Mr. Chairman and members of the Committee, I am Allen Helms, a cotton producer from Clarkedale, Arkansas and currently the Vice-Chairman of the National Cotton Council. I am happy to be here today to offer views on the WTO issues confronting cotton.

The U.S. cotton industry is committed to working within the World Trade Organization and recognizes the importance of a rules-based trading system. Although that system sometimes rules against our interests, as a whole, the system created within the WTO favors more trade and more markets for our products.

Overall Goals for the Doha Round

The U.S. cotton industry is committed to working within the World Trade Organization and recognizes the importance of a rules-based trading system.

A beneficial agricultural agreement in the Doha Round Negotiations will contain substantial market access improvements, an agreement to phase-out export subsidies, and will provide for reductions in, and greater harmonization of, trade distorting domestic supports by all countries. The U.S. cotton industry is fully prepared to negotiate reductions in trade distorting domestic supports as a part of an overall, beneficial agreement. A summary description of the National Cotton Council's objectives in the Doha Round is attached to this testimony as Appendix A.

Importance of a Single Undertaking

There are many trade-offs in a negotiation like this. The U.S. should not agree to dramatic cuts in its domestic supports unless we are assured we will obtain significant market access gains in return. At the same time, the EU will not end its export subsidy regime unless it obtains gains in other areas it deems to be equal to what it will be giving up. By its very nature, commitments in agriculture must be part of a single undertaking. That is the only way the world can obtain the outline of an agreement by December.

Efforts to single cotton out for special treatment are misguided, harmful to the U.S. cotton industry, and threaten the overall Doha Round.

Trade distortions in cotton are broader than just the production of cotton fiber, encompassing policies regarding manmade fiber and all textiles and apparel. Any meaningful effort at worldwide reform of policies affecting trade in cotton fiber must necessarily include all of these intertwined products. The strategy of singling out one U.S. commodity for special treatment must be met with a consistent message, namely, that targeting U.S. cotton will not help advance

a Doha Round agreement. It will make an agreement more difficult to obtain.
The U.S. cotton industry has not asked for special treatment in this negotiation. It is fully prepared to participate in a meaningful negotiation that contains beneficial concessions by all parties. Feigned complaints that U.S. cotton will escape discipline should the world reach a new agricultural agreement in this round of negotiations should be regarded as what they are - diversionary tactics designed to lead the Doha Round away from a broad-based, reciprocal agreement.

With the establishment of a special cotton subcommittee, the potential to single out cotton grew. Many participants in that subcommittee attempt to ignore its original mandate to monitor and coordinate developmental efforts with the trade policy negotiations. U.S. trade negotiators have repeatedly carried the message to Geneva that this negotiation must proceed as a single undertaking. We appreciate and support that position.
In his outgoing assessment of the agricultural negotiations, former Chairman Groser made it clear that progress on cotton trade issues was fully dependent on overall progress within the agricultural negotiations. The private associations and countries that have made the U.S. cotton program their foil need to understand our position clearly:

We are fully prepared to work toward an overall, beneficial agricultural agreement and cotton is prepared to make an equitable contribution toward that positive result. We will, however, oppose any agreement that singles out cotton for unfair, special treatment.

Africa

Much of the call for special treatment for cotton has come from several African countries that depend on cotton exports for a significant portion of their export earnings. Low prices have created true economic stress in these countries.

Since early 2004, the National Cotton Council (NCC) has engaged in a number of outreach activities with the West African countries of Benin, Burkino Faso, Chad and Mali. These efforts are aimed at helping rural Africans live better. All of the U.S. cotton industry's work has been in close cooperation with USDA and US-AID.

In June 2004, then NCC Chairman Woody Anderson, a Texas producer, participated in a Ministerial Conference on Agricultural Technology in Burkina Faso and traveled to its cotton growing areas with a U.S. delegation. During the conference, a memorandum of understanding between USDA and the African Agricultural Technology Foundation was signed with the intent of accelerating the transfer and dissemination of technologies developed by USDA scientists to West African researchers and the region's farmers. The West African ministers attending the ministerial adopted a resolution calling for greater research and investment in agricultural biotechnology and recommending the creation of a West African center for biotechnology.

