Working Paper III

Government Measures and the World Cotton Industry

Recommendation from the Standing Committee to the 60th Plenary Meeting of the

INTERNATIONAL COTTON ADVISORY COMMITTEE

Victoria Falls, Zimbabwe September 2001

The subject of government measures in cotton has been discussed in the ICAC since the creation of the Committee in 1939. Throughout the 1990s, the Committee drew attention to the impact of government measures that distort production and trade in cotton. A number of countries in the ICAC have noted that trade barriers and subsidies in some countries contribute to price volatility and impact adversely the level of cotton production in other countries. Countries have noted that barriers to trade in cotton and cotton textiles hinder economic development, and a number of countries have expressed the view that subsidies lower world cotton prices and cause the burden of adjustment to lower cotton prices to fall heavily on producers in countries with limited government support.

In the early 1990s, the ICAC looked forward to the successful outcome of the Uruguay Round of GATT multilateral trade negotiations and encouraged member countries to actively support efforts to conclude the discussions on agriculture satisfactorily. In 1994, the ICAC noted that the Uruguay Round Agreement did not meet the expectations of all countries, particularly efficient exporting countries. Nevertheless, it was recognized that the World Trade Organization (WTO) is an effective forum to monitor the Agreement on Agriculture, and member countries were encouraged to observe commitments arising from the Round in order for agriculture to benefit fully from inclusion in the multilateral trading system.

In the late 1990s, after the creation of the WTO, many governments remained concerned that subsidies, particularly production and export subsidies, tariffs and trade barriers distort the world cotton economy. Numerous governments urged the elimination of these practices throughout the whole production, processing and marketing chain. However, governments have noted also that measures affecting the cotton industry often have social purposes or are implemented to encourage good environmental practices or to achieve other beneficial objectives. Therefore, the ICAC recognized that subsidies, tariffs and trade barriers are appropriately addressed in the WTO, and governments expressed the wish that multilateral negotiations in the WTO result in a substantial reduction in measures that distort production and trade. In the 59th Plenary Meeting in Cairns in 2000, the ICAC explicitly asked the WTO to urgently consider the distortions created by subsidies in the cotton market.

Reports by the Secretariat indicate that government measures have an impact on the structure of the world cotton economy. The most recent report by the Secretariat on government measures indicates that the level of direct assistance to production provided by governments amounted to $3.6 billion in 2000/01. According to the Secretariat, 55% of world cotton production is benefiting from direct income or price support programs in 2000/01, and cotton area in countries that provide direct subsidies to growers increased from 11 million hectares in 1998/99 to 11.7 million in 2000/01. In contrast, cotton area in countries that do not provide direct subsidies to growers declined from 22 million hectares in 1998/99 to 20 million in 2000/01.

At the 454th Standing Committee Meeting, some delegates recommended that the Standing Committee develop a statement condemning domestic policies that distort cotton prices and trade. It was further recommended that the statement should urge WTO negotiators to move forward with constructive proposals to reduce trade and production distorting policies, and that the statement be presented to the plenary meeting for discussion, adoption and communication to the broadest possible audience. The Private Sector Advisory Panel echoed these sentiments during a round table discussion with the Standing Committee in June in Washington. The PSAP noted that governments seek to achieve many valid objectives through the use of measures affecting agriculture and that it is not realistic to expect the immediate elimination of all forms of government measures. Therefore, the PSAP suggested that the ICAC focus its efforts on achieving a gradual but steady reduction in those government measures that directly subsidize increased cotton production.

In response to these instructions, the executive director developed a set of resolutions between the 454th and 455th meetings of the Standing Committee that were contained in Attachment III to SC-N-455 for consideration by the Standing Committee at the 455th Meeting. Attachment III contained the following resolution:

The Standing Committee should recommend that the Advisory Committee urge member countries of the ICAC to:

Adopt policies to reduce and eventually eliminate, to the extent possible, the negative effects on trade caused by direct government assistance to cotton production and trade implemented by some countries, and to

Encourage the WTO to urgently consider trade distortions on the world market caused by measures taken by some governments, and to

Advise their WTO negotiators to move forward with constructive proposals to reduce the trade and production distortions caused by policies implemented by some governments.

Delegates of the USA and Spain supported adoption of the resolutions contained in Attachment III. However, delegates from Brazil, Chad, Egypt and Nigeria felt that the language calling for an end to measures that distort trade in cotton should be strengthened. The delegate of Brazil proposed the following:

The Standing Committee should recommend that the Advisory Committee urge member countries of the ICAC to:

Adopt policies to reduce and eventually eliminate the negative effects on trade caused by direct government assistance to cotton production and trade implemented by major exporting countries, and to

Encourage the WTO to urgently consider trade distortions on the world market caused by measures taken by governments of exporting countries, and to

Advise their WTO negotiators to move forward with constructive proposals to reduce the trade and production distortions caused by policies implemented by the governments of countries that export cotton.

The delegate of the USA noted that there are many governmental policies that have negative effects on trade including export controls, price controls, export restrictions and various forms of import restrictions. He noted that trade-distorting measures are not exclusive to exporting countries and that the proposed changes contained in the second set of recommendations fundamentally narrows the scope of the Secretariat paper on government measures. The delegate of Spain said that it is possible to modify policies to reduce their impacts on trade and production without eliminating the policies.

The delegates of Brazil, Chad, Egypt and Nigeria noted that it was inconsistent to call for an elimination of the negative effects of policies without also dealing with the programs and policies that cause the negative effects, and inclusion of the phrase “to the extent possible” would allow countries to continue to implement policies that distort world trade. These delegates said that new programs being developed to support farmers with subsidies that would distort production and trade are a major concern, and that these concerns justify strengthened language in the resolutions.

Because it was not possible to reach consensus, both sets of resolutions are being forwarded to the Advisory Committee for discussion during the 60th Plenary Meeting. Discussion during the Plenary Meeting will be aimed at reaching a consensus on which set of resolutions should be adopted for communication to the broadest possible audience, including the press, member countries and multilateral organizations.