



68th Plenary Meeting of the INTERNATIONAL COTTON ADVISORY COMMITTEE

MINUTES

FIRST PLENARY SESSION

Overcoming Impediments to Progress in Multilateral Trade Negotiations

15:00 hr. Tuesday September 8, 2009

Mr. Chiedu Osakwe, Director, Accessions Division, WTO, in the Chair

The CHAIR invited Andrei Guitchounts, Economist for the Secretariat, to report on government support to the cotton industry.

Mr. Guitchounts reported that subsidies to the cotton industry, including direct support to production, border protection, crop insurance subsidies, minimum support price mechanisms and export subsidies, rose by more than twofold from \$2.7 billion in 2007/08 to an estimated \$5.9 billion in 2008/09. Ten countries provided direct government support in 2008/09, averaging 14 cents per pound, compared with 8 cents per pound in 2007/08. The increase in government support is explained primarily by the significant decline in cotton prices during 2008/09. In addition to direct support to production, declining domestic cotton prices in 2008/09 triggered several types of government interventions aiming to support producers' revenues in a larger number of countries. As a result of decreased international prices, the estimate of government support to cotton production resulting from minimum support price mechanisms and border protection policies rose from \$614 million in 2007/08 to an estimated \$2.1 billion in 2008/09. The level of direct government assistance provided through export programs is estimated to have decreased from \$400 million in 2005/06 to \$30 million in 2007/08, and is estimated at \$26 million in 2008/09. Mr. Guitchounts gave details about government support to the cotton sector for the following countries and regions: the United States, China (Mainland), the European Union, India, Pakistan, Turkey, Brazil, and Mexico. Mr. Guitchounts' report is a statement of the meeting.

The CHAIR thanked Mr. Guitchounts and asked delegates if they had any questions about this report.

The delegate of INDIA noted that the 5% subsidy on cotton exports that was implemented in India during 2008/09 had been withdrawn on June 30, 2009.

The delegate of PAKISTAN asked if the spike in government support to the cotton industry in 2008/09 was related to the global economic downturn. Mr. Guitchounts answered that government support to the cotton sector is inversely correlated with cotton market prices, and he said that the economic recession had greatly weakened demand for cotton leading to lower prices. Thus, the increased support to the cotton industry in 2008/09 was related to the recession.

The delegate of ARGENTINA noted that a significant share of world cotton production was supported in 2008/09. He added that he could understand the support given to the cotton sector in developing countries where food security can be an issue, but not the support given to the cotton sectors of developed countries where food needs are covered.

The CHAIR thanked Mr. Guitchounts and the Secretariat of the ICAC for their report on government support to the cotton industry. The CHAIR expressed, on behalf of himself and the WTO, his appreciation to all the ICAC members and government representatives for making possible this annual discussion on multilateral cotton trade negotiations. He noted that the ICAC has made important

contributions to the Doha Development Agenda (DDA) negotiations on cotton. He said that the purpose of the panel discussion was to brief ICAC Members on a range of issues cutting across the DDA, through a Question and Answer process with panelists. The panel discussions would focus on progress in the Doha Round; the trade policy and development assistance aspects of the cotton initiative; South-South Cooperation for Cotton Sector Development; domestic cotton sector reforms; the effects of the global financial and economic crisis on the cotton sector; and, finally, the efforts of Director-General Pascal Lamy to bring about progress on the cotton dossier in his Consultative Framework Mechanism on Cotton (DGCFMC).

The CHAIR introduced the members of the panel: H.E. Prosper Vokouma, Ambassadeur Extraordinaire et Plénipotentiaire, Représentant Permanent, Mission Permanente du Bénin auprès des Nations Unis, representing the C4 GROUP; Mrs. Anna Saarela, Directorate General Agriculture, European Commission, representing the EUROPEAN COMMISSION; Dr. J.N. Singh, Joint Secretary, Ministry of Textiles, Government of India, representing INDIA; Mr. Thabo Chauke, Director – Multilateral Organizations, Trade Policy & Negotiations Unit, Department of Trade & Industry, Government of South Africa; and Mr. Patrick Packnett, Assistant Deputy Administrator, Foreign Agricultural Service, United States Department of Agriculture. The Chair stressed that the Members, which these panelists represented had made vital and positive contributions to the launch and continuing evolution of the Doha Round, including the cotton dossier.

