

STATE OF PLAY IN AGRICULTURE NEGOTIATIONS: COUNTRY GROUPINGS' POSITIONS

THE COTTON INITIATIVE

SYNOPSIS

This note provides an overview of the position of various countries and group of countries active in the WTO agriculture negotiations with respect to critical issues discussed in the cotton initiative. Similar information on market access, domestic support and export competition pillars is available in Analytical Notes N° SC/AN/TDP/AG/4-1, SC/AN/TDP/AG/4-2 and SC/AN/TDP/AG/4-3 respectively.

January 2008
Geneva, Switzerland

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COTTON INITIATIVE

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INTRODUCTION

1. Seeking a rule-based solution to the cotton crisis that impoverished their countries, Benin, Burkina Faso, Chad and Mali (C-4) jointly initiated the sectoral initiative on cotton in the WTO in May 2003. The initiative was incorporated in the draft preparatory text of the failed Cancun Ministerial Conference. Nonetheless, a compromise was reached in the decision in the Doha Work Program adopted on 1 August 2004 by the General Council (the July Framework) to address the problem “ambitiously, expeditiously and specifically” within the parameters of the negotiations in agriculture. In accordance with the instruction resulting from the July Framework, a Sub-Committee on Cotton was established in November 2004.

2. The key issue of the initiative is correcting distortions in the international cotton market by:

- ✓ Eliminating all forms of export subsidies on cotton and phasing-out trade-distorting domestic support on cotton;
- ✓ Improved market access to exports of cotton and its by-products from cotton-dependent developing countries and
- ✓ Establishing an emergency support fund for cotton to compensate revenue losses resulting from cotton price depression in international markets.

This note describes the position of various countries and group of countries active in the WTO agriculture negotiations with respect to critical issues discussed in the cotton initiative. The note provides an overview of the position of the following countries and groupings: United States, European Communities, G10, G20, Cairns Group, G-33, Least Developed Countries (LDCs), the African Group and the African, Caribbean and Pacific Group of States (ACP). Annex 1 contains a list of the countries participating in each of these groupings. A glossary is included in Annex 2, which offers a definition of various concepts and terms used throughout the note.

3. The WTO agriculture negotiations are organised around the three pillars, mainly market access, domestic support and export competition. Similar information on the market access, domestic support and export competition pillar is available in Analytical Notes N° SC/AN/TDP/AG/1-1, SC/AN/TDP/AG/1-2 and SC/AN/TDP/AG/1-3 respectively.

Critical Negotiation Issue:	TRADE-RELATED ASPECTS OF THE COTTON INITIATIVE			
	Country Groupings:			
C-4	United States	European Union	G-20	Cairns Group
<ul style="list-style-type: none"> - Offensive interest. - Their proposal seeks to: <ul style="list-style-type: none"> ✓ Improve market access for international trade in cotton (LDC cotton producers and net exporters shall enjoy bound duty-free and quota-free access for cotton and its by-products); ✓ Eliminate domestic support measures that distort international trade in cotton and all forms of cotton export subsidies by an early date¹. ✓ Develop ambitious cotton-specific criteria for the measures authorized under the 	<ul style="list-style-type: none"> - Defensive interest; - Has generally remained silent on the issue. 	<ul style="list-style-type: none"> - The EU is willing to eliminate all duties and quantitative restrictions on imports on cotton on an MFN basis; eliminate most of its AMS support to cotton and apply disciplines to the Blue Box and eliminate all forms of exports subsidies from day 1 of the implementation of the new agreement; - Developed country Members and emerging developing country members shall eliminate all forms of export subsidies for cotton in 2006; - Developed country members and developing country members in a 	<ul style="list-style-type: none"> - Insists on addressing the trade-related aspects of the cotton initiative; - Fully supports the C-4 regarding the reduction in the specific measure of support applicable to cotton. - In order to avoid trade-distorting subsidy concentration on cotton, the G-20 believes that product-specific AMS cap applicable for cotton shall amount to one third of the final capping resulting from the historical average for that product for developed country. - Supports 1995-2000 as base period for product-specific AMS caps for cotton. 	<ul style="list-style-type: none"> - This group does not have a position on this issue; - Would generally favour full liberalization of trade in cotton.

