Finding the Moral Fiber

Why reform is urgently needed for a fair cotton trade

Cotton has been at the top of the WTO’s agenda for the past two years. However, little has changed so far for small-scale cotton producers in West Africa, who will not survive another major slump in cotton prices. In July 2004, WTO members committed to ambitious and expeditious cotton subsidy reforms. To give African producers a chance, it is urgent to turn these commitments into action. Oxfam calls for the implementation of the Brazil-US cotton panel ruling and a timetable for the elimination of all trade-distorting cotton subsidies by the time of the Hong Kong WTO ministerial conference in December 2005.
Summary

Cotton has become a symbol of the inequities of global agricultural trade. The case of cotton clearly demonstrates how rich-country agriculture subsidies cause harmful impacts on developing country farmers. Subsidies skew production levels and value, undermining the income of cotton farmers in developing countries. Some of the poorest countries in the world are cotton producers, and they stand to gain significantly from reforming trade and agriculture policies. Yet these countries face a depressed cotton market caused, in part, by rich-country subsidies.

Reform of US cotton subsidies is urgently needed to address the distortions in cotton trade that undermine the value of cotton to developing countries. Every season, poor cotton farmers face reduced incomes. Each year, developing countries which export cotton suffer declining balance of payments due to loss of export revenues. The central issue is US cotton subsidies, and the reforms needed are quite clear. There is no doubt about the unfairness of US trade cotton practices, as the WTO panel has proved. The issue now is how these conclusions are going to be implemented. The USA must agree to eliminate trade-distorting subsidies at the WTO and implement the necessary reforms to its farm programs.

In crop year 2002, the US government provided $3.4 billion in total subsidies to the cotton sector. To put this figure into perspective, it is nearly twice the total US foreign aid given to sub-Saharan Africa. It is also more than the GDP of Benin, Burkina Faso, or Chad, the main cotton-producing countries in the region.

US subsidies have led to depressed world cotton prices, which in turn have cost countries in Africa millions of dollars in lost export earnings. This means less revenue, which these countries badly need to fund basic services such as education and healthcare, and to finance debt. Oxfam estimates that sub-Saharan African countries lost $305 million due to US subsidies in crop year 2001. These are some of the poorest countries in the world, and these losses are not a one-time event. For the 2002 crop year, Oxfam estimates sub-Saharan African countries lost $94.6 million.

US agriculture and trade policies also undermine the benefits of US foreign aid. The losses associated with cotton subsidies exceed the value of US aid programs in some of the major cotton-producing countries in Africa. For example, in 2002:

- **Burkina Faso:** received $10 million in US aid, yet lost $13.7 million in export earnings;
- **Chad:** received $5.7 million in US aid, but lost nearly the same amount in export earnings;
- **Togo:** received $4 million in US aid, but lost $7.4 million in export earnings.

Moreover, US cotton subsidies undermine the ability of developing countries to pull themselves out of debt. Lost export revenue due to US cotton
subsidies in 2002 amounted to between 21 and 33 per cent of total debt service payments for Burkina Faso, Benin, Chad, and Mali.

The impact of US cotton subsidies is not simply on balance of payments or debt service. They cause poverty, and West African farmers are particularly vulnerable. A recent IFPRI (International Food Policy Research Institute) report focused on Benin indicates that a 40 per cent reduction in farm-level cotton prices leads to a 21 per cent reduction in income for cotton farmers and results in an increase in rural poverty of 6–7 per cent.

In the USA, cotton production has reached historic highs in recent years. However, US demand for cotton has slumped, so US exports have surged. Export volumes broke records in 2002 and 2003, and will likely do so again in 2004. In crop year 2003, the USA exported 76 per cent of its cotton production and took a 41 per cent share of world exports. These drastic increases could not have been accomplished without government support. According to the US Department of Agriculture, without subsidies the average US cotton farmer would have lost $871 for each acre planted with cotton over the past six years.

All told, between crop years 1998 and 2002, the USA spent $14.8 billion on cotton subsidies. This is virtually the same as the total value of cotton produced during that time—$21.6 billion. Harvesting government subsidies is nearly as lucrative as growing cotton in the USA. Without subsidies, most US cotton production would not be economical.

Not all US farmers benefit from subsidies. A large majority of farms—67 per cent—are ineligible for government support because they do not grow a select group of subsidized commodities. Of the 33 per cent of farms that do get subsidies, the top 10 per cent receive 52 per cent of all government payments. And the subsidies for cotton are particularly concentrated: the top 10 per cent of cotton farms receive 79 per cent of all payments, and the top 1 per cent receive 25 per cent of all payments. The average payment in 2002 was $331,000, and 25 farms received more than $1 million each.

Indeed, there are other factors that affect the world market price of cotton. Exchange rates, competition from synthetic fibers, competition from other cotton producers, and China’s decreasing consumption and demand for cotton imports contribute to the gloomy forecast for cotton prices in the future. Nevertheless, US subsidies have the effect of depressing prices despite market volatility, as the WTO panel ruled in the case brought against the USA by Brazil. And yet West African farmers are well positioned as some of the most cost-efficient producers to compete in this future market if only a level playing field is created.

An improved cotton market has clear potential to help reduce poverty for millions of people. Through the Doha Development Round of negotiations at the WTO, a real opportunity exists to make significant reforms to agricultural trade policies. Cotton is a litmus test to demonstrate that the WTO, and indeed trade itself, can truly serve the interests of less powerful countries and poor people.

The outlook for breaking the deadlock in negotiations on cotton subsidies took a positive turn in the spring of 2004, when a WTO dispute settlement
panel found that US cotton subsidies do indeed violate commitments to reduce domestic supports. More broadly, the panel ruling confirms many of the criticisms developing countries have made in recent years: that industrialized countries have not fulfilled their commitments to open their agriculture markets and reduce the farm subsidies that distort trade.

In July 2004, the WTO General Council met to pick up the Doha Round negotiations where they left off after the collapse of the talks in Cancun the previous year. The final text of the July framework agreement reflects a series of compromises that undermine the ambition of reformers and delay action. While it sets no concrete objectives or clear timeframe on subsidy reform for cotton within the agriculture negotiations, a mechanism has been established to continue negotiations.

The next critical deadline for negotiations is the 2005 WTO Ministerial in Hong Kong. It is critical to ensure that the general statements of principle on cotton contained in the July framework agreement are translated into specific measures that will have real meaning for cotton producers in developing countries—particularly those in West Africa.

To ensure that the Doha Round of trade negotiations delivers real opportunities for reform, developed country governments must agree to:

- Implement the findings of the US-Brazil cotton panel fully and expeditiously;
- Eliminate US export subsidies for cotton by July 2005, including use of export credit guarantees and the Step 2 program;
- Commit to phase out the use of trade-distorting farm subsidies for cotton by December 2005, including marketing loan programs and counter-cyclical payments;
- Ensure that direct payments are truly decoupled from production and do not create an implicit encouragement to grow more crops;
- Resolve and enforce that development funding is not conditional on trade negotiating positions or elimination of subsidies;
- Increase development assistance to developing countries’ cotton producers to manage the crisis and ensure stability in producer revenues.
1 Introduction

‘[The Farm Bill] reduces government interference in the market, and in farmers’ and ranchers’ planting decisions. The Farm Bill supports our commitment to open trade, and complies with our obligations to the World Trade Organization.’ – President George W. Bush upon the signing of the Farm Bill

‘While Western countries are advocating free trade and open markets in the South, they have maintained high levels of protection and provided huge subsidies to their own farmers, thereby encouraging over-production of agricultural products. This in turn has been depressing commodity prices, weakening fragile economies in sub-Saharan Africa, and aggravating poverty.’ – Tertius Zongo, Ambassador of Burkina Faso to the United States

In two years, cotton has become a symbol of the inequities of global agricultural trade and, in particular, of the harmful impacts of rich-country agriculture subsidies on developing-country farmers. The controversy has reached the highest levels of policy debate and involved the most powerful economic and political institutions in the world. Researchers have created models, international conferences have been organized, and study tours arranged; officials have exchanged proposals and heaps of reports have been published. And yet little has changed for the small cotton producers in Mali or Benin or other African countries. For them, cotton is still an economic lifeblood, but the market for cotton remains perilously depressed.

