

Committee on Agriculture  
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## WTO NEGOTIATIONS ON AGRICULTURE

### POVERTY REDUCTION: SECTORAL INITIATIVE IN FAVOUR OF COTTON

Joint Proposal by Benin, Burkina Faso, Chad and Mali

#### I. SUMMARY

1. Cotton plays an essential role in the economic development of West and Central African countries (WCA). Cotton production accounts for 5 to 10 per cent of the gross domestic product (GDP) in Benin, Burkina Faso, Chad, Mali, and Togo. It occupies an important place in their trade balance, with around 30 per cent of total export earnings and over 60 per cent of earnings from agricultural exports. Over 10 million people in the region depend directly on cotton production and several millions more are indirectly affected by the problems now encountered in this sector. Consequently, cotton occupies a strategic position in the development policies and poverty reduction programmes of WCA countries.

2. Cotton producers in WCA countries have made strenuous efforts to ensure that their production is competitive and to liberalize the sector. As a result, they are among the most competitive producers, and the cost of producing 1 kg. of cotton in the WCA countries is substantially lower than in other producing countries. They have also made the necessary adjustments to adapt their economies to the WTO's objectives.

3. Until now, the impact of such reforms on development in the WCA countries has been virtually nullified by the fact that certain Member countries of the WTO continue to apply support measures that distort global market prices, contrary to the basic objectives of the WTO. The WCA countries consider it essential that countries which continue to distort competition through subsidies make their own necessary adjustments.

4. Studies have shown the impact which the elimination of domestic subsidies and export subsidies would have on cotton prices and global markets. If these subsidies were eliminated, cotton production in WCA countries would be highly profitable and could act as an important catalyst for poverty reduction in the countries concerned.

5. The signatory countries emphasize that the objective of the Doha Development Agenda is to establish a fair and market-oriented trading system, including reforms to correct and prevent restrictions and distortions in world agricultural markets. During the Doha Round, a commitment was also made to take into account the needs and interests of developing countries, particularly the poorest among them. This initiative is a practical manifestation of the Doha objectives for cotton, which plays an essential role in development and poverty reduction in WCA countries.

6. The signatory countries therefore call for the following:

- Recognition of the strategic nature of cotton for development and poverty reduction in many LDCs;
- complete phase-out of support measures for the production and export of cotton.

7. In order to take into account the urgent need to restore a global market that functions according to the WTO's principles and thus combat poverty in WCA cotton-producing countries, the signatory countries call for the following:

- Establishment at Cancún of a mechanism for phasing out support for cotton production with a view to its total elimination (early harvest): at the Ministerial Conference in Cancún, there should be a decision on immediate implementation, providing for substantial and accelerated reductions in each of the boxes of support for cotton production. This decision should set a specific date for the complete phase-out of cotton production support measures.
- Transitional measures for LDCs: until cotton production support measures have been completely eliminated, cotton producers in LDCs should be offered financial compensation to offset the income they are losing, as an integral part of the rights and obligations resulting from the Doha Round.

8. The elimination of subsidies for cotton production and export is the only specific interest of WCA cotton-producing countries in the Doha Round. Any outcome of the negotiations that does not help to ensure respect for the principles of free trade and competition in global trade in cotton will be seen by the WCA countries as unbalanced, unfair and contrary to the objectives approved by all the Member countries at Doha.

## II. CONTEXT

### Importance of cotton in West and Central African countries

9. Cotton plays an essential role in the economies of West and Central African countries (WCA). In the countries most concerned such as Benin, Burkina Faso, Chad, Mali and Togo, cotton production accounts for 5 to 10 per cent of the gross domestic product (GDP).<sup>1</sup> Their exports are dominated by cotton: around 30 per cent of total export earnings and over 60 per cent of earnings from agricultural exports. This performance is the result of substantial investment and restructuring of the cotton sector over the past two decades.

10. Since the early 1980s, production in WCA countries has increased fivefold, rising from 200,000 tonnes to almost one million tonnes. The WCA countries are the seventh largest global producer after China, the United States, India, Pakistan, Uzbekistan, and the European Union. With around 15 per cent of global exports, they are the second largest exporter after the United States, almost on a par with Uzbekistan. In addition, in the light of international standards, the WCA countries produce high-quality cotton and its production costs are among the lowest in the world.

