

# The Multilateral Trading System: a US-Africa dialogue on cotton

A report of an International Conference held on July 20, 2009 in Washington,  
hosted by the Carnegie Endowment for International Peace and  
organised by IDEAS Centre Geneva



---

This conference and this paper were made possible with financial support from DFID (Department for International Development, United Kingdom) and SECO (State Secretariat for Economic Affairs, Switzerland). IDEAS Centre also thanks the Carnegie Endowment for International Peace for its both in the logistics and in the content of this event.

**DFID** Department for  
International  
Development

**CARNEGIE ENDOWMENT**

FOR INTERNATIONAL PEACE

WASHINGTON DC ■ MOSCOW ■ BEIJING ■ BEIRUT ■ BRUSSELS



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs FDEA  
**State Secretariat for Economic Affairs SECO**

© IDEAS Centre Geneva  
All rights reserved

Published by IDEAS Centre Geneva  
Editor: Anne-Sophie Nivet

IDEAS Centre Geneva  
Arquebuse 10  
CH-1204 Geneva  
Tel: +41 22 807 17 40  
Fax: +41 22 807 17 41  
Web: [www.ideascentre.ch](http://www.ideascentre.ch)

Printed by easyGraph  
easyGraph  
rue racettes 57  
1213 Onex  
tel: +41 22 344 40 83  
Web: [www.easygraph.biz](http://www.easygraph.biz)

---

The organizers would like to thank the conference participants for rich presentations and fruitful discussions on the Multilateral Trading System and Cotton. They would also like to thank the collaborators on this project, including Uri Dadush, Evelina Yeghiyan, Lauren Falco, Shimelse L. Ali and Odile Eichenberger.

## The Multilateral Trading System: a US-Africa dialogue on cotton

### Contents

<i>Executive Summary</i>	4
<i>Part one: Introduction</i>	6
<i>Part two: The pillars of the Multilateral Trading System</i>	9
<i>Part three: Statements by Officials from the C-4 and the US</i>	16
<i>Part four: Trade and Development: A holistic approach to the issue</i>	20
<i>Conclusions of the Conference drawn by IDEAS Centre</i>	27

### Annexes

<i>Annex 1: List of acronyms</i>	29
<i>Annex 2: Biographies of speakers</i>	30

### Tables, charts and graphs

<i>1. The importance of cotton: C-4, WCA, US and EU</i>	7
<i>2. The Doha Round and Cotton: key dates</i>	9
<i>3. Hong Kong declaration, art. 11</i>	11
<i>4. US upland Cotton case: key dates</i>	12
<i>5. Share of biotech cotton in selected countries</i>	14
<i>6. Hong Kong Declaration, art.12</i>	17
<i>7. Cotton subsidies</i>	18
<i>8. Shift in US domestic use and exports</i>	19
<i>9. US assistance programs towards Africa</i>	21

The following information and presentations can be accessed at:  
<http://www.ideascentre.ch/Conference20Juillet2009.htm>

### Conference agenda

Presentation by Terry Townsend

Presentation by John Baffes

Presentation by Carol Goodloe

Speech by His Excellency Mamadou Sanou (in French)

## Executive summary

On the 20th of July 2009 in Washington, the Carnegie Endowment of International Peace and IDEAS Centre Geneva hosted a dialogue between representatives from the United States and Africa's four major cotton producing countries: Benin, Burkina Faso, Chad, and Mali (the Cotton-4, or C-4).

Presentations were articulated around the question of cotton both within and for the Multilateral Trading System (MTS).

Despite the current crisis and re-configuration of cotton's world market, cotton remains a major product cultivated in 80 countries and providing livelihoods for three hundred million people worldwide, mostly in developing countries. Cotton production has proven its usefulness in development efforts and poverty alleviation in poorer countries. The US pointed out the decrease in US production and the increasing role of emerging countries in the world cotton market regarding flows, consumption and milling.

As far as the Multilateral Trading System is concerned, cotton has become over the years both an emblem and a test: (i) an emblem of the Least Developed Countries' (LDC) empowerment within the WTO; (ii) a test whose results will prove (or not) the commitment of WTO members to make the Doha Round a real Development Round and their willingness to fulfill the Hong Kong mandate to address cotton ambitiously, specifically and expeditiously. Efforts to reduce subsidies for cotton have been called a litmus test for the commitment of participating nations to the WTO Doha Round of global trade negotiations.

Despite constantly reaffirmed declarations that there will be no Doha without cotton, the issue failed to garner serious attention at the July 2008 WTO trade ministers meeting in Geneva. As for the C-4 countries, they are still expecting counter-proposals from the US and the EU.

The cotton issue has also become an endless story in the framework of the MTS litigation side. The case that opposes Brazil (with the support of the C-4 among others) to the US raises the question of the use of the available WTO instruments by developing countries and the issues of compliance versus compensation. The guarantee of the system relies on compliance; compensation should only remain for a limited number of cases.

Cotton has to be treated in a comprehensive manner that links trade with aid solutions and domestic reforms in developing countries with reduction of support in developed countries. Assistance to the African cotton sectors remains essential to ensure the viability of the "filières". Aid actions can be successful only if consistent with internal reforms and the result of trade negotiations. Aid alone cannot be considered sufficient to solve the problem of cotton.

US and C-4 officials' statements did not focus on the same elements of the debate. For the C-4, the trade issue remains central to the discussions and to an expected outcome. Aid cannot be considered as a substitute to a trade solution and reducing subsidies is about leveling the playing field and ensuring that developed and developing countries play by the same rules.

For the US, the situation has radically changed as US cotton production has fallen down by more than 40% in recent years, which reduces the impact of the US on the world cotton market now dominated by India and China. Regarding Doha, the US representatives limited their intervention to reiterating that cotton can be addressed only once other issues have been solved and insisted on the aid aspect of the cotton dossier.

The panel discussion and debate with the audience allowed the participants to raise or insist on issues such as the developmental role of cotton production in Africa, the competitiveness difficulties of the US cotton, compliance versus compensation in the framework of dispute settlement, the future US trade policy and the position of the new administration and President Obama himself.

## Part one: Introductory remarks

### Panelists:

Nicolas Imboden, Executive Director, IDEAS Centre, Geneva

Terry Townsend, Executive Director, ICAC

IDEAS Centre Geneva, a non-profit organization dedicated to facilitating the integration of the poorer developing countries into the world economy and to harnessing the benefits of the international market, convened this US-Africa dialogue on cotton in the framework of the Multilateral Trading System. The conference was hosted by the Carnegie Endowment for International Peace. Introducing the conference's concept and purposes, **Nicolas Imboden**, Executive Director of IDEAS Centre, remembering his own past experience as the chief agricultural negotiator during the Uruguay Round for Switzerland – a country with the highest level of protection in agriculture – said he fully understood the difficulties both to negotiate and to reform agricultural policies. Success, both in the negotiations and in reform, can only be brought about slowly and through dialogue. IDEAS Centre organized this event to follow up the conference held in Washington three years earlier<sup>1</sup>. Time had come to renew the dialogue between African cotton producing countries and the US:

1. There is a new commitment to finish the Doha negotiations. And as WTO Director General Pascal Lamy has said several times, there will be no Doha Round conclusion without cotton<sup>2</sup>; the search for a solution to the cotton issue is therefore also a contribution to the success of the Doha Round;
2. The African cotton growers are in a difficult situation: somewhat higher cotton prices in 2007/08 have not been enough to improve their situation. African cotton growers need stable, predictable and fair prices on the world market. The conclusion of the Doha Round is their only hope. They are fully aware that there will be no result for cotton without a conclusion of the Doha Round.
3. There is a 2008 decision of the WTO panel on cotton which urged the US to comply with its WTO commitments. A decision by the arbitration panel was expected in August 2009 and could entitle Brazil to take retaliation measures against the US<sup>3</sup>.
4. The US has a new administration which has made some very encouraging statements about the importance of the Dispute Settlement Mechanism (and the enforcement of decisions), the US willingness to decrease agri-business subsidies, the importance of the Doha Round for poorer developing countries and its willingness to take into account development concerns in its policies.

---

<sup>1</sup> More on the 2006 Conference available at <http://www.ideascentre.ch/ConferenceWashington.htm>

<sup>2</sup> See for instance Pascal Lamy, "Cotton is 'litmus test' for development commitment in Doha Round", Speech delivered at the UNCTAD High Level Multi Stakeholder Meeting on Cotton in Geneva on 2nd December 2008, [http://www.wto.org/english/news\\_e/sppl\\_e/sppl110\\_e.htm](http://www.wto.org/english/news_e/sppl_e/sppl110_e.htm)

<sup>3</sup> This decision has now been taken: for the WTO texts (Arbitration panel decisions-31st August 2009), see [http://www.wto.org/english/tratop\\_e/dispu\\_e/267arb\\_part1\\_e.pdf](http://www.wto.org/english/tratop_e/dispu_e/267arb_part1_e.pdf) and [http://www.wto.org/english/tratop\\_e/dispu\\_e/267arb\\_part2\\_e.pdf](http://www.wto.org/english/tratop_e/dispu_e/267arb_part2_e.pdf)

Therefore, IDEAS Centre believed that the time was ripe to have a public dialogue about the issue in a cooperative and non-confrontational spirit. This was the purpose of this conference and of the C-4 ministers' mission to Washington. In this sense, Nicolas Imboden expressed the hope that the discussions during the conference and the C-4's visit to Washington would make a small contribution to better mutual understanding of issues and policies as well as of the constraints and possibilities of the actors concerned. This dialogue should facilitate the search for a solution to the cotton issue in Africa, which has to be part of the Doha Round deal.

