



27 February 2018

(18-1286)

Page: 1/5

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

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

17 NOVEMBER 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 eighth Dedicated Discussion of the relevant trade-related developments for cotton took place on 17 November 2017. The Dedicated Discussion was held back-to-back with the 28th Round of the Director-General's Consultative Framework Mechanism on Cotton (DGCFCM), dedicated to the development-assistance aspects of cotton.

2. In my **introductory remarks**, I updated Members on the state of play in the negotiations on cotton leading up to the 11th Ministerial Conference (MC11). I noted that cotton clearly remained a priority for MC11 and that all Members were aware of the fact that Ministers had agreed more than a decade ago that cotton would be addressed "ambitiously, expeditiously and specifically within the agriculture negotiations".

3. I reported that I had convened five consultations in Quad Plus format⁴ to discuss the various proposals on the table including one from the Cotton-4 (C4).⁵ Cotton Domestic Support remained the central and most controversial issue, and views remained far apart on what could constitute a possible outcome in this area.

4. I noted that while all Members recognized the Ministerial mandate to treat cotton ambitiously, expeditiously and specifically, many considered that the C4 proposal was too ambitious in the current overall negotiation context. In particular, many Members considered that further disciplines on Green Box direct payments granted to cotton producers as suggested by the C4 could not be achieved at MC11. Some Members considered that it was not a realistic perspective for the time being, while some others opposed this proposal for more fundamental reasons. As regards trade distorting support for cotton, several Members favoured a limit of cotton trade distorting support expressed as a percentage of cotton value of production. Other Members insisted on the need to address first the AMS granted to cotton beyond the *de minimis* level.

5. I also noted that the C4 had stressed the hardship of cotton producers in various parts of the world and had noted that its proposal was fully reflective of the WTO mandate on cotton and the need to address all the long standing trade distorting subsidies affecting cotton. The C4 had also called for a figures-based negotiation in order to compare the various levels of support and cuts in cotton subsidies in the different boxes that would result from the different proposals on the table.

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.

⁵ TN/AG/GEN/46 – TN/AG/SCG/GEN/18, circulated on 11 October 2017.

6. I further noted that at least one delegation had expressed its strong scepticism about any possible substantive outcome on Cotton Domestic Support taking into account the overall negotiating environment, and had invited participants to acknowledge that stalemate and turn their attention to a possible post-MC11 work programme in which cotton could be included.

7. I had therefore stressed that, at that juncture and in light of the little time remaining, and in the absence of further engagement between Members, my assessment was that I could only reflect those divergences on Domestic Support in the textual elements I would put together on cotton. I had therefore again suggested urgent and direct engagement between Members to find a possible way forward.

8. As regards the other components of Cotton, i.e. Market Access, Export Competition, implementation and follow up as well as development assistance, I noted that delegations had reaffirmed the continued relevance of the Nairobi Decision and most had agreed that that fact could be recognized in a cotton outcome at MC11, as suggested by the C4 in paragraphs 10 to 13 of TN/AG/GEN/46.

9. Finally, I reiterated a point made in previous dedicated discussions, and which had also been stressed by the C4 and at least one other delegation: that our negotiation must be based on recent and up-to-date data on Members' policies and support levels, especially in terms of Domestic Support. While acknowledging the usefulness of external information, I stressed the importance of notifications, as well as Members' replies to the cotton questionnaire circulated by the Secretariat in advance of the dedicated discussions. I urged all Members to keep their notifications and data up to date.

10. Under the agenda item "**General Statements from Members**", Mali, on behalf of the C4, reaffirmed the group's commitment to obtain concrete results on cotton at MC11. The C4 reiterated the importance of cotton production and export for their countries given the large population employed in this sector, noting that a successful cotton season had a positive impact of 2%-5% on their respective GDP. The C4 noted that work in the cotton dossier was in line with the UN Sustainable Development Goals 1, 2, and 8, which are aimed respectively at combating poverty, eliminating hunger and ensuring decent work and economic growth. The C4 pointed out that, however, the current context was not favourable with cotton prices and cotton production in most C4 countries continuously declining in recent years, as indicated in reports by the International Cotton Advisory Committee (ICAC).

11. The C4 invited all Members to consider the cotton issue earnestly and engage constructively so as to achieve an outcome at MC11. The C4 highlighted in that regard the Declaration made by its Ministers at the 5th C4 Ministerial meeting in Cotonou, Benin. Ministers had affirmed on that occasion that they could not envisage a successful outcome at MC 11 in the absence of an outcome on cotton. The C4 considered MC11 as the final stop to follow up on and implement the Hong Kong mandate on cotton.

