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**COTTON AND MULTILATERAL TRADE NEGOTIATIONS:  
RECENT DEVELOPMENTS**

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COMMITTEE (ICAC) - FIRST PLENARY SESSION**

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## **I. INTRODUCTION**

1. The last report by the WTO Secretariat to the International Cotton Advisory Committee (ICAC) was at its 65<sup>th</sup> Plenary Meeting, in Goiania, Brazil, in September 2006.

2. The work of ICAC is important and relevant for the WTO in the Doha Development Agenda (DDA). We value the relationship between our two organizations. This relationship is focused on information exchange on developments in the cotton sector, data and technical advice that the ICAC Secretariat shares with the WTO. 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. On the part of the WTO Secretariat, we look forward to further strengthening our relationship with ICAC.

3. Cotton remains one of the core areas to which WTO Members attach importance in the DDA. 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. The outcomes were useful. In July, draft Modalities in Agriculture were circulated. These modalities reflected essential elements of the trade policy aspects of cotton. Overall, the Doha negotiations are at a critical stage. The WTO continues to look forward to the strong policy support of ICAC for an ambitious outcome and early conclusion of the Doha Round. Such an outcome is essential to contribute to growth in the global economy and support the efforts of countries to achieve their development objectives, particularly in low income countries.

## **II. STATUS OF THE DOHA ROUND**

4. Where do we currently stand on the DDA? The negotiations fully resumed in February this year, after the 2006 suspension. The locus of the negotiations is in Geneva, in a bottom-up, fully transparent and inclusive multilateral process. Members are constructively engaged and the intensity is increasing. Substantive progress is being made, but the negotiations are complex and much technical work remains to be done. There are political decisions to be made, and the negotiating pace requires greater acceleration. Agriculture remains one of the "gateway" issues. A breakthrough in agriculture will provide the necessary impetus to accelerate negotiations in other areas, although it is equally clear that 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 in Services. A final agreement will only be based on the Single Undertaking, covering all mandated areas of the negotiations. The immediate objective by WTO Members is to achieve a breakthrough on modalities by the end of this year. In the evolving negotiations, the vast majority of WTO Members considers that the draft modalities texts for agriculture and NAMA (industrial goods) provide a good basis for the negotiations. 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.

5. The Summit Leaders stated that:

"These negotiations are now in a genuine multilateral process, with draft modalities texts for agriculture and industrial goods that provide a good basis for the negotiations".<sup>1</sup>

6. The development dimension of the negotiations is of priority importance for all Members. One of the central considerations at the launch of the DDA was to ensure that the multilateral trading system maintained the process of reform and liberalization of trade policies, so as to ensure that the system played its part in the promotion of recovery, growth and development. In Doha, Ministers acknowledged the major role of international trade in the promotion of economic development and the alleviation of poverty. The Doha Round is focused on development and the effective introduction of a development dimension to the rules-based multilateral trading system.

7. In a recent statement on immediate required action, Director-General Pascal Lamy stressed:

" .... the next two months are crucial. A deal is doable. It is not easy politically, but it is doable. The intensity of negotiation at a high political level is increasing – that is a good sign. But let us be very clear that we must focus on getting the deal done – the time for rhetoric, or for casting blame, is long past. The next two months are all about making compromises to come to a conclusion, nothing less".<sup>2</sup>

### **III. RECENT DEVELOPMENTS ON COTTON**

8. Members of ICAC are already familiar with the background and mandate for cotton in the DDA. Cotton is being addressed on the two tracks of trade policy, and development assistance. Pursuant to the mandate, WTO Members agreed to address the trade policy aspects, ambitiously, expeditiously and specifically within the agriculture negotiations. 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. 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 programmes and mobilizing any additional resources towards the development of economies where cotton is of vital importance. The development assistance track also encourages necessary domestic reforms in the beneficiary countries. Progress has been made on both aspects, although much remains to be done. On the trade policy aspects, significant progress has been made, but this progress remains conditional on the conclusion of the Doha Round. This is why an expeditious conclusion of the Doha Round is vital for all WTO Members and ICAC.

