



# 66th Plenary Meeting of the INTERNATIONAL COTTON ADVISORY COMMITTEE

## MINUTES FIRST PLENARY SESSION

15:00 hr. Tuesday October 23, 2007  
Mr. Hasan Yalcin in the Chair

The Chair highlighted the importance of multilateral trade negotiations and developments on cotton in the WTO in general and specifically for Turkey, and presented the panel of speakers.

The Chair introduced Mr. Andrei Guitchounts of the ICAC Secretariat to present a report on government measures. Mr. Guitchounts reported that direct government assistance provided by six countries through production programs decreased from \$4.4 billion in 2005/06 to \$3.1 billion in 2006/07 as a consequence of increased market prices in some countries and policy changes in the EU, while direct assistance provided through export programs declined to zero. He said that direct U.S. support to upland cotton production declined from \$3.2 billion in 2005/06 to \$2.2 billion in 2006/07, while U.S. subsidies to Pima declined from \$23 million in 2005/06 close to zero in 2006/07. Mr. Guitchounts noted that average direct assistance in the USA per pound of cotton declined from 35 cents in 2004/05, to 28 cents in 2005/06 and to 22 cents in 2006/07. He estimated that a switch from A Index North Europe to A Index Far East in the calculation of an Adjusted World Price to determine direct assistance to U.S. producers could result in no or little change in actual payments and will depend on the shipping cost differential between the two locations. Mr. Guitchounts reported that changes in the EU Common Agricultural policies implemented in 2006/07 decoupled 65% of payments to cotton producers and resulted in a decline in direct (coupled) payments from an estimated \$900 million in 2005/06 to \$300 million in 2006/07. He said that estimates of the border protection support to cotton producers in China (Mainland) resulting from a quota and a sliding scale import duties system decreased from \$1.9 billion or 14 cents per pound in 2005/06 to \$1.4 billion or 9 cents per pound in 2006/07. Mr. Guitchounts said that a program called the Equalizer Price Paid to Producers (PEPRO) was implemented by Brazil in 2006 and 2007. He noted that the premium paid under the program to producers represents a difference between the guaranteed minimum price and the price the buyer is willing to pay, determined at auctions organized by the government and destined to compensate producers for the weakening U.S. dollar in relation to the Reais. He estimated that \$105 million or 5 cents per pound were paid to producers in 2005/06 and \$309 million or 10 cents per pound in 2006/07. Mr. Guitchounts said that combined subsidies provided by Turkey, Mexico and Columbia in 2006/07 were accounting for 9% of world direct assistance to production.

The Chair introduced Dr. Alejandro Plastina of the ICAC Secretariat to present a report on the Long Run Effects of Eliminating Government Support to Cotton Production. Dr. Plastina reported that there is a broad recognition of distortions to market signals caused by government measures in agriculture and in order to stimulate the quantitative long-run effects of removing government measures coupled to cotton production, on the Cotlook A Index, cotton production, mill use and trade, a traditional log linear equilibrium displacement model was used. He noted that for the purposes of this analysis the world was divided into 6 regions: The United States, the European Union, China (Mainland), Turkey, Latin America and the rest of the world (ROW). Dr. Plastina observed that government support amounts to 50% of per unit revenue in the EU; 26% in the U.S.; 17% in China (Mainland); 15% in Turkey; 10% in Latin America, and 0% in the ROW. He reported that based on research, the most responsive region in cotton production is Latin America, where a 10% increase in effective per unit revenue would result in a 9.5% increase in production in the long run, while similar responsiveness is expected in Turkey and the U.S., but lower responsiveness is expected in the EU, China (Mainland) and the ROW. Mr. Plastina indicated that in terms of mill use the most responsive region is also Latin America, where a 10% increase in effective per unit revenue received by cotton farmers would result in a 3.2% decline in mill use, China (Mainland) is the second most responsive region, followed by Turkey, the U.S., the ROW and the EU. He noted that the share of each region in world production and mill use was also used to simulate the long run results of removing the government support. Mr. Plastina reported that the elimination of the government support would result in a long run increase in the Cotlook A Index of 10%, or 6 cents per pound, world cotton production and mill use would decrease by 2.4%,

production would fall in all regions, except the ROW, where production would actually increase by 3.1%. He said that the greatest declines in production would take place in the EU, the U.S and Turkey, while production in China (Mainland) and Latin America would fall by 1%. Mr. Plastina reported that mill use would fall across all regions, although Latin America would be the most affected region with a 3.3% decline, as a result exports from Latin America and the ROW would increase by 30%, exports from the U.S. would drop by 18%, while imports by the EU would increase by 163%, imports by China (Mainland) would fall by 7.2% and imports by Turkey would increase by 1.2%.