The CHAIR noted that cotton reflected two developments at the WTO: 1) all WTO members agree that cotton has become the test of the development content of the Doha Round; and 2) cotton has become an example of international cooperation within the WTO negotiations, reflecting both progress and challenges to be further addressed. (Cotton had been introduced two years after the launch of the DDA, but all members agreed to the adjustment of the agenda to include the Sectoral Initiative on Cotton (SIC). Progress had been made, but there were still outstanding issues to be addressed in the context of the broader negotiations in agriculture and the overall Doha Round. He expressed his appreciation to ICAC members and the ICAC Secretariat for their support in the past four years.

The CHAIR invited Ambassador Vokouma to present the views and positions of the C4 group on progress in the DDA and the efforts of the C4 group in this regard. Ambassador Vokouma explained that the four countries included in the C4 group (Benin, Burkina Faso, Chad and Mali), which are amongst the poorest, have a stake on the cotton issue within the DDA and the task of working towards a successful conclusion of the negotiations on cotton and the DDA. He said that the C4 group was currently working with Brazil, the European Union and the United States (known as the Cotton Quad) at the WTO in order to find a solution within the talks on agriculture. Currently only one proposition for cotton, prepared by the C4 group, has been offered. The proposed formula is related only to domestic support to cotton production, and would ensure that the reductions in domestic support will be higher for cotton than the reductions agreed within the overall agricultural framework. An implementation period of six years is suggested for developed countries. He added that all the efforts of the C4 group are now targeted against support to cotton production provided in the United States and the European Union. In addition to multilateral negotiations, the C4 group has started bilateral discussions with the United States and they will also start talks with India and China.

The CHAIR thanked Ambassador Vokouma and invited Dr. Singh to give a report on the recent WTO meeting that took place in New Delhi on September 3-4, 2009. Dr. Singh explained that during the mini-Ministerial meeting, 35 WTO members agreed to conclude DDA negotiations by 2010. In addition they asked senior officials to meet in Geneva within 10 days to start preparing these negotiations. Dr. Singh noted that the ICAC should also reaffirm its support, as it had done in previous years, for a successful, ambitious and balanced conclusion of the Doha Round in 2010.

The CHAIR thanked Dr. Singh and invited Mr. Packnett to present US positions on current efforts to conclude the Doha Round. Mr. Packnett explained that the United States was committed to a successful and rapid completion of the DDA, for cotton as well as for other commodities. He noted that cotton was being addressed at the WTO along two tracks, trade and development, and he noted that development aid is being provided by WTO members to C4 countries.

The CHAIR thanked Mr. Packnett and invited Ms. Saarela to comment on the position of the EU. She thanked the ICAC for giving her an opportunity to present the views of the EC on the Doha Round and on the cotton issue, in particular. She noted that as India and Burkina Faso have already mentioned the DDA process has been re-energized in New Delhi in the previous week, the objective being to finalize the Round by 2010. She explained that in accordance with the reform implemented in the cotton sector since 2006, the EU had already moved away from its most trade-distorting support to cotton, in line with the overall reform of the Common Agricultural Policy (CAP). In particular, the reform implemented in the cotton sector since had eliminated distorting subsidies. She noted that the EU position had been bold and ambitious in DDA commitments: cotton imports into the EU are already duty and quota free; there are no cotton export subsidies, and domestic cotton support, the most trade-distorting subsidies to cotton production, have already been fully eliminated. She said that the EU believed that what it had already implemented respects the Hong Kong mandate regarding cotton (for an ambitious, expeditious and specific outcome). As far as the EU is concerned:

- concessions made by the EU on cotton are indeed specific;
- more ambitious than for other commodities, as the EU has already eliminated its most trade-distorting subsidies for cotton, (in addition, there are no duty and no export subsidies on cotton); and
- EU concessions are certainly expeditious: in that sense they go even further than the Hong Kong mandate, as they have already been implemented.

The EU will continue supporting a "specific, ambitious and expeditious" outcome for cotton in the Doha Round, and invites key developed countries to engage themselves on the way towards reform.