12. The C4 went on to note that the proposal by the European Union and its co-authors⁶ could not achieve the objective of effectively reducing the trade distorting effect of domestic support on cotton produced by the C4 and Least Developed Countries (LDCs). Moreover, from a technical point of view, the C4 noted that that approach suffered from several inadequacies. For instance, Blue Box support, the second most trade-distorting support after Amber Box support, was not included in the overall trade-distorting domestic support which would be subjected to a limit. Furthermore, the C4 stated that treating the issue of trade-distorting domestic support through the notion of total value of production would not address the core of the problem.

13. The C4 considered that its approach, which aimed at (i) substantially reducing domestic support, with a view to its final elimination and (ii) guaranteeing the promotion of the cotton sector in their countries through production, processing and marketing of cotton and its derivative products, was the right way forward. The C4 invited the proponents of the proposal contained in JOB/AG/99 to provide quantitative data on the results of their approach, in order to enable Members to advance in their search of a satisfactory solution to the cotton issue.

⁶ JOB/AG/99, circulated on 17 July 2017.

14. Pakistan underlined the importance of cotton to its economy, highlighting the significant contribution of cotton and cotton-related products to its GDP as well as Pakistan's large share in world cotton production and imports. Pakistan noted that, however, in recent times, its cotton sector faced several challenges, including worsening terms of trade, declining cotton prices, climate change and extreme weather conditions. Therefore cotton production declined and cotton imports increased. Pakistan noted that its cotton farmers were particularly vulnerable to losses resulting from declining cotton prices since Pakistan cotton producing areas were amongst the poorest and most of the cotton growers are small farmers.

15. Pakistan referred to ICAC's report that direct assistance to cotton is provided through direct support to production, border protection, crop insurance subsidies and minimum support price mechanisms, and noted that, although direct government assistance had slightly declined in recent years, the share of world cotton production receiving such assistance remained high. Pakistan highlighted the negative correlation between cotton subsidies and cotton prices which aggravated the impact of subsidies on its farmers. Pakistan also noted the detrimental effects of border restrictions to cotton exports by developing countries and LDCs, mainly in the form of import tariffs, in addition to domestic support. Due to the absence of support, farmers in Pakistan could not compete with highly subsidized cotton producers from developed countries. Pakistan reiterated its strong interest in resolving the cotton issue and called for Members' speedy action to achieve that goal and allow its cotton products to compete fairly in the world cotton market.

16. The European Union stressed the importance of an in-depth discussion of cotton policies to enhance a better understanding of the C4's concerns and better address them at the multilateral level. The EU expressed its continuous support to the C4's efforts and called upon Members to be pragmatic and focus on achievable outcomes at MC11 and beyond.

17. The **International Cotton Advisory Committee (ICAC)** made a detailed presentation on the latest developments in the global cotton market and trade trends. ICAC also reported on recent developments relating to government measures such as subsidies and assistance in favour of cotton, stating that a majority of cotton production received direct assistance despite the decline in subsidies. The strong negative correlation between the international price of cotton and direct assistance to cotton production was highlighted. ICAC also updated Members on its involvement in the work related to e-Phyto (electronic phytosanitary certificates) and noted its key relevance to trade in cotton and its derivative products.

18. The WTO Secretariat presented its **revised background paper** and addendum⁷ which compile 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 questionnaires on cotton policy developments, as well as relevant information on cotton markets and policies from Trade Policy Review reports. The Secretariat noted in particular that the European Union's reply to the questionnaire, which had been received after the circulation of the background paper, would be included, along with any other late replies, in an addendum.⁸

19. I reiterated the importance of the quality and timeliness of Members' notifications and submissions to the WTO, including replies to the questionnaire circulated by the Secretariat, stressing that the quality of the information contained in the Secretariat document was fully dependent on that information. I repeated my call to Members, particularly key cotton actors, to be more forthcoming in sharing information on recent policy developments.

20. Members welcomed both presentations by ICAC and the Secretariat. Members thanked in particular ICAC for its participation in the dedicated discussions and for its valuable contribution. ICAC's detailed presentation elicited great interest amongst Members.

21. Noting the downward trend of direct assistance observed by ICAC, the United States inquired about how much direct assistance was provided in the form of border protection. The

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

⁸ TN/AG/GEN/34/Rev.7/Add.1 – TN/AG/SCC/GEN/13/Rev.7/Add.1, circulated on 23 January 2018 includes additional replies from Chad, the European Union and the Russian Federation to the Secretariat questionnaire circulated on 10 October 2017.

United States also sought ICAC's views on how recent oil price levels were affecting the competitiveness and production of polyester materials versus cotton. In terms of the competition between polyester and cotton, ICAC noted that while low oil prices would effectively lead to low prices for polyester fibers and affect the competitiveness of cotton, price was not the only parameter to be taken into account. The fashion, functionality and comfort that can be offered by polyester fabric were probably the main factors affecting the competitiveness of man-made fiber versus cotton.

