



18 September 2015

(15-4785)

Page: 1/4

**Committee on Agriculture
Special Session
Sub-Committee on Cotton**

**THIRD DEDICATED DISCUSSION OF THE RELEVANT
TRADE-RELATED DEVELOPMENTS FOR COTTON**

9 JULY 2015

Report¹ by the Chairman, H.E. Mr John Adank

1. Pursuant to the Bali Ministerial Decision on cotton of 7 December 2013 (document WT/MIN(13)/41 – WT/L/916), the third dedicated discussion of the relevant trade-related developments for cotton took place on 9 July 2015, in the context of the Committee on Agriculture in Special Session. The dedicated discussion was held back-to-back with the 23rd round of the Director-General's consultative framework mechanism on the development aspects of cotton.

2. In my **opening remarks**, I provided an update on the state of play in the agriculture negotiations, and specifically noted that the Bali Ministerial Decision had reaffirmed the importance of cotton in the context of the DDA agriculture negotiations. Indeed, Ministers had renewed their commitment to address cotton "ambitiously, expeditiously and specifically" within the agriculture negotiations, and to continue discussions on reform as per the August 2004 General Council Decision and the 2005 Hong Kong Ministerial Declaration, with the 2008 revised draft agriculture modalities (TN/AG/W/4/Rev.4) providing a reference point for further work.

3. I noted that it was generally understood that cotton would be part of any outcome achieved at the 10th Ministerial Conference in Nairobi. My consultations of 23 April 2015 and different meetings that had been organized between Members were intended to start looking at possible components of an outcome on cotton.

4. I proposed to provide, at the end of the meeting, an opportunity for Members to have a preliminary exchange of views on the way forward in the cotton negotiations, and more specifically on what could be envisaged as a possible outcome for cotton at the Nairobi Ministerial Conference.

5. I also noted that the dedicated discussions on cotton stemming from the Bali Ministerial Decision constituted a very positive development by helping to improve transparency and monitoring. The continuation of the dedicated discussions could be kept in mind as part of an outcome at the 10th Ministerial Conference, subject to the results of the negotiation on the various trade-related aspects of cotton.

6. Under the agenda item "**General Statements from Members**", Mali, on behalf of the Cotton-4 (C-4), recalled the economic importance of cotton for many African countries, and echoed the concerns raised by C-4 Ministers at the 5th Global Review of Aid for Trade on the lack of progress in addressing cotton "ambitiously, expeditiously and specifically" in the DDA negotiations. Mali called on Members to prioritize cotton and restated the C-4's readiness and willingness to contribute to the resolution of the issue.

7. Several Members supported the statement made by Mali on behalf of the C-4 and noted their concern with the slow progress in resolving the cotton issue. Some Members noted in particular the lack of progress in addressing trade-distorting subsidies, which they saw as the key reason for

¹ This report is circulated under the Chair's own responsibility.

the critical situation of cotton in developing countries. Many Members stressed the need for an urgent solution in that regard.

8. As proposed by the C-4 and several other Members at our second dedicated discussion, the **International Cotton Advisory Committee (ICAC)** was invited to make a more detailed presentation covering global cotton market and trade trends as well as recent developments relating to government measures in favour of cotton.² The presentation was welcomed and prompted a very useful exchange. The C-4 further suggested that ICAC also present, at the next dedicated discussion, data series on cotton production, productivity and marketing since the introduction of the Sectoral Initiative in 2003.

9. The third dedicated discussion was informed by a **revised background paper by the Secretariat** (TN/AG/GEN/34/Rev.2 – TN/AG/SCC/GEN/13/Rev.2) which compiles updated information and data from Members' notifications and other submissions to the WTO on export subsidies, domestic support and market access. Both tariff and non-tariff measures are covered by the paper, including information relating to import licensing procedures. In addition, further to Members' requests during the second dedicated discussion, the revised background paper also includes (i) Members' responses to the questionnaire on cotton policy developments circulated on 4 February 2015; and (ii) relevant information on cotton markets and policies from Trade Policy Review reports.

10. While Members welcomed the revised background paper, several reiterated their concerns regarding the lack of updated data on policy measures in the revised paper, particularly from some major cotton producing and trading Members. Members were called upon to provide and/or improve their replies to the questionnaire and to bring their notifications up-to-date to allow for a more comprehensive discussion, in particular in relation to domestic support.

11. I stressed once again that the quality of the information contained in the Secretariat background paper and the success of the process of collecting information on relevant policy developments was fully dependent on the quality and timeliness of Members' notifications and submissions. I strongly encouraged all Members to continue submitting replies to the questionnaire and to submit timely notifications, especially when some of their measures specifically related to cotton.

12. The C-4 suggested the inclusion of some additional summarized information in the next revision of the background paper, including (i) Members' domestic support for cotton expressed in a single currency to allow for comparison, as well as (ii) a table showing for each Member the level of product-specific support for cotton in comparison to current total AMS. Some Members also suggested to add information such as TRQ fill rates and value of production data where available. The C-4 also asked Members to provide disaggregated information on applied and preferential duties as well as on tariff rate quota levels for cotton imports for each LDC.

13. During the **discussion of trade-related developments for cotton across the three pillars**, the United States provided an update on its December 2011 initiative to provide duty and quota-free access for cotton products from LDCs under the US Generalized System of Preferences (GSP) scheme. The United States noted that part of that commitment had been fulfilled in June 2012 when seven cotton products had been made eligible for duty and quota-free treatment for LDCs under the US GSP program effective 1 July 2012.

14. The 29 June 2015 Trade Preferences Extension Act extending the US GSP scheme included a provision giving the US President the legislative authority to add five out of quota cotton tariff lines to the GSP for least-developed beneficiary countries. Following the subsequent review process, the President was expected to make a final decision on these proposed product additions by 1 October 2015. Several Members welcomed the US announcement.

