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

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

24 JULY 2017

Report¹ by the Chairman, H.E. Dr. Stephen Ndũn'gũ Karau

1. Pursuant to the Bali Ministerial Decision on Cotton of 7 December 2013² and the Nairobi Ministerial Decision on Cotton of 19 December 2015³, the seventh Dedicated Discussion of the relevant trade-related developments for cotton took place on 24 July 2017. The Dedicated Discussion was held back-to-back with the 27th Round of the Director-General's Consultative Framework Mechanism on Cotton (DGCFMC), dedicated to the development-assistance aspects of cotton.

2. In my **introductory remarks**, I recalled the vital importance of cotton in particular for LDCs and African countries and stressed that the way the topic is addressed in the WTO constitutes a litmus test of Members' commitment to address real and legitimate concerns expressed by the poorest amongst them.

3. In relation to the state of play in the agriculture negotiation, I noted that several submissions on Domestic Support had been circulated and introduced at the informal meeting of the Committee on Agriculture in Special Session of 19 July, including in particular the joint proposal by Brazil, the European Union, Colombia, Peru and Uruguay (Job/AG/99) which makes specific reference to cotton along with Domestic Support and Public Stockholding for food security purposes.

4. With regards more specifically to cotton, I recalled that I had held two meetings in Quad Plus format⁴ on 16 and 30 June 2017. At those meetings, an overwhelming majority of Members had reiterated their support for a meaningful and specific outcome on Cotton Domestic Support, and expressed their support for the Cotton 4 (C4). While a couple of participants had recorded their lack of optimism, taking into account the overall negotiation prospects, several Members had stressed that an outcome on cotton should go "one step further than for Domestic Support in general", in recognition of previous commitments taken by Members.

5. I noted that at the Quad Plus meeting of 30 June, Members had provided initial comments on a draft C4 proposal on Cotton Domestic Support. Most comments related to (i) the need to focus on the most trade-distorting support granted to cotton farmers, and (ii) the call by the C4 to elaborate new disciplines addressing support granted under the Green Box and the Blue Box. Some Members suggested a ceiling on trade-distorting support expressed as a percentage of cotton value of production. At the same time, other Members supported the objective of total elimination of cotton Aggregate Measurement of Support (AMS) and opposed any new disciplines on *de minimis* for developing country Members without an AMS commitment. Other delegations disagreed with the differentiation between developing country Members with or without an AMS commitment. The importance of special and differential treatment was underlined by some delegations, while others insisted on the necessity for all Members providing trade-distorting

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

² Document WT/MIN(13)/41 – WT/L/916, dated 11 December 2013.

³ Document WT/MIN(15)/46 – WT/L/981, dated 21 December 2015.

⁴ Composed of the C4, Argentina, Australia, Brazil, China, Colombia, the European Union, India, Pakistan and the United States.

support to contribute to an outcome on cotton, with one delegation suggesting that Article 6.2 support should also be included in the discussion.

6. I also reported that possible improvements in the duty free and quota free market access for exports of cotton and cotton-related products from LDCs, as well as the development assistance aspects of cotton, had also been mentioned at the Quad Plus meetings as possible elements of a cotton outcome at MC11.

7. I mentioned that the C4 held their 5th Regular Coordination Meeting in Benin from 18 to 21 April 2017 and that the Cotonou Ministerial Declaration dated 21 April 2017 had been circulated as document TN/AG/GEN/44 – TN/AG/SCC/GEN/17.

8. Finally, I emphasized that the Dedicated Discussions – though not a negotiation process – were crucial opportunities for monitoring and transparency and could hence inform the negotiations. In that context, I welcomed the active participation of the International Cotton Advisory Committee (ICAC) as a means to better understand the situation of the global cotton market, but also called on Members to be more forthcoming in sharing information through notifications and their replies to the cotton questionnaire circulated by the Secretariat ahead of the Dedicated Discussions.

9. Under the agenda item **"General Statements from Members"** Benin, on behalf of the C4, recalled the general mandate to address Cotton "ambitiously, expeditiously and specifically" and the mandates included in the Hong Kong Ministerial Declaration of December 2005, the Bali Ministerial Decision of December 2013 and the Nairobi Ministerial Decision of December 2015.

10. The C4 also welcomed the presence of the C4 National Focal Points, as well as of a Delegation of the Cos Cotton (a Steering and Monitoring Committee of the EU-Africa Partnership on Cotton based in Brussels), and thanked ICAC and the International Trade Centre (ITC) for their participation in the 7th Dedicated Discussion.

11. The C4 stressed the urgent need to address trade-distorting domestic support for cotton and underlined the importance of implementing existing Ministerial Decisions on cotton. The C4 also noted that it could not foresee any outcomes at the Ministerial Conference of Buenos Aires in the absence of an outcome on cotton and that they could ultimately turn to available WTO legal procedures.

