THE IMPACT OF GLOBAL VALUE CHAINS IN PRODUCING COMPLIANCE WITHIN THE WORLD TRADE ORGANIZATION

A comparative case study

SUPERVISOR
Prof. Arlo Poletti

CANDIDATE
628602
Quentin Mosseray

CO-SUPERVISOR
Prof. Giuseppe De Arcangelis

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SUMMARY
A. Introduction

This work looks at the influence of a new trend in international trade patterns, that is global value chains, in producing compliance in World Trade Organization disputes. Compliance to international norms, be it first or second order compliance, is an essential cornerstone of our international community. Without compliance to norms, or rules, there can be little trust between countries. Lack of trust in economic matters leads to inefficient outcomes. Hence, it is interesting to look at the reasons that push, or delay countries’ compliance to international norms. It is interesting in itself, as an object of study, but understanding the underlying causes of non-compliance can also help us think of new ways to ensure said compliance does indeed occur in the future. Some work has already been done on the subject of global value chain integration of an industry as explaining compliance, or non-compliance, to World Trade Organization rulings\(^1\). The underlying logic is that this degree of integration into global value chains triggers the mobilization of an actor previously not accounted for, that is import-dependent firms. The mobilization of this actor is believed to change the ‘balance of power’ between trade-restricting and trade-liberalizing constituents within a given country, and thus favor trade liberalization.

The main objective of this work is to expand from previous work done with a more detailed comparative analysis of two cases. Our first case, DS248 (Definitive Safeguard Measures on Imports of Certain Steel Products) is one that involves an industry that is highly integrated into global value chains, while our second case, DS267 (Subsidies on Upland Cotton) deals with an industry that is lowly integrated into global value chains. The purpose

of this high variance in the value of our independent variable is to see, map, and analyse the impact of the emergence of this new type of actor.

We will start by giving an explanation on the functioning of the World Trade Organization Dispute Settlement mechanism before looking at the existing literature on compliance to WTO disputes, as well as the classical politics of trade literature. We will then explain how this literature can be complemented by our novel variable, and explain how and why it became of relevance. Following this, we will give a detailed explanation of what effects we expect global value chains, and the import-dependent actors that stem from it, to have on trade politics.

The bulk of this work consists in a detailed mapping of the emergence (or non-emergence) of the various actors and constituents that mobilize in relation to a WTO dispute, as well as the possible effect they had on the resolution (or non-resolution) of the two disputes we analyse. We will indeed see that in low integration cases, import-dependent constituents to not mobilize (or exist), and in high integration cases, they do mobilize and have an impact on the issue resolution.

Our results section will look at the validity of our findings, and will also briefly look at a series of alternative explanations that our comparative case study was not able to rule out. We conclude by saying that, while we cannot make universal claims on the basis of a single comparative case study, many of our expectations laid out in the theoretical framework do actualize.

B. Theoretical Framework

Before presenting our empirical design and our results, we will give an explanation as to what the World Trade Organization Dispute Settlement is, what has been the explanatory theories tackling issues of non-compliance thus far, what the classical literature on trade
dispute has to say, and how it can be complemented by using global value chains\(^2\) and the constituent that we expect to mobilize

1. The World Trade Organization Dispute Settlement\(^3\) system.

Officially called the Dispute Settlement Understanding after the Uruguay Round of international negotiations implementing the General Agreement on Tariffs and Trade 1994\(^4\), it is the dispute settlement system of the World Trade Organization. It has four main ‘phases’. The first, the Consultations phase, is a diplomatic tool to enable the parties to settle a dispute without the need of adjudication. If the parties are unable to find a solution, or the defending party fails to answer or enter into consultations within 30 days, the complainant may file for the establishment of a Panel\(^5\). The Panel rules on the the issue, and this ruling can be appealed. If this situation arises, a report will be issued by an Appellate Body. Once this instance has issued its report, no further appeal can be made, and the implementation and enforcement of dispute settlement decisions starts. The defending party is asked to put himself in conformity within a acceptable time period, depending on the measures that need to be changed. If there is a disagreement on the effectiveness or legality of the measures taken by the defending party, the case may be resent to a Panel, that evaluates the effectiveness of the measures\(^6\). If a member fails to comply to the ruling, two solutions are possible. Either the parties agree on compensations for the delay in compliance, or the complainant may “suspend concessions or other obligations under the WTO Agreements”\(^7\).

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\(^2\) Hereafter, GVCs

\(^3\) Hereafter, the WTO

\(^4\) Hereafter, the GATT


\(^7\) Idem. Page 1352
The obligations and concessions suspended can also be the object of an appeal before a Panel\(^8\).

The object of our work is to look at compliance to these rulings. Indeed, although there is an overall good record of compliance to WTO rulings\(^9\), we can observe more than a few “second order compliance problems”\(^10\). That is, a lot of countries do not abide by WTO DS rulings. More so, countries exhibit quite large discrepancies in the time it took them to comply to a ruling. We will now look at the literature on this compliance to WTO norms.

2. Compliance to WTO norms

The literature on compliance to WTO norms focuses on the effects of democracy, retaliatory capacity and economic weight of the complainant, and the political power of protectionist lobbies. The democratic argument revolves around how democratic regimes are more likely to set lower levels of trade protection than autocratic regimes due to the veto power of legislatures\(^11\) and, secondly, how majoritarian systems create “incentives to supply transfers to narrow, select segments of the country’s population”\(^12\) and are thus less likely to comply to WTO rulings than countries with proportional systems that “target benefits to larger segments of the electorate”\(^13\).

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\(^8\) Often called an Article 22.6 Panel
\(^13\) Ibidem.
Retaliatory capacity and economic weight arguments revolve around the reasoning that "resolution of disputes is influenced by the concern for retaliation"\(^{14}\), and that hence countries that have stronger economic ties with each other will have a greater tendency to comply to norms and/or to rulings of the WTO. Economic weight and the capacity to mobilize resources has also been put forward as explaining why countries with lower GDP per capita do not initiate as many disputes as they potentially could\(^{15}\).

Finally, the political power of protectionist lobbies, especially import-competing firms has been used to describe successful attempts at blocking trade liberalizing policies. These long-lasting sectors that often have a lot of experience in lobbying and often enjoy higher "industry concentration and standing organizational capacity"\(^{16}\) which means they will be more efficient at lobbying political actors to obtain, or keep, trade-restricting measures.

We find that, however interesting and valid these theories might be, they fail at one of two things. Firstly, some of these look at variance across countries, which fails to explain why some countries exhibit large variability across disputes. Secondly, those theories that attempt to explain variability across disputes for one country do not hold consistently, as the outcome varies despite independent variables being the same.

3. Classical politics of trade: going beyond the classical import-competing versus export-oriented theory.

The classical explanation for the formation of trade coalitions postulates that political coalitions “depend on […] the extent to which factors of production are mobile between

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industries”. High factor mobility leads to trade preferences within classes that are large and homogeneous, whilst low factor mobility leads to “narrow industry-based coalitions”. Since diffuse costs tend to produce less mobilization, we should assume that the main political battle in a country over trade takes place between import-competing and export-led industries.

However, we believe that recent trends in international trade and production chains have created a new actor in this trade scheme. Indeed, trade flows can affect a third type of actor, linked to the internationalization of production. In recent decades, changes in international trade has given rise to “supply-chain trade”, or global value chains. The phenomenon is mainly due to first-world countries moving some or all of their production to industrializing countries to take advantage, amongst other things, of lower costs of factors of production. This has had a huge impact on how industries structure their production chain. Indeed, a product often goes through the process of being partially manufactured in several countries, sometimes being imported and exported multiple times in one country as it is built.

These trends have given rise to import-dependent firms, that is “those who rely on income created by imported goods or the import of intermediate products for their production process”. Since these actors rely on imports for their inputs, they should mobilize whenever there is a trade restricting measure that is taken, and should be in favour

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18 Ibidem.
19 Ibidem.
20 As the import-competing firms will lose from trade liberalization whilst export-led ones should win. Ibidem.
of any kind of trade liberalizing measure. Thus, depending on how much an industry is integrated into global value chains\textsuperscript{23}, the political battle for and against the trade restricting measures should be either between import-dependent and export-led industries in low GVC integration settings, and between import-competing and both export-led and import-dependent firms in high GVC integration settings.

C. Empirical

1. Methodology and case selection

To understand the effects of global value chain integration of an industry on mobilization for and against trade liberalizing policies, and more specifically to understand its effects on producing compliance to WTO DS rulings, we chose a comparative case study. We chose this method because it provides for “conceptual refinements with a higher level of validity over a small number of cases”\textsuperscript{24}. This means that it is an excellent complementary tool to the statistical study we seek to expand on. More specifically, we use a process-tracing method to “identify the intervening causal process […] between an independent variable […] and the outcome of the dependent variable”\textsuperscript{25}. This method enables us to look at the appearance, or non-appearance of our expected actors, as well as the effect they had on the dependent variables’ outcome. Furthermore, looking closely at the processes and actors permits us to see if any other variables could have been at play. This is especially important as we deal with a rather novel theory of compliance to WTO rulings, and we believe that raising some questions can be as important as answering others.

\textsuperscript{23} Hereafter, GVCs
\textsuperscript{25} Idem. Page 554.
For this work, we chose two cases. One, DS248 (Definite Safeguard Measures on Imports of Certain Steel Products), is highly integrated in GVCs\textsuperscript{26}, and was resolved quite rapidly (within about 18 months). The second, DS267 (Subsidies on Upland Cotton), is very lowly integrated within GVCs\textsuperscript{27}, and took more than a decade to be resolved. We could have chosen more cases, but we had to make “a trade off among the goals of attaining theoretical parsimony, establishing explanatory richness, and keeping the number of cases to be studied manageable”\textsuperscript{28}. Truly, given the scope of this work, it would have been impossible to cover all disputes, or even more than these two, without sacrificing the quality of analysis.

The cases chosen prove to be quite similar. Indeed, we were looking for cases that presented more or less the same characteristics, with the independent variable (GVC integration) changing, and the dependent variable (time of compliance to a WTO ruling) varying. Indeed, both look at the same country acting as defendant, the U.S.A., both industries are are historically important\textsuperscript{29} \textsuperscript{30}, both complainants present retaliation capabilities that are credible\textsuperscript{31}, both cases are ones involving pairs of democracies\textsuperscript{32}, and no Preferential Trade Agreements have been signed between the countries in each dispute at the time of dispute initiation. These similarities are important as they form part of the classical explanations on explaining compliance to World Trade Organization rulings. However, despite these similarities, we observe a strong compliance disparity between the cases.

\textsuperscript{26} At about 60%. This value means that the final value of the output of this industry comprises goods that have been imported. For full calculations, please refer to the main work.
\textsuperscript{27} Between less then 1 and about 4.5%, differing depending on the calculation method used.
\textsuperscript{31} Figures for trade flows between countries are available on \url{http://comtrade.un.org/data/}. Accessed on 27th May 2016.
\textsuperscript{32} Data was obtained using the ‘Democracy Barometer’ of the University of Zurich. Data can be generated on \url{http://www.democracybarometer.org/graph_en.html}, accessed on 28/04/2016
Concerning the differences, we can cite two major ones, to which we will return in our conclusions. The first is that the DS267 case had to be resolved through legislation, whereas the DS248 case needed only an executive act. The second is that the DS267 case involved subsidies, whilst the DS248 involved tariffs. We will see in our conclusions that this could have had an impact on the mobilization of certain actors.

2. Case studies


In the DS248 case, our investigation, as expected from our theoretical framework, revealed the mobilization of export-oriented, import-competing, and import-dependent industries. Again, as expected, these actors did not mobilize at the same moment. Before the dispute was even initiated, import-dependent firms notified members of government that they did not want the tariffs put into place, as it would raise their production prices. These import-dependent firms can be divided into three main categories: large car manufacturers, smaller steel-producing sub-contractors, and port authorities. All mobilized, albeit to different degrees, the large car manufacturers being somewhat protected by long-term contracts and their sheer size enabling them to transfer some of the costs down the line. Most interesting was the capacity of sob-contractors, and ‘mini-mills’ to act collectively through the Automotive Aftermarket Industry Association, the Motor and Equipment Manufacturers Association, the Specialty Equipment Market Association, and the Consuming Industries Trade Action Coalition Steel Task Force. Indeed, there were more than one-hundred-and-ninety-thousand companies, most of them very small. However, they managed to organize to put pressure on both the government and their representatives. Furthermore, we observed
cooperation between the port authorities and these sub-contractors, further showing the mobilizing capacity of import-dependent firms when facing trade-restricting measures.

Up until retaliation by the European Union became a concrete threat, the lobbying battle occurred between these various coalitions of import-dependent firms and the various import-competing steel-mills organized around coalition groups such as the United Steel Workers of America. However, once the E.U. published a list of potential U.S. exports they would impose tariffs on, the situation changed.

Indeed, after the Appelate Body issued its ruling, the European Union quickly published a list of U.S. exports it would target as part of its retaliatory measures, “including Florida citrus, Louisiana rice, California nuts and North Carolina pyjamas.” The timing and targeting of these measures are important to analyze. Indeed, they took place right before the 2004 Presidential elections. Furthermore, the retaliation list targeted, amongst other things, industries that were located in important states that Bush Jr was not sure he could secure.

In this context, the Bush administration was facing a double battle. Firstly, it had been under constant pressure by import-dependent firms since the beginning of the Section 201 tariffs implementation to remove them. Secondly, he was now facing the risk of alienating states in which “export-led firms [were seeking] to avoid foreign market closure following the imposition of retaliatory measures.” The only pressure to keep the Section 201 tariffs in place was from the import-dependent coalition groups that were able to mobilize the support of import-competing firms and other industries that faced the risk of being targeted by the E.U.

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201 tariffs in place came from the steel-producing firms, a sector that, in light of the weight of the lobbying done by import-dependent and export-led industries, seemed to lessen in value greatly. This double pressure, both from import-dependent, and export-led industries seemed to be enough to convince the Administration to stop the Section 201 Tariffs.

b. A Low-GVC integration sector: the cotton industry case.

The DS267 case presents a completely different development and outcome. Indeed, as the industry is weakly integrated into GVCs, we did not observe the mobilization of import-dependent firms. Furthermore, the fact that the cotton industry was relying on export-subsidies meant that it was acting both as an import-competing (but on the international market) and export-led industry. It wanted to protect itself from price shocks on the market, but also acted for the resolution of the case once retaliation threats became real.

Most, if not all, of the lobbying done in this case, for the implementation of the subsidies, then against their withdrawal, and finally for the resolution of the case when facing retaliations, was done by the National Cotton Council of America. Although the National Cotton Council is just one organisation, its political weight is considerable. For much of its political campaign support, it organises as a Political Action Group, raising in excess of two hundred thousand dollars each year since 2000, and more than five hundred thousand dollars a year since 2010. It represents an industry comprising more than three hundred thousand jobs, and contributes to more than a hundred and twenty billion dollars to the U.S. economy.

The development of this case is quite long and intricate, as it follows both the legislative timeline of various federal farm bills (voted in 2002, 2008, and 2014), but also the various opportunities for appeal within the World Trade Organization Dispute Settlement mechanism. Another important note on this case is that the final resolution through a

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Memorandum of Understanding should not be considered the same as compliance to World Trade Organization norms. Indeed, this Memorandum sets out a payment by the U.S. to the Brazilian Associação Dos Produtores De Algodao, the Brazilian equivalent to the National Cotton Council, and in return the Brazilian government agrees to not pursue the modified export-subsidy (that replaced the one attacked in the DS267 case) in front of the World Trade Organization. So not only did this dispute take more than a decade to resolve itself, but this resolution in itself does not amount to compliance.

D. Results

Overall, in light of everything that we have looked at and analysed in this work, we believe that our main hypothesis cannot be fully confirmed. Rather, further work is required before we can positively claim that speed of compliance to a World Trade Organisation adjudication is a function of the degree of integration of a targeted industry into global value chains. We did however confirm a series of expectations. In the line of similar work done in the case of political mobilization by import-dependent firms in the the E.U. when faced with trade restricting measures, we have further shown the capacity of import-dependent firms to mobilize. More than just showing that these firms are capable of mobilization, we have shown that they are actually quite good at it. As we have explained, the lobbying strength of older industries would have put them at an advantage, having had much more time to overcome collective action problems, setting up umbrella organizations capable of

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channelling demands and transform them into effective lobbying enterprises. However, we have seen that import-dependent firms were equally capable of mobilizing both within industries and across industries. Indeed, not only did the numerous sub-contractors and small mills organize under CITAC and other organizations, they also joined forces with the port-authorities to publish a series of ads, as well as tribunes in large U.S. papers calling for an end to the tariffs. This capacity of organization and collective action is poised to grow, and thus we can expect these import-dependent industries to have a greater role as more of the production of goods internationalizes.

To confirm our hypothesis, we believe further research should focus on the following questions. Firstly, in line with our alternative explanations analysis, further research could look into the impact of legislative versus executive resolution to cases. Secondly, research looking into WTO cases involving subsidies and WTO cases involving tariffs could prove interesting. Indeed, we might see that, because of a different mobilization of constituencies in cases involving subsidies (i.e. we could expect import-dependent firms to not mobilize since they do not face negative consequences) could lead to a longer resolution than cases involving tariffs (as these, if highly integrated in GVCs, should be expected to mobilize). This could take the form either of a case study involving subsidies (or tariffs), but with one case comprising high-GVC integration firms, and in the other, low-GVC integration firms. It is clear that alongside this, further empirical studies that compare low and high-GVC integration’s impact on WTO compliance is also needed.
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II. Introduction

This work looks at the influence of a new trend in international trade patterns, that is global value chains, in producing compliance in World Trade Organization disputes. Compliance to international norms, be it first or second order compliance, is an essential cornerstone of our international community. Without compliance to norms, or rules, there can be little trust between countries. Lack of trust in economic matters leads to inefficient outcomes. Hence, it is interesting to look at the reasons that push, or delay countries’ compliance to international norms. It is interesting in itself, as an object of study, but understanding the underlying causes of non-compliance can also help us think of new ways to ensure said compliance does indeed occur in the future. Some work has already been done on the subject of global value chain integration of an industry as explaining compliance, or non-compliance, to World Trade Organization rulings\(^1\). The underlying logic is that this degree of integration into global value chains triggers the mobilization of an actor previously not accounted for, that is import-dependent firms. The mobilization of this actor is believed to change the ‘balance of power’ between trade-restricting and trade-liberalizing constituents within a given country, and thus favor trade liberalization.

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III. Theoretical Framework

A. What is the WTO Dispute Settlement system?

Before looking at the different existing theories on compliance to WTO Dispute Settlement rulings, we will offer an explanation on the mechanism in which these disputes are discussed, settled, and enforced. Officially called the Dispute Settlement Understanding after the Uruguay Round implementing the General Agreement on Tariffs and Trade 1994\(^2\), it is a changed version of the Dispute Settlement System that had been evolving since the implementation of the GATT 1947. We will first briefly look at the main weakness inherent to the GATT 1947 dispute settlement system before turning to how the one established after the implementation of the GATT addressed it, as well as a general explanation on the new system, and its general features.

One of the key principles that remained throughout the existence of the GATT 1947 was the positive consensus rule. This meant that “there needed to be a positive consensus in the GATT Council in order to refer a dispute to a panel”\(^3\), and that “there had to be no objection from any contracting party to the decision”\(^4\). Furthermore, “the adoption of the panel report also required a positive consensus, and so did the authorization of countermeasures against a non-implementing respondent”\(^5\). This meant that, during the entire length of various phases of proceedings, any of the parties to the case could block any of the phases. Although the general experience of disputes brought forward the WTO during

\(^2\) Hereafter, GATT. If we will have to refer to the previous agreement, we will refer to it as the GATT 1947.


\(^4\) Ibidem

\(^5\) Ibidem
this time was positive, since there was a “long-term systemic interest”\textsuperscript{6} for all parties to abide by the rules, amongst which the risk of similar action when the situation was reversed, there was also a clear shortcoming.