11. Although cotton only plays a minor role in the economic activities of industrialized countries, it is of vital importance in many WCA countries. It has made it possible to improve the physical and social infrastructure in cotton-producing regions (rural roads, schools, health centres, etc.). The

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<sup>1</sup> "The contributions of cotton to economies and food security in developing countries", P. Fortucci, FAO, Rome, July 2002.

expansion of cotton production is also responsible for the improvement of health in the cotton-growing regions. It has been shown that cotton/maize rotation results in a better diet than simply growing cow pea plants. In addition, surveys of households in Benin, Burkina Faso and Mali have shown that poverty levels fell more rapidly in areas where cotton production had developed rapidly than in other regions.

12. Cotton therefore occupies a strategic position in the development policies and poverty reduction programmes of the WCA countries. Over 10 million people depend directly on cotton production and several millions more are indirectly affected by the problems now encountered in this sector. Likewise, many international aid commitments are jeopardized because of the problems faced by cotton on global markets.

### **Restructuring of the cotton sector in the WCA countries**

13. In the WCA countries, the cotton sector is an encouraging example of reform and restructuring. Producing countries have worked with international financing agencies and other institutions in order to meet the international markets' quality and profitability requirements. The aim of the reforms is quite clear: restructuring of State marketing bodies; better loan mechanisms for farmers; introduction of competition in the sector. Although there is still some way to go, these changes have had a noticeable positive impact.

14. Cotton producers in the region are among the most competitive in the world. In the United States, the cost of producing 1 kg. of cotton is 50 per cent higher than in the WCA countries.<sup>2</sup>

15. The WCA countries emphasize that they have made the necessary, sometimes painful, adjustments in order to adapt their rural economies to global market requirements. In undertaking these reforms, they have shown their determination to become integrated in the global market and observe the WTO's rules. The results of these reforms have been virtually nullified by the refusal of other cotton-producing countries to accept market forces and competition, as defined in the WTO's objectives, by maintaining high levels of support for production and export. African cotton producers have no development alternative, particularly because of their poverty and their land-locked position. Consequently, they consider that a solution to the problems affecting cotton would enable the multilateral system to show that the objectives fixed apply to all Member countries and take into account the vital interests of the most vulnerable among them.

### **Nature and scope of subsidies applied by competitors**

16. In July 2002, the International Cotton Advisory Committee (ICAC) indicated that 73 per cent of global production of cotton required direct financial support from governments. Five years previously, the support only concerned 50 per cent of production. Support given to the cotton sector by the United States, China and the European Union was estimated at US\$ 6 billion in 2001/02<sup>3</sup>, which corresponds in value terms to all global exports during that year. These figures clearly show that the WTO objectives of phasing out production and export subsidies have not been achieved in the case of this product. The classification of subsidies in the various WTO boxes is a major problem because the description of each box is often a matter of interpretation.

17. Almost half of the direct domestic support received by cotton producers is given by the United States (US\$2.3 billion in 2001/02). The ICAC has estimated that American cotton producers will receive a total of US\$3.7 billion this year. American domestic support policies include a large and complex range of programmes. Moreover, the United States gives direct aid for cotton exports.

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<sup>2</sup> *"Préjudices causés par les subventions aux filières cotonnières de l'AOC"*, March 2003, L. Goreux.

<sup>3</sup> Document of the Netherlands delegation at the OECD.

18. In recent years, China's support for its cotton sector has decreased. Nevertheless, the ICAC has indicated that support by China was around US\$1.2 billion in 2001/02. Following China's accession to the WTO, the support mechanisms are being reorganized and export subsidies should be abolished.

19. The European Union gives producers in Spain and Greece around US\$700 million through a ceiling price support mechanism. In 2001/02, Spanish cotton producers received support corresponding to 180 per cent of global prices and Greek producers 160 per cent, compared with 60 per cent for American producers. These are the highest subsidies in the world per kilo of cotton.

20. The contrasts are striking. The subsidies given to American cotton producers are 60 per cent more than the total GDP of Burkina Faso, where over 2 million people depend on cotton production. One half of cotton subsidies to American producers (around US\$1 billion) goes to a few thousand farmers who cultivate around 1,000 acres of cotton and are thus well above the poverty threshold. In the WCA countries, on the other hand, these subsidies penalize one million farmers who only have five acres of cotton and live on less than US\$1 per person per day.

### **Impact of subsidized competition on the global cotton market and on the export opportunities of the WCA countries**

21. The very high levels of support given to cotton producers in certain Member countries of the WTO are one of the direct and major causes of the problems faced by global cotton production. They artificially increase supplies on international markets and bring down export prices. It has been established that there is a link between large-scale subsidies and the collapse in global cotton prices over the past decade.