Before providing an overview of the major challenges facing the international cotton markets. In recent years and in the near future, **Terry Townsend**, Executive Director of the International Cotton Advisory Committee (ICAC), drew a picture of the importance of cotton production worldwide. More than 80 countries cultivate cotton, using 2% of the world arable land and mobilizing 300 million people in employment, many of whom reside in poor, rural areas in developing countries. In these areas, cotton plays a specific role in terms of leveraging sustainable development, fighting against poverty and contributing to food security.

#### The importance of cotton: C-4, WCA, US and EU

- *Cotton growers*

- 15 millions cotton producers and families rely on cotton production in WCA
- 25'000 cotton growers in the US
- 100'000 cotton growers in the UE (10'000 in Spain and 90'000 in Greece)

- *Cotton production: share of GDP in 2008*

- Benin	2.05%
- Burkina Faso	2.95%
- Chad	0.45%
- Mali	1.57%
- United States	0.03%
- Greece	0.09%
- Spain	0.00%

- *Cotton Exports (in millions tons)*

Country	08/09	09/10
- United States	2.9	2.3
- CFA zone	0.5	0.5
- Brazil	0.6	0.4
- India	0.5	1.4

Source: ICAC

Cotton production and consumption have experienced major changes and have quadrupled over the past six decades. New technologies and biotechnologies, evolution in the use of pesticides, management of irrigation, etc. improved yields. Developing countries have progressively taken over the large majority (90%) of the world mill consumption.

After decades of increase, since 2007 cotton production has started to decline. In the last few years, high fertilizer prices, unusually high volatility in the cotton futures market, increasing competition with synthetic fibers and sinking export demand driven by today's crisis have posed great challenges to cotton producers.

The world cotton market is facing three inter-related crises: the global commodity price crisis, the cotton futures market crisis and the global financial and economic crisis. Some cotton producing countries – among them the US and EU countries, but also India and China – are expected to address the issue of trade distorting subsidies provided to their cotton growers to help them face the world market. These subsidies are detrimental to developing countries' producers. Distortive subsidies for cotton producers in developed countries pose an external problem for impoverished economies that are dependent on cotton as a major source of livelihood. Spain and Greece provide the largest subsidies on a per pound basis, while the United States provides the most support in absolute USD terms.

To face the future, the cotton industry has to integrate sustainable production, which means producing cotton today without jeopardizing future generations' cotton production. Environmental issues are now part of the debate and some countries such as Australia have developed best practices to improve the environmental impact of cotton production. Producers – and the sector as whole – have also to face the competition with chemical fibers, whose part in the world textile production has steadily increased. According to ICAC analysis, world cotton consumption should reach the record level of 2007 once the effects of the economic recession reverse. "Cotton remains a viable commodity of wealth, employment and growth in the long run".

## Part two: The pillars of the Multilateral Trading System

*Moderator :*

*Nicolas Imboden, Executive Director, IDEAS Centre Geneva*

*Panelists :*

*Crawford Falconer, former Chairperson of the agriculture negotiations at the WTO*

*Gary Clyde Hufbauer, Senior Fellow, Peterson Institute for International Economics*

*John Baffes, Senior economist, Development Prospects Group, World Bank*

The three dimensions of the WTO system – negotiations, litigation and development – were discussed in this panel.

Crawford Falconer: “Doha: state of play in agricultural negotiations with a focus on cotton”

**Crawford Falconer**, former Chairperson of the WTO agriculture negotiations, offered the audience a privileged insight into the negotiation process, as well as his personal assessment of the cotton issue. He shed light on reasons to be optimistic that both the Round and the cotton issue specifically would eventually be concluded despite the recent stalemate in the Doha Round.

### The Doha Round and Cotton: key dates on Negotiation and Development aspects

**Nov 2001:** Launching of the Doha Round of Multilateral Trade Talks

**May 2003:** C-4’s “Sectoral Initiative on cotton”

**June 2003:** Blaise Compaoré, President of Burkina Faso, makes the case at the WTO

**September 2003:** Cancun Ministerial meeting: Cotton is singled out

**March 2004:** WTO African Regional Workshop on Cotton, Cotonou, Benin

**July 2004:** July package: Cotton is still singled out but integrated into the Agricultural negotiations. Agreement on a special treatment for cotton

+ paragraph 5 of Annex A of the 1 August 2004 Decision to seek coherence on the development assistance and trade policy aspects of cotton

**Nov 2004:** creation of the Sub-Committee on Cotton

**Dec 2005:** Hong Kong Ministerial meeting. Reaffirmation of WTO members’ commitment to address cotton “ambitiously, specifically and expeditiously”

+ Request for the WTO DG to “set up an appropriate follow-up and monitoring Mechanism” for the development assistance aspects of cotton

**March/June 2006:** C-4’s submissions with formula proposed to reduce Cotton trade distorting subsidies

**March 2007:** High Level Session (HLS) on cotton convened by WTO DG

**From 2008:** Quadrilateral negotiations in cotton (Brazil, C-4, EU and US)

**July 2008:** Breakdown of ministerial discussions-Cotton is not negotiated

**Since July 2008:** Quadrilateral discussions continue but no real negotiations as the US refuses to address cotton until there is an agreement on agricultural modalities

Crawford Falconer stated that paradoxically, concerns that nations might turn to protectionism in the wake of today’s crisis have galvanized a global reaffirmation of the value of open trade, as evidenced by the G20 commitment to conclude Doha by 2010. However, he remained skeptical about the possibility of concluding the deal by 2010 even if he did not hold a totally cynical view that world leaders would only “go through the motions because they are simply too embarrassed to remove it from the agenda”.

Crawford Falconer remained confident that the process in Geneva would get back into gear. The fall agenda was to be full of high-level meetings where the Doha issue will have to be addressed. However, considering that the full political attention would focus on Copenhagen at the end of the year 2009, it seemed more realistic to expect serious work in 2010.

In order to better understand the current state of play, Crawford Falconer insisted on the fact that one had to know from where we came. His assessment of what happened in July 2008 was clear: it was a watershed. There were a number of mistakes made and a number of political difficulties that could not be simply overcome, even if some good decisions were also made. Quoting a former New Zealand Prime minister and former WTO DG, he summarized the July 2008 event: "In situations like this, there is enough blame to go around everywhere for everybody to be satisfied". Even if negotiators came very close, it was not good enough and July was a failure.

Regarding cotton specifically, Crawford Falconer recognized that it would not be fair to say that cotton was dealt with, as it clearly wasn't. Crawford Falconer did not subscribe to the two paranoid views that were developed at that time. The first one, inspired by conspiracy theories, was that the US never came with a solution and that there was a long and elaborated plot not to deal with cotton. The second one was that there was a US solution for cotton in the back pocket. Crawford Falconer said he had no reason to believe that such a solution existed as he was never presented with something that the US would have brought or was going to bring to the table on cotton. His feeling was that the US did not come with a cynical intention not to deliver, nor did they come with a solution to unlock the whole process. He refused to presume that even if other elements of the agricultural negotiations had been unlocked in July (such as the Special Safeguard Mechanism), a solution for cotton would have come through. No one knew if a proposal by the US would have been sufficient to satisfy the other side of the table. Because of July's psychodrama, people tended to forget that in-depth discussions were held between July and December 2008 at the level of the officials in Geneva and out of the projectors of the public. Crawford Falconer considered that he himself would have probably not proposed a new modality text in December, but in the perspective of a ministerial meeting – that did not occur at the end – modalities had to be submitted<sup>4</sup>.

The part of the modality text dedicated to cotton didn't reflect a political consensus but the C-4 position. The political reason why it reflected only the C-4 views was that no counter proposal ever came from the other side of the table. Therefore, the content of the modality text was a good starting point for serious negotiations which had yet to happen. Crawford Falconer emphasized that it was not too late for that and that this conference in Washington carried this message.

---

<sup>4</sup> Revised draft modalities for Agriculture of the 6th December 2008, (TN/AG/W/4/Rev.4):

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_dec08\\_a\\_e.pdf](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_dec08_a_e.pdf)

+ associated documents (TN/AG/W/5 , 6 and 7):

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_dec08\\_c\\_e.pdf](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_dec08_c_e.pdf)

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_dec08\\_b\\_e.pdf](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_dec08_b_e.pdf)

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_dec08\\_d\\_e.pdf](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_dec08_d_e.pdf)

+ unofficial guide to the revised draft modalities – Agriculture – 6th December 2008:

[http://www.wto.org/english/tratop\\_e/agric\\_e/ag\\_modals\\_dec08\\_e.pdf](http://www.wto.org/english/tratop_e/agric_e/ag_modals_dec08_e.pdf)

Coming back to the Hong Kong declaration, C. Falconer recalled that considering cotton as an integral part of the negotiations was not questionable.