Firstly, the fact that there was a risk of one of the parties invoking veto power made the decision of the panel as much a legal one as a political, diplomatic one\textsuperscript{7}. Hence, this meant the system worked more like a negotiation between parties than a rules-enforcing mechanism. Secondly, the fact that veto power could be invoked means “there were a significant number of disputes that were never brought before the GATT because the complainant suspected that the respondent would exercise its veto”\textsuperscript{8}. All of this made the GATT 1947 Dispute settlement mechanism a relatively weak enforcement instrument. However, after the Uruguay round, a major change was introduced. Indeed, “the DSU eliminated the right of individual parties […] to block the establishment of panels or the adoption of a report”\textsuperscript{9}. The establishment of a panel could only be stopped if there was a consensus between the parties\textsuperscript{10}. In addition to this “the appellate review of panel reports and a formal surveillance of implementation following the adoption of panel (and Appellate Body) reports”\textsuperscript{11} was also added to the system. This made the system much more of a rules-enforcement one. Having introduced these changes, we will now turn to the description of the process under the new mechanism

The current Dispute Settlement mechanism has five main parts\textsuperscript{12}; the Consultations phase, the Panel process, the Appellate Body process, the implementation and enforcement

\textsuperscript{6} Ibidem.
\textsuperscript{7} Ibidem.
\textsuperscript{8} Ibidem.
\textsuperscript{10} Ibidem.
\textsuperscript{11} Ibidem.
\textsuperscript{12} For a simple view of the process of a WTO Dispute Settlement, please refer to Appendix 3.
of dispute settlement decisions through surveillance and, eventually, retaliation measures. We will provide an explanation for each of these steps.

The consultations phase is a tool for the parties to settle dispute without adjudication. Hence, it is private, not requiring the participation of the Dispute Settlement Body. It has proven effective in resolving a number of potential disputes\(^\text{13}\). However, it also “provides an opportunity to mount a relatively public threat since it will often attract the interest of other WTO Members, non-governmental organizations, companies, academics and other individuals”\(^\text{14}\). It is a way to resolve difference through diplomatic channels, but gives a certain power to a potential complainant by enshrining the possibility for the party requesting consultations to ask for the establishment of a panel if no response from the defending party occurs within ten days, or if the defending party does not enter into consultations within thirty days\(^\text{15}\). This reflects the general goal of the Dispute Settlement Understanding to reach “settlement through agreement between the parties, rather than through the identification of treaty violations”\(^\text{16}\). Because it is aimed at resolving the dispute without adjudication, the deadlines of these steps are quite flexible, and can be extended by the parties in negotiation.

The panel process takes place if the parties have not found a mutually agreeable solution during the consultations phase. Ideally (though this is not so in the cases we examine here), the Panel, once established, “will complete its work within six months”\(^\text{17}\), or three if


\(^{14}\) Idem. Page 1204.

\(^{15}\) Idem. Page 1208.

\(^{16}\) Idem. Page 1204.

the issue is considered of “urgency”\textsuperscript{18}. During this period, the parties can stop the proceedings for a period of twelve months, at the maximum. This is to enable mutually agreed solutions between parties. As we have said, the aim of the Dispute Settlement Understanding\textsuperscript{19} is to enable diplomatic solutions between parties. Once the panel has finished its work, if the parties have not “found a mutually satisfactory solution to the dispute, the panel is to submit its findings”\textsuperscript{20} to the DSB\textsuperscript{21}. If no appeal is formulated by a party within sixty days of the publication of the report to the members of the WTO, the DSB adopts the report and we enter into the implementation period of the process. However, if a party appeals the conclusion of the panel report, the case moves to the Appellate Body, who will also review the case.

If an appeal was done by one of the party, an Appellate Body will review what the Panel has found. It is important to note that “an appeal will be limited to issues of law covered in the panel report and legal interpretations developed by the panel”\textsuperscript{22}. As such, it does not review the merits of the case, but limits itself to confirming or invalidating what the Panel has found\textsuperscript{23}, and thus factual findings are not subject to review. Procedural processes followed by the Panel may however be challenged by the Appellate Body, that “will examine whether a panel ruling has abrogated any rights given to parties under the DSU or infringed upon due process”\textsuperscript{24}. Again, the system enables “an appellant to withdraw

\textsuperscript{18} Ibidem.
\textsuperscript{19} Hereafter, DSU
\textsuperscript{21} Hereafter, DSB
\textsuperscript{22} Op. Cit. "Understanding on Rules and Procedures Governing the Settlement of Disputes."
\textsuperscript{24} Idem. Page 1303
its appeal at ‘any time during an appeal . . . by notifying the Appellate Body, which shall forthwith notify the DSB’”\textsuperscript{25}. Although the Appellate Body is normally supposed to circulate its Report no later than 90 days after the appeal has been filed\textsuperscript{26}, it has sometimes exceeded this time-period. Once the Appellate Body has circulated its report, no further appeal is available to parties of the case, and the implementation of recommendations phase starts.

The implementation and enforcement of dispute settlement decisions encompasses three main aspects. The first is the “recommendations with respect to Panel and Appellate Body [if relevant] reports”\textsuperscript{27}. Recommendations are actually rarely given by the Panel or Appellate Body. The important point is that members should comply promptly “with recommendations or rulings of the DSB […] in order to ensure effective resolution of disputes”\textsuperscript{28}. If there is a disagreement on the effectiveness or legality of the measures taken by the defending party, then the case may be resent to a Panel, albeit with an expedited process of evaluation of measures implemented\textsuperscript{29} (this is referred to commonly as a Article 21.5 Panel). If a member announces its willingness to comply with the ruling, “the DSB monitors the implementation of the adopted rulings, and any Member may raise the issue of improper implementation at any time before the DSB”\textsuperscript{30}. If a member fails to comply to the ruling, two solutions are possible. Either the parties agree on compensations for the delay in compliance by the infringing member or, if this is not possible, or the defending party refuses, the complainant may “suspend concessions or other obligations under the WTO

\textsuperscript{25} Idem. Page 1327.
\textsuperscript{26} Idem. Page 1328.
\textsuperscript{28} Ibidem.
\textsuperscript{29} Idem. Page 1351
\textsuperscript{30} Idem. Page 1352.
Agreements”31, which is in essence raising tariffs, import duties, or any other measure that restricts trade from the infringing party’s country to the complainants’. However, the “DSU sets out guidelines to ensure that the level of retaliation is appropriate to the level of harm resulting from the infringing Member’s violations”32. If the infringing party estimates that the measures taken are disproportionate to the harm given, it may initiate what is commonly referred to as an “Article 22.6 Panel”33. This panel is charged with evaluating the appropriateness of the counter-measures, or retaliatory measures. If it rules that the measures are consistent, then they may continue until the infringing party complies or if another mutually agreed upon solution is found.

As we can see from the explanation of the functioning of the WTO DSM, it is designed in a way that favors a negotiated agreement to disagreements or infringements to WTO law. Throughout the entire proceedings, the possibility to end the dispute due to a mutually agreed upon solution is given to the parties. The WTO DSU, following the major changes brought upon by the GATT 1994, does however also provide for an effective enforcement of its various agreements. If the WTO has implemented processes that are supposed to ensure the compliance of its members, a certain number of cases have not yet been settled. Furthermore, an observation of the cases shows a discrepancy in the time a member takes to comply to adverse rulings. In the next section, we will investigate what the existing arguments on compliance have to say about these variations, as well as why they fall short of explaining successfully the problems linked to compliance.

31 Ibidem.
32 Ibidem.
B. Overview of the literature

1. On compliance to WTO norms

In this section we will look at the existing theories about compliance with regards to trade restriction in general, and the WTO DS mechanism in particular. We will look at a series of interesting studies that sought to explain variations in compliance according to regime type, the retaliatory capacity of complainants, or looking at the political power of protectionist lobbies. Without refuting the academic significance of these studies, that are interesting and certainly bring added value to the research field, we will see that they fail at either/or one of two things. Firstly, if some of them identify correctly factors that explain the reasons for compliance differences across countries, or regimes, they do not explain compliance variance for one country across disputes. Secondly, some studies have looked into this variance in compliance across disputes for one country. However, we will see that these studies do not hold consistently (as is exemplified by our case studies). Indeed, we will see that certain cases still show variance in their outcome despite the independent variables being the same.

a) Democracy

The democratic argument on compliance can be divided into two sub-fields. The first deals with how democratic regimes are more likely to set lower levels of trade protection than autocratic regimes. The second looks more specifically at compliance variance within democracies, taking the type of electoral system as explaining the propensity towards trade restriction.

The main argument developed for explaining lower trade restrictions by democratic countries is intrinsically linked to the institutional design of democracies. Indeed, having a
“legislature that exercises ratification power, regardless of preferences”\textsuperscript{34} means pairs of democracies will be more likely to further open their trade relations. This is because “the possible veto of a trade deal by one or both legislatures in the dyad may lead the executives to search for lower mutually acceptable levels of trade barriers”\textsuperscript{35}. Transposing this argument to explanation of compliance leads us to assume that, because there is a “legislature that can effectively constrain the executive”\textsuperscript{36} means the preferences of this legislature can be more effectively translated into concrete action by the executive branches. However, this explains more why democracies are prone to lower trade restrictions when negotiating trade agreements than compliance to these standards once they are in place.

Looking more into the reasons that might push democracies to comply with, or violate, international norms or agreements, some argue that majoritarian systems are more likely to implement trade restricting measures that are illegal with international treaties. This is because “majoritarian systems provide politicians with electoral incentives to supply transfers to narrow, select segments of the country’s population”\textsuperscript{37}. In effect, having to answer to only a small constituency means politicians will have a lesser incentive to look at the overall society, and will focus on providing benefits to a small number of people. This also posits that “governments elected via proportional rules are more likely to comply with GATT/WTO restrictions”\textsuperscript{38} because political actors tend to “target benefits to broader segments of the electorate”\textsuperscript{39}. Essentially, because they feel an obligation to a larger electorate, or to a broader spectrum of constituencies, these political agents will try to avoid

\textsuperscript{35} Ibidem.
\textsuperscript{36} Idem. Page 319.
\textsuperscript{38} Ibidem.
\textsuperscript{39} Ibidem.
concentrated protectionism, as it does not benefit the consumer.

These studies however fail to explain why there are compliance variations for a given country across disputes. Different types of regimes, and different types democracies, be they majoritarian/proportional, or presidential/parliamentary, may or may not play a role in explaining the difference in compliance across countries, but it does not explain, for example, why a country like the U.S.A. would comply rapidly to one dispute (DS248, Definitive Safeguard Measures on Imports of Certain Steel Products), but would take more than a decade to produce compliance in another (DS267, Subsidies on Upland Cotton).

b) **Retaliatory Capacity and Economic Weight**

Retaliatory capacity is a classical theory for explaining compliance to WTO adjudication. The main argument is that the “resolution of disputes is influenced by the concern for retaliation”\(^{40}\), and that this resolution is a factor of the strength of the economic bilateral relation\(^{41}\). Concretely, a resolution of a WTO dispute will be more likely to occur if the trade relationship is stronger, as it will “yield credibility to allow defendant governments to live up to their commitment”\(^{42}\). This is both true and extremely interesting. Indeed, it makes sense for governments to have a propensity to comply to a norm they are breaking if they can convey to their electorate that the consequence of non-compliance is trade retaliation, and that this trade retaliation will have a strong effect. This means that a defendant will be more likely to comply to a WTO ruling if the complainant has a strong economic partnership with said defendant. On the other hand, if a large country faces retaliation from another, but that the latter has low trade values with the former, it will be

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\(^{41}\) Ibidem.

\(^{42}\) Idem. Page 811.
hard for political actors to justify to their constituency that trade liberalization is necessary.

This is an interesting theory as it touches upon some notions that we develop in this work. Political actors being support-maximizers and the threat of retaliation are indeed a central part of what we elaborate upon in this work. However, this theory has, in our eyes, a number of caveats. Firstly, it fails to look at the political mobilizations that take place in the defending country before any type of retaliatory threat by a complainant takes place. It assumes that compliance can only come in the form of a threat from a trade partner, and hence omits the possibility that different constituencies might push for trade liberalization even without the threat of retaliation. Secondly, but linked to this first caveat, it considers that the political agents are the main actors in settling these trade disputes. In effect, it assumes that these political agents give something to their constituency in the case of trade disputes. Rather, we believe that it is the opposite that occurs. Constituencies make demands and exert pressures that concretize in what these political agents do. As a whole, it does not go deep enough into the complex interactions between various constituencies that occur when trade disputes take place.

In line with retaliatory capacity is another sub-field that posits that the capacity of a country to mobilize resources leads to an “incapacity to launch effective legal cases against potential trade law violators”\(^{43}\). That is “whether measured by GDP, GDP per capita, specific WTO staff resources, general diplomatic resources, domestic financial resources, or past participation in WTO disputes, we find that having meager means results in highly targeted complaints aimed at the largest markets”\(^{44}\). What this entails is that countries that are poorer do not initiate as much disputes as they would like to. This could also mean that, since the

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\(^{44}\) Ibidem.
risk of having a case brought upon by a low GDP per capita country in front of the WTO, there is less incentive for larger GDP/capita countries to comply with WTO norms in regards to trade with these countries. This is interesting, and may be true, but it looks at the initiation of trade disputes. It doesn’t explain the power relations between countries once disputes are initiated, or why there is such a discrepancy in compliance across cases for one country. Indeed, our case studies look at complainant countries that both have significant resource capacities, large trade flows with the defending country, but nonetheless we observe a large difference in compliance time.

c) Political Power of protectionist lobbies

The concept of import-competing firms\(^\text{45}\), those that usually form the strongest protectionist lobbies, have been extensively used to describe successful attempts at blocking trade-liberalizing policies. Indeed, “industry concentration and standing organizational capacity are usually higher”\(^\text{46}\) in these types of firms. They have been used to analyze the political mobilization of different constituencies in the Trade Defense Instrument of the E.U.\(^\text{47}\), and form a part of the classical import-competing versus export-dependent theory of trade politics. The argument concerning these types of protectionist lobbies is that due to the fact that they are often long-standing sectors that have a very large experience in lobbying political agents for the implementation of their preferred policies, and the fact that they have been organized under umbrella organizations for lengthy periods of time, they are better at

\(^{45}\) Firms within a country that produce goods that are in competition with the same type of goods, but that are imported from abroad. The concept is further explained and developed in the next sections.


mobilizing to have their preferences met in terms of policy choices by political agents.

However, although we recognize that this theory has had clear scientific validity in the past, we believe that it no longer holds as true. Indeed, just from our case studies, that deal with two powerful and historical lobbies, i.e. the steel and cotton industry lobbies, we find that the outcome of the two cases are radically different. We believe the answer to this discrepancy lies in the appearance, in the last decades, of new economic flows of goods and services in the world economy. Changes in economic patterns are bound to have an effect on the political economy of trade, in the same way that changes in regime type has an effect on international relations. This new phenomenon is inherently linked to the globalization of the world economy, and is commonly referred to as global value chains. In the next section, we will further analyze the classical explanation of import-competing versus export oriented firms and how it can be enhanced by introducing the notion of global value chains, and the way these global value chains can change the political battleground over trade within a country.

2. Classical politics of trade: going beyond the classical import-competing versus export-oriented theory.

The classical explanation for the formation of trade coalitions postulates that

types of political coalitions that take shape in society and organize to influence economic policymaking largely depend on one basic feature of the economic environment that may vary over time and across nations: the extent to which factors of production are mobile between industries.48

This theory itself is the result of the combination of two theorems; the Stolper-Samuelson and the Ricardo-Viner theorems. The first, part of the classical Heckscher-Ohlin

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theory of international trade, advances that “increased trade lowers the price of the imported good, leading to a reduction in its domestic production and freeing up more of the factor it uses relatively intensively […] than is demanded elsewhere in the economy at existing prices”⁴⁹, assuming the “factors of production [are] immobile internationally [and] perfectly mobile internally”⁵⁰. This means that all “owners of the same factor [of production] share the same preference with respect to trade policy”⁵¹ and thus “trade coalitions form in the shape of broad factor-owning classes”⁵². Basically, this means that increases in imports will affect all the owners of the factor that is imported (capital or labor, land not being importable) equally, and will thus produce trade preferences within classes that are large and homogenous.

On the other hand, the Ricardo-Viner theorem, assumes that “one or more factors of production are […] completely immobile between industries”⁵³. This means that, in the case of trade liberalization, “export industries receive a real increase in returns due to trade, whereas those employed in import-competing industries lose in real terms”⁵⁴. This is because if, thanks to trade liberalization, an exporting industry sells more of a product, it will make higher profits, which in turn will produce higher wages, which will force the import-competing firms to raise their wages. These higher wages will decrease their output, and thus their revenues. So in the case of immobility in factors of production, trade liberalization produces concentrated losses not on a class, but on import-competing industries. Thus, these have an interest in limiting trade liberalization.

In his article, “Class Versus Industry Cleavages, Inter-Industry Factor Mobility and

⁵⁰ Ibidem.
⁵¹ Ibidem.
⁵² Ibidem.
⁵³ Ibidem.
⁵⁴ Ibidem.
the Politics of Trade”, Hiscox derives from these two theorems that “broad class-based political coalitions are more likely where factor mobility is high, whereas narrow industry-based coalitions are more likely where mobility is low”\textsuperscript{55}. Chiefly, low factor mobility means there will be a political battle between import-competing and exporting industries, and high factor mobility means that the effects are distributed amongst a whole class\textsuperscript{56}. Since diffuse costs tend to produce less mobilization\textsuperscript{57}, we should assume that the main political battle in a country takes place between import-competing and export-led industries.

We believe that recent trends in international trade and production chains have created a new actor in this trade scheme. Indeed, trade flows can affect a third type of actor, linked to the internationalization of production. As we will develop further in the next section, we believe that this internationalization of production, the fact that a product might be partially produced in many different countries, the fact that a good might be imported into a country, be worked on, then re-exported to another for further transformation before being re-imported for further transformation means that the division between import-competing and export oriented should be complemented with a new actor, that is import-dependent firms, or industries. These do not rely on exports and do not compete with imports. Rather, they rely on imports of various goods for their production. Hence, for them, any type of trade liberalization produces a decrease in their costs. As we will see in the following sections, we should expect these actors to have a significant impact on trade policy. We will however

\textsuperscript{55} Idem. Page 3.

\textsuperscript{56} At “Low levels of mobility, Ricardo-Viner effects tie factor returns more closely to the fortunes of each industry, giving labor unions and management associations an incentive to lobby for trade policies that will confer rents by either limiting import competition or boosting exports. At high levels of mobility, industry rents are eliminated, and Stolper-Samuelson effects mean that any benefits to be had from lobbying will be dispersed among all other owners of the same factor”. Idem, Page 6.

C. What are Global Value Chains?

In recent decades, changes in international trade have given rise to “supply-chain trade”\textsuperscript{58}, or global value chains of production. This development is in line with the “North-South production sharing”\textsuperscript{59} that has been accelerating since the middle of the 1980s. At this time, developing nations started a process of opening their previously protected economies, enabling trade agreements with “deep provisions that are pro-supply chain”\textsuperscript{60}, that is provisions that give insurances regarding intellectual property, competition, and other measures that make investing in production capacity in these countries safer from an investing point of view for developed nations. What this implies is that firms that were previously located in first-world, or ‘industrialized’ nations, producing most of their products within these advanced economies, changed their pattern of production. Indeed, this is shown by the 24 percentage point drop in manufacturing output of the G7 compared to world GDP from 1970 to 2010\textsuperscript{61}. What has happened is that after this developing-nation opening up, industrialized nations have delegated part of their production to countries where certain factors of production, for example cost of labour, were cheaper, hence providing an opportunity for increased profit margins. On the other hand, industrialized\textsuperscript{62} nations have


\textsuperscript{59} Idem. Page 1684.

\textsuperscript{60} Idem. Page 1683.

\textsuperscript{61} Ibidem.

\textsuperscript{62} We recognize the possible confusion linked to the use of ‘industrialized nation’ in a new context where these nations are in fact post-industrialized nations. However, most of the literature uses ‘industrialized’, ‘first-world’, ‘developed’ or ‘advanced economy’ nation indiscriminately as representing countries with the highest GDP per capita, or that can be considered more advanced than other nations. The same is true when referring to ‘developing’, ‘global-south’ or other terms referring to countries considered less advanced. Without providing a definite solution to this terminology issue, the reader should consider that, in this work, ‘industrialized’ will refer to high
become increasingly more focused on tasks involving highly qualified labour, namely, amongst others, research, development and design. This has led to what one could refer as the ‘Designed in California, produced in China’\textsuperscript{63} phenomenon, where a product goes through a long process of production through many different countries before reaching its final assembly destination.

