



62nd Plenary Meeting of the INTERNATIONAL COTTON ADVISORY COMMITTEE

MINUTES

THIRD PLENARY SESSION

11:00 AM, Tuesday September 9, 2003
Mr. Tomas Ostaczewicz in the Chair

The CHAIR introduced Mr. Carlos Valderrama, Head Economist of the Secretariat, to present a report on government measures affecting cotton. Mr. Valderrama said that direct income and price support to the cotton industry worldwide amounted to \$5.8 billion in 2001/02 and declined to \$3.8 billion in 2002/03. Four countries, The USA, China (Mainland) and Spain and Greece in the European Union accounted for 89% of direct global subsidies offered in 2001/02 and 97% in 2002/03. Lower prices over the last six years have been the result of several factors, among which are new technologies used in cotton production, new area dedicated to cotton, exchange rates in some countries that partially offset price declines, and government subsidies. He mentioned that a measure of the impact of subsidies on cotton prices developed by the Secretariat simulated a scenario without subsidies in the world cotton market and compared the simulated average season prices with actual average season prices. The exercise suggests that simulated global production in a world without subsidies would be lower than actual production. In a world without subsidies, the simulation exercise suggests the Cotlook A Index, would be substantially higher than actual prices. In 2002/03, the difference between actual and simulated prices was 8 cents per pound. Finally, Mr. Valderrama noted that the exercise did not take into account export subsidies. Mr. Valderrama's report is a statement of the meeting.

The CHAIR introduced Mr. Jean-Pierre Lapalme, Counselor of the WTO, to present a report on the latest developments at the WTO. Mr. Lapalme referred to three aspects of activities at the WTO: implementation of the Agreement on Textiles and Clothing (ATC), the Agreement on Agriculture (AA), and initiatives by WTO members regarding cotton subsidies. Mr. Lapalme mentioned that the Ministerial Conference in Cancun, Mexico was about to start and that despite the fact that governments continue to negotiate several deadlines were missed, that there is a Draft Ministerial Text, but that the substance of the modalities in agriculture and the so called Singapore issues remain to be discussed. He was of the opinion that the conference in Cancun had a daunting but not impossible task. In regard to the ATC, he said that three reasons suggest that the full elimination of quotas will be achieved as planned: countries that maintain quotas have already removed 20% of the quotas, representing more than 51% of the covered products; under the ATC the remaining quotas have been liberalized through staged increases in the annual quota growth rates; and the USA, Canada and the EU have clearly reconfirmed their commitment to fully meet their obligations under the ATC. He mentioned that despite the fact that the ATC is not per se an issue in Cancun, several of the subjects under negotiation, such as market access and special and differential treatment for developing countries, have a direct bearing on the future of trade in the textile and clothing sector. In regard to the AA, Mr. Lapalme said that the agreement on modalities under the AA missed the deadline of March 15, 2003, that the most current draft envisages a progressive reduction and eventual elimination of export subsidies and a substantial reduction in domestic support measures. In regard to cotton initiatives Mr. Lapalme said that an issue to discuss in Cancun is the proposal in favor of cotton made in four West African countries. The proposal calls for the elimination of total subsidies by 2006 and the establishment of a financial compensation mechanism for Least Developed Countries. These four countries have stated that certain WTO member governments have continued to apply subsidies to cotton production and exports that distort global market prices. Finally, Mr. Lapalme said that another issue pertaining to cotton subsidies refers to consultations between Brazil and the USA, but that the proceedings are in strict confidence and cannot be discussed publicly. The report from a panel established in May 2003 will be made public in November

CHAIR opened the floor for discussion and the delegate of AUSTRALIA noted that the decision to emphasize the discussion on subsidies within the ICAC was made at the 60th Plenary Meeting in Zimbabwe and that much progress has been made since then. The delegate proposed a discussion on the draft resolution by four West African countries to be presented at the Ministerial Conference in Cancun and said that Australia had an official

position regarding the draft resolution.

The Delegate of SOUTH AFRICA said that the proposal by four West African countries was of utmost importance and asked for support of the proposal by member countries.

In response to a question by the delegate of FRANCE, Mr. Valderrama said that total income and price support did not include export subsidies, that countries that subsidize use very diverse mechanisms, which are changed from time to time, and that not all countries use mechanisms such as deficiency payments.

The delegate of GREECE said that his delegation supported technical discussions with ICAC, but not discussion of political issues. He expressed support for the declaration of the European Union, but said that a discussion on government measures should not be in the agenda of the meeting, as it is a political issue. He also said that EU production is between 1% and 2% of world production and does not have an impact on international prices, that the EU is a large importer of cotton and a minimal exporter, and that high labor costs in Greece greatly affect the cost of production.

The CHAIR stated that member governments had agreed to have a session on government measures at the 62nd Plenary Meeting and thus could not concur with the suggestion of the delegate of Greece.

