How to Re-invigorate the Cotton Issue at the WTO: Gin Ideas, Spin Proposals, Weave Solutions and Avoid Stocks

By Nicolas Imboden

1. The Bali Ministerial Decisions and the cotton issue

The Bali Ministerial Conference has largely been hailed as the revival of the Doha Round and multilateralism. The fact that the international community was able to agree unanimously on new commitments was supposed to revitalize the Doha negotiations. The results of Bali[1] are, however, small compared to the task ahead for the Doha Round and can be summarized in the following way:

- The Trade Facilitation Agreement (TFA) is clearly the cornerstone of the decisions taken by the Ministers. The TFA is not only important as it benefits all Members of the WTO, especially the least developed countries (LDCs), but also because it is an example of how different situations should be dealt with in a globalized world: everybody has to subscribe to global best practices, but developing countries, in particular LDCs, are allowed to implement those obligations according to their development priorities and institutional capacity and – if needed – are entitled to technical assistance and financial support to help implement their commitments;
- An interim solution was found in the field of public stockholding for food security purposes, with a commitment to setting up a permanent solution to these issues within a fixed time frame;
- A decision was also taken with regards to the administration of tariff-rate quotas and the establishment of a Monitoring Mechanism for special and differential treatment provisions;
- A number of best-endeavour decisions concerning export subsidies, development issues and special measures for LDCs were also taken (on cotton, duty-free quota-free market access, preferential rules of origin and the operationalization of the services waiver).

Finally, a mandate was given by the Ministers to their representatives in Geneva to create a work programme on the remaining Doha issues for the end of 2014 in order to conclude the Round in a reasonable amount of time. The Bali Ministerial Conference has not allowed progress to be made on the issue of cotton, despite the commitment taken in Hong Kong to treat cotton "ambitiously, expeditiously and specifically". The Bali Ministerial Decision essentially repeats previous decisions and requests to enhance the transparency and monitoring of the trade-related aspects of cotton.

1 WTO 2013

2. Back in Geneva

The euphoria about the success of Bali quickly gave room to the customary "bickering" and posturing among the negotiating groups. The fact that the major powers are fully engaged in so-called mega-deals (TPP, TTIP) and in plurilaterals (TISA, ITA, etc.) has not helped create a positive and inclusive environment for in the WTO.

Since Bali, strong emphasis has been placed on ensuring the speedy and credible implementation of the TFA. Best-endeavour-based Decisions on LDC issues have been somewhat sidetracked. The concerns of poorer countries that the Doha Round's development content is being changed seem justified. This frustration, however, should not lead to a negative attitude towards the Doha Round. Poorer countries would be better advised to make proactive proposals to force WTO Members to address their issues and to re-invigorate the multilateral negotiations. Maintaining or reviving the inclusive multilateral system as represented by the WTO is the best defence these countries can use against discrimination caused by regional and global integration schemes or exclusive plurilaterals.

Cotton is an ideal topic for embracing proactive and positive approach to the negotiations. Indeed, all WTO Members recognize the real economic interest of this topic for many poorer countries and the fact that the international framework conditions do not support the development of their cotton sector – one of the only means available (at least in the short-term) to allow poor farmers in developing countries to escape abject poverty. Both moral and economic arguments favour a solution to this problem. However, any attempt to bring cotton back to the forefront of the negotiations will have to take into account the new realities, both in the international cotton market and in the negotiation process.[2] Going back to the old ways will simply not yield any substantial results.

3. Changes in the international environment that call for a new approach

While the Bali Ministerial Decision on cotton[3] reaffirms that the "Decision adopted by the General Council on 1 August 2004 and the Hong Kong Ministerial Declaration remain a useful basis for our future work", it has to be acknowledged that, since then, no progress has been made at all (except for aid). On the contrary, while it was clear for a long time that there would be no Doha deal without a solution to the cotton case, today cotton has been relegated to one of the numerous unresolved difficult issues.

