Fondation pour l'agriculture et la ruralité dans le monde Foundation for World Agriculture and Rural Life

FARM Briefing

COTTON

April 2006

AFRICAN COTTON AFTER HONG KONG : A VITAL BUT UNRESOLVED ISSUE

LE COTON AFRICAIN APRÈS HONG KONG : UNE QUESTION GRAVE MAIS NON RÉSOLUE

WORLD PRICES ARE LOW, AMERICAN PRODUCERS ARE SUBSIDISED, WHILE FARMGATE PRICES FOR COTTON IN AFRICA CONTINUE TO DROP.

LThe commitment by the July Framework Agreement (2004) to treat the cotton question **"rapidly, ambitiously, and specifically in the framework of agriculture negotiations" has not been respected.**

The Ministerial Conference of the World Health Organisation, meeting in Hong Kong in December of 2005, did make two decisions: open access to developed country cotton markets for cotton from Least Developed Countries and the abolition of export subsidies by 2006. These measures, however, have only a limited impact since they do not curtail producer countries' domestic support to production which, especially in the case of the United States, is the principal cause for weak world prices.

Moreover, cotton growers this season must do without international aid. Despite the call made in the final declaration at Hong Kong to development agencies to aid African cotton growers, very little foreign aid has been granted. Only France through its Development Agency (AFD) has made such a commitment.

Producer countries have been forced to lower prices. Facing this reality, cotton companies in most African cotton-producing countries have had to lower farmgate prices yet again, from about 200 F CFA/kg of seed cotton (30 euro cents) to 160 F CFA/kg (25 euro cents). (*cf. Annex—Table n° 3*).

Several years in a row of falling prices have brought **a halt to agricultural investment, which in turn leads to a higher rate of pauperisation among rural societies**. Even if falling prices have not yet provoked a noticeable decrease in production – since growers often have no other recourse for generating revenue – the levelling off of yields over the last several years is a disturbing indicator for the future.

American domestic subsidies are a major source of world price destabilisation. Domestic support in the US is

Continued on page 2

Bernard Bachelier
bernard.bachelier@fondation-farm.org

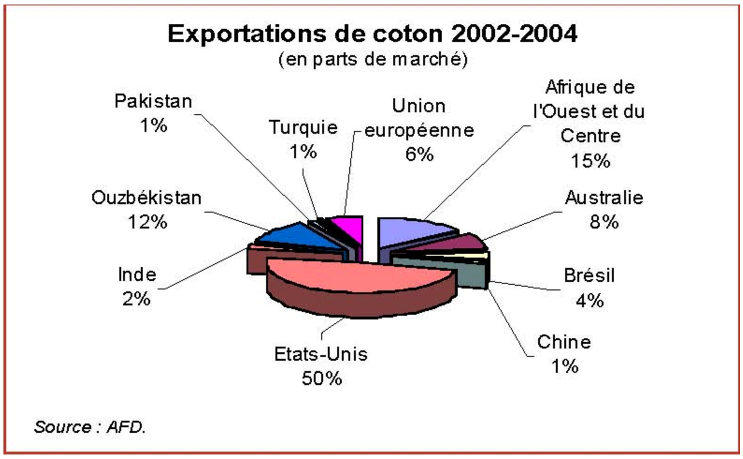
Denis Herbel
denis.herbel@fondation-farm.org

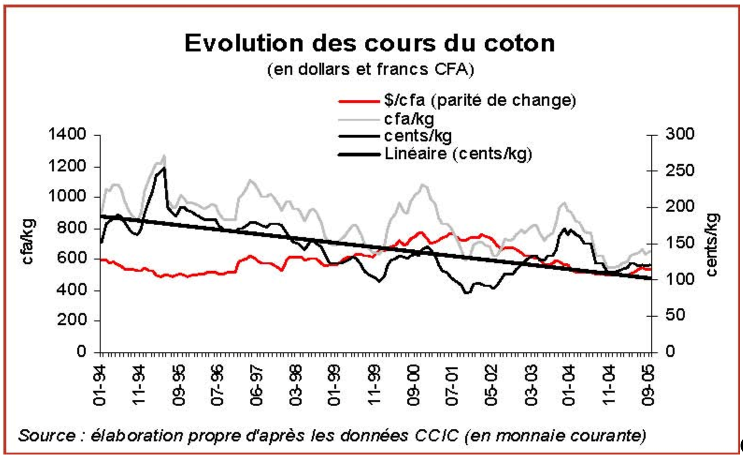
www.fondation-farm.org

COTTON FARM Briefing

"counter-cyclical", that is it is the highest when world prices are lowest and thereby ensures that American growers will gain world market share no matter what prices do. In 2002-2003 the estimated effect of US domestic subidies on the world price for cotton was to decrease that price by 15%.