The delegate of SOUTH AFRICA asked for discussion of the proposal of Australia and said that with respect to the economic aspects of cotton subsidies there were two issues. One is that economic competitive advantage means that a producer produces what he is most efficient at, and the other is that African GDP per capita is about \$400 and Mali, one of the countries presenting the proposal in Cancun, has a GDP per capita of \$200. He said that member governments decided to put emphasis on the discussion on subsidies in Zimbabwe and should continue to do so, and that in that discussion Greece should explain why growers receive subsidies.

The delegate of INDIA said that he found no logic not to support the discussion on subsidies as countries had agreed in the agricultural negotiations within the WTO that subsidies distort cotton prices. As discussions within ICAC are not negotiations, the views of the ICAC should be forwarded to the WTO.

The Delegate of the USA applauded the initiatives with the objective of moving forward toward a free market trading environment and expressed agreement with the Australian delegation that a comprehensive foundation of reforms must be finalized before a sector or commodity specific proposal can be addressed. He hoped that the enthusiasm in support of the West African proposal expressed in Gdansk is also exhibited in Cancun. The delegate noted that the USA had put forward for discussion last year a proposal that went even further than the West African initiative, but it received little support and much criticism. As the African proposal is now being discussed by negotiators in Cancun, the ICAC should move forward, focusing on demand creation, a long-term factor that affects all producers. The delegate supported initiatives within the ICAC in regard to demand creation, in particular in the IFCP and PSAP, and said that the US industry is concerned about cotton's competition with synthetic fibers. He added that the world market share of cotton has declined due to the fact the synthetic fiber industry spends tens of millions in research and hundreds of millions in advertising, and that only the USA had a market development program in place.

The delegate of GERMANY associated himself with the declaration of the European Union, and expressed hope that the Ministerial Conference in Cancun could find the correct answer to the problems of agricultural trade. He said that countries should be realistic, that sector initiatives may endanger global and general solutions, and that a sustainable solution is a political one.

The delegate of SWITZERLAND supported discussion of the proposal by West African countries. He said that cotton plays a crucial role in the economies of a number of developing countries, some of which do not have alternative products for export, that it is possible to demonstrate that these countries had been injured by subsidies paid in other countries, and that the Doha Round of the WTO had the objective of reductions in subsidies. He stated that it was urgent to find a solution to distortions of the cotton market so that the survival of the cotton sector in Africa is guaranteed.

The delegate of PAKISTAN noted that his country is the fourth largest producer of cotton, and that Pakistani growers do not receive any subsidies but confront an international market full of distortions. The distortions faced

by Pakistan have blocked the process of modernization of the agricultural, textile and apparel sectors and have increased poverty levels. He called for the elimination of distortions to the cotton market.

The delegate of SPAIN endorsed the comments of Germany and added that because of regulations cotton production in Spain does not expand.

The delegate of UGANDA supported the West African proposal. He said that all countries realize the pain caused by subsidies to African producers, that industrial countries set the rules of world trade, and imposed a version of free trade, but they do not have compassion for the injury caused to Africa. He associated himself with the views of the Australian delegation.

The delegate of BRAZIL supported the comments by Australia, as much progress has been made by drawing attention of governments in regard to subsidies since the plenary meeting in Zimbabwe, where the Brazilian delegation also played a role in achieving consensus. He expressed respect for the position of Greece, and said that if subsidies create over-production worldwide and depress prices, nobody wins. He said that Brazil is not against subsidies per se, but rather against government measures that create distortions in the market. The delegate agreed with the comments by the U.S. delegation with respect to the use of cotton promotion to increase consumption and offset overproduction. The delegate recommended that the USA expand further its promotional programs include generic promotion of cotton in order to maintain a balance between supply and demand.

The delegate of PARAGUAY noted that the ICAC is the correct forum to discuss subsidies, and that subsidies were not solely a political issue as they clearly distort markets. Subsidies translate into lower prices, lower income, and poorer farmers.

The delegate of SOUTH AFRICA noted that for many countries trade negotiations were a matter of just one product, that many countries do not have alternative crops, and that for that reason commodity specific proposals such as the West African proposal, should be discussed.

The delegate of TURKEY said that the ICAC has dedicated time to discuss government measures for over twenty years and should continue to do so. He supported the idea of a worldwide generic promotion of cotton, and said that the decisions of this plenary must be sent to the WTO, as has occurred in the past.

The delegate of SUDAN saluted the initiative of South Africa and supported the proposal by West African countries.

The delegate of TOGO said that subsidies need to be on the agenda of the ICAC and that if Australia had a proposal it had to be heard. He expressed support for the West African proposal and added that since the ICAC deals only with cotton it cannot discuss other products. He supported the Indian delegation for proposing that the ICAC statement be sent to Cancun.

The Delegate of AUSTRALIA noted that his delegation did not have a proposal to present but that he was just referring to the proposal by West African countries.

The CHAIR thanked all participants and noted that as per the agreements at the WTO a world without textile quotas was going to begin in 2005. He read a paragraph from the previous statement of the 61st. Plenary Meeting on the subject of government measures, and since it summarizes the discussion of the session he asked the Secretary General to include it in the Draft resolution to be discussed in the Drafting Committee.

The Chair adjourned the session at 12:30pm