Cotton was once heralded as a rare success story for agricultural and rural development in Africa.¹ For decades, the crop was viewed as an engine for economic growth and livelihood for developing countries. But in the past decade, the global cotton market has entered a depression, causing economic dislocations and increasing poverty. In Benin, cotton prices have fallen from a peak of 225 CFA francs per kilo ($0.42) for cottonseed in 1998/1999 to a low of 190 CFA francs ($0.32) in 2002/2003.²

François Midoguessi knows the devastating consequences of low prices. François lives in the Zogbodome District of Central Benin. Farmers in the area grow cotton as their primary means of cash income. As a cotton farmer, François would earn more than 600,000 CFA francs ($1,118) per year from his crop when prices were higher. However, because of falling prices and yields, his annual earnings have declined by almost half. This means that he is unable to pay for essential health care when family members fall ill.
Falling cotton prices have created a vicious cycle of deepening poverty. Some farmers have resold fertilizers at low cost because they need the cash. But without fertilizers, crop yields have declined, which leads to lower income from the next crop. François’ village group has not been able to pay suppliers for fertilizers and pesticides, which they acquired on credit. Consequently, they cannot access new supplies. Unfortunately François and his neighbors have few alternatives to cotton. The only other viable crop—groundnuts—is equally risky.3

The slump in cotton prices has had a terrible impact on West African countries. More than 10 million people depend on cotton for their livelihoods in West and Central Africa. In cotton-producing regions of West Africa there are few alternatives for people to generate income. At the national level, cotton exports are of critical importance to the balance of payments for many African countries. Cotton exports constitute more than one-third of Benin’s total exports and nearly one-third of Burkina Faso’s. Depressed cotton prices have cost these countries millions of dollars in export earnings, which are critical to generating revenue to fund social services such as education and healthcare, and to finance debt.4

Entrance of new cotton producing areas within Brazil, West Africa, East Turkey, and West China into the market, exchange rates, and competition from synthetic fibers have contributed to the long-term decline in cotton prices. However, the subsidies paid by developed countries for cotton production also harm farmers like François by depressing the cotton price every year. And the lower the price gets, the more harm these subsidies are inflicting.

Globally, governments spend as much as $5.7 billion annually on cotton subsidies. The biggest subsidizer is the USA. Economists estimate that US subsidies and over-production cause on average a 10 per cent reduction in global prices for cotton.5 Of the leading cotton producers, only the USA provides such huge government support to its farmers. In crop year 2002, the US government provided $3.4 billion in total subsidies to the cotton sector.6 That is more than the combined GDP of Benin, Burkina Faso, and Chad.7 The European Union and China also provide significant subsidies to their cotton producers, though not on the scale of the USA, and both of these regions are net importers of cotton (see Annex 2).8

During the 2003 crop season, world cotton prices rebounded dramatically.9 Prices averaged $0.68 per pound, a six-year high.10 Although this was good news for many cotton farmers, it was only a temporary windfall. By the beginning of the 2004 crop year the price...
of cotton was at $0.45 per pound. In the longer term, cotton is fading as a source of income and economic growth.

West African cotton producers could benefit even under these difficult conditions. They are among the lowest-cost producers in the world. Beninese farmers, for example, produce cotton at approximately $0.30 per pound. In contrast, production costs in the USA fluctuate around $0.68 per pound. But production and export subsidies mean that high-cost producers, such as those in the USA and EU, crowd out more efficient producers.

Because cotton is an important livelihood for millions of poor people, Oxfam believes action is urgently needed to reform the distortions in cotton trade that undermine the value of cotton to developing countries. Every season, poor cotton farmers face reduced incomes. Each year, developing countries which export cotton suffer declining balance of payments. The central issue is US cotton subsidies, and the reforms needed are quite clear. The USA must agree to eliminate trade-distorting subsidies at the WTO and implement the necessary reforms to its farm programs.

This paper is divided into five sections. Part 2 describes the harm done to West African countries and explains what these countries have to gain from reform of global trade and agriculture rules. Part 3 describes the current status of cotton production and subsidies in the USA. Part 4 assesses prospects for the global cotton market, explaining why reform is necessary. Part 5 describes the current state of play in global trade negotiations. Part 6 offers recommendations for policy reforms.
2 Struggling under the burden of US subsidies

‘Cotton farmers in the area have become donkeys who work without earning anything.’ – Robert Akpahon, cotton farmer who plants 20 acres of cotton in Kotokpa, Benin

‘The guy you’re talking about in Africa – I see this is the guy my dad was. I don’t know if my dad could have competed in the same situation. It’s a hard business. And I don’t think that, without subsidies, we here today could compete with the American farms of the 1950s.’ – Billy Tiller, cotton farmer who plants 3,980 acres of cotton in Bula, Texas

Robert Akpahon is a cotton farmer who lives in a household of eight, including several small children. He farms about 20 acres entirely by hand, using a traditional hoe. In the first growing season, he plants food crops to feed his family. The proceeds from selling any surplus food are used to fund his cotton production. When cotton was in its boom period (in the early 1990s) he would usually sow about 10 acres. This has gradually diminished to less than 5 acres for the 2003 season. Because of the cost of inputs and falling cotton prices he is producing at a loss. Whereas he used to make a net profit of around $261 (140,000 CFA francs) a year from his cotton crop, he is now accumulating debts. Robert has decided to abandon cotton to focus on food crops such as maize, groundnuts, beans, okra, and cassava. According to Robert, it is no longer possible to earn a living from cotton production. He would rather try to scrape a living from farming food crops that may not cover the costs of school for his children, but will at least feed his family.

In Benin, cotton sales account for half of all household income. Depressed prices have contributed to a cycle of poverty in which West African farmers have fallen into debt and have been forced to borrow at high interest rates. Some have been forced to make decisions that undermine their future income—for example, selling portions of inputs for cotton production. Such practices reduce yields and push farmers even further into debt.

Depressed prices also have detrimental impacts at the macro level for West African countries, because cotton cultivation and export sales constitute a significant percentage of their GDP. Cotton generates between 2 per cent and 5 per cent of GDP in the West African nations of Benin, Burkina Faso, Chad, Mali, and Togo. Cotton fiber alone earns about one-third of all export sales in Benin and Burkina Faso.
By comparison, the entire US agriculture industry accounts for only 2 per cent of US GDP and cotton accounts for 0.0004 per cent of US GDP.15

About 95 per cent of all cotton produced by West African countries is exported.16 The high export rate testifies to the importance of cotton in the region as an export commodity. However, the collapse in cotton prices has convinced some West African countries to focus on other export-earning activities. For example, from 1998 to 2002 Mali tripled its production of gold for export. Gold is now Mali’s top export by value. However, gold only provides a fraction of the employment of cotton, so it does little to provide livelihoods or reduce poverty.17

$305 million and counting

Using the results of research from the International Cotton Advisory Committee (ICAC), Oxfam estimated that in the 2001 crop year sub-Saharan cotton exporters lost $305 million as a result of US subsidies. Eight countries in West Africa lost $191 million of the total.18 The losses continue to accumulate.

In the 2002 crop year, cotton exporters in sub-Saharan Africa continued to lose critical export earnings due to subsidies. The ICAC estimate projected that world cotton prices would be 15 per cent higher if all subsidies were eliminated. US subsidies alone depressed cotton prices by 4 cents per pound, or 7 per cent of their total.19 For the 2002 crop year, sub-Saharan cotton exporters lost an estimated $94.6 million in export value. The West and Central African countries lost $70.6 million of this amount. The impact of US subsidies has grown in relation to the total amount of subsidies worldwide. This is partly because fewer countries subsidized cotton in the 2002 crop year. In the 2001 crop year US subsidies accounted for 37 per cent of the impact on world cotton prices, whereas in the 2002 crop year the US proportion of the impact was 50 per cent.20
Table 1: Estimated foreign exchange losses as a result of US cotton subsidies in selected countries in West Africa ($m)

<table>
<thead>
<tr>
<th>Country</th>
<th>Estimated value of cotton exports 2002/03* ($m)</th>
<th>Estimated 2002/03 export value with the withdrawal of US subsidies** ($m)</th>
<th>Estimated value lost as a result of US subsidies in 2002/03 ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin</td>
<td>199</td>
<td>213</td>
<td>14.3</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>190</td>
<td>204</td>
<td>13.7</td>
</tr>
<tr>
<td>Cameroon</td>
<td>97</td>
<td>104</td>
<td>7.0</td>
</tr>
<tr>
<td>Central African Rep.</td>
<td>7</td>
<td>7</td>
<td>0.5</td>
</tr>
<tr>
<td>Chad</td>
<td>79</td>
<td>85</td>
<td>5.7</td>
</tr>
<tr>
<td>Cote d'Ivoire</td>
<td>102</td>
<td>110</td>
<td>7.3</td>
</tr>
<tr>
<td>Mali</td>
<td>205</td>
<td>220</td>
<td>14.7</td>
</tr>
<tr>
<td>Togo</td>
<td>103</td>
<td>111</td>
<td>7.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>982</td>
<td>1,054</td>
<td>70.6</td>
</tr>
</tbody>
</table>

*Estimated export value equals the product of the quantity of cotton exports and the average annual A-index world price.
**Calculations based on an increase in the average annual A-index of 4 cents per pound.

Source for export quantities and the estimation that A-index prices would increase by 4 cents per pound: International Cotton Advisory Committee.