The political deal made in Hong Kong was unambiguous: it gave greater priority to cotton both in the extent of the cuts that would be made in domestic support for cotton and in terms of the speed in which cuts would be implemented. The Hong Kong declaration represented a political commitment at the ministerial level that had to be delivered on, provided anything is going to be delivered. Numbers on agriculture subsidies' reductions were not known yet, but Crawford Falconer assumed that what was proposed in his text and elaborated on the basis of consultations, was close to the expected outcome. And cotton would have to go further than that. Meetings at a quadrilateral level (Brazil, C-4, EU and US) held since July 2008 allowed the negotiators to clarify what those numbers meant. Without underestimating the political difficulties the US and the EU are facing, the former Chairperson of Agriculture negotiations didn't "think that there is a million miles to go if you are going to get a negotiated outcome". More precisely on the position of the EU, he considered that it was less delicate than the US position was. It has to be mentioned that the EU proposal is not accepted by the C-4.

#### **Hong Kong declaration art. 11**

11. We recall the mandate given by the Members in the Decision adopted by the General Council on 1 August 2004 to address cotton ambitiously, expeditiously and specifically, within the agriculture negotiations in relation to all trade-distorting policies affecting the sector in all three pillars of market access, domestic support and export competition, as specified in the Doha text and the July 2004 Framework text. We note the work already undertaken in the Sub-Committee on Cotton and the proposals made with regard to this matter. Without prejudice to Members' current WTO rights and obligations, including those flowing from actions taken by the Dispute Settlement Body, we reaffirm our commitment to ensure having an explicit decision on cotton within the agriculture negotiations and through the Sub-Committee on Cotton ambitiously, expeditiously and specifically as follows:

All forms of export subsidies for cotton will be eliminated by developed countries in 2006.

On market access, developed countries will give duty and quota free access for cotton exports from least-developed countries (LDCs) from the commencement of the implementation period.

Members agree that the objective is that, as an outcome for the negotiations, trade distorting domestic subsidies for cotton production be reduced more ambitiously than under whatever general formula is agreed and that it should be implemented over a shorter period of time than generally applicable. We commit ourselves to give priority in the negotiations to reach such an outcome.

Source: WTO

[www.wto.org/english/thewto\\_e/minist\\_e/min05\\_e/final\\_text\\_e.pdf](http://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.pdf)

To conclude, Crawford Falconer raised three elements:

1. On the Hong Kong chapter, he underlined that the progress made in that ministerial meeting was largely due to trust and positive personal relationships amongst negotiators. Personal relationships do not guarantee the success of the negotiations but the absence of trust between the players guarantees the failure of the process. Crawford Falconer said he was now encouraged by the presence of the C-4 in Washington, whose mission's purpose was exactly to build the type of relations that are essential to the longer term process that aims to reach an acceptable outcome.
2. He considered that the dispute settlement process was "a factor in the mix" that needed to be evaluated in the light of the negotiation process. The outcome of the dispute settlement would also have to be dealt with in the Round's terms. The whole system could be jeopardized if the dispute settlement is not taken seriously.

3. Last but not least, he called on participants not to forget that the trade element was part of a bigger picture. The developmental aspect of cotton has to be coordinated with the assumption of what a trade outcome will be.

Gary Clyde Hufbauer: “Dispute Settlement - guarantee of the credibility of the system and negotiation tool”

The dispute settlement mechanism has also a specific place as far as the cotton issue is concerned. **Gary Clyde Hufbauer**, Senior Fellow at the Peterson Institute for International Economics, highlighted the significance of the WTO dispute settlement mechanism. As a taxpayer - in particular in light of the fact that taxes are also used for support to US cotton growers – Gary Hufbauer considered himself entitled to give his opinion, despite the fact that he is not a cotton grower himself.

The cotton dispute shows that smaller powers can win in the WTO on a big issue. Even if it is not the only case and even if Brazil is not a “small” power, this case is emblematic for the dispute settlement mechanism (DSM) and the whole system. The case of the resolution panel’s 2004 decision in favor of Brazil’s complaints about U.S. cotton policies gave legitimacy to the dispute resolution system as a forum in which less developed countries could push for and obtain fair treatment by large economies. Because smaller powers are able to win, the DSM can be seen as WTO crown’s jewel, as the guarantor that international trade is based on rules and not on power. According to Gary Hufbauer, compliance by big countries (such as Japan, the US or the EU) is surprisingly good. Compliance with dispute settlement resolutions is essential to guarantee the credibility of the system.

**US-upland Cotton case: key dates**

**27.09.02:** Brazil requested consultations  
**18.03.03:** Panel established  
**08.09.04:** Panel Report circulated  
**18.10.04:** The US notified its intention to appeal  
**03.03.05:** Appellate Body Report circulated  
**18.08.06:** Brazil requested establishment of an art. 21.5 panel (compliance)  
**18.12.07:** Art. 21.5 Panel Report circulated  
**12.02.08:** The US decided to appeal  
**02.06.08:** Art. 21.5 Appellate Body Report circulated  
**25.08.08:** Brazil requested that the two arbitration proceedings be resumed  
**31.08.09:** Recourse to Art. 22.6 arbitration panel report circulated  
**19.11.09:** DSB authorizes Brazil countermeasures in cotton case

Sources: WTO, *Dispute DS267*

[www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds267\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds267_e.htm)

However, when international obligations are not directly linked to domestic laws, some non compliance is inevitable. Cotton is not the only case where big countries haven’t respected the panel’s decisions: it happened also with zeroing in the dumping area, hormones and sugar. This non compliance can be partly explained by the fact that in a system such as the WTO DSM, the process of implementing judicial decisions into the national law is long and cumbersome. This can be compared to the process that the EU faces when an EC directive has to be translated into the national law of its 27 members.

The problem with the WTO system is that when non compliance does occur, developing economies are at a disadvantage: their small market size limits the leverage they have to implement effective countermeasures, which is the only WTO-legal response to an offending country that ignores a dispute resolution panel's ruling.

The present dispute settlement system has weaknesses: countermeasures are effective when used by the US, the UE, Japan or even China, but what happens when smaller countries with little possibilities to take countermeasures win the cases? The proposed solutions are of two sorts. The first one is cross-retaliation, which allows a smaller country to take measures for instance in intellectual property rights or services when they do not have sufficient volume of merchandised trade to retaliate. According to Gary Hufbauer, cross-retaliation should remain an exception rather than a frequent practice. He fears that the multilateral trading system would loose support from the US and also from the EU if cross-retaliation is adopted as a general approach. The second option – for some appropriate cases selected by the Appellate Body – should be financial compensation as opposed to trade countermeasures. According to Gary Hufbauer, this solution exists in every normal court system. In this perspective, dispute settlement should be reformed to selectively allow for monetary compensation.

In the US current political context, Gary Hufbauer saw some positive and some negative elements. The nomination of Ronald Kirk as the new US Trade representative should be considered as a positive aspect as Kirk wants to have a successful outcome of the Doha Round. A constructive staff surrounds key players of the new Obama administration. In this respect, Hufbauer considered the nomination of Robert Hormats<sup>5</sup> as State Department Under Secretary for Economic, Energy and Agricultural Affairs as an interesting signal. On the negative side, he referred to reports from the congressional districts that indicate a more protectionist mood in the US population.

In conclusion, Gary Hufbauer pointed out that cotton was a rich man's crop that might not be supported by an administration that is not supposed to be a rich men's administration. The Obama administration and the Democratically-controlled US Congress are more likely to support cotton reforms than the past administration because they do not rely on political support from the wealthy cotton farmers who benefit from subsidies. There are also many in the U.S. administration who are sympathetic to the cotton issue. They will hopefully play a constructive role in the dispute. However, with all of their competing priorities – including climate change and healthcare reform – US political leaders are unlikely to devote substantial political capital to the cotton issue.

#### John Baffes: "Trade opportunities and means to realize them - the case of the C-4"

Development aspects of the cotton issue, including domestic reforms in C-4 countries, have to be coordinated with a presumed result of the Doha trade talks. Both the development community and the African cotton producing countries have responsibilities to ensure the sustainability of the cotton sector.