The CHAIR thanked Ms. Saarela and called on Mr. Thabo Chauke to give a broad overview of South Africa's position on the DDA and cotton. Mr. Chauke said that South Africa continued to play a constructive role in the DDA negotiations and supported a successful conclusion of the DDA. He noted that such a successful conclusion of the DDA could help countries emerge from the current economic crisis. He added that rhetorical support for a successful conclusion of the DDA was good, but that work still needed to be done in Geneva in order to achieve this outcome.

The CHAIR thanked Mr. Chauke and stressed two points: 1) all the calls coming from different groups, including the ICAC, are important in maintaining the positive momentum in the DDA, and 2) the conclusion of the DDA would make an important contribution to global economic recovery.

Continuing with the Panel discussions, the Chair noted that the trade policy aspects of cotton were being addressed within the framework of the agricultural negotiations on the basis of the three pillars of the negotiations namely: market access, export subsidies, and domestic support. He asked the panelists what progress had been made on cotton on these three pillars.

Ambassador Vokouma repeated that the C4 was working within the Cotton Quad on the cotton trade issue, that the C4 had made a proposition regarding a reduction in cotton domestic support and was waiting for answers to that proposal, and that the recent conclusions from the WTO meeting in New Delhi provided grounds for optimism.

Mr. Packnett said that the US position on cotton in the DDA was best addressed within the overall

agricultural negotiations on the three pillars.

Dr. Singh said that India was working with Brazil, South Africa and other countries so that an ambitious, expeditious and specific outcome was achieved for cotton within the DDA.

The CHAIR thanked the panelists. He provided additional information regarding the Trade Policy Aspects of the cotton negotiations: the mandate of the WTO provided for the negotiations on the trade policy aspects of cotton within the overall agricultural negotiations, and on the basis of the three pillars. Regarding export subsidies, there was an agreement during the Hong Kong Ministerial in 2005 to end these subsidies, and WTO members reaffirmed this decision in the December 2008 draft modalities texts. On market access, in 2005 at the Hong Kong Ministerial Declaration, WTO Members agreed to duty and quota-free market access for cotton products from all Least Developed Countries (LDC). This was also reflected in the December 2008 draft modalities text. At the New Delhi Mini-Ministerial, participating WTO Members had agreed to continue to build on the progress as reflected in the 2008 draft modalities text. He stressed the fact that WTO members work on the basis of compromise and consensus, and not majority rule. He explained that the Cotton Quad was an informal grouping of countries working on the Cotton Dossier and that progress has been made albeit not as fast as would be desirable.

The CHAIR turned to the Development Assistance Aspect of the Cotton Dossier and invited Ambassador Vokouma to speak about the progress and challenges involved. Ambassador Vokouma reported that developing countries have benefited substantially from development assistance provided under the auspices of the DDA, and he noted that Brazil, China and India are providing significant assistance to African producers within the framework of South-South cooperation.

The CHAIR invited Ms. Saarela and Mr. Packnett to talk about the EU and US programs for development assistance to cotton producing countries. Ms. Saarela explained that cotton development assistance provided by the EU to African countries including the C4 countries, was guided by the EU-Africa Partnership on Cotton. She said that the total budget exceeded 300 million euros since 2004, of which half was contributed by the EC budget and half by EU member countries. In addition, the EU adopted an additional budget of 1 billion euros in 2008 (Food Facility) to improve food security in Africa, to be spent over three years.

Mr. Packnett said that the US public and private sectors worked closely with West and Central African countries to design the West African Cotton Improvement Program (WACIP). WACIP is overall an approximately \$28 million program, some \$19.6 million of which is aimed directly at the C4. WACIP is a program that invests specifically in cotton. WACIP is in addition to the normal development assistance provided by the US, and is in addition to the Millennium Challenge program.

The CHAIR asked if delegates had comments.

The delegate of ARGENTINA read three paragraphs of his report, which is a document of the meeting. He noted that because there is flexibility regarding direct payments from the green box, it seems that reductions in cotton subsidies from the Amber Box that might be decided in the DDA could be offset by increases in subsidies under green box programs, and therefore there might not be concrete benefits for the cotton sector. He added that Argentina is willing to work to achieve an ambitious outcome to the cotton issue in the DDA. He reiterated the need that WTO negotiations achieve a result that is in agreement with the objectives, in particular for cotton, in order to improve competitiveness in the cotton market.