In July 2004, the NCC helped organize U.S. cotton industry orientation sessions and a tour of U.S. cotton production, processing, marketing and research facilities for these West African countries' ambassadors and ministers. They explored ways in which West Africa can modernize its cotton industries. Immediately following its U.S. Cotton Belt tour, the West African contingent met in Washington, DC, with U.S. cotton industry representatives to discuss investment needs and opportunities, and with U.S. government officials to discuss a range of available technical assistance and capacity building programs.
In October 2004, a team of government and cotton industry technical advisors toured several of the West African countries to assess needs and identify both short and long-term opportunities for cooperative efforts and assistance. That tour included Bill Norman, NCC Vice President of Ginner Affairs.

In January 2005, a high-level U.S. government delegation traveled to Mali to address developmental aspects of the West African countries' cotton industries. The delegation was comprised of officials from USDA, the State Department, US-AID and the NCC, which was represented by American Cotton Producers Chairman John Pucheu, a California cotton producer. Discussions focused on cooperative project proposals designed to help West African cotton farmers improve their crops by more effective use of fertilizers, water management, biotechnology and integrated pest management.

In June 2005, cotton classing officials from four West African countries participated in a cotton classification and standards training program co-sponsored by the NCC and organized and funded in cooperation with the USDA Cochran Fellowship Program and US-AID. The West African officials received an orientation to the USDA Agricultural Marketing Service (AMS) cotton classification and standards program, including High Volume Instrumentation classification procedures, calibration standards and other USDA-AMS cotton program functions. While in Memphis, they participated in the Cotton Incorporated EFS conference, observed the Universal Cotton Standards conference and received a NCC orientation.

This cotton classing orientation was the first of three training programs being conducted this summer for these countries' cotton officials. The USAID and NCC are partnering to implement a two-week training session on integrated pest management. Benin, Burkino Faso, Chad and Mali each will send an entomology leader to learn ways to incorporate technologies that will foster adoption of integrated pest management principals in cotton production. Tuskegee University will coordinate with NCC on the training, which is scheduled for July, and will cover pest management in conventional cotton and in systems employing transgenic cotton for insect control and weed control. Training also is being scheduled on soil conservation/fertility.
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NCC is working with USDA and USAID to offer a cotton ginning "school" in West Africa. This school would be fashioned upon the ginning schools held annually at the several cotton ginning laboratories cooperatively with USDA and the National Cotton Ginners Association.

Plans are under development for follow-up trips to West Africa by U.S. teams to continue training programs.

These efforts underscore the commitment of the U.S. cotton industry and the U.S. government to assist in the development of agriculture in these countries.

Market Access

It is critical that the Doha Agreement contain real increases in market access for U.S. exports of cotton and cotton products. I am not talking about cuts made from fictitious and high bound tariffs. We need real increases in market access. Without commercially meaningful improvements in market access, it is difficult to justify significant cuts in U.S. trade-distorting domestic support.

The Framework Agreement concluded last July contained many of the right words regarding market access. For example, it called for higher tariffs to be reduced more than lower tariffs, and it called for significant increases in market access for all products. But, it also contained exemptions for yet-to-be-designated Special Products and a new category of Sensitive Products. Developing countries are also insisting on a special agricultural safeguard mechanism available only to them. Importantly, the Framework contained no numbers indicating exactly how much tariffs would be reduced.

Ultimately, a truly positive result in market access is handicapped by the decision reached last year to make reductions from bound tariff rates rather than applied rates. In the U.S., our bound tariff rates are essentially equivalent to our applied tariffs. When we agree to reduce a tariff, there are immediate market access gains for the foreign country.

However, a recent report by the Congressional Budget Office indicated that the difference between bound and applied rates in most developing countries ranged between 50 and 65 percent. As a result, a celebrated 50 percent cut in tariffs does not result in any actual increase in market access, as it does not even approach a reduction in the actual applied tariff.

