

IPC Alert

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THE COTTON DISPUTE

The fact that Brazil and the US have reached an agreement on the longstanding WTO cotton dispute is good news. The slowly recovering global economy will not be burdened with further trade restrictions in the form of Brazilian countermeasures. Moreover, coming at a time when WTO Doha Round negotiations continue to be at an impasse, this agreement is an important demonstration that the other pillar of the WTO - the dispute settlement system - is functioning relatively well. Yet, it is by no means a perfect outcome, and also points to weaknesses in the multilateral trade system requiring ongoing consideration and work.

To recap: Brazil had been authorized to impose more than \$800 million in countermeasures following the WTO panel findings of 2005 and 2008 that a number of US agricultural subsidies are inconsistent with WTO Rules. The very real threat of countermeasures effectively brought the US to the bargaining table; the US has agreed to provide almost \$150 million a year to a technical assistance fund for Brazilian cotton producers, and to modify its export credit guarantee program. The administration did not however address the thorny issue of US subsidies, but signaled that it would work for a mutually agreeable solution when Congress takes up the 2012 farm bill. As part of the US compensation package to Brazil, the US also agreed to move forward with a proposed rule on a completely unrelated SPS issue.

“A negotiated compensation settlement is always preferable to trade restrictions, which is after all what countermeasures are. This is especially the case today, when trade flows have finally begun to pick up again after a significant decline caused by the financial crisis,” notes IPC Chairperson Carlo Trojan, “yet the ideal resolution to a WTO dispute is compliance by the guilty party with the panel’s findings. While the US has taken some steps to address the underlying policies found to be WTO illegal, it has deferred on the big ticket items – the marketing loans and counter-cyclical payments.”

African cotton producers, most of them living at subsistence levels, have of course also been hoping for a change in US policy, but they, too, will have to wait to see if the US-Brazilian agreement will be translated into substantial changes to the farm bill. “The cotton initiative, which the Africans were able to incorporate in the Doha Round, unfortunately remains stuck, along with the rest of the Doha negotiations, reminding us that a healthy and evolving multilateral trade system requires both negotiations and dispute settlement,” IPC Vice Chairperson Marcelo Regunaga emphasizes. Moreover, not having brought a WTO case against the US, the Africans will not benefit from any compensation. “This situation exemplifies how difficult it is for LDCs to benefit from the dispute settlement process” comments IPC member and Executive Director of the IDEAS Center Nicolas Imboden; “their scope of action is limited because they lack serious retaliation threats to force the big players into compliance or compensation.”

Although progress on SPS disputes is of course also welcome, IPC member Carlos Perez del Castillo notes that “publically linking what should really be a scientific issue of whether a specific state in Brazil is or is not free of certain animal diseases, to a more political agreement such as this one on cotton, is rather unusual.

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About IPC

The International Food & Agricultural Trade Policy Council (IPC) promotes a more open and equitable global food system by pursuing pragmatic trade and development policies in food and agriculture to meet the world’s growing needs. IPC convenes influential policy makers, agribusiness executives, farm leaders, and academics from developed and developing countries to clarify complex issues, build consensus, and advocate policies to decision-makers. More information on the organization and its membership can be found on our website: www.agritrade.org.