22. The sharpest fall was between May 1995 (US\$2.53/kg.) and October 2001 (US\$0.82/kg.). This was followed by a recovery and the price reached US\$1.25/kg. in January 2003. In addition, producers in the more developed countries could relatively easily introduce competitive substitute crops, whereas this possibility is practically non-existent in the WCA countries.

23. Over 90 per cent of the cotton produced in the WCA countries is for export. From 1999/2000 to 2001/02, production increased by 14 per cent, but export earnings fell by 31 per cent.

### **Effect of the elimination of subsidies on WCA producers**

24. A number of studies have analysed the effect of eliminating domestic subsidies on the global cotton market. The estimates were made on the basis of an econometric model prepared by the ICAC. The ICAC study has shown that, if American domestic subsidies were eliminated, there would be a positive impact on global cotton prices (US\$0.12/lb in 2000/01 and US\$0.22/lb in 2001/02). Extending this hypothesis to elimination of direct subsidies worldwide shows an even more positive effect (US\$0.17 for 2000/01 and US\$0.31 for 2001/02). Although the impact of price increases on supply and demand would lower these figures somewhat, under such circumstances cotton from WCA countries would be highly profitable.

25. A recent study evaluated the loss in export earnings for WCA countries as a result of subsidies by the United States, China and the European Union in 2001/02 at US\$250 million.<sup>4</sup> This figure does not take into account the indirect effects on all those who sell goods and services to cotton producers nor the knock-on effect on the rest of the economy. The combined direct and indirect effects would be some US\$1 billion a year. This is the amount of the losses currently suffered by WCA countries due to the subsidy practices of competitor countries.

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<sup>4</sup> "Préjudices causés par les subventions aux filières cotonnières de l'AOC", March 2003, L. Goreux

26. The best hope for the survival and development of the cotton sector in the WCA countries is a substantial reduction, or even complete elimination, of domestic support and export subsidies granted by the other Member countries of the WTO.

### III. PROPOSALS

27. The specific issues raised by this initiative are currently the subject of procedures under the WTO's dispute settlement system. At best, the dispute mechanism will only resolve part of the problem. Without prejudging the outcome of these procedures, the signatory countries call for a systemic solution to the cotton problem within the framework of the new Doha Round trade negotiations.

28. The signatory countries emphasize that the objective of the Doha Development Agenda is to establish a fair and market-oriented trading system. The agenda provides for fundamental reform encompassing strengthened rules and specific commitments in order to correct and prevent restrictions and distortions in world agricultural markets.

29. Through this initiative, the signatory countries are pursuing that objective and turning it into concrete action so as to ensure that the objective is fully met in the case of cotton, which is of strategic importance for their development and their struggle to reduce poverty. They call for a lasting and immediate solution in conformity with the principles of the WTO. The solution should be applicable and applied by all the Member countries of the WTO and should respond to the vital interests of the most vulnerable countries in accordance with the undertakings given at Doha. The signatory countries consider that the solution of the cotton issue will show how serious were the undertakings given at Doha and will thus be an essential element of the objectives for the new round of negotiations.

#### General positions concerning agricultural disciplines

30. Accordingly, in general, the signatory countries:

- Support the joint position of the WAEMU countries<sup>5</sup>, the proposals by Burkina Faso<sup>6</sup> and the African Group<sup>7</sup> concerning domestic support, export competition and market access for agricultural products.
- Call for a strict and mandatory definition of the various subsidy boxes. They will be unable to accept any outcome of the negotiations that allows the WTO disciplines to be circumvented by reclassifying subsidies from one box to another. A substantial reduction in the orange and blue boxes, export subsidies, and the *de minimis* level in developed countries would be a step in the right direction.

#### General measures in favour of cotton

31. The Declaration adopted by the Ministers of Member countries at Doha puts the needs and interests of developing countries at the forefront of the new negotiating round. The revised draft of modalities for new commitments by the Chairman of the special sessions of the Committee on Agriculture recognizes the principle of "special products" for developing countries and envisages

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<sup>5</sup> G/AG/NG/W/188.

<sup>6</sup> G/AG/NG/W/185.

<sup>7</sup> G/AG/NG/W/142.

special measures in their favour. These products are deemed to be "special" by reason of their importance for "food security, rural development and/or livelihood security".

32. The signatory countries call for the following:

- Extension of the concept of "special products" – currently restricted to defensive measures – to the offensive interests of developing countries, in other words, where export of such products is essential for agricultural development or the survival of the rural population in LDCs, as is the case for cotton.<sup>8</sup>
- Explicit recognition that cotton is a "special" product for development and poverty reduction in LDCs and, as such, benefits from special treatment in order to ensure fair access to global markets.
- Total elimination of border measures, domestic support, and all forms of subsidies for the export of cotton.

