
COTTON UPDATE – 5 May 2007

The Falconer ‘Communication’ 30 April 2007 – Some Observations

The Context

On Monday 30 April 2007 the Chair of the WTO agriculture negotiations circulated a new paper ‘Communication from the Chairman of the Committee on Agriculture Special Session’¹ in which he seeks to provide some direct guidance to negotiators as to where the impasse breaking concessions lie so as to find positions that might converge. This process is designed to provoke comments from Members and then act as a catalyst for a second draft for his infamous ‘all brackets’ text from 22 June 2006 – the so called draft modalities paper².

The Chair has given a rather candid view of the negotiations which reflects his longstanding frustration, but with a positive directional spin. He seems to have rolled up his sleeves and dropped certain diplomatic niceties in an effort to break through the stagnant inertia that has plagued the Doha process over recent months. In particular he has made direct named reference to specific areas where particularly the US and EU need to compromise. These compromises often seem to gravitate towards G20 proposals, which has generally been seen by the Chair as a working middle ground, in many instances resonating with African positions. In the Chair’s critique developing countries have not been spared, and he has called for greater realism by the G33 Grouping who he fingers as having unrealistic expectations regarding the quantum of products that can be excluded from tariff reforms. For present purposes the text is pleasing as it does address the cotton issue as a separate main heading. So, as an overall assessment the text is a tough, but a refreshing take on what a ‘basic centre of gravity’ (read as compromise zone) might be. It is increasingly clear that the Chair is rather accurate when he observes that if the suggested compromises are

¹ WTO issued document : 2989 of 30 April 2007 available at:
http://www.wto.org/english/tratop_e/agric_e/chair_texts07_e.htm

² WTO document series: Job(06)/199 22 June 2006.

not forthcoming within mere weeks, then 'we will either fail or put the whole exercise in the freezer for some considerable time until a better generation than us can thaw it out'.

The text is due to be discussed at an informal session of the Committee on Agriculture Special Session on Monday 7 May 2007. The Chair's document will certainly be fully dissected by Members this week in advance of the scheduled meeting to discuss its content in detail. After this it is foreseen that a revised draft modalities text will be prepared, within the remainder of May 2007. Given this timeframe it is evident that the next 2-3 weeks will be a critical time for influencing any new direction that the debate may take and for consolidating textual gains currently in hand for the C4.

Domestic Support – Overall Cut

The text indicates that the US is the key protagonist on domestic support using the word 'inconceivable' to describe the notion that the US will be able to gain an entitlement to spend more on overall trade distorting domestic support than presently. The present US figure of US\$22 is to be revised down to between US\$ 11-19 billion, with neither outer limit being probable in order to end up with an agreement. It is also foreseen that there is a net balance to be made between this pillar and market access, despite Members official statements to the contrary.

The 3 bands, thresholds and cut ranges remain as in the 22 June 2006 Draft Text. This was as follows:

| Bands | Thresholds (US\$ billion) | Cuts |
|---------------|----------------------------------|-------------|
| 1 [All other] | 0-10 & all developing countries | 31%-70% |
| 2 [US, Japan] | 10-60 | 53%-75% |
| 3 [EU] | > 60 | 70%-80% |

The EU has apparently indicated its preparedness to accept a 75% cut which, if applied, would take the EU to € 27.5 billion. Technically the EU could apparently manage 80%. Their conditionality is that the US should remain within 10% of the EU cut, i.e. this leads to the premise that the cut will neither be at 53 in the second band, nor below 70 in the third band, both figures will be higher than that. The maximum that the US will be pressed based on this position is to cut at 70%,

which is well above the 53% preferred at the bottom of band 2, but still below the maximum for that band of 75%. The EU is exerting very strong pressure in this tabular dynamic. Technically Japan could match anything that the US settles for, and should thus not be a constraining factor on the final compromise.

Developing countries are suggested to accept 2/3 of the cuts for developed countries, with no cuts for those without any AMS commitments, the latter as agreed in the Hong Kong text (paragraph).

De minimis levels are to be reduced from current levels by a minimum of 50% (perhaps reaching 80%), seemingly with a broad agreement as to this already. The suggested wording is 'a cut of at least 50% with an additional amount sufficient to ensure that the OTDS commitment arrived at is met net of blue and AMS commitments'.

