
COTTON UPDATE – 3 March 2011

Cotton: Where will the solution come from? Geneva, Washington or Brussels?

Introduction

Should one be blasé about the umpteenth deadline announced for wrapping up the Doha Round? The Round will – unfortunately – celebrate its tenth anniversary this year. The intensification of discussions in Geneva from January onwards and the preparation of a timetable with a precise timeline up until the end of the year mark a small change compared to the two previous years, when no one dared set a “negotiating deadline”. This year could turn out to be the right one, not only because of what is happening in Geneva but as a result of the conjunction of several factors which are decisive for the position of the major players: the reforms of the European Union’s Common Agricultural Policy (CAP) and the Farm Bill in the United States could give these two great powers a chance to combine domestic reforms and international commitments, not to mention the salient fact that 2011 is not an election year in the US. Nevertheless, the US has clearly stated that what is on the table in Geneva is not enough to ensure a balanced overall agreement, in particular between NAMA and Agriculture. However, to get more, the US would have to “pay” more. Opening up the American market is not a popular option in America at present, and it is hard to see how a President who is already engaged on several fronts could open up a new field of battle. The situation therefore calls for caution, and optimism must be moderate.

Negotiating status: not intense enough?

The timetable worked out in Geneva is tight and ambitious, to say the least: texts in all fields by Easter (end of April), a complete package in July and negotiations finalized by year’s end. The aim is to significantly reduce the number of square brackets so that the ministers can concentrate on as few questions as possible. The latest statements by Pascal Lamy, at the General Council meeting of 22 February, are unequivocal, even though still tinged with optimism: “a major acceleration at all levels – multilaterally, plurilaterally and bilaterally – is

needed (...) The window of opportunity is still there, but it is narrowing every day.” On a more alarmist note, New Zealand Ambassador David Walker, the Chair of the Negotiating Group on Agriculture, is worried by the fact that “we are losing one day every day.” The Group’s two weeks of intense negotiations in February did not yield the desired results. The outcome of the Room E meetings (in the presence of the leaders of the main coalitions) were considered disappointing, even though interpretations differ: some are for not touching anything for fear of reopening a Pandora’s box, while others think that nothing is cast in stone and that everything can still be revised.

Cotton in the negotiations...

No details concerning cotton have leaked out of the latest meetings of the Negotiating Group on Agriculture. It is time for the parties concerned to come to an agreement on a methodology for calculating the reductions (on the basis on the amount of the Overall Trade Distorting Subsidies) before going any further in the negotiations and to allow ministers, as appropriate, to discuss specific figures within a given range. The current lack of progress, however, does not reflect the clear activism of the African cotton-producing countries, for which “the C4 is the spearhead”, to quote its coordinator, the Ambassador of Burkina Faso, Prosper Vokouma. The C4 and the ACP Group have organized workshops at WTO on the various options to be envisaged for getting the cotton negotiations moving. Special emphasis has been given to studying the advisability, for the African countries, of lodging a dispute settlement complaint against the US. These countries reserve the right to use all of the means provided by WTO to reach a favourable agreement on the cotton question. The ACP Group has reaffirmed its unwavering support for the cause of cotton and reiterated the need for a agreement on cotton in accordance with the Hong Kong mandate as a prerequisite for concluding the Doha Round. The West African Economic and Monetary Union (UEMOA), which is in the process of opening an official representation in Geneva, has also formally supported the initiatives of the African cotton-producing countries and is gearing up to launch a pro-cotton offensive with a plan of action that is not limited to Geneva but rather broadens the horizon of discussions to include Washington and Brussels.

It is understood that the current situation of record cotton prices is not making things easier for the African cotton-producing countries, as the “subsidizing” countries are bound to argue that they are not responsible for the problems of the African cotton-growing sector. That having been said, the present situation does not in any way let these countries off the hook in terms of fulfilling their obligations to WTO. Moreover, specialists agree that this trend will not last beyond the present year and that prices will go back down.

... and in the reforms in the US and the EU

It would be a mistake to say that cotton is a priority on the agenda of agricultural policy reform in Washington and Brussels. Nevertheless, nothing prevents it from becoming a specific item on this agenda, especially in view of the fact that (i) the cotton support systems will not be reformed outside the framework of an overall agricultural reform; and (ii) cotton will be crucial for a solution to the Doha Round, whatever one might think or say.

In the European Union

The EU continues to insist that it is complying with the Hong Kong criteria for dealing with cotton in an ambitious, rapid and specific fashion thanks to its 2004 reform. It also states that its current negotiating position is... non-negotiable, which, admittedly, does not make things easier for the negotiators. Of the € 900 millions that were in the orange box when the Uruguay Round was signed, the EU has transferred 35% to the blue box and has “eliminated” 65% by putting them into the green box. However, in the Doha framework, the EU is supposed to slash its agricultural support by 80%. And if one thinks, according to the Hong Kong mandate, that it is necessary to do more for cotton, things do not add up. Moreover, under the accession treaty for Greece and Spain, the EU is supposed to guarantee the possibility for these countries to produce cotton (that is, via cotton price supports), in order to drive a textile sector that was still operating when the treaties were signed. Today, for example, more than two-thirds of Greece’s cotton production is exported for processing abroad, primarily in Turkey and Egypt. This is indeed a curious state of affairs, where subsidies are used to prop up production meant... for export.

In the United States

Pressure from the budget deficit, which of course also puts a strain on the agriculture budget (1% of the total US budget), does not seem strong enough to induce immediate budget cuts in subsidies. Congressmen say that they want to give priority to introducing possible reforms within the normal framework of discussions on the Farm Bill and in accordance with the timetable (the new version of which is to come out in 2012) and not in an premature, emotional fashion in the context of ongoing discussions on budget cuts. The House of Representatives voted on 18 February against capping agricultural subsidy programmes. The Chair of the House Committee on Agriculture, Republican Frank Lucas, reaffirmed that it would be “wrong to cut subsidy programmes now. It should be done in the context of the 2012 Farm Bill.” In a similar vein, the House also rejected a proposal by Representative Ron Kind – a Democrat who has long supported cuts in price-contingent agricultural subsidies – to phase out the annual payment of USD 147 million to Brazilian cotton growers in exchange for the suspension of cross-retaliation and pending the reform of the Farm Bill. This refusal

shows us that the argument of the budget deficit and the need to cut spending across the board wherever possible – the Republicans’ central plank in the mid-term elections – is not powerful enough to bring about the elimination of a “subsidy” which is, however, recognized as an illustration of the inanity of the system (paying the Brazilians in order to be authorized to pay their own cotton growers). For some Congressmen, voting to end this compensation without renegotiating the agreement with the Brazilians and complying with WTO rules would purely and simply have opened a trade war with Brazil. For others, it is a shame not to take advantage of the present situation with exceptionally high cotton prices to cut price-contingent support. In any event, this decision is proof that there will not be any radical reform of cotton subsidies outside the Farm Bill.

Conclusion

The reform of the CAP and the Farm Bill are linked to the agenda of the Doha negotiations. The offer on the table in Geneva must be compatible with what the EU and the US are preparing to change on the domestic level. The conjunction of this process, combined with a period of high prices on the world market, represents an opportunity and not a constraint for furthering the cause of cotton. The time has come for the African cotton-producing countries to seize this occasion to make their voices heard and to help draft, together with their negotiating partners, a solution that respects current and future multilateral trade rules.

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