The G-20 group of countries tabled a market access proposal in July that has gained a fair amount of support. But while it contains some positive provisions, it also ingrains, perhaps permanently, the disparities between the treatment of developing country tariffs and developed country tariffs. In fact, that proposal ensures that the highest tariffs are not reduced the most. It also ensures that the United States, one of the most open markets in the world, will not achieve reciprocity in market access. The structure of the market access proposal tabled by the G-20 group of countries ingrains inequitable tariff cuts, fails to truly harmonize tariffs, and does not appear to offer any real increases in market access for U.S. exports. The U.S. cotton industry does not believe that the market access proposal by the G-20 contributes to a beneficial Doha agreement.

The Table attached at Appendix B outlines the potential result of the G-20 proposal if the highest tariffs are cut 60 percent.

Tariff Rate Quota Implementation Must Be Improved

The Office of the U.S. Trade Representative is well aware of the manner in which tariff rate quotas have been implemented in several countries. Often this implementation does not conform with WTO obligations and does not result in the agreed upon levels of market access. While TRQ implementation was a part of initial U.S. Doha proposals, it has faded into the background in recent discussions. The Council urges the U.S. government to ensure that TRQ implementation remains on the Doha agenda and that more transparent rules governing the implementation of TRQs be included in any agreement.

Trade Distorting Domestic Support

The United States exhibited a willingness to make substantial reductions in trade distorting domestic support in Cancun and has demanded these reforms since the inception of the Doha Round. The unambiguous position of the United States was largely ignored in Cancun, however, as the U.S. approach also required the rest of the world to make corresponding changes in their trade policy.
Last July's Framework Agreement calls for significant reductions in overall trade-distorting support, with the largest subsidizers to reduce the most, and it included a 20% down payment to get the ball rolling. It called for significant reductions in the amber box category of support, new product-specific caps and contained a redefinition of the blue box category that would allow the U.S. counter-cyclical program to qualify. It also introduced limits, for the first time, on the blue box category of support.

There have been several recent press reports speculating that an acceptable agriculture agreement on trade-distorting domestic support would call for 50% reductions in amber box support. Council staff used those reports to theorize as to the effect on U.S. farm programs if the amber box ceiling were reduced by 50%. Such a reduction would lower the ceiling for amber box expenditures from $19.1 billion to $9.5 billion. As a result, the allowed level for marketing loan gains in U.S. policy drops from about $11 billion per year to a little over $2 billion, assuming no changes in other programs with significant levels of amber box support.

In the previous Round we might have speculated that the EU would never agree to such a reduction. But times have changed. Even though the EU may be asked to take an even greater cut in its trade distorting agricultural support - say, 60% -- the changes it has made to its Common Agricultural Policy over the last several years enable the EU to meet such a target.

Looking at this possible new ceiling within the context of recent U.S. agricultural expenditures is disheartening. While U.S. expenditures have been under our current AMS ceiling, we would have exceeded this new level in all but one of the past six years. So, this kind of a reduction is not comparable to the corresponding reductions promised in bound tariff rates - this kind of a reduction will have real impacts.

If we assume a situation where market prices fall to low levels not unlike those observed in the 1999-2002 period, then it appears to NCC staff that cuts in commodity loan rates and in dairy and sugar AMS in the range of 5 to 10 percent would be necessary to fit within this new, lower amber box ceiling. Again, this is a real cut in support to US farmers.

For cotton, this could mean loan rate reductions between 2.6 cents per pound and 5.2 cents per pound. This kind of a cut across all commodities could decrease annual program outlays by around $3 billion.