The Chair introduced Mr. Chiedu Osakwe of the WTO to present a report on Cotton and Multilateral Trade Negotiations: Recent Developments. Mr. Osakwe reported that WTO members welcome the development assistance and capacity building initiatives provided by ICAC in support of the implementation of the Doha mandate on the development assistance aspects of cotton. He said that cotton remains one of the core areas to which WTO Members attach importance in the Doha Development Agenda (DDA) and since the last report by the WTO to the ICAC Plenary in Goiania, the negotiations, including the situation in the cotton dossier, have significantly evolved: in March this year, Director-General Pascal Lamy convened a High Level Session on Cotton with useful outcomes; in July, draft modalities in Agriculture were circulated, reflecting essential elements of the trade policy aspects of cotton. He informed that the negotiations on the DDA fully resumed in February this year, after the 2006 suspension, substantive progress is being made, agriculture remains one of the "gateway" issues and any final agreement will be linked to a comparably high level of ambition in Non-Agricultural Market Access (NAMA), and improved quality of offers in Trade and Services, while the immediate objective of WTO members is to achieve a breakthrough on modalities by the end of this year. Mr. Osakwe said that last week's Declaration by the Heads of Government of India, Brazil and South Africa (IBSA), in Tshwane, South Africa, made a positive contribution to these efforts, while the development dimension of the negotiations is of priority importance for all members, the Doha Round is focused on development and the effective introduction of a development dimension to the rules-based multilateral trading system. He indicated that cotton is being addressed on the two tracks of trade policy and development assistance, and WTO members agreed to address the trade policy aspects, ambitiously, expeditiously and specifically within the agriculture negotiations. He noted that members agreed that work shall encompass all trade distorting policies affecting the sector in all three pillars of market access, domestic support and export competition, while on the development assistance aspects, the mandate is for the WTO Secretariat and the development community to work collaboratively for the purpose of effectively directing existing programs. Mr. Osakwe reported that progress has been made on both aspects and the implementation of the mandate on the development assistance aspects is taking place within the institutional framework of the "Director-General's Consultative Framework Mechanism on Cotton". Eight consultations have been held so far, while the 9<sup>th</sup> Round is envisaged for 22 November. He said that the commitments of the development community are reflected in the "Evolving Table on Cotton Development Assistance" divided into three principal parts: Part I contains commitments for cotton-specific development assistance, totaling 97 and including support for national cotton sector strategies; cotton sector reform; financing of ginning factories; rapid instrument testing technologies, etc.; part II contains assistance provided for cotton within the broader framework of agriculture and infrastructure-related development assistance programs totaling 62, trade infrastructure for road transportation; irrigation systems; warehousing; construction and rehabilitation of testing laboratories; support for food security, rural welfare and livelihood programs; market-based instruments for mitigating commodity price and weather risk, etc.; part III contains "available" resources released from the Multilateral Debt Relief Initiative (MDRI), the Poverty Reduction and Growth Facility (PRGF) and the Heavily Indebted Poor Countries Initiative (HIPC), which the beneficiary countries could allocate (either through capital or recurrent expenditures) to the cotton sector on the basis of national development priorities. Mr. Osakwe noted that implementation of the mandate on cotton development assistance remains work in progress and the role and contributions by ICAC have been positively acknowledged by the WTO. He said that ICAC is encouraged to intensify its contributions. Mr. Osakwe informed that the trade aspects of the Cotton Initiative are part of the Single Undertaking in the Doha Round, and progress has been made, although conditional on the conclusion of the Doha Round. He reminded that at the WTO Hong Kong Ministerial Conference in 2005, progress was made on the two pillars of export competition and market access, when Ministers in their Declaration agreed that all forms of export subsidies for cotton would be eliminated by developed countries in 2006; and, developed countries would give duty- and quota-free access for cotton exports from Least Developed Countries from the start of the implementation period for the agreed reform in agriculture. Mr. Osakwe indicated that on the third pillar of domestic support, ministers agreed that trade distorting domestic support for cotton production would be reduced "more ambitiously than for whatever agreed general formula to be implemented, and over a shorter period of time than generally applicable" and a resolution of the outstanding issue of distortions in the domestic support pillar is only possible, therefore, within the context