Depressed cotton prices are one major impact of subsidies. Another important impact is distortion of export market share. The low market prices of the past five years have negatively affected the export market share of many high-cost producers, as would be expected. For example, Australia’s export market share has fallen from a high of 14.5 per cent in the 2001 crop year to just 5.0 per cent in crop year 2003. The export market share of Uzbekistan has fallen from a high of 19.2 per cent in crop year 1998 to 9.2 per cent in crop year 2003. 21

However, the high-subsidy exporters have gained export market share despite high production costs, particularly the USA and Greece. Greece’s share of the world export market has remained relatively static, between 3 per cent and 5 per cent since the 1996 crop year. The USA has seen its market share increase from a low of 17.3 per cent in crop year 1998 to 41.5 per cent in crop year 2003. Subsidies are not the only cause of this increased export market share: domestic mill use has fallen sharply in recent years and production in crop year 1998 was plagued by drought. However, the upward trend in the export market share of the USA is starkly evident (see figure 1). 22
US cotton subsidies undermine other national priorities of West African countries

US aid to sub-Saharan Africa totaled $1.88 billion in 2002. This assistance is critically important for many countries in the region facing profound public health, poverty, and development challenges. However, in many cases US cotton subsidies seriously undermine the economic value of trade for these same countries. In some cases, the losses associated with cotton subsidies exceed the value of US aid programs in the major cotton-producing countries in West Africa. When US aid for 2002 is compared with the estimated losses in export earnings, the figures are staggering:

- Benin: received $25 million in US aid compared with a $14.3 million loss in export earnings;
- Burkina Faso: received $10 million in US aid compared with a $13.7 million loss in export earnings;
- Cameroon: received $280,000 in US aid compared with a $7 million loss in export earnings;
• Chad: received $6 million in US aid compared with a $5.7 million loss in export earnings;
• Mali: received $37 million in US aid compared with a $14.7 million loss in export earnings;
• Togo: received $4 million in US aid compared with a $7.4 million loss in export earnings.

Figure 2

US Foreign Aid Versus Estimated Export Losses

The case of cotton production highlights the importance of all actors playing by the same set of trade rules in addressing issues of debt. The value of lost exports is significant when compared with the debt burden of the four countries that led the West African initiative calling for an end to US cotton subsidies at Cancun in 2003 (see section 5). The estimated lost export earnings for crop year 2002 amounted to 32.6 per cent of Burkina Faso’s debt service payments, 28.6 per cent of Benin’s, 23.8 per cent of Chad’s, and 21.3 per cent of Mali’s.

Export value losses as a consequence of US subsidies also raise concerns for the implementation of the Heavily Indebted Poor
Countries (HIPC) Initiative. To date, 23 African countries have received approval for debt reduction packages, including Burkina Faso, Mali, Chad, and Benin. All four countries qualified for further relief under the Enhanced HIPC Initiative, in part due to depressed cotton prices. Such high losses of export earnings have implications for current debt relief packages. In the case of Benin, the debt-to-export ratio was projected at 161 per cent for 2003 during the decision point for implementation of relief. However, when implementation was complete in March 2003, the debt-to-export ratio was 191 per cent, in large part due to lower cotton export earnings.24

In addition to the pressures of financing debt, the governments of West African countries have faced the challenge of allocating constrained resources to support cotton producers devastated by depressed cotton prices. In crop year 2001 the governments of Benin and Mali allocated $20 million and $14 million respectively in an effort to put a price floor under the cotton market and prevent the wholesale collapse of the sector. These expenditures have generated major losses in price stabilization funds, which in turn have exacerbated deficits and generated tensions between national governments and the IMF. In 2002, the IMF prohibited Benin from providing subsidies, on the grounds that this would breach targets for reducing fiscal deficit.25 In recent negotiations in Mali, the World Bank also insisted that the Mali government reduce the agreed producer price as a condition for adjustment loans.26

US subsidies undermine the livelihoods of West African cotton farmers

Losses of export value due to falling prices linked with subsidies have devastating consequences from the macro level down to the individual cotton farmer. Nicodeme Biwando is one such farmer and the head of his household in Burkina Faso.27 He explained that if he had to stop growing cotton, he could no longer pay for his two sons’ college education. He would even have difficulties purchasing medicines for his family. In Benin the average cotton farmer plants 5.73 acres and the value of the annual crop is about $1,070 (568,000 CFA francs), however profits are much smaller.28 A typical small-scale cotton producer in Mali farms about 5 acres and will earn on average less than $280 on an annual crop (150,000 CFA).29 In Benin, farmers have shifted production of cotton to other crops and even to livestock and non-farm activities in response to lower cotton prices.30 However, this means a decline in income.31 A small decline in price can make a crucial difference to a farmer’s ability to meet the healthcare, educational, and nutritional needs of the household.
In a recent study prepared for the World Bank, the International Food Policy Research Institute (IFPRI) indicated that there is a strong correlation between cotton prices and poverty in Benin. It found that a 40 per cent reduction in farm-level cotton prices leads to a 21 per cent reduction in income for cotton farmers. A 40 per cent reduction in farm-level cotton prices results in an increase in rural poverty of 6-7 per cent. Finally, this same reduction leads to a rise in the incidence of poverty for cotton farmers, from 37 per cent to 57-58 per cent. The effects of falling cotton prices ripple throughout Benin’s economy. For every dollar change in spending by cotton farmers there is a total change in spending of $3.30.32
3 In the USA, cotton is king and taxpayers pay the price

‘The cotton business will have a hard time surviving without subsidies at current prices.’ – John Rogers Brashier, a cotton farmer in Indianola, Mississippi

‘If I produce without getting any money, and there’s someone who is guaranteed to get money even if he gets nothing from production, my rival will survive, and I won’t. That’s the big difference. I’ll stop, he’ll go on. There’s something unfair about it.’ – Mama Idrissou, a cotton farmer near Tchaourou, Benin, who cultivates 75 acres of cotton

US cotton production has reached historic highs in recent years. Due to an increase in the acres planted and higher yields, average production in the past decade has been 24 per cent higher than in the previous decade. However, demand from domestic mills has declined, and as a result US exports have surged. Export volumes broke records in crop years 2002 and 2003, and will likely do so again in 2004. In crop year 2002, almost 60 per cent of US cotton was exported, taking 39 per cent of the world export market. In the 2003 crop year, the USA exported 76 per cent of its cotton production and took a 41 per cent share of world exports.

Why are US cotton farmers producing and exporting more cotton, even while prices have declined and domestic demand is down? The answer is simple: subsidies. Big ones. Each year, the US government spends billions of dollars on cotton subsidies, as much as $3.8 billion in crop year 2000. All told, between crops years 1998 and 2002, the USA spent $14.8 billion on subsidizing cotton production. The total value of cotton produced during that same time was $21.6 billion. In other words, between crops years 1998 and 2002, US cotton farmers earned nearly as much from government subsidies as the total value of their crop.
Table 2: US cotton subsidies by program

<table>
<thead>
<tr>
<th>Program</th>
<th>Amount ($million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Payments</td>
<td>625</td>
</tr>
<tr>
<td>Counter-Cyclical Payments</td>
<td>1,311</td>
</tr>
<tr>
<td>Marketing Loans</td>
<td>873</td>
</tr>
<tr>
<td>User Marketing Certificates (Step 2)</td>
<td>328</td>
</tr>
<tr>
<td>Export Credit Guarantees</td>
<td>14</td>
</tr>
<tr>
<td>Crop Insurance</td>
<td>286</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,437</strong></td>
</tr>
</tbody>
</table>

*Step 2 payments are not linked to a particular crop year. $328 million equals the average expenditure during calendar years 2002 and 2003.


Box 1

US government offers large variety of subsidies

Although government commodity payments are the most obvious form of support to US cotton farmers, there are numerous other supports and subsidies available. Such support is intended to minimize adverse impacts on the environment, promote cotton exports, provide disaster assistance, control pests, and provide credit assistance, in addition to subsidizing irrigation water provided in many Western states.36

In 1995, a US Congressional agency, the General Accounting Office, conducted a survey to measure government support for the cotton industry. Overall, the GAO found that the cotton program had evolved into ‘a costly, complex maze of domestic and international price supports that benefit producers at great cost to the government and society.’37 The following are some of the additional supports for US cotton producers:38

* **Conservation Reserve Program**: USDA (US Department of Agriculture) contracts with farmers to take environmentally-sensitive land out of production.

* **Export promotion**: The Foreign Agricultural Services helps sell products overseas. The GAO estimated that export promotion costs averaged $48 million per year between 1986 and 1994.

* **Disaster payments and crop insurance**: USDA provides disaster assistance to farmers through direct cash payments and subsidized insurance.

* **Pest management**: The Animal and Plant Health Inspection Service conducts cooperative programs with state and local agencies to control and eradicate the boll weevil and pink bollworm to aid cotton production.

* **Market news service**: This service collects, analyzes, and disseminates market information for numerous commodities including cotton.
Farm credit: The Farmers Home Administration provides assistance to financially-troubled farmers through direct government-funded loans and federal guarantees on loans made by other lenders. GAO is unable to estimate defaults attributable to cotton farmers because the Farmers Home Administration does not record losses by type of crop.

* Agricultural research: The Agricultural Research Service and the Cooperative State Research Service conduct agricultural research.

* Water subsidies: Because cotton is grown in arid regions, water use can be a critical issue. Without government subsidies for irrigation, cotton producers in California’s Central Valley would not be able to grow cotton profitably. As with other government subsidies, water subsidies and control of water distribution disproportionately serve larger producers.