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<sup>1</sup> Summit Declaration by IBSA (India, Brazil and South Africa) at Tshwane, South Africa. The three Leaders agreed that the draft modalities texts for agriculture and NAMA "provide a good basis for negotiations" (paragraph 23).

<sup>2</sup> Director-General Pascal Lamy: "Scaling Up and the Role of IDA", Statement to the Development Committee, Washington, 21 October 2007.

9. A third track exists: the legal track. This track operates autonomously of the DDA mandate. It is based on the case by Brazil against the United States<sup>3</sup> and which is currently under the Article 21.5 Compliance Procedure. The case is still *sub judice*. The dispute settlement option is a right, available to all WTO Members.

A. COTTON – DEVELOPMENT ASSISTANCE ASPECTS

10. In March this year, the Director-General convened a High Level Session on Cotton. The HLS was a stock-taking exercise of the two tracks. It also addressed itself to the mandate for coherence between the trade policy and development assistance aspects. At the HLS also, further information and clarity were sought on domestic cotton sector reforms in the cotton proponent countries.

11. The HLS reaffirmed the 2004 and 2005 mandates on cotton. Participants re-committed themselves to the treatment of cotton ambitiously, expeditiously and specifically. They stressed coherence between the trade policy and the development assistance aspects. Significantly, all participants agreed that there would be no outcome on the Doha Round, without an outcome on cotton.<sup>4</sup> At the same time, participants also understood that there would be no outcome on (the trade policy aspects of) cotton without an overall outcome on the DDA. These positions and the outcomes from the HLS further underlined the significance of cotton.

12. 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; with the last one on 18 June. The 9<sup>th</sup> Round is envisaged for 19 November. In previous rounds of consultations, the objectives of the Director-General were to press for the design of programmes for cotton development assistance, encourage the bilateral and multilateral development communities to mobilize and increase the level of development assistance for cotton, and encourage the recipients to deepen their commitments to domestic cotton sector and wider economic reforms, and accelerate implementation of those reforms.

13. The commitments of the development community are reflected in the "Evolving Table on Cotton Development Assistance". The Table is divided into three principal parts:

- Part I contains commitments for cotton-specific development assistance. These entries currently total 97. They cover a range of programmes, projects and activities. These include: support for national cotton sector strategies, including cotton sector reform; systems for cotton testing, classification and labelling; 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 programmes. These entries currently total 62. Projects which have featured encompass: trade infrastructure for road transportation; irrigation systems; warehousing; construction and rehabilitation of testing laboratories; support for food security, rural welfare and livelihood programmes; market-based instruments for mitigating commodity price and weather risk, etc.

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<sup>3</sup> "United States – Subsidies on Upland Cotton".

<sup>4</sup> TN/AG/SCC/W/7: Director-General's Consultative Framework Mechanism on Cotton. High Level Session on Cotton. "Director-General's Summary Remarks", 16 March 2007.

- 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 expenditure) to the cotton sector on the basis of national development priorities.

14. The Evolving Table has emerged as the principal tool for tracking and monitoring the commitments of the development community. It is the basis of the oversight efforts to bridge the gaps between commitments and disbursements and monitor operational implementation. Eventually, it is envisaged to assist evaluation at different levels.

15. The current efforts by the Director-General are targeted at encouraging the development community to accelerate the pace of operational implementation of their notified commitments and close the gaps that exist between commitments, on the one hand, and disbursements, on the other.

16. Implementation of the mandate on cotton development assistance remains work in progress. The role and contributions by ICAC have been positively acknowledged by the WTO. We encourage ICAC to intensify its contributions.

#### B. COTTON – TRADE POLICY ASPECTS

17. The trade aspects of the Cotton Initiative is part of the Single Undertaking in the Doha Round. Progress has been made, although conditional on the conclusion of the Doha Round.