of the negotiations on agriculture, where there have been three notable developments this year. He said that first, a draft Modalities for Agriculture were circulated on 17 July 2007, by the Chairman of the Committee on Agriculture Special Session (CoA/SS)/Chairman of the Sub-Committee on Cotton (SCC) and regarding cotton, a formula was proposed for the modalities for the reduction of domestic support, the U.S. has rejected the formula and indicated that it could present a counter proposal in the context of how cotton would be treated in the basic framework of overall reductions of domestic support when there is better knowledge of the size of the final agriculture package. Mr. Osakwe reported that the second notable development is the acceptance by the United States to negotiate reductions of Overall Trade Distorting Domestic Support (OTDS) within the ranges indicated by the Chairman in the draft modalities text; i.e. between US\$13 and US\$16.4 billion. He noted that members interpreted this as a signal of flexibility on the part of the U.S., even though specific details are yet to be provided, and U.S. acceptance was conditional on commensurate commitments in market access in agriculture and NAMA. Mr. Osakwe said that the third development was a proposal by the cotton proponents and the African Group on the development assistance aspects of cotton and coherence between the trade and development aspects, for inclusion in the draft agriculture modalities text, and essentially, the proposed draft text on the development assistance aspects of cotton would acknowledge the progress made so far in the Director-General's Table on Cotton Development Assistance. He noted that the proposal also states that implementation shall be in accordance with the mandate for coherence between the trade policy and the development assistance aspects. Mr. Osakwe concluded that the treatment of the cotton dossier is evolving principally along the two tracks of the trade policy and development assistance, on both tracks, progress has been registered, but the resolution of the trade policy issues is linked to the ambitious conclusion of the DDA negotiations, that is why WTO Members stress the necessity for a conclusion of the DDA negotiations as soon as possible. He stated that The WTO Secretariat greatly values information it receives from ICAC on prices, market trends and country-specific situations and welcomes the ICAC's contribution to WTO implementation of the mandate on cotton development assistance, and the decision taken by the Standing Committee at its 482<sup>nd</sup> Session in Washington to "Scale Up Development Assistance", in assisting African countries with the adoption and operation of instrument testing systems. Mr. Osakwe expressed a hope that this 66<sup>th</sup> Plenary Meeting would add its voice and give its support to an ambitious and early conclusion of the DDA negotiations.

The Chair introduced Ms. Aylin Bebekoglu from the Undersecretariat for Foreign Trade of Turkey to present a report on the WTO Negotiations on Cotton: The Turkish Perspective. Ms. Bebekoglu described the history of cotton in the WTO negotiations, starting with March 2000, when cotton was part of the Agricultural negotiations, Cotton Initiative launched in April 2003 and the Doha Development Round. She noted that at the Cancun Ministerial Conference in September 2003 a "Sectorial Initiative in Favor of Cotton" was adopted with the recognition of the importance of cotton and with linkage to the entirety of the sector, but no conclusion was reached. Ms. Bebekoglu indicated that in 2004 a Sub-Committee on Cotton was formed and the cotton initiative was focused on two aspects: development and trade. She referred to the Hong Kong Ministerial Declaration (December 2005), where members agreed on specific provisions on cotton, including elimination of all forms of export subsidies for cotton in 2006 by developed countries; duty and quota free access for cotton exports from least-developed countries; reduction of trade distorting domestic subsidies quickly and ambitiously; and emphasis on development aspects of cotton. Ms. Bebekoglu pointed to the Chairman's Draft Text of July 2007, which reiterated the Hong Kong decisions. She described the significance of cotton for Turkey, which ranks the seventh among the producing countries with 900,000 tons of production, where cotton is a major source of incomes for 100,000 people employed in the sector and accounts for 3.7% of agricultural GDP. Ms. Bebekoglu pointed to major challenges to cotton production, including changes in prices, domestic support measures, high production costs, weather impact and the long-term impact of the elimination of support measures. She said that Turkey is a major consuming country dependent on imports to cover increasing mill use, and cotton is an input for the textile and clothing industries in Turkey in a fully liberalized market, with no quantitative restrictions on exports and imports, duty free access and no export subsidies. Ms. Bebekoglu indicated that textile and clothing industries face adjustment problems in the post quota environment with increasing production costs. She referred to the WTO negotiations and said that in the harmonization proposal the general formula approach falls short of addressing the specific needs of the textile and clothing industries and a "tailored approach" is needed to achieve liberalization and flexibility. Ms. Bebekoglu reported that the harmonization proposal is still on the agenda related to sectorial initiatives, and Turkey contributes to the discussions on solutions within the context of preference erosion and stands for longer implementation periods for a number of textile and clothing products. She concluded that the cotton initiative is an important element of the Doha Round and Turkey's position in the negotiations is not an easy task as there is a need for a balance between agriculture versus textile and clothing industries. The CHAIR thanked Ms. Bebekoglu and asked if there were questions.

The delegate of ARGENTINA asked Dr. Plastina if his calculation could be done for individual countries rather than regions.

Dr. Plastina answered that it is possible to make calculations based on an individual country, and that in written report delegates could find more information on the effects of the elimination of government support in individual regions.

