
COTTON UPDATE – 24 July 2007

The WTO is back in charge in Geneva

After the G4 failure last month in Potsdam, two feelings have emerged with regard to the future of the Doha Round. Whereas some, including a number of US Congressmen, have welcomed the probable failure of the negotiations, on the whole, negotiators in Geneva have once again expressed their desire to see the negotiations succeed. Pascal Lamy has hammered home the point that the efforts already made were too important to be wasted and that all members had to do to ensure that the Round finally stood a chance of succeeding was to take a “very little step”.

The modalities have come out

In synchronized fashion, the Chairs of the Agriculture and NAMA Committees both published their texts of modalities on 17 July. For the first time, the Committee Chairs have set down on paper the figures they felt were the most acceptable to all in the search for an overall compromise. Even though negotiations encompass other fields – in particular services –, agriculture and NAMA will no doubt determine whether Doha succeeds or fails. A balance will have to be struck between the two before progress can be made towards a solution. Both developing and developed countries see the text on market access for non-agricultural products as relatively ambitious. Without spelling out their thoughts, some emerging countries have voiced strong reservations as to the text, equating it with a lack of determination to cut agricultural subsidies.

At first glance, Falconer’s text from the Committee on Agriculture appears less favourable to the developed countries, a tendency that earned him some criticism for his April and May papers on challenges. The proposed cuts in domestic support are relatively deep (between US\$ 13 and 16.4 billion for the US), even though they do not reach the levels requested by the developing countries (12 billion) on the basis of actual expenditure in 2006 (11 billion, also for the US). As

far as the EU is concerned, the ceiling could be somewhere in the neighbourhood of € 27 billion.

The position of cotton

If we refer to the Hong Kong Declaration, cotton occupies its rightful place, or nearly so, in these modalities. It is listed in the three pillars of agriculture, not as a single item at the end of the text. This clearly shows that a specific outcome is proposed in every key field – domestic support, market access, export competition – and not solely on an overall basis. Falconer retained the C4 proposal for domestic support cuts. Moreover, in his April 2007 text of challenges he said that he would do so, noting that it was the only negotiating position on the table that met the Hong Kong conditions. Likewise, Falconer proposes a blue box ceiling for cotton equal to one-third of the ceiling by product. As there is virtually no reference to the green box in general, some fear that the US and the EU will take advantage of the lack of strict discipline to move significant amounts of support from the orange and blue boxes to the green box. As far as market access is concerned, Falconer suggests that developed and developing countries in a position to do so grant duty-free and quota-free access to cotton from LDCs. At this stage, it would be interesting to draw up precise rules concerning these “countries in a position to do so”. In a new development, Falconer has also proposed that the other developing countries give thought to ways of improving market access for LDCs over the medium and long term. In the third pillar, some questions remain as to the date for implementing steps for the elimination of export subsidies. It is clear that the date put forward will probably be before 2013 (the date proposed for the general measure).

A wide range of reactions

Most WTO members have welcomed the principle of the texts of modalities, which they see as an encouraging sign pointing to the effective resumption of work. The reactions have been more cautious when it comes to contents. As usual, the US and the EU have said that they would go through the text carefully before taking a stand. However, the US downplayed things by calling the text a “rough draft” that was still a long ways from what possible modalities could be. Even though the EU seemed to have been more or less “spared”, France,

together with Ireland, stated that the text was biased against the EU and reaffirmed its categorical stance. China, which seems to have enjoyed special treatment owing to its recent WTO accession, had little to say. The developing countries were dead set against the tariff cuts requested in the NAMA text. As for cotton, a senior USDA official deemed the proposals quite simply “unacceptable”. Apart from WTO members, various organizations reacted more or less strongly. The National Association of US Manufacturers welcomed the NAMA text as a good starting point. Oxfam felt that Falconer had taken a first step in the right direction with the agricultural subsidies, but only a step. The most fiery statement to date has been the reaction of the National Cotton Council to the modalities proposed by Falconer. The violence of this body’s reaction is proportionate to the favourable role for specific treatment on cotton. It is fair enough for the NCC to defend subsidies for US cotton producers – indeed, it is part of its role. But threatening to block TPA renewal might be going too far. Moreover, by considering aid and a general agreement for agriculture as substitutes for a specific trade-related solution for cotton, the NCC is purely and simply renegeing on the commitments undertaken by its own government in Hong Kong.

A sharp increase in complaints

Along with this intense activity on the negotiating side, the calendar of the Dispute Settlement Body is filling up fast. Whether it be to put pressure on the negotiations themselves or because some actors no longer feel they can get results through negotiation, the number of complaints, especially over US subsidies, has risen sharply. Pending the outcome of the special group on compliance with the implementation of measures for the elimination of export subsidies (cotton, Brazil vs the US), Canada has secured agreement for the establishment of a panel to rule on overall overspending on total support (orange box, blue box and de minimis) by the US for 1999, 2000, 2001, 2002, 2004 and 2005. Brazil has also decided to lodge a complaint against the US on a relatively similar question. The two cases may be merged in the future. At a time when the US Congress is preparing the new Farm Bill for the next five years, the compliance of agricultural provisions with WTO rules will no doubt be one of the major issues in the debate.

Conclusion

Between “poker” and “double or quits”, there is a great deal of speculation as to what kind of a chance these texts stand and, more broadly, as to the credibility of the institution. The modalities, which reflect a courageous attempt in the absence of a consensus between the members, are nowhere near the end of a process or the achievement of a goal. They are not an achieved outcome; rather, they represent the real start of the difficult talks that will require political efforts and trade concessions from all stakeholders. It remains to be seen whether, between the complicating accounting and the endless haggling, the negotiators will manage to ensure that Doha retains its identity as the “Development Round”.

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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