These changes have a huge impact on how different industries structure their production chain. If, in the past, a car might have been built entirely in a production plant in Michigan, albeit with inputs of raw materials coming from abroad. Today, it will have its doors produced in Canada, its on-board computer might come from China or Korea, the tires from Brazil and the leather from Italy. Furthermore, the car might be partially built in its plant in Michigan before being exported to Canada for additional inputs, and then re-imported in the United States for final assembly\textsuperscript{64}.

The literature provides for three main types of concepts concerning these supply-chains. The first, and most basic one, is importing to produce, which is exactly what it sounds like. This comprises “anything produced with foreign inputs”\textsuperscript{65}. The second, more representative of recent changes in the structure of the world production, is importing to export, where a country imports raw or partially finished goods for further transformation before exporting them elsewhere. A further notion is re-importing, that represents the “offshoring of a single stage in production”\textsuperscript{66}. This is most exemplative of the recent changes, as it shows best how a product can travel to, from, and then return to a country in GDP/Capita countries whereas ‘developing’ will refer to those countries that are now industrializing yet do not enjoy such a high GDP/Capita.

\textsuperscript{63} Which is actually an error, as the production chain of these kind of products should better be referred to as ‘Designed in California, partly produced in a myriad of countries before being assembled in China’. However, it does provide for a easily accessible way of representing the changes in production chains in the last decades.


\textsuperscript{65} Idem. Page 1686.

\textsuperscript{66} Ibidem.
its production process. The last concept that captures this change in production structures is the one of value-added trade. This concept embodies the “foreign value-added embodied in exports”\textsuperscript{67}. It is a way to represent the value an imported good or partially-finished product has on the final output value of that good once it is sold or re-exported. These three notions give crucial, calculable information about the nature of a firms’ production structure. The degree to which the production process of a firm, or an industry, or even a basket of goods is internationalized can be referred to as its degree of integration into global value chains. Hence, a lowly GVC-integrated object will have most of its production process done in one country, and as the degree of integration rises, so does the relative internationality of production of said good.

D. What are the expected political effects on trade politics of Global Value Chains?

1. Political Actors preferences

Before we lay out the theoretical framework for how interest groups representing different kind of dependences to trade liberalization act depending on whether we find ourselves in an industry that is highly or weakly integrated into GVCs, we will lay out a general framework on how politicians react to these interest groups.

Recent literature focuses on two facts about public policymakers. The first is that they have a tendency to “delegate the negotiation of foreign market access for export-oriented sectors to one agent, while endowing another agent […] with powers to provide protection for import-competing sectors”\textsuperscript{68}. The second is that these politicians seek to


satisfy the demands of different interest groups because they need their resources (in the large sense, expressed in votes, or financial resources for campaigning) in order to be reelected. Since these political actors are “office seekers, avoiding the mobilization of political enemies”, their main objective is to avoid policies that produce concentrated costs, preferring diffuse ones that can less easily trigger the mobilization of interest groups. The two abovementioned factors are linked to the fact that, with recent developments in international trade in the world economy, “legislators have been confronted with heterogeneous demands that come from import-competing groups seeking protection on one hand and from exporters demanding access to foreign markets on the other hand.”

When faced with a homogeneous constituency, things are rather straightforward for a legislator. Indeed, “When facing a constituency that depends mainly on exports, they legislate for freer trade policies; and when facing a predominantly import-competing constituency, they vote for protectionist policies”. However, a political actor will face “high transaction costs” when, for a single issue, there is demand both for protection and for liberalization. In this kind of context, he has to be able to steer a policy that will incur neither direct costs to import-competing firms, but also avoid these costs for export-led firms. This is where agent delegation comes into play. Indeed, by delegating to one agent the power to protect import-competing firms, and to another the task of creating favorable conditions for export-led firms, the political actor can abstain from making a decision that could be politically costly every time a situation of trade protection versus trade

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70 Idem. Page 1274.
71 Ibidem.
72 Ibidem. 1291.
73 Idem. Page 1274.
74 Idem. Page 1275
liberalization arises\textsuperscript{75}.

However, the principal will control this agent, both through ex-post and ex-ante mechanisms\textsuperscript{76}. The reason for this is double. First, the political actor has to ensure that neither of his agents, be it the one in charge of protection, or liberalization, puts concentrated costs onto the other’s constituency. The second reason is that by retaining control over the agent and thus over the policy, the political actor “maintains the flow of resources from lobbying”\textsuperscript{77}.

In the case of the U.S., delegation to agents has gone, for the interests of import-competing firms, to the International Trade Commission\textsuperscript{78}, and for the interests of export-led firms, to the U.S. Trade Representative\textsuperscript{79}. The ITCs mission is as follows

\textit{Consistent with its statutory mandate, the Commission makes determinations in proceedings involving imports claimed to injure a domestic industry or violate U.S. intellectual property rights; provides independent tariff, trade and competitiveness-related analysis and information; and maintains the U.S. tariff schedule}\textsuperscript{80}

In effect, the ITC makes recommendations concerning policy in regards to imports that might threaten a domestic industry’s viability. It cannot, on its own, decide on these remedies. Hence, the final decision still remains in the hands of the ITC’s principal, who can choose to follow its recommendation or, if he feels those recommendations might lead to concentrated costs for another constituency, to disregard them or adapt them. We will see in our mapping and analysis sections of this work that this will be very much the case for the DS248 case.

The U.S. Trade Representative’s mission statement goes as follows

\textsuperscript{75} Ibidem.
\textsuperscript{76} Idem. Page 1278.
\textsuperscript{77} Idem. Page 1279.
\textsuperscript{78} Hereafter, the ITC
\textsuperscript{79} Hereafter, the USTR
The Office of the United States Trade Representative (USTR) is an agency of more than 200 committed professionals with decades of specialized experience in trade issues and regions of the world.

We negotiate directly with foreign governments to create trade agreements, to resolve disputes, and to participate in global trade policy organizations. We also meet with governments, with business groups, with legislators and with public interest groups to gather input on trade issues and to discuss the President's trade policy positions.81

The USTR is part of the president’s Executive office, and thus, while having autonomy in providing help and fostering market openings abroad, through recommendations contained in its annual National Trade Estimate Report on Foreign Trade Barriers, and other activities, it is still under the administrative control of the Executive branch of the U.S. We will see that this agency is the principal agent that will deal with the demands of the cotton lobby.

As a whole, what these agencies do is channel the demands for trade liberalization and protection through clear agents, so that the principals (politicians) can both satisfy those groups’ demands without having to always take a stance on the issue at hand themselves, thus shielding themselves from the risk of alienating one of the constituencies. However, the principal retains some measure of control over his agents so that, in the case of competing interests, the principal can avoid having one of his agents create policy that would create concentrated costs on the other constituency. Secondly, having control over his agents means the principal can still attract resources from lobbyists. Indeed, the decision lying in the hands of the principal means he retains the power of decision and thus lobbying efforts will be concentrated on the principal, not the agent.

2. Interest-group mobilization and policy outcome

We have seen in the previous section what motivates politicians in terms of trade policy and what measures they put in place in order to satisfy the demands of various interest groups and constituencies. In this section, we will look at the other side of this issue, i.e. how and why do interest groups mobilize and what determines which constituency is capable of determining the policy outcome.

Firstly, we can assume that “highly consolidated sectors overcome collective action problems more easily and mobilize more successfully than fragmented sectors”\(^{82}\). This makes sense, as sectors that have been around for a longer period of time, or an industry sector where “a small group of very large firms”\(^{83}\) dominate the market, have had the time to interact, realize their common interest and overcome the issues linked to collective action.

Secondly, we can assume that “a high degree of certainty about losses makes groups more likely to mobilize”\(^{84}\). If a sector can efficiently predict the negative outcome of a public policy, and that these outcomes are relatively targeted (i.e. they are not diffuse), their will for political mobilization will increase.

Thus, we can assume that when a policy choice affects a long-standing, well consolidated sector that can predict the negative costs of such policy efficiently, we will see more political mobilization from these interest groups. On the other hand, if a policy outcome produces diffuse costs that are not easily quantifiable and therefore affects a wide range of industries that have little interaction and consequently find it harder to overcome problems linked to collective action, political mobilization against this policy will be weaker.

Finally, as we have seen that the political agents prime intention is re-election, and that to achieve this they try to “satisfy the demands of the most intensely mobilized

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\(^{83}\) Ibidem.
\(^{84}\) Ibidem.
groups”, we can assume that the outcome of a policy, be it for trade protection or trade liberalization, will depend on the mobilization of interest groups and the intensity of this mobilization. Furthermore, we will expect that policy choices producing diffuse negative outcomes will see less mobilisation than those producing quantifiable, concentrated outcomes.

3. Constituency mobilisation in low GVC-integration situations.

In this section, we will lay out the expected behaviour of different constituencies when dealing with an industry that is lowly integrated into GVCs. We will start by looking at the implications for an economic sector being weakly integrated and then theorize the expected behaviour of the three main interest groups that we believe have the potential for mobilization in trade restricting or opening contexts: import-competing firms, export-led firms, and import-dependent firms.

The degree of GVC integration is just a representation of how much the production of a good, or a series of good, produced by an industry has been internationalized. This internationalisation can be done “through the creation of foreign subsidiaries […] or by relying on independent foreign producers” for the production of part of a product. This means that the more a firm or industry is integrated into GVCs, the more they will rely on imports (comprising imports, but also re-imports). What this equally means is that, in a low-GVC integration context, import-dependent firms are few. Hence, the two actors that have the potential for mobilisation are import-competing and export-led firms or industries.

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85 Ibidem.
We know that “exporters lobby more against losses than in favour of gains of foreign market access”\(^87\). This is because opening up foreign markets brings a hypothetical, possible gain in trade, and closing up or restricting access to a market brings quantifiable, clear losses. Thus, in the case of a possible opening up of trade, “an exporter is uncertain whether she will really be able to reap the benefits from mobilization, and thus fails to become politically active”\(^88\).

As for import-competing firms, the case is quite straightforward. If we apply the same logic as the one developed above, i.e. that possible losses produce more political activity than possible gains, we should expect import-competing firms to lobby for trade restriction, whatever the situation. Indeed, for them, trade liberalization, or the lowering of any barriers to trade results in clear, quantifiable losses, due to the increase of cheap imports. As for trade liberalization in foreign countries, we should not expect them to mobilize, as the possible gains of such opening-up are hard to quantify. The case is the same in case of foreign market closure. Even if this closure has a probability to, in fine, impact the import-competing firm, those losses are hypothetic and hardly quantifiable.

These implications shape the way a WTO dispute initiates political mobilization in a defending country’s polity. If the targeted measure of a WTO Dispute Settlement Body\(^89\) investigation, or ruling, is one protecting an import-competing industry, we should expect it to lobby for the maintaining of said policy, because its removal creates clear losses for that industry. As long as there is no retaliation threat for complainants, we should expect export-led industries to remain inactive, as the policy does not negatively impact them. However, if a complainant country threatens retaliation, under WTO DS rules, we should expect


\(^{88}\) Idem. Page 476.

\(^{89}\) Hereafter, WTO DSB
mobilization from the targeted export-led industries, as they will very clearly be negatively impacted, and with a high degree of predictability and quantifiability. Thus, in this context, we expect the political battle to be between import-competing constituents and export-led ones. The policy outcome will depend on which group is capable of the greatest mobilization.

4. Constituency mobilisation in high GVC-integration situations.

In this section, we will focus on the impact on the lobbying for policy change when high GVC-integration firms are part of the equation. We will explain why we expect WTO DS cases in which highly GVC-integrated industries are involved should resolve faster. We will show that these industries, who are essentially import-dependent, can even lobby for the removal of trade barriers before a measure is even targeted by the WTO. We will also show that the potential mobilization is dependent on the availability of adjustment costs, especially when these are to-be-implemented measures, and not old ones.

Import-dependent firms can be defined as “those who rely on income created by imported goods or the import of intermediate products for their production process”\(^90\). These import-dependent firms are either retailers, or manufacturing firms. The latter is the most interesting one as it “relies on imports because they have either outsourced (part of) their production or because the use imported products (like steel, copper or semi-conductors) as inputs in their production process”\(^91\).

Hence, as following the theoretical development we have exposed thus far, we should expect these import-dependent firms to mobilize when they face potential losses from market closure (in their own country) as this leads them to being subject to higher costs (especially


\(^{91}\) Ibidem.
if these import-dependent firms rely on re-imports, or if their supply chain trade passes multiple times through customs). However, one consideration should be given. Before mobilizing politically, these actors will “often first assess if potential losses can be averted by adjusting their corporate strategy”\(^92\). This means that before lobbying for the opening or re-opening of the market, they will look if they can either source their inputs from domestic suppliers, or change the terms of the contract with their supplier. Hence, the political mobilization of these industries “depends to a significant extent on the costs of adjustment in a specific case: the higher the adjustment costs, the more beneficial it becomes for import-dependent firms to mobilize politically”\(^93\).

These adjustment costs are a function of “the length of time an import-dependent firm has to adjust”\(^94\) and the actual import-dependence. Hence, the shorter the time an industry has to adapt to changes in trade restrictions, and the more they rely on foreign inputs (in the sense that domestic or other foreign sources are either scarce or of higher price), the higher the political mobilization we should observe.

Since these changes in trade patterns are rather recent, these import-dependent firms have not yet had the same amount of time as import-competing firms to organize effectively with umbrella organizations, and do not have as much experience in lobbying as the import-competing firms. Hence, we expect them to have a weaker lobbying capacity that import-competing firms.

How does this translate into a context in which a WTO dispute targets an industry or constituency that has a high degree of integration into GVCs? Firstly, we can expect that, if they are capable to effectively cooperate, import-dependent firms will mobilize even before the measure is put into place. The mobilization will be dependent on the abruptness of the

\(^{92}\) Idem. Page 994.
\(^{93}\) Ibidem.
\(^{94}\) Ibidem.
measure (i.e. do they have time to adapt) and to whether alternative inputs are available at an acceptable price. In this moment, the political battle will be between import-competing and export-led industries. Given the fact that import-competing firms are better organized and have more experience in policy-influencing, we can expect that the measures should stay in favour of import-competing firms. However, if retaliation measures, or threats of retaliation, occur, the political battleground will change completely. As we have said, in low-GVC cases, when there are retaliation threats, we expect there to be a political battle between import-competing and export-led industries, the outcome depending on the degree of mobilization of each constituency. In high-GVC situations, the already-lobbying-for-change import-dependent constituency is joined in by the export-led one in lobbying for the end of the trade restricting measures. Furthermore, if these two constituencies are capable of coordination and cooperation, we should expect their mobilization to out-compete that of import-competing firms, effectively ending the dispute faster.
IV. Empirical: looking at the impact of Global Value Chains in practice

A. Methodology and case selection

1. Empirical method

In this section we will explain the reasons that pushed us to use a process-tracing comparative case-study method for the empirical part of this work. We will see that it suits the nature of our study, as we deal with a relatively new theory that has not yet been the object of extensive investigation. We will show that this method also fits well with the theoretical development of the concept we examine; as the theory we investigate has already been the object of a large-N statistical study. We start by justifying the use of a case-study, looking both at the advantages and disadvantages of such a method, and then focus on the process-tracing method more specifically.

A clear advantage of case studies is that it provides “conceptual refinements with a higher level of validity over a small number of cases”\(^95\), and enables a researcher “to achieve high levels of conceptual validity, or to identify and measure the indicators that best represent the theoretical concepts the researcher intends to measure”\(^96\). This means that it an excellent complementary tool to statistical studies, in looking in detail to what a large-N study posits, and verify if the independent variable (in our case, GVC integration of an industry) is in fact the prime factor that creates variation in our dependent variable (the rapidity of compliance to a WTO ruling).

\(^96\) Ibidem.
A second advantage brought about by case-studies is that, in fields that are still developing, or where few studies have yet been conducted, “they can play an important role in development of theories”\(^97\), by investigating and identifying “new variables and hypotheses”\(^98\). If, within a new theoretical field, a statistical research is done over a large-N sample, a case study is a complementary tool that can help refine future statistical studies (taking into account, for example, an independent variable that was discovered in the course of the case-study investigation), or observe those predictions with more precision within a small number of cases. Indeed,

*While process-tracing can contribute to theory development and theory testing in ways that statistical analysis cannot (or can only with great difficulty), the two methods are not competitive. The two methods provide different and complementary bases for causal inference, and we need to develop ways to employ both in well-designed research programs on important, complex problems*\(^99\)

Thus, in our case, basing ourselves on a large-N study that posits, with positive results, that GVC-integration is a good indicator of rapidity of compliance to a WTO ruling, we look at two cases that present a variance in their independent variable, and proceed to compare them using a process-tracing method. This process method “attempts to identify the intervening causal process—the causal chain and causal mechanism—between an independent variable (or variables) and the outcome of the dependent variable”\(^100\). This process, again in a context of a new theory that, in this case, has only been the object of a large-N study, enables us to “narrow the list of potential causes”\(^101\), i.e. to see if other variables could have been at play, but also to map the developing effect of the variable.

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\(^{97}\) Idem. Page 559.

\(^{98}\) Idem. Page 88.

\(^{99}\) Idem. Page 556

\(^{100}\) Idem. Page 556

\(^{101}\) Idem. Page 554.
Using this method, we can map the developments of the political battle between import-competing, export-led and import-dependent constituencies and see whether the degree of integration into GVC changes this political struggle for policy change in a different way whether we find ourselves in a high- or low GVC-integrated sector. As a whole, this process-tracing enables us to trace the causality of our independent variable. In the next paragraphs, we will turn to a number of possible limitations of these methods.

The first limitation that one could think of is selection bias. Often, “foreknowledge of the values of variables in cases […] necessarily bias the selection of case studies”\(^\text{102}\). Hence, there is a risk for researchers to select cases in which they believe, due to initial investigations, that their hypotheses will be confirmed. On the other, hand “selection with some preliminary knowledge of cases, however, allows much stronger research designs”\(^\text{103}\). In our case, we believe that we have found a correct balance between these two factors. Indeed, for the necessity of our work, we have purposely chosen cases in which the independent variable changes considerably (in one case, high GVC-integration, in the other, low GVC-integration), and that have other similar characteristics. However, we did not indulge in an in-depth analysis of the appearance of the various actors (import-competing, export-led, and import-dependent) involved and thus did not choose cases we knew would reveal their involvement.

A second limitation of the use of case studies is the fact that this method “remain[s] much stronger at assessing whether and how a variable mattered to the outcome than at assessing how much it mattered”\(^\text{104}\). This is mainly due to the fact that “in any of these research designs, the cases are necessarily unrepresentative of wider population”\(^\text{105}\). Indeed, this type of study is better at revealing what happened, and how, in these particular cases.

\(^{102}\) Idem. Page 103.  
\(^{103}\) Ibidem.  
\(^{104}\) Idem. Page 108  
\(^{105}\) Idem. Page 123.
To infer a general theory based only on the comparison of two cases would be unscientific. However, the purpose of this study is to look at specific cases, to see if the expected phenomenon that appeared in the large-N study is also revealed when we trace the processes with more attention to the details. A second counter-argument to this critic is that “case study methods involve a trade-off among the goals of attaining theoretical parsimony, establishing explanatory richness, and keeping the number the cases to be studied manageable”\textsuperscript{106}. It would indeed be completely unrealistic to produce a comprehensive analysis of all the WTO cases, unless we would be ready to spend the next few years working on this. Despite this, we will see in our results that these considerations on representativity, as well as the appearance of unforeseen variables, should form the basis for future studies, without disproving the theory we used.

In this section, we have provided an explanation as well that a theoretical justification of the empirical method we will be using in this work. We have seen that, given the nature of our study, and the recency of the theoretical sub-field it fits in, it is a valid way to conduct the empirical examination of our hypothesis. In the next section, we will further justify the concrete reasons that motivated our case-selection, and will also provide an explanation of the method used to calculate the GVC integration, as well as the actual values we found for each case.

2. **Case similarities and differences**

In line with the process-tracing method we have explained previously that can “be used to test whether the residual differences between two similar cases were causal or spurious in producing a difference in these cases’ outcome”\textsuperscript{107}, we will look at how our cases are similar and how they differ. Indeed, the ideal-type of a case study that would have for

\textsuperscript{106} Idem. Page 122
\textsuperscript{107} Idem. Page 704-705.
objective to test a theory would be to find cases that are similar in every way, except for the independent variable (GVC integration). However, we believe that the differences we will explain in the later paragraphs of this section do not hinder the value of this work, for two main reasons. The first, quite obvious, is that ideal-type cases are exactly this, ideal. The ideal-type is a theoretical notion that is very rarely found (if not never) in real world situations. Hence, our objective here is to look at cases that are similar, without burdening ourselves with the impossible task of finding two, non-existent, cases that are in every way the same except for the degree of integration of GVCs. Secondly, and again in line with the process-tracing method, we believe that slight differences across our cases are actually of value both to the objectives of this work, and to the research on the importance of GVCs as a factor accelerating compliance in WTO disputes. Indeed, these slight differences have the possibility of revealing variables that have not been taken into account thus far, and therefore could be used as building blocks for further research into this field. We will proceed by first looking at the similarities between the two cases, and then turning to their differences.