33. Such measures will ensure that the negotiations take into account export products that are of vital importance to the LDCs and that the latter may take full advantage of the liberalization of the global agricultural market, even if their exports are not very diversified.

34. The signatory countries recognize the need to take into account considerations other than those of a trade nature. The justification for the green box is not questioned. Whereas cotton clearly has non-trade objectives in developing countries – due to its role in food production, rural development and poverty reduction – this is not the case in industrialized countries. In the latter, cotton does not have any role related to food security or protection of the countryside neither is it essential for the livelihood of a decentralized or agricultural population. Cotton production can easily be replaced by other agricultural products that are more profitable on global markets.

#### **Emergency measures in favour of cotton-producing LDCs**

35. For the signatory countries, survival of the cotton sector and their poverty reduction strategy requires an urgent solution. They cannot await the end of the negotiations and the deadlines for implementing their results.

36. The signatory countries therefore call for the following:

- In Cancún, the establishment of a mechanism to phase-out support for cotton production with a view to its total elimination ("early harvest"): a decision to be implemented immediately, providing for substantial, specific and accelerated reductions for each of the types of support for cotton production and export, to be taken at the ministerial conference in Cancún. The decision should fix a specific date for the total phase out of support for cotton production. An adequate reference period, which will ensure an effective and non-theoretical reduction in such support, should be chosen<sup>9</sup>.

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<sup>8</sup> The signatory countries consider that the exceptions proposed as regards tariff reductions and support (defensive measures) are of little use if their exports are penalized on global markets because of support by other Member countries of the WTO (offensive interests).

<sup>9</sup> The reference period proposed (1999-2001) corresponds to a period during which cotton prices were at their lowest levels, whereas subsidies had reached a ceiling. It cannot therefore be a reference period for support for cotton production.

This requirement is in conformity with the fundamental principles of the WTO, as well as the undertaking by Ministers in Doha set out in paragraph 13 of the Declaration. The signatory countries call for special treatment to strengthen the disciplines of the multilateral trading system. Statements of good will, non-binding commitments, exceptions and additional transitional periods are insufficient if outlets for competitive exports by LDCs on global markets are nullified by the various forms of support for production and export.

- Transitional measures for LDCs: The signatory countries recognize that the total elimination of domestic support for cotton production and border measures will take some time. Until support for cotton production has been completely phased out, financial compensation should be given to cotton-producing LDCs to offset their loss of revenue.

37. In principle, compensation in the WTO is through two instruments. First of all, supplementary concessions are offered for other products. This mechanism cannot apply to cotton-producing LDCs because they only have a few other export products and, in most cases, these already receive preferential access. Secondly, customs tariffs are increased on imports. The signatory countries are not in favour of this solution because it rights a wrong through another wrong. In addition, this solution has a greater impact on countries which impose such customs tariffs inasmuch as the majority of their imports are essential for development and poverty reduction. These two instruments are therefore counterproductive for cotton-producing LDCs.

38. The only practicable short-term measure is contractual financial compensation as an integral part of rights and obligations, as well as the balance of commitments resulting from the Doha Round. The signatory countries therefore call for the following: a transitional measure in the form of financial compensation for cotton-producing LDCs to offset the injury caused by support for production and export. Such financial compensation should be calculated in proportion to the subsidies granted by countries which support their cotton production. It will decrease (terminate) as and when these subsidies are reduced (abolished).

39. Reliable studies have calculated the amount of support for production and exports in different producing countries, as well as the effect of this support on WCA countries. The signatory countries call for the following:

- When defining the total amount of compensation, the direct and indirect effects of support for cotton production on the economies of LDCs should be taken into account.
- The compensation should be sufficiently high to constitute an additional incentive to decrease or phase out subsidies as soon as possible.
- The unit amount and the total amount of subsidies should be taken into account when dividing the compensation among countries which subsidize production.

Signed:

*For the Republic of Benin*

*For Burkina Faso*

*H. E. Mr Samuel AMEHOU  
Ambassador, Permanent Representative to the  
WTO, Geneva*

*H. E. Mr Kadré Désiré OUEDRAOGO  
Ambassador, Permanent Representative to the  
WTO, Brussels*

*For the Republic of Chad,*

*For the Republic of Mali,*

*H. E. Mr. ABDERAHIM YACOUB N'DIAYE  
Ambassador, Permanent Representative to the  
WTO, Brussels*

*H. E. Mr. Sinaly COULIBALY  
Ambassador, Permanent Representative to the  
WTO, Geneva*

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