In California, more than 2 million acre-feet of water are used each year to cultivate cotton. One acre-foot is approximately 325,000 gallons, or an amount large enough to cover an entire football field in one foot of water. The water is valued at $35 or more per acre-foot, but many farmers pay as little as 10 per cent of the cost. Who’s picking up the rest of the tab? The US government and urban taxpayers.

To mitigate high water costs, the US government annually provides $300 million in subsidies to farmers. Eighty per cent goes to California and about 16 per cent specifically to Californian cotton. Subsidized irrigation water and large water infrastructure projects are advantages that US cotton farmers enjoy over cotton farmers in other regions.

Rules limit the size of farm that can benefit from subsidized irrigation—originally there was a 160-acre limit per landowner, later increased to 960 acres. However, large owners use a variety of subversive strategies to circumvent these limits, such as setting up corporations, partnerships, and other legal entities to sub-divide farms. Over time, the government has essentially given up trying to enforce the rules.

The result is that the logic of US cotton production is quite detached from market conditions. Without subsidies, much of US cotton production is simply not economical. In fact, US cotton farmers would have lost money every year since 1997 without government subsidies. According to the US Department of Agriculture (USDA), without subsidies the average US cotton farmer would have lost $871.84 for each acre planted with cotton over the past six years (see table 3).
Table 3: US average cotton production costs and returns per planted acre, excluding direct government payments (dollars per acre)\textsuperscript{42}

<table>
<thead>
<tr>
<th>Crop Year</th>
<th>1997/98</th>
<th>1998/99</th>
<th>1999/00</th>
<th>2000/01</th>
<th>2001/02</th>
<th>2002/03</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Costs (Variable and Economic)</td>
<td>516.27</td>
<td>461.16</td>
<td>488.07</td>
<td>517.66</td>
<td>530.52</td>
<td>529.02</td>
<td>3,042.70</td>
</tr>
<tr>
<td>Market Value of Production</td>
<td>545.55</td>
<td>356.10</td>
<td>314.80</td>
<td>375.18</td>
<td>271.40</td>
<td>307.83</td>
<td>2,170.86</td>
</tr>
<tr>
<td>Value of Production Less Total Costs Listed</td>
<td>29.28</td>
<td>-105.06</td>
<td>-173.27</td>
<td>-142.48</td>
<td>-259.12</td>
<td>-221.19</td>
<td>-871.84</td>
</tr>
</tbody>
</table>

Source: Economic Research Service, United States Department of Agriculture

Cotton is grown in a wide band from coast to coast across the southern half of the USA. Most production comes from seven states: Texas (24 per cent), Georgia and Mississippi (12 per cent each), California and Arkansas (10 per cent each), and North Carolina and Louisiana (6 per cent each). Farm sizes range from an average of 2,000 acres in the more arid regions of the Texas Plains to 500 acres in the Carolinas and Mississippi. The largest farm in the USA is approximately 200,000 acres, and is located in central California\textsuperscript{43}

Agriculture in the USA has been characterized by a rapid decline in the number of farms and a consolidation of farm holdings. The most recent (2002) Census of Agriculture shows the number of cotton farms in the USA declined by 25 per cent between 1997 and 2002. Now there are fewer than 25,000 cotton farms in the USA, and 79 per cent of total cotton production (by market value) is grown on farms larger than 1,000 acres. In the same period production on farms greater than 1,000 acres increased an average of 20 per cent and on farms between 4,000 and 5,000 acres production increased nearly 40 per cent\textsuperscript{44}

Because most US farm subsidies are related to current or historic production, payment of subsidies is highly concentrated among the biggest farms. Despite the widely believed myth that government farm subsidies go to help the small family farmer and preserve the picturesque American family farm, nothing could be further from the truth. The 2002 Farm Bill extends payments by more than $73.5 billion from 1996 farm legislation, promising to pay out almost $275 billion between 2002 and 2007.\textsuperscript{45} A large majority of farms—67 per cent—are ineligible for government support because they do not grow a select group of subsidized commodities.\textsuperscript{46} Of the remaining 33 per cent (707,596) of farms that do qualify, the top 10 per cent receive 52 per cent of all government payments.\textsuperscript{47} The subsidies for cotton are particularly concentrated: the top 10 per cent receive 79 per cent of all

payments. The top 1 per cent of cotton farms received 25 per cent of all payments, an average of $331,000 each in 2002, while 25 farms received more than $1 million each.48

Table 4: Top ten recipients of cotton subsidies in 2001/0249

<table>
<thead>
<tr>
<th>Farm</th>
<th>Location</th>
<th>Direct Government Price and Income Supports for Cotton</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tyler Farms</td>
<td>Helena, AR 72342</td>
<td>$7,165,729</td>
</tr>
<tr>
<td>J G Boswell Co</td>
<td>Corcoran, CA 93212</td>
<td>$6,644,514</td>
</tr>
<tr>
<td>Wolfsen Land &amp; Cattle Co</td>
<td>Los Banos, CA 93635</td>
<td>$6,301,168</td>
</tr>
<tr>
<td>Due West</td>
<td>Glendora, MS 38928</td>
<td>$3,702,647</td>
</tr>
<tr>
<td>Starrh &amp; Starrh Ctn Growers</td>
<td>Shafter, CA 93263</td>
<td>$3,462,051</td>
</tr>
<tr>
<td>Wabash Farms</td>
<td>Helena, AR 72342</td>
<td>$3,450,708</td>
</tr>
<tr>
<td>Perthshire Farms</td>
<td>Gunnison, MS 38746</td>
<td>$3,424,457</td>
</tr>
<tr>
<td>Bruton Farms Partnership</td>
<td>Hollandale, MS 38748</td>
<td>$3,354,190</td>
</tr>
<tr>
<td>Brad Cobb Farms 1993</td>
<td>Tunica, MS 38676</td>
<td>$3,212,111</td>
</tr>
<tr>
<td>C J Ritchie Farms</td>
<td>Visalia, CA 93291</td>
<td>$3,211,515</td>
</tr>
</tbody>
</table>

In the USA, cotton farms are getting bigger. Between 1997 and 2002, the number of cotton farms dropped by more than 25 per cent and the average farm grew from slightly more than 400 acres in size to 500 acres.50

Cotton farming in the USA is a highly mechanized, capital-intensive operation. Seeding is done with mechanical planters that cover anything from 6-12 rows at a time, and the cotton is harvested using mechanical pickers or strippers.51 All cotton grown in California and the majority grown in Texas is irrigated.

By comparison, the typical West African cotton farmer cultivates 4-6 acres of cotton. Cotton in West Africa is cultivated manually or with the assistance of animal labor. Almost all cotton production in sub-Saharan Africa is rain-fed; irrigation is not an economic possibility.52 More than 10 million Africans are dependent on proceeds from cotton export sales—and none of these farmers receive subsidies in the forms of price supports, loans repayable in-kind, payments for historical production and acreage levels, or reduced loan and water rates as their American counterparts do.

Cotton farmers in the USA and West Africa are radically different in terms of production costs and profits. It costs US cotton farmers on average $0.68 to produce the cotton they export, whereas it costs farmers in Benin $0.30 (see Annex 4).53 From these figures, it becomes clear that the only money that large-scale cotton farmers earn from
dumping cotton on the world market is in the form of subsidies. It is an amazing feat on the part of West African cotton producers that they survive at all in a market where the largest economy in the world pays its cotton producers to cultivate an unprofitable crop for export. Unfortunately, this comes as no comfort to West African producers who are uncertain from one season to the next if cotton can cover the costs of the basics—nutrition, healthcare, and education.

The large bouquet of supports and subsidies on offer from the US government is a gift to US cotton producers, but a costly drain on taxpayer resources. The situation is bad enough to merit reform just due to the sheer size of the programs. But the insulting thing about these programs is that they have totally failed even to assure a reasonable livelihood for poor and disadvantaged farmers in the USA. Small operations are disappearing and taxpayer assistance is increasingly focused on a very small number of mega-farms. Meanwhile some of the poorest farmers in the world, in some of the poorest countries, are facing ruin, their plight exacerbated by these same programs.
4 Outlook for cotton is grim without reform

‘I think the honeymoon is over.’ - Gary Adams, Vice President for Economics and Policy Analysis, National Cotton Council, commenting on the fall of cotton prices from $0.70 to $0.45 in August 2004.

‘We’re discouraged. Right now, fewer and fewer people are cultivating cotton – sometimes when the cotton money comes back to the bank, and the bank subtracts our debts, there’s nothing left.’ - Basse Bako, cotton farmer in Sebou, Benin

After a long slide downward, in crop year 2001 the world market price of cotton hit a 30-year low of $0.42 per pound. In the following year, however, cotton prices moved up, with an average crop year price of $0.56 per pound. Average prices in the 2003 crop year reached a six-year high of $0.68 per pound. US cotton industry spokesmen crowed about the increased price and argued that it provided evidence that US subsidies do not depress global markets. In fact, US subsidies depress prices at all levels. The lower the price, the more harm subsidies do.

And the long-term prospect for prices is unfortunately not good for producers. Exchange rates, competition from synthetic fibers, competition from other cotton producers, and China’s decreasing consumption and demand for cotton imports contribute to the gloomy forecast for cotton prices in the future.