¹ Their original proposal suggested elimination of export subsidies by 1 July 2005 and of AMS by 21 September 2005

² This formula was incorporated in the Draft Modalities presented by the Chairman in July 2007

<p>green and blue boxes (to prevent the box-shifting of domestic support).</p> <ul style="list-style-type: none"> ✓ Proposed, in a specific formula in order to reduce Amber Box for cotton in a more ambitious manner than for the rest of agricultural products? ✓ Create annual notification obligations with regards to statistics and figures related to the organization of cotton production and export activities and programmes, relevant to the implementation of cotton modalities ✓ Monitor, through the WTO Secretariat, the effective implementation by Member countries of the agreed measures. 		<p>position to do so, especially those constituting major importers, shall give duty and quota free market access for cotton exports from LDCs from the commencement of the implementation period;</p> <ul style="list-style-type: none"> - Suggested that no Amber Box support be allowed in the cotton sector and that this should be implemented as from day 1 of the implementation period; - Taking into account the lack of historical references for this product, suggests limiting support in the cotton sector to only 5% of the total Blue Box ceiling. 	<ul style="list-style-type: none"> - Favours disciplines on blue box support that (a) ensure that such payments are less trade-distorting than AMS measures and (b) include product-specific provisions. - SDT for developing country members should be properly addressed. - Insists that the US needs to implement fully the panel ruling decision on cotton. 	
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Critical Negotiation Issue:	TRADE-RELATED ASPECTS OF THE COTTON INITIATIVE			
Country Groupings:				
LDCs	African Group	ACP	G-33	G-10
<ul style="list-style-type: none"> - Offensive interest; - Would like bound duty-free and quota-free access for cotton and products derived from cotton from LDC countries. 	<ul style="list-style-type: none"> - Critical issue for the group, - Would like substantial reductions in domestic support measures that distort international trade in cotton by the following timeframe: <ul style="list-style-type: none"> ✓ 80% by 31 December 2006 ✓ 10% by 1 January 2008 ✓ 10% by 1 January 2009 - Stresses the need for appropriate disciplines that prevent box-shifting in domestic support; - Would like bound duty-free and quota-free access for cotton and products derived from LDCs cotton producers and net exporters. 	<ul style="list-style-type: none"> - Important issue for the group; - Stresses the need for appropriate disciplines to prevent box-shifting in domestic support - Supports C4's * objective that product-specific AMS applicable to cotton shall amount to one thirds of the final capping resulting from the historic average of the developed country member concerned * position that blue box capping should be one third of what is agreed for agriculture in general. - Requests substantial improvement in market access for trade in cotton, duty and quota-free market access for cotton and its by- 	<ul style="list-style-type: none"> - The group does not have a position on this issue. 	<ul style="list-style-type: none"> - This group does not have a position on this issue.

		products of LDCs producers and exporters of cotton.		
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Critical Negotiation Issue:	DEVELOPMENT-RELATED ASPECTS OF THE COTTON INITIATIVE			
Country Groupings:				
C-4	United States	European Union	G-20	Cairns Group
<p>- Proposed an emergency support fund for cotton production, in order to contain the serious socio economic consequences for the farming communities of losses of revenue resulting from subsidies.</p> <p>- Suggested that resources allocated to this fund:</p> <ul style="list-style-type: none"> ✓ Shall be equivalent to 20 per cent of the value of cotton production for the most favourable of the three most recent years in each of the countries concerned. ✓ Shall decrease in proportion to the pace of elimination of the domestic support measures and subsidies at issue. 	<p>- Emphasises the development aspects of the cotton initiative diverting attention from the trade-related problems.</p>	<p>- All parties engaged in the development assistance process in cotton producer countries – bilateral donors, multilateral agencies and the beneficiary countries themselves– should maintain and intensify their efforts to ensure an adequate response to their needs.</p>	<p>- Insists on addressing development aspects of the cotton initiative;</p> <p>- Stresses the need to provide urgent development assistance to countries that are net cotton producers and exporters.</p>	<p>- This group does not have a position on this issue.</p>

