Concerns with Cotton Subsidies

Why in news?

World Trade Organisation (WTO) is yet to address one of the unfinished agendas of disciplining the trade-distorting cotton subsidies in rich countries that push millions of poor cotton farmers into poverty.

What is World Trade Organisation (WTO)?

- **Aim-** To promote free trade, which is done through trade agreements that are discussed and signed by the member states.
- **Established in-** 1995
- **Marrakesh Agreement**- WTO officially commenced under the Marrakesh Agreement, replacing the *General Agreement on Tariffs and Trade (GATT).*
- It is created by *Uruguay round* of negotiations.
- **Member countries**- *164 members and 22 observer* governments, with Afghanistan and Liberia being the latest to join.



- **Principles**
  - Non-discrimination
    - Most-favored-nation (MFN) rule
    - National treatment principle
  - Reciprocity
  - Enforceable commitments
  - Transparency
  - Safety valves
- **Headquarters-** Geneva, Switzerland
- **General Council**- It is the *top day-to-day decision-making body*. It has representatives from all member governments and also meets, under different rules, as the Dispute Settlement Body.
- **Ministerial Conference (MC)** - It is the *highest decision-making body,* where members are represented by its trade ministers, which meets every 2 years.
- All decisions are taken through consensus and any member can exercise a veto.

Status of Cotton Production & Export

• **Global scenario**- *India, China, Brazil and the US* are leading cotton producers.
• *USA* accounts for 28% share in global export.
• The C-4 countries including Côte d'Ivoire are exporting more than 90% of their cotton produce.
- C-4 is a group of 4 West African countries namely *Benin, Burkina Faso, Chad and Mali.*
• **Indian scenario** - India stands *1st in the world in cotton production and cotton acreage.*
• *Gujarat* is the largest producer of cotton in India followed by Punjab and Maharashtra.
• India is also the *2nd largest consumer of cotton* in the world.
• India exported 8% of its cotton production in 2023.

What is the issue with the cotton subsidies?

- The number of people engaged in the cotton sector is massively higher than the US.
- Despite the challenges like marketing problems, inadequate institutional support, low farm income, and farm distress, the cost of cultivation is low compared to US which gives them a competitive advantage in the market.
- However, enormous subsidies from rich countries such as the US offset the competitive advantage of the developing countries.

How cotton subsidies in rich countries affect the poor countries?

US has spent more than 40 billion dollars on cotton subsidies between 1995 and 2020.

- **Support**- US offers substantial support to cotton farmers through a wide range of measures including crop insurance, price deficiency like payments and market facilitation programmes.
- **High subsidy**- When cotton produce is highly subsidised and subsequently exported, it causes a dip in international prices.
- It makes the cotton production and exports by poor countries uncompetitive in the international market against the subsidised cotton exports.
- **Trade distorting practices**- The per farmer cotton subsidy is significantly higher in the US as compared to India and China.
    - The Oxfam report "Cultivating poverty" found that enormous US cotton subsidies destroyed the livelihoods of cotton farmers in Africa by depressing international cotton prices and diminishing their prospects of cotton exports.
- **Artificial advantage**- These enormous subsidies from rich countries confer an artificial competitive advantage to their farmers at the expense of poor farmers of developing and least-developed countries.

What measures are available to regulate the subsidies?

- **Regulate subsidies**- The *WTO Agreement on Subsidies and Countervailing Measures (SCM)* regulates the use of subsidies and the actions that countries can take to counter their effects.
- **Countervailing measures-** It provides extra duties that countries can impose on

subsidized imports that are found to cause injury to domestic producers.

- **MC 6**- The Hong Kong Ministerial Conference in 2005 took the decision to reduce cotton subsidies ambitiously but has failed to deliver on the promise till now.
- **MC 12**- It yielded a package of deliverables called as Geneva package, but there was no solid outcome on cotton subsidies.
- **MC 13**- It is approaching in 2024, but there is no consensus on cotton subsidies between members.

How the WTO rules related to subsidies support rich countries?

- **Set a limit**- Both developing and developed countries can subsidise cotton production, but there are limits on the amount of trade-distorting support a country can provide under the ***Agreement on Agriculture (AoA)*** at the WTO.
- **Limit of support**- The developing countries can provide support only up to a maximum limit of ***10% of their total value*** of cotton production.
- If the limit is breached, their policies can be challenged at the WTO whereas this limit is not applicable for the developed countries.
    - For instance, in 2001, the US provided a cotton subsidy that constituted 74% of the value of cotton production and yet was compliant with the WTO rules.
- **MC 5**- In order to address the discrimination, the C-4 countries have been consistently demanding a substantial reduction in the developed countries' flexibilities to provide trade-distorting cotton subsidies since the *2003 Cancun WTO Ministerial meeting*.
- The rich countries have been unwilling to yield to the requests made so far, and continue to maintain trade-distorting cotton subsidies that essentially displace exports from farmers of poor countries.

What lies ahead?

- The collective demand of the C-4 and others to discipline trade-distorting cotton subsidies needs to be met expeditiously to reduce the space available to the rich countries to depress international prices.
- It will raise the farm income of poor farmers by making their cotton produce more competitive.
- This would go some distance in reducing the inequalities embedded in the WTO rules and essentially help in achieving Sustainable Development Goals of eradicating poverty and hunger.

References

1. Business Line- Consensus eludes cotton subsidies
2. WTO- Subsidies and countervailing measures



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