The surge in cotton prices in the 2003 crop year was a temporary upswing in a volatile cotton market, due to increased demand from China. Nevertheless, US subsidies have the effect of depressing prices despite market volatility, as the WTO panel ruled in the case brought against the USA by Brazil. And yet West African farmers are well positioned as some of the most cost-efficient producers to compete in this future market if only a level playing field is created.

As such, the need for reform remains. The elimination of US cotton subsidies is a critical part of reform in order to address the central problem: trade distortion.
China’s temporary boost to the cotton market

The most obvious explanation for the temporary rise in cotton prices during the past two crop years is the dramatic increase in demand from China in anticipation of the phase-out of textile and clothing quotes in January 2005.57 China is the single largest producer of cotton in the world, with approximately 200 million cotton farmers. Despite a large domestic cotton production, it must import large volumes of cotton to feed its booming textile and apparel industries, making it also the largest importer of cotton. During the 2003 crop year, China more than doubled its cotton imports from the previous year from 700,000 tons to 1,850,000 tons (see table 5).58

Cotton production in China totaled 4.87 million tons in 2003. In the current 2004 crop year, China’s production is projected to increase by about 29 per cent, rising to 6.3 million tons.59 However, consumption is projected to be 7.6 million tons, only a 7 per cent increase, thereby lessening the impact of Chinese demand on world market prices.60

China’s cotton consumption is driven by the expansion of the Chinese textile industry. During the 1990s the rapid increase in mill consumption was supported by large stocks. However, China’s stocks declined from approximately 5 million tons in 1998/99 to 1.5 million tons by 2002/03. With stocks close to depletion, China had to increase cotton imports.

Table 5: Cotton supply and use in mainland China, in 1,000 tons

| Crop year | 1998/99 | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 *
|-----------|---------|---------|---------|---------|---------|---------*
| Production| 4,501   | 3,829   | 4,420   | 5,320   | 4,920   | 4,870   |
| Beginning Stocks | 4,892 | 5,023 | 3,812 | 2,987 | 2,730 | 1,566 |
| Imports | 78 | 30 | 52 | 98 | 700 | 1,850 |
| Consumption | 4,300 | 4,700 | 5,200 | 5,600 | 6,300 | 7,000 |
| Exports | 148 | 370 | 97 | 74 | 165 | 36 |


China’s textile industry has been the driving force of world cotton mill use for the past five years.61 With its accession to the WTO, China is in a position to benefit greatly from the elimination of global textile and apparel quotas. The global system for allocating and imposing
quotas on imports of textiles and clothing was negotiated as part of the Uruguay Round. The quotas are being phased out in four stages over 10 years, culminating in the complete elimination of quotas on 1 January 2005.

When China became a WTO member in 2001, all quotas on its textiles and clothing exports were integrated into the staged elimination under the WTO. Its production and exports of textiles and apparel have soared, and the complete phase-out of quotas is expected to result in a further rapid expansion in coming years. Three years ago China accounted for 26 per cent of world mill use. In 2003, it captured 33 per cent of world mill use.

China’s increasing demand and its imports of cotton are behind global price increases in 2003. The ICAC Price Model suggests that an increase of 50,000 tons of cotton in net trade by China can raise world cotton prices by one cent per pound. However, continued growth of Chinese demand for imported cotton is not guaranteed. From crop years 1999 to 2002, China’s consumption of cotton rose from 4.7 to 6.3 million tons, a 38 per cent increase. This growth is expected to continue, albeit at a slightly slower rate.

However, China’s own cotton production has also grown. The ICAC estimates that China will increase production to 6.3 million tons in the 2004 crop year, narrowing the gap between production and consumption. While world production is expected to increase by 8 per cent, net imports by China are projected to decline, from an estimated 1.9 million tons in crop year 2003 to 1.5 million in crop year 2004. If China imports less cotton, world prices will decline.

The long-term forecast is gloomy

Polyester presents an ongoing challenge to the cotton industry. Cotton’s share of world fiber use is currently 39 per cent, which is a significant decline from its 60 per cent share in the 1960s. The rate of cotton use increases on average by 1 per cent annually, which translates into a decline in market share given a world population growth rate of 1.7 per cent per year. It is worth noting that ICAC research concludes that world cotton mill use declines by approximately 1 per cent for every increase of 20 per cent in the price of cotton, relative to the prices of competing fibers. The production cost of polyester has declined to $0.50 per pound over the past decade. The current international polyester price is at $0.55 per pound, or 20 per cent less than cotton. In the long run, competition with other fibers means that overall demand for cotton is unlikely to grow significantly, although rising oil prices will also tend to increase the price of synthetics.
While such competition presents a challenge to cotton production, West African cotton producers are in a better position than US producers to grow cotton profitably in such market conditions (see figure 3). In Benin the cost of cotton production averages $0.30 per pound. Other countries in West Africa, such as Mali and Burkina Faso, have similar costs to Benin for producing seed cotton (see Annex 4). Consequently, we can assume that Benin’s net cost of producing one pound of cotton is representative of costs generally in West Africa.70

**Figure 3**

![Cost of Producing One Pound of Cotton](image)

*Excluding land rent and seed value. Cost are for 2000/01, except 1999/01 for U.S. and Australia.

Source: ICAC, Survey of the Cost of Production of Raw Cotton, 2001

The entrance of West Africa as a major producer introduces some of the most price-competitive farmers in the world into the international cotton market. In the absence of subsidies, it is estimated that a substantial change in the origin of production would occur; it would shift from countries that provide subsidies to countries that do not. West African cotton farmers are in a position to gain from such a shift in production.

However, current US policies maintain subsidy protection for US cotton producers, whether prices rise or fall. This is a powerful incentive to US cotton farmers to produce, regardless of global demand for cotton, which has the effect of distorting trade.71
WTO dispute settlement panel has already ruled in the case against the USA brought by Brazil that US cotton subsidies depress prices and distort trade and as such must be eliminated. The ongoing trend in the world cotton market indicates that such reforms are urgently needed to address the inequities created in the terms of trade, which undermine the competitive advantage of West African farmers.

Potential gains from the elimination of US cotton subsidies can be understood at a number of levels beyond trade negotiations. Tertius Zongo, Ambassador of Burkina Faso to the United States, has explained that if in the 2001 crop year the world price of cotton had exceeded $0.50 (meaning if the world price of cotton had been $0.09 per pound higher), Burkina Faso’s cotton sector would have been profitable.72 A small fluctuation in price can mean the difference between profit and loss for the cotton sector in a country such as Burkina Faso. Consequently, a reduction of US subsidies can mean the difference between a loss of export earnings and a gain that generates profits for the sector.
5 Cotton is a litmus test for world trade

‘You can’t have a workable set of international rules unless the biggest player in the system is willing to play by them. What it assures us is that other countries won’t do bad things to us, since 95 per cent of the world’s consumers live someplace other than the United States.’ – David Rothkopf, a former top Commerce Department official in the Clinton administration

‘Interestingly, in the countries where they subsidize, only about 5 per cent of the population are farmers. Here, farmers represent some 80 per cent of a population that is becoming increasingly impoverished on land that is itself becoming poorer, without the least help from the state.’ – National Union of Cotton Farmers of Burkina Faso

Cotton is a case study in the inequities and distortions of global trade. An improved cotton market has clear potential to help poor countries and poor people. And through the WTO and the Doha Round of trade negotiations, a real opportunity exists to make reforms to make trade fair. Cotton is a litmus test to demonstrate that the WTO and the Doha Round, indeed trade itself, can serve the interests of less powerful countries and poor people.

In the spring of 2003, four West African governments (Benin, Burkina Faso, Chad, and Mali) took the unprecedented step of submitting a proposal to the WTO for a sectoral initiative on cotton, as part of the Doha Round of trade negotiations. The substance of their proposal was in two parts:

1. An immediate decision to put in place a system for reducing cotton subsidies, as a step towards their eventual elimination (‘Early Harvest’); and

2. Transitional compensation for Least Developed Country (LDC) net exporters of cotton.

This proposal in itself constituted an impressive advance in the assertiveness of African countries in the WTO system. The initiative reflected close co-operation between West African governments and regional organizations, in alliance with cotton companies, producers, and other actors. Hundreds of thousands of cotton producers signed petitions and held rallies to support their governments in promoting the initiative.

Initially, there were positive signs that the groundswell of support for reform of cotton trading would lead to results at the WTO. A special working group was established, chaired by the WTO Director...
General. Negotiations came to a head at the WTO Ministerial conference in Cancun in September 2003. The West African initiative garnered broad support from country delegations, including supportive statements from the EU and Canada.74

Unfortunately, the USA offered little in response. Although US Trade Representative Robert Zoellick stated his country’s willingness to negotiate on all topics, the USA actually refused to accept negotiations on cotton trade and subsidies. On 13 September 2003, a draft declaration was issued with no reference to the specific cotton proposal of the West African countries. Instead, a paragraph was included that encouraged the direction of ‘resources toward diversification of the economies where cotton accounts for the major share of their GDP’.