---

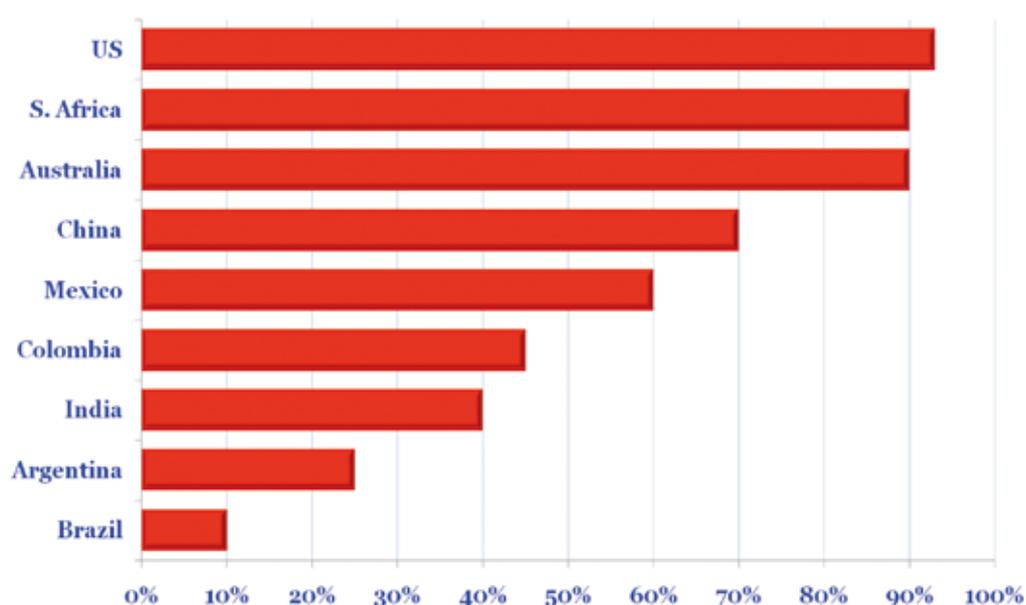
<sup>5</sup> Robert Hormats, vice-chairman of investment bank Goldman Sachs, heads up efforts by Secretary of State Hillary Clinton to help refine Washington's relationships with China, India and Russia, moving to base them on economic, trade and environmental issues.

**John Baffes**, Senior Economist at the World Bank, presented a picture of cotton production in the recent years. He compared cotton to other crops in various countries and in regard to the recent boom and the crisis that followed. He put a special focus on West and Central Africa.

Since 2003, cotton prices have been decoupled from the rest of the agricultural market, failing to rise during the recent food price boom. Developed country subsidies, a bloated global supply caused by rapid expansion of biotech cotton in China and India and cotton's uniqueness compared to other agricultural crops contributed to this trend. More precisely, there is less substitutability between cotton and grains (e.g., cotton and maize) than among grains (e.g., wheat and maize) ; hence recent bio-fuel demand for other maize and edible oils did not affect cotton as much. According to forecasts, the gap between cotton and agricultural prices was likely to persist in the coming years.

With a share of 31% and 20% of the global world production in 2008 respectively, China and India today dominate the market. On the other side of the picture, cotton production in West and Central Africa (WCA) is progressively decreasing: yields have been stagnant and lately declining. Cotton production in WCA countries is hampered by exchange rate disadvantages. The strength of the CFA Franc (pegged to the Euro) compared to the US dollar has increased the costs of imported inputs (pesticides, gasoline, etc.) and reduced the price received by the farmers for their cotton. Most West and Central Africa countries' companies lack efficiency. They are thus not fully prepared to face price volatility or to meet high quality fiber requirements; African cotton production suffers from poor marketing efforts and inefficient use of cotton by-products. Therefore, West and Central African countries lag behind other cotton producing countries. External and domestic challenges have had detrimental impacts on poor cotton farmers' income in the region.

### Share of biotech cotton in selected countries



Source: ICAC and Cotton Outlook (from John Baffes' presentation)

John Baffes' concrete proposals to improve the sustainability and the profitability of the African cotton sector included:

- Increase efficiency of ginning companies;
- Make better use of cotton by-products, especially in the current environment of high edible oil prices;
- Improve marketing efforts; and
- Reduce trade distorting subsidies within Doha.

Regarding the specific challenges of exchange rate and cotton transformation, It is more difficult to formulate proposals. On the first, it is difficult to address macroeconomic issues solely with regard to cotton as these issues go beyond the C-4 and cotton. On the second, it is true that the development of textiles and clothing (T&C) is advocated but (i) the history of this industry in Africa is not encouraging, (ii) many studies have shown that, with a few exceptions Africa is not very competitive in T&C and (iii) even if a T&C industry becomes successful, cotton will be traded at world prices and will not affect the prices cotton producers receive.

### Part three: Statements by Officials from the C-4 and the US

*Panelists:*

*His Excellency Mamadou Sanou, Minister of Trade, Entrepreneurship and Handicraft, Burkina Faso, Coordinator of the C-4*

*Carol Goodloe, Senior Economist, Office of the Chief Economist, U.S. Department of Agriculture*

Referring to a previous mission to Washington in October 2006, his Excellency **Mamadou Sanou**, Minister of Trade, Entrepreneurship and Handicrafts of Burkina Faso, and Coordinator of the C-4, expressed his satisfaction with engaging a dialogue with President Obama's new administration and his wish to find a comprehensive solution to the cotton issue. Mamadou Sanou outlined (i) the importance of cotton for Africa, (ii) the need to find a package of solutions for a multifaceted problem and (iii) the importance of the cotton issue for the multilateral trading system as a whole.

The cotton issue has to be addressed within the broader context of the international economic crisis, which revives protectionist temptations. This situation makes the need for a conclusion of Doha even more essential. The on going negotiations are based on the Hong Kong commitment to treat cotton "ambitiously, specifically and expeditiously" in the following pillars: domestic support, market access and export subsidies, within an approach that takes into account coherence between trade and development aspects. As the WTO DG Pascal Lamy said several times, there will be no Doha without cotton. However, because of the Single Undertaking<sup>6</sup> framework to conclude the negotiations, it is also clear that there will be no solution to the cotton issue without Doha. This being said, the level of ambition that members are ready to engage in is still to be negotiated. According to Mamadou Sanou, African cotton producers would not accept a non-ambitious solution which does not level the playing field in the world's cotton market.

The cotton industry serves an economically and socially critical purpose in C-4 countries by providing income and employment in poor, rural areas. In West and Central Africa, more than 15 million people depend directly on cotton production. This crop has become an essential tool against poverty and acts as a leverage in the development of the whole region. African cotton enjoys a comparative advantage (hand picked by cheap labor, non-irrigated and requiring fewer inputs than Western cotton). Cotton production contributes to improve peasants' revenues and to promote agricultural innovation and food security (as it is cultivated in rotation with other crops). In C-4 countries, cotton production used to represent as much as 6.5% of GDP, 66% of agricultural exports and 33% of total exports. However, this comparative advantage is challenged by Western countries' subsidies. Raw cotton, which is more vulnerable to price fluctuations than processed cotton, represents 95% of African cotton exports. The cotton production in Africa faces a large range of problems: competition with chemical fibers, exchange rate, world wide production increase, oil prices and weak domestic competitiveness. Subsidies provided by Western countries to their producers are part of a global problem, which is the reason why a package of adequate solutions has to be formulated.

---

<sup>6</sup>Single Undertaking: "Nothing is agreed until everything and everybody is agreed".

Introducing the second part of his speech, Minister Sanou explained that the C-4 came to Washington in a spirit of dialogue to find a common solution, acceptable to all parties and which respect the rules of the multilateral system. Therefore, the solution has to combine the following elements:

- fair cotton prices on the international market fed with non-subsidized cotton. This implies the suppression of trade distorting subsidies;
- medium and long-term structural assistance to sustain the reforms of the African cotton sector. To achieve this goal, US and EU support are particularly appreciated. The activity of the Director General's Consultative Framework Mechanism on Cotton (DGCFMC) has to be pursued;
- a short-term assistance to get the sector out of the current crisis; this aid should be targeted at providing a safety net for producers during year of poor production;
- deep reform of the sector in the C-4 countries.

#### **Hong Kong Declaration art. 12**

12. With regard to the development assistance aspects of cotton, we welcome the Consultative Framework process initiated by the Director-General to implement the decisions on these aspects pursuant to paragraph 1.b of the Decision adopted by the General Council on 1 August 2004. We take note of his Periodic Reports and the positive evolution of development assistance noted therein. We urge the Director-General to further intensify his consultative efforts with bilateral donors and with multilateral and regional institutions, with emphasis on improved coherence, coordination and enhanced implementation and to explore the possibility of establishing through such institutions a mechanism to deal with income declines in the cotton sector until the end of subsidies. Noting the importance of achieving enhanced efficiency and competitiveness in the cotton producing process, we urge the development community to further scale up its cotton-specific assistance and to support the efforts of the Director-General. In this context, we urge Members to promote and support South-South cooperation, including transfer of technology. We welcome the domestic reform efforts by African cotton producers aimed at enhancing productivity and efficiency, and encourage them to deepen this process. We reaffirm the complementarity of the trade policy and development assistance aspects of cotton. We invite the Director-General to furnish a third Periodic Report to our next Session with updates, at appropriate intervals in the meantime, to the General Council, while keeping the Sub-Committee on Cotton fully informed of progress. Finally, as regards follow up and monitoring, we request the Director-General to set up an appropriate follow-up and monitoring mechanism.

Source: WTO

[www.wto.org/english/thewto\\_e/minist\\_e/min05\\_e/final\\_text\\_e.pdf](http://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.pdf)

C-4 countries are very much aware of the reluctance of the donor community to create new emergency funds. The C-4 countries do not want that this sort of assistances generate new distortions as is the case with subsidies. Instruments have to be elaborated to ensure that they do not jeopardize the fairness of the market. Moreover, development and structural assistance cannot be a substitute for equitable trading rules and a level playing field in the international cotton market. Assistance is an essential but not sufficient component of the solution.