The Chair's strong wording on overall domestic support is indeed good for cotton, especially as the US is singled out as needing particular attention. This directional indication is supportive of the C4 requirements for domestic support in cotton (discussed separately).

Domestic Support – AMS Provision

The Chair has slightly revised the AMS cutting table which has been the working premise since Hong Kong. The Hong Kong table read as follows:

| Bands | Thresholds (US\$ billion) | Cuts |
|--------------|----------------------------------|-------------|
| 1 | 0-12/15 | 37-60% |
| 2 | 12/15-25 | 60-70% |
| 3 | >25 | 70-83% |

The revised table is simplified to read as follows based on latest inputs to the Chair:

| Tiers | Cuts |
|---------------|-------------|
| 1 [Rest] | 37-60% |
| 2 [US, Japan] | 60 |
| 3 [EU] | 70 |

The table represents the Chair's view of a compromise but he footnotes that the US 60% in tier 2 is supposedly conditional on 83% for the EU in tier 1. Note that these are both the least stringent cuts set out in Hong Kong.

Developing countries again are tabled for a two third cut of that tabulated for developed countries and it is confirmed that continued access to the development box (AoA article 6.2) remains as a 'given'.

On specific commodity capping the debate centres on the relevant base period. The Chair sees the US as alone against the rest of the entire Membership. The consensus is that developed countries should be capped at the product specific levels for 1995-2000. The United States has rejected this, opting for 1999-2001. The extent of the difference this gives to expenditure entitlements is very considerable in the case of certain products, notably for cotton in the US instance, one of the reasons for their preference for a later period. The Chair moots 3 possible 's & d' options to appease the US. He concludes however that capping is secondary to AMS reductions, and should not be a deal breaker.

For cotton interests obviously the earlier base period is better (mooted previously by the C4) as support levels are lower. The C4 preference thus flows from this point and is diluted as one steps along the 3 appeasement options.

Domestic Support – Blue Box

The hypothesis presented is that there is a weight of agreement to cut the currently permissible overall blue box ceiling for developed countries by half, from 5% to 2.5%. It remains to be determined whether this is to apply from day one or it is something that will be arrived at only at the end of the implementation period. The Chair sees no reason to have complicated options for this.

This view concretizes the C4 stance on the lines that more blue box discipline is better and it supports the general direction adopted for cotton in the blue box (discussed later).

The Chair however seems to be suggesting that the notion of product specific blue box caps is not workable and that some version of the anti-concentration methodology is more likely (that is one has a maximum percentage of the overall

Blue Box ceiling that cannot be exceeded for any given product). However, this is still essentially about how much can be spent on a particular commodity. It is about trying to stop the overall amount being shifted into one or two products (like cotton). The Chair reasons that if product specific amounts are a non-starter then all so-called anti-concentration will be recognized as actually devices to extract a product specific cap by another name and he sees that 'no-one is going to be taken in'. He then finally leaves this point open parting with a question as to whether there a genuine willingness to take a ceiling limit one way or another or not?

For the C4 it is recommended that the answer is in the affirmative, that a ceiling mechanism is indeed desirable.

Domestic Support – Blue & Amber Combined Caps

This suggestion is seen as a possible alternative to the problems discussed above relating to a blue box cap. The problem is that it has the potential to circumvent product specific AMS caps, which were agreed upon all along. It is thus important that when a Member has spent up to its full AMS entitlement, such Member should not be able to exceed that entitlement by using its implicit perhaps unused blue entitlement for AMS purposes. In addition the Chair notes that a combined cap could permit product concentration in the blue box to a greater extent than in the situation with the blue box as a stand alone commitment.

As the aim for the C4 is to avoid a concentration of blue box payments to cotton, any suggestion that is likely to go contrary to this should rather be avoided. Note that this issue is directly dependent on what the result is that is agreed for the blue box ab initio. Essentially the US has a need to soften the blue box, through whatever means. Vigilance seems in order to recognise this core in whatever recomposed methodology it is put forward.

A Cotton Intervention

The Chair starts his 8 paragraph (46-53) discussion of cotton with an immediate reference to the ambition (ambitious, expeditious, specific) concept long synonymous with C4 interventions. He takes the pleasing view that ambition is to

be judged relative to the generally agreed rule, as opposed to judging relative to a 'point of zero'. In other words, even an ambitious general settlement would still require even more for cotton. This matches C4 thinking.