The first factor that makes these cases similar is the fact that, in both cases, the United States acts as a defendant. Thus, the political arena in which we will analyse our hypothesis is quite similar for both cases. Furthermore, the initiation of both disputes occurred in the same time. DS248 was initiated on 7th March 2002\[^{108}\] and DS267 on 22nd September of that same year\[^{109}\]. Without going into the details of the prelude to the initiation of these two cases, which is dealt with in the respective lobbying mapping sections of this work, this initiation of dispute similarity means that the economic and political situations are the same. We deal,
in both cases, with a Republican administration, a Republican Congress and a Republican Senate.

Another factor that makes these cases similar is the historical importance of both industries. In the case of the cotton industry, we deal with the historical ‘cotton belt’ sector, and for steel, we deal with the industry situated in the ‘rust belt’. Furthermore, at the time of the initiation of the disputes, both sectors were in a general process of decline, but still retained large political influence within the state. Both lobbies representing these industries were, and still are quite powerful.

A third factor that makes these cases similar is the economic power of the complainants. Indeed, had we chosen cases in which the capacity for retaliation of the complainant had been very different (say, if we had taken the European Union and a small African country), the validity of our results would have been compromised. However, despite a difference in the trade flow values between the U.S. and the E.U. (about 200 billion dollars in import from and 170 billion dollars in exports to the EU), and the U.S. and Brazil (about 10 billion in exports to and 16 billion in imports from Brazil), we believe that they are large enough economies that the threat of retaliation will be credible and have the same possibility of influence to the U.S.


\[113\] Figures are available on http://comtrade.un.org/data/
A number of studies have pointed to the fact that “democratic pairs have had much more open trade relations than mixed pairs”\textsuperscript{114}. The graph below shows the democracy functions for the U.S., Brazil, and a selection of the EU’s largest countries\textsuperscript{115}.

As we can see, the countries are mostly similar, with the only clear disparity being for Brazil in ‘Representation’. Democracies will never function equally in all spheres or be exactly the same, but the important factor is that these are disputes settled between democracies that enjoy the same kind of functioning.

Along with democracy, preferential trade agreements\textsuperscript{116} have been said to have an impact on the likeliness of compliance to adverse WTO DSB rulings\textsuperscript{117}. However, after


\textsuperscript{115} The graph was generated using the ‘Democracy Barometer’ of the University of Zurich. Data can be generated on \url{http://www.democracybarometer.org/graph_en.html}, accessed on 28/04/2016

\textsuperscript{116} Hereafter, PTAs

\textsuperscript{117} OP. Cit. Political Economy of the WTO Dispute Settlement: The EU and US’ commitment to trade liberalization and the impact of global value chains.
having checked in the Design of Trade Agreements Database\textsuperscript{118} and a 2009 study by the Bruegel Institute mapping such agreements\textsuperscript{119}, we found the U.S. had PTAs with neither the European Communities, nor with Brazil at the time of the dispute initiations.

We believe that these similarities bring an added-value to the research we are conducting. Indeed, as we may recall from our theoretical framework, these similarities are part of the classical literature on explaining compliance to WTO rulings. However, despite being similar in case-complexity; despite a strong retaliatory capacity for both complainant; despite the dispute being one between two democracies; and despite there being no preferential trade agreements between the parties, we observe a strong compliance disparity between the two cases (about 21 months for DS248 compared to about 12 years for the Upland-Cotton case). This further develops the point we developed in the theoretical framework section about these various theories coming short in a comprehensive explanation of the variance in compliance to WTO rulings.

Concerning the differences, we can cite two main factors: the channel through which the protection challenged was given and the fact that, in for the DS267 case, the legal issue regarded export subsidies while for the DS248 case, it regarded import tariffs. We will see in the following empirical process-tracing and analysis of our results parts that this entails a series of consequences. In the case DS248, the tariffs imposed were quite straightforward, and were given through an executive act by the President of the United States. In the case DS267, the measures were linked to U.S. Federal Farm Bills, that need to go through Congress, the Senate and an approval by the President before being either changed or enter into law. Thus, the process of adaptation to a negative WTO DSB ruling could have taken

\textsuperscript{118} Available for download on http://www.designoftradeagreements.org/www.designoftradeagreements.org/indexf908.html?page_id=884, accessed on 06/05/2016

more time to resolve in the case of DS267 simply because the process is longer. Secondly, the fact that these export-subsidies were actually depreciating world cotton prices means could explain why there was no mobilization by import-dependent firms (and could even explain why there are almost no import-dependent firms, since there is no incentive to buy cotton from abroad if locally grown cotton is offered at a lower price, thanks to said subsidies).

3. **Global Value Chain Integration Calculation of the Two Industries**

Global value chain calculations can embody many things. One can map the supply-chain of a single product, that of a firm, an industry, or even the GVC integration of a whole country. For the purposes of this study, and more specifically of the two cases at hand, we will focus on calculating the GVC integration of their respective industrial sector. Building on a GVC calculation technique elaborated by Yildirim, Poletti and Chatagner\textsuperscript{120}, we planned to use the World Input Output Database\textsuperscript{121} to “analyse to what extent the sector is import-dependent”\textsuperscript{122} for a given year.

But before presenting the values found for each case, we will give a brief explanation on the WIOD. Presented in 2012, the project had been in the works since 2009\textsuperscript{123}, and was funded by the European Commission. It is, in essence and for the purposes of this study, a database which “provides [a] time-series of world input-output tables for forty countries worldwide and a model for the rest-of-the-world, covering the period from 1995 to 2011”\textsuperscript{124}.

\begin{small}
\textsuperscript{120} Op. Cit. *Political Economy of the WTO Dispute Settlement: The EU and US’ commitment to trade liberalization and the impact of global value chains*.
\textsuperscript{121} Hereafter, the WIOD.
\textsuperscript{122} Idem.
\end{small}
What the database lets us do is to “calculate the intermediate consumption [of a sector] as a percentage of its total output”\(^{125}\), which gives an indication of an industry’s use of intermediates, and that sectors’ dependence on imports.

After checking within the International Standard Industrial Classification of all Economic Activities\(^{126}\)\(^{127}\) in which industry the two measures under investigation by the WTO in each case belonged to, we would have proceeded to calculate their import-dependence following the abovementioned technique. However, if this was possible for the DS248 case\(^{128}\), and did in fact show a high level of GVC integration for the whole sector (of the order of 60% of input to output value ratio), this proved much more complicated for the DS267 case. Indeed, one of the issues linked to the WIOD is that “the broad sectoral classification these are presented in hides important supply-chain specialisation occurring within sectors”\(^{129}\). For the case of cotton, the WIOD classifies it within the “Agriculture, hunting, forestry and fishing”\(^{130}\) category. The problem is that, from initial investigations, it was clear to us than the cotton industry was a weakly GVC-integrated one. However, as it is put in this category alongside these other industries, and specifically agriculture (which has a high GVC-integration\(^{131}\)), the values we came out with resulted in a relatively high GVC-integration (of about 1 percentage point lower than the one found for steel). This was of

\(^{125}\) Op. Cit. Political Economy of the WTO Dispute Settlement: The EU and US’ commitment to trade liberalization and the impact of global value chains


\(^{127}\) Hereafter, ISIC

\(^{128}\) For the data and calculations, please refer to Appendix 5


course not representative of the actual integration of cotton, and thus we looked at another way of finding reliable data concerning this industry.

After consultations with Pr. Poletti, and the valuable input of Pr. Yildirim, who suggested to turn either towards the OECD Global Value Chain dataset, or to the UN COMTRADE World Integrated Trade Solution dataset, we decided to use the latter. Indeed, as Pr. Yildirim stated\textsuperscript{132}, the OECD dataset also encompasses broad sector categories. On the other hand, the UN COMTRADE WITS\textsuperscript{133} encompasses data about re-imports and re-exports, which proved very useful in capturing the sectors’ GVC integration. Another obstacle we had to face when calculating figures for the DS267 case was that the WITS database does not extend further back than 2007. The initiation of the DS267 case occurred in 2002, five years earlier. Ideally, we should have calculated the GVC integration of the targeted sector in the year of the initiation of the dispute. However, contrary to the DS248 case, that was effectively resolved in 2003, the DS267 case extended to 2014. Thus, while not representing the exact time-frame we would have wanted, the digression does not, in our view, poses too much of an issue. This is especially true as we do not require highly precise figures. Indeed, the framework posits that the degree of integration influences the duration outcome of the dispute. Hence, and as we will see, it is important that we can verify that the two cases are on the opposite spectrum of GVC integration, without requiring extremely precise figures.

To measure the degree of integration into GVCs of the cotton industry, we calculated two figures, for the period 2007-2014. The first was the import over export ratio, the second was re-export over import ratio\textsuperscript{134}. We would have wanted to obtain the re-import over

\textsuperscript{132} Email conversation, 12 April 2016
\textsuperscript{133} Hereafter, WITS.
\textsuperscript{134} Expressed in percentages
exports ratio, but this figure was not available. Both results point to a very weak integration into GVCs\textsuperscript{135}, with a import over export value average of about 0.6% and a re-export over imports value of about 7%, over the 2007-2014 period.

In this sub-section, we have provided the framework for calculating the integration of an industry sector within these GVCs, and have provided the actual figures for the two cases we focus on in this work. Regarding the issue we have faced concerning obtaining the data, we should offer a few extra considerations. Firstly, it is indeed not ideal to have figures coming from different data-sets, and for one of the cases, not for all the years covering the dispute. However, we should consider that the WIOD is a very recent object, and while it provides both the opportunity for a large number of studies to take place using the data it provides, it also is in the process of continuous improvement. The fact that it is a useful, yet imperfect tool should not prevent us from using it, as this interest can only foster positive feedbacks and further its development. Secondly, in regards to the imperfect data for the cotton industry GVC-integration calculation, we reiterate here that we do not see it as too large a fault in this work. As we have said, the most important factor is to be able to determine whether the industry is strongly, or weakly integrated, which was calculated effectively, albeit from different datasets.

Finally, we have established that for the DS267 (Subsidies on Upland-Cotton), the industry targeted was very weakly integrated into GVCs, while for the DS248 (Definite Safeguard Measures on Imports of Certain Steel Products), the industry as a whole was highly integrated into GVCs. Having established the theoretical and practical reasons that justified both the method and the choice of our cases, we will proceed in the next section to map and trace the actual events, looking at the different mobilization of the various constituencies that should manifest in the two situations.

\textsuperscript{135} For data-set and figures, as well as calculations, please refer to \textit{Appendix 4}
B. Case studies

1. High-GVC sector: the steel industry case

This case study focuses on the DS248 case, which is a case of high GVC-integration and short compliance time. Hence, in line with our theoretical framework, our objective is to see what actors where mobilized, and more specifically if import-dependent industries mobilized and lobbied for the removal of the measures targeted by the Section 201 Tariffs. We will do so by first providing a short historical walk-through of the evolution of the steel industry in general, before turning to more recent developments that led to the implementation of the tariffs, and finally looking at the appearance of the various actors we expect to see in a high GVC-integration dispute.

a) Historical evolution since 1945

Before entering into the actual analysis of the lobbying done for and against the Section 201 Tariffs put in place by President Bush in 2002, we will look at the historical development of the steel industry since 1945. By doing this, we will be able to better understand the reasons, or motivations, that led to lobbying for the imposition of these tariffs.

We will see how, from a position of domination in the market after the end of the Second World War, the US steel industry has faced increased competition from abroad, due to Japan, Germany and other countries rebuilding their industries. This, coupled with a need to restructure, due to the fact that many large US mills were outdated and inefficient, can be identified as some of the reasons that led part of the industry to lobby –with success- for the implementation of tariffs, and their continuation despite an adverse ruling by the WTO.

In the immediate aftermath of the Second World War, the US steel industry enjoyed a privileged position. Indeed, there were “hardly any import of steel as the steel firms in
Germany and Japan were destroyed during the war. However, as these industries rebuilt themselves, and US mills started to face difficulties from a lack of investment in new technologies, starting in the late 1970s and continuing into the 1990s and 2000s, as US steel faced increasing competition from imported steel.

The 1970s saw “the international competitiveness of the US steel industry […] declining”. As we have stated, this was due to a lack of investment in new technology but also to the rise in cheap production processes in industrializing countries, notably South-Korea and China. Concurrent to this decline of traditional, large mills, more efficient, niche product ‘mini-mills’ were starting to develop. These represented 15% of US steel output in 1981 but rose to 50% in 1998. Thus, the last two decades of the 20th Century saw a large shift in the production structure of US steel.

The exhibit below shows the increase in steel imports in the USA through the 1990s.
As we can see, the increase is quite dramatic. This increase is the natural consequence of the development of steel industries in Europe, Asia and South-America. Indeed, imports of steel in the US was non-existent in the early 1960s, but accounted for 30% of the domestic market consumption by the 1990s\textsuperscript{142}. This increase in imports throughout the 1990s is due to several factors. First, a strong dollar “reduced the cost of imported steel”\textsuperscript{143} and secondly, “over-capacity in the global steel industry”\textsuperscript{144} meant prices were following a downward trend, from about three and half dollars a ton in 1980, to almost two dollars a ton in 2000\textsuperscript{145}. This decrease in prices was a major issue for large, out-dated steel mills. Superannuated mills were simply not competitive enough to contend with imported steel. However, this decline in price was a major advantage for steel-consuming industries, such as car manufacturers and subcontractors, and certain specialty ‘mini-mills’, who relied on cheap imports for their production lines. As we will develop in the following parts, we will see that

\begin{itemize}
  \item \textsuperscript{144} Ibidem
  \item \textsuperscript{145} See Appendix 1 for graphic exhibit.
\end{itemize}
it is between these two groups, i.e. steel-producers and steel-consumers, that the lobbying battle for the upholding and overturning of the ‘Section 201’ tariffs will occur.

The historical importance of the steel industry in the US has had for consequence that its influence with Congress and the President’s office are, if not unequalled, quite large (in terms of political power compared to other single industries). Indeed, it has “managed to gain the sustained attention of governmental decision-makers […] for the last 50 years”\textsuperscript{147}. Indeed, successive US Presidents have had to gain the support of the steel industry to negotiate broad free-trade agreements\textsuperscript{148}.

Lobbying for the imposition of tariffs started in the late mandate of President Clinton, with multiple complaints filed by industry actors at the ITC\textsuperscript{149} demanding the imposition of tariffs on steel products imported into the US. The onset of the 2000 economic downturn saw lobbying for tariffs intensify. This was in part due to the fact that President Bush Jr was seen as more protectionism-prone than Clinton, but also because, with the accumulation of problems (increase in imports, over-capacity in worldwide steel production, economic downturn) meant the industry was in dire need of relief, in order to “stave off further layoffs and firm closures”\textsuperscript{150}.

For all these reasons, President Bush Jr stated in March 2002 that he will introduce tariffs on certain steel imports because of

\textit{Surges in foreign imports [and] to ensure that American industries compete on a level playing field, [given] the harm from 50 years of foreign government intervention in the global steel market [in terms of 30] bankruptcies, serious dislocations and [20,000] job losses [from the] glut of cheap imports, global over-capacity and . . . falling prices leading to falling profitability [and] to give the US steel

\textsuperscript{146} Explanation on Section 201 tariffs will be provided in the next section
\textsuperscript{149} The USITC, or United States International Trade Commission, is a federal agency that evaluates the impact of imports on US industries. It provides expertise to both the legislative and executive branches on measures to implement in order to counter unfair trade practices.
industry time to restructure without harming the US economy.\textsuperscript{151}

We have briefly identified the long-term as well as short-term reasons that have pushed the steel industry lobby to push for protection against imports. Our aim here was not to analyze at length the historical developments of steel lobbying, but simply to paint a broad picture, so as to better understand the issue at hand. For a more in-depth analysis of steel political business cycles, see Price Controls, Trade Protectionism and Political Business Cycles in the U.S. Steel Industry\textsuperscript{152}. The next section will analyze the events occurring once the World Trade Organization will have had rendered its judgment.

\textit{b) Import-competing firms' push for maintaining tariffs}

As predicted in our hypotheses section, the lobbying battle for and against the maintaining of Section 201 tariffs\textsuperscript{153} will be between import-competing and import-dependent firms. The action by import-competing firms can be divided into four sections. After hailing the imposition of tariffs, steel-producing mills and industries that are import-competing pushed for further, and higher tariffs. Shortly after, exemptions to these tariffs for certain materials and countries were introduced, and were battled by these industries. Finally, as the risk for retaliation grew, concerned industries pushed to keep these tariffs in place, despite the adverse WTO ruling and the risk of retaliation.

\textsuperscript{151} Idem. Page 1121.


\textsuperscript{153} Section 201 is a section of the Trade Act 1974 that enables a President of the United States of America to provide import relief to industries in need of adjustment. It involves the filing of a petition to the International Trade Commission who then makes a set of recommendations to the President of the United States of America on what types of measures to put in place. H.R. 93-618, 93rd Cong., For sale by the Supt. of Docs., G.P.O. (1975) (enacted). Accessed on https://www.gpo.gov/fdsys/pkg/STATUTE-88/pdf/STATUTE-88-Pg1978-2.pdf on 24/04/2016.
(1) Initial appraisal of the imposition of tariffs

The imposition of Section 201 tariffs saw appraisal by many industry representatives, who also praised the pressure certain lawmakers in Congress put on the administration to go forward with the tariffs. “The President has made a courageous decision in the national interest […] [that will] help return the Steel industry to health [after] U.S. mills had lobbied for heavily for […] tariffs”\(^{154}\). This initial appraisal coincided with the industry’s two largest firms\(^{155}\) announcement that they will continue “to work with the Bush administration on […] other parts of the steel initiative”\(^{156}\). This shows both the lobbying done for the implementation of said tariffs, but also the industry’s will to continue to interact with lawmakers and the presidential administration to ensure the tariffs are effective.

This is in line with our hypotheses and theoretical framework, that these companies, who are competing with cheap imports, want to ensure that the advantages they gathered through the tariffs remain in place.

(2) Keep tariffs, more tariffs

Section 201 tariffs were due to remain in place for a period of three years\(^{157}\), but a review of the measures by the ITC, and a decision on whether to keep them in place was due in 2003.

In this context, representative Mollohan from West-Virginia “urged Bush to continue the tariffs after the ITC completes its ‘mid-term review’ ”\(^{158}\). A basic look at Rep. Mollohan’s contributors for the 2002 house election cycle shows significant inputs from

\(^{154}\) Petry, Corinna. "Will Bush’s Tariffs save Steel?" Metal Center News, April 2002, 42nd ed., sec. 5. Page 21
\(^{156}\) Ibidem.
\(^{157}\) “The margin of protection was due to be reduced annually over the three-year span of the measures”. Op. Cit. The Political Economy of Trade. Page 1121
both the mining and steel industries\(^{159}\). It should also be noted that West-Virginia is part of the ‘rust belt’, a historically important state in the production of steel. It is thus unsurprising that he would be lobbied by the steel industry for the maintaining of the tariffs, and that he would lobby the administration, seeing as his electorate expects his defending of this industry.

The industry did not only lobby for keeping the tariffs in place, it was also pressuring for more tariffs to be implemented. Indeed, despite “US steel companies [being] again profitable […] the industry is nonetheless poised to launch a campaign for additional protection”\(^{160}\). By this time, the WTO had already issued its Panel Report, stating that the measures put in place were illegal in light of WTO rules\(^{161}\). However, Nucor, a large steelmaker, sent a letter to then US trade representative Robert Zoellick stating that “the industry could again face a crisis unless growing imports from developing countries were cut back”\(^{162}\).