In the third part of his statement, Mamadou Sanou addressed the importance of the cotton issue for the Multilateral Trading System. The C-4 initiative has proven the ability of countries among the poorest in the world to use the instruments provided by the multilateral trading system. The resolution of an ambitious cotton agreement in the WTO would not only improve the welfare of C-4 cotton farmers; it would also demonstrate the ability of smaller economies to join together and have their voices heard.

A failure of the Doha Round would undermine the confidence smaller countries have placed in the system.

Minister Sanou evoked the African countries' preference for negotiation rather than litigation to find a solution to the cotton problem. They are not against either the Americans or the Europeans; they want "only" to level the cotton playing level. They have made concrete proposals and have obtained an agreement at the Hong Kong Ministerial. They were still waiting for a response from the United States and the EU.

#### Cotton Subsidies

"Global support to the cotton industry, including direct subsidies, border protection, crop insurance subsidies, and minimum support price mechanisms have risen more than twofold from \$2.7 billion in 2007/08 to an estimated \$5.9 billion in 2008/09, more than half of which will be provided by the United States (figures: ICAC, 2009).

"Subsidies averaging 14 cents per pound were provided by some 10 countries in 2008/09, up from an average 8 cents in 2007/08. The share of global cotton production receiving support rose from an average of 55 percent during 1997/98–2007/08 to an estimated 84 percent in 2008/09. Total direct US support to cotton production, including crop insurance, increased from \$888 million in 2007/08 to \$3.1 billion in 2008/09, or an equivalent of 50 cents per pound of production. The 2008 farm bill extended counter-cyclical payments and marketing loan provisions while only marginally lowering the target price for upland cotton and creating a new cotton-user payment of 4 cents per pound. Although the latter applies to cotton of any origin, given that the US imports very little, in practice most payments will accrue to domestically sourced cotton".

*Extracts from Bernard Hoekman, Will Martin and Aaditya Mattoo, "Conclude Doha: it matters" (version: October 29, 2009, Presentation organized by the World Bank Geneva at the WTO on the 4th November 2009).*

As a conclusion, Mamadou Sanou stated that the C-4 were ready for any compromise that fulfilled the Hong Kong mandate and respects the rights of their cotton producers. He also mentioned that potential litigation could not be excluded and – echoing Gary Hufbauer and Crawford Falconer – considered that compliance with dispute settlement bodies' decisions was essential for the credibility of the system as a whole.

**Carol Goodloe**, Senior Economist at the U.S. Department of Agriculture, outlines the United States' cotton perspectives. In the past five years, the U.S. cotton industry has seen a sharp contraction, as US farmers shifted to more profitable crops. US cotton area has decreased by 50%. This reduction is linked to the decrease in cotton prices, as well as increases in prices of alternative crops, such as corn and soybeans. In the past several years there were clear shifts in market signals: first corn prices and last year soybean prices increased and encouraged a shift of production from cotton to these crops. US cotton production was at its lowest level in the past 25 years and represented only 12% of world production. Domestic milling was at the same level as it was in the 1890's. Lifting US apparel quotas in 1995, as agreed upon in the Uruguay Round, increased competition from cotton imports, particularly from China. The current global recession has reduced demand for apparel, further reducing the domestic demand for cotton. Until recently, the US domestic market was balanced: demand from the domestic mill industry accounted for about two-thirds of cotton use, and exports the other third. Now, domestic use accounts for only one-fourth of total use, while exports account for the remainder.

### Shift in US domestic use and Exports



Source: USDA

In the recent years, the US has not increased cotton production as domestic demand fell, due to import competition in textiles. As a consequence, US exports increased sharply over several years, although they have since stabilized. The main issue for the US cotton sector that has to be addressed in the WTO negotiations is market access. In recent years, C-4 countries have not increased their own production. India has supported cotton prices and built up stocks. India has become a major cotton exporter. Chinese cotton imports dropped from recent highs, but China remains the world's largest cotton importer.

As far as US cotton policies are concerned, the representative of USDA explained that decoupled payments were available for owners of historical 18 million acres. But only 9 million acres are currently used for cotton production. According to her, China and India now have the largest impact on the world cotton market. The problems C-4 countries face are linked to structural and institutional factors rather than to US subsidized production: for example, C-4 production did not rise in 2008 despite an increase in world prices.

To conclude, Ms Goodloe stated that reforms were needed everywhere and have to be undertaken multilaterally. She added that ambitious results have to be obtained in each pillar of the negotiations (including NAMA and services and not only agriculture). The United States believes that reforms of domestic support for cotton should occur within the context of general modalities at the WTO. Only after those are reached should the specific cotton issues be addressed.

## Part four: Round table and discussion with the audience

### Trade and development: a holistic approach to the cotton issue

*Moderator: Uri Dadush, Carnegie Endowment for International Peace*

*Panelists:*

*His Excellency Mamadou Sanou, Minister of Trade, Entrepreneurship and Handicraft, Burkina Faso, Coordinator of the C4*

*Crawford Falconer, former Chairperson of the agriculture negotiations at the WTO*

*Elena Bryan, Deputy Assistant U.S. Trade Representative for Trade and Development*

*Nadjindar Titjébaye, CotonTchad*

*Mark Lange, President and Chief Executive Officer, National Cotton Council of America*

The purpose of this panel was to engage in a dialogue to contribute to finding concrete and common solutions to the cotton issue, for the benefit of the C-4, the US, the Doha Round and the Multilateral Trading System.

After the statement made by the US on trends in world and US cotton production and consumption, **Mamadou Sanou** underlined the vital role of cotton for C-4 economies. He explained that the C-4 approach, supported by the C-36<sup>7</sup> and all developing countries at the WTO, aimed at avoiding the dismantling of the cotton sector by applying the same rules to all players. He referred to President Compaoré's words saying that African countries don't beg but request fair and equitable trade. According to the C-4 Coordinator, cotton is not the lung of American or European economies. But it plays an essential role in the modernization of African agriculture. All that has been capitalized on the cotton experience should not be destroyed by unfair rules.

**Elena Bryan**, Deputy Assistant U.S. Trade Representative for Trade and Development, stated that the US recognized the importance of cotton particularly for West Africa and considered cotton as a multidimensional issue. She focused her presentation on development aspects and domestic reforms in the C-4, given the fact that the third pillar – trade – of the debate had been addressed by Carol Goodloe from USDA.

Elena Bryan first outlined the efforts of the U.S. government to help Africa's cotton industry. The US has made strong commitments to assist cotton producing countries of West Africa, including the C-4 and Senegal, through a large variety of support: regional assistance to West Africa, bilateral assistance to individual countries and wider assistance that benefits these countries. The main funding mechanisms are through the U.S. Agency for International Development (USAID), the U.S. Department of Agriculture, and the Millennium Challenge Corporation (MCC).

According to the USTR representative, the US has clearly heard the message sent in Hong Kong by the C-4 and Senegal that producers needed support. Therefore, USAID has designed the WACIP (West Africa Improvement Cotton Program) as a partnership between the donor and the countries themselves where each has an important role to play. USD 27 million are provided through this program launched in 2006.

---

<sup>7</sup> 36 African cotton producing countries

Carried by a multi-stakeholder platform (including governments' representatives, the private sector and the National Cotton Council of America), the idea of the WACIP is to talk to the producers and other stakeholders and help understand what their particular concerns are in order to target direct assistance to the issues they were facing. These consultations' outcome was the elaboration of the Comprehensive African Agricultural Development Program (CAADP). The WACIP is working through national advisory committees established in each country to guide the program implementation. As a result of its activities, WACIP is improving yields and pesticide handling through a large scale agricultural extension program in each C-4 country. WACIP has also supported the introduction of genetically modified cotton in Burkina Faso, is working with C-4 cotton research organizations on new technologies and is supporting quality improvement and handicraft.

### US assistance programs towards African cotton

#### **WACIP: West African Cotton Improvement Program**

WACIP's primary focus is on improving the incomes and welfare of C-4 agricultural producers and processors in the cotton value chain, many of whom are among the poorest in the world. To tackle these objectives, WACIP undertakes a range of interventions under three broad themes: policy and institutional reform, value addition, and cotton productivity. Cross-cutting issues of gender, vulnerable populations and environmental management are integrated into interventions under these themes.

Source: USAID, <http://www.wacip.org/docs/wacipEN2.pdf>

#### **Millennium Challenge Corporation<sup>8</sup>**

MCC forms partnerships with some of the world's poorest countries, but only those committed to good governance, economic freedom and investments in their citizens. MCC provides these well-performing countries with large-scale grants to fund country-led solutions for reducing poverty through sustainable economic growth. MCC grants complement other U.S. and international development programs. There are two primary types of MCC grants: compacts and threshold programs (Compacts are large, five-year grants for countries that pass MCC's eligibility criteria; Threshold programs are smaller grants awarded to countries that come close to passing these criteria and are firmly committed to improving their policy performance).

