

**Speech by Dr. César Gaviria, Secretary General of the OAS, for the
Inaugural Session of the Joint ICAC-World Bank Conference on
Cotton and Global Trade Negotiations**

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Good morning, ladies and gentlemen.

It is a great pleasure to be with you this morning to participate in the inaugural session of this joint International Cotton Advisory Committee/World Bank conference on cotton and global trade negotiations. Let me begin by saying that this conference is timely. There is little doubt that these are difficult times for the cotton industry: as reported by the International Cotton Advisory Committee, the average cotton price this season is the lowest in history, and production in many countries is declining sharply as a result, depressing the incomes of millions of farmers around the world that depend on this vital cash crop for subsistence. At the same time—and this is the point I would like to stress in my brief intervention today—the international community has at its disposal a valuable tool to reverse this bleak situation, and in the process, help those countries that produce cotton most efficiently to turn cotton production into a key engine of poverty reduction. The tool I am referring to is trade liberalization. The

international community has already laid the groundwork—in the form of the Uruguay Round Agreement on Agriculture—for pursuing trade liberalization in the agricultural sector, thereby addressing the root causes underlying many of the ills that plague today’s cotton industry, including tariff and non-tariff barriers to trade, and more importantly, export and production subsidies.

What is more, the ongoing multilateral trade negotiations that resulted from the fourth WTO ministerial meeting held in Doha in November 2001 offer a unique opportunity to build on the groundwork laid during the Uruguay Round in order to allow countries, particularly developing ones, to reap the full benefits of freer trade in agricultural commodities, including cotton.

The Uruguay Round Agreement on Agriculture broke new ground by applying rules to practices that had never been subject to effective international disciplines. Prior to the Uruguay Round, agricultural products were, for the most part, exempt from the disciplines that applied to manufactured goods. The limited rules that did apply to agricultural products were often ineffective. As a result, countries resorted to a plethora

of trade-impeding measures, including non-tariff barriers and export subsidies.

The Agreement on Agriculture imposed requirements in three areas—market access, domestic support, and export competition—all of which are of crucial importance for crops like cotton, whose production has traditionally been subject to a large variety of trade-distorting policy measures. With respect to market access, the Uruguay Round Agreement on Agriculture required the conversion of all non-tariff barriers to tariffs, as well as the binding of all tariffs on agricultural goods. Existing and new tariffs were to be reduced by an average of 36 percent on an un-weighted basis over a six-year implementation period beginning in 1995, with no tariff cut amounting to less than fifteen percent. The Agreement on Agriculture also required the creation of minimum access import opportunities in those cases where imports had been less than five percent of domestic consumption during the 1986 to 1988 base period. For situations where imports amounted to more than five percent of consumption, countries had to maintain existing access opportunities. Both current and minimum access opportunities were to be afforded through tariff rate quotas, with minimum access quotas rising from

three percent to five percent of domestic consumption during the implementation period.

As regards export subsidies, the Agreement on Agriculture required countries to reduce their volume of subsidized exports by 21 percent over the six-year implementation period, while reducing the value of export subsidies in the same period by 36 percent. The Agreement defined export subsidies in relatively broad terms, even though there were exclusions for bona fide food aid and some other measures.

Finally, in the area of domestic support, countries agreed to categorize, measure, and limit domestic support. Measures presumed to distort trade the most were classified in an “amber box,” capped at the 1986 to 1988 level, and reduced by 20% over the six-year implementation period. Non-trade distorting measures were exempted from reductions in a “green box.” Some amber box payments related to production-control programs were exempted from reduction through a so-called “blue box.”

Looking at the trade policy landscape in the sphere of agriculture seven years after the conclusion of the Uruguay Round might lead us to

conclude—not mistakenly in my view—that the degree to which multilateral rule-making efforts have disciplined domestic policies that distort agricultural production and trade has been very limited. For example, recent estimates indicate that average agricultural tariffs are in the region of 60 percent, compared to industrial tariffs that rarely exceed 10 percent. In addition, it has been noted that tariff profiles have also become more complex, with several different rates applying to the same products. On the export subsidy front, many OECD countries continue to apply large amounts of export subsidies. In fact, subsidized exports account for a large share of world trade for certain agricultural commodities. Finally, domestic subsidies remain high in much of the world. For example from 1996 to 1998, producer subsidy equivalents, as calculated by the OECD, accounted for sixty to seventy percent of gross farm receipts in Japan, Korea, and several non-EU European countries.

