

## **COTTON UPDATE – 10 June 2008**

### **Negotiations: The brewing storm**

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The climate in Geneva is wretched, both literally and figuratively. Once again – once too often? – there is a clear danger that the multilateral negotiations will fail. Up until now, most agreed that agriculture was the cornerstone of negotiations. Now, however, the liberalization of industrial goods has become the sticking point. Several developed countries have voiced their concerns in response to the new proposals by the Chairs of the negotiating committees. The prospect of a new trade deal before President Bush leaves office is dwindling. The only way forward would be to reach a framework agreement in June on both key areas – industrial goods and agriculture. Yet the June 2 announcement that negotiations on industrial goods had been suspended has left Member States with their backs to the wall and poses a real threat to the continuation of negotiations. Notwithstanding, the ministers meeting in Paris in connection with OECD underscored their determination to conclude the Doha Round.

### **Member States refuse to rush into negotiations**

The new revised modalities circulated in Geneva on May 20 by the Chairs of the WTO negotiating groups, Crawford Falconer for Agriculture and Don Stephenson for NAMA, have come in for sharp criticism by Member States, particularly with regard to the texts relating to NAMA. The countries of the North, under pressure to reduce subsidies and customs duties on agricultural goods, are calling on the emerging countries to open their markets up to imports of manufactures, while the latter are seeking to protect their fledgling industries and certain sensitive products from excessively large cuts in customs duties.

Although EU Trade Commissioner Mandelson and WTO Director-General Lamy are stressing that the coming weeks offer the last opportunity to cut a deal before President Bush leaves office, many Member States are refusing to link the negotiations to the US political calendar. There is less and less talk of a mini-ministerial in July for the time being.

Given the divergences among the 152 Member States, the Chair of the negotiating committee on non-agricultural goods, Don Stephenson, has decided to suspend negotiations in that area, calling on States to take “responsibility” for the negotiations and strive to bridge the gaps in their positions. Speaking at a press conference, he admitted that the positions of State were further apart than ever since the publication of his proposals. This decision has once again put a brake on negotiations, since striking a balance between NAMA and agriculture is the key to an agreement.

Several representatives of WTO Members, including the EU Trade Commissioner, have sounded the alarm: unless an agreement is reached rapidly, the Doha Round will, at best, go into a freeze; at worst, the multilateral system will breakdown.

### **Cotton is completely bogged down**

After a new series of consultations, the Chair of the agricultural negotiations has brought out a new preliminary compromise draft. Although there seems to have been some progress in agriculture over the past two months, at least with regard to “sensitive products”, there have been no advances at all as far as cotton is concerned. The fact that the C4 formula for cuts – which both the EU and the USA continue to reject – has been taken up *in extenso* reflects the standoff with regard to cotton. The main sticking point with regard to cotton is the absence of any US or European counter-proposal that meets the Hong Kong criteria. It will be recalled in this connection that the C4 submitted a formula for cuts in March 2006. Since then, the USA has never put a figure on reducing its domestic support for cotton, while the EU claims that it cannot go beyond the € 300 million required to finance its cotton subsidies under the 2004 reform. To top it off, the new US Farm Bill leaves domestic support levels untouched, clearly reflecting the power of the US cotton lobby, which has pulled out all the stops to avoid any subsidy cuts.

### **US cotton subsidies condemned**

On June 2, the WTO’s Appellate Body ruled against the US in the Cotton Dispute Case after a six-year legal soap opera. The Body upheld the Panel’s finding of December 2007 rejecting US support for cotton producers, ending the conflict that has set Brazil against the USA since 2003. WTO found once again that the US “acts inconsistently” with WTO rules and has “failed to comply with the Dispute Settlement Body recommendations and rulings”.<sup>1</sup>

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<sup>1</sup> Document WTO WT/DS267/AB/RW, pp. 198-201, 2 June 2008.

According to the report by the WTO judges, “the effect of marketing loan and counter-cyclical payments provided to United States upland cotton producers is significant price suppression (...), constituting ‘present’ serious prejudice to the interests of Brazil”. The US, which was mainly trying to buy time, cannot appeal this latest ruling, which paves the way for a possible request for trade sanctions by Brazil through retaliatory measures that could reach a billion dollars.

The issue, which goes beyond the interests of Brazil alone, constitutes a major element at the very moment that cotton negotiations are stuck. It confirms that US cotton support affects world prices, penalizing *inter alia* African producers, who cannot compete with US cotton growers. Brazil estimates the subsidies at US\$ 12 billion between 1999 and 2002 for crops that brought in US\$ 13.9 billion, which works out to an average subsidy rate of 89.5%. Granted, when prices are high, subsidies cause less damage; notwithstanding, a great many are illegal and must be phased out.

It is difficult to predict how this decision will impact cotton. With its new Farm Bill that is light years away from WTO requirements, the US shows no desire to play by the rules of international trade.

## **Conclusion**

At the informal OECD meeting in Paris on June 5, WTO Director-General Pascal Lamy urged Member States to send their negotiators to Geneva over the next couple of weeks in order to speed up discussions on agricultural issues. Speaking in the margins of the OECD ministerial meeting, Australian Trade Minister Simon Crean described Thursday’s discussion as “excellent”, even though there are “still considerable areas of disagreement”. “Most importantly, there was agreement by Ministers to direct their officials to engage intensively in Geneva from this Monday with the objective of working towards a Ministerial Meeting in Geneva around the end of the month” he added, even though no date has been set.

All we have to do now is hope that the sudden burst of energy in Paris marks a lasting improvement in the climate that will enable us to finally wrap up the negotiations, rather than a temporary sunny spell between the rain and the thunder.

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