Source: US government, <http://www.mcc.gov/mcc/about/index.shtml>

Elena Bryan also mentioned that the US was instrumental in securing a 100% debt relief for Benin, Burkina Faso and Mali through the multilateral debt relief initiative.

Through the Millennium Challenge Corporation, the US has made significant investments in countries to assist their efforts to reduce poverty through growth. MCC has already concluded agreements with Benin, Burkina Faso and Mali and the agreement with Senegal is close to completion. Although none of these compacts provide direct assistance to the cotton sector, these governments chose investments that are broadly supportive to the agricultural sector and focus largely on infrastructure. Aid for trade represents a large portion of these compacts.

---

<sup>8</sup> As far as the C-4 are concerned, MCC has already completed agreements with Benin, Burkina Faso and Mali. Referring to the eligibility criteria, Chad is not considered as eligible by the US government.

Last but not least, Elena Bryan presented a new initiative announced by President Obama and his G8 colleagues at the L'Aquila summit. This Global Hunger Initiative would be broadly supportive to poverty reduction in West Africa. This program aims to invest in long-term agricultural development, particularly in Africa. It recognizes that poverty reduction is linked to employment, and that income is linked to infrastructure, productivity and social issues. The US commitment to this initiative is expected to be USD 3.5 billion over 3 years (out of a G8 commitment of USD 20 billion). According to Ms Bryan, this initiative (which will be channeled through the CAAPD) would address the full range of issues that affect agricultural development including increasing agriculture productivity, stimulating post-harvest private sector growth, supporting the role of women and families, maintaining, the natural resource space in the context of climate change, expanding knowledge and training increasing trade flows and supporting good governance and policy reforms. Ms Bryan encouraged countries that have engaged in implementation plans to make broad use of the resources available.

To conclude, the USTR representative addressed the issue of domestic reforms, as a critical element for the long-term competitiveness of African cotton producers. She said that the donor community's role was limited to support indigenous efforts to reform the sector. Reforms cannot be imposed from the outside and donors' support is not a panacea. Ms Bryan believes that the farmers are currently at the low end of the cycle, with limited control over what happens between what they produce in the field and their ultimate product. Only countries themselves can address the issues of internal reforms necessary to improve the competitiveness of the cotton sector, including privatization. She is convinced that one pillar of the negotiations cannot be dealt with successfully without addressing the other. She expected more discussion on domestic reforms in West and Central Africa in Geneva.

**Nadjindar Titdjebaye**, of CotonTchad, underlined the societal aspect of cotton production in African countries. In the past, cotton production used to improve the standard of living of small farmers and increase the overall productivity of the agricultural sector, generating benefits for grain and dairy production. This is no longer the case. African cotton producers have suffered from the constant decline in world cotton prices since the 1990s. At the same time, they had to face the increase in agricultural input prices. These simultaneous developments had a catastrophic impact on cotton producers' cash flow. If producers cannot buy enough inputs, yields decrease; so does farmers' purchasing power. The quality of infrastructure such as wells or roads and the coverage of basic needs such as schooling or healthcare are therefore affected. Agricultural material could no longer be replaced and makes work harder. Cotton growers are indebted and the profits from the following campaign are no longer sufficient to reimburse the investments made to grow cotton. Changes in cotton revenues impact on the fundamentals of the rural society. These effects may have destabilizing ramifications, as struggling cotton farmers migrate to find employment opportunities elsewhere.

**Mark Lange**, President and CEO of the National Cotton Council of America (NCC), highlighted important factors affecting the cotton market, besides subsidies. He first insisted on the fact that US producers were not entitled to producing cotton simply because it was a subsidized crop.

The cotton program is part of an overall farm support program provided for all grains and seeds in the US. Components of this support program are balanced to avoid that producers shift their production inconsistently, but to allow them to answer market signals. Cotton growers have recently reduced their acres devoted to cotton to produce grains and seeds instead, because of higher prices in these sectors.

According to Mark Lange, China and India have seen different market signals and increased tremendously their cotton production. He considered that the signals sent to these producers were more government-driven than market-driven. India has increased its production to such an extent that stocks are at a very high level. This will have an impact on world cotton prices. Regarding China, Mark Lange explained that China raised border measures to protect its producers and kept its doors very closely monitored and closed much of the time. The representative of the National Cotton Council estimated that the Chinese government's support amounted to USD 3 billion in terms of the border measures provided to 35 millions bales of cotton growing inside Mainland China at about 20 cents a pound. This "extraordinary number"<sup>9</sup> is, as Dr Lange said, three times the one given by Terry Townsend.

Small farmers face increasing competition from middle-income countries. Protectionism in China and India undermines global cotton prices. Gaining access to the cotton and textile markets in these countries is a main challenge facing the Doha negotiations.

Dr Lange's search for results is twofold: market access is one; an effective response to what is going on in India and China is the other. He considered it imperative to seek the same level of ambition in market access that has been asked in agriculture in the frame of the Doha trade talks. The failure to do so, in particular for cotton in this round of negotiations, would doom many cotton producers who do not have access either to direct subsidies or to border protection measures that would raise the price of cotton. And of course, border protection measures do not work in the C-4, as they do not have textile industries. The issue of subsidies provided to Asian textile and clothing manufacturers has to be addressed to ensure fair competition. If market access issues are being addressed effectively inside the WTO negotiations today, investors around the world might be willing to consider looking at textile and clothing as an investment opportunity in Africa.

Another issue addressed by the representative of the National Cotton Council of America was demand creation. He referred to Cotton Incorporated<sup>10</sup>, which works continuously in the US to stimulate cotton demand and to convince consumers that they should be choosing cotton when they buy textile products. Compared to the growth of cotton (2 to 2.5% a year for about 30 years), the growth of polyester demand is tremendous (6 to 8 % a year for 25 years). Mark Lange pointed out that the expansion of chemical textile did not occur in the US but in Asia. He questioned the audience about how cotton prices could improve when a textile manufacture could acquire subsidized polyester from Asia at prices less than cotton. According to Mark Lange, the US cotton industry has devoted a huge amount of money to create cotton demand, even in China through targeting Chinese consumers. They are also partnering with India and African countries.

---

<sup>9</sup>As a comparison, the US support to cotton production amounts for 2 to 4 USD billion a year (depending on the world prices). This note is added by the reporter.

<sup>10</sup><http://www.cottoninc.com/>

Last but not least, Dr Lange added a few words on the WACIP and explained that the NCC was glad to participate in this project from the start. African and US producers are facing the same challenges and share common fights. WACIP provides the opportunity to share US cotton farmers' experience with African cotton growers.

To conclude, Dr Lange addressed the subsidies issue. He did not deny that subsidies exist in the US: they are well-known, available on the web, listed in USDA reports and they are part of a larger farm program. He also recognized that new disciplines would be needed if the Doha negotiation is successful. He insisted on the fact that US agriculture would be very vigilant to get clear market access increase to compensate for new disciplines in subsidies; otherwise US agriculture will not support the overall deal. According to Mark Lange, African countries need market access as much as US farmers do, as they are facing the same market barriers.

## Discussion

Prior to the speakers' concluding remarks, the audience raised issues and questions posed around following themes:

- Dispute settlement;
- US position in the negotiations compared to its developmental action;
- C-4 initiative on cotton;
- Analysis provided by the World Bank.

1. With regard to the dispute settlement system, what matters is compliance, not compensation. For Brazil, financial compensation would address price depression looking into the past, but would not address future distortions caused by US subsidy programs. Therefore, the ideal outcome for Brazil would be the implementation by the US of all WTO recommendations, and not only a few of them (as seen in the past), rather than monetary compensation.

For **Mark Lange**, the WTO compliance panel and the dispute settlement panel have never made recommendations. They issued findings regarding whether something was a prohibited subsidy but they made no recommendations. They just identified prohibited subsidies and serious prejudice, but they didn't say what to do about them.

**Crawford Falconer** considered that WTO and GATT dispute settlement mechanism as a kind of unique creature, as it works differently than most areas of international public law. Normally, in other international disputes, when a judgment is made it says two things: "wrong has been done and what do we do to put the wrong right". GATT and WTO have not traditionally worked that way. The dispute settlement mechanism provides findings but does not enforce the implementation of the decision. On the question of punitive damages, Crawford Falconer preferred not to give a clear answer, as he thinks that it's probably so hypothetical that it's not likely to be even on the horizon.

Nevertheless, the system can evolve and integrate new issues that the creators did not think about when it was elaborated.

2. Several participants' comments and questions were addressed to the USTR representative. Remarks and questions about US positions can be summarized as follows :
  - Some participants expressed that they were still expecting some kind of answer on the trade issue from the US authorities. The C-4 initiative is based on trade and not on aid; however, U.S. responses were mostly concentrated on aid.
  - An African representative expected that the C-4 cotton initiative would have been more easily welcome by US authorities because of decreasing cotton production and cultivated areas in the US. He thought that the reduction in U.S. cotton production by 40% should allow the U.S. to be more forthcoming.
  - Ms Bryan was asked to what extent she saw the Obama administration as different from the Bush administration when it comes to negotiating cotton within the WTO Doha Round? Will this administration also wait until the rest of agricultural issues are solved to start addressing cotton?
  - Several African participants acknowledged that the WACIP and the MCC are excellent programs but regretted that the US representative limited her answer to the development aspect of the cotton issue and did not address the trade question. Their assessment was that these programs could not solve the whole cotton issue and they were still expecting to hear more about the trade aspect of the problem and of the solution.
  - Other countries are also subsidizing their cotton production, but, in terms of volume, the U.S. remains the biggest cotton subsidizer and exporter.

