
COTTON UPDATE – 31st January 2008

The ‘Working Document’ Series on Domestic Support: a basis for the new modalities?

Introduction

On 21 December 2007 the Chair of the WTO agriculture negotiations circulated four new ‘Working Documents’ on domestic support. These papers cover the subjects of: the overall reduction of trade-distorting support: a tiered formula; the final bound total AMS: a tiered formula; the de minimis provisions; and the Blue Box. These texts follow upon the Chair’s Geneva based consultations in October, November and December 2007, and are embellishments upon the ‘First Revision’ (the agriculture second modalities paper) entitled ‘Draft Modalities for Agriculture’ issued on 17 July 2007.

The papers were discussed during a series of Room-E meetings in early January 2008. The Chair will use the Members’ inputs from these discussions to now draft the second revision of the draft modalities for agriculture expected to be issued at the beginning of February 2008. It is notable that there has been no substantive convergence of views reported as a result of these Room-E engagements, although some placatory diplomatic statements were issued.

For current purposes it should be noted that in the 4 domestic support papers reviewed here, the cotton specific provisions of the July 2007 modalities text have not been included in the present texts. To this end the existing C4 engineered cotton wording remains as the only option available, and by default remains in the modalities text as it stands. The exclusion is probably intentional with a view to deflating antagonism from the US who have voiced their opposition to the existing cotton wording, but have yet to issue a counter proposal.

The Overall Domestic Support Cut [Working Document No.5]

This discipline covers the sum of the AMS, de minimis and blue box payments into an overall figure. The 3 bands as they appear in the July 2007 text are unchanged. The thresholds and cut ranges are set out as follows:

Bands	Thresholds (US\$ billion)	Cuts
1 [EU]	> 60	75%-85%
2 [US, Japan]	10-60	66%-73%
3 [Other developed]	0-10	50%-60%
	Developing countries	2/3 of this cut

The new elements introduced are:

- The implementation period is defined as 5 years for developed countries and 8 years for developing countries.
- The initial down payment on implementation, previously 20% for all, has been increased to 33.3% for the EU, US and Japan and 25% for other developed nations. The 20% level remains for developing countries. The EU has rejected and the US objected to these higher down payments.

Domestic Support – Final Bound AMS Provision [Working Document No.6]

The working document retains the tiered formula set forth in the July 2007 modalities text, reflecting the following reductions:

Tiers	Cuts
1 \$ 40 billion & over [EU]	70%
2 \$15-\$40 billion [US, Japan]	60%
3 \$ 15 billion & less [All other]	45%

Developing countries again are tabled for a two third cut of that tabulated for developed countries. The following changes are pertinent:

- The implementation period for reducing the AMS is now set out at 5 years for developed countries and 8 years for developing countries.
- The reductions in the final bound total AMS for developed country members in the top two bands will be front loaded with a 30% first installment, followed by reductions in equal installments of 17.5%.

There is a tightening of the timing for the implementation of the specific caps. Previously the AMS cap would be reached in equal installments over the implementation. In the present working document 2 bracketed options are available. Firstly, the product specific AMS limits could be implemented beginning on the first day of the implementation period. Alternately this could be done in 3 three equal annual installments.

De minimis [Working Document No.7]

The Working Document's text reflects the same essential elements that were present in the July 2007 modalities text. The crux of the discipline remains that the current developed country de minimis levels would have to be cut by either 50% or 60%, that being from 5% at present to a level of 2.5% or 2%.

Domestic Support – Blue Box [Working Document No.8]

The July 2007 hypothesis for the blue box remains substantially 'as is' on its basic provisions. The following changes are pertinent:

- A choice is offered through bracketed text to either make an election upfront as between the use of the production limitation or the no-production methods; or to allow Members to vacillate between the 2 basic criteria. It is suggested that the C4 support the former method.
- The base period for determining the value of production is given as 1995-2000, where in the July 2007 text only states 'the base period'.
- The existing provision for Members with at least 40% of their OTDS placed in the Blue Box during the base period (the EU), where the reduction commitment will be the same as for the member's final bound AMS (70% for the EU); is now firmed up where the previously provided 'short implementation period' is now bracketed as 2 years.

As regards product specific capping, the working document expands on paragraph 37 of the July 2007 text, and now mentions the US specifically by name. The working document also retains the provision in the July modalities that allows the determined product specific limits to be exceeded with the proviso that a matching sacrifice is made in the amber box. This is the only cotton specific

modality in the working documents. In the case of cotton this 'overspending' provision will still be allowed using the greater compensatory mechanism of a two-for-one exchange.

For the African cotton producing countries, it is clear that the continued circumscription of the blue box ceiling mechanism in the working documents is indeed desirable. What the African cotton producing countries should ensure is that in the July 2007 modalities wording for cotton, the part of the wording that makes the cross reference to a foregoing calculation ('applicable above') is actually drafted so as to refer to the relevant standard blue box provision and not to the AMS cap for cotton which is 'above' the cotton blue box wording in the present cotton text.

Closing Observation

While there are some refinements the new 'Working Documents' are not far different from the existing modalities as these apply to cotton. There is likely to be considerable pressure on the African cotton producing countries to abide by whatever the still awaited US cotton proposal is. This pressure will come from the difficulty for the C-4 of blocking an overall consensus on domestic support just for cotton. In view of this dynamic, it is likely that the US cotton counter proposal will be issued very late in the negotiating process or never, regarding J. Glauber's latest declaration. It is envisaged that African cotton producing countries will have to be prepared to block the emerging consensus if this becomes necessary to ensure that the existing C-4 inspired cotton language remains in the revised modalities document in February 2008.

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