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**COTTON UPDATE – 5 October 2006**

**Negotiations: current status. – Cotton: "business as usual during alternations".**

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Trade negotiations have indeed been suspended, but that does not mean that nothing is going on in terms of policies that affect the cotton sector or in informal discussions on subjects directly or indirectly related to cotton. On the contrary, the agenda even seems quite full:

- 1. Current status of ongoing initiatives and discussions**
  - **US agenda**
  - **G20 Conference in Rio de Janeiro (9-10 September 2006)**
  - **20th anniversary of the Cairns Group (20 September 2006)**
  
- 2. Update: US compliance with decisions concerning cotton**
  
- 3. To be continued: European Court of Justice strikes down new cotton support regime**

**Current status of ongoing initiatives and discussions**

With regard to the negotiations in general, it appears that everyone wants to continue but when all is said and done, no one is prepared to take the first, very costly political step. On Thursday, 28 September, Pascal Lamy said that talks could be revived and successfully concluded by the end of 2007. Nevertheless, offers had to be made before returning to the negotiating table.

*US agenda*

The US agenda can temporarily slow down the resumption of negotiations to a certain extent. Congressional mid-term elections will be held in November, and odds are that the US will not be truly operational before January 2007. For the United States, two important dates come up in 2007: the preparation of the new Farm Bill for the next five

years (or the extension of the one currently in force) and the renewal of fast track authority<sup>1</sup>.

Although it does not seem that anything will happen before 2007, it is to be hoped that a window of opportunity will open up early in the year. The US Administration may need some progress in the multilateral negotiations to (i) assure itself that the Farm Bill is not incompatible with possible negotiating results and (ii) to convince Congress that an extension of fast track authority is justified. In view of the situation, we must continue to make our presence felt in the debate on cotton and international trade in general. Cotton's previous high profile in talks must be maintained with a view to resuming negotiations in the best possible conditions, that is by avoiding an agreement that suits the big at the expense of the small.

Certain high-level international meetings have provided an opportunity to recall the high-priority nature of the cotton question.

#### *G20 Conference in Rio de Janeiro*

When they met in Rio de Janeiro on 9 and 10 September, the emerging countries of the G20 tried to convince the developed countries to resume trade liberalization negotiations. The majority of States are waiting for a signal for the US, in particular a proposal for deep cuts in domestic farm subsidies. "This meeting offers a unique opportunity to put the Doha Round back on track", said Brazilian Foreign Affairs Minister Celso Amorim, who felt that the developing countries were "in the vanguard" of the process. In addition to the emerging countries, the meeting was attended by representatives of the ACP, G-33 and African groups. The C4 was also invited to this high-level meeting. Taking advantage of the forum, the Minister of Industry and Trade of Benin stressed the need to avoid "imposing the law of the jungle in the trade sector, for the poor countries are obliged to sign bilateral agreements, where the law of the jungle prevails". He added that in Benin, "30% of all cotton planters are destitute because of protected markets". As a result of the C4's presence, cotton featured prominently during the conference.

Moreover, in September 2006, on the 20th anniversary of the founding of the Cairns Group<sup>2</sup>, Pascal Lamy underscored cotton's importance for some of the world's poorest

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<sup>1</sup> Literally "accelerated procedure", whereby the United States Congress gives the Bush Administration all the necessary authority to negotiate a comprehensive "package" on international economic questions, which Congress must then accept or reject as a whole.

countries and recalled the commitment to ensure that cotton received specific, more ambitious treatment in the negotiations. He emphasized that those countries had great hopes that Doha would give specific attention to trade-distorting policies in the cotton sector, "helping to rebalance trade rules in favour of the weak, in favour of the small". In its final communiqué, the Cairns Group also recalled cotton's importance to many developing countries and underscored the need to address the issue. More generally, the Group reiterated its commitment to achieving a strong outcome to the Doha Round for agriculture and adopted a work programme with a view to the resumption of negotiations in November.

#### **Update: US compliance with cotton-sector decisions**

Following Brazil's second-time request for the establishment of a compliance panel, the WTO's Dispute Settlement Body (DSB) granted the authorization that had been refused on 1 September after Brazil's request was blocked by the Americans. Brazil and the United States have real differences of interpretation as regards DSB decisions on cotton. Brazil says that the US is far short of compliance. The Americans say that contrary to Brazil's claim, they have fully implemented the DSB's ruling by repealing their Step 2 programme and by ceasing to operate two of their export credit programmes<sup>3</sup>. Accordingly, a special compliance panel will examine the disagreement, while Argentina, Australia, Canada, China, India, Japan, New Zealand and the EU have reserved their third-party rights. The C4 has announced the launching of a consultation process but has not yet taken a stand, as it is awaiting instructions from national capitals.

#### **To be continued: The Court of Justice of the European Communities strikes down the new EU cotton support regime.**

Further to an action by Spain, the Court of Justice of the European Communities (ECJ) has annulled the cotton support regime which the Council had adopted as part of CAP reform.

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<sup>2</sup> Argentina, Australia, Bolivia, Brazil, Chile, Canada, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Philippines, South African Republic, Thailand, Uruguay.

<sup>3</sup> See Cotton Information Note No. 48.

However, the annulment has been suspended pending the adoption of a revised regime, which should come within a reasonable timeframe. This means that the new support scheme for cotton, which was adopted in April 2004 and went into force in January of this year<sup>4</sup>, will continue until new instructions have been received. It would appear that consultations will be conducted with the different key European actors with a view to presenting a revised reform proposal. There is no clear timetable for the next phases. However, the ECJ ruling calling for the adoption of a revised regime within a reasonable timeframe implies that steps will probably be taken rapidly and that a new proposal could be adopted next year for entry into force in 2008 or 2009. At this stage, it is still difficult to predict what changes might feature in the revised reform proposal. For example, the modifications could affect the rate of decoupling, which currently stands at 65%.

IDEAS Centre intends to follow developments with regard to European cotton-sector reform in coming months and will analyse the implications for cotton in general and African cotton in particular, on the basis of new elements that become available.

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<sup>4</sup> Voir Note d'information sur le coton n°4.