



# 64th Plenary Meeting of the INTERNATIONAL COTTON ADVISORY COMMITTEE

## MINUTES

### SECOND PLENARY SESSION

11:00 AM, Tuesday, September 27, 2005  
Mr. James Hughes in the Chair

The CHAIR called the meeting to order and noted that government measures affect the cotton market, and that while some action has been taken to reduce trade distorting measures, it is the Doha round of negotiations within the WTO where further agreement to limit government measures can be achieved. The Chair also noted that the WTO recognizes the importance of cotton and attaches progress in the trade and development aspects of the cotton initiative within the WTO as an imperative to a successful WTO ministerial meeting in Hong Kong later this year.

The Chair introduced Mr. Carlos Valderrama from the Secretariat to present a report on government measures. Mr. Valderrama said that since 1997/98 over 50% of world production has been supported by direct subsidies to production, and that as prices decline the share of subsidizing countries in world production tends to increase. Direct income and price support provided to the cotton industry in 2004/05 is estimated at US\$4.7 billion, up from \$3.4 billion the previous season. Increases in direct government support to the cotton industry were the result of a decline in market prices and increased production. Nine countries offered direct income and price support in 2004/05 ranging from an estimate of \$2.2 billion in the USA to \$11 million in Colombia. He mentioned that as prices declined, the main subsidizing countries, the USA, and China (Mainland), had increased subsidies in 2004/05, while in the European Union subsidies declined by 30 million euros to \$858 million euros in 2004/05. He said that price increases in 2002/03 and 2003/04 reduced the level of assistance or eliminated the need for assistance to cotton farmers in developing countries and that as prices declined in 2004/05, assistance increased. He mentioned that a study by FAO established that export subsidies in China had been discontinued in 2002, but that in addition to export subsidies in the USA, Egypt and India provided export subsidies in 2004/05. Export subsidies in the three countries doubled in 2004/05 to \$470 million.

The Chair introduced Mr. Chiedu Osakwe, Director of the Doha Development Agenda and Special Duties Division of the WTO to talk about cotton and the Doha Development Agenda (DDA). Mr. Osakwe said that cotton was not included in the DDA agenda originally, but that in 2003 four Least-Developed African countries presented a proposal known as the Sectoral Initiative on Cotton and, therefore, WTO members committed to an ambitious, expeditious and specific treatment of cotton in the three pillars of negotiations: export subsidies, market access, and domestic support. Mr. Osakwe said that positive developments have been registered on the trade aspects, as reflected in the 2004 July Framework Package, including the creation of the Subcommittee on Cotton in the WTO, within which in June 2005 some cotton producing African countries proposed modalities for the treatment of cotton. He noted that negotiations *per se* take place in the overall agriculture negotiations. On the development aspects, the

Framework package called on the Secretary General of WTO to consult with the Bretton Woods Institutions on the progress on development assistance. As a result, bilateral donors and multilateral institutions have referred specifically to cotton in their programs. Nonetheless, there is scope for further progress in both the trade and the development tracks of negotiations. Mr. Osakwe stated that urgent action for demonstrable progress is required before the ministerial meeting in Hong Kong, China in December 2005, and that the support of the ICAC is welcomed and needed. He noted that the ICAC Secretariat has been in useful, pragmatic, and constructive contact with WTO delegations and the WTO Secretariat, and provide relevant data to negotiators. He recalled the offer of the Executive Director of ICAC in his report to the Plenary that ICAC stands ready to contribute to the transfer of technology to developing countries. Finally, Mr. Osakwe said that he will report to the Subcommittee on Cotton next week on the tangible possibility that ICAC can be of help furthering the development agenda of the Cotton Initiative.

The Chair opened the floor for questions and comments, and the Delegate of Côte d'Ivoire noted the excellent work of the WGGM of ICAC and said that there was hope in Africa that there would be change after the African cotton initiative, but that instead low prices have further continued to penalize countries that do not subsidize. He mentioned that Africans have been told that Biotech cotton can help African cotton growers and asked for the opinion of the Secretariat on that respect.

