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## **COTTON UPDATE – 24 January 2007**

### **Taking stock before Davos: Is too much optimism bad for optimism?**

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Just a few days ago, a resumption of negotiations at Davos looked like a sure thing. Since Susan Schwab, US Trade Representative, came to visit on Friday 12 January and after a three-hour meeting with Pascal Lamy, the optimism was so strong you could cut it with a knife! As there has not been a peep about the many bilateral meetings (Bush-Barroso, Schwab-Mandelson, Mandelson-Amari, Schwab-Amari, etc.), there are two ways to spin the silence:

- Nothing of importance was discussed, or;
- Concrete proposals were put forward but the time is not ripe to wheel them out.

The proposals would clearly have a much greater impact if nothing leaks out before Davos. Even limited concessions by both sides would appear more meaningful than scraps of negotiations doled out bit by bit.

### **Some wriggle room for the Americans...**

There are several signs that the Americans would be wrong not to try something now, and not merely to avoid being blamed if the negotiations fail.

First, they can act because some key deadlines are coming up. The Americans have a budget deficit problem and have to start thinking about cuts in agricultural spending. Moreover, the cuts would not be very difficult from a technical standpoint because the expenditure ceiling was not breached in 2006 (16 billion dollars out of a budgeted 24 billion was spent, leaving 8 billion that more or less matches the amount the Americans are expected to give up). The end of so-called fast track authority, or TPA, is another key date. Despite Ms Schwab's comments on the possibility of negotiating without TPA, it is highly unlikely that the other WTO Members will agree to talk to the Americans without the certainty that Congress cannot amend the agreement. Moreover, thanks to the biofuel boom, farm prices are expected to remain high, so the Americans might not need as many subsidies. As a result, prospects for US concessions on subsidies look much brighter now than they did six months ago. What is more, the Americans have to get

moving. As can be seen from the complaint that Canada lodged recently with WTO's Dispute Settlement Body over US farm subsidies, America's current agricultural policy is very shaky from a legal point of view. So the Americans must use Doha to shore up their agricultural policy. The Americans have several cards up their sleeve, but for the time being they are not making any moves, which could seem a bit fishy... Yet at the press conference following her meeting with Pascal Lamy, Ms Schwab was relentlessly upbeat without, however, explaining why she felt so optimistic.

With regard more specifically to cotton and the "rapid, ambitious and specific treatment" it is supposed to receive – even and especially from the Americans! – the Americans seem to have a few cards up their sleeve here as well. Rising prices for soybeans and above all corn (which is used to produce biofuel) could well persuade cotton growers to switch crops. Cotton production might even drop by 20% next year. Moreover, even though farmers are still very well represented in the new Congress, there are fewer cotton growers than before, a factor which gives other types of producers (sugar, corn, pork, etc.) added clout.

### **... but not for the Europeans?**

Without responding to any specific offers, German Chancellor Angela Merkel has announced that winding up the Doha negotiations is a priority for Germany during its rotating six-month EU presidency. Yet France is a handicap for the time being, and in this showy symphony of optimism, the French Minister-Delegate for Trade, who stands out because of her pessimism, has put out the word that France will not accept any new offer from the EU. As Christine Lagarde put it, there are already "too many things to swallow". Peter Mandelson travelled to Paris on Monday, 15 January to try and talk to the French authorities. Worried by an election campaign that kicked off well before the official date (end of February), the French authorities would prefer it to keep issues like market access, sensitive products and farm support subsidies from bursting onto the electoral scene. Everyone knows how strong the farm lobby is in France, and its overall political leanings are well known. Consequently, France's desire to let things stagnate at WTO for six more months could very well hinder Commissioner Mandelson and limit his manoeuvring room.

## Conclusion

There is virtually no chance that Davos will solve the major problems that the negotiations have hit. And in fact, no one is aiming that high. Nevertheless, the mini-ministerial (and the many bilateral encounters or meetings of small groups that will take place in the resort town) should indicate whether or not there is still hope for a Doha resumption. If the USA takes a step forward, not only the Europeans but also the emerging countries will have to respond. France could be a stumbling block, and there are also some doubts concerning the position of India, a key actor that has kept mum over the last couple of days.

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IDEAS Centre offers policy advice services to developing and transition country governments in the areas of international trade, development and economic governance. In relation to the World Trade Organization (WTO), IDEAS Centre helps low-income countries defend their trade interests and thus use their WTO membership in a way that supports their development.

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