

WTO NEGOTIATIONS ON AGRICULTURE
POVERTY REDUCTION: SECTORAL INITIATIVE
IN FAVOUR OF COTTON

Joint Proposal by Benin, Burkina Faso, Chad and Mali

Proposal on Implementation Modalities

CONTEXT

1. In connection with the search for lasting solutions to the damage they are suffering as a result of the agricultural subsidies accorded by certain cotton-producing developed countries, on 31 April 2003 Benin, Burkina Faso, Chad and Mali submitted to the WTO the document entitled **Poverty Reduction: Sectoral Initiative in Favour of Cotton** (TN/AG/GEN/4).

2. As the objective of the Doha Development Agenda is to develop a fair and market-oriented trading system, including the reforms to correct and prevent distortions in world agricultural markets, the African countries most affected by these subsidies, all LDCs, have submitted the sectoral initiative to the competent WTO bodies with a view to seeking, with the parties involved and with WTO Members as a whole, fair and appropriate solutions to the problem.

PROPOSED SOLUTION

3. As a solution to the above problem, the co-sponsors of the initiative call for the adoption, by Cancún at the latest, of the following decisions for immediate implementation:

- In Cancún, the establishment of a mechanism to phase out support for cotton production with a view to its total elimination "early harvest";
- transitional measures in the form of financial compensation for cotton-producing LDCs to offset their loss of revenue, until support for cotton production has been completely phased out.

Proposed implementation modalities

Complete elimination of cotton subsidies

4. The complete elimination of support for cotton production and exportation is unquestionably the only measure that would enable cotton to fully develop its potential and, in particular, to enhance its essential contribution to poverty reduction in the countries concerned.

5. The co-sponsors of the sectoral initiative are aware of the fact that the countries that heavily subsidize their cotton production, of which there are few, cannot withdraw all of their support overnight: they must prepare their producers and promote the necessary domestic adjustments.

6. The studies that have been conducted indicate that these adjustments should be possible without too much "suffering", within a reasonable period of time.

7. This is why the co-sponsors of the initiative advocate the total elimination of all cotton subsidies over a relatively short period of three years, from 2004-2006. It could take the form of a gradual decrease, in equal annual portions, i.e. a reduction by one third (33.3 per cent) per year of all of the cotton support measures.

8. Thus, by the end of the three-year period, i.e. by 31 December 2006, the cotton subsidies will have been completely eliminated and the free market for international trade in cotton restored.

9. In the long-term, in a market economy, these adjustments will be beneficial not only to the cotton-producing countries of West and Central Africa, which will be able to profit fully from their comparative advantages in the cotton trade, but also to the countries which have reduced or abandoned their "uneconomical" production of cotton for other products and sectors where they have comparative advantages and where they are competitive without having to resort to subsidies.

Transitional compensation mechanism

10. The proposed compensation mechanism reflects the need to act immediately in what is an emergency situation for the co-sponsors of the initiative. Transitional compensation will be linked and limited to the subsidy reduction period – in other words, the longer the period, the greater the overall amount of compensation to be paid.

11. The mechanism will serve to compensate cotton producers for the losses suffered as a result of the subsidies as long as the subsidies exist. It is in fact only a stop-gap solution in relation to the benefits that will result from the restoration of the free market.

12. However, it is a transitional measure that makes sense: it will enable cotton producers in the countries affected to maintain their production and it will encourage them to make the necessary investments to adapt to the evolution of the market and improve their competitiveness.

13. The beneficiary LDCs will undertake to ensure that the compensation received is effectively handed over to the local cotton producers' associations which will themselves be responsible for monitoring the utilization of the funds and ensuring transparency.

14. More than anyone else, it is the cotton producers or the village groupings in the cotton growing areas that are in a position to decide how best to use the funds in order to ensure the preservation of their asset, cotton, until such time as they can truly benefit from their full participation in the free international cotton market.

15. By assuming this responsibility and participating directly in the implementation of the compensatory mechanism, the local associations will also be given the possibility of building up their capacity and broadening their experience in self-management.

Calculation and distribution of the compensation

16. Simple principles are proposed both for the "paying countries" (the countries that subsidize cotton) and the beneficiary countries (cotton-producing LDCs suffering losses in export revenue as a result of the cotton subsidies granted by other countries).

17. The four following principles are proposed:

- First, the annual amount of compensation to be paid must correspond to the estimated losses suffered, calculated on the basis of a reference period covering three years of cotton production: 1999-2000, 2000-2001 and 2001-2002. A recent study, already mentioned the submission on cotton, estimated the average annual loss in export revenue by the countries of West and Central Africa at about 250 million dollars. This figure corresponds more or less to direct losses. If indirect losses were included, i.e. losses suffered by persons living indirectly on cotton production and exports, the figure would apparently be multiplied by four, bringing the total amount of losses to approximately 1 billion dollars.
 - Second, the above-mentioned amount of the overall compensation would be directly linked to simultaneous efforts on the part of the countries called upon to contribute to the compensation fund to reduce their subsidies. In a nutshell, the decrease in subsidies, at a rate of about 33 per cent per year according to our proposal, would lead to an equivalent decrease in the amount of the annual contribution to be paid to the compensation fund.
 - Third, the contribution (percentage) of the countries that subsidize their cotton and are hence called upon to contribute to the transitional compensation fund would be calculated on the basis of their respective shares in the total amount of subsidies granted to cotton worldwide, as published in the annual statistics of the International Cotton Advisory Committee (ICAC). According to the above principle, the contributions of the "paying countries" would decrease in proportion to their effective efforts to reduce their cotton subsidies.
 - Fourth, the share to be allocated to each beneficiary LDC would be calculated on the basis of its respective share in total cotton production by that group of countries, as published in the ICAC annual statistics.
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