The reasons for these demands for more tariffs are quite straightforward. After having felt relief from imports of developed countries, steel prices rose\(^{163}\), to the benefit of these import-competing firms. However, the Section 201 tariffs exempting certain developing countries as well as FTA\(^{164}\) partners of the USA, the import gap was being filled rapidly, and import-competing firms were once again facing the risk of competing with lower prices. Indeed, statistics on imports show us that developing countries steel imports


\(^{161}\) See the “Explanation of the Cases part” for additional information about the specificities of the WTO ruling and relevant WTO law.


\(^{163}\) See Appendix 1 for details.

\(^{164}\) Free Trade Agreement
rose from 1.2 million tons in the beginning of 2001, to 1.6 million tons for the first ten months of 2002\textsuperscript{165}. As imports rose, prices were also falling. From 400\$/ton in July 2002, to below 300\$/ton by the end of that year\textsuperscript{166}. As we will see in the discussion part of this section, it seems quite clear that import-competing firms pressure and push for more protection, despite an adverse WTO ruling and the risk of retaliation measures, in order to maintain their advantage.

(3) Fight against the end of tariffs

The ultimate attempt by import-competing firms to continue the Section 201 tariffs was done during the presidential election cycle of 2004. By then, the Tariffs had been terminated by Bush in December 2003. However, the election year provided a great opportunity for the industry to put forward its demands. Greatest pressure came from the USWA\textsuperscript{167}, who endorsed presidential candidate Gephardt, a Congressman from Missouri. They did so because of his “loyalty for 20 years [and] his advocacy”\textsuperscript{168} in favour of steelworkers and steel mills. Politically, there was little chance that Gephardt would make the Democratic nomination. However, by pulling their weight behind a candidate who advocated for the Tariffs and more generally for “a trade policy that doesn’t sacrifice American jobs”\textsuperscript{169} (i.e. steelworker jobs), the USWA was hoping to bring their grievances into the campaign in order to address the recurring problems they were facing against the recrudescence of cheap steel imports.

After Gephardt backed out of the Democratic primary, the USWA stated that it would back a candidate that would understand its “concerns about trade policy [and] the negative

\textsuperscript{166} Prices for hot-rolled steel. Ibidem.
\textsuperscript{167} United Steel Workers of America, the largest steel workers union in the USA.
\textsuperscript{169} Ibidem
impact of current trade policy”\textsuperscript{170}, again stating the paramount importance of guaranteeing a certain price level for these steel mills.

As we have seen, the pressure by import-competing steel mills to impose and keep tariffs in order to be able to compete in the industry is a long-lasting effort. Its efforts took the form of direct lobbying to certain members of the legislative branch, but also by maintaining a relationship with the executive administration. In the next section, we will analyse the other side of this lobbying enterprise, i.e. import-dependent firms, as well as export-led ones. We will see that the demands are quite opposite, as they saw a rise in their costs due to the imposition of tariffs, and battled fiercely against their maintaining.

c) \textit{Import-dependent firms lobbying against tariffs}

(1) Large car manufacturers

The automotive sectors push against the tariffs can be divided into two main sub-groups. First, large end-product companies such as General Motors, Toyota and Ford that voiced concern without being too hard-hit by the measures. Indeed, these companies enjoyed the advantage of being able to transfer their costs to their consumers or negotiating effectively with their suppliers to alleviate the effects of higher steel prices. Their second protective shield against the rising costs of steel products –a direct consequence of the tariffs– is that their costs were locked in long-term contracts\textsuperscript{171}. We will however see that they did organize and threaten certain measures if the tariffs were not lifted. The second sub-group is probably the most interesting to analyse. Indeed, it is composed of automotive subcontractors that provide the large end-product companies with parts. These are often small or medium-sized companies that, on their own, would not have a lot of political weight.

\textsuperscript{170} Ibidem
However, we will see that they actually mobilized politically in a very effective way, as the theoretical framework expects them to. We will not only see that they mobilized effectively, but that they were quite capable of measuring the negative effects of a de-liberalization of trade on their industry.

The first step large auto-manufacturers took was to voice concerns on the tariffs. In the months prior to the implementation of the tariffs, executives of the Chrysler Group, Toyota, and Nissan voiced their concerns on the possible imposition of import tariffs, especially on the fact that it could “translate into higher prices to the Big 3”\textsuperscript{172}. Dennis Cuneo, the Vice-President of Toyota Motor Manufacturing North America Inc. stated that “If you cut off the supply of imported steel, that leaves the domestic producers with no competition [and] they’re going to raise their prices”\textsuperscript{173}. Nissan, on the other hand, said it “might favour future plant expansions in Mexico, which does not restrict steel imports”\textsuperscript{174}.

We must note that these concerns and veiled threats of delocalisation are occurring before the Section 201 tariffs were even put in place, showing the importance these industries put on the advantages they reap from free, unrestricted trade. Although their later mobilization is less visible, we will see that it is through sub-contractors that the most vehement lobbying for the end of the tariffs will occur.

(2) Car manufacturer sub-contractors

This is the industry that was the most hard-hit by the Section 201 tariffs. Indeed, as we have said, these subcontractors are not large enough that they are able to transfer their rising costs down the line. Secondly, while large manufacturers rely for a large part of their production line on “domestic steel-makers to supply high-quality sheet steel for vehicle body

\textsuperscript{172} Ibidem
\textsuperscript{173} Ibidem.
\textsuperscript{174} Ibidem
panels” 175, these sub-contractors depend on “cheaper imported steel for stamped components”176. Thus, they are even more import-dependent and their rise in costs is directly linked to the level of the tariffs. However, this large dependence means they mobilized very effectively to try and stop this trade-disrupting measure.

The best way to exemplify the bane felt by this industry is to give a first-hand example. Precision-Marshall is a small, high-end steel transformer that specializes in transforming plate steel into moulds for other high-end industries, such as car manufacturers, but also computer-making companies. Thus, they relied on a French steel-maker that could supply it with plate steel of the highest grade. It’s president, Mr Milhollan, said it could not rely on domestic producers as they couldn’t guarantee the same level of quality as the French producer. As the tariffs hit imports, “domestic producers claim[ed] they can make the same product. But their prices are higher as well”177.

This example represents what a lot of sub-contractors and parts-makers were facing at the time the tariffs were imposed. These small and medium-sized companies that had previously enjoyed and relied on both high and low quality imports (that were still cheaper than domestically-produced products due to the high cost of production, linked to the obsolescence of these domestic manufacturers) for their production lines now faced a double problem. First, their imports now had a significantly higher cost. A cost that, due to their small size, they could hardly pass down to their clients. Secondly, they now had to turn to domestic suppliers that were more expensive than their previously un-tariffed imports, and that, due to their lower margins, asked for larger orders. In this context, these small producers

175 Ibidem
176 Ibidem
organized through the AAIA, MEMA, and SEMA\textsuperscript{178} to lobby for the end of the Section 201 tariffs.

In October 2002, just months after the tariffs were imposed, the AAIA, MEMA and SEMA announced that they

\begin{quote}
will work cooperatively to obtain relief for their members affected by the steel safeguard program, seek a closer review by the government on the effects of the program on producers of motor vehicle products, and discuss future policy options\textsuperscript{179}
\end{quote}

The three abovementioned organizations claimed that the Section 201 tariffs

\begin{quote}
pose a critical threat to the overall US automotive supply chain, which greatly relies on [...] availability of adequate quantities of high quality steel for its products\textsuperscript{180}
\end{quote}

This is because the tariffs putting higher prices on imported steel that would have been transformed by US firms previous to the enactment of the tariffs meant these finished products were now being bought by car manufacturers abroad, at a cheaper price. Hence, a lot of sub-contractors were facing shutdowns, and layoffs.

The lobbying efforts took various forms. In January 2003, leaders of various interest groups took advantage of the Legislative Summit\textsuperscript{181} to lobby against the tariffs. Aaron Lowe, the AAIS vice-president of governmental affairs, met “with various legislators and the

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\textsuperscript{180} Ibidem.
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\textsuperscript{181} The NCLS, or National Conference of State Legislature is ”is the meeting where legislators and legislative staff come together to work on the nation's pressing issues, share experiences and influence federal policy”. On http://www.ncsl.org/meetings-training/legislative-summit.aspx, accessed 25/04/2016.
\end{flushleft}
presidential administration to review steel tariff increases. In October 2003, these associations held a series of meetings with “the White House, [the] Office of the U.S. Trade Representative, Departments of Labour and Treasury” to demand an end to the tariffs. By this time, Panel report had already been circulated, and appealed by the U.S. administration, and the Appellate Body report was expected early in November. Hence, this provided an excellent opportunity for these organizations to add to the pressure and try to shift the U.S. administration’s position on these tariffs.

In this context, one U.S. Representative was key: Rep. Joe Knollenberg, from Michigan. In March 2003, a few months before the ITC was due to issue its midterm review of the effects of the Section 201 Tariffs, he introduced the House Concurrent Resolution 23 which urges the President to “monitor and report on the impact of the temporary safeguards on domestic steel-consuming industries.” Rep. Knollenberg did this in the name of more than fifty members of Congress who were equally concerned about the impact of the Section 201 tariffs on domestic steel-consumers. The resolution was introduced because the ITC, in it’s review planned for September of that same year, did not need to review the impact on domestic consumers (it only had to look at the impact of the measures for the domestic producers, for which the measures had been put in place and that had

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185 See Appendix 2.

introduced the complaints that had led to the ITC recommendations in the first place).

Looking at both Rep. Knollenberg’s funding sources, and taking into account the significance of the automotive industry in his home state (Michigan), which is the historical automotive state of the United States, this lobbying for the removal of the tariffs is obvious. For the 2003-2004 election cycle, General Motors was one of the top five contributors to Mr. Knollenberg’s campaign. And industry-wise, the automotive sector accounted for more than one hundred and sixty thousand dollars of contributions, the largest amongst donor categories for that cycle. In the 2002 cycle, a year he was not running for re-election, Knollenberg still received more than a hundred and fifty thousand dollars in contributions by the automotive sector. Knollenberg had been against the tariffs from the beginning, stating that “I disagreed with the president’s decision in the first place” but that “what we need now is a thorough review of these tariffs and how they are hurting steel users”.

We have seen in the import-competing section that industries had managed to effectively campaign and mobilise members of the legislative to promote their interests. We can see that it is equally true for import-dependent firms, who were able to pinpoint quite precisely the negative effects of these tariffs on their business, mobilise both publically and through members of congress to push for the end of the tariffs. We will see in the next section that, confirming our theoretical framework, these industries were very effective at...
quantifying exactly the losses they were incurring, and managed to use this as an effective tool to lobby the legislative and executive branches for an end to the tariffs.

(3) CITAC STF\textsuperscript{192} against the tariffs

One organization that was highly effective in combatting the Section 201 tariffs was CITAC. They were effective in that they were capable of producing a set of studies that established the negative distributive effects of having raised the tariffs on certain steel products. Particularly, one study published, *The Unintended Consequences of U.S. Steel Import Tariffs: A Quantification of the Impact Through 2002*\textsuperscript{193} made a detailed calculation of, amongst other things, the job losses directly consequential to the imposition of the Section 201 tariffs. The table below shows some of their results.

![Steel Transaction Price vs. Steel-Consuming Job Impacts](image)

Source: Trade Partnership Worldwide, LLC

\textsuperscript{192} Consuming Industries Trade Action Coalition Steel Task Force

As we can see, this study found that more than two hundred thousand jobs were lost due to the Section 201 tariffs. Furthermore, their study finds that this figure is actually higher “than the total amount of jobs in the steel industry itself”\textsuperscript{194}. Another notable data that this study shows is that, as we have stated above, most firms that are steel-consuming are small or medium sized. In fact, “98 percent of the 193,000 U.S. firms in steel-consuming sectors employ less than 500 workers”\textsuperscript{195}. This is important because although they cannot individually pull as much political weight as the large steel-producing mills, they did manage to organise politically, through the CITAC, to put forward their demands and grievances in regard of the Section 201 tariffs.

It is in this context that CITAC issued a statement saying that

\begin{quote}
We join Rep. Joe Knollenberg (R-MI) and the bipartisan group of 51 co-sponsors of House Concurrent Resolution 23 which calls on President Bush to direct the ITC to look at the impact of the Section 201 tariffs on steel consumers in the U.S.\textsuperscript{196}
\end{quote}

This statement in support of Rep. Knollenberg’s resolution in Congress is not the first instance of lobbying done by CITAC in the context of higher tariffs. Indeed, one year earlier, they had already voiced their firm opposition

\begin{quote}
Last year, we wrote to the Bush administration to voice opposition to the restrictions on steel imports. Now, almost a full year after the tariffs were imposed, all [we] want to know is what makes steel producers’ jobs more important than the jobs of 200,000 steel workers?\textsuperscript{197}
\end{quote}

\begin{footnotes}
\item[194] Idem. Page 2.
\item[195] Idem. Page 7.
\item[197] Ibidem.
\end{footnotes}
In another instance, later in the year, CITAC acted again to lobby against the tariffs. Indeed, in October of 2003, it sent a letter to President Bush, co-signed by more than 200 companies and organizations working in the steel-consuming sector, asking for the end of the Section 201 tariffs. In a statement, they said that

This letter shows how the steel tariffs have truly energized and unified hundreds of steel consuming companies and related industries to voice their strong concern about the steel tariffs to President Bush. If ever there was a time to speak up, it’s now, and that’s exactly what we’re doing. It’s time to look ahead and work towards an environment that’s steel tariff-free.\(^{98}\)

It is interesting to note that this political mobilisation was both very strong and very organized. For an industry that comprises nearly two hundred thousand companies and firms, most of them very small, it was a much more difficult enterprise than the lobbying done by steel-producing, import-competing mills, which number in the dozens, not the thousands. This capacity for political mobilisation by import-dependent firms will be fully analysed in the discussion section of this thesis, where a comparison between the two cases we are studying will be done, to link the empirical with the theoretical framework, and show that it is indeed because these are import-dependent firms that their political mobilisation was feasible despite their geographical, and industry-type disparities.

\(^{4}\) One last import-dependent actor: port authorities

Before concluding the mapping of the import-dependent industry lobbying done against the Section 201 tariffs, we will briefly expose an actor that we had not envisioned as having a stake in the issue. Indeed, we had anticipated that industries that import steel from abroad, transform it, then either re-export it or re-sell it as an unfinished product in a global

value chain. However, it is quite logical that port authorities make up a key link in the steel global value chain.

It is even more interesting since, in this instance, it brought together a coalition of actors that usually do not cooperate actively. Indeed, in the battle against Section 201 tariffs, “terminal operators are joining forces with dock workers, longshoremen and the unions, which doesn’t happen often” 199.

Again, in the face of negative distributive effects to their industry by the Section 201 tariffs, this group managed to organize effectively through the Free Trade in Steel Coalition, an organization comprising 40 members of port authorities in the U.S. It is through this organization that they lobbied the legislative and the executive, before and during the implementation of the Section 201 tariffs.

In an intervention in Congress in February of 2002, Representatives Phil Crane (Republican from Illinois) and David Vitter (Republican from Louisiana)

strongly urged President Bush to reject the recommendation of the International Trade Commission (ITC) to impose tariffs and/or quotas on steel products imported into the U.S. that could have a devastating impact on the port, manufacturing and related industries in the United States 200.

Concurrent to this intervention by the two Congressmen, the Free Trade in Steel Coalition initiated an ad campaign, called “Don’t Bend to Big Steel” 201 in order to “counter
a massive anti-imports public relations campaign launched by domestic integrated steel producers”202. The advertisement campaign lasted for a period of two weeks, and featured articles in “the Wall Street Journal, the Washington Post and other publications”203.

An interesting aspect of this campaign was that it was done by the Free Trade in Steel Coalition in partnership with CITAC, showing again the capacity for import-dependent firms to mobilize, organize in the face of negative distributive effects of trade de-liberalization.

(5) The U.S. complies to the WTO Dispute Settlement

This section will analyze the reasons that pushed the administration to comply with the WTO adjudication in December 2003. As we will see, it is the combination of pressure by import-dependent firms, but also mainly due to the threat of retaliatory measures by the European Union that forced the administration into a “negative sum domestic policy game that required an irreconcilable choice to be made between two sets of marginal states”204

After the Appelate Body issued its ruling, the European Union quickly published a list of U.S. exports it would target as part of its retaliatory measures, “including Florida citrus, Louisiana rice, California nuts and North Carolina pyjamas”205. The timing and targeting of these measures are important to analyze. Indeed, they took place right before the 2004 Presidential elections. Furthermore, the retaliation list targeted, amongst other things, industries that were located in important states that Bush Jr was not sure he could secure206.

In this context, the Bush administration was facing a double battle. Firstly, it had been under constant pressure by import-dependent firms since the beginning of the Section

202 Ibidem.
203 Ibidem
205 Ibidem.
201 tariffs implementation to remove them. Secondly, he was now facing the risk of alienating states in which “export-led firms [were seeking] to avoid foreign market closure following the imposition of retaliatory measures”\(^{207}\). The only pressure to keep the Section 201 tariffs in place came from the steel-producing firms, a sector that, in light of the weight of the lobbying done by import-dependent and export-led industries, seemed to lessen in value greatly.

It is in this context that

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On 4 December, 2003, USTR\(^{208}\) Zoellick announced that the US steel Safeguards were to be lifted on the grounds that they had been successful, that the domestic situation had improved and that their cost now outweighed their benefit\(^{209}\).

**d) Conclusion**

We have seen in this section the mobilization, lobbying and various initiatives taken by import-dependent industries in the face of the Section 201 tariffs put in place in March of 2002 by the Bush administration. We can note a few interesting aspects, that will be further analyzed in the analysis of results part.

Firstly, we have seen that these industries have been capable of mobilizing quickly, and with strength. Even before the tariffs were put into place, advertisement campaigns and voicing of concerns through representatives of Congress were done.

Secondly, these industries were capable of mobilizing despite it seeming difficult from an organizational point of view. Indeed, we have seen that although many of the steel-

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\(^{208}\) United States Trade Representative

consuming industries are small, comprising for the most part less than five hundred employees, they grouped together in order to combat the measures.

Thirdly, we can clearly see that in the case of an industry that is highly integrated into global value chains, the battle for removal of the measures was done even before any legal action, or adjudication, was taken at the World Trade Organization. As we may recall from our theoretical framework, this is exactly what we would expect in the case of high GVC\textsuperscript{210} integration.

Lastly, we can observe that in the case of steel, the “domestic political conflict in the defendant is one in which import-competing groups are confronted by import-dependent ones”\textsuperscript{211}, that were later joined in by export-led industries wishing to avoid the negative impact of retaliatory measures.

2. Low-GVC sector: the cotton industry case

In this case study, that looks at the lobbying developments in the case of a low GVC-integration and a long compliance time. We will see that import-dependent industries do not manifest, which can explain why the compliance, or rather resolution of the dispute took so long. Furthermore, we will see that the actors lobbying for protection are the same ones that will later lobby for compliance to the rulings of the WTO. This is because, firstly, the ‘protectionist’ sector (i.e. cotton growers) are also export-oriented. However, instead of asking for tariffs to protect themselves \textit{from} international imports, they lobby for subsidies that help them compete \textit{with} international prices. They thus fulfil the role of both a ‘protectionist’ lobby and an export-oriented industry. We will see that the main effect of this ‘double hat’ is that in a first phase they will combat the WTO rulings, but will then change their rhetoric once retaliation measures are a threat.

\textsuperscript{210}Gobal Value Chain
\textsuperscript{211}Op. Cit. “Political Economy of the WTO Dispute Settlement: the EU and the US’ commitment to trade liberalization and the impact of global value chains. Page 10
a) Historical developments

Before entering into the analysis and description of the lobbying done by the cotton industry in the case of the Upland-Cotton dispute the United States had with Brazil, we will start by looking at national and international development in the cotton industry. We will see that the main changes that occurred were an increase in US exports, as well as the apparition of a range of new international actors and consumers in the cotton market.

The first large change in the medium-term temporal period were a rise of Chinese, both in imports of cotton yarn, and in the production of cotton. Indeed,

> in 1985 China was one of the largest exporters of cotton lint, now it is the world’s largest net importer of cotton, with 27% of all global cotton exports going to China\(^\text{212}\)

This “hunger for cotton”\(^\text{213}\) is one of the reasons US exports in cotton have been rising in the last decades. Indeed, it was “fuelling a boom in U.S. exports”\(^\text{214}\). The fact that “production in the United States over this period has remained relatively constant”\(^\text{215}\) explains why it has “conquered the export market”\(^\text{216}\). This export surge is not only due to China’s increased needs in cotton, but also because “decreased textile production in the US has forced the US cotton to look beyond its own borders to meet the demands of the global textile market”\(^\text{217}\). Effectively, the US cotton industry has gone from being a provider for national industries, exporting some but not significant amounts of its production abroad, to an export-led industry that relies on foreign markets to sell its goods.

