
COTTON UPDATE – 12 August 2009

C4-US Dialogue: yes, but...

The signals that the new Obama Administration was sending out seemed encouraging: a desire to cut subsidies for agroindustry; promotion of respect for the rules of international trade and compliance with the decisions of the WTO Dispute Settlement Body; robust support for the poorest countries and particularly those of sub-Saharan Africa; promotion of fair and equitable trade as a tool for poverty reduction... Confident that they would be heard or even understood, the C4 countries (Benin, Burkina Faso, Chad and Mali) visited the United States from 20 to 23 July 2009 to meet with an administration which is new in office but has delayed in specifying the exact content of its trade policy and its vision of the Doha Round along with possible scenarios for its conclusion.

Headed by His Excellency Mr. Mamadou Sanou, Minister for Trade and Promotion of Enterprise and Crafts of Burkina Faso and Coordinator of the C4, a strong delegation travelled to Washington D.C. to relaunch an open dialogue on cotton and cotton subsidies. Already before the mission began, it was agreed that, as Ron Kirk, the new United States Trade Representative (USTR), was unable to attend, a meeting would be held in Nairobi in early August in conjunction with the AGOA Annual Forum.

A conference on cotton

On the 20th of July, in cooperation with the Carnegie Endowment for International Peace, which hosted the event, IDEAS Centre organized a public US–Africa dialogue on the cotton question¹. The conference was structured around three panel discussions. The first consisted of three thematic presentations on the pillars of the multilateral trade system: negotiation

¹ For a more exhaustive report on the conference (in English) and a link to the PowerPoint presentations, see <http://www.ideascentre.ch/Conference20Juillet2009.htm>

(Crawford Falconer, former Chair of the WTO Agricultural Negotiations Committee); dispute settlement (Gary Hufbauer from the Peterson Institute) and the development dimension (John Baffes from the World Bank). The second panel was designed to give official representatives of the C4 (His Excellency Mamadou Sanou, Trade Minister for Burkina Faso and C4 Coordinator) and the United States (Carol Goodloe from the US Department of Agriculture) an opportunity to state their views. The third panel gave the floor to the Deputy Assistant USTR (Elena Bryan) and to representatives of the African cotton industry (Nadjindar Titdjebaye from CotonTchad) and the US cotton sector (Mark Lange from the National Cotton Council).

Terry Townsend from the International Cotton Advisory Committee kicked the meeting off by providing an overview of the major issues in the cotton market. Crawford Falconer, the former Chair of the WTO Agricultural Negotiations Committee, remained optimistic as to the conclusion of the Doha Round but felt that 2011 seemed more probable than 2010. In his view, concerns that nations might turn to protectionism had galvanized a reaffirmation – particularly by the G20 – of the value of open, regulated trade. Although the cotton issue had failed to receive serious attention at the July 2008 WTO Ministerial, a better understanding of the issue had been achieved through subsequent consultations among the four main parties (Brazil, C4, United States and European Union). However, real negotiations had yet to start, due to a lack of concrete counter-proposals by the US and the EU. The success of the negotiations will largely depend on trust and positive personal relationships among negotiators, as had been the case in Hong Kong.

Taking up the question of dispute settlement, Gary Clyde Hufbauer from the Peterson Institute recalled that compliance with dispute settlement mechanisms was essential for guaranteeing the credibility of the system and that it had generally been good. However, whenever international obligations were not directly linked to domestic laws, some noncompliance was inevitable. In such cases, developing economies were at a disadvantage because they had limited leverage for taking effective countermeasures. He felt that dispute settlement should be reformed to allow awards of monetary compensation. The resolution panel's 2004 decision in favour of Brazil's complaints about US cotton policies had given legitimacy to the dispute resolution system as a forum in which developing countries could push for and obtain fair treatment by large economies. As for the United States, the Obama administration and the Democrat-controlled US Congress should be more supportive of a solution to cotton subsidies, which remain "subsidies for the wealthy". However, given present priorities – climate change and healthcare reform – US political leaders were unlikely to devote substantial political capital to the cotton issue.

John Baffes from the World Bank referred to the difficulties of West African cotton producers, who faced numerous external challenges, such as developed country subsidies; competition

from India and China and development of biotech cotton; and domestic ones, such as weak competitiveness; inadequate infrastructures; exchange rate disadvantages and high fertilizer prices. A package of solutions combining cuts in trade distorting subsidies, better production quality and more competitive threshers, diversification and more favourable exchange rates (a problem that goes beyond cotton alone) was needed to ensure the sustainability of the industry.

In his speech, Minister Sanou recalled that the cotton industry is vitally important to 15 million people in West and Central Africa and helped to reduce poverty and enhance food security. Even though structural aid played a key role with regard to reform and the sustainability of the cotton industry, it could not be a substitute for a negotiated solution offering equitable trading rules for all actors on the international cotton market. The resolution of an aggressive cotton agreement would not only improve the welfare of millions of people in Africa but would also demonstrate the ability of the multilateral trade system to include its poorest members. The African countries had chosen negotiation rather than litigation to find a solution to their cotton problem. They had made concrete proposals and had obtained an agreement at the Hong Kong Ministerial that could not be reopened. Yet they were still waiting for a response from the US and the EU.