The Delegate of POLAND noted that the results of the WTO meeting in India last week were very

encouraging and that they were looking forward to concrete actions. He hoped that cotton would be included in the coming Ministerial meeting discussions, and that an understanding of how to treat cotton in this future meeting was needed. He said that Poland supported a positive resolution for cotton at the DDA, and deplored the government subsidies and the current difficult situation in the global cotton market. He expressed the hope that a satisfactory solution would be found not only for cotton but for all commodities, and not only for the agricultural sector but for all the sectors involved.

The CHAIR explained that following the recent WTO meeting in New Delhi, Chief Negotiators and Senior Officials would start working in Geneva on September 14. He said that a Ministerial Conference was planned for November 30-December 2, 2009 but that there were still consultations on the specific agenda of that meeting. WTO members agreed that this meeting would focus on the broad theme of the Global Economy and Strengthening the Multilateral Trading System. He added that at the New Delhi Mini-Ministerial, participants had converged on the position that development would remain central to the Doha Round.

The delegate of CHINA (TAIWAN) suggested that including cotton in the multilateral trade negotiations had perhaps complicated the issue for the C4. He asked the C4 group if they regretted bringing the cotton initiative to the WTO and whether they believed that the 2010 deadline could be met in light of the numerous missed deadlines in the past six years. He asked if they were considering other ways to achieve a reduction in cotton subsidies.

Ambassador Vokouma said that the C4 group would fight for a successful outcome to the cotton issue, even if there were from time to time periods of uncertainty and missed deadlines. He added that the C4 countries and other African countries producing cotton did not have a choice in this regard because of the importance of cotton to their national economies and the vital importance of maintaining the integrity of multilaterally agreed rules. He said that they were only asking for the implementation of trade rules, not more aid. Nevertheless, the C4 group had several bilateral discussions with countries. He concluded by saying that the C4 countries believed that all the WTO members were negotiating in good faith, and their hope and objective were to obtain necessary concessions on cotton in the DDA in accordance with WTO rules.

The delegate of NIGERIA recognized the size of the cotton development assistance budget provided by the EU. He asked how the EU developed their cotton development assistance budget of 300 million euros. Was this budget considered adequate? Was the impact of this assistance measured and evaluated in the receiving countries? Were any additional interventions under consideration, in the event the current assistance budget did not prove sufficient?

The delegate of TURKEY also appreciated the amount of the cotton development assistance budget provided by the EU. He said this support appeared very timely, given the difficulties faced by the cotton sectors in Africa. He asked how the EU assistance was distributed amongst countries.

Ms Saarela said that the EU has been playing and will continue to play an active role on cotton in the framework of the Doha Round. It has been particularly supportive of the trade interests of developing countries. This is reflected in the EU's cotton related development assistance that remains guided by the EU-Africa Partnership on Cotton agreed in 2004. The total value of support mobilized since 2004 exceeds €300 million for cotton programs and projects.

This has been a substantial and major source of support that can be used in mitigating negative effects of the fall in cotton prices in the countries concerned. Europe's contribution is by far the most important contribution to cotton by any development partner. Regarding the EU-Africa Partnership on Cotton, the assessment is based on partnership, i.e. working together with beneficiaries. The EU does not impose

the actions; rather, the scope of actions is based on the agreed upon Action Plan. The joint Action Plan of the EU-Africa Cotton Partnership includes actions in seven fields.

The EC has limited budgetary resources, which are programmed multi-annually, so there is not much room for additional financing initiatives. Project financing is based on assessment criteria applied to all proposals in transparent and equal terms. There is a close monitoring process of all financing projects, the latest report regarding the EU-Africa Partnership on cotton being concluded on May 2009. This information is also made available to the public on the website (www.coton-acp.org).

In addition, it should be noted that the EU places food security and appropriate responses to the global economic crisis high on its development agenda, as exemplified by the approval of the €1 billion Food Facility in December 2008. This additional assistance (covering a three year period) was agreed and committed expeditiously in order to address the matter in a timely fashion.