12. Pakistan recalled the vital importance of the cotton sector, stressing that cotton's contribution to national GDP was the highest when compared with countries of similar economic size. The representative of Pakistan noted that, despite the reforms introduced over the last two decades, the situation on the international cotton market had failed the country's poorest farmers. Pakistan referred to ICAC's statistical reports and underlined the importance of subsidies as well as that of border restrictions as factors hindering trade in cotton originating in developing countries. Pakistan welcomed the negotiating proposal by Brazil, the European Union, Colombia, Peru and Uruguay (Job/AG/99), and noted that cotton should be addressed as a stand-alone issue in the context of the agriculture negotiations.

13. Cameroon highlighted the importance of local transformation in cotton value chains and emphasized that any discussion on cotton trade should be framed as a discussion on cotton value chains and local value addition. Indeed, discussions on market access for cotton needed to focus on factors specifically affecting access to markets for locally-processed and value-added products.

14. The **International Cotton Advisory Committee (ICAC)** made a detailed presentation⁵ on the latest developments in the global Cotton market and trade trends. ICAC also discussed recent developments relating to government measures in favour of Cotton, as well as the extensive paperwork necessary for any single shipment of cotton and how electronic certifications such as ePhyto⁶ could facilitate such transactions.

⁵ https://www.wto.org/english/news_e/news17_e/2_cdac_24jul17_e.pdf.

⁶ For more info on ePhyto see: <https://www.ippc.int/en/ephyto/>.

15. The WTO Secretariat presented its **revised background paper** and addendum⁷, which compiles factual information and data from Members' notifications and other submissions to the WTO on Export Subsidies, Domestic Support and Market Access, including both tariff and non-tariff measures. The paper also includes Members' latest responses to the Secretariat questionnaires on Cotton policy developments, as well as relevant information on Cotton markets and policies from Trade Policy Review reports.

16. The Secretariat noted in particular that new notifications on Domestic Support had been received from Brazil, the European Union, the United States as well as India and Turkey. The notifications from the latter two Members had been circulated after the cut-off date and therefore were not captured in the background paper.

17. I noted that the quality of the information contained in the Secretariat document was fully dependent on the quality and timeliness of Members' notifications and submissions to the WTO, including replies to the questionnaire. I stressed the importance for all key Cotton actors to be more forthcoming in sharing information on recent policy developments.

18. Members welcomed both presentations and thanked ICAC for its presence and important contribution to the substantive debates during the dedicated discussions and raised specific follow up queries to ICAC.

19. Turkey asked what share of cotton production capacity could be expressly attributed to the existence of subsidies. ICAC replied that a reduction in subsidies would obviously result in less cotton production, but the actual effect of cotton subsidies depended to a large extent on the level of support granted to other crops. ICAC noted that if cotton subsidies are eliminated while subsidies for other crops remain in place, world cotton production would probably decline by several million tons, or approximately 10%. However, if subsidies for all agricultural commodities are eliminated as part of a comprehensive agreement, world cotton production would decline by a much smaller amount.

20. Benin asked for more disaggregated data on the composition of domestic support, possibly following the WTO categories of AMS, Blue and Green Boxes. ICAC noted that its full reports are provided to the WTO Secretariat and are available on line. However, ICAC noted that it does not presume to identify Domestic Support according to WTO categories. Instead, government measures in ICAC reports are grouped into the following categories: direct support to production, border protection, crop insurance subsidies, minimum support price mechanisms, input subsidies, and transportation subsidies.

21. New Zealand enquired as to the relevance of the trends presented by ICAC related to domestic support after discounting crisis-recovery measures, since measures linked to price level were usually considered to be trade-distorting. ICAC noted that the discounted trend illustrated in its presentation gave some interesting indication on the evolution of the sector in "normal situations", i.e. in the absence of the effects of the recovery measures implemented as of 2008-2009 in response to the global economic and financial crisis.

22. ICAC noted that the underlying trend in government measures in cotton was down since 2000, suggesting that the work of the WTO in raising awareness of the negative consequences of subsidies was having an impact on the policies and programs of governments.

23. In reply to a question from Burkina Faso on the relationship between cotton and polyester, ICAC explained that polyester production was also being driven by industrial policies in countries producing polyester. ICAC highlighted that this phenomenon was of growing importance and its implications were still being studied by ICAC.

24. Chad enquired about the impacts of large cotton stocks on the cotton markets. ICAC replied that large stocks were the results of past distortions following the recession and the 2010-2011 cotton price surges and that they were still negatively impacting cotton prices.

⁷ Documents TN/AG/GEN/34/Rev.6 – TN/AG/SCC/GEN/13/Rev.6 and TN/AG/GEN/34/Rev.6/Add.1 – TN/AG/SCC/GEN/13/Rev.6/Add.1, dated 13 July 2017.