In that period of 2002-2003, total American aid to domestic growers amounted to 3.3 billion dollars to 25,000 growers while EU subsidies amounted to only 820 million dollars. But it is important to note that in 2006 Europe untied 65% of subsidies to Spanish and Greek growers from quantities produced, while the price-decreasing effect of the 35% that remained tied was estimated to be 0.8%.





Cotton exports 2002-2004 (by market share) Turkey, European Union, west and central Africa, Australia, Brazil, China, United States, India, Uzbekistan -- Change in price of cotton (in dollars and CFA francs) , (exchange rate parity), linear, source: CCIC data treated for this report (in current monetary values)

1-*Impact of European and American Policies on World Cotton Market. CERDI-CNRS-Université d'Auvergne (étude MAE-MAP) – February 2006.*

2– *European cotton subsidies remained tied to production quantities for 35% of their reference value.*

3– *Idem*

4– *Declaration of the EC sub-committee on cotton, March 27, 2006.*

Meanwhile in the context of the Doha negotiations, the EC announced that it was prepared to abolish tied subsidies without production limits, as well as to substantially reduce tied subsidies even with production limits.

For its part, the US continues to greet with silence all recent proposals by the Group of 4 African producers who were at the origin of the WTO initiative. Lastly, a number of emerging countries like China refuse to commit to abolishing export subsidies (830 million dollars in 2002-2003) or to opening their markets, as they continue to claim the right to Special and Differentiated Treatment.

Nevertheless experts are calling for cotton prices to move back upwards and to stabilise. The price for cotton currently is around $ 55.30 cents/lb. This slight upturn still leaves the price at a significantly lower level than that average for the last 25 years (75.35 cents/lb), and is more the result of primary goods prices in general and less due to changes in the cotton market. Negotiations aimed at abolishing US domestic subsidies will result in an agreement around 2013 at the earliest. It is estimated that the (upward) impact on world cotton price would be between 5-15%

This being said, cotton like all annual crops is subject to price volatility and cyclical effects, and the price will likely remain below 65 cents/lb. For one thing it will be easy for some producers, like Brazil, to increase their production. In the long term therefore **the decisive factor will be competitivity based on a trade-off between productivity and quality**, while the role of exchange rates should not be lost from sight.

5– *or orange box.*

6– *or blue box.*

7– *Document TN/AG/SCC/GEN/4 submitted to the WTO cottton sub-committee on March 2, 2006.*

8– *Benin, Mali, Burkina Faso et Chad, signatories of the cotton sector initiative (C4).*

9– *End of March, 2006 – Liverpool Index A.*

2 -April 2006 African Cotton after Hong Kong

COTTON FARM Briefing

A PRIORITY FOR THE FRENCH DEVELOPMENT AGENCY IN THE FACE OF WEAK INTERNATIONAL MOBILISATION

Support for the African cotton growing industry is a priority for French aid to development. Total funding from French programmes is **107,595,000 euros** (*cf. Annex—Table n° 6*)**.** This amount looms even larger in light of the fact that it represents practically the only foreign aid devoted to cotton growing.

← ■ 13 million euros were made available before the cotton action plan and are earmarked for increasing competitivity and supporting growers' organisations (6.8 million euros for Mali, 4.3 for Burkina Faso and 1.85 for Benin);

← ■ 36.5 million euros were announced following the action plan to fund cotton gins – 15 million in Burkina Faso and 10 million in Cameroon;

← ■ **New programmes** are being planned for a **total of 59 million euros** or more than half of all French aid to cotton growers. Countries concerned are Benin, Burkina Faso and Mali. Non of these aid programmes will involve payments during the current growing season;

← ■ P Among these new programmes is a regional FSP programme (Priority Funds for Solidarity) presented by the Foreign Affairs Ministry, amounting to about two million euros and slated for July 2006. The objective of this programme is to strengthen professional organisations and regional coordination. Lastly, a sum of about 10 million euros is currently being designated by the AFD (French Development Agency) for establishing a regional mechanism for reducing price volatility.