To re-invigorate the issue, a new approach is needed. Indeed, the tremendous evolutions in the world cotton market[4] are objective reasons to change the approach while maintaining the objectives of the C-4[5] initiative:

- The international cotton market has changed since the initiative was launched. Cotton prices have more than doubled and are expected to remain at relatively acceptable levels in the future;

2 This article was written before the recent US-Brazil agreement on cotton (see Bridges Weekly, vol. 18, no. 32, 2 October 2014)

3 WTO 2013a

4 For a Global analysis, see for instance ICTSD 2013.

5 Cotton-4 countries: Benin, Burkina Faso, Chad and Mali. Initiative launched in 2003.

- Actors on the international cotton market have dramatically changed: India, which was a net importer of raw cotton in 2002, is now the second larger exporter in the world; China has consolidated its position as the price-maker of the international cotton market and has become the biggest cotton producer in the world while remaining the biggest importer of raw cotton; the USA is experiencing a long-term decline in cotton production, while remaining the biggest exporter of raw cotton; and EU cotton production has become negligible, although it remains the biggest subsidizer per unit produced.

Moreover, the policies towards cotton have changed:

The EU has put the large majority of its support into green box support (65%). Its cotton production in Greece has diminished substantially and Spain is hardly producing cotton any more. Nevertheless, recent EU policy changes provide more flexibility to its Member States to reintroduce production-related support "which would potentially undermine the efforts made at the WTO (...) by the C-4 (...) to obtain more rigorous disciplines in the case of subsidies."[6] Moreover, the EU remains the biggest subsidizer of cotton on a unit basis and 78 % of total Greek production – which accounts for 80% of EU production – is now exported, 90% of it outside Europe.[7] The EU should therefore remain a target of the African cotton-producing countries.

The USA has passed a new Farm Bill, which substantially changes its support policy towards cotton and other products. It is difficult to evaluate the effects of this new policy and its compliance with the decisions of the WTO Dispute Settlement Body in the case between the US and Brazil (the latter has not yet decided whether it wants to invoke the case in front of the WTO to take countermeasures). However, some facts seem to speak in favour of a more market-oriented approach to cotton:

- For the first time cotton is treated differently than other commodities. This is politically significant;

- Direct payments (which are WTO-consistent) have been abandoned along with countercyclical payments, which are very trade-distorting. Marketing loans have been made more market-oriented – although changes are marginal and probably insufficient (length of period and some increase in the reference price);

- The main support now takes the form of a heavily subsidized insurance scheme, which allows farmers to insure up to 90 % of their revenue (STAX[8]) based on their expectations during the planting season. The insured amount is, however, based on price predictions at the beginning of the planting season and there is no longer a minimum price.

While the effects of these changes are difficult to predict, the following arguments lead us to expect a reduction in the trade-distorting effects of US cotton policies:

- The estimates of budgetary expenditures for support during the upcoming years are much lower than past expenditures for subsidizing cotton production;

6 Agritrade 2013c.

7 Agritrade 2013a.

8 STAX: Stacked Income Protection Plan. See for instance, De Gorter, H. 2012.

- Cotton will receive much lower support than its competing commodities, while in the past the support for cotton was higher. This, along with the high prices for some competing products (in particular in relation to biofuels), speaks in favour of a continuous reduction of cotton production in the US;
- Last but not least, should the prices of cotton return to the levels of the beginning of this century, there is no minimum price that would allow farmers to continue to flood the international market with their cotton produced at a fixed minimum price.

This does not mean that the pressure towards the US should be diminished. However, it does mean that the USA should be able to commit itself to supporting cotton much less than in the past.

Since 2009–10, **China** has become the biggest subsidizer of cotton in total amounts. "Total government support (...) was estimated at around USD 3 billion in 2011/12. In comparison, total support provided by the US was around USD 820 million."[9] While it is unclear how much of those subsidies are WTO-compliant and how much are WTO-inconsistent, the fact remains that China's cotton production is largely protected from the prices on the international market and therefore potentially distorts the global cotton prices.[10] This is particularly true as China has important market access restrictions (through a TRQ[11]). In addition, China's current cotton stocks account for around 60% of world cotton stocks.[12] Should China's cotton reserve policy change (which is envisaged), this could dramatically impact world cotton prices. While it is expected that China will use this price-fixing power responsibly, as it has substantial interests both in maintaining remunerable prices for its cotton growers as well as acceptable prices for its fibre industry, it is nevertheless disturbing that it possesses the ability to manipulate word market prices at will. This means that any solution to the cotton issue will have to include China as a major player and will have to address both market access and subsidy issues.

