

Lecture 9
AAE 374, 10/1/09

**Cotton Wars in the WTO
with an eye on dairy**

9/30/2009

Senator Herb Kohl, Congressman Dave Obey
Retain \$350 Million For Dairy Farmers

In FY 2010 Agriculture Appropriations Bill

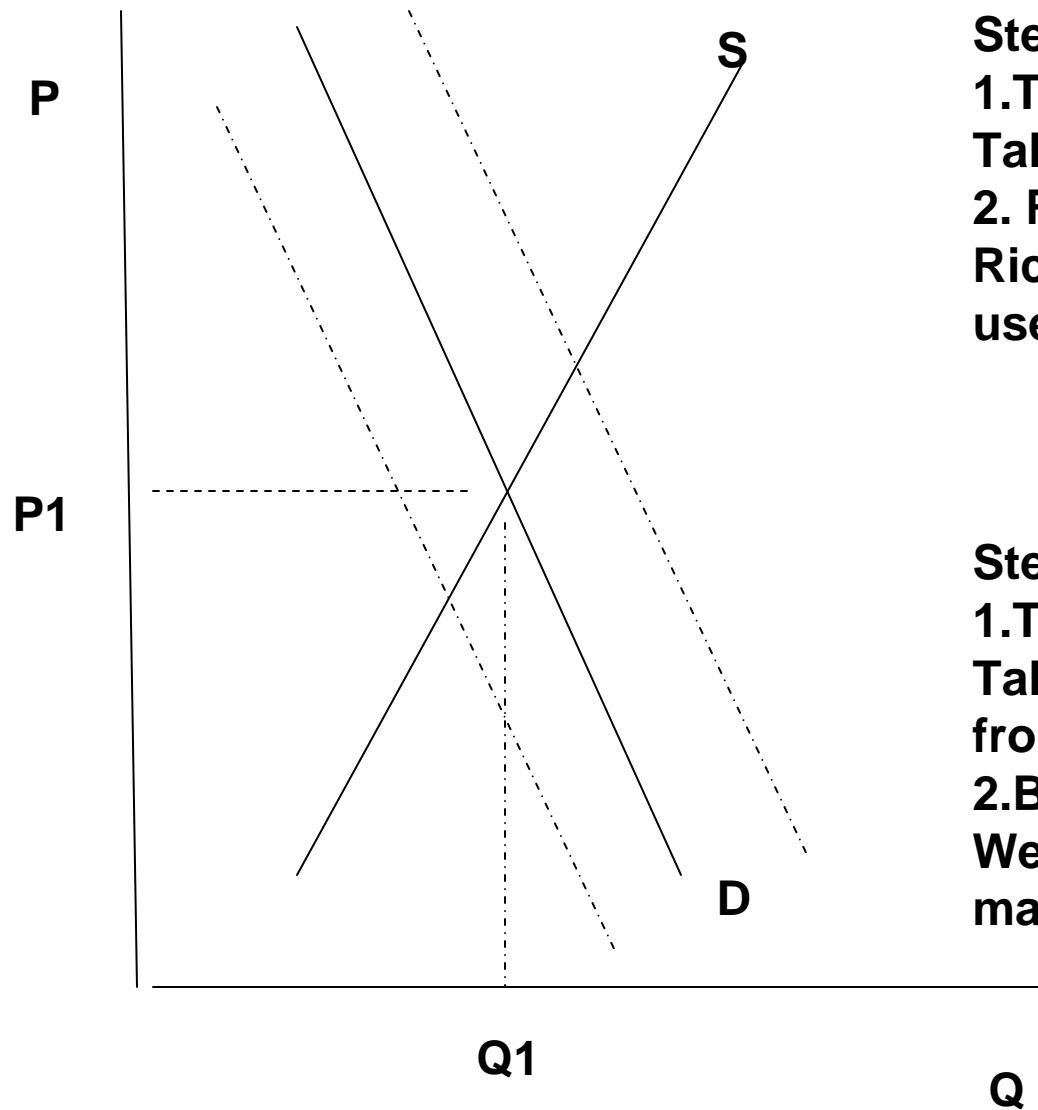
\$60 million in cheese and dairy product purchases for food banks and other nutrition and feeding programs, and \$290 million in direct support to dairy farmers using guidelines to be determined by the Secretary of Agriculture under an expedited process.

“These are desperate times in farming,” Kohl said. “And we can’t lose sight of the fact that farming losses reverberate through our rural communities. We hope this funding can provide a measure of relief to the farms and small businesses that are struggling to stay afloat through this storm of mounting costs and debt.”