All of that support would not necessarily be lost. If the US is able to redefine the blue box to its satisfaction, some of this lost support could be regained through counter-cyclical payments - but not all of it. Likewise, decoupled direct payments could be increased. It seems, however, that in low price years, it would take a significant jump in direct payment rates to partially offset the reduction in actual support that arises from such a loan rate reduction. Other options include new approaches to environmental or conservation programs.
These kind of dramatic shifts could create new payment limit problems, have different budget impacts, and would affect some commodities differently than others. Environmental payments can cause a shift in program participants - away from actual farmers and in favor of landlords. Finally, under any scenario, the U.S. will have less effective export assistance, making it more difficult to export U.S. agricultural products and making it even more critical that a market access agreement truly increase access.

Export Subsidies

The cotton industry supports the U.S. push to eliminate export subsidies in agricultural trade. Export subsidies are no doubt the single most trade distorting mechanism in agricultural trade, causing adverse effects for all non-subsidizing exporting countries, and especially for least-developed countries that export. The Framework agreement called for the elimination of export subsidies by a date certain. That result will be beneficial to agriculture worldwide.

At the same time, improvements need to be made in WTO rules with respect to downstream subsidization of agricultural products, the use of export taxes to reduce prices of processed products, content requirements for exports and exemptions from taxes for exported products. The refund of special value-added-taxes (VAT) on processed products that are exported is used in many textile-exporting countries to subsidize textile and apparel exports. This activity should be classified as an export subsidy, and prohibited.

Export Credit Guarantee Program

The export credit guarantee program has been an important component of U.S. agricultural policy for well over 20 years was determined to be an export subsidy by the Panel that determined the U.S. - Brazil cotton dispute. The Panel made this determination despite language in Article 10.2 of the Uruguay Round Agriculture Agreement that seemed to exempt export credit guarantees from compliance with that agreement.

In addition to the unfavorable Panel ruling, the Doha negotiations had already moved toward an agreement that would require the United States to phase out the subsidy component of this program in parallel with the overall elimination of export subsidies. After the implementation period, export credit guarantees are to be issued for a maximum period of 180 days.

The degree to which the US should accept disciplines on GSM programs depends upon the extent to which the export subsidy programs of the EU and other countries are eliminated, the degree to which monopoly practices of State Trading Enterprises (STEs) are eliminated, and the degree to which real market access is achieved.
Disciplines should cover the full range of credit programs, e.g. export credit insurance, and practices (including those of State Trading Enterprises) for many of which there is a substantial lack of information and transparency. Any negotiated disciplines should be transparent, clearly understood, implemented equitably and with relative ease, and monitored effectively and should prohibit credit programs and similar financial practices that do not comply with WTO rules.

Interaction between Ag Agreement and Subsidies Code
With the expiration of the Peace Clause, domestic and export subsidy programs that conform with the Uruguay Round Agricultural Agreement are nevertheless subject to challenges under Article 5 of the Subsidies Code. Unfortunately, Article 5 of the Subsidies Code contains vague standards of compliance such as "serious prejudice," "significant price suppression," and "price depression" - inexact economic notions at best. This situation amounts to a type of double jeopardy and came as a bit of a surprise to U.S. agricultural interests. We did more than agree

to the disciplines on subsidies included in the Agricultural Agreement, we also agreed to never cause "serious prejudice," price suppression" or "price depression" or the other standards included in Article 5.

The final Doha Round agreement must appropriately protect countries that comply with the agricultural agreement from unexpected challenges under the Subsidies Code. Domestic farm programs that are structured to comply with a new Agricultural Agreement should not be undermined by Subsidies Code challenges that cannot be anticipated by Congress.

Conclusion

In order to reach an agreement on modalities by the Hong Kong ministerial in December, the Members of the WTO will have to reach an accommodation across a wide number of important issues in a short period of time. The analysis conducted by the National Cotton Council indicates that facially equitable levels of cuts in domestic supports and tariffs will not necessarily result in equitable results in the negotiation if the underlying framework is, in itself, not equitable.

The Brazil case has taught us that the language of a WTO agreement is subject to a wide range of interpretations by Panels that may have no connection to the compromises inherent in initially reaching that agreement. We urge the members of this Committee to evaluate carefully the progress in the Doha Round between now and December and to demand precision and equity in this agreement.