Other major cotton producers or exporters (such as India, Turkey and Pakistan) have also established major support programmes for their cotton producers. They will have to be included into new disciplines to ensure a fair international market for poorer cotton-producing countries.

All these developments (changes in international prices, changes in the distribution of cotton production throughout the world, and changes in national cotton policies) speak for a new approach from African cotton-producing countries in the Doha Round negotiations.

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9 ICTSD 2013, p.4.

10 Agritrade 2013b, 2013.

11 TRQ: Tariff Rate Quota. The tariff-rate quota resulted from the Uruguay Round Agreement on Agriculture. Certain countries agreed to provide minimum import opportunities for products previously protected by non-tariff barriers. This import system established a quota and a two-tier tariff regime for affected commodities. Imports within the quota enter at a lower (in-quota) tariff rate while a higher (out- of-quota) tariff rate is used for imports above the concessionary access level (OECD 2003).

12 ICAC 2014.

4. Changes in the dynamics of the negotiation process of the Doha Development Round

Bali has been an important milestone in the Doha negotiations. While it has been a great stimulus for the WTO in general and the Doha Round in particular, Bali has also changed the approach to the negotiations. Although there is still no agreement on how to proceed, the following principles seem to emerge:

- The work programme has to be manageable within a reasonable amount of time. According to DG Azevêdo, there is a window of opportunity of about 18 months to finish the Doha Round;
- The next package will have to close the Doha negotiations: no low-hanging fruits or small package. The next decision will have to cover the hard issues and address agriculture, NAMA and services;
- The red lines of the various members have to be respected. This is, indeed, unavoidable if member countries want to come to a result within a reasonable amount of time. What and where those red lines are is a question of appreciation;
- The future package has to address the issues of today, and the negotiations have to be based on current data. A major effort will have to be made to update notifications;
- The package has to be balanced. Everybody has to give and take to be able to come to a consensus. Again what constitutes an acceptable balance is – like beauty – in the eyes of the beholder;
- The development content of the Doha Round remains a priority, especially as far as LDCs are concerned.

This means, in our opinion, the following for a proactive cotton strategy:

- A major effort has to be made to ensure that cotton remains the "litmus test" of the development content of any final deal. It is essential to ensure that DG Azevêdo takes up the phrase often used by former DG Lamy: "There is no Doha deal without cotton and there is no deal in cotton without Doha." While this was accepted a few years ago, it does not seem obvious anymore;
- The proponents of the Cotton Initiative must step forward and adapt their proposal to the new situation on the international market and the evolution of the negotiations. Maintaining the objectives while changing the strategy seems to be the way forward;
- To make sure cotton is once again a priority for the Doha Round, the poorer cotton-producing countries need to come up with a new and creative proposal that contains elements that cannot be refused by WTO Members;
- Developing countries are frustrated by the focus on the TFA and the benign neglect that some WTO Members have given to development issues. African Ministers have expressed this frustration by requesting that the TFA be applied "provisionally" until the final result of the Doha Round and its development content is known. While this concern is legitimate and while

the fear among African countries that some members are attempting to cherry-pick is justified, the approach to take the TFA hostage might be misguided. A better approach to ensure that member countries advance in parallel on all fronts might be to make offensive proposals on what specific concessions poorer countries need to obtain in order to be able to agree to a final result for the Doha Development Round. A credible and realistically achievable proposal concerning cotton would go a long way in this direction.

5. A possible way ahead

First of all, African cotton-producing countries should insist that the so-called quadrilateral meets urgently and regularly in a new composition that includes all the major cotton growers that subsidize cotton or restrict access to their markets. It is indeed unacceptable that the "quadrilateral" has had only one short meeting, which was more procedural than substantive, while there have been a very large number of meetings on TFA implementation.

Secondly, the C-4 and/or the LDC group should submit an updated proposal that takes into account the changes mentioned above, i.e.:

- Addressing the issues of the policies of all the major cotton-producing countries;
- Proposing solutions that take into account the so-called red lines of various WTO Members;
- Putting forward creative solutions that cannot be refused and that are negotiable given the time frame;
- Also including commitments on the part of the LDCs to respond to the issue of balance for the Doha result.