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\(^{213}\) Ibidem.

\(^{214}\) Ibidem.

\(^{215}\) Ibidem.

\(^{216}\) Ibidem.

\(^{217}\) Idem. Page 3.
We will see later that this rise in exports is of significance in that it will contribute to the U.S. cotton lobby, notably the National Cotton Council, to finally push for a change in legislation in order to avoid retaliatory measures by Brazil.

Also happening at this time was shift in the textile manufacturing sector. Indeed, the rise of China as a global manufacturer of finished textile goods meant many domestic mills did not need as much inputs in cotton from US cotton producers as before. Indeed,

*The growing U.S. importation of finished cotton goods had brought a drop in demand from domestic mills, which had caused raw cotton interests to maximize exports and compete more vigorously in foreign markets* \(^{(218)}\)

This further pushed the cotton industry to look for markets abroad. Again, this makes the cotton industry and export-led one, and further makes the case for it’s demands for the introduction of a Farm Bill that complies with the World Trade Organizations ruling when facing the risk of retaliation. This will be analysed further in the mapping sub-section of this chapter, and again in the analysis of the two cases in light of our theoretical framework.

b) **Lobbying by the cotton industry**

In this section, we will look at the lobbying efforts made by the Cotton industry in the course of the proceedings of *WTO – Subsidies on Upland Cotton* (Dispute DS267). Before actually mapping the initiatives taken by the Cotton industry, we will briefly explain the main actor in this sector, that is the National Cotton Council \(^{(219)}\). This actor is probably the only relevant one when one looks at lobbying by cotton-producing firms. Indeed, its political weight is considerable, and it does more than just represent different producers. In also acts as a conflict-manager within the industry, in order to avoid it speaking in an un-unified voice, and to increase its political bargaining power. The NCC is also responsible

\(^{(219)}\) Hereafter, the *NCC*
for promoting US cotton abroad. This development was rather recent, and coincides with the change in the structure of the market, with the US becoming an exporter to foreign markets, and the lessening of cotton demand by domestic textile mills.

After having exposed its functions and roles, we will analyse its lobbying to the US executive, but also legislative branches. We will see that in addition to lobbying these branches of government, the NCC will also partake in public relations enterprises, in order to counter the negative perception the public has of them, and especially of the subsidies they ask for, and their effects in developing countries. We will see that its initiatives can be separated into five phases.

First, we will analyse their efforts to promote further protection in the context of the 2002 Farm Bill\textsuperscript{220}. We will see that these efforts are due to, as in the Steel case, a slumping economy, the rise in foreign competition, and a strong dollar. It is also this bill that introduced the Step-2 measures, as well as others, that were subsequently attacked by Brazil in the WTO dispute settlement mechanism.

The second phase can be identified as the one where the NCC lobbied the government to fight the WTO Upland-Cotton case. Both through public relations projects highlighting the importance and legality of the export-subsidies and other related measures attacked in the WTO, and through collaboration with the United States Trade Representative on the case itself, it sought to maintain the advantages reaped from the 2002 Farm Bill.

The third phase coincides with the first ruling of the WTO and the Appellate Body’s Report. In this context, the US administration and Congress sought to repeal the Step-2 mechanism, in order to comply with WTO DS recommendations. We will see that despite aggressive lobbying by the NCC, this measure was finally repealed. However, immediately

after this, the NCC sought to have it replaced by a different measure, but that would effectively provide for the same kind of protection to the cotton industry as the Step-2 measures. Concurrent to this, the NCC will continue to work with the United States Trade Representatives in order to convince the WTO that the new measures put in place are in fact compliant to WTO rules regarding subsidies.

The fourth face coincides with the year coming up to and following the vote in Congress of the 2008 Farm Bill\textsuperscript{221, 222}. Parallel to the passing of this bill in Congress was the WTO Dispute Settlement Boards\textsuperscript{223} article 21.5 panel report, finding that the U.S. had failed to comply effectively with the board’s recommendation to comply with the recommendations of the DSB appellate body’s report, which found that the measures the US had been implementing were illegal in regard to WTO law. In this context, the NCC lobbied Congress to not change any measures contained in the 2008 Farm Bill. They argued that, since 2002, the situation had changed and that the grievances brought before the WTO DSB were no longer relevant.

The fifth period is a particularly interesting one, as we can observe a change in the strategy of the NCC, representing the export-led cotton industry. Indeed, by this time (2010), Brazil had started threatening to retaliate. We will see that the rhetoric of the NCC dramatically changes in this period. Indeed, it goes from attempting to keep the measures voted in 2008 in place to lobbying for an expected 2012 Farm Bill\textsuperscript{224} that would comply with the recommendations of the WTO DSB. However, the 2012 bill failed to pass, resulting in the extension of the 2008 bill up to the end of 2013. As the risk of retaliation grew, so did

\textsuperscript{221} Farm Bills typically run for a period of 4 years, after which a new law is needed.
\textsuperscript{223} Hereafter, the DSB
the lobbying by the NCC to pass the now 2014 Farm Bill, in quite a dramatic way, as we will see.

(1) The National Cotton Council

According to its mission statement,

The National Cotton Council of America’s mission is to ensure the ability of all U.S. cotton industry segments to compete effectively and profitably in the raw cotton, oilseed and U.S.-manufactured product markets at home and abroad.²²⁵

It also states that “the organization is the unifying force in working with the government to ensure that cotton interests are considered”²²⁶. Indeed, the NCC is the first lobbyist for most of the industry. But, as we have said, it does more than simply lobby for the industry. In fact, it organizes the grievances of each member, working for a “democratically-elected policy”²²⁷ that is generated through its various committees.

The NCC is the organisation’s branch for domestic lobbying. As for international development, it relies on Cotton Council International²²⁸. This organisation is charged with the mission to “increase exports of U.S. cotton, cottonseed and U.S. manufactured cotton products through activities that affect every phase of the marketing chain”²²⁹.

Although the NCC is just one organisation, its political weight is considerable. For much of its political campaign support, it organises as a Political Action Group²³⁰, raising in excess of two hundred thousand dollars each year since 2000, and more than five hundred

²²⁶ Ibidem.
²²⁷ Ibidem.
²²⁸ Hereafter, CCI
²³⁰ Hereafter, PAC
thousand dollars a year since 2010\textsuperscript{231}. It represents an industry comprising more than three hundred thousand jobs, and contributes to more than a hundred and twenty billion dollars to the U.S. economy. For these reasons, and because no other actor emerges as an important actor in the lobbying efforts in the context of the WTO DS267, our focus will be on the NCC and CCI.

(2) Pressure for cotton-friendly measures in the 2002 Farm Bill

Since the beginning of 2001, the cotton industry had been facing growing problems. Prices “were hammered by a sluggish world economy, a strong dollar, […] too much worldwide textile capacity, […] and overproduction”\textsuperscript{232}. In addition to this, the year 2001 saw the “highest [closure] in any comparable time in history”\textsuperscript{233} of textile mills, with consequence that “U.S. mill use fell below 8 million bales”\textsuperscript{234}.

This combination of factors provided for a ‘perfect storm’ for the cotton industry. Already in a difficult position due to the historical decline of U.S. textile mills, and facing increasing competition from developing countries, it now had to work in a world economy that saw a strong dollar. This meant that cotton exports were less competitive, which posed an immediate threat to an industry that relies on high quantities and low margins.

It is in this context that the NCC said that it would seek

\begin{quote}
help from Congress and the Administration to combat the effects of the strong dollar, including an extended loss carryback for the U.S. textile sector, loan guarantees, elimination of the alternative minimum tax and elimination of the 1.25-cent Step 2 threshold. Most of these relief measures were expected to be included in economic\end{quote}


\textsuperscript{233} Ibidem

\textsuperscript{234} Ibidem.
stimulus legislation or new farm law passed by Congress early in 2002\textsuperscript{235}

The industry was somewhat weary of the events of September 11, 2001 as potentially hindering Congress’s ability to pass the 2002 Farm Law, and put pressure on “Agriculture Committee Chairman Larry Combest (R-TX) […] and other members to craft and pass this important legislation”\textsuperscript{236}. In addition, the NCC board reassured its members in that they would

reinforce [their] resolve to educate elected officials on the importance of a viable production agriculture sector and a healthy domestic textile industry because the U.S. cotton industry is facing some of the stiffest international and domestic competition in history\textsuperscript{237}

We can see that it is mainly in the area of exports that the NCC was concerned. Indeed, this is why they pushed to “eliminate the 1.25-cent Step-2 threshold”\textsuperscript{238} \textsuperscript{239}. The elimination of this threshold works in favour of cotton producers and users by “eliminating any positive difference between US internal prices and international prices”\textsuperscript{240}. One testimony by a cotton producer, Mark Williams, before the House Agriculture exemplifies these demands by the industry in quite a clear way

And while cotton in particular, and agriculture in general, were pleased that Congress substantially increased agricultural spending, it remains the case that much of agriculture is experiencing serious economic stress as a result of escalating input costs, weak demand, a strong dollar and low prices. The National Cotton Council and several agricultural groups have observed that

\begin{itemize}
\item \textsuperscript{235} Ibidem
\item \textsuperscript{236} Ibidem
\item \textsuperscript{237} Idem. Page 3.
\item \textsuperscript{238} Idem. Page 5.
\item \textsuperscript{239} Step-2 Payments are payments made to US cotton-exporters and users in order to maintain their competitiveness, especially when US cotton prices are higher than other products.
\item \textsuperscript{240} Sapir, Andre, and Joel P. Trachtman. “Subsidization, Price Suppression, and Expertise: Causation and Precision in Upland Cotton.” World Trade Review WTR, no. 01 (2008). Accessed April 01, 2016. doi:10.1017/s1474745607003667
\end{itemize}
Commodity programs need more funding and strengthening in order to restore economic viability for our farmers. Therefore, at the risk of sounding ungrateful, I would urge the Committee, as it prepares to debate the particulars of this concept paper, to consider some additional concerns of the cotton industry.

This lobbying for a Farm Bill that would protect the cotton industry from foreign competition and from higher prices (of US cotton, due to the strength of the dollar) resulted in a 2002 Farm Bill that contained principles developed by a NCC Leadership Group appointed in late 1999. Those principles were pursued vigorously throughout the entire policymaking and legislative process, culminating in a cotton program that will improve the farm income safety net and competitive position of U.S. cotton.

Among these ‘principles’ were “direct payments and counter-cyclical payments”, measures that will be attacked in the WTO DS267 case. It is interesting to note that the NCC lobbied for these measures despite “an Administration [US Administration] contention that the House farm bill was not in concert with U.S. trade objectives under the World Trade Organization”. Contentions that the the NCC “addressed” and stated that it was “consistent with U.S. trade obligations”. Whether the NCC knew or believed that the measures they were pushing for were illegal under WTO law is up for debate, but it marks the start of a long period in which the NCC will continue to ascertain that the measures put in place for the cotton industry are not contradictory to WTO norms. As we will see, this

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245 Ibidem.
assertion took place in the WTO DS arena but also in the public relations domain. Indeed, a “Wall Street Journal article charged that the U.S. subsidies were creating a world cotton glut and damaging foreign cotton farms”\textsuperscript{247}. The NCC responded to this “misinformation”\textsuperscript{248} by providing its members with lectures, factsheets and by voicing their disapproval to these accusations in various columns. This was only the start of a lengthy campaign to “continue communicating the benefits of U.S. agriculture policy”\textsuperscript{249}.

As we can see, even before the WTO proceedings initiated, the NCC was already occupying the legislative and public relations terrain in order to ensure that the policies they fought for, and that provided relief for a hard-hit industry remained in place. In the following sections, we will see that these efforts will continue, with a certain amount of success, up to the moment that saw the threat of retaliation by Brazil become quite palpable. Only then does the NCC change its strategy, realizing that retaliations will be costlier than to bring the U.S. subsidy policy in line with WTO recommendations.

(3) \textbf{Fighting the WTO procedure in early panel establishment}

In 2002, the NCC started “working with Administration officials to defend the U.S. cotton program against unjustified charges by Brazil that it is not WTO compliant and has adversely affected Brazilian growers”\textsuperscript{250}. The issue was of great relevance to the NCC, and the cotton industry in general, as it attacked the very measures they had lobbied to put in place in the 2002 Farm Bill. In this context, “The NCC is devoting significant resources to

\begin{footnotesize}
\textsuperscript{247} Idem. Page 2.
\textsuperscript{248} Ibidem.
\textsuperscript{249} Ibidem.
\end{footnotesize}
help USDA and USTR officials defend this challenge to the domestic cotton program, step 2 and the export credit guarantee program.\textsuperscript{251}

Indeed, on the 27\textsuperscript{th} of September 2002, Brazil had

\textit{requested consultations with the United States regarding prohibited and actionable subsidies provided to US producers, users and/or exporters of upland cotton, as well as legislation, regulations, statutory instruments and amendments thereto providing such subsidies (including export credits), grants, and any other assistance to the US producers, users and exporters of upland cotton (“US upland cotton industry”).}\textsuperscript{252}

This request for consultations was followed by a filing for the establishment of a Panel in February 2003. Due to the “complexity of the matter”\textsuperscript{253}, the chairman announced that the Panel would not be able to provide a ruling before mid-2004.

In the context of these “attacks against the cotton program”\textsuperscript{254}, “additional funding was garnered that will be useful for supporting re-election campaigns of cotton’s Congressional friends”\textsuperscript{255}, and the “NCC asked its members to contact their Senators and urge opposition to any amendments to tighten payment limits, eliminate certificate redemptions or modify the cotton provisions of the 2002 farm law”\textsuperscript{256}. These are clear examples of lobbying efforts in the name of the preservation of the benefits provided to them in the 2002 Farm Bill. These efforts were successful in that, after the WTO DSB ruling was

\begin{footnotesize}
\begin{enumerate}
\item Ibidem.
\item Ibidem.
\end{enumerate}
\end{footnotesize}
issued on the 18th of October 2004, “the United States notified its intention to appeal certain issues of law and legal interpretations developed by the panel”\textsuperscript{257}.

(4) Mobilization following the first ruling of the WTO, and pressure to keep measures despite the Appellate Body’s report.

After the WTO DSB issued its first ruling, the NCC did not stand idle. The NCC was mobilizing to ensure that there would be no “reopening of the Farm Security and Rural Investment Act of 2002”\textsuperscript{258}, securing the support of Senator Charles Grassley, who “pledge[d] to support no farm law change”\textsuperscript{259}. Furthermore, the NCC “testified before congress [...] to convey how important that law [the 2002 Farm Bill] is to each U.S. cotton producer, to the entire industry’s infrastructure and to the Cotton Belt economy”\textsuperscript{260}. This intervention in Congress is not without political calculation. Indeed, the panel report of the DSB was issued on September 8, just two months before the elections of 2004. By notifying their attachment to the 2002 Farm Bill and stressing that they did not want it changed, despite the adverse WTO report, the NCC was sending a clear message to members of Congress and the Senate. It is equally interesting to note that Chuck Grassley was due for re-election in Iowa during this Senatorial election cycle.

If, by the end of 2004, no changes had been brought to the 2002 Farm Bill, maybe due to the pressures exerted by the NCC on certain members of Congress, and due to the

\textsuperscript{259} Ibidem.
fact that an appeal to the Appellate Body of the WTO DSB had been made by the U.S.
Administration meant compliance to international was not yet necessary, we will see that
2005 saw some changes. Indeed, the Appellate Body ruled that

At its meeting on 21 March 2005, the DSB adopted the Appellate Body report and the Panel report, as modified by the Appellate Body report. The resulting DSB recommendations and rulings include the recommendation that the United States withdraw [the relevant subsidies and export credit guarantees], by at the latest within six months of the date of adoption of the Panel report by the DSB or 1 July 2005 (whichever is earlier)\textsuperscript{261}

Directly after this report was issued, the NCC met with “secretary of Agriculture
Johanns, where we [the NCC] will be discussing the importance of preserving the integrity of the current farm bill, as well as a number of other industry priorities”\textsuperscript{262}. Indeed, the timing of the report’s issuing was problematic for the NCC, as Congress was discussing budget policy, and the NCC expected that “there will be some in Congress who will attempt to use a negative outcome [of the WTO ruling] as a rationale for cotton taking a disproportionate reduction”\textsuperscript{263}. To attempt to counter any negative outcome from these, events, the NCC set out to stress that

\textit{The stability provided by the 2002 farm law, written to last through 2007, has provided growth in farm investment that has benefited rural economies. Any reduction or weakening of the safety net provided by the farm law will negatively affect the security of all Americans. The primary beneficiaries of U.S. farm law are U.S. consumers, who spend less of their disposable income for safe and abundant supplies of food and fiber. To date, farm program spending is $17 billion less than originally projected. The federal budget for agriculture accounts for about one-half of 1 % of the

\textsuperscript{261} "WORLD TRADE ORGANIZATION." WTO. Accessed April 27, 2016.
\url{https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds267_e.htm}

\url{http://search.proquest.com/docview/228828690?accountid=17194}

\textsuperscript{263} Ibidem.
entire federal budget, yet provides the underpinning for an industry that is 15% of U.S. GDP and employs 25 million Americans.\textsuperscript{264}

However, these pressures were not effective as, later during 2005, “The Bush administration moved last week [July 2005] to cancel a program that has supported U.S. cotton growers and yarn spinners with millions of dollars of government subsidies and has been ruled illegal by the World Trade Organization.”\textsuperscript{265} The NCC directly “registered its opposition with USDA’s proposal submitted to Congress in early July that called for the immediate elimination of Step 2.”\textsuperscript{266}

This change in legislation concerning Step-2 payments was due to be discussed in Congress later in the year. To try and influence the outcome of such a vote, “the NCC led a coalition of organizations representing commodities, financial institutions and equipment manufacturers in calling on Senators to reject a divisive payment limits amendment and the Administration’s initial budget proposal for much deeper cuts.”\textsuperscript{267} It also reassured its members that it would “continue to build coalitions and urge Congress to reject any such amendments that establish artificial limits discriminating against regions, crops or organizational structure.”\textsuperscript{268} It equally asked its members to “urge their Congressional representatives to sign onto respective letters to the House and Senate budget committee chairmen in support of preserving the 2002 farm law.”\textsuperscript{269} All these efforts were done in order

\begin{itemize}
\item \textsuperscript{264} Ibidem.
\item \textsuperscript{268} Ibidem.
\item \textsuperscript{269} Op.Cit. 2005 NCC Report to Members, Legislative Affairs
\end{itemize}
to keep “U.S. cotton […] competitive in world markets”\textsuperscript{270}. As we have seen, and will continue to observe, despite the changes in what the NCC will lobby for, be it for maintaining a law despite and adverse ruling from the WTO, or for a farm law that preserves them from retaliation, the key aspect of their policy lobbying is to maintain the best possible environment for U.S. cotton exports.

These efforts continued through into 2006, but with even greater intensity. Indeed, as a bill repealing Step-2 payments seemed to become likely,

\begin{quote}
the NCC devoted a major portion of that work agenda [to] seizing every opportunity to state the NCC’s position on farm policy with the Administration and with lawmakers. That included providing testimony at Congressional listening sessions and field hearings and meeting one-on-one with key Senators and Representatives\textsuperscript{271}.
\end{quote}

However, seeing that there were significant chances that the Step-2 payments would be terminated, the NCC also started preparing the terrain for alternative ways to achieve the same kind of results. Indeed, they stated, when talking about the necessity to maintain the 2002 Farm Bill through its mandate, and maintaining support to exports, that they “recognize that some changes may be necessary in order to better respond to the new emphasis on export markets and the termination of Step 2”\textsuperscript{272}.

As the NCC feared, the Step-2 program was terminated on August 6, 2006. Despite disappointment, we will see in the next section that the NCC will focus on the upcoming 2008 Farm Bill, to ensure that it contains the necessary features that support the cotton industry. At the same time, it will continue to work with the U.S. Administration in

\textsuperscript{270} Ibidem.
\textsuperscript{272} Ibidem.
combatting Brazil’s claim that the measures implemented by the U.S. are not in conformity with what the Appellate Body Report recommended. This is the last period in which the NCC will actively combat WTO rulings, before the threat of retaliation forces it to push for legislation that is compliant with WTO law. We will see that, by battling the Article 22.6 and 21.5 Panel’s report\textsuperscript{273}, the U.S. Administration, and indirectly the NCC and the cotton industry are pushing legal procedures to their ultimate possible limits, in order to keep measures for this export-led industry in place, despite the obvious fact that they are illegal under WTO law.

