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COTTON PRODUCERS IN AFRICA VIS-À-VIS US AND EU SUBSIDIES

PRELUDE TO THE CANCUN NEGOTIATIONS

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This note is based on a report by the consultant entitled 'Damage caused to the cotton industry in West and Central Africa through the payment of subsidies by industrialised countries'. The views expressed are those of the consultant and they do not necessarily reflect the opinions of the institutions which contributed to this study.

Cotton growing has developed rapidly in sub-Saharan Africa and especially in Central and West Africa (CWA), a region which has become the world's second most important fibre exporter. Such development has enabled poverty to be reduced in Sahelian areas in which per capita income is less than one dollar per day[1]. However, in 2001/02 the world cotton price (expressed in dollars) fell to its lowest level for thirty years. This has jeopardised the future of a highly promising sector.

The fall in prices was due to a combination of various factors: competition from synthetic fibres, the sluggishness of the world economy and high yields attributable to favourable climatic conditions in 2001/02. However, the fall in prices was aggravated by the huge subsidies granted to producers in a number of industrialised countries (USA, Greece and Spain).

The USA is by far the biggest exporter of cotton. Greece and Spain, which account for only 2.5% of world production, nonetheless received 16% of all the cotton subsidies paid in 2001/02. The subsidies awarded by those three countries amounted in that period to $4.5 billion, which is equivalent to three-quarters of the value of world exports in that year. It is obvious that such huge subsidies have had the effect of forcing down world prices and therefore of reducing the export income of the African countries, which export 95% of their cotton production.

Faced with such a dire situation, four African countries decided to make the World Trade Organisation (WTO) aware of the seriousness of their problems. On 30 April 2003, Benin, Burkina Faso, Mali and Chad submitted to the WTO an initiative designed to correct the distortions created by the subsidies granted to cotton producers in industrialised countries[2]. On 10 June 2003, immediately prior to the Cancún negotiations, the President of Burkina Faso urged pressed the case for such an initiative with the WTO authorities. In so doing he pointed out that the northern countries' subsidy policy is at odds with the development cooperation policy which they pursue in Africa[3].

The benefits of cotton in African countries

Over the last twenty years, cotton production has developed much more rapidly in West Africa than in the rest of the world. This has enabled poverty to be reduced in Sahelian areas, where there is very little scope for replacing cotton with other crops. In 2001/02 the cost of producing cotton in African countries was lower than in most other countries, but such cotton faced stiff competition from the exports of countries in which production was heavily subsidised.

Although in the USA and the EU, cotton represents only a drop in the ocean of economic activity, it is of crucial importance in Benin, Burkina Faso, Mali, Chad and Togo. In those five countries, cotton accounts for between 5 and 10% of GDP; exports of cotton fibre account for over one-third of all export income and for over 60% of income from agricultural exports[4]. In

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[1] Over the three-year period ending in 2001/02, CWA accounted for 15% of world cotton exports and for over 80% of net cotton exports from sub-Saharan Africa. Benin, Burkina Faso, Côte d'Ivoire and Mali accounted for 72% of CWA's net exports.
[2] Initiative, 2003.
[3] Campaoré, 2003.
[4] Cotton accounted for only 1.7% and 1.3% of GDP in Côte d'Ivoire and Cameroon respectively. Those two countries are amongst the largest African cotton producers but they have a relatively diversified economy and they do not constitute least-developed countries (LDC). Fortucci, 2002.

cotton-growing areas, most of the local people's income comes from the sale of unginned cotton. Hence economic activity in such areas is highly dependent upon cotton prices.

In savannah areas, cotton production has not been developed at the expense of food crops; on the contrary, such crops have benefited from the introduction of a suitable rotation scheme and maize production has increased as a result of the fertiliser obtained by means of loans guaranteed by cotton. A study carried out by the World Health Organisation (WHO) in Burkina Faso has shown that rotating cotton and maize produces better yields and results in a better diet than does growing a single cereal crop (in particular niebe). According to that study the expansion of cotton growing has triggered an improvement in the health of the people living in the cotton-growing area. When cotton production increased rapidly between 1993/94 and 1997/98 the incidence of poverty fell from 50% to 42% in the cotton-growing area, whereas it increased by two percentage points in areas in which no cotton was grown.

Although per capita income is low in cotton-producing areas it would be even lower were it not for cotton, since cotton is the best cash crop. In the USA, in Australia and in the state of Mato Grosso in Brazil, farmers can easily switch from cotton to soya but the scope for substitution in the Sahel is much more restricted. The alternative to a cotton/maize rotation is often to grow niebe alone, and when farmers boycotted cotton growing in Mali in 2000/01 they rarely replaced it with other crops.