22. Benin sought ICAC's advice on how to (i) identify and analyse the periods during which cotton prices had been largely impacted by support levels, and (ii) compare the average level of support granted during those periods. Benin also asked whether ICAC could provide more disaggregated data on support and value of production by major cotton exporters. Benin noted that they would also be particularly interested in how more restrictive domestic support disciplines could affect world cotton markets. ICAC noted that the breakdown of direct assistance by country was available in an annual ICAC publication that could be shared with interested Members. ICAC also indicated that it should be in a position to carry out the type of comparison suggested by Benin but sought more details on the request.

23. Burkina Faso enquired about the causes underlying the good behavior of cotton prices in 2016/17 and 2017/18. Burkina Faso also asked about the impact of China's stocking policies on the global cotton market. ICAC noted that prices are in general related to supply and demand and when the two factors meet, prices remain stable. ICAC also noted that the controlled release of China's cotton stock had helped stabilize cotton prices over the past few years.

24. Chad asked about the risk of disappearance of cotton use in light of the strong competition from polyester and whether polyester had an adverse effect on human health. ICAC stated that there would always be a demand for cotton, but that the concern should be the trend in the respective market share of cotton versus synthetic fibers. To address that concern, ICAC underlined the importance of applying new technologies like smart textile to cotton clothing, as was already developed for synthetic fiber clothing such as the function of reducing body temperature. Concerning the health impact of man-made fiber, ICAC noted that microbes were becoming a major issue, but that the impact on human health remained unknown.

25. The EU raised technical questions with a number of Members based on the information contained in the Secretariat background paper. The EU noted India's reintroduction of market price support for cotton as of 2011 and the related low eligible production level in 2011 as compared to total cotton production in India. India was asked to clarify the principles of determining the eligible production for the purposes of calculating market price support for cotton. As regards the US tariffs for cotton, the EU observed that in some cases applied duties exceeded bound duties and also that some bound tariffs were different from previous versions of the background paper. The EU asked the United States to explain those figures.

26. The EU also sought clarification from the C4 as to why several measures, which seemed to include price support elements, as listed in the most recent version of the Table on Domestic Cotton Sector Reforms⁹, had not been notified. That included measures such as the fixing of transfer price for cotton inputs and the setting of price or floor price for the purchase of seed cotton and organic seed cotton in Benin, Burkina Faso, Chad, and Mali.

27. Benin, Burkina Faso, India, Mali and the United States noted that they would check on the questions raised and provide an answer as soon as feasible. Chad confirmed that cotton prices were fixed pursuant to a mechanism put in place by a decree from 1997. The cotton seed purchase price was linked to the international cotton fibre price as measured by the cotlook A index. The payment was made in two instalments. Inputs were sold on credit to producers at a subsidized price. However, the level of subsidy was low and in compliance with Article 6.2 of the Agreement on Agriculture which allows developing countries to provide input subsidies to low-income or resource-poor producers.

28. In relation to the Secretariat background paper, the C4 highlighted the importance of having complete information through Members' notifications and replies to the Secretariat's questionnaire. The C4 called on Members who had not yet replied to the questionnaire or notified their cotton

⁹ WT/CFMC/21/Rev.14, circulated on 7 November 2017.

policies in recent years to do so. The C4 also acknowledged the decreasing trend of export subsidies since 2014 and encouraged Members to continue working towards securing the total elimination of export subsidies.

29. The International Trade Centre (ITC) gave a presentation on the joint WTO/ITC initiative to develop a dedicated **Cotton Portal**. The Cotton Portal is a market access information tool which would provide a single entry point for all the cotton specific information available in the various WTO and ITC databases, such as information on market access, trade statistics, country-specific business contacts and so on. The ITC gave a first preview of the Cotton Portal website to show how to make use of the Portal and noted that the official launch of the Cotton Portal would take place during MC11. ITC further noted that the Cotton Portal site would be available in both English and French.

30. I noted that the Cotton Portal project was an excellent initiative that will contribute to improving the quality and accessibility of information related to Cotton Market Access, as well as that of relevant information for the cotton-related daily activities of both private operators and officials. In particular the Portal would facilitate the monitoring of the implementation by Members of the Market Access paragraphs contained in the Nairobi Ministerial Decision on cotton. For instance I highlighted the useful link between the information that could be found on the Portal and the reference made in paragraph 6 of the Nairobi Decision on the issue of improved transparency in relation to market access for cotton products from LDCs.

31. The C4 welcomed the Cotton portal project as a useful new tool in accessing cotton-related information and increasing transparency in the WTO. They also expressed their support towards the launch of the Cotton Portal at MC11.

32. Finally, I reminded Members of paragraph 5 of the Nairobi Ministerial Decision which gave Members the opportunity to review the list of cotton bi-products annexed to the Decision within two years of the Decision, in the context of the dedicated discussions. In light of the absence of any such request by any Member, I asked Members to keep this in mind in the context of the continued implementation of the Nairobi Ministerial Decision and that of any new mandate on cotton post MC11.