25. Benin thanked the Secretariat for the follow up and monitoring value of the revised background paper and called on Members to update and share information on Domestic Support, as well as for the expeditious translation of relevant recent documents. The C4 also supported the smooth transfer of the development assistance aspects of cotton from the Development Division to the Agriculture and Commodities Division.

26. In reaction to information contained in the Secretariat background paper, Colombia highlighted the duty-free treatment granted to its main cotton-supplying trading partners, complemented by an additional 15,000 tonne import quota for 2017 at a zero tariff rate for uncarded and uncombed cotton for trading partners not already benefitting from duty free treatment. With regard to Domestic Support, Colombia announced the planned elimination of its national minimum price guarantee system, and recalled the absence of national export subsidy programmes. Colombia concluded by underscoring the need for a tangible and ambitious result on cotton at the Buenos Aires Ministerial meeting.

27. The European Union welcomed the Dedicated Discussions on Cotton as a unique opportunity to talk about the details of how cotton policies and markets work. The European Union was one of the co-sponsors of the proposal Job/AG/99, which contains specific language on cotton, and looked forward to engaging with Members on the proposal. The representative of the European Union thanked ICAC for its very instructive presentation on cotton markets and policies, as well as the Secretariat for the revised background paper. In relation to the revised background paper, the European Union saluted the reforms announced by Colombia and encouraged Members to reply to the Secretariat's questionnaire to improve transparency and information sharing.

28. The WTO Secretariat and the International Trade Centre (ITC) made a presentation on their respective cotton information tools, as integrated in a demo market analysis tool, the **Cotton Portal project**. This presentation was made in response to (i) a suggestion by the C4 at the Quad Plus meeting of 16 June, and (ii) the C4 call for a reflection on ways to improve the quality and accessibility of cotton market access information.

29. The WTO Secretariat introduced the databases available at the WTO in relation to tariffs and non-tariff measures, as well as other resources available containing market access related information. ITC introduced the ITC Market Analysis tools and then presented the demo for the Cotton Portal project. The Portal would provide a single entry point containing all the cotton specific information available in the various WTO and ITC databases on market access, trade statistics, country-specific business contacts, etc., as well as a link to the WTO Cotton webpage and relevant documents.

30. Benin, on behalf of the C4, and Pakistan strongly supported the Cotton Portal project. Chad highlighted the importance of having the Portal available in the three official languages of the WTO. The representative of Benin also recalled that, in many LDCs, access to the internet was not yet available on a large scale, or extremely difficult to obtain. In that regard, Benin stressed the importance of WTO Reference Centres to bridge the IT infrastructure gap in LDCs.

31. I concluded the discussion that followed the joint WTO/ITC presentation by registering the support of the Membership for the development of the Cotton Portal by both Secretariats.

32. Under the agenda item "**Exchange of Views and Submissions from Members**", Brazil concurred with the C4 on the urgency of addressing cotton market distortions and stressed that the Job/AG/99 proposal was informed by that priority. Brazil stressed that it also saw domestic support as the core issue to be addressed, and that document Job/AG/90 by the LDC group provided a useful reference for a proposed product-specific Value of Production limit for cotton. Brazil called on the C4 and all interested Members to work together towards a concrete, meaningful and development-oriented outcome in Buenos Aires.

33. Benin, on behalf of the C4, thanked Brazil and the other proponents for their proposal on addressing market distortions. Benin informed Members that the C4 was pursuing its work on a negotiating proposal for cotton, and was analysing various issues including AMS, *de minimis*, Blue Box, transparency on Green Box as well as Special and Differential Treatment. Benin stressed that an outcome on cotton in Buenos Aires was a must, and expressed interest in working with other Members towards that goal.

34. The United States praised the Dedicated Discussions for being a useful and highly informative forum and thanked in particular ICAC and the WTO Secretariat for the updated information discussed during the meeting. The United States also thanked the C4 and other Members for their constructive engagement in the context of the Dedicated Discussions. The United States noted that the DGCFMC held in the morning was also a very useful and instructive mechanism. Finally, the United States suggested further exploring the competitiveness dynamics from manmade fibres, in particular in relation to the industrial policies which could drive the increase in production of manmade fibres.

35. India joined other Members in thanking ICAC, ITC and the WTO Secretariat for the information presented during the meeting. The representative of India noted that cotton in India was grown in rural areas by small and marginalized farmers. In relation to market access, India noted that it provides LDCs with duty free quota free or preferential market access for 98.2% of its tariff lines, with all applied tariffs on cotton tariff lines at zero. India shared information on a programme of technical assistance it was implementing to the benefit of the C4 and other African countries, focused on improving the productivity of both the agriculture and the textile parts of the cotton value chain.

36. In concluding the meeting, I underlined the value of the information presented by ICAC, ITC, and the WTO Secretariat, which had sparked constructive exchanges. I noted the important role of transparency in informing the discussions and I encouraged Members to submit up-to-date notifications as well as responses to the Secretariat's questionnaire.