The contrast is striking between the million African households cultivating two or three hectares of cotton and the thousands of US farmers each cultivating over 1000 acres (over 405 hectares) of cotton and accounting for half of US production. Although farms are highly mechanised in the USA, production costs are lower in West Africa because the labour provided by the members of a farmer's family is very poorly remunerated[5].

The expansion of cotton production in the Sahel has had a galvanising effect on the full range of activities in cotton-growing areas. It has enabled improvements to be made to infrastructure and facilities, as expressed in the boxed text of a recent Oxfam publication: 'Here, cotton is everything. It enables us to build our schools and our health centres. We are all dependent on cotton. But if prices remain low we have no hope for the future.'[6].

Subsidies in the context of the Uruguay round

The agreements concluded at the end of the Uruguay Round have not led to any reduction in the subsidies granted to cotton producers; indeed, according to the International Cotton Advisory Committee (ICAC), the percentage of world cotton production which is subsidised has actually increased (from 50% in 1997/98 to 73% in 2001/02). The industrialised countries undertook to reduce their farm subsidies over a five-year period, but that reduction applied to the total amount of support covering the full range of farm subsidies. It therefore enabled a country to maintain (or even to increase) its subsidies to cotton producers if it made a compensatory reduction in the subsidies granted in respect of products deemed to be less sensitive. Furthermore, the rules were accompanied by numerous exceptions.

[5] For 2001/02 the profitability threshold was 54 US cents per pound of cotton for Index A if the euro and the dollar were at parity and 62 cents per pound of cotton at an exchange rate of $ 1.15 to the euro. According to the 1997 US inquiry, average production cost was 73 cents per pound.

[6] Oxfam 2002, second piece of boxed text.

USA

The USA undertook to reduce its subsidies by 20%. That commitment was honoured in the letter but not in the spirit. Only subsidies in the amber category were capped. Subsidies in the green category (in particular subsidies described as 'decoupled') were not capped, since they were supposed not to have any significant effect on the world market. However, it was possible for subsidies which came under the amber category to be classified under the green category by virtue of the *de minimis* clause, provided that such subsidies did not exceed a certain percentage of the value of a country's production. According to US experts there would have been a 44% increase in the subsidies classed as amber in 2000 and 2001 had there been no recourse to the *de minimis* clause[7]. This means that, despite its name, the *de minimis* clause has had a major impact. Although there are rational grounds for establishing a distinction between green category and amber category subsidies, there are no rational grounds for the *de minimis* clause, which was introduced as a safety valve should it prove impossible for subsidies to be reduced.

The cotton-production subsidy policy has been an expensive one for US taxpayers and it has not prevented small farms from being swallowed up by larger ones, as is apparent from a comparison between the two farm censuses carried out in 1987 and 1997. In the space of 10 years the number of cotton-producing farms fell from 43 000 to 31 500 and the average size of such farms increased by 200 acres. Mergers particularly affected very large farms, with the percentage of farms over 1000 acres (405 hectares) in size tripling over the ten-year period[8].

Since price support does not appear to have had a beneficial effect in the social sphere, we may ask why further support was granted under the May 2002 farm bill. Disregarding the electoral considerations which prevailed at the time, such an increase in support is apparently due to the fact that the subsidy policy is of particular benefit to a small group of individuals who have sufficient resources to protect their interests, whereas the cost of the policy is greatly diluted by being spread over approximately 100 million taxpayers.

European Union

The European Union as a whole consumes approximately twice as much cotton as it produces, since cotton growing is only of any significance in southern Greece and southern Spain. Greece exports two-thirds of its production and imports very little, whereas Spain imports more or less as much as it exports. Although in 2001/02 those two countries taken together accounted for only 2.5% of world production, the European Union subsidised its cotton producers to the tune of $979 million. It would have cost the EU three times less to import the cotton than to have it produced in Greece and Spain.

The price of unginned seed is set at EUR 1.063 per kilogram (= 697 CFA francs), i.e. three-and-a-half times the price received by producers in the CFA countries. However, the price applies only to the national guaranteed quantity and penalties are imposed if production exceeds that quantity[9]. Since Greece has exceeded its quota by nearly 30% over the last two years

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[7] Hart and Babcock, 2002, p. 11-12.
[8] AMRS survey, 1997.
[9] European Communities, 1/6/01.

whereas Spain almost remained within it, the subsidy per kilogram received by Greece has been lower than that received by Spain. Since Greek producers consider it to be to their advantage to exceed their quota despite the imposition of high penalties, the marginal production cost must be much lower than the target price and we may ask why that price is set at such a high level.

Since cotton is produced by means of irrigation and since water is a scarce resource in southern Greece and southern Spain, it would be possible to maintain the local people's income level by reducing cotton production and substituting other crops such as fruit and vegetables. This would stimulate fruit and vegetable consumption in the EU countries and hence (according to a recent study) improve the health of the population. Revision of the common agricultural policy should include consideration of ways in which cotton-growing could be replaced by other activities, in particular fruit and vegetable production.

