
COTTON UPDATE – 5 July 2006

Negotiations are deadlocked – Cotton still high on the agenda

Last week's WTO mini-ministerial has not delivered the expected breakthrough in the current deadlocked Doha negotiations. Indeed, the talks among key trade Ministers have ended prematurely on Saturday 1 July 2006 without progress. The way forward remains unchanged: a more ambitious EU offer in tariff cuts, deeper cuts in US domestic support and an improved G-20 offer in NAMA. Unfortunately, major members were unable to bridge their differences. Indeed, the US signaled that they had no flexibility thereby ending de facto the negotiations before they had started. The only outcome of these discussions has been the request to Director General Pascal Lamy to act as a "catalyst" in the negotiations, i.e. undertake intensive consultations with members to establish modalities as soon as possible. In any case, the timeframe is getting very tight and the chances of reaching ambitious results more and more difficult. On the positive side, it can be noted that all countries have reiterated their willingness to end the Doha Round this year and that the developing countries have expressed full hearted support to the multilateral trading system.

Concerning cotton, this period has been very active. In the negotiations, the C4 has tabled precise cotton modalities to feed the draft text by the President of the agriculture negotiations Crawford Falconer. This proposal builds upon the 1 March C4 submission¹ and presents detailed modalities on the three pillars: market access, domestic support and export subsidies. In a nutshell, the C4 calls for developed countries – and developing countries in a position to do so – to provide duty and quota free market access for cotton exports from least developed countries (LDC). They request the elimination of export subsidies from developed (in 2006) and developing (2007) countries. On domestic support, they reiterate their formula for the amber box cotton subsidies reduction which decreases them further than in the agreed general reduction formula in agriculture. In the blue box, they propose an ambition for cotton of one third higher than for agriculture in general under the product-specific cap or the double trigger approaches.

¹ See the C4 "Proposed modalities for cotton under the mandate of the Hong-Kong Ministerial Declaration" of 1 March 2006, WTO document: TN/AG/SCC/GEN/4.

Following this submission, the EU also presented a cotton proposal, the first non-C4 written one. On market access and export subsidies, the EU requests are similar to the C4's. On domestic support, the EU calls for elimination of amber box cotton subsidies and a cotton capping of 5% of the total blue box ceiling. Firstly, this submission is constructive just because of its very existence and because it encourages negotiations on cotton. Furthermore, it is very ambitious regarding amber box measures and relatively ambitious concerning blue box measures. The only shortfall lies in the one-sided nature of the proposal which puts all the pressure on the USA and none on the EU itself. This should be borne in mind by the C4 in the negotiations.

Both these cotton submissions were utilized by President Falconer in his draft modalities on agriculture². Like for the rest of the text, Falconer puts down the different proposals in brackets when no agreement has been reached. These options will have to be negotiated by the stakeholders. This means that the C4 and the EU proposals are both brought forward when they differ. Also, in his text, Falconer has based one of the blue box alternatives on the initial 1st March C4 proposal which is misleading on this particular issue. In fact, the C4 had submitted more detailed modalities on 16 June to clarify any potential misunderstandings. They requested a cotton-specific blue box cap of one third of the general product-specific cap. Falconer's option proposes one third of the overall blue box ceiling. In any case, all the different options are now in brackets and it will be up to the C4 to make sure the alternative which best serves their interest is agreed upon.

Even though the mini-ministerial has ended up in dismay for the general negotiations, cotton has managed to keep the momentum by maintaining its status of crucial topic in the current Doha Development Agenda. Indeed, cotton was one of the "core issues" to be discussed in priority last week. Despite the absence of substantive talks, this situation shows that the C4 has managed to uphold cotton high on the agenda. The challenge will be to continue holding this position and making sure that the current cotton language is discussed during these next few weeks. In priority, the C4 will have to ensure that Lamy treats cotton in priority in his upcoming consultations, whatever form they will take.

On the eve of the 18 – 19 June conference on cotton organized by the World Bank and hosted by Burkina Faso, the C4 Ministers met for a coordination meeting which also included representatives from other West and Central African countries, such as Senegal, Cameroon, Ghana and the Ivory Coast. The purposes of the meeting were to

² See "Draft possible modalities on agriculture", WTO document: JOB(06)/199

take stock of the negotiations, discuss a strategy for the upcoming milestones as well as to prepare the upcoming World Bank conference.

The World Bank conference on cotton mainly focused on the West and Central Africa filière and touched only lightly on the aid and trade aspects of the issue. The African countries expected a follow-up to the 2004 Cotonou meeting, i.e. a stock-taking exercise of the development component of the cotton initiative. Instead, they faced a one-sided seminar which put heavy emphasis on the necessity to reform and improve the cotton value-chain. The cotton countries did not deny the importance of this aspect but they were expecting a totally different discussion which would have encompassed a more comprehensive outlook of the cotton issue. In particular, the African countries were waiting for real discussions on the short-term problematic they are facing because of the international depressed price. The C4 has made concrete proposals on the creation of a safety net which would allow the African cotton farmers to survive until trade-distortive subsidies are removed. Until now, no substantive talks have been undertaken on the matter.

Furthermore, the WTO secretariat presented the cotton issue within the current negotiations as well as a document recapitulating the cotton aid allocated to African countries since the launching of the cotton issue at the WTO (2003). The latter aspect embittered an already heated debate on the one-dimensioned seminar's agenda. Indeed, the African countries underlined that the WTO document was not reflecting the reality, either because the amounts put forward were not cotton-specific or were prior to the cotton initiative. It also raised great expectations in their cotton domestic constituency that would not – for the reasons mentioned above – materialize.

All these elements showed the importance of holding a holistic debate on cotton encompassing the necessary international and national reforms as well as the required aid to support these endeavors and the African cotton producers on the short-term. All these topics are interrelated and each represents a facet of the cotton case.

During this period, nothing has been lost for cotton in the trade negotiations. The C4 has continued to put pressure on the talks in a coordinated manner ensuring that cotton remains a core issue. However, in the aid component the picture is less positive. Indeed, the misunderstandings and the conflicting expectations have poisoned the situation and led to a dangerous deadlock for the African cotton producers.

Cotton has proven to be the example of a trade issue that can really foster development in some of the poorest countries of the world. It is time that each stakeholder takes its responsibility in this question, the developed countries by eliminating trade-distortive subsidies, the African countries by reforming their filière and working on their competitiveness and the development community by supporting them both financially and strategically.

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