The text was virtually a verbatim reproduction of the US position, which adopted a hard line, refusing to even acknowledge the damage caused by subsidies. West Africans and other developing-country delegates were outraged, and the Cancun conference collapsed in controversy and finger pointing. Cotton was one of several controversies that boiled over.

The EU makes a move

While the USA stonewalled after Cancun, the EU undertook a reform of its cotton subsidies. Although the EU is not a major global player in the cotton market, there are more than 100,000 cotton farmers in Spain and Greece and the EU provides close to $1 billion annually in farm supports—or $2.5 million a day. Although EU farmers produce only 2.5 per cent of the world’s cotton, they enjoy 17 per cent of world cotton subsidies.75 The EU promises each cotton farmer a minimum of €100 per 100kg, or $2.60 per pound.76 This level of support far exceeds even the average support price per pound for cotton in the USA—$0.38—and is 3.5 times the producer price in West Africa.77

The EU is Africa’s largest trading partner, and EU subsidies for cotton are particularly harmful to the African cotton sector. Because the EU imports a major portion of Africa’s cotton production, EU subsidies have an acute impact on displacing African cotton. The EU accounts for €144 billion, or 45 per cent, of foreign exports from the African continent.78 More specifically, the EU imports 15 per cent of all West African cotton exports and nearly 12 per cent of all EU cotton imports are sourced from West Africa.79

In the wake of the uproar at Cancun, several member states pushed for an aggressive reform of the EU cotton supports. In June 2004, the
European Commission approved a reform of EU cotton subsidies that will decouple 60 per cent of cotton payments from production. The impact of this reform is unclear at this time; available studies draw contradictory conclusions. While this is an imperfect and unfinished reform, it is in marked contrast with the reaction of the USA, which has taken no action.

In addition, the EU Commission unveiled a two-part strategy for an EU–Africa partnership in support of the cotton sector: a general endorsement of the West African initiative to seek a reduction of trade-distorting subsidies on cotton, and trade-related technical assistance and support for African cotton-producing countries in their efforts to consolidate the competitiveness of their cotton sector.

The Brazilian bombshell

The outlook for breaking the deadlock in negotiations around cotton took a positive turn in the spring of 2004 when a decision was announced on an important WTO dispute brought by Brazil. In September 2002, Brazil brought a case to the WTO dispute settlement body, arguing that the US domestic support programs for upland cotton violated existing WTO agreements, suppressed world prices and unfairly expanded US international market share. The result, according to Brazil, was serious harm to Brazilian cotton farmers.

The case was complicated by a form of ‘immunity’ provided by WTO rules known as the Peace Clause, which protected farm subsidies from challenges. However, this protection is voided if a country increases subsidies above historic levels.

Despite the difficult burden of proof and the legal complexity of the case, Brazil prevailed. The WTO dispute panel generally ruled in its favour, finding that US cotton subsidies did indeed violate commitments. In particular, the panel found that:

- The USA had increased total subsidies for cotton production, thus violating the Peace Clause that protects existing subsidies from WTO disputes.
- The USA had wrongly classified several subsidies for cotton, claiming they were not export subsidies when, in fact, they were. Such programs are subject to deeper cuts under WTO rules.
- Other US subsidies for cotton were trade-distorting, in direct contraction to US claims that they are not.
- US subsidies have the effect of depressing prices, undermining the value of cotton exports for all cotton producers.

Finding the Moral Fiber, Oxfam Briefing Paper. October 2004
The implications of the dispute panel ruling are potentially very significant, and go beyond cotton. The clearest impact is on US export credit guarantee programs and the ‘Step 2’ program. Export credit guarantees are used by the US government to provide subsidized financing for the export of US products. They are used for many agricultural products, including all major commodities. The panel was quite clear in ruling that these supports were a form of export subsidy and have to be eliminated.

The Step 2 program is a cotton marketing subsidy designed to keep US upland cotton competitive on the world market. Step 2 payments are made to exporters and domestic mill users to compensate them for their purchase of higher-priced US upland cotton. Between 1995 and 2002, the Step 2 program provided $1.68 billion to 285 US cotton exporters and millers. The top five recipients each received more than $80 million during that period. Despite US claims to the contrary, the WTO dispute panel found that Step 2 payments violated WTO rules. Specifically, payments to exporters were export subsidies and must be disciplined under WTO rules. The panel found that payments to domestic mills were an ‘import substitution’ mechanism, prohibited under WTO rules.

Other US subsidies were also criticized in the WTO panel ruling. The panel found that farm subsidies that are price-contingent, like counter-cyclical payments, caused serious harm to Brazil. While US subsidies help to insulate US cotton producers from low prices - essentially providing a price floor - the subsidies themselves have contributed to slumping prices, creating a downward spiral of lower prices and higher subsidies. The panel confirmed the Brazilian allegation that US subsidies depress cotton prices.

In addition, the panel found that ‘direct payments’, which are not supposed to cause trade distortions, had an effect due to eligibility requirements that restrict farmers’ planting choices and require that land be kept in production. Because they are not completely ‘decoupled’ from production decisions, the dispute panel found that ‘direct payments’ should be counted as cotton subsidies and have a cumulative impact. Combined with other subsidies, these payments surpass the limits the USA agreed to in the Uruguay Round.

The USA immediately declared it would appeal the decision. However, the ruling strongly supports the fundamental claim of the West African governments that US cotton subsidies are causing injury to other countries and require some form of redress. Benin and Chad were third parties in the WTO case and submitted evidence about the impact of US cotton subsidies on their own agricultural sectors.
More broadly, the panel ruling supports many of the criticisms made by developing countries in recent years that industrialized countries have not fulfilled their commitments to open up agriculture markets and reduce the farm subsidies that distort trade.

So far, the public reaction of the US government to the ruling of the panel has been negative. USTR’s (United States Trade Representative) biased interpretation of the findings and decision to appeal clearly show a lack of political will to engage into a significant reform of the cotton sector, which contradicts US commitments made at the G8 and at the July General Council.

However, it is unlikely that the main findings of the panel will be overturned in appeal. Therefore, the US government will be faced with a decision whether or not to implement the panels’ ruling. A failure to implement would be disastrous for the standing of the USA at the WTO. It would significantly hurt its credibility in the overall negotiations. Other WTO members would have to think twice before agreeing to new rules and concessions in agricultural trade if major members like the USA can violate rules and still fail to comply with them after a clear condemnation by a panel. Oxfam calls on the US government to implement the findings of the panel fully and expeditiously.

The July framework agreement

In July 2004, the WTO General Council met to pick up the Doha Round negotiations where they left off in Cancun. The meeting was viewed by many as a critical ‘make-or-break’ test of the WTO system. Failure to come to an agreement would signal a potentially crippling failure of the WTO system.

Developing countries were under intense diplomatic pressure to make concessions to achieve an agreement. The central issue for West African countries was the need to address the cotton question separately from the broader agricultural negotiations. Their insistence on the point was based on the urgency of the question for the livelihoods of millions of small farmers in the region, and consequently the need for early action on trade-distorting subsidies. However, the USA and the EU, as well as the WTO Secretariat, applied considerable pressure on the cotton countries to collapse their demands into the broader agricultural package.81

The negotiations between the USA and the West African countries on cotton was a dramatic, bare-knuckle demonstration of pressure. According to reports, West African negotiators were locked in a room for 14 hours with little food. In addition, several key African trade
officials were in the USA participating in an ‘educational tour’ hosted by a US cotton industry organization, making coordination and communication between the African governments more difficult.

In the end, the West African proponents of cotton reform showed flexibility and accepted an agreement that folded cotton into the broader agricultural negotiations. Instead, a ‘sub-committee’ within the agriculture negotiations is to be created. The West African governments succeeded in maintaining specific text on cotton. However, the final text reflects a series of compromises that undermine the ambition of reformers and delay action:

- Firstly, there is no concrete objective set with respect to subsidy reform, although there is a reference to the cotton initiative, which does set out precise objectives in this respect.

- Secondly, while the word ‘expeditiously’ appears in the text, there are no timeframes and no specific commitment to a fast-track approach on cotton within the agriculture negotiations. In addition, the absence of a specific deadline means there is a risk that negotiations on cotton will progress in parallel with agricultural negotiations, failing to recognize the specificity and urgency of the situation of the cotton sector in Africa.

- Thirdly, the sub-committee mechanism proposed to follow the issue has no direct link to the General Council. Cotton is in danger of disappearing from the main negotiating agenda. In this context, the role of the chairman of the special session on agriculture will be crucial as he will have to present regular reports on cotton to the Trade Negotiating Committee.

- Fourthly, another cause for concern is that new loopholes are opened in the WTO box system. For instance, the text provides for a review of the so-called blue box which would allow more subsidies supposedly de-linked from production. In the case of cotton, this could allow the USA not to implement the findings of the cotton panel which ruled that these subsidies had to be removed due to their damaging effect.