Cotton under the Doha Round

The outcome of the Uruguay Round was disappointing for African cotton producers and the prospects which are emerging as the Doha Round proceeds did not - in the spring of 2003 - seem promising. The farm bill enacted in May 2002 will enable the US Government to make substantial increases in the subsidies which it pays to its farmers over the next six years and the reform of the CAP seems to be deadlocked. The competitiveness of the CFA countries has declined as the euro has gained in strength against the dollar. Furthermore, Côte d'Ivoire is experiencing serious problems which have the effect of increasing the costs incurred by Mali, Burkina Faso and Niger in supplying and shipping cotton.

Aware of those problems, the agriculture ministers of the Central and West Africa (CWA) countries commissioned a study designed to (i) assess the losses suffered by the CWA countries on account of the subsidies granted to cotton producers in the USA, the EU and China, and (ii) propose a mechanism to provide compensation for those losses. The study was submitted to the steering committee on 27 March 2003[10] and was followed by a second study commissioned by the West African Development Bank and submitted to the agriculture and trade ministers in Ouagadougou on 18 June 2003[11].

Losses

The subsidies granted to cotton producers by the USA, China and the EU have caused the CWA countries to suffer losses. Direct losses take the form of a drop in net export income[12] and have been calculated for each of the last five years on the basis of many parametric variants, in order to allow for a margin of error in the estimates. The results obtained are of sufficient magnitude to enable multilateral negotiations to be opened or a request for consultation to be submitted to the WTO. For CWA as a whole, direct losses were estimated at $250 million in 2001/02[13]. The model used may easily be adjusted for the purpose of estimating the losses suffered by groups of countries other than CWA - all the cotton-exporting least-developed countries (LDCs), for example.

[10] *Afrique contemporaine*, spring 2003, p. 5-16.
[11] Ouedraogo, 2003; UEMOA, 18 June 2003.
[12] As regards the increase in exports, the cost in foreign currency of additional inputs and of shipping has been deducted from gross export receipts.
[13] Goreux, 7/03, section 4.

The industrialised countries' subsidies have had the effect of reducing African cotton producers' income. People who sell goods and services to those producers have all seen their customer base shrink and they have suffered indirect losses, the total value of which probably exceeds the direct losses measured in terms of net export income lossed.

Legal channels

In September 2002, Brazil announced that it had suffered serious losses as a result of the subsidies granted to US cotton producers and it asked the WTO's dispute-settlement body (DSB) to give a ruling on the legality of those subsidies. It called upon the African countries to become co-plaintiffs in its dispute with the USA. The African countries declined the invitation but Benin and Chad decided on 27 March 2003 to act as third parties in the dispute between Brazil and the USA. Such a decision does not constitute an unfriendly gesture towards the USA and it will enable the CFA countries to become conversant with WTO procedures. Benin and Chad (alone or in conjunction with other African countries) may in due course lodge with the DSB a complaint separate from the one lodged by Brazil. But it would appear that it is not in the African countries' interest to take such a step until the outcome of Brazil's complaint is known. Hence they have decided to focus on multilateral negotiations and the preparations for the ministerial conference which is to be held in Cancún from 10 to 14 September 2003.

Multilateral negotiations

According to the Doha Declaration the purpose of the agriculture negotiations was to obtain 'substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.'[14]. To this end the WTO members drew up, in March 2002, a work programme intended to establish the 'modalities' for negotiations to be concluded on 31 March 2003. Stuart Harbinson - chairman of the Agriculture Committee's special meetings - submitted his initial proposal relating to those 'modalities' in February 2003. The following month a revised proposal was debated at the 25-31 March special sitting but no agreement was reached.

The draft 'modalities' put forward in March 2003 are based on the aggregate measure of support covering all farm subsidies and they therefore incorporate once again the cross-sector approach which was a feature of the previous agreement on agriculture[15]. Under their terms, cotton-production subsidies in the USA and the European Union would be reduced only in the very distant future and this does nothing to alleviate the concerns of African producers. Hence four African LDCs (Benin, Burkina Faso, Mali and Chad) made a submission to the chairman of the special meetings on 30 April. In that submission they make the point that cotton must be treated as a 'special product' and they call for (i) a swifter reduction in the subsidies paid to cotton producers and (ii) financial compensation for the LDCs pending the abolition of such subsidies[16]. The mechanism for reducing subsidies and granting compensation was described by the Benin Ambassador when he addressed the WTC Agriculture Committee on 18 July[17].

[14] WTO, 18 March 2003, p. 2.
[15] ICTSD, 2003; IDEAS, 04/03/03.
[16] WTO, 16 May 2003.
[17] WTO, 18 July 2003.