The Delegate of BRAZIL said that he was instructed to restate that it is important that all member governments observe the international commercial disciplines agreed by ICAC, and to reiterate the position of the Brazilian government against subsidies that distort the international cotton market. The delegate asked all member governments to work toward the elimination of their subsidies within an agreed time frame. Finally, the delegate asked that Mr. Osakwe from the WTO explain the proposed timeframe agreement for the reduction or elimination of subsidies.

The Delegate of CHAD reiterated the importance of the Sectoral Initiative introduced in the WTO by four African countries, which explains that cotton is a strategic crop for African countries and the source of income for over 20 million Africans. The initiative calls for a significant reduction in subsidies and compensation to African countries for the injuries caused by subsidies. The delegate urged that cotton be dealt with separately within the WTO, as, so far, the cotton issues had not been handled ambitiously, not expeditiously, and not specifically. He said that the call in industrial countries and international agencies for the substitution of cotton for other crops was not an option in Africa, and asked the WTO representative about a specific time frame.

In answering the various concerns, Mr. Osakwe said that the statement by the government of Brazil is in accordance with the Doha Round of negotiations and the 2004 July Framework Agreement, and that, therefore, it is a statement shared by the member governments of WTO. In regard to the time frame Mr. Osakwe said that there are various proposals, that the G-20 group of countries call for a five-year limit for the elimination of export subsidies, but that in the market access and domestic support issues there is no specific proposal. He also mentioned that the delegate of Chad is correct in stating that cotton is of utmost importance to the DDA and the coming ministerial meeting in Hong Kong, China. He stated, however, that the

compensation called for in the development aspects of the Cotton Initiative face legal difficulties within the WTO, as compensation has to be decided by a panel ruling.

The Delegate of SUDAN asked if the development assistance program of the EU will cover all African cotton producing countries. He further said that multilateral negotiation seemed to be dependent on an agreement between the USA and the European Union, and that if they disagree on the negotiations, developing countries will continue to suffer from the low prices created by their subsidies. Finally, he asked to what extent WTO member governments will abide by the agreed rules, having in mind that some countries refused to implement what was agreed in previous WTO rounds.

The Delegate of SOUTH AFRICA noted that in the 2004 WTO meeting in Africa it was agreed that the trade and development issues could not be separate. The WTO representative noted that some progress had been made in regard to export subsidies, but it was recognized that the market access and domestic support issues were very complex. In addition to this some proposals were reported in regard to the development aspects, and the delegate stated that if the trade aspects were not be dealt with in conjunction with the development aspects, as agreed in Benin, it could no be said that so far Africa has not been fairly treated in the WTO.

The delegate of COLOMBIA supported the urgent call of African countries and of Brazil to obtain specific and prompt results in the Doha Round of Negotiations of the WTO. The delegate said that time is critical for developing countries, as subsidies in industrial countries have caused a prolonged period of low prices. The delegate asked that if compensation is recognized as a difficult mechanism within the WTO, what other mechanism could be used to address the needs of non-subsidizing developing cotton producing countries.

In replying to the various concerns Mr. Osakwe said that under the development issues specific development assistance had been committed by donor countries to the benefit of low income cotton producing countries and that at the World Bank/IMF meeting this week in Washington a declaration was made by finance ministers in regard to specifics of the development aspects of the WTO initiative.