Lessons in Supply-Demand for Primary Products

- What should the slope of the supply curve look like for primary products? Steep or flat?
- What about the slope of the demand curve for commodities like basic foods, oil, and so forth at least in the short run?

Supply and demand for primary products (basic commodities)



Steep supply curve:

1. Temporal explanation – Takes time to bring on line.
2. Resource scarcity: Ricardian notion of having to use more marginal resources.

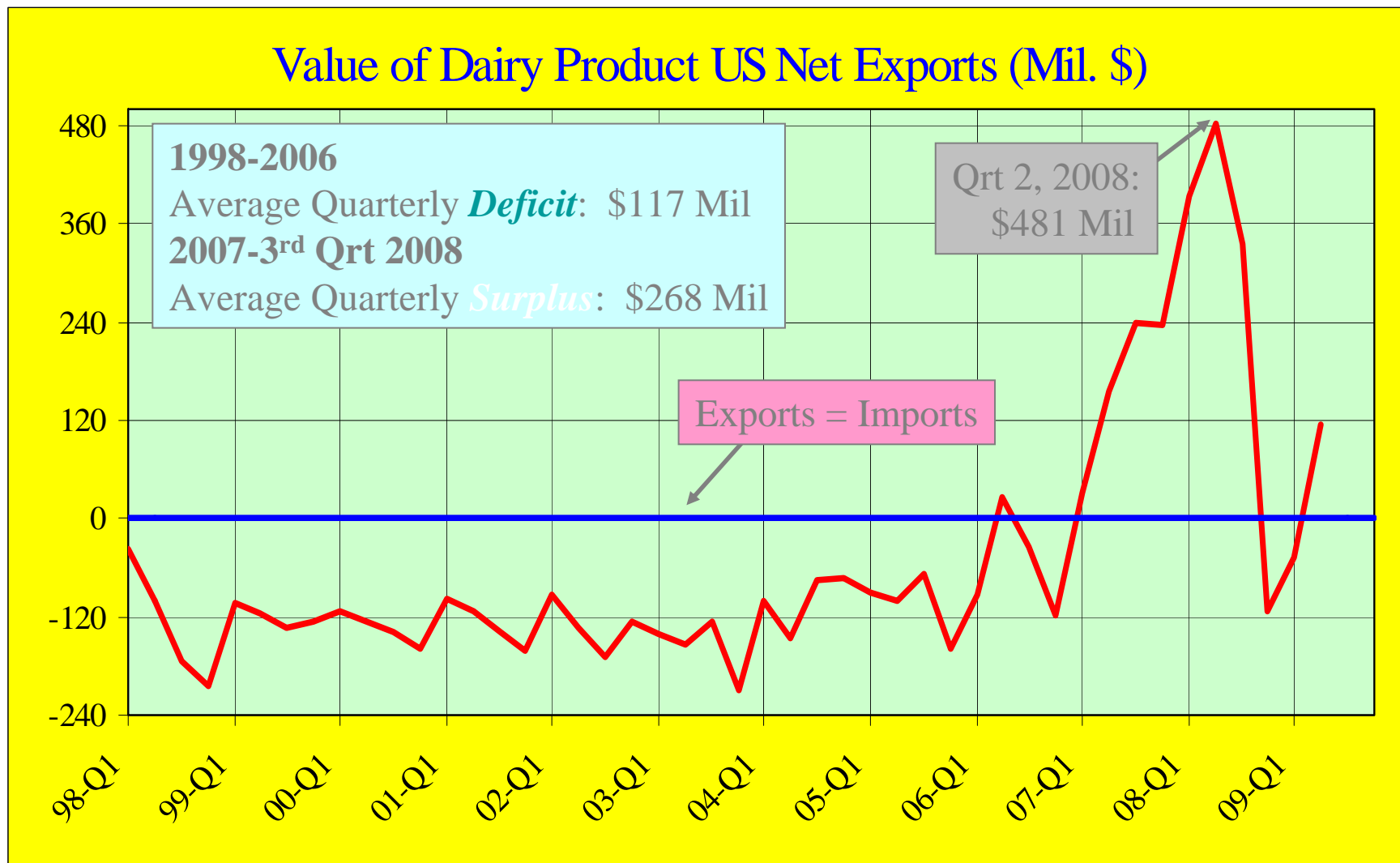
Steep demand curve:

1. Temporal explanation
Takes time to substitute away from basic goods, e.g. oil.
2. Basic need explanation:
Weak substitutes for core food, many raw materials.

