
COTTON UPDATE – 14 February 2007

Doha is still alive... but is the Development Round dead?

Even though nothing concrete came out of Davos, even though no new proposals were floated, even though procedural questions were not taken up, everyone has decided that Davos was a success. Yet even though we can conclude that the negotiations are back on track, there is no denying that the scope of the Doha Development Round has been scaled back in one way or another.

It appears clear that the major players have a discussion basis for relaunching the negotiations, which however does not guarantee the final result. There are positive factors today, particularly on the US side, for reaching an agreement. But it is by no means certain that the development aspect will prevail with this kind of agreement between major players.

On the US side

Above and beyond the fact that no one is prepared at this stage to shoulder the blame for a breakdown in negotiations, there is a real window of opportunity, especially as far as the Americans are concerned. On 31 January, the Bush Administration unveiled its proposed new Farm Bill. This instrument, which the Administration called the most innovative and reform-minded bill of its generation, is only the first draft of a text that Congress will go through with a fine-tooth comb. Without making any assumptions as to its final form, it is clear that in the short run, the changes are primarily minor drafting adjustments rather than a major upheaval and that for the time being, subsidies have not been slashed. In an attempt to ensure that the Farm Bill is more consistent with WTO rules and thus less open to legal challenges, the US is proposing to turn part of product support into producer support, thus shifting subsidies from the Amber Box to the Green Box. The Americans are also offering to phase out support for the wealthiest farmers. Reactions to the Farm Bill – dissatisfaction among pro-liberalization circles, Europeans and other WTO Members, etc. versus relative content among US farmers (or relatively few complaints) – reflect the fact that the reform is nowhere near as broad as is claimed. As the US Secretary of State for Agriculture, Mr. Mike Johanns, said himself, agricultural

spending must be more equitable, more predictable and less open to challenge. What he did NOT say was that it had to be cut...

When he submitted the Farm Bill, George W. Bush also requested an extension of his Trade Promotion Authority (TPA), or so-called fast-track authority. The resumption of the Doha negotiations could make it easier to secure congressional approval for a new TPA. But for this to happen, some concrete proposals would have to be floated.

What about cotton?

For the moment, cotton subsidies have remained at a relatively high level in the proposal by the Bush Administration, on the pretext that relatively low cotton prices in comparison with other agricultural commodities justify a margin in terms of subsidies. According to some sources, cotton farmers would get about US\$ 2.8 billion per year if the 2002 Farm Bill cotton provisions were extended, but US\$ 3.39 billion per year if Congress were to adopt the Administration's proposal. However, the prevailing trend of high prices for soya and above all corn (owing to strong demand for biofuels) could lead cotton farmers to start moving out of cotton and into these more attractive crops, thus helping to drive up cotton prices or reducing US yields as US cotton farmers diversify their production.

In Geneva, things are moving on the cotton front. Parallel to the resumption of negotiations, WTO has announced that a major conference on cotton will be held on 15 and 16 March 2007. At the urging of the C4 representatives in Geneva, the WTO Director-General has finally agreed to the convening of such an event, which is to deal jointly with trade- and subsidy-related issues concerning cotton. The conference, which will likely coincide with intense negotiating activity, is to bring together authorities from donor and recipient countries alike. It could provide an opportunity, among other things, to flesh out the commitments entered into under the July Framework and Hong Kong. WTO Members agreed on both occasions that it was necessary to find a "rapid, ambitious and specific" solution to the cotton problem.

What next?

It is likely that progress in negotiations will be based on an US–EU agreement, which could well thwart the ambitions of the Development Round. Moreover, some countries could help to block or at least slow down the negotiations. For example, France could do so on electoral grounds. As far as the emerging countries are concerned, even though Brazil seems rather open to negotiation, India, as an agricultural importer, has nothing to gain from agricultural liberalization and would have to make a concerted effort to open

up in terms of NAMA and services. It is difficult to give something for little or nothing in return, and this is also the case with the middle-income developing countries that do not enjoy the advantages granted to the LDCs. They could also drag their feet, without however being able to block negotiations.

Conclusion

Negotiations have officially resumed. Nevertheless, Pascal Lamy has said that he was waiting to see something tangible before summoning the ministers back to the negotiating table. What remains to be seen is how much priority will be given to the ambitious development objectives announced in Doha more than five years ago. Even though there is no "done deal" as yet, the time seems ripe, in terms of economic and policy considerations, for an agreement. Now it is up to the poorest developing countries to see to it that any agreement reached does not penalize them.

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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