

**PROPOSED MODALITIES FOR COTTON UNDER THE MANDATE
OF THE HONG KONG MINISTERIAL DECISION**

Communication from the Co-Sponsors of the Sectoral Initiative in Favour of Cotton

The following communication, dated 1 March 2006, is being circulated to Members and observers for the meeting of the Sub-Committee on Cotton of 2 March 2006, at the request of the co-sponsors of the Sectoral Initiative in Favour of Cotton.

1. These proposals aim to answer the questions put by the Chairman of the Special Session of the Committee on Agriculture and to operationalize some of the decisions taken at the Hong Kong Ministerial Meeting, in particular regarding domestic support and the search for a "mechanism to deal with income declines in the cotton sector until the end of subsidies". More specifically, it focuses on:

- Implementation of Members' decisions to address cotton "ambitiously, expeditiously and specifically" (paragraph 4 of Annex A to the July 2004 Framework Agreement and paragraph 11 of the Hong Kong Decision);
- implementation of Members' decisions to search for a " ... mechanism to deal with income declines in the cotton sector until the end of subsidies ... " (paragraph 12 of the Hong Kong Decision).

I. DOMESTIC SUPPORT

2. These proposals are based on the "acquis" as set out in the July 2004 Framework Agreement and in the Ministerial Decision adopted at Hong Kong. This is summed up in the paper by the Chairman of the Special Session of the Committee on Agriculture, made available to Members on 9 February 2006. To facilitate the negotiating process, we have based our proposals on the Chairman's questions concerning cotton in the paper of 9 February 2006.

3. The purpose of this submission is to propose specific modalities for implementing Members' decisions on cotton, as we indicated at the Special Session of the Committee on Agriculture of 17 February 2006 on presenting the first elements (TN/AG/GEN/12) of a reduction formula for domestic support for cotton.

4. This submission follows the structure of the questions put by the Chairman of the Committee on Agriculture.

A. "WHAT CONCRETELY WOULD BE A "MORE AMBITIOUS" REDUCTION IN TRADE-DISTORTING DOMESTIC SUBSIDIES FOR COTTON PRODUCTION BE IN ORDER TO SATISFY THE CRITERIA THAT THE REDUCTION BE MORE AMBITIOUS THAN THE GENERAL FORMULA?"¹

1. Operationalizing the term "more ambitious"

5. More ambitious reduction must be construed, as the co-sponsors of the Sectoral Initiative in Favour of Cotton already outlined in their contribution of 17 February 2006 (TN/AG/GEN/12 and TN/AG/SCC/GEN/3), in relation to the general result of the agriculture negotiations on domestic support.

6. Correction coefficient (**c**): the co-sponsors of the Sectoral Initiative in Favour of Cotton propose the following formula for determining the specific rate of reduction of the AMS for cotton:

Rg = General reduction as a percentage; final result for reduction of the AMS

Rc = Reduction for cotton as a percentage; final result for cotton in order to meet the requirement for specificity and more ambition.

$$Rc = Rg + \frac{(100 - Rg) * 100}{3 * Rg}$$

7. This formula meets Members' expectations:

- It provides an ambitious result for cotton in the event of a modest result in agriculture;
- it imposes a higher level of ambition in the event of an ambitious result in agriculture;
- it is degressive in relation to the additional effort required for cotton based on the level of ambition of the result for agriculture in general.

8. For the purpose of illustration, the following table shows hypothetical Rg values and the corresponding Rc values, starting at 60 per cent, which is deemed to be a modest result.

Rg %	>>>	Rc %	Difference %
60	>>>	82.2	22.2
70	>>>	84.3	14.3
80	>>>	88.3	8.3
90	>>>	93.7	3.7
100	>>>	100	0

2. Base period

9. Operationalization of the term "more ambitious" according to the method described above will be based on the values of support for cotton recorded throughout implementation of the results of the Uruguay Round, i.e. the six-year period from 1995 to 2000. To calculate the base value of support (to which will be applied the proposed specific reduction formula), the arithmetic average of the amounts recorded for cotton in the DS:4 supporting tables from 1995 to 2000 will be used.

¹ "Agriculture negotiations: non-exhaustive list of questions", Chairman of the Agriculture Negotiations, 9 February 2006, page 20, question 3(i).

3. Elimination of all trade-distorting measures

10. The Ministerial Decision of 18 December 2005 (WT/MIN(05)/DEC) advocates, in paragraph 12, a " ... mechanism to deal with income declines in the cotton sector until the end of subsidies".

11. This decision reflects the wish of all Members to eliminate in full all cotton subsidies that cause distortion in the international market. It also takes account of the Doha decision to give priority to international trade issues that affect the poorest countries more particularly.

12. The results of recent research by the World Bank show the importance of this issue for poor countries and, what is even more essential, the need for all cotton subsidies to be removed in order to attain the development effect. A digest of this research², prepared by the World Bank shows:

- That liberalizing the cotton market would have a significant impact on the global economy (+ \$283 millions) and on international market prices (+ 12.9 per cent);
- that the distribution of these benefits will favour the African countries, which stand to gain more than 50 per cent of them;
- that these benefits will accrue only if all support programmes are eliminated.

13. According to the World Bank, a partial result would reduce the benefits to one quarter of what they would be in the event of total elimination of support.

14. For all these reasons, the co-sponsors of the Sectoral Initiative in Favour of Cotton propose:

- that the Members of the WTO should decide in April 2006 to eliminate all market-distorting support measures by a date to be determined;
- that the Members of the WTO should undertake to agree before the end of the Doha Round to an end-date for such elimination.