The Chair takes the view that in amber and blue boxes, it is clear is that one cannot make sense of the mandate without *commodity specific* reductions for Cotton irrespective of what is ultimately determined in respect of other commodities. He does note that for amber, the mandate requires capping not reductions on a product as the general case, and follows that a general position for blue is that 'we still do not know if we will do commodity specific at all in any sense of the term'. However he puts a positive spin on this by then providing a concrete alternative, pleasingly the C4 proposal: 'Concretely, we have the proposal by the proponents'. The chair then steers the reader towards the C4 proposal as being the only logical solution to satisfy the mandate. He remarks that: 'It remains in play as it is clearly capable of delivering the requisite standard from Hong Kong. I have nothing new to add at this point [.]'. And further that: 'I can simply find nothing else that would plausibly meet the meaning of that term'. There could arguably not be a clearer endorsement of the C4 proposal, including the requisite formula.

The support for the C4 in the text is very strong and certainly welcome. In softening the support in line with the need to remain notionally impartial, he does remind the C4 that it is rare to be fully satisfied in what they seek. This is important as it signals that the C4 should have a plan-B, i.e. a ready fall back position, meaning that it would perhaps be prudent to examine the hard numbers of a fallback stance. This might warrant further discussion.

Export Subsidies

We note from the June 2006 draft text that the crux of the export subsidy topic is not strongly at odds within the negotiations. Timeframes have however shifted. To this end the Chair provides some guidance for redrafting, mooting that the entry into force of this agreement will not occur before 1 January 2009, with the midpoint hen at the middle of 2011. This means a five year implementation period if we maintain the integrity of the 2013 date for the total exit of export subsidies.

For the 'substantial part' to be done by the end of the first half of the implementation period, the view is taken that this translates into 50% to 67% in firm numbers. On a technical point by having the 'mid point' in the middle of a year, provides an opportunity to add weight to the 'substantial requirement'; i.e. to make a 50% cut by the end of the second year (the end of 2010), leaving the remaining 50% for the last three years. This would satisfy value based reductions. The Chair is less optimistic for volumetric reductions, as Members are widely divergent. The point is made that as a practical matter of fact that the volume issue is part of the present system, hence ignoring it would not be realistic. The Chair moots at as a minimum, the existing volume commitments should remain as a basis ('an effective floor') even if the view is finally taken that there should be no further quantity reductions.

Generally the current text is in line with what has been notionally harvested already, and is in line with the C4 stance of the more discipline, the better. It is however clearly noted that there is no specific reference to export subsidies for cotton. Our interpretation is that it is most likely not mentioned as it is taken as previously agreed. As the timeframes have generally moved, the previous cotton date of 31 December 2006, should logically move to either the same in 2007, or at least immediately upon implementation. The position for cotton should be clarified for good order – perhaps a statement confirming the date matter in the official response. This is prudent as under the single undertaking concept it is conceivable, even if unlikely that the previous agreement could be re-opened. There is some precedent for this at the end of the Chair's text (paragraph 144) where he indicates that expedience might require a revision of the Framework in certain instances. Caution without panic would thus be suggested.

Market Access Formula

The Chair indicates that the structure will be taken as four bands meeting the following thresholds (this was the G20 framework):

| | Thresholds | Range of cuts (%) |
|--------|------------|--------------------|
| Band 1 | 0% - 20% | (20-65) |
| Band 2 | 20% - 50% | (30-75) |
| Band 3 | 50% - 75% | (35-85) |
| Band 4 | >75% | 60 -85 new (42-90) |

The cuts are taken to be linear, but not agreed. Note the bracketed ranges from the above table represent the June 2006 text. The Chair's new assessment of the cuts that it will be between the EU figure 60% on the low end and the US figure 85% on the top end. It is stated that the 2 Members are 'entrenched' – the bottom line is that 'one will have to move up and the other will have to move down or we will simply not have a deal'. The deal is also closely linked to sensitive product treatment.

No guess is taken as to the other cuts save that these are likely to fall into place in a 'proportionate tiering'.

The Chair suggests that an overall tariff cut is likely to emerge (this is new) and will be above 50%. This is not capped at a guess but simply left as 'still to play for'.