<ul style="list-style-type: none"> ✓ Are intended to serve as a safety net, and would be allocated directly to the cotton producers in a transparent and equitable manner. ✓ Shall be managed by a tripartite commission made up of representatives of the donors, the producers, and the governments. 				
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Critical Negotiation Issue:	DEVELOPMENT-RELATED ASPECTS OF THE COTTON INITIATIVE			
Country Groupings:				
LDCs	African Group	ACP	G-33	G-10
<ul style="list-style-type: none"> - Seeks the creation of an Emergency Support Fund for cotton; - Stresses the need for commitment by WTO members to address the development related aspects of the Cotton Initiative. 	<ul style="list-style-type: none"> - Seeks the creation of an Emergency Support Fund for cotton to address cotton revenue deficits resulting from cotton price depressions in international market; - Requests technical and financial assistance for the cotton sector in Africa. 	<ul style="list-style-type: none"> - Seeks the creation of an Emergency Support Fund in favour of all African countries producers and exporters of cotton aimed at reinforcing their cotton sector and contributing to the promotion and processing of cotton; - Stresses the need to set up a mechanism to deal with the loss of revenue that cotton 	<ul style="list-style-type: none"> - The group does not have a position on this issue. 	<ul style="list-style-type: none"> - This group does not have a position on this issue.

		<p>producing ACP countries are facing as a result of declining cotton prices.</p> <p>- Would like the mobilisation of technical and financial assistance for the reinforcement of the cotton sector in Africa in order to build capacity to process and add value to cotton and its by-products.</p>	
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Critical Negotiation Issue:	MATTERS RELATED TO THE WORK OF SUB-COMMITTEE			
Country Groupings:				
C-4	United States	European Union	G-20	Cairns Group
<p>- The group believes the work of the Cotton Sub-Committee should address all problems identified in the sectoral initiative on cotton (i.e refer to all policies having a trade-distorting effect in cotton trade -on the three pillars of the agriculture negotiations-) and its developmental aspects.</p>	<p>- Insists on limiting the mandate of the Cotton Sub Committee to general discussions on the progress in the overall agriculture negotiations opposing attempts by the proponents of the cotton initiative to negotiate specific modalities on cotton.</p>	<p>- Suggests Ministers must agree that the results of the negotiations on cotton will be more ambitious and farther reaching than those to be achieved for the agriculture sector as a whole, with respect to commitments in every pillar of the agreement;</p>	<p>- Supportive of expediting the work in the Sub-Committee on Cotton so that an early agreement can be reached on specific modalities for cotton.</p>	<p>This group does not have a position on this issue</p>

<p>- The group insists on the fact that the mandates agreed in the 2004 Framework Agreement and in the Ministerial Decision agreed in Hong (2005) implies that cotton modalities should achieve more ambitious results (in the three pillars) than those resulting from the agriculture modalities.</p>	<p>- Stresses that the outcome for cotton will be determined by the overall agricultural negotiations, where reductions in the three pillars may affect the US cotton programmes.</p>		
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Critical Negotiation Issue:	MATTERS RELATED TO THE WORK OF THE SUB-COMMITTEE			
Country Groupings:				
LDCs	African Group	ACP	G-33	G-10
<p>- Would like an ambitious, expeditious and specific cotton-related decision as part of the overall agriculture negotiations.</p>	<p>- The group believes the work of the Cotton Sub-Committee should address all problems identified in the sectoral initiative on cotton (i.e refer to all policies having a trade-distorting effect in cotton trade -on the three pillars of the agriculture negotiations-) and its developmental aspects.</p> <p>- Would like an ambitious, expeditious and specific-cotton related decision as part of the overall agriculture negotiations.</p>	<p>The group does not have a position on this issue.</p>	<p>This group does not have a position on this issue.</p>	<p>This group does not have a position on this issue.</p>

ANNEX 1: MEMBERS OF COUNTRY GROUPINGS

G10: Bulgaria, Chinese Taipei, Republic of Korea, Iceland, Israel, Japan, Liechtenstein, Mauritius, Norway and Switzerland.

Cairns Group : Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Philippines, South Africa, Thailand and Uruguay. The Philippines and Indonesia, although members of the Cairns Group do not share many of the positions taken by this group in the negotiations, especially with respect to market access.

G20 : Argentina, Bolivia, Brazil, Chile, China, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela and Zimbabwe.