The compensation problem

The very principle of a compensation scheme could be challenged on the grounds that it might stimulate production in countries which receive compensation, whereas world production ought to be reduced in order to ‘firm up’ prices. However, this apparent paradox is in line with the tariff-retaliation measures resorted to by members of the WTO. Retaliation is a means of applying pressure with a view to removing obstacles to trade and it is only a temporary means of achieving an objective. By analogy the compensation scheme should constitute a means of exerting pressure on a temporary basis with a view to reducing trade-distorting subsidies. The establishment of a compensation scheme should therefore be accompanied by a strict timetable for the requisite reductions in both subsidies and compensation. When the compensation scheme is set up the year in which compensation will be abolished must be announced[18]. Furthermore, since the compensation scheme is merely to be a temporary one, new institutions should not have to be established; the scheme should be easy to implement and should be based on simple principles. It might be described as follows.

Compensation would be awarded to the LDCs in proportion to the losses which they have suffered and the contributions would be drawn from the paying countries in proportion to the subsidies which they have granted. In Burkina Faso, allocation of the compensation would be determined by the cotton-sector management board, within which producers would have most of the seats. Most of the compensation would go to producers of unginned seed; some could be assigned to the cotton-sector support fund if the board thought that the fund’s resources had run too low, whilst the rest could be allocated to improving the cotton sector’s physical and social infrastructure. Distribution would be carried out by the management board in accordance with existing practices, following consultation of the leaders of the producer association at the appropriate levels of the pyramid (village level, area level, and so on). Payments to producers would be made in the same way as a rebate and no additional cost would therefore be incurred. As regards the resources set aside for infrastructure improvements, some could be administered at national level, some at regional level and some at local level.

In Benin the distribution of compensation between producers and infrastructure would be determined by the Inter-Trade Cotton Association, within which producers hold most of the seats. Payments would be made (as is currently the case) by the *Caisse de Sécurisation des Paiements et des Recouvrements*. Most of the money would go to producers and the rest would help to finance what are known as the sector’s ‘critical functions’. Suitably adjusted, such a scheme could operate in most African LDCs without any need for new institutions to be set up and it could be introduced straight away. The scheme would have the advantage of compensating those who have suffered losses and it would constitute an effective means of combating poverty[19].

Certain countries and certain institutions which favour the principle of a single budget could nonetheless prefer compensation to pass through the public exchequer and to be used in accordance with the country’s poverty-reduction priorities. It would also be possible to combine

[18] According to the Bénin Ambassador’s 18 July illustration, losses will be calculated on the basis of all the subsidies recorded by the IACC, taking as a reference period the average of the last three years up to 2001/02. Since the subsidies are to be eliminated over a three-year period, the reduction in those subsidies would lead to a gradual reduction in compensation, which would be abolished in the fourth year. Amehou S. 18 July 2003.
[19] This scheme is the one mentioned by the Bénin Ambassador in his 18 July 2003 address.

the two options if the direct losses represented too small a percentage of the cost of the subsidies to have a deterrent effect. The share of the contributions relating to direct losses would be used in order to compensate the cotton sector, as in the first option. The share relating to indirect losses would be paid into a national fund (as in the second option) and could possibly feed a trust fund administered or supervised by an international organisation.

Conclusions

The compensation mechanism which is most suitable for one country may not be suitable for a different one. Discussions on the most appropriate option should not, however, cause us to lose sight of the prime objective, which is to abolish the industrialised countries' market-distorting subsidies. This is an ambitious aim. However, the effect which subsidies have on African cotton producers is a text book case combining optimum conditions for taking action on three fronts: the principle of free trade, economic efficiency and, in particular, the fight against poverty.

Cotton is the main agricultural product in respect of which African LDCs are in direct competition with the industrialised countries and they would be highly competitive on the world market if the latter were not distorted by subsidies. The African LDCs are not asking for special treatment; they are merely asking for the rules of the market to be observed in accordance with the basic WTO principles.

In 2001/02 the European Union paid Spain and Greece $1 billion in subsidies to produce a quantity of cotton which could have been imported at a third of the cost. In the course of the same year the US Treasury could have saved several billion dollars by reducing its cotton subsidies and exports. Cotton subsidies place a burden on European and US taxpayers which is not justified from the economic point of view - whilst the effect which they have in social terms is much more serious. The subsidies granted to cotton producers in the USA, Greece and Spain bring a few thousand people in those countries above the poverty line whilst, at the same time, increasing the poverty of millions of Africans who have to live on less than a dollar a day.

Within international organisations the representatives of the industrialised countries are unanimous in their view that the fight against poverty is a basic objective. African producers have shown that they can produce more cotton at a highly competitive price. Experience has shown that increasing that production is one of the most effective ways of combating poverty. To deny the African LDCs their opportunity is not consistent with development aid policy.

Since the industrialised countries' policies can be changed if there is sufficient public pressure, NGOs and the media have a powerful message to convey to the population at large.

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