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PRESS RELEASE

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WTO Ruling Against U.S. Cotton Has Broad Ramifications for Farm Policy

Ruling Should Prompt Shift in U.S. Programs to Lift Prices

Minneapolis - A ruling by a World Trade Organization (WTO) dispute panel yesterday found that the U.S. cotton program violates international trade rules. The panel, siding with Brazil, found U.S. subsidies exceeded 1992 levels, the ceiling set by the 1994 Uruguay Round Agreement on Agriculture. The ruling should prompt a re-writing of U.S. farm policy to lift market prices and stop agricultural dumping, stated the Minneapolis-based Institute for Agriculture and Trade Policy.

"This ruling points to the disastrous results of U.S. farm policy, which is designed to drive down commodity prices and then make up the difference in subsidies," said Ben Lilliston, of the Institute for Agriculture and Trade Policy. "The Bush administration has consistently negotiated on behalf of the multinational grain corporations at the WTO. In this case it defended these corporations and the practice of agricultural dumping at the dispute panel. Now, there is a renewed opportunity to design a new farm program to lift prices paid to farmers and help the market function properly, which will immediately reduce the subsidy payments at issue in this case. An approach that lifts commodity prices to cover the cost of production will help farmers in the U.S. and around the world."

In the ground-breaking case, Brazil alleged that subsidies paid to U.S. farmers growing cotton from 1999 to 2002, and those subsidies mandated through 2007 in the latest Farm Bill, violate WTO rules. The ruling also apparently supported Brazil's charges that the U.S. cotton program drove world cotton prices down. The U.S. share of the world cotton exports is expected to reach 42 percent this marketing year - the highest since 1960. This is an increase from 24 percent of the world market in 1996.

Central to the legal challenge are direct payments to U.S. farms under the 1996 and 2002 farm bill, as well as payments made under emergency supplemental appropriations bills. The U.S. government argued that direct payments are de-coupled - meaning that under the WTO Agreement on Agriculture, they are not linked to current production, and thus not trade distorting. Brazil argued that the real-world effect of these payments is to encourage production. The ruling also apparently supported Brazil's challenge of the Step 2 program, which pays U.S. cotton companies to lower export costs.

The ultimate implications of the WTO ruling for U.S. agricultural commodity programs could be significant and may require the re-opening of the Farm Bill. While targeting the U.S. cotton program, the ruling also has implications for U.S. soybean, corn and wheat programs, which operate similarly. Direct payments set forth in the 2002 Farm Bill were intended to comply with WTO rules. Farmers are paid based on past year acreage and yield, not based on what they produce in the year they are paid.

Direct payments, particularly counter-cyclical payments, fluctuate from year to year based on the price farmers are paid. Brazil charged that because the 2002 Farm Bill locks in the cotton program through

2007, then the program through 2007 should be found out of compliance. But, reportedly, the WTO Dispute Panel disagreed and only ruled on recent years in which payment levels were available. Cotton prices are relatively high this year, which means that government payment levels will decline.

"It is unclear whether the ruling means that the program could be in compliance in some years, but not others," said Lilliston. "If so, this would make the decision difficult to enforce, because charges would have to be brought retroactively. The WTO rules are still wholly inadequate to getting to the core issue, which is how to raise prices for farmers to ensure they make an adequate living."

Behind Brazil's challenge is widespread cotton dumping - export at below the cost of production. Earlier this year, the Institute for Agriculture and Trade Policy issued its report United States Dumping on World Agricultural Markets. The report found that in 2002, the latest numbers available, cotton was exported from the U.S. at 61 percent below its cost of production. The export price for U.S. cotton is 37 cents per pound, down from 93 cents per pound in 1995.

The plunge in the global price for cotton has particularly hit hard cotton-dependent West African countries like Benin, Mali, Burkina Faso, Chad and Togo. Developing countries targeted agricultural dumping and U.S. farm policy at the WTO Ministerial in Cancun last year. The U.S. government has been heavily criticized internationally for demanding trade concessions of other countries, while continuing to distort the global agriculture market through dumping.

Dumping is caused by a non-competitive market and massive over-production. In the case of cotton, the world's three largest cotton trading companies are all U.S. based and growing rapidly. Massive over-production of cotton, encouraged by U.S. farm policies, has drive prices down below the cost of production. Subsidies are an outgrowth of these low prices, but not the cause of low prices.

"This case will not solve the problem of agricultural dumping," said Lilliston. "But it should jumpstart a discussion on how to lift prices paid to farmers, which would cut subsidies and stop dumping. Dumping is caused by over-supply. Farmers will overproduce when prices go down, and they'll over-produce whether they receive subsidies or not. This ruling begs for a comprehensive agricultural inventory management program to bring supply into balance with demand, and ensure farmers are paid a fair price."

To address low commodity prices, the Institute for Agriculture and Trade Policy is calling for an approach that centers on:

- Balancing Supply and Demand: Governments must introduce inventory management programs that are common in other economic sectors;
- Enforcing International Law: Agricultural dumping is prohibited under international law, but enforcement is very difficult and complicated. Anti-dumping rules need to be simpler and easier to implement immediately;
- Addressing Market Power: The world's largest commodity traders are the biggest beneficiaries of agricultural dumping. These transnational corporations dominate multiple sectors in multiple countries. There are no provisions in the WTO or other international institutions to address oligopoly market power.

IATP's short background paper on the Brazil challenge of the U.S. cotton program, is available at: www.tradeobservatory.org.

The Institute for Agriculture and Trade Policy promotes resilient family farms, rural communities and ecosystems around the world through research and education, science and technology, and advocacy.

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