Indeed, shortly after the ending of the Step-2 payments, on 18 August 2006, Brazil “requested the establishment of a compliance panel”\textsuperscript{274}. It had already filed for Article 22.6 suspension of concessions, after the U.S. had failed to comply by the period stated in the Appellate Body’s report. These requests for suspension of concessions were challenged a number of time by the U.S. between September and November 2005\textsuperscript{275}, before Brazil and the U.S. jointly decided to suspend these proceedings in November. The demand for a compliance panel showed that Brazil was unsatisfied with the measures taken by the U.S., and believed that the simple elimination of Step-2 payments was not sufficient to bring it into compliance.

(5) The 2008 Farm Bill, appeals to article 21.5 of the WTO DSU

In this section, we will see that the years 2007-2009 mark a changing strategy for the NCC, as the proceedings within the WTO dispute settlement body go from a phase of

\textsuperscript{273} For explanation of what this entails, please refer to the Theoretical Framework part of this work.
\textsuperscript{275} Idem.
establishment of the incompatibility of U.S. law in regards to subsidies to the phase of compliance to these rulings. We will see that the U.S. administration, in response to NCC pressures, will appeal a first ruling by the article 21.5 Panel. Concurrently to this, the NCC will be pushing for a 2008 Farm Bill that, in its eyes, is compatible with the WTO DSB Appelate Body’s report issued in late 2005. Its rationale will, among other things, be that the situation has fundamentally changed since the initial proceedings of 2002, and that Brazil has no more grounds for grievances\textsuperscript{276}

The year 2007 was marked both by historically low acreage values and a historically high export percentage of total acreage\textsuperscript{277}. In this context of heightened exports, the

\begin{quote}
NCC recommend[ed] [to legislators, regarding the new farm bill proposal] changes in a number of existing marketing loan provisions with the goal of improving competitiveness, speeding movement of cotton to the market, and strengthening the industry’s ability to defend the marketing loan against the numerous challenges from a number of domestic and foreign sources\textsuperscript{278}.
\end{quote}

The fact that the cotton industry’s market was continuously expanding has a double implication for cotton lobbyists. On the one hand, they want to ensure that market-access credit loans are readily available for cotton growers in order to counter any cyclical or unexpected issues regarding cotton prices and their ability to be competitive on the world market. However, increased exports mean that the NCC needs these export-credit guarantees to be compatible with international obligations, namely WTO law. In an initial phase, that

\textsuperscript{276} This is of significance because the Compliance Panels of the WTO do not have authority to only see if a country has complied to the measures a Panel or Appellate Body has recommended, but evaluate the whole case.


we cover in this section, the NCC will push to try and have both, i.e. increased support for foreign market access despite being in contradiction with WTO rulings. However, in the final stage of the proceedings, they will shift their position to have legislation that is compliant with what the WTO DSB ruled. We will analyze in a further section how the threat of retaliation is what ultimately forced the U.S. administration into compliance (and with significant input from the NCC to produce compliant legislative texts). Indeed, we will see that it is in their interest to be compliant, as it makes no rational sense to have export-credit guarantees or any type of exporting subsidies if economic retaliations from other countries counter-balance these advantages.

In regards to the WTO panel ruling that the measures taken by the U.S. did not put in compliance with the earlier ruling, the NCC and the US Trade Representative both “reasserted their shared belief that the earlier changes brought the cotton program into full WTO compliance”\(^\text{279}\). The NCC also confirmed it “supported a bipartisan group of Cotton Belt Senators and House members who wrote Schafer and urged that no unwarranted changes should be made to ‘actively engaged in farming’ determinations”\(^\text{280}\), regarding the projected 2008 Farm Bill.

However, on the second of June 2008, the Appellate Body\(^\text{281}\) report was published and circulated to members, confirming the findings of the Panel’s report, that is that the U.S. did not comply effectively to the recommendations of the original Panel, and that of the


\[\text{\textsuperscript{281} The Article 21.5 Panels. These panels were in charge of evaluating compliance by the U.S. to the initial rulings, and is usually done by the same ‘Panel’ as the original one. Hence, in this case, after an initial Panel, an Appellate Body report, an Article 21.5 Panel and an Article 21.5 Appellate Body report, the U.S. was still found to be in violation of WTO law and did not yet comply or change legislation to put itself in conformity.}\]
Appellate Body concerning export credits to the cotton industry.

This ruling marks a change in the U.S. Administration’s approach to the Upland-Cotton case, which is best exemplified by a speech given by the U.S. Secretary of Agriculture Schafer to the National Cotton Council annual meeting, held just two weeks after the ruling was issued. In this speech, he states that

*We [the U.S. Administration] are very disappointed with the Compliance Panel's findings. And we continue to believe that support payments and export credit guarantees under our programs are fully consistent with our WTO obligations, and we are going to continue to work in that manner.*

However, despite stating that the U.S. Administration will continue to try and work against these findings, asserting that the measures put in place for the cotton industry are fully compliant with WTO obligations, Secretary Schafer also stated that

*[…] we have to make sure that our laws and rules and regulations are compliant with the WTO requirements. That's the way we open markets, that's the way we provide better opportunities for you, and we're going to be working on that as one of USDA's highest priorities in the trade negotiations.*

This is in line with our previous comments regarding cotton exports and the necessity of compliance to international norms in order to ensure that cotton products produced in the United States gain access to foreign markets without the risk of trade retaliations due to unlawful credit export guarantees.

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283 Ibidem.
These considerations on trade are further reflected in Secretary Schafer’s remarks on the farm bill being discussed in Congress and Senate, saying

*As you know the new farm bill has been passed by the House, been passed by the Senate, and we are working through the conference process. As many of you likely have heard by now, the administration has serious concerns about both the House version of the bill and the Senate version of the bill, and if changes are not made in the area of taxes or reform of farm programs, the President simply is going to veto that bill*  

This opposition from the U.S. administration did not stop the bill from passing. However, it did pass over a Presidential veto. This veto from the Presidential office was to be expected, considering Secretary Schafer’s comments concerning the bill. The NCC “publicly thanked Senator Saxby Chambliss (R-GA) for drafting and shepherding the legislation through and ensuring the cotton program was implemented in accordance with Congressional intent”  

This discrepancy between the U.S. Administration and the legislative branch shows is interesting. Indeed, while the Administration was pushing for compliance to the WTO panel, even vetoing a bill it deemed would not subscribe to these obligations, Congress passed it nonetheless. We will provide a few considerations on this opposing attitude between the Executive and Legislative branches of the United States.

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284 Ibidem.
286 Senator Saxby Chambliss, from Georgia received in the 2008 electoral cycle more than nine hundred thousand dollars in contributions by the Crop Production industry. The total amount of money raised by the Agribusiness, PACs and individuals together, totalled more than two million dollars for that year, compared to less than a million dollars in his previous election year, in 2003-2004. Data can be found on http://www.opensecrets.org/politicians/industries.php?cycle=2008&cid=N00002685&type=1&new_mem=N, accessed on 23rd of April 2016
At the time of the passing of the 2008 Farm Bill, Brazil had already started a process under Article 22 of the Dispute Settlement Understanding\(^{287}\). This procedure, known as the ‘remedies’, are those that give ‘authorization to take appropriate countermeasures’\(^{288}\). This process had been initiated in 2005, but had been suspended pending the “completion of the compliance proceedings”\(^{289}\). The remedies proceedings resumed in August of 2008, right after the passing into law of the 2008 Farm Bill. Hence, we can speculate that, given political calculations pushed elected legislative members Congress and the Senate to provide the Cotton Industry with a farm bill that favored them, while the administration was more concerned with the long-term effects of a 2008 Farm Bill that would not satisfy its international obligations, and was thus pushing for a bill that would be compliant to WTO law. As we have said, and will see in the last section of this chapter, once these retaliation risks become imminent for the cotton industry, the NCC will be pushing for legislators to pass a farm bill that is in compliance with the U.S.’s international obligations.

This change in attitude towards subsidies by the U.S. administration saw much opposition by the NCC, and the cotton industry, prior to the passing of the bill. Indeed, the National Cotton Council expressed serious reservations regarding the 2008 farm bill package announced by House Agricultural Committee Chairman Collin Peterson (D-MN) and Ranking Minority Member Bob Goodlatte (R-VA)\(^{290}\).

In addition to this, the NCC sought once again to dispute the claims that the help given to the industry were trade disrupting. A fact sheet published by the NCC on the 10\(^{th}\)

\(^{287}\) Hereafter, the DSU
\(^{289}\) Ibidem.
of July 2008 claimed that “U.S. Support to Cotton Farmers Has Driven Up U.S. Production and Exports at the Expense of Foreign Competitors” was a myth and that “Large Government Payments to U.S. Cotton Farmers Must Have Distorted Trade and Caused Low Prices” was untrue and unfounded.

This pressure from the NCC towards legislators and the executive continued in 2009. The

NCC responded to inaccuracies [concerning the legality of the measures helping the cotton industry] in a letter sent by the U.S. Chamber of Commerce to members of the Senate finance and agriculture committees, and met with Chamber officials to discuss the case [disputed in the WTO].

The “NCC also joined with other agricultural organizations on a letter to Agriculture Secretary Tom Vilsack expressing strong support for the safety net provided by the 2008 farm law,” ensuring that the case in the Upland-Cotton WTO dispute, despite having gone through 4 panels, that all recognized the illegality of the measures, would not have an impact on the 2008 Farm Bill voted in the previous year.

Throughout 2009, the NCC continuously ascertained that “there is no credible evidence to support a finding that the U.S. cotton program is causing economic injury to Brazil” and that “that the current cotton market was much different than the time of the original Brazil-U.S. dispute period of 2002-05.” In its message to its members, the NCC
stated that it “met with Congressional members and USDA staff to discuss a number of critical issues”\textsuperscript{297}, amongst which the Upland-Cotton case. In the same letter, the NCC thanked various lawmakers for “preserving the 2008 farm law from unwarranted changes to defending U.S. cotton programs in the face of potentially damaging World Trade Organization (WTO) rulings and negotiations”\textsuperscript{298}.

In this section, we have seen a shift in the attitude of the NCC and the U.S. administration. Indeed, the U.S. Administration started moving to try and adapt itself to the final rulings of the WTO, and to the upcoming risk of having countervailing measures being taken by Brazil against U.S. exports. Although it did appeal the first Article 21.5 Panel ruling concerning the compliance proceedings, the President put his veto (albeit overruled by a vote in Congress) on a 2008 Farm Bill he considered would harm U.S. exports and would not respect its international obligations. On the other hand, the NCC continued to ascertain that both the measures still in contention concerning the 2002-2005 measures (amongst which the Step-2 measures), and the measures put in place for cotton exports in the 2008 Farm Bill did not harm Brazilian farmers, or distort international cotton prices, or were illegal in light of WTO law. We can find an explanation in the lack of change in attitude of the NCC with regards to the risk of retaliation in the fact that the Article 22 proceedings were being curbed by successive challenges of the measures Brazil wanted to implement by the U.S. The arbitrators that were in charge of evaluating the measures Brazil wanted to implement did not give a report before the 31\textsuperscript{st} of August 2009.

In the next and final section of the mapping of the lobbying done in the case of Upland-Cotton, we see will a radical shift in the attitude of the NCC. The period will be


\textsuperscript{298} Ibidem
marked by both the imminent threat of retaliatory measures by Brazil, and negotiations and lobbying prior and concurrent to the 2014 Farm Bill\(^{299}\). We will observe that the NCC no longer lobbies for a bill that satisfies them, and their constituency, despite the risk of being potentially illegal to WTO law, but that it does quite the opposite.

(6) The risk of sanctions and the prelude to the 2012/14 Farm Bill

In this final section, we will look at the dramatic change in the NCCs discourse over the WTO issue. Fuelled by the impending risk of retaliation, the NCC will lobby intensively for a 2012/14\(^{300}\) Farm Bill that will be respectful of WTO law. We will notice the dramatic change in several ways. First, we will that the lobbying will shift from attempting to implement measures despite the risk of them being contradictory to the U.S.’s international obligations. Indeed, we will see that the NCC will no longer be appealing to congressmen and other members of the legislative and executive branches to maintain measures favorable to them, but that they will principally lobby for measures that are compatible with WTO law. A prime example will be given when we will see that the NCC will criticize a member of the legislative for trying to integrate a measure that they deemed would go against international law into the bill.


\(^{300}\) The Agricultural Act of 2014 was supposed to have been passed in 2012. However, due to delays which will be dealt with further in this chapter, a vote was not possible until 2014. We will refer to the bill as either the 2012 Farm Bill when referring to the initial lobbying done for the law, and as the 2014 Farm Bill for its official passing, late in 2013.
They will also lobby intensively for the resolution of the Upland-Cotton case, through the Memorandum of Understanding and the Framework Agreement. Although they will continue to partake in some public opinion campaigns, these will be more focused on preserving a positive image of the cotton industry in general than to try and convince the public that measures should be put into place to help the cotton industry’s exports, despite it being against the WTO DSB’s findings.

In 2011, the NCC stated that the

*U.S. cotton industry would work with Congress and the Administration on the 2012 farm bill in order to develop cotton policy that will continue to provide the safety net needed by U.S. farmers while helping assure trading partners that U.S. cotton programs do not cause unfair trade distortions in the world cotton market*

This statement comes after Brazil, between the end of 2009 and mid-2010, had repeatedly threatened to retaliate through import duties. Finally, Brazil stated in March of 2010 “that no countermeasures would enter into force before 21 June 2010, since Brazil and the United States were engaged in a dialogue with a view to reaching a mutually satisfactory solution to the dispute”. Brazil “also specified that as long as the Framework is in effect, Brazil will not impose the countermeasures authorized by the DSB”, a veiled threat that should the negotiations not conclude favorably for Brazil, or should negotiations fall apart altogether, retaliations would be imminent.

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301 The Framework Agreement was the « basis for a discussion toward reaching a mutually agreed solution to the dispute ». In effect, it was a way to negotiate with Brazil until a 2012 Farm Bill was to be voted in by Congress, whilst avoiding the retaliatory measures Brazil was entitled to take.

302 The NCC never stated, per say, that the measures were illegal. Rather, the ascertained the fact that these measures should be put in place because the are not illegal. However, given the judgments by the WTO DSB, they should be considered illegal.


In the following year, the NCC stated that it was working with Congress (read, lobbying for) to implement “a modified marketing loan [subsidy] that is adjusted to satisfy the Brazil case”\textsuperscript{305}. Part of the agreement between Brazil and the U.S. concerned a 2012 Farm Bill that would be compatible with the U.S.’s international obligations. Hence, it was important for the cotton industry to have a 2012 Farm Bill that would satisfy Brazil.

In February of 2011, the NCC commended the defeat of an amendment to the planned 2012 Bill that “that would have prevented payments from the Commodity Conservation Corporation (CCC) to the Brazilian Cotton Institute”\textsuperscript{306}. The CCC was the organism owned by the U.S. government and in charge of stabilization of prices for the farm sector. Effectively, it was the organism that would be paying the amount of reparations agreed within the Framework Agreement between Brazil and the United States. The NCC stressed that “The cessation of CCC payments as sought in the amendment would have violated a condition of the agreement and jeopardized the suspension of trade retaliation by Brazil”\textsuperscript{307}.

We can see how important, compared to earlier periods, the settlement of the case and the avoidance of retaliations by Brazil is for the NCC, and the cotton industry, the NCC clearly stating that “U.S. cotton industry leaders are encouraged that the Framework Agreement has been sustained and are committed to work with all parties to resolve the dispute”\textsuperscript{308}.

The NCC lobbied throughout 2011 and 2012 for a Stacked Income Protection Plan\textsuperscript{309}, a different kind of protection for farmers facing countercyclical periods or in need


\textsuperscript{307} Ibidem.

\textsuperscript{308} Ibid.

\textsuperscript{309} Hereafter, the « STAX »
of assistance due to unexpectedly low international cotton prices. The believed this was “an effective risk management program and one that demonstrated our industry's commitment to permanently resolve the Brazil case”\textsuperscript{310}.

Concurrently to pushing for a resolution in the Upland-Cotton case, the NCC started cooperation proceedings with the Associação Brasileira dos Produtores de Algodão\textsuperscript{311}, the NCC’s equivalent in Brazil. In a joint statement, they stated that “Cotton industry leaders from Brazil and the United States met in Atlanta, Georgia, to discuss issues of mutual concern and to search for avenues of greater cooperation”\textsuperscript{312}. These concerns concerned the Upland-Cotton case, but also looked beyond that. Indeed, the NCC stated that “Cotton's share of the world fiber market has been eroded as synthetic fibers have gained ground”\textsuperscript{313}, and to deal with these challenges, “they [U.S. and Brazilian cotton producers] will explore opportunities to jointly enhance consumer awareness”\textsuperscript{314}. This shows how much the position of the NCC has changed in just a few years. From total opposition to any panel ruling, appellate body report, or criticism concerning the measures put in place to help cotton farmers in the U.S., it was now engaging with the very people they had been combatting, albeit indirectly, in the WTO. The NCC truly went from opposition to cooperation.

By the end of 2012, no bill had been passed into law. Hence, Congress extended the 2008 Farm Bill to 2013, pending a new one. In this context, to ensure that the extension would not harm their exports through sanctions, “The NCC sent a letter to the members of


\textsuperscript{311} Hereafter, the “ABRAPA“


\textsuperscript{313} Ibidem.

\textsuperscript{314} Ibid.
the House Agriculture Appropriations Subcommittee urging opposition to any amendment in the FY13 [Fiscal Year 2013] agriculture appropriations bill that would undermine the U.S.-Brazil Framework Agreement. Later in that same year, when talking about the risk of no farm law being passed into law, and hence risking another extension of the 2008 Farm Bill, the NCC stated that “An extension of farm law was opposed […] because long-term planning would have been hampered and it was very possible Brazil would have retaliated for failure to resolve the longstanding World Trade Organization (WTO) case.” The sense of urgency concerning the new farm bill and the risk of retaliation can be seen when “the NCC urged Congress to adopt new farm legislation that contains cotton provisions that would resolve the Brazil WTO case and eliminate Brazil's retaliation threat.”

The risk of retaliation became greatest at the end of 2013, when “the failure to enact a new farm bill […] meant the United States had terminated the Framework Agreement and Brazil would be authorized to retaliate within 21 days of the formal termination.” However, in early 2014, the 2014 Farm Bill was enacted. In this regard, the NCC thanked

*House Agriculture Committee Chairman Frank Lucas (R-OK) and Ranking Member Collin Peterson (D-MN) for their perseverance in getting farm legislation through the House. The NCC said it appreciated the bill’s authorization of the Stacked Income Protection Plan (STAX), a new crop insurance product tailored to cotton and an important step for achieving a final resolution of the long-standing Brazil World Trade Organization case*


318 Ibidem.
This new bill effectively ended the grievances of Brazil concerning the U.S. cotton industry’s export-credit guarantees. Both countries notified the WTO later in the year, on October 16\textsuperscript{th}, that “they had concluded a Memorandum of Understanding, and agreed that this dispute was terminated\textsuperscript{319}.

We have seen in this last section how the NCC’s rhetoric and actions dramatically changed once they had both used up all possible procedures to delay any consequences to the U.S. not respecting the relevant WTO laws concerning subsidies, and when the risk of sanctions became greater. From a position of complete opposition to the WTO’s various rulings, they started pushing aggressively for a farm bill that would comply to the WTO’s relevant laws, and pushed even further for the timely passing of this bill in order to avoid impending retaliations by Brazil.

c) Conclusion: Memorandum of Understanding, the resolution of the case despite non-compliance?

As we have seen, the time it took for this dispute was extremely long. We will see in the next chapter that this fits with our expectations on what actors mobilize and what that means for political agents. However, before we turn in the next chapter, to the analysis of these findings and what they mean for our hypothesis, we should give a final consideration on this dispute.