France is supporting the establishment of a mechanism for risk management for risks related to sharp fluctuations in farmgate prices. At French instigation, the AFD, the European Commission and the World Bank have reached an agreement for a joint pilot programme for price risk management. It will put into play a battery of instruments adapted to the nature and the extent of the risk, such as self-insurance by professional groups, financial tools, insurance, etc.

The European Union Action Plan on cotton (*cf. Annex—Table n° 7*)**, however, has been slow to get off the ground**. Nearly two years after the Paris Forum, the Commission has not yet begun to disburse funds. Within the context of the Action Plan on Commodities, the **EC allocated 45 million euros** of aid of which **15 million were earmarked for cotton**. The European Development Fund (EDF) allocated 35 million euros (including STABEX funding and unexpended balance) to cotton growing areas including 15 million for Mali; 10M for Burkina Faso, and 10M for the Ivory Coast. But no agreement is in sight between African governments and the Commission for finalising the programme, and therefore no disbursal will be made in 2006. The institutional guidance of the initiative has not met its objectives. Dialogue between decision-makers and growers' representatives should be the responsibility of the Policy Implementation Committee in Brussels and of the delegations in the various countries.

Europe nevertheless is Africa's main geopolitical partner and is seeking ways to reinforce its aid efforts toward its neighboring continent, both in terms of quantity and efficiency. It can make use of the unique tool that is the EDF, and with this Fund it has the means to show solidarity toward the peoples of Africa who do not benefit from world trade.

10-*Study of a proposal for organising market-risk management in favor of African cotton growing industries, Jean Cordier, Agrocampus Rennes.*

11– *Forum Europe- Afrique sur le coton : 5-6 juillet 2004.*

COTTON FARM Briefing

EUROPEAN COUNTRIES AND THE EUROPEAN UNION CAN AND SHOULD ACT QUICKLY AND CONCERTEDLY

The problem of cotton production is a global one. Resolving this problem is a determining factor in the future of sub-saharan agriculture and a symbol of its integration into the world economy. **It is however illusory to hope to integrate cotton producing countries into the world market without a credible and sustainable solution to problems facing this sector**. It is essential to respond simultaneously and coherently to the twin question of market prices and subsidies to growers. American subsidies, and to a lesser extent European ones, inevitably lead to forms of injustice; on one hand they drive prices down and on the other they help those who are the most advantaged. **Both of these weaknesses** in the system need to be corrected.

What is at stake is competitivity. African growers need to make significant strides in this area. In order to do so they need to be able to invest, to develop the capacity to anticipate, to take risks, and to mobilise **resources and know-how.** If African cotton is to have a future, these conditions must be obtained. Proposals under consideration by French actors ought to contribute towards this goal if they are implemented without delay and with sufficient means.

Proposal objectives:

← ■ **dampen the impact of price volatility** on producers so that they are able to anticipate in their decision-making;
← ■ **strengthen professional and interprofessional organisations** so that they can become recognised economic actors;
← ■ **increase productivity** through innovation;
← ■ **adapt the characteristics of African cotton** to meet market demand**.**

The objectives will be met by :

← ■ implementing mechanisms for managing price-related risk that involve professional agricultural organisations, cotton spinning companies, private banks, and development agencies;
← ■ training growers in management, business techniques and negotiation;
← ■ mobilising research and providing access to technology;

← ■ upgrading industrial capacity (constructing new factories and adapting existing ones).

Coordinated institutional responses should ensure the full effectiveness of these measures.

Funding for investment: These actions will require a large funding effort. Producers are being asked to invest at the same time that their revenues are dropping. Their loss of revenue from the growing season of 2004-5 to that of 2005-6 is estimated at more than 200 million euros. Cotton spinning company losses from the 2004-5 season have been estimated at more than 250 million euros.

A conscientious effort in favor of African cotton would require external funding of about 200 million euros per year over several years.

If the call to "treat the cotton question rapidly, ambitiously, and specifically" is to be given any credibility, **a common and coordinated mobilisation** on the part of the European Commission and willing member States is **vitally necessary.** ■

FARM
Fondation pour l'Agriculture et la Ruralité dans le Monde
c/o Crédit Agricole S.A. — 91/93 boulevard Pasteur — 75015 Paris
Tél. +33 (0)1 57 72 07 19 — Fax : +33 (0)1 43 23 44 55
Réalisation et Secrétariat de rédaction pour FARM : Corinne Chaussebourg

Foundation for World Agriculture and Rural Life

Tel: Fax:

Production supervisor and editorial assistant: Corinne Chaussebourg