Implications of S-D curves for price volatility

- Small S or D shocks can lead to big price swings.
- How does this relate to export subsidies that US or Europe pursue in agriculture?
- What do they accomplish with respect to prices of those goods on domestic markets?
 - Increase them significantly by making small reductions in domestic supply.
 - Why do you need trade restrictions on imports?

Where Have We Been: Dairy Trade



Source: USDA, Foreign Agricultural Service

AAE Talk last week

- Glauber's Diplomatic Message on Trade Policy?
 - Lost ground since 1990s esp. in Doha Round because of big US abuse of trade deals.
 - His Peace Corps work was in ... Mali (one of 4 main African cotton exporters suffering US mkt mess)
- Runge's blunt words?
 - US dysfunctions in exec and leg branches, development assistance, and R&D in biofuels.
 - Clear that US was making a major mess out of global trade deals with its base ag policies.

WTO, Base Politics, and Political Bases

- The WTO (http://en.wikipedia.org/wiki/World_Trade_Organization)
 - World Trade Organization (Jan 1995) >150 members
 - Evolved from GATT (1947-1994)
 - Negotiates and enforces trade and foreign investment rules aimed at integrating global economy.
- Base Politics
 - Special interests crowd out broader welfare outcomes when private gains far outweighed costs to others.
- Political Bases in US Politics
 - Rural areas strong in “House of Representatives”
 - Strong lobby interests tied up in ag distortions.

US cotton subsidies tangle up trade talks



TERRA DAILY

<http://www.terradaily.com/>

by Staff Writers

Geneva (AFP) July 28, 2008

The quest for a new global trade pact got further tangled on Monday as China demanded the United States scrap its cotton subsidies, fuelling a potentially damaging dispute between the two powers.

China demanded that Washington end subsidies to its cotton producers after bluntly rebuffing US allegations that the Chinese were jeopardising precious steps towards a global free trade pact.

"The extremely high cotton subsidies by the US have caused serious damage to cotton farmers in developing countries, including those in Africa and 150 million ones in China," said top Chinese official Zhang Xiangchen.

"We believe that the US is not in a position to discuss with developing (WTO) members on cotton tariffs until they eliminate their cotton subsidies," he added.

Brazil to Seek Sanctions Over U.S. Cotton Subsidies

By THE ASSOCIATED PRESS

Published: June 4, 2008

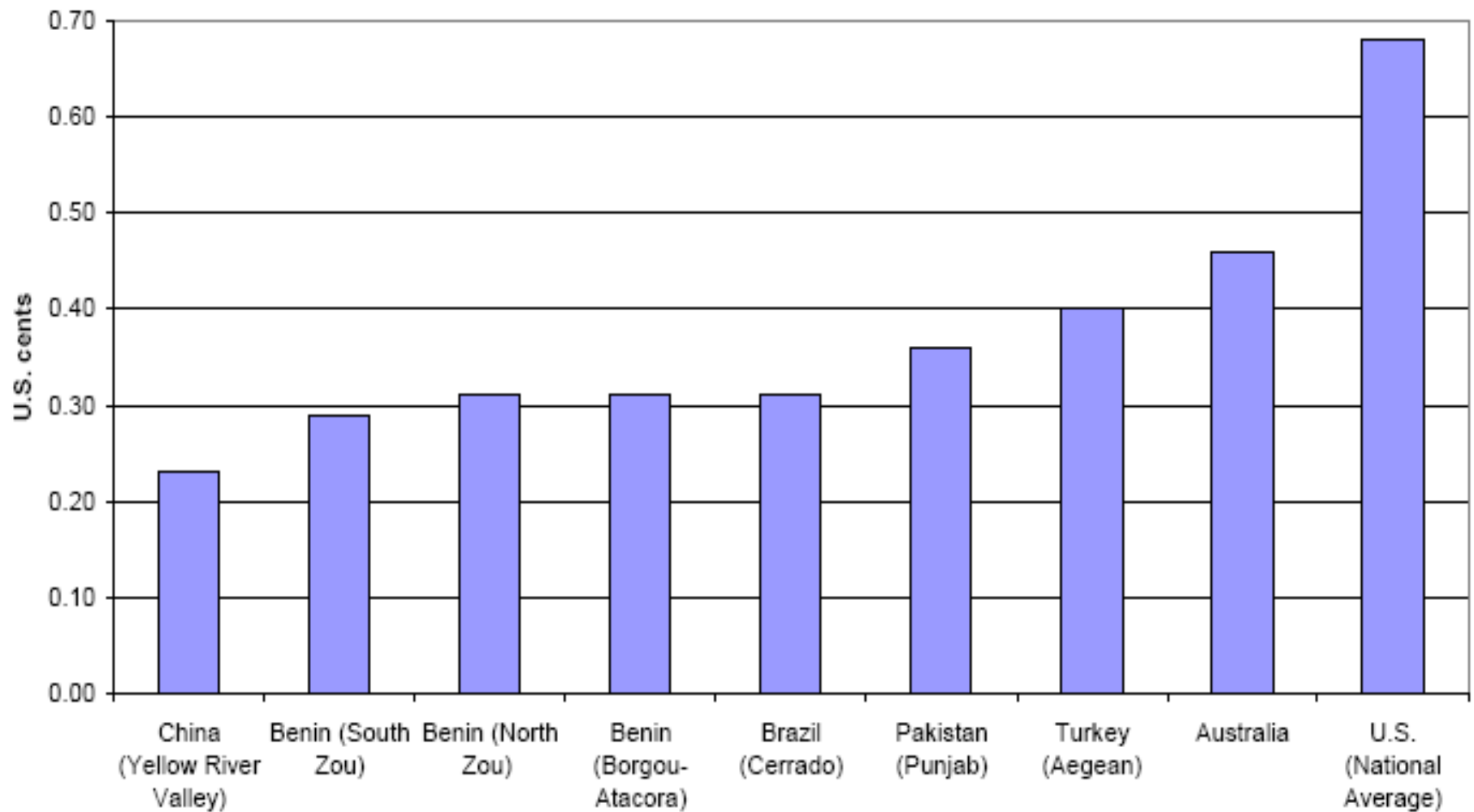
BRASILIA, Brazil (AP) — Brazil will seek sanctions against the United States after winning a [World Trade Organization](#) ruling on cotton subsidies, a top Brazilian trade official said Tuesday.

The United States lost its final appeal on Monday in the billion-dollar trade dispute over subsidies to cotton growers. Because of the ruling, Brazil has the right to ask the W.T.O. to authorize retaliatory trade sanctions that could run into the billions of dollars until Washington scraps the payments.

Brazil and several cotton-producing countries in West Africa have long claimed that their farmers suffer because of federal payments to cotton growers in the United States, which amount to about \$3 billion a year.

Lawmakers in the United States overruled a veto by President Bush last month and forced through a [farm bill](#) worth \$290 billion that will largely maintain the cotton payments for the next five years.

Net Cost of Producing One Pound of Cotton*



*Excluding land rent and seed value. Cost are for 2000/01, except 1999/01 for U.S. and Australia

Source: ICAC, Survey of the Cost of Production of Raw Cotton, 2001

Table 2: US cotton subsidies by program

Crop Year 2002/03 (\$million)	
Direct Payments	625
Counter-Cyclical Payments	1,311
Marketing Loans	873
User Marketing Certificates (Step 2)*	328
Export Credit Guarantees	14
Crop Insurance	286
Total	3,437

*Step 2 payments are not linked to a particular crop year. \$328 million equals the average expenditure during calendar years 2002 and 2003

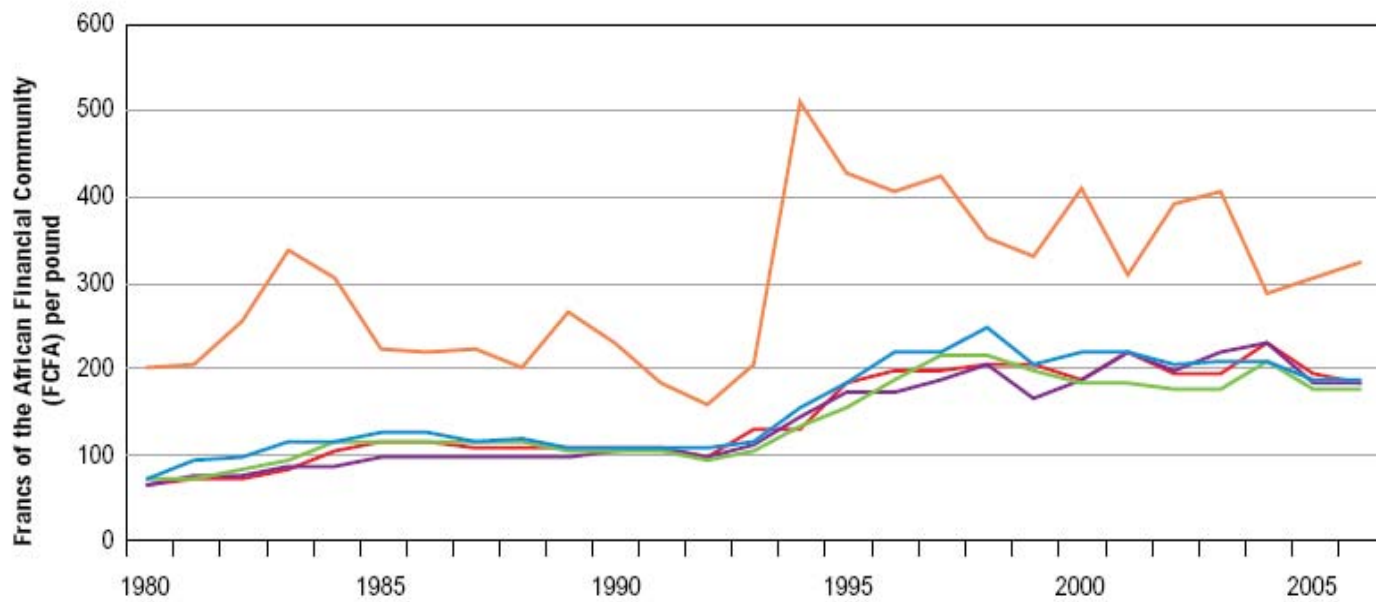


FIGURE 1. WORLD COTTON PRICE AND PRODUCER PRICES IN WEST AFRICA, 1980–2006

Source: Alston, Sumner, and Brunke (2007). Cotton Outlook A Index (Cotlook A) reflects the world price.

- Cotlook A
- Benin
- Burkina Faso
- Chad
- Mali

Export Market Shares

% of world export market share

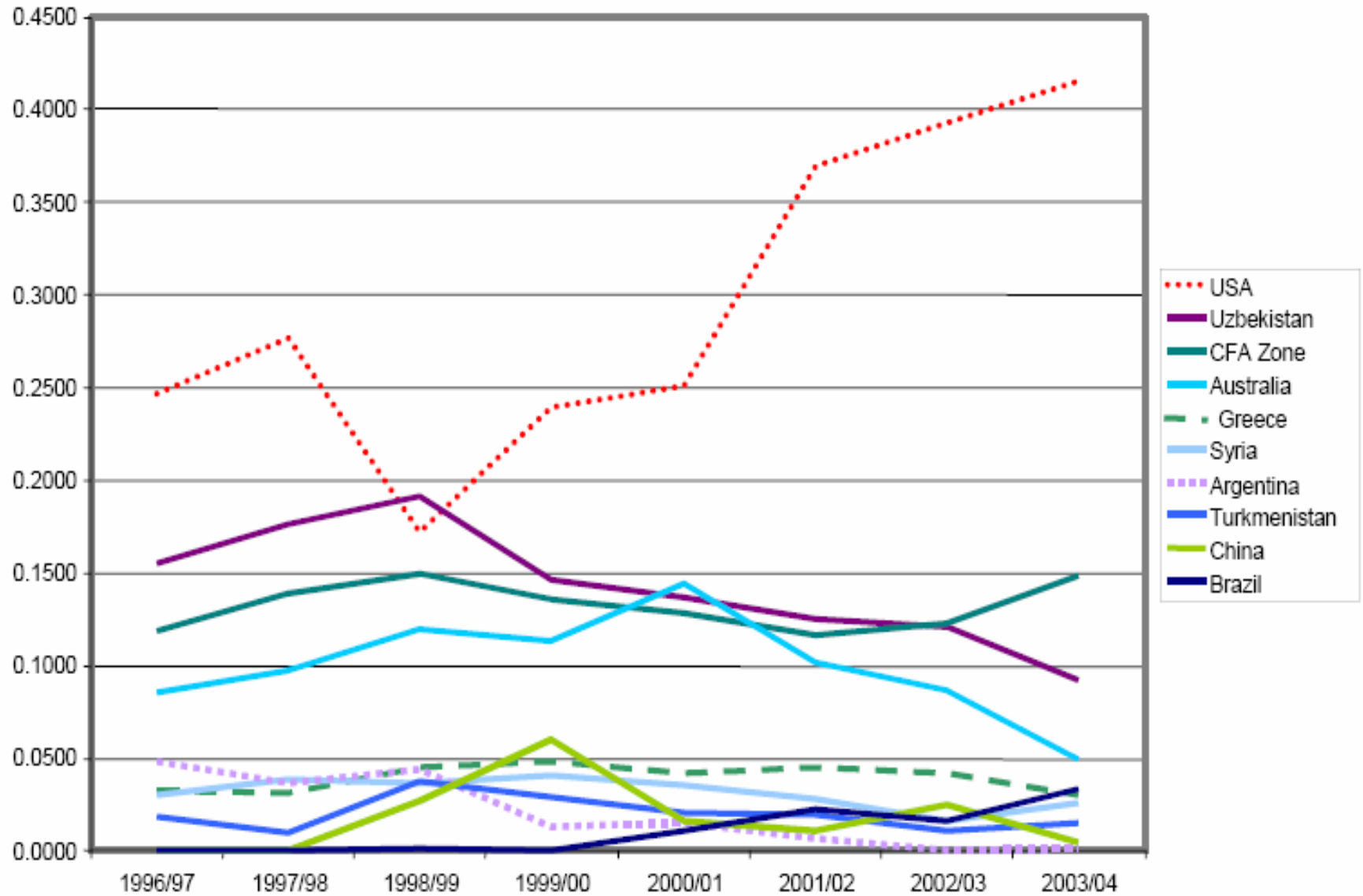


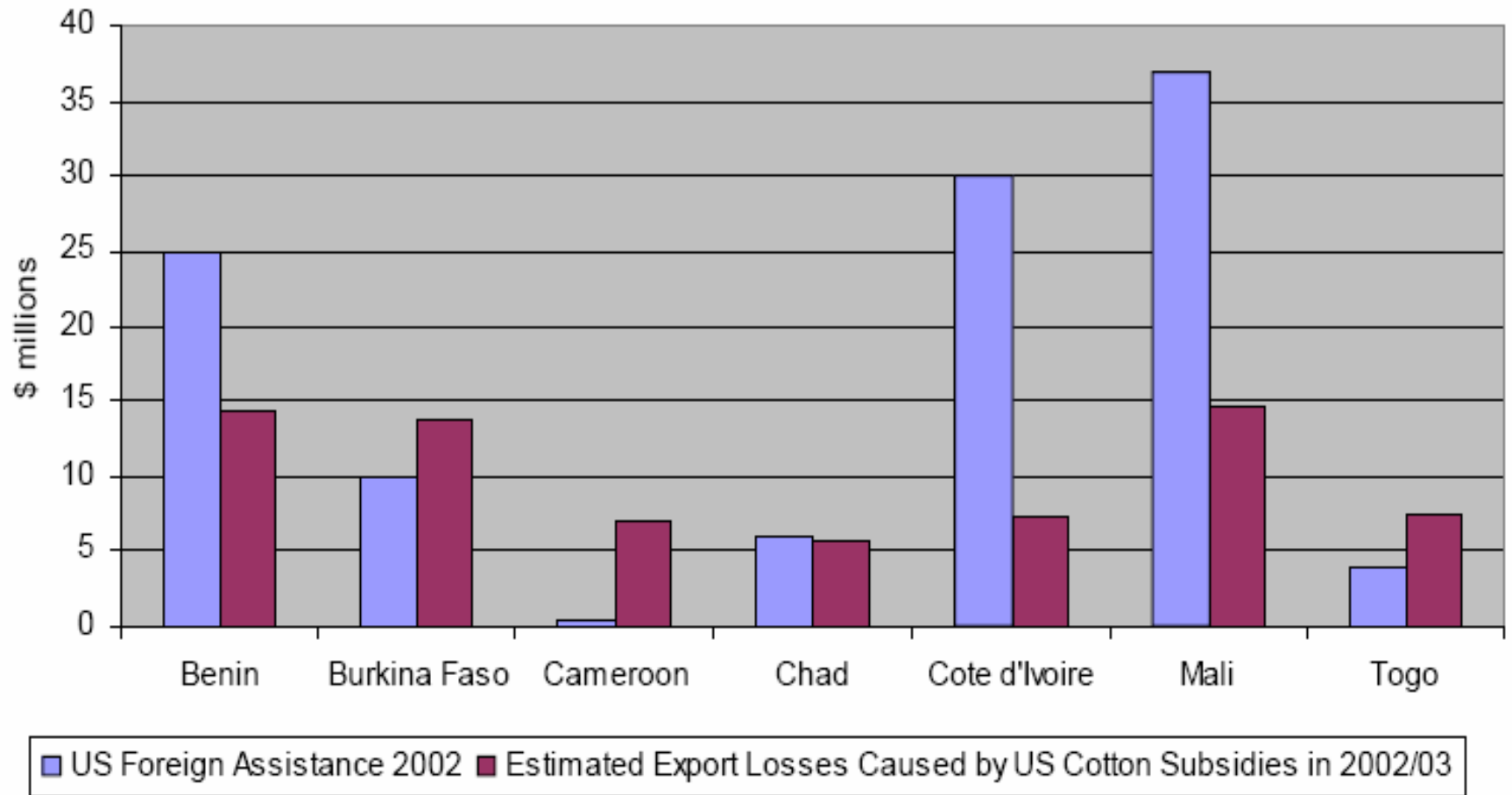
Table 1: Estimated foreign exchange losses as a result of US cotton subsidies in selected countries in West Africa (\$m)

Country	Estimated value of cotton exports 2002/03* (\$m)	Estimated 2002/03 export value with the withdrawal of US subsidies** (\$m)	Estimated value lost as a result of US subsidies in 2002/03 (\$m)
Benin	199	213	14.3
Burkina Faso	190	204	13.7
Cameroon	97	104	7.0
Central African Rep.	7	7	0.5
Chad	79	85	5.7
Cote d'Ivoire	102	110	7.3
Mali	205	220	14.7
Togo	103	111	7.4
Total	982	1,054	70.6

*Estimated export value equals the product of the quantity of cotton exports and the average annual A-index world price.

**Calculations based on an increase in the average annual A-index of 4 cents per pound.

US Foreign Aid Versus Estimated Export Losses



Source for US foreign assistance: OECD

Source for estimated export losses: see Table 1

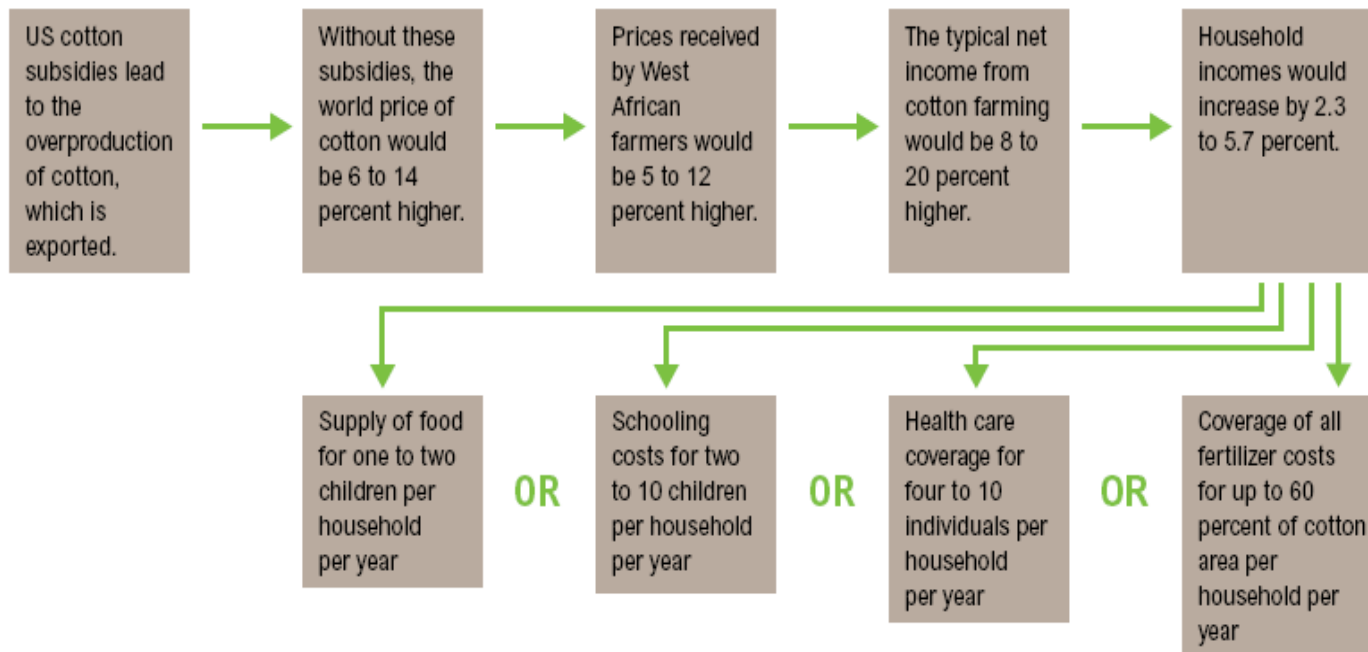


FIGURE 2. LINKING US SUBSIDIES TO THE WEST AFRICAN FARMER

Table 4: Impact of US and Doha partial reform of cotton subsidies and tariffs on economic welfare and net incomes of cotton farmers, by region

(equivalent variation in income in 2001 US\$m, and percent change in value added)

	Change in economic welfare (\$m)				Change in net incomes of farmers (%)			
	Compliance by US to WTO DS panel ^b	Doha partial reform ^a		Full reform	Compliance by US to WTO DS panel ^b	Doha partial reform ^a		Full reform
		Due to trade measures	Total			Due to trade measures	Total	
<i>Sub-Saharan Africa</i>	<i>20</i>	<i>3</i>	<i>35</i>	<i>147</i>	<i>5.0</i>	<i>0.6</i>	<i>8.2</i>	<i>30.6</i>
South Africa	0	0	0	-1	6.5	0.3	8.5	20.6
Mozambique	0	0	0	2	3.6	0.6	9.2	17.5
Zambia	0	0	0	0	1.0	0.2	2.1	3.6
Uganda	1	0	1	4	4.8	0.4	8.6	25.6
Other Sthn & E. Africa	3	0	5	17	3.7	0.3	6.1	19.7
Nigeria	0	0	0	-1	5.0	0.2	6.3	21.3
Other Sub-Sah. Africa	16	3	29	126	5.6	0.7	9.4	36.8

	Without cotton subsidy and tariff reform		With cotton subsidies and tariffs first removed, and then GM catch-up	With simultaneous cotton subsidy/tariff removal and GM catch-up
	without SSAfrican GM adoption	with SSAfrican GM adoption		
<i>(a) Effects on welfare (US\$m) of:</i>				
<i>All high-income countries</i>	-2.7	-4.5	-5.0	-19.3
Australia	-5.6	-9.3	-10.3	9.6
United States	-2.7	-3.9	-3.7	-20.9
<i>(b) Effects on net cotton farm incomes (% change) in:</i>				
<i>All developing countries</i>	-2.7	-2.2	-2.2	2.0
E. Europe and Central Asia	-2.3	-3.1	-3.5	-0.3
China	-1.7	-1.9	-2.0	-0.5
Other Southeast Asia	-1.6	-1.9	-2.0	3.1
India	-3.6	-3.9	-4.1	-4.5
Other South Asia	-2.1	-2.5	-2.7	1.8
Middle East & Nth Africa	-2.7	-4.5	-5.2	0.6
Sub-Saharan Africa	-7.2	10.0	9.0	41.6
Latin American & Carib.	-1.7	-3.4	-3.7	5.3

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High-income countries	210	-9	280	465	-4.1	0.1	-5.4	-15.4
Australia	33	1	41	137	7.7	0.3	7.5	22.2
United States	229	0	231	429	-6.6	0.1	-6.0	-17.9
EU25	-29	-9	42	14	4.2	0.6	-20.9	-53.3
Japan	3	-1	-4	-24	1.1	0	0.5	1.5
Korea-Taiwan	-18	0	-20	-61	2.5	0	2.5	6.9
Developing countries	-94	7	-88	-182	1.2	-0.1	1.7	4.3
<i>E. Europe & C. Asia</i>	<i>-10</i>	<i>0</i>	<i>-12</i>	<i>-14</i>	<i>1.1</i>	<i>0.1</i>	<i>2.1</i>	<i>3.3</i>
Turkey	-20	-1	-29	-86	0.9	0.1	1.5	2.1
Other ECA	10	1	17	72	1.4	0.2	3.1	5.3
<i>East Asia</i>	<i>-23</i>	<i>-2</i>	<i>-33</i>	<i>-83</i>	<i>0.5</i>	<i>0</i>	<i>0.7</i>	<i>1.9</i>
China	19	0	15	50	0.4	0	0.6	1.5
<i>South Asia</i>	<i>-31</i>	<i>-1</i>	<i>-36</i>	<i>-96</i>	<i>0.7</i>	<i>0</i>	<i>0.9</i>	<i>0.7</i>
Bangladesh	-5	0	-6	-11	1.1	0.1	1.3	5
India	-23	0	-27	-85	0.6	0	0.7	-0.4

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World	116	-2	192	283	-0.4	0	-0.5	-1.8