Turning to the specific case of cotton, the excellent report by the International Cotton Advisory Committee “Cotton and Global Trade Negotiations” illustrates how the policy landscape affecting the production of and trade in cotton is not dissimilar to that affecting other agricultural commodities. While tariffs on cotton lint have exhibited a declining trend

over the past 40 years, and only two countries were found to provide subsidies to exports of cotton, the report estimates that almost three quarters of world cotton production in 2001/2002 is benefiting from direct income or price support programs, an 18 percent increase with respect to the previous year. In the United States, one of the two countries that was found to provide subsidies to exports of cotton, the Wall Street Journal reports that subsidies to cotton farmers amounted to roughly \$3.4 billion last year.

The picture I have just presented is only half the story, however. It is crucial to emphasize what is now largely the consensus among a large number of trade policy analysts, namely that the Agriculture Agreement's significance lies more in the precedents it established than in the trade gains it directly brought with it. Put differently, the Uruguay Round, by making agriculture conform more closely to rules that have long applied to industrial goods, diminished the degree of what some political economists have called "agricultural exceptionalism." For cotton producers as well as producers of other agricultural commodities, the good news is that this achievement provides a solid basis upon which to deepen agricultural trade liberalization.

Moreover, the launching of a new round of multilateral trade negotiations at the fourth WTO ministerial in Doha in November 2001 provides a golden opportunity for “cashing in” on the achievements made during the Uruguay Round in the area of agriculture. Indeed, the recent decision of the WTO ministers to launch a new round of multilateral trade negotiations has given fresh impetus to the Agriculture Agreement’s built-in agenda. The Doha Ministerial Declaration recognized the progress in negotiations in agriculture mandated by the Uruguay Round Agreement on Agriculture and commits members to comprehensive negotiations aimed at substantial improvements in market access; reductions, with a view to phasing out, of all forms of export subsidies; and substantial reductions in trade-distorting domestic support measures.

Progress on agricultural trade reform along the lines envisaged by the Doha Ministerial Declaration promises efficiency gains that should translate into higher incomes for cotton farmers in many of the world’s poorest countries.

A multilateral approach, which ensures the presence of all players around the negotiating table, appears to afford the best chance to achieve progress in the domain of agriculture, particularly with respect to export and production

subsidies, whose trade-distorting effects are often felt globally. In addition, the broad work program set in motion by the Doha Ministerial Declaration offers a wide range of potential tradeoffs among trading partners.

While there are grounds to be reasonably optimistic about the possibilities for progress in agriculture in the context of the ongoing Doha negotiations, one should not underestimate the difficulties associated with “getting there.” It is important to recognize that while trade liberalization promises aggregate gains, it does not guarantee that everyone will be better off. Within countries, there might be both winners and losers, whereas among countries, there may be some losers, at least in the short term. While such factors do not compromise the case for further trade liberalization, they do pose challenges for policymakers and negotiators from both developed and developing countries. In developed countries, where high levels of protection characterize the agricultural sector, a case could be made for adjustment assistance following trade liberalization. In developing economies, there may also be a need for export capacity building, a diversification away from traditional trading patterns, and improvements in infrastructure and institutions.

To conclude, the window of opportunity for reforming trade in agriculture is in all likelihood larger today than it was after the third WTO ministerial conference in Seattle. Whether it is large enough to allow for another “grand bargain” à la Uruguay Round is difficult to predict, at least at this point in time. What is certain is that WTO members, by making agriculture conform more closely to rules that have long applied to industrial goods, are midway between their point of departure and their final destination. The benefits that will accrue from further trade liberalization in agriculture, particularly to developing countries, make the completion of the journey an absolute priority.