This proposal should be drafted in such a way that it cannot be refused as a basis for the negotiations. It could contain the following elements:

- An introduction that:
    - Shows the importance of the cotton sector for the development of the poorest countries and the efforts they have undertaken to develop the rural sector;
    - Underlines the need to establish an international framework that is conducive to their development. Thus, the long-term goal of having a fair playing field without subsidies for cotton can be reaffirmed and maintained;
    - Recognizes that this ambitious goal cannot be obtained within the time left to come to an agreement within the Doha negotiations.
- Given the importance to come to a consensus in the Doha negotiations within a reasonable time frame for an inclusive multilateral system, such a proposal should signal a willingness to compromise under the following conditions:
    - The long-term goal of abolishing the cotton subsidies is maintained and reaffirmed;

- Each WTO Member that produces, exports or imports cotton must make some economically relevant steps to adjust its cotton-support regime to the requirements of the long-term goal;
- All countries have to take commitments that are of real economic interest for the LDCs. However, each country will be allowed to define its contribution to the long-term goal of establishing a fair play global cotton market that takes into account the individual internal constraints.

On this basis, the LDC group may propose the following approach:

- The USA would commit itself to:
  - A maximum amount of subsidies for cotton not to exceed x % of the subsidies provided in the period 2000–05. This should be possible within the dispositions adopted in the Farm Bill;
  - Reducing its overall support to its cotton growers in the next Farm Bill (i.e. in five years) by 50% of the budgetary allocation made during the present Farm Bill;
  - Refraining from any export subsidies and subsidized marketing loans;
  - Granting DFQF market access for cotton produced in the LDCs.
- The EU would commit itself to:
  - Limiting its green box support to a maximum amount of x million €;
  - Reducing that amount by half in the next revision of the CAP;
  - Not reintroducing new amber or blue box subsidies for cotton;
  - Refraining from any export subsidies on cotton.
- The People's Republic of China would commit itself to:
  - Granting DFQF market access to cotton from the LDCs, which should be achievable given the fact that China imports much higher quantities than the LDCs can deliver. Currently "China, the largest destination for African cotton, imposes import duties from 5% up to 40% on cotton imported outside of the annual 894,000 ton import quota related to WTO obligations";[13]
  - Limiting its subsidies independent of their classification within the WTO to the average amount granted in the period 2000–05. Given the fact that the reference period had much lower cotton prices than the prices that are projected in the future, this should be doable within the Chinese red lines.

13 ICTSD 2013, p.4.

- India would commit itself to:
    - Limiting its cotton subsidies to the amount given to other competing crops so as to ensure that cotton is not substituted for less economically competitive crops;
    - A maximum amount of cotton subsidies based on the last five years before the conclusion of the Doha Round;
    - Refraining from imposing export restrictions for its cotton that might disrupt the international cotton market.
- All other countries would commit themselves to:
    - Granting DFQF market access for cotton produced in the LDCs;
    - Limiting their internal subsidies to the average amount given in the last five years before the conclusion of the Doha Round.

Since the submission of the C-4 cotton initiative, all LDC proposals have simply been ignored. To force WTO Members (especially the most concerned ones) to enter into a real negotiation, the proposal should (*a*) take into account the requirement to have a balanced result in the Doha Round; and (*b*) show that LDCs are willing to make their contribution to a positive outcome for the Doha Round.

LDCs may explore the possibility of providing tangible proof of their seriousness to establish an internationally competitive cotton sector and of their attachment to the multilateral trading system, whereby they might be willing – contrary to their right to get the Round for free – to take commitments on the basis of a global value chain approach to the development of its cotton and fibre sector. Such commitments could concern any topic related to the development of their cotton and fibre sectors, whether it be NAMA (e.g. machinery and inputs), services (e.g. marketing, credit, research and extension), investments (marketing, quality control, input supplies) or IPR (seeds, innovations, patents).

It is presumed that such a commitment would not be costly for LDC countries as most of those sectors are already, in reality, rather liberalized, The fact that LDCs are willing to unilaterally take bound commitments on that would, however, be an extremely powerful sign of the group's attachment to finding a multilateral solution to the cotton issues by not only requesting actions from the other members, but also positively contributing themselves to a solution. Moreover, such a proposal would leave enough negotiating space for commitments to be adapted based on the efforts made by negotiating partners.

It is difficult to imagine that the other members could not enter into serious negotiations on such a basis, thereby ensuring that cotton is again a major negotiating topic in the final phase of the Doha Round.

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