Seeing no other questions in regard to the WTO, the Chair introduced Mr. Siphwe Mkhize, Delegate of South Africa to the ICAC standing Committee and Chair of the Working Group on Government Measures of the ICAC (WGGM). Mr. Mkhize said that a number of ICAC delegates in Washington expressed the interest of their governments in a successful Doha Development Round and noted the challenge for governments to work on modalities to implement the July Framework Agreement and that many governments lacked the resources to stay abreast of developments affecting cotton. The WGGM met on February 8, 2005 and determined that the Secretariat should expand its annual report on Production and Trade Policies Affecting the Cotton Industry, to also list and describe other forms of government measures that distort cotton, export credits and export credit guarantees and other measures that the Secretariat was able to identify. In April 2005, a fully reactivated WGGM met, and accordingly a summary of the work by the Secretariat was presented. The report included examples of policies used by governments, and it was agreed that a comprehensive study of all forms of government measures was not feasible within the timeframe given. The Secretariat was then instructed to narrow the scope of the study so that it can accomplish as much as

possible in order to be able to provide timely information of relevance to the WTO process. The WGGM recommended that the Secretariat request information on government measures directly from Coordinating Agencies. It was also reiterated that the Secretariat should narrow the scope of its study to focus on matters of direct relevance to the concerns of African countries in the WTO. The WGGM met again on May 13, 2005 where there were discussions about the surveys of Government Measures and Barriers to Trade in Textiles which are part of the normal data gathering efforts of the Secretariat and is conducted every two years, and that the government measures that were conducted on instruction from WGGM as a long term project to provide a broad perspective on government involvement in agricultural sector. The secretariat reported on its visit to the WTO in Geneva and many missions to the WTO were contacted. They indicated that the work of the ICAC in providing information on government measures affecting cotton production and trade was highly appreciated. The Secretariat also reported that negotiators in Geneva had urged ICAC to continue to provide targeted information about direct subsidies to cotton and the main policies affecting the world cotton market. Negotiators had also encouraged the Secretariat to expand on the details of the methodology used to measure the impact of subsidies on cotton prices, and to provide documentation about the sources of the information provided in the reports. It was reported that the work of ICAC is highly appreciated by delegates at WTO and the publications of the Secretariat are regarded as objective, credible, and reliable. It was also reported that most countries strongly supported the request of the ICAC for observer status in the Subcommittee on Cotton, although not all countries support the request. The biggest opposition had come from China (Mainland) and the USA. The Secretariat of the WTO and the various delegations to the WTO noted that a contribution by ICAC to a successful outcome of the Doha Round of negotiations would have to include China (Mainland) in discussions within the ICAC in regard to government measures, and urged the ICAC to find a solution to the issue of membership of China (Mainland). After some deliberations the WGGM found that the issue of China (Mainland) membership is a broader issue, which did not belong to the WGGM but to the ICAC plenary meeting. It was also noted that the July Framework which mandated the establishment of the Subcommittee on Cotton, limited the subcommittee to non-negotiation activities, and specifically instructed the subcommittee to ensure that the development aspects of the cotton initiative are taken into account in the overall agricultural negotiations within the Doha Round. The WGGM members also noted the Draft Modalities concerning the Sectoral Initiative in favor of cotton which was circulated by the African Group within the WTO. Finally Mr. Mkhize said that the discussions and deliberations which were held by the WGGM helped the ICAC to keep focus on issues of government measures affecting cotton, and assisted governments in following the negotiations in Geneva. The WGGM also raised the expectations and hope that the Doha Development Round will end successfully, and that cotton issues will be dealt with within the context of the negotiations on agriculture.

The Chair opened the floor for questions and comments. The Delegate of the USA said that his government remains committed to a successful outcome in the Doha Development Agenda, that an agreement on the three pillars of negotiations is in the best interests of all countries, and that eliminating subsidies alone will not solve the problems of developing cotton producing countries. He noted that the USA is very active in the development aspects within the WTO, is committed to honoring its WTO obligations, and intends to comply with the cotton decisions within the WTO. The USA has taken significant steps to implement the cotton decisions and has announced changes to agricultural credit guarantee programs and proposed legislation to

repeal the export subsidy programs. Similarly, reductions in other domestic support programs are being considered. Finally the delegate said that the commitment of the USA to comply with the cotton decisions of the WTO, illustrate that negotiation, and not litigation, is the key to meaningful reform.