We would like to bring the readers’ attention to the difference between the resolution of this dispute, and compliance to WTO norms. Indeed, if the dispute was effectively resolved, this does not mean that the U.S. actually complied. The dispute was not resolved by the U.S. implementing the recommendations of the DSB, or by lifting all the illegal subsidies targeted in these rulings. Rather, the U.S. and Brazil concluded a ‘Memorandum of Understanding’, an agreement between the parties that satisfies them and results in the

\textsuperscript{319} Op. Cit. “United States – Subsidies on Upland-Cotton“
end of the proceedings before the WTO. It does not mean that the U.S. has complied to the rulings, or that the measures it has implemented in the 2014 Farm Bill are legal under WTO rules. This can be seen in certain specificities of the Memorandum of Understanding\textsuperscript{320}, that specify for example that Brazil shall not attack the Stacked Income Protection Plan under the ‘peace clause’\textsuperscript{321}. The U.S. does provide for some changes in its own measures, but also provides a payment “of US$300 million”\textsuperscript{322} to the Brazilian Cotton Institute for capacity building.

The fact that Brazil agreed not to attack the new protection measures for cotton farmers under the Peace Clause (which it had done in the DS267 case) provides added protection for these measures, which in turn means that the U.S. itself had doubts about its legality. Hence, some could argue that although the dispute was resolved, it did not result in full compliance by the U.S.

\textsuperscript{320} U.S. Trade Representative, U.S. Secretary of Agriculture, Brazil Minister of External Relations, and Brazil Minister of Agroculture. \textit{Memorandum of Understanding Related to the Cotton Dispute (DS267)}. October 1, 2014. Https://ustr.gov/sites/default/files/20141001201606893.pdf, Washington, D.C.

\textsuperscript{321} Idem. Page 4

\textsuperscript{322} Idem. Page 1.
V. Results

A. Introduction

In this section, we will look at the findings concerning the lobbying done by various constituencies in the DS248 and DS267 cases, to try and answer our main hypothesis, whether

*The degree of integration of an economic sector within global value chains is the main determinant of the speed of a country’s compliance to a World Trade Organization Dispute Settlement ruling.*

We will start by looking at the various expectations for each case, the one (Cotton) where the targeted industry was weakly integrated into GVCs, and the one (Steel) that was highly integrated into GVCs. We will see that our expectations are largely met, especially concerning mobilization by import-dependent firms in the case DS248. We will then look at the possible alternative explanations. Following the logic of our alternative explanations, we will evaluate our results. We will see that our study provides a few answers, but requires further empirical enquiries before we can positively say that GVC integration is the main factor in determining the time a WTO defendant takes to comply to a WTO norm. Indeed, we will see that this work asks a certain number of questions as well, and we will give an insight into what further research in this field can focus on, to confirm or infirm our main hypothesis. Finally, we will give an evaluation of this study as contributing to the literature in the political economy of the WTO.
B. The cotton case

As we may recall from our theoretical framework, our main expectations for the DS267 case was that the main political battle for and against the lifting of the protection measures would be between import-competing and export-led industries. We also expected to see no mobilization by import-dependent firms. Finally, we expected compliance to take place once the threat of retaliatory measures would become a reality and if the export-led industry had a better capacity for mobilization, effectively influencing the political agents towards trade liberalization. We will see, through the analysis of the results, that these are partially fulfilled, due to the particularity of the measures targeted by the WTO.

Concerning the political battle between import-competing and export-led industries, we can say that this did not take place. Indeed, the particularity of the measures (export subsidies and domestic subsidies) meant the cotton industry actually fulfilled both those roles. It acted as an import-competing constituency (one could also call them an ‘export-competing’ industry, but the intrinsic logic is the same, that they compete with international prices) since the Step-2 payments had for effect to “eliminate any positive difference between US internal prices and international prices”\textsuperscript{323}. However, the cotton industry also acted as an exporter as, after the decline of domestic textile mills, the rise in Chinese demand for cotton, it started a steady increase in its exports from the middle of the 1980s up to today\textsuperscript{324}. Hence, despite the difference from what we expected in our theoretical framework, the threat of retaliation by Brazil did change the lobbying enterprise. The only difference being that, instead of seeing a political battle between an export-led constituency and an import-competing one, the cotton industry changed its stance as its interests changed. Indeed, the risk of retaliation saw the NCC lobby intensively for a 2012/14 Farm Bill that

\textsuperscript{323} Op. Cit. \textit{Subsidization, Price Suppression, and Expertise : Causation and Precision in Upland Cotton}.

would be in line with their WTO obligations. If a political battle did in fact occur, it would have been within the NCC itself. However, the NCC is a highly unitary organization and we found no evidence of such a conflict within it. Hence, what happened is that under threat of retaliation, the NCC saw its interests as an export-led industry outweighed the ones it had as an export/import-competing one\(^{325}\), and started to lobby for compliance. The fact that the two roles were fulfilled by the same industry could mean that, once retaliation threats are clear, compliance could have been faster (as there is no political battle between constituencies). However, this hypothesis is only that, a hypothesis, as we have not focused on this in this work.

C. The steel case

Once again, we will recall the basic assumptions we had for a case involving a highly integrated into GVC industry. Given the potential losses from trade restriction, we can expect, if they can coordinate effectively, high-GVC industries to lobby against the changes even before they are implemented. Secondly, the political mobilization of this constituency will depend on their possibility for adjustment (time and availability of alternative sources at a reasonable price) and their capacity to organize, under an umbrella organization for example. If political mobilization occurs, we expect them to be in competition with import-competing firms, and to have a certain but not definite impact on policy. This is because, amongst other things, their recent development, in line with the rise in GVCs, means they have less experience than import-competing industries, that have been lobbying government for a far longer period of time. However, we expect them to increase their political power

\(^{325}\) We have said earlier that in this case, the ‘import-competing’ industry was in fact also an ‘export-competing’ one. As we have said, this is simply because the subsidies were on exports as well as for locally purchased cotton. However, this does not change the fact that it would have battled for no trade liberalization (subsidies limited the capacity for other countries cotton growers to export cotton to the U.S. since they could not compete with the prices), as it would have forced them to compete with more price-advantageous cotton.
once the threat of retaliation becomes a reality. Indeed, we expect that the combination of import-dependent firms (lobbying for less trade restriction because it simply makes their inputs cheaper) and export-led firms (that do not want to see their exports restricted by increased trade restrictions abroad) to outbalance the lobbying power of import-competing firms, effectively ending a dispute much faster, through the defendant country’s compliance to a WTO DSB ruling.

For the lobbying before the measures were even put in place, we find that this did in fact happen. As we have seen, concerns were voiced by large car manufacturers in the months preceding the start of the Section 201 Tariffs. Some even went as far as to threaten to move their production plants to another country. Secondly, there was an attempt to seek out alternative solutions to the tariffs increasing import prices. However, the industry quickly realized that adjustments were not possible. The best example of this is given in the personal account of Precision-Marshals, that made clear that they had explored the possibility of relying on domestic producers for their inputs in steel, but that these inputs were both of lower quality, and higher price. Finally, once the elements for mobilization were established, we can see that this constituency did in fact mobilize very effectively through a series of umbrella organizations, namely the AAIA, MEMA, SEMA and CITAC. Furthermore, they managed to cooperate with another import-dependent industry of a different nature, the port authorities. Through an add campaign, “Don’t Bend to Big Steel”326. Even more, the port authorities also coordinated effectively through their Free Trade in Steel Coalition, comprising more than 40 port authorities. So, to recap, we have observed an effective coordination within different types of import-dependent industries, but also between different import-dependent types of industries.

326 Op. Cit. Citac Advertising Campaign Urges President Bush to Not ‘Bend to Big Steel’
On the question to whether they were capable of producing change, on their own, in the policies they were lobbying against, the results are close to what we had expected. They were not, in fact, able to influence political actors into abrogating the Section 201 Tariffs. However, they did have some influential impact, notably in pushing, through lobbying House Representative Joe Knollenberg, the ITC to include in its impact evaluation of the tariff measures not only steel producers, but also steel users (something the ITC was not legally binded to do so without a demand from Congress). Through House Concurrent Resolution 23 (co-signed by more then 50 house representatives), they were able to push their agenda in a way that, even if it did not, on its own, produce change, shows the growing importance of import-dependent firms in lobbying and acting within the trade liberalization sphere of influence.

However, the prediction that rapid change would come about from the political actors when these import-dependent constituents were joined in by export-led industries, is confirmed. Once the E.U. had started threatening retaliations (targeted at industries positioned in key states for the upcoming election-year), the U.S. rapidly complied to the WTO ruling, and effectively ended the tariffs. The reasons that may have pushed the U.S. to comply to the measures are hard to quantify. An excellent study looks at the DS248 case as political calculation in two key election-years\(^{327}\). Nonetheless, the fact remains that it is when retaliatory threat that pushed the U.S. to comply to the WTO ruling.

The previous findings should not let us rush to the conclusion that import-dependent firms had a definite impact on the lifting of the measures. Rather, the fact remains that it is

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\(^{327}\) For a full explanation, see Mahncke, Hans. "US Steel Tariffs and the WTO Dispute Resolution Mechanism." *Leiden Journal of International Law* 17, no. 3 (2004): 615-24. doi:10.1017/s0922156504002067. The Case developed here is that the U.S. imposed the tariffs to please a key constituency in the rust belt before the Congress electoral cycle of 2002, and then used the retaliatory threat as an excuse to lift these measures. This is an interesting analysis, but fails to encompass the fact that the retaliatory measures were aimed at key industries in states that President Bush could not be sure to secure. Hence, we can speculate that it is also the risk of alienating a key constituency that pushed President Bush to abrogate the Section 201 Tariffs.
the threat of retaliation that had the largest impact on policy change in this case. Nonetheless, the fact remains that they did have an impact, through the House Concurrent Resolution, ad-campaigns, and that they did mobilize. We could even ascertain that they had an important role in that they forced, through said Resolution, the ITC to take into account the impact of the measures on steel-users.

D. Alternative explanations

Before evaluating the results of the lobbying we have found and mapped, we will give here a few brief considerations on two possible alternative explanations we find could have had an impact on the discrepancy in compliance time between our two cases. We will not analyse them in full, but these can form the basis of future research

1. Legislative versus Executive

There have been some studies that have looked into the effects of compliance through executive and legislative acts. What has been found it that “compliance has usually been more rapid where WTO violations could be corrected through administrative action under the control of the Executive as opposed to legislative action”328. As we have stated in our theoretical framework, the DS248 case was created because of, and solved through an Executive act by President Bush. On the other hand, the DS267 case stems from a legislative act, that is the Farm Bill Act of 2002, and was solved both through a Memorandum of Understanding that required Congress to finance a mechanism used to pay [go find the name] the Brazilian [name], and changes in not one, but two farm bills, in 2008 and 2014. These processes are much heavier than an executive act. Indeed, the Framework Agreements between Brazil and the U.S. were done in part to keep negotiations open as these various

bills were being discussed\textsuperscript{329}.

We cannot make any generalizations, but it would be interesting to compare further cases in which the U.S. acts as a defendant but with the compliance process involving either a legislative or an executive act, to see if the pattern confirms itself. However, we feel that this explanation lacks some kind of universality. Indeed, as with other political institution approaches to explaining compliance, it is specific to each system it studies. Executive versus legislative acts do not function in the same way in presidential and parliamentary systems, and variables might have to be adapted for each object of study, whereas the GVC-integration variable does not have to be adapted to tailor to different kinds of political systems.

2. Subsidies versus Tariffs

This is an interesting differentiation that arose as we were mapping the lobbying actions in the Upland-Cotton case. We realized that there was no lobbying done by industries against the measures, except by the cotton industry itself once retaliation threats became imminent. This can be explained by the fact that the industry was a low-GVC one, and thus import-dependent firms would not have mobilized, and that the cotton industry is itself an export-oriented industry (hence acting both as a protectionist industry and an export-oriented one). However, the fact that the measures constituted export-subsidies is not without consequence. Indeed, had it been a high-GVC industry, would import-dependent firms have mobilized? We believe that the answer is ‘probably not’. As the subsidies are on exports, and due to the fact that they do not restrict incoming trade, they would not have any impact on import-dependent firms. Hence, the only actors we would have expected to mobilize

against the subsidies would have been export-oriented ones once retaliation by third countries became a threat.

Thus, we believe that the differentiation between tariffs and subsidies in mobilizing different types of actors could have an impact on the GVC-integration variable, and it would certainly be interesting to further investigate its impact in further papers and studies.

E. Evaluation of Results

Overall, in light of everything that we have looked at and analysed in this work, we believe that our main hypothesis cannot be fully confirmed. Rather, further work is required before we can positively claim that speed of compliance to a WTO adjudication is a function of the degree of integration of a targeted industry into global value chains. We did however confirm a series of expectations. In the line of similar work done in the case of political mobilization by import-dependent firms in the E.U.\(^{330}\) when faced with trade restricting measures, we have further shown the capacity of import-dependent firms to mobilize. More than just showing that these firms are capable of mobilization, we have shown that they are actually quite good at it. As we have explained, the lobbying strength of older industries would have put them at an advantage, having had much more time to overcome collective action problems, setting up umbrella organizations capable of channelling demands and transform them into effective lobbying enterprises. However, we have seen that import-dependent firms were equally capable of mobilizing both within industries and across industries. Indeed, not only did the numerous sub-contractors and small mills organize under CITAC and other organizations, they also joined forces with the port-authorities to publish

a series of ads, as well as tribunes in large U.S. papers calling for an end to the tariffs. This
capacity of organization and collective action is poised to grow, and thus we can expect these
import-dependent industries to have a greater role as more of the production of goods
internationalizes.

To confirm our hypothesis, we believe further research should focus on the following
questions. Firstly, in line with our alternative explanations analysis, further research could
look into the impact of legislative versus executive resolution to cases. Secondly, research
looking into WTO cases involving subsidies and WTO cases involving tariffs could prove
interesting. Indeed, we might see that, because of a different mobilization of constituencies
in cases involving subsidies (i.e. we could expect import-dependent firms to not mobilize
since they do not face negative consequences) could lead to a longer resolution than cases
involving tariffs (as these, if highly integrated in GVCs, should be expected to mobilize).
This could take the form either of a case study involving subsidies (or tariffs), but with one
case comprising high-GVC integration firms, and in the other, low-GVC integration firms.
It is clear that alongside this, further empirical studies that compare low and high-GVC
integration’s impact on WTO compliance is also needed.
VI. Bibliography


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• United Nations Department of Economic and Social Affairs, Statistics Division. International Standard Industrial Classification of All Economic Activities Revision


VII. Appendixes


PURCHASING MAGAZINE TRANSACTION PRICE FOR HOT-ROLLED SHEET, MIDWEST MARKET AVERAGE
January 1980 – December 2003

Source:

B. Appendix 2: Concurrent Resolution 23.

H. CON. RES. 23

Urging the President to request the United States International Trade Commission to take certain actions with respect to the temporary safeguards on imports of certain steel products, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 29, 2003

Mr. KNOLENNBERG (for himself, Mr. MANZULLA, Mr. DOOLEY of California, Mr. JEFFERSON, Mr. BLUNT, Mrs. HOBSEY, Mr. BORDHEIM of Texas, Mr. RUSH, Mr. BURTON of Indiana, Mr. CAMP, Mr. CRAM, Mr. DAVIS of Florida, Mr. DEMINT, Mr. DREIER, Ms. DUNC, Mr. EHLERS, Mr. FLAKE, Mr. FURHLENHEIM, Mr. GILLIBOR, Mr. HEDGER, Mr. HORNISH, Mr. JAGGER, Mr. JOHNSON of Connecticut, Mr. KENNEDY of Minnesota, Mr. KINK, Mr. KIRK, Mr. KOLBE, Mr. LATOURNANTE, Mr. LEACH, Mr. LEWIS of Kentucky, Mr. LUCAS of Kentucky, Mr. McCOTTER, Mr. PAUL, Mr. PENCE, Mr. PELLEGRINO of Ohio, Mr. RAMEY, Mr. ROE of Michigan, Mr. ROONER, Mr. SHAYS, Mr. SMITH of Michigan, Mr. TERRI, Mr. TOWNS, Mr. UPTON, Mr. HOBSON, Mr. HUCONITON, Mr. ROSSELL, Mr. PETIT, Mr. RISE, and Mr. GARY G. MILLER of California) submitted the following concurrent resolution; which was referred to the Committee on Ways and Means.

CONCURRENT RESOLUTION

Urging the President to request the United States International Trade Commission to take certain actions with respect to the temporary safeguards on imports of certain steel products, and for other purposes.

Whereas the President, upon investigation and recommendation by the United States International Trade Commission, on March 5, 2002, proclaimed temporary tariff increases and tariff rate quotas on certain steel imports;

Whereas many United States manufacturing sectors have reported that the temporary tariff increases and tariff rate quotas have disrupted the availability of input steel;

Whereas both a strong domestic steel industry and a strong domestic manufacturing base are vital to our national defense and economic security;

Whereas neither the President nor the United States International Trade Commission could fully anticipate the positive or negative effects of the temporary safeguards proclaimed on March 5, 2002; and

Whereas section 204 of the Trade Act of 1974 requires that the United States International Trade Commission “shall monitor developments with respect to the domestic industry, including the progress and specific efforts made by workers and firms in the domestic industry to make a positive adjustment to import competition” and submit a report on this monitoring to the President and the Congress not later than September 20, 2003: Now, therefore, be it

Resolved by the House of Representatives (the Senate concurring), That the Congress—

(1) recognizes that a strong domestic steel industry and strong domestic manufacturing base are vital to national defense and economic security; and

(2) urges the President to request the United States International Trade Commission, in addition to monitoring and reporting on the items enumerated in section 204 of the Trade Act of 1974, with respect to the tariff increases and tariff rate quotas proclaimed by the President on March 5, 2002, on certain steel imports, also to monitor and report on the impact of the temporary safeguards on domestic steel consuming industries.

Source:

C. Appendix 3: World Trade Organization Dispute Settlement Diagram

Consultations
(Art. 4)

60 days
by 2nd DSB
meeting

Panel established
by Dispute Settlement Body (DSB)
(Art. 5)

Terms of reference (Art. 7)
Composition (Art. 8)

Panel examination
Normally 2 meetings with parties (Art. 12),
1 meeting with third parties (Art. 10)

Interim review stage
Description part of report
sent to parties for comment (Art. 15.1)
Interim report
sent to parties for comment (Art. 15.2)

Panel report
issued to parties
(Art. 12.8; Appendix 3 par i:20)

Panel report
circulated to members
(Art. 12.9; Appendix 3 par i:20)

DSB adopts panel/appellate report(s)
including any changes to panel report made by appellate
report (Art. 15.1, 16.4 and 17.14)

Implementation
by losing party of proposed implementation
within ‘reasonable period of time’ (Art. 21.2)

In cases of non-implementation
parties negotiate compensation pending full
implementation (Art. 22.2)

Retaliation
If no agreement on compensation, DSB authorizes
retaliation pending full implementation
(Art. 22)

Cross-retaliation:
same sector, other sectors, other agreements
(Art. 22.3)

Possibility of arbitration
on level of suspension procedures and principles
of retaliation
(Art. 22.6 and 22.7)

During all stages
good offices, conciliation,
or mediation (Art. 5)

NOTE: a panel
can be
‘composed’ (i.e.
panelists
chosen) up
to about 30 days
after its
‘establishment’
(i.e. after DSB’s
decision to have
a panel)

8 months from panel’s
composition,
3 months if urgent

Appellate review
(Art. 16.4 and 17)

max 90 days
TOTAL FOR
REPORT
ADOPTION:
Usually up to
9 months (no
appeal), or
12 months (with
appeal) from
establishment of
panel to adoption
of report (Art. 20)

30 days for appeal report

Dispute over
implementation:
proceedings possible,
including referral to initial
panel on implementation
(Art. 21.5)

90 days

Source:
https://www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/c6s1p1_e.htm
D. Appendix 4: Steel Global Value Chain Integration

The calculations are based on data found at:


The data is obtained by calculating the value of the ratio

\[
\left( \frac{\text{Value added at basic prices}}{\text{Total intermediate consumption}} \right) \times 100
\]

Another way to capture Global Value Chain integration would be to calculate

\[
\left( \frac{\text{Total intermediate consumption}}{\text{Output at basic prices}} \right) \times 100
\]

Both methods yield the same results, as they were just two different ways to capture the value of imports as part of the final value of a product exported or sold.
### Appendix 5: Cotton Global Value Chain Integration

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<th>TradeFlowName</th>
<th>TradeFlowCode</th>
<th>Nomenclature</th>
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</tbody>
</table>

The integration into Global Value Chains was calculated using data obtained from: