

Inside US Trade
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By Ian Swanson

AFRICAN NATIONS WARN OF TRADE CASES ON COTTON IF DOHA FAILS

Officials from the four African countries calling for the U.S. to agree to eliminate its trade-distorting cotton subsidies this week warned they would consider challenging U.S. subsidies in the World Trade Organization if they are not addressed in the Doha round of negotiations, which are currently stalled.

However, the officials from Benin, Burkina Faso, Mali and Chad at an Oct. 25 press conference indicated their preference would be to win reforms of U.S. farm programs through the WTO negotiations, and not through litigation.

Burkina Faso President Blaise Compaore, who spoke via videoconference, said the priority of his country is to push forward on the negotiations and that litigation would be a last resort. But he said he would not exclude the possibility of a trade case if the Doha talks fail.

Youssef Abbassalah, Chad's trade minister, also said his country would be obliged to consider a WTO challenge if the Doha negotiations fail, but said his country hoped it would not come to this.

The four countries say cotton producers in their countries are losing \$200 million in revenue annually because of lower global prices resulting from \$4 billion in U.S. subsidies. They also said African cotton farmers produce cotton with production costs 40 percent less than U.S. producers, and argued U.S. cotton subsidies reward inefficient producers at the expense of efficient producers.

A U.S. trade official disputed the statement that the four countries lose \$200 million annually as a result of the U.S. subsidies, and noted that the U.S. has eliminated the Step 2 cotton support program found to be a prohibited subsidy by a WTO panel in a challenge brought by Brazil. The U.S. argues it is now in compliance with panel and Appellate Body decisions in the Brazil cotton case because of the elimination of Step 2 and significant changes to U.S. export credit programs.

Brazil requested the formation of a new panel to determine whether the U.S. has complied with the previous panel's findings, and WTO Director General Pascal Lamy is set to name panelists.

Studies have reached different conclusions on how much world prices are affected by U.S. cotton subsidies. National Cotton Council President Mark Lange at an Oct. 26 panel discussion cited studies indicating a 2 to 3 percent decrease in world prices by subsidies

provided by the U.S. and other countries. Dan Sumner, an agriculture economist with the University of California who has studied the impact of cotton subsidies, said his conclusion is that the elimination of U.S. trade-distorting subsidies would increase world prices by about 10 percent.

Sumner said some studies have shown an impact as high as 30 percent, while others, including an International Monetary Fund study mentioned by Lange, find an impact of 2 to 3 percent. He said a number of factors impact these findings, including the base year used for counting U.S. payments, which are often linked to prices and rise when prices fall, and production in other countries. Sumner said he believes studies finding a 30 percent impact and a 2 percent impact are both implausible, and that the real impact is probably somewhere in between.

Officials from the four African countries met with U.S. Trade Representative Susan Schwab and Agriculture Secretary Mike Johanns on Oct. 25. Mali Trade Minister Choguel Kokalla Maiga said the two U.S. officials indicated that without a WTO deal, it would be very difficult to address the African demands on cotton. If there were an agreement, Maiga said, the U.S. officials indicated this could be reflected in the next farm bill, which is to be written next year.

WTO Agriculture Committee Chairman Crawford Falconer, who spoke on the Oct. 26 cotton panel, said reform of cotton subsidies would not move forward unless the Doha round moves forward. In response to questions, he said litigation is another option but added that it should not be over-estimated as a way to deliver reforms. A wiser course of action, he said, would be to get a negotiated outcome.

Assuming Doha does move, Falconer said, the Hong Kong ministerial declaration in December 2005 makes it clear that members intend for reform of trade-distorting cotton subsidies to go further and faster than reforms to subsidies for other commodities.

Falconer said the political reality is that WTO members will not be in a position to clarify how much to reduce cotton subsidies until they determine how much subsidies are to be reduced more generally.

Separately, a U.S. trade official said Johanns has indicated that he would like to see reforms in a 2007 farm bill, which indicates there could be some farm reforms even if there were not a completed WTO deal. The official said there would need to be an agreement for the WTO to have an influence on the next farm bill, but that the lack of an agreement would not preclude some reforms.

In the U.S.-Africa meeting, Maiga said U.S. officials echoed previous comments they have made by saying cotton subsidies would be best addressed through an ambitious Doha round that resulted in significant trade liberalization. The U.S. trade official said the African officials should bring their message to other WTO members, including those who he described as the real protectionists in the WTO.

The African countries are also asking for unspecified emergency measures that could help their cotton producers before a final Doha agreement. They did not specify what kinds of measures they were seeking, and the U.S. trade official said Johanns and Schwab had only a general discussion about this during the Oct. 25 meeting.

The U.S. has supported investment in Benin and Mali through the Millennium Challenge Corporation, which provides aid to developing countries that meet certain conditions related to actions by their governments. It signed a \$307 million compact with Benin in February that, among other things, seeks to remove trade constraints at the Port of Cotonou, which could benefit cotton exporters.

Mali has developed a \$461 million proposal for the U.S. to consider, and Burkina Faso is expected to offer a proposal.

The U.S. also has provided \$27 million in technical assistance to West Africa cotton producers that is intended to help them take advantage of trade opportunities through the introduction of new technologies, and the promotion of infrastructure development.