and reversals have proliferated in recent weeks. The problem of budget pressure has been the guest star in the debate on the Farm Bill. Whereas everyone knew that cuts were of course foreseen but had been written into the Farm Bill, pressure from the budget deficit has led lawmakers to make wide-ranging proposals for cost savings, especially since current high prices guarantee very substantial income for American farmers compared to other population groups. As a result, a measure as unpopular as the one which consists of making US taxpayers pay compensation to Brazilian cotton growers¹ to

¹ In a nutshell, the US-Brazil Framework deal agreed 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.

ensure that US cotton farmers can themselves keep receiving subsidies has come in for harsh criticism on more than one occasion.

The plot which hinged on the payment of compensation to Brazilian cotton growers seems to have shifted towards elimination rather than maintenance. In addition to challenging the concept of payment of compensation, proposals to cap farmers' income in general or to phase out commodity programs are on the rise. The amendments voted by the House Appropriations Committee were rejected in plenary, as many had predicted. More surprisingly, however, there was a direct floor vote to eliminate Brazilian compensation purely and simply. On the other hand, new amendments on the lowering of the income ceiling to qualify for subsidies or compliance of the cotton support system with WTO rules were voted down, thereby confirming the assumption that the main concern of US legislators is the budget deficit, not the WTO. This having been said, the recent choices made by US Congressmen prove that questions concerning the elimination of cotton subsidies in general and the problem of compensation paid to Brazil are real and offer leverage for the negotiations in Geneva, especially in connection with efforts to find a solution for an early harvest including cotton. Conversely, if a decision to cut budgets is indeed taken on the domestic level, we can foresee that the negotiations in Geneva over the early harvest can help influence the choice of sectors and subsidy types concerned by these budget cuts.

In Geneva, the end of the film has been postponed

As Doha was dying, Pascal Lamy pulled the early harvest out of his hat. Given that it is politically difficult to say that you are against a measure aimed at improving the lot of the poorest countries in world trade, all Member States have agreed to work on the idea of defining a package for the LDCs – accompanied by an LDC + package which has yet to be firmed up – but not however, without having expressed substantial reservations on the contents of the package.

The US is maintaining its position that it is extremely difficult for it to make “a step forward for cotton” before an overall agreement is reached on agriculture. And to avoid being held solely responsible for a stalemate on this question, it is trying to draw not only China but also India into its strategy of failure. Thus, at a 23 June meeting of the regular Agriculture Committee meeting, India and the US criticized each other for their cotton support policies with a trade-distorting effect on world prices.

Brazil is between a rock and a hard place, as it is theoretically supposed to implement cross-retaliation measures against the US if the vote to phase out the compensation paid under the

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.

interim agreement is validated by the Senate. For the time being, US payments are guaranteed up until 1 October. One can reasonably assume that Brazil would be motivated to push a proposal on cotton in conjunction with the early harvest which at least ensures that US subsidies comply with WTO rules, to avoid having to lift sanctions in sectors that have nothing to do with cotton. It could find support in the public debate from the US sectors concerned (services, intellectual property), which will surely tell the US authorities that they are reluctant to bear the commercial consequences of ill-fated cotton subsidies condemned at the WTO.

As for the European Union, it recalled at the last TNC that its support for the early harvest for LDCs was unconditional but that it was clear that this could only be a stage on the road towards a global solution for the Round. As for cotton, the EU has not yet spelled out how and how much it intends to contribute to the planned “step forward”.

Conclusion

We don't know yet how the film ends, but under the combined impact of Geneva and the US Congress, cotton is undeniably back in the limelight. The domestic debate in the US clearly shows that cotton subsidies – but not necessarily trade-distorting subsidies – have come under fire and that a real window of opportunity has opened up to reform the system, all the more so since the climate of high cotton prices and budget pressure is ideal for offering a deal that is politically acceptable for cotton growers and satisfactory for US taxpayers. The efforts being made in Geneva to prepare an early harvest hold out the possibility of influencing the debate underway in the US Congress. It is clear that the Farm Bill is not drafted in Geneva. However, given that the need to reduce farm subsidies has been accepted in the US, a decision by WTO members on cotton subsidies would give those in favour of these reductions an added argument relating to the need to take US external interests into consideration as well. This is why the African cotton-producing countries must urgently work out exactly what they expect from the US in this negotiating phase and play a proactive role in preparing the package for an early harvest. This “step forward for cotton” will only be credible and acceptable for the US if it implies the effective, assessed contribution of the European Union, China and India to this early harvest. It would further give these great powers an opportunity to put their words into action. If the African cotton-producing countries want to avoid being written out of the screenplay, they must forcefully assert their legitimate right to help write the end of the film.

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