
COTTON UPDATE – 17 November 2011

Europe and Africa side by side?

Introduction

The European Union has been severely tested lately. Yet the point here is not to talk of the economic and institutional crisis besetting the Union and more particularly the Eurozone. Despite its difficulties, the EU has always proclaimed its commitment to the developing countries in general and the ACP countries and the LDCs in particular. How can we ensure that these special ties help promote an outcome that benefits these countries, especially the poorest among them, at the next WTO Ministerial? On the international level, we should probably expect an additional gesture by the EU. Internally, this could take the form of better application of the principle of Policy Coherence for Development (PCD), particularly with regard to the future Common Agricultural Policy.

Restoring a tarnished image?

The EU, the world's leading development aid donor (when one adds the Union and Member States together), needs less than others to prove its genuine commitment to the developing countries, which it has demonstrated on many occasions. Today, however, the image of this real and declared solidarity has been tarnished in several respects. The extremely tense negotiations on the Economic Partnership Agreements (EPAs) have hurt the historic partnership between Europe and the ACP countries. Moreover, there are still gaps in the requirements for Policy Coherence for Development, which are now enshrined in the Lisbon Treaty¹, particularly with regard to the impact of agricultural and trade policies on developing countries².

¹ Lisbon Treaty, art. 208 on Development Cooperation: "Union development cooperation policy shall have as its primary objective the reduction and, in the long term, the eradication of poverty. The Union shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries".

² The Third report on PCD is expected at the end of 2011. Concord, the European NGO Confederation for Relief and Development has recently published its own report: *Spotlight on EU Policy Coherence for Development*. The report points out that "the Commission often argues that the CAP's negative impact on developing countries is a

Yet the EU has constantly reaffirmed its commitment to (i) pursuing and completing the Doha negotiations; (ii) making certain policies compatible with WTO rules; and (iii) helping ensure that this process generates specific results which benefit the poorest countries, either at the end of the negotiations or before, provided that this does not preclude a positive outcome for the Round as a whole. Before everyone else and to a much greater extent than the other developed countries or the “developing countries in a position to do so” (according to an expression which is now widely accepted but which maintains a convenient vagueness), the European Union offered the LDCs duty free and quota free access to markets, with the exception of armaments, under the Everything But Arms initiative introduced in 2001. It has also considerably modified its Common Agricultural Policy, shifting the bulk of its amber box subsidies to direct payments which are WTO compliant and a few blue box payments which are authorized yet still trade-distorting (allocated in particular to cotton).

The problem with the EU’s current position in the Doha negotiations is that unlike all the others, who could perhaps still give up too little and in any case too late, it has given too much too early, as it perhaps over-optimistically expected to get back from NAMA and Services what it gave away in advance in Agriculture. As it considers that it can no longer give anything, the EU is finding that partners are much less interested than before in negotiating with it. This in turn has weakened its appeal for the December Ministerial to fix deliverables for the LDCs. We understand that the EU cannot do more in terms of market access for LDCs (even though the question of rules of origin deserves a closer look). This is harder to accept for cotton, especially since we know that, to hope for a step forward, every actor will have to do his bit, no matter how small. However, we could perhaps understand a wait-and-see attitude on the part of the EU, while the other protagonists do their best to avoid moving forward.

Is CAP reform a bit of a “joke”?

Although the comments of the Polish Agriculture Minister on the legislative proposal unveiled by the European Commission on 12 October are probably a bit over the top, there is no gainsaying that the new version of the CAP does not make everyone happy. More conservative than reformist, it more or less maintains the budget volume while prolonging for several more years the imbalances between old and new members. The latter feel that the

thing of the past. Yet, at a closer look, it becomes apparent that the present subsidy system still allows the EU to dump agricultural products on the international market”.

http://www.concordeurope.org/Files/media/0_internetdocumentsENG/4_Publications/3_CONCORDs_positions_and_studies/Positions2011/Spotlight-on-EU-Policy-Coherence-for-Development-2011.pdf

A special attention should be paid on recommendations page 32.

period of adjustment for better geographical allocation of Community funds (14 years as from 2014) is much too long.

Nor is there consensus on the “greening” of the CAP:

- Too little for environmentalists looking for more, who see it as *greenwashing*;
- Illogical for cereal-growers, who feel that Europe cannot both produce more to meet the challenge of food security in the world (a commitment undertaken at the G20) while imposing the practice of fallowing land and generating lower yields;
- Unfair for the new Member States, because although 30% of agricultural subsidies are subject to environmental conditions and the requirements are the same for all, the level of support received varies greatly depending on the country.

As for the impact of the CAP on the developing countries, recent studies³ continue to show that coupled payments have a negative impact on developing countries’ exports and net revenue in some sectors, including cotton. Decoupled payments, even though they are compatible with WTO rules may, if made on a large scale – especially when they are combined with coupled support – curtail European imports (and hence developing countries’ exports) and drive world prices down. Finally, it should be noted that export subsidies have not been phased out in the new legislative proposal, even though the European Union, like all WTO Members, undertook to eliminate them at the Hong Kong Ministerial.

What about cotton in all that?

The coupled cotton support regime⁴ has been renewed according to the legislation which was finally adopted in 2008. In Title IV, a special chapter devoted to coupled payments confirms that the Commission had no intention (or rather, as it would say itself, “no means”) of changing anything that could subsequently be adopted as part of Doha. It is possible to refute the economic argument of the Commission, which maintains that European production is residual and does not count: it produces as much cotton as Burkina Faso, at a cost which makes cotton the most heavily subsidized product in the world per kilo, without counting the environmental cost. It is indeed more difficult to challenge the legal argument arising from Greece’s Protocol of Accession to the EC (and subsequently taken up for Spain, Portugal and Bulgaria), but the time has perhaps come to agree to challenge the Protocol itself. The coupled payments allowing production support in Greece were aimed at keeping a

³ ODI, “CAP reform and development” by N. Cantore, J. Kennan and S. Page, 14 May 2011, <http://www.odi.org.uk/resources/download/5912.pdf>

⁴ Cf. the legislative proposal on direct payments and in particular points 35, 36, 37 + Title IV Coupled payments, Ch 2 Specific payment for cotton. http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/com625/625_en.pdf

processing chain on site. However, it is clear that today, Greece exports the bulk of its raw cotton. Legally speaking, coupled cotton payments are not export subsidies, but there is no getting around the fact that the impact is much the same.

The fact that the new legislative proposal relaxes the system of recoupling direct support under certain conditions for certain products on the basis of national envelopes does not change anything, technically speaking, for cotton. It merely makes common place a situation which appeared to be an exception and was therefore easier to challenge.

Conclusion

The next ACP-EU Joint Parliamentary Assembly, which is due to take place in Lomé from 21 to 23 November, provides an opportunity for European and ACP legislators to discuss together and with Commission representatives the decisive contribution that the European Union could make at the Eighth WTO Ministerial Conference. The discussions in Lomé will probably also include the impact of the future CAP on the developing countries. Given that the European legislative process is entering a new phase of consultations between the Parliament, the Council and the Commission, there is still time to discuss openly.

Regardless of what happens in the Doha Round – and the tenor of the Cannes G20 Declaration is hardly reassuring – the questions posed will in any case remain on the table. It is possible to find a lasting solution that satisfies European cotton producers (via a guarantee that effectively decoupled support will indeed go to cotton growers, who would then be better able to decide what they wish to do) and African cotton-producing countries, while at the same time revitalizing the Doha negotiations on cotton by shifting the balance of power. Perhaps the time has come for the EU and Africa to sit down on the same side of the table...

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