For developing countries there is a call to simplification: 'The preferred manner to get to that target is that a developing Member applies the same thresholds and two thirds of the cuts within the bands'. This lays a hint, and the Chair indicates that developing country tariff issues will be more fleshed out in the end of May revised draft. The overall 2/3 principle is however in-line with the existing debate.

Sensitive Products:

The existing mandate refers to a range of 1%-15% of tariff lines to be identified as sensitive. The Chair now narrows this to the range [1%<5%]. Once selected these tariff lines are now proposed to be cut by between 1/3 & 2/3 of the general formula. Numerically based upon the top tier in the table this means that the range would be at least a 20% cut and at most a 56.6% cut. This narrowing of scope is pleasing for those seeking discipline on tariffs, as the narrower the range the fewer items will escape the general disciplines.

Special Products:

The existing divergences are wide here and the Chair sees this as a cause for concern – observing that this matter which is objectively not a make or break issue, could actually stymie the entire result. The present spread ranges from the G33's 20% of tariff lines to as little as 3-4 products by the US. The Chair narrows this range to 8% of product lines, (which is coincidentally the same percentage that the EU proposed for sensitive products which they found to represent 170 tariff lines). This being said the Chair does emphasise that strictly per the mandate there is no connection in numerical terms between sensitive products and special products. Despite this for political well being special products will have to reflect a development element and will hence be larger than that for sensitive products. The Chair views the relationship as follows:

Sensitive: 1% - 5%

Special: 5% - 8%.

Once identified, the tariff treatment that is applied more flexibly than the general tariff rule. The Chair stress that this flexibility should not be construed as meaning an exemption from tariff reductions. The Chair defines the cutting flexibility at between 10% and 20% less than the general tariff cutting formula.

Related to the special product issue, the Chair sees that the special safeguard mechanism (SSM) would show 'very considerably reduced coverage' and may be discontinued.

It is noted that these views will be highly contentious for developing countries, and likely to draw extensive and heated critique. Perhaps this is a device to convince the developed countries that they need to live with large exemptions for the matter to be settled? As this may be the matter is not a cotton specific top priority and will no doubt be addressed most comprehensively by the G33.

New Idea:

The Chair observes (specifically not 'proposes') a radical rethink for the spiral of tariff issues that are ongoing with a call for clarity via simplification. In order to achieve this it is hinted that the Framework is not sacrosanct and may actually be revised³. The proposal is as follows:

³ The Chair notes that this is already being done under the present process as 'combined amber and blue for domestic support is an idea people are exploring and that is not in the framework per se' (paragraph 144).

'one could cut through all the bands and proportions and just go for a straight overall average cut target for developing countries to meet however they choose, provided they simply make a minimum specified cut (which is of course well below the average target) on each line. It was good enough for developed countries in the Uruguay Round. Wouldn't it be basically good enough for developing in this one?'

This is a simple ruse but intriguing, as the Chair is correct that the overt complexity of add-ons poses a very present risk that the enduring divergences may prove impossible to reconnect without some radical refocusing. The irony of this approach is that it harks upon a seemingly forgotten negotiation group 'The Friends of the Uruguay Round'. Hopefully the radical proposal does not lead the process inadvertently back down this vault of memory. It is likely that the Chair is actually signaling that perhaps a compromise may in fact require some radical departures from conventional Doha thinking, encouraging Members to be attuned to this possibility, potentially even outside of the Framework and Hong Kong.

Closing Observation

The Chair's communication clearly probes at concrete compromises in a direct manner which has shed the mantra of diplomatic niceties on several scores. The communication affords cotton its rightful place that provides sufficient critical mass for the voice of the cotton to resonate with weight in the discussions that lead to a revised draft modalities text. There would be 3 primary areas where cotton proponents might focus their attention, namely the cotton specific text, the domestic support disciplines (especially as regards the blue box) and the clarification of the state of export subsidies as related to cotton.

To this end the following closing quotation from Ambassador Falconer would be appropriate in considering the direction of discussion ahead:

"I sometimes have the sense that in the framework we made things absurdly complicated for ourselves and that this is the fundamental reason why we have come to realise we are in such difficulties now."

(Chairman's Communication 30 April 2007 paragraph 142)

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