Department of
AGRICULTURE
FISHERIES &
FORESTRY -
AUSTRALIA

Dr Cliff Samson

General Manager
Field Crops
Agriculture, Fisheries and Forestry - Australia

Potential Remedies, the Need for Successful WTO Negotiations

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Introduction

Mr Chair, distinguished guests, ladies and gentlemen.

It is my very great pleasure to attend this conference as a representative of the Australian Government. Following some very topical and interesting sessions, we now come to the fourth session, under the title Potential Remedies, the Need for Successful WTO Negotiations. I would like to speak today on what I regard as the remedy offering the greatest promise as things currently stand – a successful conclusion to negotiations within that multilateral forum.

I would like first, on behalf of the Australian Government and the Australian cotton industry, to thank our conference sponsors, the World Bank and the International Cotton Advisory Committee (ICAC) for making this conference possible. My overriding impression so far is that this conference has strengthened the ideals and resolve behind the Working Group and has provided a firm indication of the vast support for the Working Group’s intentions.

The Australian cotton industry is very supportive of Australia's membership of ICAC and is quite definite in its praise of the work ICAC does in the interests of the world’s cotton producers and consumers. Its level of support and interest reached a new height with the announcement of an agreement at the 60th Plenary meeting in Victoria Falls, to establish the Working Group on Government Measures with the mission of identifying effective strategies to reduce and eventually eliminate the negative effects on trade caused by direct government assistance to cotton production and trade.

ICAC member countries have expressed concern at the distortion of production and trade in cotton by governments – pointing out that subsidies and trade barriers in some countries contribute to price volatility and impact adversely on cotton production in other countries. This is particularly so in the case of subsidies contributing to lower world cotton prices and moving the burden of adjustment of lower prices to fall on producers in countries which have little or no government support.

Australia shares those concerns. Thus, the Australian cotton industry's interest and support in this latest ICAC initiative is not hard to understand. Australia is the largest cotton producer in the Southern Hemisphere and the world's fourth largest exporter of cotton. The Australian cotton industry relies heavily on exports, with around 95 per cent of production sold on the world market. Australia produces a high quality cotton, picked for delivery in the northern hemisphere's off season, with obvious advantages for the northern hemisphere spinning industry. Our cotton industry does not receive distorting Government assistance for either production or trade.

History

Cotton was first grown in Australia in the early days of European settlement, that is around the late 1700's. Initially, after several shaky and unsuccessful starts by the industry, it was granted the payment of Federal Government bounties directed at encouraging cotton production. The ***Raw Cotton Bounty Act 1963***, which provided financial support for five years beginning with the 1964 harvest, was the final instance of direct intervention by an Australian Government in cotton production.

From that time, the industry has largely managed its own affairs and, in the process, has become a real success story in rural and regional Australia. This reflects the Australian Government's philosophy of letting industry get on with the job of running its own affairs. It also suggests that the Australian cotton industry, now a world leader and best practice industry, is confident and mature enough to take charge of its own future.

In the last year of the Government bounties program, the 1968 harvest, total Australian production was around 140 000 bales. Production in 2000-01, under our free market system, was an all-time record 3.54 million bales.

Nowadays the Commonwealth Government’s only contribution to the cotton industry relates to research and development. The Government matches, on a dollar for dollar basis, research expenditure by the Cotton Research and Development Corporation, up to a maximum of 0.5 per cent of the gross value of production. Total industry/Government research grants expenditure in 2000-01 totalled around $A14 million, or $US8 million.

All Australian cotton is marketed under a competitive system and the industry has prospered with higher average returns than most other agricultural industries. The Australian cotton industry has achieved this by embracing advanced production technologies, economies of scale and by developing sophisticated risk management and marketing techniques.

Like cotton, all other Australian agricultural industries have a very strong interest in a fair and open international trading environment.

And for my own part, I can assure you that the Australian Government's key focus in the WTO negotiations is to maximise outcomes for Australia across all industries, but in particular agriculture. Agriculture will continue to be of central importance for Australia – our objectives are to achieve better market access, the phasing out of export subsidies and substantial reductions in trade distorting domestic support.

Prior to 1995, GATT rules were largely ineffective in disciplining agricultural trade. Export and domestic subsidies came to dominate many areas of world agricultural trade, and disciplines on import restrictions were often flouted. The 1986–1994 Uruguay Round was a good start in putting agriculture on the agenda. However, the progress of agricultural reform has been disappointing and more work needs to be done.

The WTO Agriculture Agreement, combined with commitments by individual countries to reduce export subsidies, domestic support and improve market access for agricultural products are a significant first step towards reforming agricultural trade. We must not let that first step falter.

Doha Development Agenda

As you would be aware, last November, the fourth WTO Ministerial Conference was held in Doha, Qatar. The 144 member nations of the World Trade Organisation issued a Declaration on 14 November 2001, agreeing to launch a new round of trade negotiations on a range of subjects, including the negotiations already underway in agriculture.

The Declaration builds on the work already undertaken in the agriculture negotiations which had commenced in March 2000 by confirming and defining objectives and setting out a timetable. Agriculture is clearly now part of a single undertaking whereby all linked negotiations are to conclude by 1 January 2005. Importantly, the Declaration reconfirms the long-term objective to establish a fair and market-oriented trading system through a program of fundamental reform.

Without prejudging the outcome, member governments committed themselves to comprehensive negotiations aimed at:

- substantial reductions in restrictions on market access;
- reductions of, with a view to phasing out, export subsidies; and
- substantial reductions in production and trade distorting support.