- Finally, the compensation issue is completely sidelined and replaced with only general exhortations to donor countries and multilateral agencies to coordinate efforts to direct additional programs and redirect existing ones to support the development of the cotton sector. It is vital that increased development assistance is provided to developing countries’ cotton producers to manage the crisis, promote improved production, local processing and marketing, and ensure stability in producer revenues.
The next critical deadline for negotiations is the WTO Ministerial conference, which will be held in Hong Kong in December 2005. It is thus critical to ensure that the general statements of principle on cotton in the framework text are translated into specific measures that will have real meaning in terms of scope and impact for cotton producers in developing countries—particularly those in West Africa.

The USA is the central protagonist in the question of cotton reform. If the USA chooses to obstruct, delay, and deny the problem, millions of poor cotton farmers will continue to suffer. Failure to introduce reforms on cotton could create an obstacle for the broader objectives of the Doha Development Agenda to ensure that the interests of developing countries are at the heart of the current trade negotiations. More generally, if reform fails on cotton, it could call into question the utility of the WTO system more generally. After all, cotton is a case in which at least one WTO member has been shown to have broken the rules, to the enormous harm of other members, particularly poor countries. Could there be a clearer case for action?
6 The way forward

‘You must tell the Americans and Europeans that we are all in one world, they are our brothers, we need each other. They should not organize their work as if they were in another world than the one we share. Their way of doing things is not good, because it keeps us from moving forward. May they find a solution so that all of us together, them and us, can make progress.’ – Nicodeme Biwando, cotton farmer in Burkina Faso

‘We do not believe the United States – or, for that matter, any WTO member – intended that the WTO Agreements would be interpreted as this Panel has done. Now that the report has been publicly released, we are even more convinced that neither the facts, the economics, nor the agreements support the Panel’s primary decisions. We look forward to a resolute appeal.’ – Woody Anderson, US National Cotton Council Chairman

Current US agriculture policy lies at the heart of a ruinous and unfair competition between heavily subsidized US cotton production and farmers in other countries. While some large cotton farmers and corporations benefit richly, farmers in poorer countries suffer reduced incomes and lost livelihoods. Ironically, most American farmers do not benefit from current farm subsidies either.

The Doha Round of trade negotiations offers a huge opportunity for reform. Negotiations for the Doha Round are scheduled to conclude just before, or simultaneous to, the expiration of the next US Farm Bill, creating a useful synchronicity for decision-makers. The outlines of a reform are clear:

1. Once the appeal stage of the panel is completed, the US government should quickly move to implement its findings.

2. Negotiations should complement the process started by the ruling rather than become a substitute. Within the cotton subcommittee in the agricultural negotiations, negotiators should achieve a result which goes beyond the dispute panel decision. The minimum result should be:
   - As requested by the WTO dispute panel, elimination of US export subsidies for cotton by July 2005, including use of export credit guarantees and the Step 2 program.
   - Specific commitment, by December 2005, to phase out use of all trade-distorting farm subsidies for cotton, including marketing loan programs and counter-cyclical payments on a fast-track basis.

Finding the Moral Fiber, Oxfam Briefing Paper. October 2004
• Reform or elimination of direct payments so they are truly decoupled from production decisions and do not create an implicit encouragement to grow cotton in the USA.

3 Despite discussions and encouragement for greater assistance from bilateral and multilateral donors, little new assistance has been forthcoming for West African cotton producers. The issue has taken on urgency due to the world decline in cotton prices, which has caused serious hardship for millions of cotton producers in the region. Although such aid is mentioned in the WTO July Framework agreement, it should not be conditional on the negotiating positions of African governments and should not add to their debt burdens. In addition, to assure widespread benefit, aid schemes should involve full participation by poor stakeholders. Finance could usefully be targeted to establish mechanisms for stabilizing incomes and prices at local and national levels, improving the quality and grading of cotton, developing Fair Trade and organic production, and supporting initiatives to add value to cotton fiber and its by-products in the West and Central Africa sub-region. The experience of domestic liberalization, as promoted by the World Bank, should be critically examined.

4 While the EU should be congratulated for taking quick action on cotton subsidies, it is important that this reform—a partial decoupling—be evaluated for its effectiveness, and further measures taken to eliminate trade-distorting subsidies.

5 The health of the cotton sector is closely related to trends in the textiles and apparel sector. Protectionism by Northern countries has hindered the ability of developing countries to expand their textile and apparel industries. In 2005, a global system of textiles and apparel quotas will expire. New protectionism should not replace the old. Indeed, developed countries should move to reduce tariffs and other trade obstacles for the poorest countries.
Annex 1

World Cotton Price (A-Index)

Source: International Cotton Advisory
## Annex 2

Government support for cotton production by country for crop years 2001/02 and 2002/03

### Crop Year 2001/02

<table>
<thead>
<tr>
<th>Country</th>
<th>Assistance* ($/lb.)</th>
<th>Production (1,000 Metric Tons)</th>
<th>Total Assistance* ($m)</th>
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<td>Spain</td>
<td>0.76</td>
<td>107</td>
<td>179</td>
</tr>
<tr>
<td>Greece</td>
<td>0.59</td>
<td>410</td>
<td>537</td>
</tr>
<tr>
<td>USA</td>
<td>0.38</td>
<td>4,421</td>
<td>3,666</td>
</tr>
<tr>
<td>Colombia</td>
<td>0.16</td>
<td>33</td>
<td>12</td>
</tr>
<tr>
<td>China</td>
<td>0.10</td>
<td>5,320</td>
<td>1,196</td>
</tr>
<tr>
<td>India</td>
<td>0.09</td>
<td>2,475</td>
<td>500</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.09</td>
<td>92</td>
<td>18</td>
</tr>
<tr>
<td>Benin</td>
<td>0.05</td>
<td>179</td>
<td>20</td>
</tr>
<tr>
<td>Argentina</td>
<td>0.04</td>
<td>74</td>
<td>7</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.03</td>
<td>750</td>
<td>50</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.03</td>
<td>314</td>
<td>23</td>
</tr>
<tr>
<td>Mali</td>
<td>0.03</td>
<td>242</td>
<td>14</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.03</td>
<td>901</td>
<td>59</td>
</tr>
<tr>
<td>Cote d'Ivoire</td>
<td>0.02</td>
<td>163</td>
<td>8</td>
</tr>
</tbody>
</table>

*Income and price supports only. The US figure does not include Crop Insurance or the Step 2 program support.

Source: ICAC, Production and Trade Policies Affecting the Cotton Industry, 2002, except US data, which is from Womach.

### Crop Year 2002/03

<table>
<thead>
<tr>
<th>Country</th>
<th>Assistance* ($/lb.)</th>
<th>Production (1,000 Metric Tons)</th>
<th>Total Assistance* ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>1.08</td>
<td>100</td>
<td>239</td>
</tr>
<tr>
<td>Greece</td>
<td>0.87</td>
<td>375</td>
<td>718</td>
</tr>
<tr>
<td>USA</td>
<td>0.34</td>
<td>3,747</td>
<td>2,809</td>
</tr>
<tr>
<td>China</td>
<td>0.17</td>
<td>4,919</td>
<td>1,850</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.09</td>
<td>170</td>
<td>33</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.08</td>
<td>41</td>
<td>7</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.03</td>
<td>900</td>
<td>57</td>
</tr>
</tbody>
</table>

*Income and price supports only. The US figure does not include Crop Insurance or the Step 2 program support.

Source: ICAC, SC-M-473 Final, except US data, which is from Womach.

---

Cotton Price and Income Support by Nation, 2002/03

Income and price supports only. U.S. data does not include certain payments such as market loss assistance.
Source: ICAC, Production and Trade Policies Affecting the Cotton Industry, 2003
Annex 3

Cotton production and use in China

<table>
<thead>
<tr>
<th>Year</th>
<th>Production 1,000 Metric Tons</th>
<th>Beginning Stocks 1,000 Metric Tons</th>
<th>Imports</th>
<th>Consumption 1,000 Metric Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999/00</td>
<td>3,829</td>
<td>5,023</td>
<td>30</td>
<td>4,700</td>
</tr>
<tr>
<td>2000/01</td>
<td>4,417</td>
<td>3,812</td>
<td>52</td>
<td>5,200</td>
</tr>
<tr>
<td>2001/02</td>
<td>5,324</td>
<td>2,984</td>
<td>98</td>
<td>5,700</td>
</tr>
<tr>
<td>2002/03</td>
<td>4,916</td>
<td>2,631</td>
<td>682</td>
<td>6,500</td>
</tr>
<tr>
<td>2003/04</td>
<td>4,870</td>
<td>1,566</td>
<td>1,700</td>
<td>7,000</td>
</tr>
<tr>
<td>2004/05</td>
<td>6,100</td>
<td>1,096</td>
<td>1,500</td>
<td>7,350</td>
</tr>
</tbody>
</table>

Source: ICAC.
## Annex 4

### Net Cost of Producing One Pound of Cotton*

<table>
<thead>
<tr>
<th>Country</th>
<th>Cents</th>
</tr>
</thead>
<tbody>
<tr>
<td>China (Yellow River Valley)</td>
<td>0.23</td>
</tr>
<tr>
<td>Benin (South Zou)</td>
<td>0.29</td>
</tr>
<tr>
<td>Benin (North Zou)</td>
<td>0.31</td>
</tr>
<tr>
<td>Benin (Borgou-Atacora)</td>
<td>0.31</td>
</tr>
<tr>
<td>Brazil (Cerrado)</td>
<td>0.31</td>
</tr>
<tr>
<td>Pakistan (Punjab)</td>
<td>0.36</td>
</tr>
<tr>
<td>Turkey (Aegean)</td>
<td>0.40</td>
</tr>
<tr>
<td>Australia</td>
<td>0.46</td>
</tr>
<tr>
<td>US (National Average)</td>
<td>0.68</td>
</tr>
</tbody>
</table>

*Excluding land rent and seed value. Costs are for 2000/01, except 1999/01 for US and Australia.