Ms **Elena Bryan** explained that she hadn't intend to say that the various aid initiatives that are out there would solve all the cotton problems. She articulated her answer around two facts: first, there is considerable assistance out there. Second, it's the beneficiary countries' choice to decide if the money is invested into the cotton sector or other sectors. Ms Bryan brought more precisions on the Global Hunger Initiative: this is not a cotton specific initiative, but it would broadly support agricultural development in Africa. And what countries get in the Global Hunger Initiative will depend in large part on what countries will put in the CAADP action plans compacts.

On US actions and positions, Ms Bryan also said that she could not talk for the President but insisted on the fact that this administration was looking at new development initiatives – such as the Global Hunger Initiative. Regarding Doha, Ambassador Kirk is focused on getting Doha done. The President was very clear in L'Aquila (G8 Summit) and agreed with the other leaders about a deadline. Nevertheless, she also explained that one thing that did not change between administrations was the need to have an agreement that can receive broad political support in the Congress, and that does not depend on who is in the White House. She believes that there is a good working relationship and that the administration is committed to getting Doha done on a good basis.

3. On the C-4 initiative, the following comments were made :

- C-4 countries are among the poorest in the world; these countries build their development on national efforts and on national production and don't ask for aid; their action is within a legal framework and based on international trade law; cotton is the lung of their economy, which is not the case for other countries; these countries do not have radical positions within the negotiations and are open to a compromise provided that it fulfills the Hong Kong commitment and respects their cotton growers.
- A representative of India reaffirmed the support of her country to the C-4 initiative in the line of the Hong Kong declaration. The Indian representative considered that the audience might have less difficulty to see much greater sympathy and communality of positions and concerns between India and Africa (dependence on agriculture, development level, etc.) than between Africa and America, despite what the President of the National Cotton Council of America pointed out.

**Minister Sanou** added a few words to insist on the fact that the trade problematic on cotton should not be mixed up with bilateral aid. Without minimizing the importance of this assistance, he clearly stated that what the C-4 are asking for is fair and equitable trade. He considered that a trade answer to the cotton issue will be worth a hundred times more than what is brought through the MCC.

4. The analysis by the World Bank was challenged by some participants who considered that the World Bank had an active role in the current disastrous situation of the cotton sector in West and Central Africa. These countries need a degree of predictability to ensure the future of the sector, not only in terms of cotton production but also in terms of creating a transformation industry and using cotton by-products.

To wrap up and deliver his own conclusion, **Crawford Falconer** noted that none of the participants really said that they didn't want to do domestic support reductions in line with what was agreed. He was not sure that this was due only to speakers' politeness, compared to past periods when people were not particularly shy about rejecting those sort of things. Therefore, being an optimist person, he preferred to interpret that as a positive signal. He felt that it is progress to hear people clearly explain their problems and concerns e.g. about market access or on other points that are not being addressed by the negotiation framework. As long as there is a debate, this remains a positive evolution.

### **Conclusions of the conference drawn by IDEAS Centre**

The “US-Africa dialogue on cotton” was organized on the sideline of a C-4 ministerial mission to Washington. The C-4 authorities expressed their willingness to revitalize a dialogue with the new US administration as well as with Congress.

The objective of the conference was to explore the three dimensions of the Multilateral Trading System – negotiations, litigation and developmental aspect – in relation to cotton. All the stakeholders of this issue are aware that both the problem and the solution are multi-faceted. Did the conference meet the expectations? We would say yes... and no.

#### **The conference was an undeniable success...**

More than a hundred people took part in this July event in Washington. First and foremost, this shows that cotton is still a mobilizing issue, whatever the position one may have on the subject. The audience was very diverse. In addition to US administration (USDA, USTR, USAID) and C-4 representatives (from the capitals as well as Geneva and Washington-based missions), Northern countries (Australia, Belgium, European Commission, Germany, Finland, the Netherlands, Switzerland, United Kingdom) and Southern countries (Brazil, India, Mauritius, Nigeria, South Africa and Taiwan) were represented. The audience included academics, research centers and foundations, farm organizations, private sector, journalists and international organizations (the World Bank, la Francophonie and the Organization of American States for instance). However, the absence of major non-governmental organizations’ representatives or advocacy groups that usually deal with cotton or Africa-related issues was noticed.

The agenda offered a broad picture of the cotton issue and a balanced opportunity for the main stakeholders (the US and the C-4) to give their own assessments of the situation. The different elements of the picture were addressed by high-level specialists of the dossier, either from a research/academic perspective (Terry Townsend from ICAC, Gary Hufbauer from the Peterson Institute and John Baffes from the World Bank) or from an insider’s view (Crawford Falconer). Representatives of the cotton sector from both the US and the C-4 were also given the opportunity to express their positions and share views with the audience.

A lot of information was provided; the C4 delivered a clear message; some speakers expressed their feelings and positions in a very open way and a stimulating debate was engaged.

#### **... but some expectations remained unmet**

Despite the instauration of a spirit of dialogue and openness, as well as the presence of a very high-level C-4 delegation, the US obviously did not enter into discussion on the trade issue. The conference was clearly not a negotiating forum and participants did not expect to have a debate on numbers and other negotiating positions. The organizers’ motivations to hold this conference was first based on the fact that US authorities had changed and that it would be of great interest to hear how the new US administration would address the cotton issue as well as what new message would be delivered on cotton. Legitimate expectations raised before the conference were based on US authorities’ declarations about the role of compliance for the Multilateral Trading System as a whole, President Obama’s willingness to take into account poorer countries’ needs and his declarations about cuts that should be made into agri-business support.

Moreover, the current decrease in US cotton production should have favored a more open search for new approaches, as US efforts to cut cotton subsidies are politically easier in a context of substantial production reduction. In this respect, the conference did not meet expectations.

In a sense, the US government's representatives who participated into the conference gave the impression that the trade aspect of the debate had to be avoided. They adopted the posture generally used during negotiations' discussions: cotton will be addressed only once other agriculture issues have reached an acceptable negotiated outcome. The US presentations focused on (i) the US and world trends in cotton production and consumption and on (ii) US assistance given to the African cotton sector.

Nevertheless, the dialogue was useful in understanding each others' positions:

- The African ministers clearly expressed strong support to the Doha Round and their unwavering demand that the Hong Kong decision be fully implemented;
- The African delegations clearly showed that they did see trade reform as only one – albeit essential – element requiring a response to improve the situation of the African cotton growers;
- The C-4 countries recognize and appreciate the efforts made by donor countries to assist the cotton sector in Africa. Aid, however, cannot be a substitute to trade reforms;
- The C-4 have not given up hope to find a solution within the Doha negotiations. They are ready to search for a compromise, as long as the Hong Kong Declaration is respected. They also expressed a certain frustration, due to the fact that they are not able to engage their major partners to table counterproposals with respect to the Hong Kong decision;
- The changes in the international cotton market have to be acknowledged. The US role has diminished, although it remains the world's largest cotton exporter. The role of China and India has increased and their policies today do influence the structure and the prices of the world cotton market;
- The US capacity to reform its cotton subsidy policies depends on its capacity to sell a Doha Round result for cotton. The need to muster broad support for a Doha – and hence a cotton – deal does not depend primarily on who is in the White House;
- US cotton subsidies are a difficult issue for the US administration – both internally and externally. The US is under substantial outside pressure to change its cotton subsidy policies both in the Doha negotiations and through the dispute case with Brazil. At the same time, cotton policies are very much part of the overall agriculture policies of the United States and cannot be changed without using substantial political capital. It seems that the Obama administration is not yet ready to spend its political capital on that issue;
- The US administration is not yet ready to enter into a dialogue on the cotton issue with the African cotton producing countries. It seems that – for the time being – the new administration continues to defend the position of the previous one and has not yet had the possibility to review its arguments;
- This being said, the conference has shown that all parties agree that a solution to the cotton issue has to be found within the Doha Round, that the cotton dispute between Brazil and the US is a further incentive for the US to review its cotton subsidy policy and that Africa needs a comprehensive approach including trade and internal reforms as well as assistance to assure that cotton becomes again an instrument for sustainable development in the region.