G33 : Antigua and Barbuda, Barbados, Bolivia, Belize, Benin, Botswana, China, Congo, Cote d'Ivoire, Cuba, Dominican Republic, El Salvador, Guatemala, Grenada, Guyana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Republic of Korea, Madagascar, Mauritius, Mongolia, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, Peru, Philippines, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Senegal, Sri Lanka, Suriname, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia and Zimbabwe.

LDCs : Angola, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Senegal, Sierra Leone, Solomon Islands, Tanzania, Togo, Uganda, Zambia.

The African, Caribbean and Pacific Group of States (ACP): The group encompasses 79 States of which 54 are WTO Members.

The C-4: Benin, Burkina Faso, Chad and Mali.

ANNEX 2: GLOSSARY OF TERMS

Duties

These are taxes imposed by a State or separate customs territory on imported goods.

Tariff Rate Quotas (TRQs)

These are treaty commitments or obligations made or assumed by WTO Members as a result of the Uruguay Round to provide a specified quota (i.e. level or volume) of market access opportunities for imported goods that would benefit from a lower tariff rate than the tariff rate resulting from tariffication. Goods imported over the quota would be subject to the higher tariff rate resulting from tariffication.

Bound duty-free and quota-free market access (for LDCs)

This refers to the binding, in a member schedule of commitments, market access commitments under duty free and quota-free conditions. LDCs have requested this treatment in developed country markets (and in developing countries) because it provides a higher degree of certainty in terms of securing predictable and sustainable market access and attracting investments. On the other hand, developed countries have insisted on preserving the possibility of revoking preferential access to LDC imports that exceed a certain share in their markets.

A decision was agreed during the Hong Kong Ministerial Conference in this regard, along the following lines: *“Developed-country Members shall, and developing-country Members declaring themselves in a position to do so should:*

- (a) (i) *Provide duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs by 2008 or no later than the start of the implementation period in a manner that ensures stability, security and predictability.*
- (ii) *Members facing difficulties at this time to provide market access as set out above shall provide duty-free and quota-free market access for at least 97 per cent of products originating from LDCs, defined at the tariff line level, by 2008 or no later than the start of the implementation period. In addition, these Members shall take steps to progressively achieve compliance with the obligations set out above, taking into account the impact on other developing countries at similar levels of development, and, as appropriate, by incrementally building on the initial list of covered products.*

- (iii) *Developing-country Members shall be permitted to phase in their commitments and shall enjoy appropriate flexibility in coverage.*
- (b) *Ensure that preferential rules of origin applicable to imports from LDCs are transparent and simple, and contribute to facilitating market access”.*

Amber box

This refers to price support and production-linked support (i.e. subsidies) measures that had to be reduced or eliminated as a result of the WTO Agreement on Agriculture (AoA). Support of this kind was quantified during the Uruguay Round as the *Aggregate Measurement of Support (AMS)*. The AMS for each WTO Member is listed and is subject to reduction as part of each WTO Members’ WTO commitments.

Blue box

This refers to agricultural support (i.e. subsidies) measures provided by WTO Members under Art. 6.5 of the WTO Agreement on Agriculture (AoA). This provision allows WTO Members to provide direct payments to agricultural producers under the condition that such payments are part of programmes aimed at limiting agricultural production and that they meet the production-related criteria specified therein. According to the AoA, these payments are exempt from reduction commitments – i.e. they do not need to be reduced or eliminated.

Modalities

Negotiating mandates are transformed into specific commitments of members through modalities. Modalities contain technical and operational details and encompass, for instance, formulas to reduce tariffs and subsidies, details related to the implementation of commitments and rule-elements that will configure the scope of disciplines of the new agriculture agreement.

Panel ruling decision on cotton

This refers to a WTO dispute settlement case brought by Brazil, against U.S. subsidies in 2005. The panel ruled that “export credit guarantees” and “step 2 marketing payments”, offered to US cotton producers amounted to trade-distorting domestic support and were in violation of WTO rules on agriculture and subsidies. Moreover, the Panel determined that these did not qualify for exemption from WTO challenges under the so- called 'peace clause' (under which countries had agreed to refrain from challenging each other's agricultural subsidies). The US appealed all of the panel's findings and later on, the WTO Appellate Body upheld all major findings of the panel.

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