15. During the discussions, the United States also briefly introduced the changes to its cotton support policies under the new Farm Bill. The reforms included (i) the elimination of direct and countercyclical payments and other programmes, (ii) a revised marketing loan programme that

² https://www.wto.org/english/news_e/news15_e/cdac_09jul15_e.pdf.

allowed for greater transmission of market prices, and (iii) the introduction of the Stacked Income Protection Plan (STAX) programme as an additional insurance option for upland cotton producers.

16. The United States noted that while it was too early to make exact projections, government spending on cotton was expected to be reduced by 38% under the reformed policies. Cotton acreage was also expected to decrease significantly in 2015, and while this could be due to many factors, one important explaining factor could be the relative expected return for cotton versus competing crops.

17. China also made a detailed statement about the situation of its cotton sector, stressing that Chinese cotton producers were subsistence farmers with a production concentrated in a remote underdeveloped region and generally on the decrease. China also considered its overall level of cotton support to be generally low in absolute terms, and even more so, on a per-farmer basis. It was also noted that China's cotton imports had increased over time, in particular from LDCs.

18. The United States commented on China and India's large procurement programmes and the resulting large stocks, which had significant potential impacts on cotton production and trade. The United States referred to recent announcements by China's National Development and Reform Commission and sought further information on how those large stocks would be managed.

19. China acknowledged the high level of its cotton stocks which it saw as (i) largely resulting from a high level of cotton imports but also from (ii) the increasing difficulties faced by the textile sector and (iii) low cotton prices stemming from the subsidies provided by developed country Members. China noted its commitment to manage its stocks in a responsible manner. India noted that in order to evaluate whether a support programme was trade-distorting or not, it was important to look at whether the stocks were sold at prices below the procurement price, which was not the case in India.

20. Several Members noted that significant levels of domestic support continued to be provided to cotton producers by a number of Members and reiterated the need for up-to-date data in that pillar, both through notifications and as part of the response to the questionnaire. One Member also questioned the role of Blue Box support granted to cotton, while another Member flagged the difference between Members with an export-oriented production and those whose production was mainly geared towards covering domestic demand.

21. China referred to its recent domestic support notification covering the period up to 2010, and noted that Members should refrain from introducing unofficial data which complicated further the inherent technical difficulties in fulfilling notification obligations.

22. On Market Access, some Members noted the positive increasing trend of the relative share of LDCs in total world imports of cotton. One Member saw this as an indication that technical assistance provided to developing countries such as that focused at improving seeds and the availability of fertilizer was delivering results. It was however also noted that many cotton importing countries maintained very high bound tariffs on cotton despite low applied rates.

23. In order to further liberalize markets and bolster transparency, the United States also encouraged Members to move forward on the implementation of the Bali Ministerial Understanding on Tariff Rate Quota Administration. China clarified that at its cotton TRQ was allocated on a "first come first served" basis, consistent with its WTO commitments. China also noted that the imports exceeding the TRQ were subject to sliding scale duties.

24. With regards to the **way forward**, I noted that in line with Ministers' guidance to address cotton "ambitiously, expeditiously and specifically" in the DDA agriculture negotiations, and in light of the little time left before the Nairobi Ministerial Conference, it was necessary to engage quickly on what could constitute a possible outcome on cotton, without awaiting for outcomes in the broader agricultural negotiation first.

25. To this end, I shared with Members my assessment of the current situation in the cotton negotiation across the three pillars.

26. On export competition, an outcome on cotton seemed to be doable in the context of a broader deal on that pillar. On market access, the objective set in the negotiations was to allow duty and quota-free access for cotton exports from LDCs to developed country markets and a treatment granting increased import opportunities for cotton from LDCs by developing countries not in a position to give DFQF. The question was to which extent Members not yet granting DFQF to exports from LDCs could improve their current market access conditions. The domestic support pillar proved to be the most difficult in the overall agriculture negotiations and similarly for cotton. Although it would be difficult to envisage a specific outcome on cotton in that pillar until a broader outcome became clear, it was important to start discussions now as cotton had been clearly singled out as a key priority.

27. Several Members shared my assessment of the situation and expressed their readiness to engage without delay in a negotiation in the three pillars. While also indicating its readiness to engage, one Member questioned the feasibility of delinking a cotton specific outcome from a broader agriculture outcome, and reiterated the need for updated information to inform cotton-specific negotiations.

28. Another Member noted the need to differentiate between developed and developing Members, importing and exporting Members, as well as Members subsidizing commercial or subsistence farmers. Some Members asked that discussions be based on the 2008 revised draft agriculture modalities (TN/AG/W/4/Rev.4).

29. Regarding specifically the three pillars, one Member pointed out that disciplines on export credits should be included in the export competition pillar discussions. Several Members, including Brazil who is one of the four Members with export subsidy commitments, also considered the complete elimination of export subsidies to be an achievable goal. On market access, one Member warned about some possible negative impacts of the proposed Special Safeguard Mechanism on preferential imports from LDCs while another recalled that some Members retained the right to use the current agriculture Special Safeguard (SSG) on cotton imports. Regarding domestic support, one Member pointed out that, to obtain an outcome in that pillar, it would be necessary for the three largest cotton subsidizers to agree on what each of them could do in relation to their domestic cotton policies.

30. I concluded by noting that the discussion had been quite useful and once again called on Members to continue thinking in a focused manner on what could constitute an outcome on cotton at the 10th Ministerial Conference in Nairobi, and how they could contribute to it.

31. In closing the meeting I announced my departure from Geneva and noted that the fourth dedicated discussion would be convened by my successor.