### **Annex 1: List of Acronyms**

AB	Appellate body
CAADP	Comprehensive African Agricultural Development Program
CEO	Chief executive Officer
C-4	Cotton-4 (Benin, Burkina Faso, Chad and Mali)
DGCFMC	Director General's Consultative Framework Mechanism on Cotton
DSB	Dispute Settlement Body
DSM	Dispute Settlement Mechanism
EC	European Commission
EU	European Union
GDP	Gross Domestic Product
ICAC	International Cotton Advisory Committee
LDC	Least Developed Country
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MTS	Multilateral Trading System
NCC	National Cotton Council of America
T&C	Textiles & Clothing
US	United States
USAID	United States Agency for International Development
USD	US dollars
USDA	United States Department of Agriculture
USTR	(Office of the) United States Trade Representative
WACIP	West Africa Cotton Improvement Program
WCA	West and Central Africa
WTO	World Trade Organisation

## Annex 2: Biographies of speakers

### John Baffes

John Baffes is a Senior Economist with the Development Prospects Group at the World Bank. His responsibilities include commodity market monitoring and price projections for agricultural commodities (including cotton) as well as research on market structure and policy reform issues both in developing and OECD countries. Since joining the World Bank in 1993, he has worked in several operation departments, including Mexico and Bangladesh. John Baffes has a B.S. degree in Economics from the University of Athens (1983), an M.S. degree in Agricultural Economics from the University of Georgia (1986), and a Ph.D. in Agricultural and Resource Economics from the University of Maryland (1992). He has published over 30 articles in various academic journals (including the American Journal of Agricultural Economics, the Journal of Development Economics, and the Journal of Policy reform) and numerous chapters in books and other reports in the areas of economic development and agricultural economics. He contributes frequently to several World Bank publications. Mr. Baffes was a key contributor to World Bank's flagship publication Global Economic Prospects 2009: Commodities at the Crossroads ([www.worldbank.org/prospects/gep2009](http://www.worldbank.org/prospects/gep2009)) a publication which analyzed extensively the recent commodity price boom.

### Elena Bryan

Elena Bryan is the Deputy Assistant U.S. Trade Representative for Trade and Development. Among her responsibilities is management of U.S. involvement in the Aid for Trade Initiative, the Enhanced Integrated Framework, and the development assistance aspect of the WTO's Trade Facilitation negotiations and the Director General's Consultative Mechanism on Cotton. Until recently, she was USTR's liaison to the Millennium Challenge Corporation and supported the USTR in his role as a member of MCC's Board of Directors. Previously, she was Deputy Assistant USTR for Southeast Asia, managing U.S. trade relations with Vietnam, Lao PDR mainland Southeast Asia. She was lead negotiator for goods market access and rules of origin in the U.S. FTAs with Singapore, Australia, and Thailand. Earlier, she was Director for WTO Affairs, including development issues, in USTR's Office of WTO and Multilateral Affairs. She was posted to USTR Geneva during the Uruguay Round and earlier followed steel trade policy in USTR's Industry office.

### Uri Dadush

Uri Dadush is senior associate and director in Carnegie's new International Economics Program. His work currently focuses on trends in the global economy and the global financial crisis. He is also interested in the implications of the increased weight of developing countries for the pattern of financial flows, trade and migration, and the associated economic policy and governance questions. A French citizen, Dadush previously served as the World Bank's director of international trade for six years and before that as director of economic policy for three years. He has also served concurrently as the director of the Bank's world economy group over the last eleven years, leading the preparation of the Bank's flagship reports on the international economy over that period. Prior to joining the World Bank, he was president and CEO of the Economist Intelligence Unit and Business International, part of the Economist Group (1986-1992); group vice president, international, for Data Resources, Inc. (1982-1986), now Global Insight; and a consultant with McKinsey and Co. in Europe.

### Crawford Falconer

Crawford Falconer is the former Permanent representative of New Zealand to the WTO. He is also the former Chairman of the Agricultural Negotiations Committee at the WTO (until the beginning of 2009).

### Carol Goodloe

Senior Economist, Office of the Chief Economist, U.S. Department of Agriculture. Ms. Goodloe currently serves as a senior economist in the Office of the Chief Economist, where she is responsible for analysis on issues related to agricultural trade, trade policy, and domestic farm programs. Between 1992 and 1998, Ms. Goodloe worked in the Foreign Agricultural Service, where she participated in the negotiation and implementation of the NAFTA. She worked at the Economic Research Service, USDA between 1978-1992, where she participated in the negotiation and implementation of the U.S.-Canada Free Trade Agreement, and also worked extensively on Canadian agricultural issues in the Uruguay Round. She also had a short assignment at the Food and Agriculture Organization in Rome in 1982-83. Ms. Goodloe was graduated in 1975 from Wesleyan College in Georgia with a B.A. in history and German. She received an M.A. in international commerce from the University of Kentucky in 1977.

### **Gary Clyde Hufbauer**

Gary Clyde Hufbauer is Reginald Jones Senior Fellow, Peterson Institute for International Economics, Washington, DC. Hufbauer has written extensively on international trade, investment, and tax issues. Reginald Jones Senior Fellow since 1992, he was formerly the Maurice Greenberg Chair and Director of Studies at the Council on Foreign Relations (1996–98), the Marcus Wallenberg Professor of International Finance Diplomacy at Georgetown University (1985–92), senior fellow at the Institute (1981–85), deputy director of the International Law Institute at Georgetown University (1979–81); deputy assistant secretary for international trade and investment policy of the US Treasury (1977–79); and director of the international tax staff at the Treasury (1974–76).

### **Nicolas Imboden**

Nicolas Imboden (1946) a Swiss national, graduated in law at the University of Geneva, holds a degree in development studies from the then African Development Institute; a M.A.L.D. from the Fletcher School of Law and Diplomacy in Boston and was an AMP student at Harvard. He is partner and cofounder of IDEAS Centre. Previous he was Senior Vice President of SGS (1999-2002), a Swiss Government trade and aid official with the rank of an ambassador (1992-1999), Governor of the regional development banks (ADB, AFDB, IDB) and Executive Director at the EBRD (1992). He was the Swiss negotiator for market access and agriculture during the Uruguay Round negotiations (1987-1992). He also worked in the World Bank as an agricultural economist (1978-1982), OECD (1974-1978 as researcher on aid monitoring) and UNDP (1972-1974 as Program Officer in Chad).

### **Marc Lange**

President and Chief Executive Officer, National Cotton Council of America, Memphis, TN. Dr. Mark Lange assumed the position of president and chief executive officer of the National Cotton Council in February 2003. From 2001-2003, he served as the Council's vice president of policy analysis and program coordination. Mark joined the Council in 1990, and served as director of the Economic Services and Information Services departments until 2001. Prior to joining the Council, he was an associate professor of agricultural economics at Louisiana State University. Mark holds bachelor's and master's degrees in economics from Indiana State University and received a Ph.D. in economics from Iowa State University.

### **Mamadou Sanou**

His Excellency Mamadou Sanou is currently Minister of Trade, Entrepreneurship and Handicraft of Burkina Faso. Previously, Mamadou Sanou served as senior civil servant in the ONEA (Office National de l'Eau et de l'Assainissement) and in the Ministry of Trade.

### **Nadjindar Tirdjebaye, CotonTchad**

Graduated from University Paris I Panthéon-Sorbonne (Masters in Entreprise Management) and from the Centre d'Etudes Financières, Economiques et Bancaires (Marseille), specialised in Strategy and Finance, he is currently Director of Financial controlling and IT at Cotontchad.

### **Terry Townsend**

Dr. Terry Townsend is the executive director of the International Cotton Advisory Committee (ICAC). He joined the ICAC as statistician in 1987 and became executive director in 1999. He has a Ph.D. in Agricultural and Resource Economics from Oregon State University in the United States. Prior to joining ICAC he worked at USDA analyzing the U.S. cotton industry and editing a magazine devoted to a cross-section of agricultural issues. Dr. Townsend is an Officer in the Order of Burkina Faso. The ICAC is the intergovernmental commodity body for cotton. The Committee works to raise awareness of critical issues involving cotton, it provides statistical and scientific information, and the ICAC facilitates cooperation on international issues related to the cotton economy.

#### **About DFID (United Kingdom)**

The UK government believes it is in all our interests to help poor people build a better life for themselves. So in 1997 it created a separate government department - the Department for International Development (DFID) - to meet the many challenges of tackling world poverty. It is DFID's job to make sure every pound of British aid works its hardest to help the world's poor.

[www.dfid.gov.uk](http://www.dfid.gov.uk)

#### **About SECO (Switzerland)**

SECO (State Secretariat for Economic Affairs) is the federal government's centre of expertise for all core issues relating to economic policy. Its aim is to ensure sustainable economic growth by putting in place the necessary regulatory and economic policy conditions.

[www.seco.admin.ch](http://www.seco.admin.ch)

#### **About the Carnegie Endowment for International Peace**

The Carnegie Endowment for International Peace is a private, non profit organization dedicated to advancing cooperation between nations and promoting active international engagement by the United States. Founded in 1910, its work is nonpartisan and dedicated to achieving practical results.

[www.carnegieendowment.org](http://www.carnegieendowment.org)

#### **About IDEAS Centre Geneva**

IDEAS Centre is dedicated to facilitate the integration of developing countries into the world economy and has assembled over the last 7 years substantial experience on this issue. Its mission is to support policy makers around the world working to develop approaches to assure that globalization can be harnessed for development and to fight against poverty both within their countries and in a more inclusive and fairer world trading system.

[www.ideascentre.ch](http://www.ideascentre.ch)

[www.gtdforum.org](http://www.gtdforum.org)