Mr. Chauke noted that the cotton issue would test the DDA. He said one of the major positive things coming from the Cotton Initiative was to bring attention to WTO members of the injustice still existing in the cotton market. He noted that nothing prevented WTO members from reducing or eliminating their cotton subsidies before the DDA was concluded.

The CHAIR invited Dr. Singh to comment on South-South Cooperation for Cotton Sector Development, an initiative by Brazil, China and India.

Dr. Singh described the initiatives taken by India to cooperate with African countries on cotton matters: 1) in a spirit of South-South cooperation, India eliminated the import duties on cotton; 2) there were many private initiatives from Indian companies, in particular regarding organic cotton grown in the C4 countries and imported by India; and 3) India received many delegations from African Countries.

Ambassador Vokouma noted that it was not only the C4 countries but all African cotton producing countries that needed support. He said that potential cooperation with India was discussed in Addis Ababa earlier this year and that maybe more would come from this. He said that a project between Brazil and the C4 countries had already been implemented in Mali. He concluded by saying that all these cooperation projects were very important, while waiting for a conclusion of the DDA.

The delegate from MALI noted that they had benefited from assistance programs from the EU and the US since 2003, but that their main wish was that a successful outcome to the cotton issue happens in the DDA. He acknowledged the support provided by Brazil on the platform of South-South Cooperation for Cotton Sector Development.

The delegate from ZIMBABWE asked Dr. Singh to provide details on the breakdown of participating countries at the New Delhi meeting. He noted that it would be tragic if development assistance was seen as a substitute for a resolution of the DDA. He also said that because the institutions providing development assistance to cotton producing countries have their own cost structure within these countries, he is unsure how much help the cotton farmers obtain in the end.

Dr. Singh said that there was a very broad representation from all regions of the world at the New Delhi WTO meeting.

Ambassador Vokouma added that the mini-ministerial meeting in New Delhi gathered all the principal trading powers and trade groupings in the Doha Round, such as the C4, LDCs, ACP, GRULAC, ASEAN, NAMA 11, etc.

The CHAIR summarized the issues emerging from the discussion

- 1) ICAC has played an essential and positive role to support a balanced outcome and successful conclusion to the Doha Round, including on the Cotton Dossier. It would be useful for ICAC to continue to provide this support until the conclusion of the Doha Round.
- 2) As the international organization with primary responsibility for cotton, the assistance provided by ICAC and its Secretariat were contributing to the implementation of various aspects of the Doha Round mandate on cotton, particularly through the provision of data and implementation of projects on cotton development assistance in the Director-General's Consultative Framework Mechanism on Cotton (DGCFMC).
- 3) Cotton had become a test of the development dimension of the Doha Round. The Doha Round could not be completed without a resolution of the cotton issue. Yet it was clear that a satisfactory resolution of the cotton dossier could only take place within the framework of balanced and successful conclusion of the Doha Round.
- 4) The ambitious and balanced conclusion of the DDA would provide a strong contribution to global economic recovery and growth, including the growth of the cotton sector. It is impossible to conceive of sectors that would thrive in isolation, in the broader context of crisis and recession in the global economy. A robust, prosperous and growing global economy was a necessary condition for individual sectors, such as cotton, to thrive and prosper. The ICAC and other contributors also had a stake in the ambitious and expeditious conclusion of the DDA in 2010.
- 5) It was stressed that there was no attempt to substitute or override the trade policy aspects of cotton with the development assistance aspects. WTO Members had agreed and were fully committed to the implementation of a 2-track mandate and to coherence between the two aspects. It was on this basis that Director-General Pascal Lamy periodically presented reports to WTO Members and would provide a Third Periodic Report as mandated to WTO Ministers at the 7th WTO Ministerial Conference this year. The 2-track treatment was exceptional in WTO negotiations. Members had been creative.
- 6) Brazil, India and China were making important contributions to development assistance for cotton on the basis of South-South Cooperation. .
- 7) The WTO welcomed the annual opportunity to engage with ICAC Members and its Secretariat, under the leadership of Mr. Terry Townsend, the Executive Secretary.

The CHAIR thanked the ICAC and all members of the Panel for this discussion.

The CHAIR adjourned the meeting at 5:45 pm.