A new element in this round of multilateral trade negotiations will be the increased role to be played by developing countries. This is not only reflected in the name given to the new round, the Doha Development Agenda, but also in the strong commitment in the Ministerial Declaration to enhanced technical cooperation and operationalising special and differential treatment that developing countries were able to secure. This presents a major challenge as developing countries have made it clear that their agreement to progress the negotiating agenda is contingent on delivering an acceptable package on these issues.

We need to ensure that commitments made in the interests of developing countries are delivered. The world should not tolerate a situation where the total amount of subsidies paid in the EU and in countries like the US and Japan are close to the level of the GDP of the entire African continent while at the same time developing country farmers face market access restrictions and an impoverished future. I note that the OECD Total Support Estimate for agriculture for 2001 is put at $US311 billion (or around $US850 million a day), a significant cost to consumers and taxpayers.

Since Doha, however, the objective of promoting global economic development and growth via lowering barriers to trade and protection has suffered an unfortunate set back with the passing of the new US Farm Bill. The Bill is totally at odds with the stance being taken by the US on trade reform and undermines US leadership in the WTO Doha round. To regain lost credibility it is essential that the US takes an active and strong role in the discussions in Geneva and is shown to be willing to offer trading partners concessions across the three pillars of the agriculture agreement.

Australia is also concerned that the European Union (EU) is attempting to include in the agriculture negotiations non-trade and environmental concerns that go beyond the Doha mandate. For example, the EU has encouraged developing countries to seek greater coverage for Geographical Indications relating to a wide range of agricultural products including cotton. We believe that these measures will constitute a new set of non-tariff trade barriers.

Trade

The importance of the cotton industry in world agricultural trade cannot be overstated. Cotton provides income to around one billion farmers in both developed and developing countries. Cotton drives economic growth in some countries and consequently contributes to worldwide food security. There is a feeling among some cotton producing nations, however, that the importance of international raw cotton trade is often overshadowed by negotiations on textiles.

In the May-June issue of “Cotton: Review of the World Situation”, ICAC forecasts international trade in cotton to expand by 100,000 tons to a new record of 6.5 millions tons in 2002/03. Mainland China is forecast to be a net importer in 2002/03. US exports are projected unchanged at a record level of 2.4 million tons, 63% of expected U.S. production and 37% of total world exports.

US ending stocks are projected at 1.4 million tons in 2002/03. Over 500 000 tons are in the Commodity Credit Corporation or CCC loan, which will begin expiring in October this year. These stocks can be redeemed by growers or forfeited to government – either way their volume will put additional pressure on prices as a new crop comes onto the market.

The Farm Security and Rural Investment Act of 2002 became law on 13 May. By providing a government safety net for US farmers, as well as subsidising trade expansion for the US, the new "farm bill" will ensure the US remains a major producer and consumer of cotton until 2007/08.

I was interested to read, while preparing for this Conference, that in 1999, cotton was the second most heavily subsidized US crop after rice, receiving a 13 per cent share of subsidies relative to a 2 per cent share of value. Rice, for comparison, received 5 per cent of subsidies but contributed only 0.7 per cent to the value of US agricultural production.

The increased level of subsidised and protected cotton production and trade bring with it the need for a greater focus on cotton in the WTO agriculture negotiations.

The Working Group on Government Measures puts the international cotton community in a unique position. The international cotton industry has, as a result of its own deliberations, an opportunity now to showcase itself as a leader of trade reform among international trading rural industries by working through WTO member Governments. We need to grasp this opportunity to provide a focus on production and trade reforms in the cotton market.

The Working Group commenced its task by having member countries document the economic harm resulting from distortionary policies. The case built up from this information is then to be used as a platform of fact, to progress negotiations on removing the cause of the harm. We need to apply as much pressure as possible to achieve progress in the context of the WTO trade reform agenda. Given that WTO agreements are normally the product of consensus decisions of its member countries, the cotton industry needs to convince both affected countries and non-affected countries of the potential benefits of removing distortions in the cotton market. Informed and organised agreement on the negative impact of cotton protection will be the first step in moving beyond the information stage to action in removing barriers to trade in cotton.

Naturally, all ICAC member countries should support the Working Group, but each member country cannot be complacent.

There is no doubt that the road ahead will not be an easy one. Even a cursory look at the Doha Declaration indicates that much of the forward agenda is dependent on decisions to be made at the 5th Ministerial scheduled for September 2003 in Mexico. This means, of course, that the pace at which our core interests are addressed remains unknown at this time.

There are many challenges before us, not the least being how we deliver outcomes desired for agriculture in a timely manner.

I can assure you the Australian Government will continue to work through the WTO to substantially reduce trade and production distorting subsidies on agricultural products including cotton. I would urge all member nations of ICAC to fully support this initiative.

Australia, as chair of the Cairns Group with 14 developing country members out of 17 agricultural traders, is well placed to work with developing countries to promote their interests, especially in the area of lowering agricultural trade barriers and distorting agricultural support policies, where many developing countries have ambitious objectives.

Conclusion

In closing, I would like to thank you for inviting me to be part of this Conference. It has served to remind us all of the progressive, focussed nature of the world’s cotton industry. I wish this group every success in bringing pressure to bear on those Governments which are subsidising production and trade at great cost to those countries that believe in a fair and open international trading environment. The end result can only mean a better production and trading environment for cotton and for all agriculture.