The delegate of ARGENTINA asked the Secretariat to clarify why government measures by China (Mainland) are separated into a different category called border protection and asked if tariffs and quotas are the measures used by the Chinese government. He asked if the government support measures as described in the secretariat report could be called subsidies. He also asked Mr. Osakwe to elaborate on the decision by the WTO panel on the dispute in the case pursued by Brazil against U. S. domestic support measures.

Mr. Osakwe replied that the dispute between Brazil and the USA is under way, the process continues and he cannot comment on it until the resolution is officially announced.

Mr. Guitchounts replied that border protection measures by China (Mainland) are presented in a category separate from direct government support to the cotton production, because these measures do not involve direct government payments to producers, and yes, these measures are based on import quotas and tariffs. He confirmed that measures of direct government support to cotton production are in fact subsidies.

The delegate of ARGENTINA proposed to change the word "support" in the Secretariat report with "subsidies".

The delegate of the USA noted that China (Mainland) was tariffs and quotas, not just direct payments.

The delegate of BRAZIL noted that the dispute between the U.S. and Brazil has been going on for many years and the decision of the panel was that some of the U.S. cotton subsidies were inconsistent with the WTO rules. He said that the U.S. appealed the decision, but the appellant body ruled again in favor of Brazil. Then subsequently Brazil asked for a Compliance Review panel, which recently reconfirmed the panel and the appellant panel's findings. He asked Mr. Osakwe to provide a timetable for the final resolution of the process. He also asked Mr. Guitchounts to explain the so-called subsidy in Brazil, since the payment is linked to the exchange rate and the weak dollar. He asked if it has been taken into account that if the dollar strengthens the "subsidy" would not be paid?

Mr. Osakwe answered that the U.S. is still thinking about an appeal and he could not discuss the specifics of the case, while it is still not resolved.

Mr. Guitchounts answered that only the Brazilian government data on actual payments was used for the report and it is possible that if the dollar strengthens enough the payments could decline to zero and the secretariat will report on these developments.

The delegate of POLAND commented that one of the subjects discussed in the DDA of the WTO is the liberalization of trade of goods covered by NAMA. He stated that Poland is in favor of a horizontal liberalization based on a tariff reduction through a particular formula but does not favor a sectorial liberalization as regards the textile and clothing industry and strongly insists on further negotiations, especially in the crucial matters, and on the abolishment of non-tariff barriers to trade. He said that regarding the non-tariff barriers to trade, Poland strongly supports a common approach towards unifying the origin marking requirements for textiles, apparel and shoes and supports the proposal to introduce an obligation to indicate the fiber content and the importer of the product, as well as the country of origin, but Poland opposes any kind of additional certificates as barriers to trade. He stated that Poland remains committed to a specific, ambitious and expeditious treatment of cotton in the DDA negotiations as well as supports the demands of the African countries for a more equitable trading system.

The delegate of CHAD referred to the secretariat's report on the effects of the elimination of the subsidies, indicating possible increase in production in Africa in case the subsidies are eliminated, as according to the ICAC reports, African cotton is competitive. He stressed the importance of cotton for the African economy and the livelihood of millions of people and that is why the G-4 initiative was introduced. He called on the meeting to adopt

a declaration supporting the WTO negotiations on cotton, similarly to the last year meeting. He asked Mr. Osakwe to comment on the atmosphere of the negotiations on cotton in the WTO.

Mr. Osakwe replied that the atmosphere at the cotton negotiations is good and the process is evolving positively, on both the development and dispute resolution aspects.

The delegate of COLOMBIA commented that subsidies provided to cotton growers in Colombia are fully justified because of a strong revaluation of the domestic currency in the relation to the U.S. dollar. She said that complete explanation and justification of the subsidies are included in the distributed country statement, and called on the secretariat to use the information.

The delegate of the USA commented on the statement by a delegate of Chad, saying that the USA could support a declaration made at the 65<sup>th</sup> Plenary meeting of the ICAC, but could not support the G-4 initiative.

The delegate of ARGENTINA asked to clarify if his proposal to replace a word “support” with “subsidies” in the secretariat report on government measures is accepted.

The Secretary General clarified that the secretariat used the word “support” at the instruction of the Advisory Committee issued in 1998. As he understood the delegate of the USA objected to the use of the term subsidy in regard to tariffs and quotas used by China (Mainland) only, and if there were no other objections, the term subsidies could be used in future reports as a synonym of support.

The Chair made closing remarks, saying that subsidies/government assistance measures are of great importance to a majority, if not all of the ICAC members. He said studies carried out and reports prepared by the secretariat are of strategic importance and should be motivated, continued and supported. He noted that the negotiations at the WTO are of a strategic importance for cotton production and trade, and the cooperation between the WTO and the ICAC should continue and improve. He suggested that the meeting could adopt a declaration, like it did last year, calling for the successful outcome of the cotton negotiations in the WTO.

The Chair adjourned the meeting at 5:00 PM