The Delegate of BRAZIL noted that the Secretariat had reported that according to estimates by USDA in the event of the elimination of the U.S. Step 2 program prices would decline by about 2 cents. Given that export subsidies are designed to increase aggressively the participation of U.S. cotton in the world market [The Secretariat referred the delegate to USDA officials for an explanation of their estimate.], the delegate asked the Secretariat to explain why prices would decline.

The Delegate of PARAGUAY expressed support for the call of African countries to end cotton subsidies in industrial countries.

The delegate of SOUTH AFRICA commented the WGGM for raising awareness of the issues associated with cotton in the WTO. She emphasized that development support must be matched by Trade Liberalization.

The delegate of AUSTRALIA supported the statement by the government of Brazil and said that a successful conclusion of the Doha Round is a priority for the Australian government. The delegate urged the EU and the USA to show greater leadership to ensure an agreement by December in the WTO Ministerial in Hong Kong, China.

The delegate of CHAD mentioned that the main conclusion of the WTO meeting in Benin in 2004 was that the main obstacle to African cotton producing countries was the subsidies in industrial countries, that trade rules have to be respected by all WTO member governments and that trade issues had to be dealt with first, before development issues. The delegate welcomed the USA statement in regard to the willingness to comply with WTO rules.

The delegate of TURKEY said that his country is in compliance with the Doha Mandate and is ready to contribute to all efforts to eliminate subsidies. He said that the Cotton Initiative expressed by African countries is an issue of utmost importance and that Turkey looks forward to an expeditiously settlement of the issue in the WTO.

The Delegate of SOUTH AFRICA suggested that the ICAC could get involved in the issue of development support to least developed countries by promoting strong market access opportunities at competitive prices to support economic growth in Least Developed countries.

Noting the time, the CHAIR recessed the meeting and asked delegates to resume the discussion at 3:45 PM. The Chair resumed the meeting and said that the Secretariat would distribute a copy of the highlights of the meeting of ministers at the World Bank/IMF meeting. He noted that the Committee strongly supports the trade and development issues of the WTO and that agreement had to be achieved on the paragraph of the plenary statement dealing with government measures. After reading a draft of a paragraph he had drafted, the CHAIR opened the floor for discussion.

The Delegate of SOUTH AFRICA expressed concern that the paragraph did not express any link between development and trade issues.

The delegate of CHAD said that while he agreed with the paragraph in general, there was no specific reference to the Initiative on Cotton by four African Countries, and asked that the reference be included.

The delegates of BURKINA FASO, TANZANIA and PARAGUAY, supported the views of the delegate of Chad.

The delegate from the USA said that the draft read by the Chair was appropriate as stated and that no changes were necessary.

The delegate of CHAD suggested that the paragraph begin with a reference to the sectoral Initiative on cotton by four African Countries.

The delegate of USA reported his view that the statement of the meeting could not indicate universal support for the Sectorial Initiative on cotton advanced by the African countries.

The Delegate of SOUTH AFRICA asked if there was any harm in referring to the Cotton Initiative.

The delegate of AUSTRALIA said that if the if the statement includes issues regarding the trade and development issues, it could include the sectoral initiative.

The delegate of the USA said that the sectoral initiative on cotton was only supported by some African Countries and therefore could not be endorsed by all ICAC member governments.

The delegate of CHAD found agreement with the delegate of the USA and said that his proposal included the words "Sectoral Initiative on Cotton supported by four African Countries"

The CHAIR thanked delegates for their views. He said that he would make another effort to draft a paragraph incorporating the view of delegates, and that the revised draft would be circulated by the executive director for further consideration during the Drafting Group Meeting on Thursday.

Mr. Sipiwe said that in regard to a question buy the delegate of Tanzania related to the opinion of ICAC in relation to the implementation of bio-technology in African countries, the ICAC does not encourage and has not have a position on any particular technology, but encourages the use of all kinds of technologies.

Not seeing other comments the Chair adjourned the meeting at 4:10pm