B. "HOW, AS A PRACTICAL MATTER, CAN WE MEET THE HONG KONG DIRECTION TO GIVE PRIORITY TO REACHING THIS OUTCOME AND, AS REGARDS IMPLEMENTATION, ACHIEVE IT OVER A SHORTER PERIOD OF TIME?"³

1. How to fulfil the mandate to give priority to an agreement on cotton

15. In order to operationalize the Hong Kong decision to give priority to seeking a solution for cotton, the proposal is as follows:

- Giving priority to seeking a solution for cotton means addressing it with a higher level of ambition and within a shorter period of time, as required in the July 2004 Framework Agreement and the Hong Kong Ministerial Declaration;
- The approach and the formulae proposed in this paper take account of the interdependence of the two issues (cotton and agriculture);

² *Les négociations sur le coton, situation post-Hong Kong et perspectives*, statement by the World Bank, Geneva, 21 February 2006.

³ "Agriculture negotiations: non-exhaustive list of questions", Chairman of the Agriculture Negotiations, 9 February 2006, page 20, question 3(ii).

- in accordance with the Hong Kong mandate, it is proposed that 31 March 2006 should be set as the date for a decision on the above-mentioned formula.

2. How to fulfil the mandate to implement over a shorter period of time

16. With regard to "implement[ation] over a shorter period of time", the co-sponsors of the Sectoral Initiative in Favour of Cotton reiterate and formalize their proposal of 14 February 2006 set out in document TN/AG/GEN/12 and TN/AG/SCC/GEN/3: **"III. REDUCTION OF TIME FRAME:** The time period for the reduction of domestic support for cotton shall be one third of the period agreed upon for the reduction of domestic support in agriculture in general".

C. THE PRECISE RELATIONSHIP BETWEEN COTTON AND THE GENERAL APPROACHES UNDER CONSIDERATION TO AMS, *DE MINIMIS* AND BLUE BOX?⁴

17. The proposals above establish the relationship as regards the specific approach to cotton and the general approach in respect of AMS.

18. The Hong Kong decision says "*We recall the mandate given by the Members in the Decision adopted by the General Council on 1 August 2004 to address cotton ambitiously, expeditiously and specifically, within the agriculture negotiations in relation to all trade-distorting policies affecting the sector ...*". All Members thus stated their agreement to the inclusion of Blue Box and *de minimis* in trade-distorting policies. It is precisely for this reason that the negotiators added to the Doha Development Agenda the "overall cut", covering AMS, *de minimis* and Blue Box.

19. "Ambitious, expeditious and specific" treatment accordingly applies to *de minimis* and above all to Blue Box in the same way as it applies to the AMS.

20. With regard to **Blue Box**, the following criteria will be applied in order to reach an ambitious, specific and expeditious outcome for cotton:

- The final results of the agriculture negotiations as regards Blue Box disciplines will be applied specifically to the cotton areas and yields eligible for Blue Box measures;
- without prejudging the outcome of the negotiations in terms of a lower ceiling and/or additional criteria, the ceiling to be applied specifically to cotton will be calculated as follows:

The "blue" ceiling for cotton will be one third of the general "blue" ceiling

- This submission will be supplemented by a separate one on additional criteria to be applied specifically to cotton.

II. ASSISTANCE

21. At the Sixth Ministerial Conference at Hong Kong, in the context of the search for coherence between the trade-related and the development assistance aspects of cotton, Members **"urge[d] the Director-General to further intensify his consultative efforts with bilateral donors and with multilateral and regional institutions (...), and to explore the possibility of establishing through**

⁴ "Agriculture negotiations: non-exhaustive list of questions", Chairman of the Agriculture Negotiations, 9 February 2006, page 19, question 3(iii).

such institutions a mechanism to deal with income declines in the cotton sector until the end of subsidies."

22. This submission aims to give effect to that mandate, to define modalities and to set dates to ensure that the results of the work done under the mandate can be made available for the single undertaking at the end of the Doha Round.

23. The proposal takes account of:

- The fact that in the poorest countries the cotton sector needs to be reformed and also needs the necessary investment to ensure that African cotton is competitive on the world market, thereby ensuring that poor countries are able to take full advantage of the opportunities afforded by a cotton market free of disruptions;
- the need to set up a safety net for cotton producers in the LDCs enabling them to survive until such time as internal and external reforms bear fruit.

24. Any support mechanism for producers must take account of the following elements:

- Support to producers must not become price support, so its amount must be determined in relation to the effects of subsidies on international market prices and take into account the phasing out of the support;
- the support must be distributed directly to producers under the supervision of a neutral and independent body;
- the support must be clearly limited in time;
- the support must be linked to a programme to strengthen the productivity and efficiency of the cotton sector in Africa.

25. For the foregoing reasons, the co-sponsors of the Sectoral Initiative in Favour of Cotton propose the following modalities:

- The Member countries of the WTO agree to the principle of creating a safety net for poor cotton-producing countries in Africa in April 2006;
 - the Member countries decide in April 2006 to establish a task force to include multilateral financial institutions, donor countries and a representative of the WTO Director-General to prepare a proposal to this effect by July 2006;
 - the Member countries of the WTO undertake, in July 2006, to instruct their representatives at the World Bank to ask the Bank to agree to a donors meeting in the Autumn of 2006 and to adopt a programme and financing therefor in time for inclusion in the single undertaking at the end of the Doha Round negotiations.
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