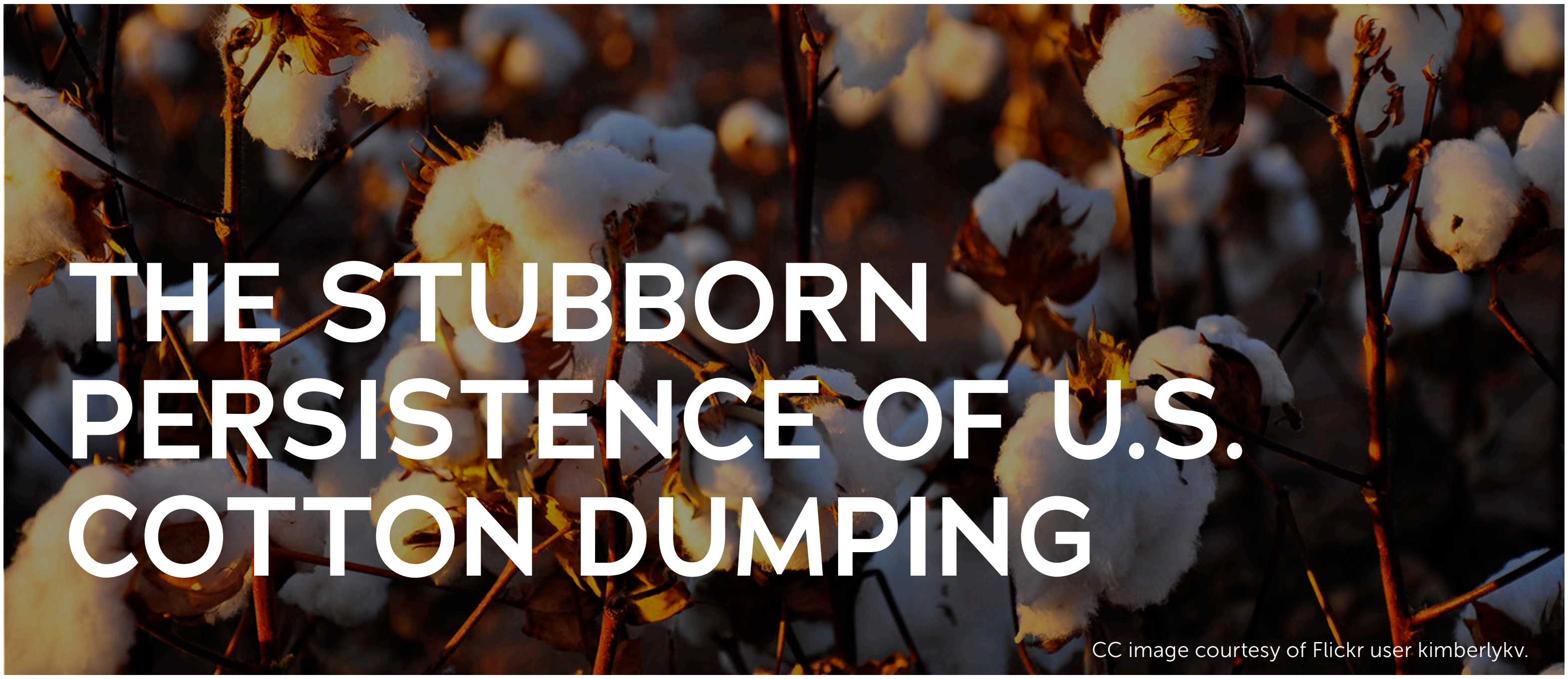
THE STUBBORN PERSISTENCE OF U.S. COTTON DUMPING



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IATP has tracked the dumping of U.S. agricultural commodities in international markets for over two decades. Agricultural commodity dumping is the sale of commodities abroad by agribusiness firms at prices below what it cost farmers to get those crops ready for sale. The problem is endemic, although each of the five crops IATP tracks—corn, soy, wheat, rice and cotton—has a slightly different story to tell. The common assumption is that dumping is made possible by government support, referred to as subsidies. The commonly proposed solution is to continue to tighten disciplines on trade-distorting support at the WTO to force spending levels down. The joint proposal of China and India to eliminate all spending under the Aggregate Measure of Support (AMS)—allowed trade-distorting support that primarily benefits richer members of the WTO—is one of the most recent, and most dramatic, proposals along these lines.

IATP argues, however, that dumping is a deeper problem than the USD 9 to 14 billion in payments for farm programs the U.S. government spends each year. The subsidies are important. But dumping is also about the structure of trade, including tariffs and the economics of farming, as well as farmers' ability to absorb losses not least through the reliance of farm families on non-farm income. And, internationally, dumping is about the unchecked market power of highly consolidated transnational buyers, especially the handful of multinational grain traders and commodity processors who control every aspect of the transportation and logistics between the farmgate and the final consumer. Each of these factors contribute to consistent overproduction, as well as volatile and mostly low prices.[1]

This paper is the story of U.S. cotton dumping. Cotton has taken on iconic status in the debate over global trade rules and their inequities. A handful of the world's poorest countries, in particular the "Cotton Four" (Mali, Burkina Faso, Chad and Benin) (C4)—countries that are particularly dependent on cotton exports for employment and foreign exchange earnings—stand like David with his sling-shot, challenging Goliath in the form of U.S. farm policies. The C4 hope that with the WTO rules at their back they can defeat the behemoth of U.S. polices and funding that depress global prices that limit their prospects for development.

A much larger champion, Brazil, took on U.S. cotton programs and won.[2] A series of complaints and hearings at the WTO between 2002 and 2010 culminated in a separate agreement between Brazil and the U.S. that provided a payment of USD 147 million per year from the U.S. to Brazil. Upon the passage of the 2014 Farm Bill, new U.S. programs were deemed to again be in compliance with WTO rules. Those changes to

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U.S. cotton programs, and a further payment of USD 300 million to Brazil for the cotton sector, were in exchange for a moratorium on further WTO disputes until September 2018, when the current Farm Bill expires. But as described below, the cotton problem has hardly gone away.

IATP's calculations, based on official data, show that U.S. cotton was dumped on international markets in 10 of the last 12 years (2005-2016). The average level of dumping was over 17 percent. Although the implementation of the 2014 Farm Bill was first delayed and then confused with the creation a new subsidy in the form of cotton ginning payments in 2014 and 2016,[3] there is no evidence that the newest set of programs do anything to end the dumping problem. Another WTO dispute settlement challenge from rival cotton exporting countries seems likely.

U.S. Cotton Dumping

	Cost of Production	Global price	% Dumping
2005	$0.67	$0.57	14%
2006	$0.81	$0.60	25%
2007	$0.73	$0.74	-1%
2008	$1.08	$0.61	44%
2009	$1.11	$0.78	30%
2010	$0.94	$1.65	-76%
2011	$1.51	$1.00	34%
2012	$1.21	$0.88	27%
2013	$1.38	$0.91	34%
2014	$1.22	$0.71	42%
2015	$0.92	$0.71	23%
2016	$0.90	$0.83	9%

Sources: USDA Costs of Production National Cotton Council of America A Index of global prices

The United States is the world's largest cotton exporter, consistently supplying just under one third of the international market from 1990-2014. In fact, since 1990, the U.S. share of world exports has grown, slightly, to 32 percent of the total while and the next nearest exporter, India, supplies less than half as much (just 13 percent of the export market).[4]

WHY COTTON?

Several things stand out about cotton production in developing countries. First, cotton is important for food security, although nobody eats it. Cotton is instead a crop associated with good food security outcomes. As a cash crop, it provides an estimated 250 million people with an income that affords access to more varied and nutritious foods. The cash also provides important future guarantors of food security, especially education for children, but also access to health care and the chance of improvements that protect health, such as improved sanitation. Cotton is also an important source of foreign exchange and income for a number of the world's poorest countries, including Benin, Burkina Faso, and Uzbekistan. Several countries, especially in Africa, have used cotton as the basis for credit and extension services that have important positive spill-over effects for other crops.[5] Research in Africa shows that cotton production is associated with higher cereal yields and healthier levels of food consumption.

Second, cotton production is significant and growing. Between 1990 and 2014, world cotton production increased 40 percent, to 25 million metric tons. Unfortunately, this increase has also exacerbated cotton's devastating environmental footprint. To quote the World Wildlife Fund:

> Cotton's most prominent environmental impacts result from the use of agrochemicals (especially pesticides), the consumption of water, and the conversion of habitat to agricultural use. Diversion of water and its pollution by cotton growing has had severe impacts on major ecosystems such as the Aral Sea in Central Asia, the Indus Delta in Pakistan and the Murray Darling River in Australia.[6]

Third, although cotton is hard on soil and water levels everywhere, the environmental challenges are not alike in sub-Saharan Africa and the United States. U.S. cotton production relies on high levels of external inputs that can lead to an overload of nutrients polluting the surrounding waterways. In contrast, African cotton production is linked rather to the depletion of soil fertility. Also, the much (much) smaller plots and the predominance of multi-crop farm systems rather than monocrops in much of Africa are of environmental benefit, and could be encouraged if markets were regulated to value a reduced environmental footprint as a tangible benefit worth paying for (as voluntary efforts to promote organic cotton and fair trade cotton seek to do). The U.S. uses public money to underwrite an environmentally destructive production system instead of structuring rewards for best environmental practice.

Fourth, the countries that are most dependent on cotton exports for limiting poverty and generating national income have only small textile industries. Investing in processing would generate employment and income. As it is, West and Central African (WCA) cotton countries together produce 12 percent of world exports, making them as a block the world's third largest exporter after the United States and India. Where the U.S. and India both have a domestic textile industry (India's is the world's second largest, while the U.S. is diminishing, falling from fourth to seventh place worldwide since 1990), the WCA countries rely on exports of the raw commodity for their return. All of which means cotton export markets are important to West and Central African producers.

THE EVOLVING DEBATE ON COTTON REGULATION IN THE U.S. AND AT THE WTO

The Cotton Four (C4) want a commitment from all WTO members that they will eventually eliminate all forms of support for cotton with market-distorting effects, and that there will be prompt progress to make significant cuts to cotton AMS up front. AMS (the Aggregate Measure of Support, sometimes called the Amber Box) includes spending the WTO considers to be the most trade-distorting.

The longer the negotiating paralysis at the WTO persists, however, the more difficult it is to align the proposals (first made a decade or more ago) with the rapidly evolving market situation. A recent book chapter by Fousseini Traoré, published by the International Food Policy Research Institute (IFPRI), provides a useful overview of the changes.[7] Although the biggest consumers of cotton in 1990 and 2015 are the same (China, India and Pakistan), their level of consumption has grown (China's from 26 percent of the world market to 33 percent). China's decision to build up cotton reserves contributed to the spike in cotton prices in 2011, but since then it has reduced those holdings and prices have fallen again. India's consumption of cotton grew from 12 percent to 22 percent in this time. Both countries have seen significant growth in their textile industries. Brazil meanwhile has emerged as a significant exporter, moving from three percent of global exports in 1990 to ten percent in 2014 while more than doubling its production to over 1.5 million tons. U.S. consumption, meanwhile, has fallen from 11 percent of global production to just three percent in the same period, while production has remained stable, rising slightly between 1990 and 2015 to reach 3.5 million tons.

The effects of U.S. cotton programs on international markets have not gone unnoticed. Brazil first challenged the U.S. programs at the WTO in 2002, and the dispute carried on for over a decade after that. The WTO dispute panel found that U.S. domestic programs for cotton had the effect of export subsidies, depressing international prices at the expense of rival exporters.[8]

The U.S. government chose to pay a fine rather than change domestic legislation to conform with the WTO dispute settlement body's findings. The 2014 Farm Bill changed the basis of the programs cotton farmers relied on towards insurance schemes that had not been identified as problematic in the WTO rulings. The result was STAX, the Stacked Income Protection Plan, which provides crop insurance for the revenue of upland cotton farmers (over 90 percent of US cotton production is upland cotton), based on average area yields (e.g. county level) rather than individual farm yields.[9]

Ironically, although created at their behest and devised because insurance seemed to pass the WTO test of "minimally trade distorting,"[10] cotton farmers did not enroll in STAX in large numbers. Cotton farmers' organizations have complained that STAX does not do enough to protect revenue, asking for more government intervention even as the number of cotton farmers in the U.S. continues to decline. In 2002 there were 24,805 farms in the U.S. that produced cotton, of which 14,176 specialized in cotton. By 2012, there were just 18,605 farms with cotton acres, of which 8,915 were specialized.[11]

Discussions for the 2018 Farm Bill are well underway. Earlier this year, the Senate Appropriations Committee approved the FY18 Agriculture Appropriations Bill (which sets yearly spending levels). That bill includes a provision that includes cottonseed as an oilseed and urges USDA to continue the Cotton Ginning Cost Share Program. This would allow cotton producers to participate in the Price Loss Coverage (PLC) program, one of the two major insurance programs in the existing Farm Bill. The cottonseed policy, if enacted, would begin with the 2018 cotton crop. While the Appropriations bill would only affect one year of spending, it sends a strong signal for the longer-term programs to be included in the 2018 Farm Bill.

Whatever comes in the 2018 Farm bill, the 2014 Farm Bill raises challenges for WTO compliance. Many commentators have assumed the cotton programs are covered in Annex 2 of the Agreement on Agriculture (also known as the green box), which lists programs that have no spending limit as Annex 2 of the Agreement on Agriculture (AoA) includes insurance programs. This would eliminate the need to conform to the spending limits imposed by the AMS rules (limits that are expected to tighten in the next iteration of the AoA). Yet the U.S. government notification to the WTO of agriculture spending for 2014 listed much of its insurance spending as product-specific AMS, with only some of the spending protected by the de minimis thresholds (amounts below which spending limits do not apply).[12] This implies that the U.S. is not going to try to push its domestic support into the green box, perhaps aware after the dispute findings that even the green box is not safe from investigation if the programs allocated there affect international prices. Indeed, according to the U.S. Congressional Research Service, "None of the current suite of farm price and income support programs and shallow-loss crop insurance programs—MLP, PLC, ARC, SCO, STAX, DMPP, and the sugar program—would qualify for the green box, because they are coupled, partially or fully, to current prices and/or plantings, or receive additional TRQ protection from imports (as is the case for U.S. dairy and sugar producers)."[13]

In 2014, Brazil signed a deal with the U.S. that suspended the right to bring a new dispute until September 2018. That deal is fast coming to an end. IATP's dumping numbers only underline the likelihood that further challenges lie ahead: the U.S. continues to provide domestic support for cotton; U.S. cotton continues to sell for less than cost of production prices in international markets; and, the U.S. continues to supply (by far) the largest share of world exports. Brazil's interest in that export market is larger than ever, while West and Central African producers' demands are still unmet.

LOOKING AHEAD

The U.S. Congress is about to pass tax legislation that is predicted to increase public debt to an unprecedented level. Agricultural programs are not sacrosanct: they have failed to protect against the continued shrinking of the farm population, the increased reliance on a politically precarious immigrant work force, and the mounting cost of failed environmental regulations. There are food security challenges—and agricultural commodities—much worthier of public investment than cotton. The U.S. has the know-how, the capital and the market needed to shift to more sustainable production. It is time for the U.S. to reconsider its current public support for cotton and instead look at crops it can grow more competitively but also at much lower environmental cost, while allowing other growers, especially those in the world's poorest countries, a chance to make a decent living. The U.S. government must stop distorting markets itself and better regulate the private companies that are distorting markets for farmers. The U.S. should be investing in sustainable agriculture at home and abroad.

It is not the business of the WTO to tell countries how to manage their agriculture. It is, however, very much the business of the WTO to prevent countries from dumping commodities in international markets. The U.S. has for years refused to abide by the spirit of the WTO's findings in the cotton case, choosing instead to pay off Brazil and to manipulate without really reforming its cotton programs. This behavior undermines the credibility of the multilateral system and reinforces the already strong conviction among poorer countries that the trade rules are rigged against their interests. The C4 have made their demands clear: an end to public spending on programs that suppress cotton prices in international markets. The current mix of proposals to further discipline domestic support for agriculture at the WTO would not solve the problem but they would help, especially in cotton. A political debate is much needed in the U.S. to actually move the Farm Bill in a more equitable trade direction.

Beyond cotton, to build towards sustainable agricultural systems, reforms at the WTO will need go much further than refining the rules for allowed and disciplined spending on domestic support. Governments need to give production and processing methods much more weight. They need to take on the challenge of building a trade system that supports each country's goals to reduce greenhouse gas emissions and adapt to climate change. They need to build a trade system that upholds the principle to "leave no one behind" as articulated in the sustainable development goals. Perhaps governments can start with an even simpler objective: a trade system that first, does no harm.

ENDNOTES

1. See Sophia Murphy and Karen Hansen-Kuhn, Counting the Costs of Agricultural Dumping, which covers dumping of corn, soy, wheat and rice. Institute for Agriculture and Trade Policy, June 2017. Available at https://www.iatp.org/documents/counting-costs-agricultural-dumping

2. Steve Suppan, "Unconditional surrender: the U.S.-Brazil deal to end WTO authorized retaliation," Institute for Agriculture and Trade Policy, October 9, 2014. https://www.iatp.org/blog/201410/unconditional-surrender-the-us-brazil-deal-to-end-wto-authorized-retaliation

3. USDA Provides Targeted Assistance to Cotton Producers to Share in the Cost of Ginning, June 6, 2016, https://www.fsa.usda.gov/news-room/news-releases/2016/nr_20160606_rel_0140

4. Fousseini Traoré in Antoine Bouët and David Laborde (eds.), 2017, Agriculture, Development and the Global Trading System. IFPRI. Washington, DC, using NCC 2015 data, p. 197-200

5. Traoré (2017), p. 193

6. https://www.worldwildlife.org/industries/cotton; accessed 14 November 2017

7. Traoré (2017), op cit, chapter 7.

8. For a timeline of the different stages of the dispute, see https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds267_e.htm.

9. https://www.rma.usda.gov/pubs/rme/staxfactsheet.pdf

10. It should be noted that at the time of the ruling, insurance was a much smaller part of the U.S. agricultural support system and it is quite likely that since 2014 has made insurance so central, a new dispute might well add insurance to the list of programs whose effect (if not intent) is to distort world prices and damage the interests of rival producers and exporters.

11. Traoré (2017), op cit, IFPRI, p. 194

12. Domestic Support: United States of America, Dec. 23, 2016. NUSAR1081. Available at www.wto.org.

13. Randy Schnepf, 2014 Farm Bill Provisions and WTO Compliance, Congressional Research Service, April 22, 1015, p. 14. TRQ: Tariff Rate Quota.