

Policy Pennings by Dr. Daryll E. Ray

Cotton trade dispute ruling released: U. S must make changes

On September 8, 2004 the World Trade Organization (WTO) Disputes Panel released the final report on Brazil's complaint against the U.S. cotton program. The result was a mixed bag giving both sides something to crow about.

One of the key findings for U.S. agricultural programs is the ruling "that income support provided to U.S. cotton farmers and others that is fully decoupled from production and prices – that is, a recipient does not have to produce cotton to get the payments and can choose to produce nothing at all – has not suppressed or depressed world cotton prices. Under the 2002 Farm Bill these decoupled payments are called contract payments and are used for other program crops like corn, soybeans and wheat.

The other rulings in support of the U.S. were findings that U.S. payment programs did not increase the U.S.'s share of the world cotton export market; certain U.S. export guarantees were consistent with U.S. WTO obligations; and U.S. programs did not seriously prejudice Brazil's interests from 2003-2007.

On the other side, the panel's report includes rulings that supported parts of Brazil's initial complaint:

- Export credit guarantees for "unscheduled commodities" (such as cotton and soybeans) and for rice are prohibited export subsidies.
- Some U.S. domestic support programs (i.e. marketing loan, counter-cyclical, market loss assistance and Step 2 payments) were found to cause significant suppression of cotton prices in the world market in marketing years 1999-2002.

• Step 2 payments to exporters of cotton are prohibited export subsidies and Step 2 payments to domestic users are prohibited import substitution subsidies. In addition, several other WTO rulings have been released in recent weeks.

Not too long ago U.S. agricultural programs and Farm Bill discussions were a matter of domestic policy and the greatest worry farm belt legislators has was garnering enough urban votes to make sure the legislation was adopted. Today with international trade agreements on the front burner, the ball game has suddenly changed and trade commitments may be as important as the votes of key urban law makers.

As the next farm bill comes up for discussion it is certain that some of the current provisions like LDPs and counter-cyclical payments will need to be reexamined.

Given the necessity of food and the importance of farming to many countries, another question is whether agriculture can be lumped into trade agreements along with sewing machines and DVD players.

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