Carol Goodloe from the US Department of Agriculture emphasized that US cotton production had declined sharply over the past two years (by some 40%) as farmers shifted to growing grains for agrofuels. Lifting US apparel quotas in 1995, as agreed upon in the Uruguay Round, had substantially increased competition from Chinese cotton imports. Moreover, the current global recession had reduced demand for apparel, further reducing profits for US cotton producers. Finally, the US believed that the cotton issue should only be addressed once an overall agreement on general modalities had been reached.

A panel discussion subsequently brought together several other keynote speakers. Mark Lange from the National Cotton Council of America highlighted important factors affecting the cotton market besides subsidies: increasing competition from emerging countries as well as protectionism in China and India which undermined global cotton prices. Given those forces, gaining access to the cotton and textile markets in those countries was a main challenge as far as the Doha negotiations were concerned.

Elena Bryan, Deputy Assistant USTR, outlined the efforts of the US government to help Africa's cotton industry, especially through the West African Cotton Improvement Program and the Millennium Challenge Corporation. Nadjindar Tildjebaye of CotonTchad highlighted the social aspect of cotton production in African countries. Cotton improved the standard of

living for small farmers by improving access to basic needs and schooling. Cotton cultivation had also increased the overall productivity of the agricultural sector, helping to boost food security through crop rotation. However, the sector was hard hit by the crisis, and declining prices were leading to rural–urban migration and the impoverishment of the cotton-growing areas.

In the discussions that followed (some 100 persons were in attendance), emphasis was placed on the following points:

- With regard to the dispute settlement system, what mattered was compliance, not compensation;
- Although other countries are also subsidizing their cotton production, in terms of volume, the US remained the biggest cotton subsidizer;
- While recognizing the need for aid programs, the African countries want to rely less on aid and more on trade;
- The C4 Initiative is based on trade and not on aid; however, US responses were mostly concentrated on aid.

Bilateral meetings with Congress

The C4 took advantage of the visit to Washington D.C. to start a dialogue with US lawmakers. The delegation met with Colin Peterson, a Democrat Representative from Minnesota and Chair of the House Committee on Agriculture, a staunch supporter of the Farm Bill and agricultural subsidies. The C4 also discussed with Donald Payne, a Democrat Representative from New Jersey and Chair of the Subcommittee on Africa and Global Health of the House Committee on Foreign Affairs. The constructive and stimulating discussions gave the C4 Ministers an opportunity to make those key actors aware of the consequences of the wealthy countries' cotton support on their economies.

Press conference

The C4 countries held a press conference at the National Press Club. The C4 Coordinator, Minister Sanou, recalled the main elements also mentioned at the conference held at the Carnegie Endowment. The C4 had not appreciated the fact that, even though it had lasted 10 days, the July 2008 WTO Ministerial had not taken up the cotton issue. It stressed once again the need to respect the Hong Kong agreement that cotton should be treated “ambitiously, expeditiously and specifically”, reaffirming the determination of the C4 to obtain a solution in line with this commitment made by all WTO members. Minister Sanou also confirmed that a hearing had been scheduled in Nairobi in early August with Ron Kirk. That meeting had indeed taken place and the C4 had been able to express its views and

expectations to the new USTR. Notwithstanding, the press had quoted Ron Kirk as saying that he found it unfair that the conclusion of the negotiations was tied to the subsidies issue and that one product from a sole country had been singled out for criticism².

Conclusion

The C4 mission to Washington D.C. provided proof of these countries' determination to find a solution in a spirit of dialogue and cooperation. It also showed that the US is not yet prepared to tackle the issue head on, as it hides behind arguments which do not justify the continuation of trade-distorting subsidies. Moreover, cuts in US production should give the administration some breathing space to find a solution that is acceptable both at home and abroad. Even though it is not devoted to negotiation, the next WTO Ministerial, due to take place in Geneva in late November or early December, represents a key opportunity to take stock of the negotiations, evaluate what remains to be done and (finally?) consider ways of wrapping up the Doha Round within a reasonable timeframe. Clearly, cotton is an important step along the way. It is not yet clear whether Member States are prepared to make it an integral part of efforts to find a solution that would embody the Development dimension of the Doha Round. If cotton falls by the wayside, there will be a high price to pay, not just for Africa but for the system itself. In the meanwhile, the many international, regional and multilateral meetings scheduled from early September will provide an opportunity to recall commitments and promises. And the arbitration panel on the retaliatory measures that Brazil will be authorized to impose on the Americans is expected to rule by the end of August...

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² Reuters, 6 August 2009.