18. 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,<sup>5</sup> 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.

19. 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". 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.

20. First, draft Modalities for Agriculture<sup>6</sup> 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). Regarding cotton, in paragraph 42 of the draft, the modalities proposed for the reduction of domestic support is the following formula:

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<sup>5</sup> WT/MIN(05)/DEC: paragraph 11.

<sup>6</sup> Job(07)/128: Draft Modalities for Agriculture, Committee on Agriculture, Special Session, 17 July 2007.

$$R_c = R_g + \frac{(100 - R_g) * 100}{3 * R_g}$$

Where:

R<sub>c</sub> refers to specific reduction applicable to cotton as a percentage

R<sub>g</sub> refers to general reduction in AMS as a percentage

21. In this formula, 3 is the correction coefficient introduced to determine the specific rate of AMS reduction for cotton, so as to meet the requirements for *specificity* and *more ambition*.<sup>7</sup> There is no agreement on this proposal currently reflected in the draft modalities. Although the cotton proponents welcomed this draft proposal (which they originated), the United States has rejected this formula for proposed reduction in domestic support for cotton. However, negotiations are underway in the Chairman's Room E process. Members are intensively engaged. The United States has indicated that it would present a counter-proposal, in the context of how cotton would be treated in the basic framework of overall reductions of domestic support and when there is better knowledge of the size of the final agriculture package.

22. 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.<sup>8</sup> This provided a boost to the negotiations in agriculture, with potentially positive implications for cotton. Members interpreted this as a signal of flexibility on the part of the US, even though specific details are yet to be provided, and US' acceptance was conditional on commensurate commitments in market access in agriculture and NAMA.

23. 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. The current draft modalities are exclusively focused on the trade policy aspects. 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, and states that it shall be the basis for further implementation progress. The proposal also states that implementation shall be in accordance with the mandate for coherence between the trade policy and the development assistance aspects.<sup>9</sup>

#### IV. CONCLUSION

24. Cotton is of systemic importance in the Doha negotiations and the multilateral trading system. It has emerged as a test of the development dimension in the negotiations. The negotiations show that beyond the Cotton-4 and 32 other African countries that produce and trade cotton, other countries are affected.<sup>10</sup> The treatment of the cotton dossier is evolving

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<sup>7</sup> This formula is the same as proposed by the Cotton Proponents in TN/AG/GEN/22 and TN/AG/SCC/GEN/6: "Modalities and Disciplines on Cotton in the Agriculture Negotiations", 16 June 2006.

<sup>8</sup> This US position emerged in September in the Room E agriculture negotiating process.

<sup>9</sup> The mandate for coherence on cotton is provided for in paragraph 5 of Annex A on Agriculture in the 1 August 2004 General Council Decision (WT/L/579).

<sup>10</sup> Brazil and Paraguay.

principally along the two tracks of the trade policy and development assistance. On both tracks, progress has been registered. But it is obvious that the resolution of the trade policy issues is linked to the ambitious conclusion of the DDA negotiations. The dispute settlement track functions independently.

25. The C4 continue to underline the imperative of urgency in addressing the trade distortions in the sector because of short-term cotton price volatility, and the associated risks for the viability of the sector in their countries and in other African countries. They have underscored the point that their poverty reduction efforts, survival and food security programmes are linked to the viability of the cotton sector. In relation to this point, WTO Members stress the necessity for a conclusion of the DDA negotiations as soon as possible.

26. The International Cotton Advisory Committee has paramount expertise on cotton. The WTO Secretariat greatly values information it receives from ICAC on prices, market trends and country-specific situations. We welcome ICAC's contribution to WTO implementation of the mandate on cotton development assistance. We welcomed 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 operationalization of instrument testing systems. The WTO Secretariat continues to look forward to strengthening its relationship with ICAC. We 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.