### Cost of Producing One Pound of Seedcotton* in West Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>Cents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin (North Zou)</td>
<td>0.10</td>
</tr>
<tr>
<td>Benin (South Zou)</td>
<td>0.09</td>
</tr>
<tr>
<td>Benin (Borgou-Atacora)</td>
<td>0.10</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>0.10</td>
</tr>
<tr>
<td>Mali</td>
<td>0.10</td>
</tr>
</tbody>
</table>

*Excludes costs associated with ginning and fixed cost.

## Annex 5

**Estimated foreign exchange losses as a result of US cotton subsidies in selected countries in sub-Saharan Africa for 2001/02 and 2002/03 crop years**

<table>
<thead>
<tr>
<th>Country</th>
<th>Est. value of cotton exports 2001/02* ($m)</th>
<th>Est. 2001/02 export value with the withdrawal of US subsidies** ($m)</th>
<th>Est. value lost as a result of US subsidies in 2001/02 ($m)</th>
<th>Est. value of cotton exports 2002/03 ($m)</th>
<th>Est. 2002/03 export value with the withdrawal of US subsidies** * ($m)</th>
<th>Est. value lost as a result of US subsidies in 2002/03 ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin</td>
<td>124</td>
<td>157</td>
<td>33</td>
<td>199</td>
<td>213</td>
<td>14.3</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>105</td>
<td>133</td>
<td>28</td>
<td>190</td>
<td>204</td>
<td>13.7</td>
</tr>
<tr>
<td>Cameroon</td>
<td>81</td>
<td>102</td>
<td>21</td>
<td>97</td>
<td>104</td>
<td>7.0</td>
</tr>
<tr>
<td>Central African Rep.</td>
<td>9</td>
<td>11</td>
<td>2</td>
<td>7</td>
<td>7</td>
<td>0.5</td>
</tr>
<tr>
<td>Chad</td>
<td>63</td>
<td>79</td>
<td>16</td>
<td>79</td>
<td>85</td>
<td>5.7</td>
</tr>
<tr>
<td>Cote d’Ivoire</td>
<td>121</td>
<td>153</td>
<td>32</td>
<td>102</td>
<td>110</td>
<td>7.3</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>18</td>
<td>23</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>0.4</td>
</tr>
<tr>
<td>Ghana</td>
<td>7</td>
<td>9</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>0.3</td>
</tr>
<tr>
<td>Guinea</td>
<td>13</td>
<td>16</td>
<td>3</td>
<td>15</td>
<td>16</td>
<td>1.1</td>
</tr>
<tr>
<td>Madagascar</td>
<td>10</td>
<td>13</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>0.3</td>
</tr>
<tr>
<td>Malawi</td>
<td>6</td>
<td>8</td>
<td>2</td>
<td>6</td>
<td>7</td>
<td>0.4</td>
</tr>
<tr>
<td>Mali</td>
<td>161</td>
<td>204</td>
<td>43</td>
<td>205</td>
<td>220</td>
<td>14.7</td>
</tr>
<tr>
<td>Mozambique</td>
<td>23</td>
<td>29</td>
<td>6</td>
<td>20</td>
<td>21</td>
<td>1.4</td>
</tr>
<tr>
<td>Nigeria</td>
<td>55</td>
<td>69</td>
<td>14</td>
<td>18</td>
<td>20</td>
<td>1.3</td>
</tr>
<tr>
<td>Senegal</td>
<td>11</td>
<td>14</td>
<td>3</td>
<td>19</td>
<td>20</td>
<td>1.3</td>
</tr>
<tr>
<td>Sudan</td>
<td>65</td>
<td>82</td>
<td>17</td>
<td>101</td>
<td>108</td>
<td>7.3</td>
</tr>
<tr>
<td>Tanzania</td>
<td>79</td>
<td>100</td>
<td>21</td>
<td>51</td>
<td>54</td>
<td>3.7</td>
</tr>
<tr>
<td>Togo</td>
<td>61</td>
<td>77</td>
<td>16</td>
<td>103</td>
<td>111</td>
<td>7.4</td>
</tr>
<tr>
<td>Uganda</td>
<td>18</td>
<td>23</td>
<td>5</td>
<td>24</td>
<td>25</td>
<td>1.7</td>
</tr>
<tr>
<td>Zambia</td>
<td>29</td>
<td>37</td>
<td>8</td>
<td>23</td>
<td>25</td>
<td>1.7</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>69</td>
<td>87</td>
<td>18</td>
<td>44</td>
<td>48</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,128</strong></td>
<td><strong>1,426</strong></td>
<td><strong>305</strong>**</td>
<td><strong>1,318</strong></td>
<td><strong>1,412</strong></td>
<td><strong>94.6</strong></td>
</tr>
</tbody>
</table>

*Estimated export value equals the product of the quantity of cotton exports and the average annual A-index world price.

**Calculations based on an increase in the average annual A-index price of 11 cents per pound.

***Calculations based on an increase in the average annual A-index of 4 cents per pound.

****Countries that suffered losses in 2001/2002 but did not suffer losses or produce cotton in 2002/2003 are not included in the table. These countries include Congo, Kenya, Somalia, and South Africa which account for $7 million in estimated foreign exchange losses in 2001/2002.86

*Source for export quantities and the estimation that A-index prices would increase by 11 cents and 4 cents per pound: International Cotton Advisory Committee.*
Annex 6

The role of cotton exports in the economy of West Africa

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin</td>
<td>61.9</td>
<td>34.9</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>53.6</td>
<td>32.7</td>
</tr>
<tr>
<td>Cameroon</td>
<td>19.8</td>
<td>5.3</td>
</tr>
<tr>
<td>Chad</td>
<td>43.1</td>
<td>23.7</td>
</tr>
<tr>
<td>Cote d'Ivoire</td>
<td>4.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Mali</td>
<td>58.8</td>
<td>12.9</td>
</tr>
<tr>
<td>Togo</td>
<td>49.4</td>
<td>10.1</td>
</tr>
</tbody>
</table>

Notes


2 Interviews with members of FUPRO Benin. Interviews were conducted by Sally Baden for Oxfam GB, October 2004.

3 This interview is from a series of interviews conducted in Central Benin in May 2004 by Sally Baden and commissioned by Oxfam Great Britain.

4 See Table 1 (Estimated Foreign Exchange Losses as a Result of US Cotton Subsidies in Selected Countries in West Africa).


6 See Table 2 (US Cotton Subsidies by Program).

7 For GDP figures for West African countries, see World Development Indicators, World Bank, 2003.


9 For the purposes of this paper ‘crop year 2003’ refers to the cotton production cycle which begins August 1, 2003 and ends July 31, 2004. All crop year references follow this same format.

10 ICAC, ‘Cotton this Month,’ October, 2004.

11 ICAC, ‘Survey of the Raw Cost of Production.’ September 2001. ICAC figures on cost of production for the US do not include land rent and seed value. Also see Womach’s discussion of cost of production in ‘Cotton Production and Support in the United States.’ Womach places the average cost of production for US cotton farmers at $0.78 per pound. For comparison purposes ICAC’s figures are used in this report.


13 This interview is from a series of interviews conducted in Central Benin in May 2004 by Sally Baden and commissioned by Oxfam Great Britain.


19 ICAC


26 Communication from the World Bank to cotton producer organisations in Mali.

27 This story is taken from Maurice Oudet, ‘Globalization as seen by Africa’s cotton farmers,’ abcBurkina, December 25, 2001.


30 Ibid., p.32.

31 Ibid., p.33.

32 Ibid.

33 From James Meek, ‘Field of Dreams: Two cotton farmers: one in Benin, the other in the USA,’ The Guardian, 8 September 2003.

34 Calculations based on ICAC, ‘Cotton Supply and Use in USA,’ June 2004, Volume 11.

35 The value of production was estimated by multiplying the average A-index by production levels acquired from ICAC.


37 Ibid, p.3.

38 The following list of government support programs benefiting cotton producers is taken from GAO, 1995, p.28–29.

39 Troy G. Schmitz, Christopher Dumas, and Andrew Schmitz,. ‘Negative Gains from Trade, and Inefficient Farm Programs,’ Arizona State University East, Mesa, AZ, January 8, 2002, Hhttp://www.east.asu.edu/msabr/research/workingpapers/msabr0201_neggf t.pdfH

40 United States Notification to the WTO. WTO Document: G/AG/N/USA/51, March 17, 2004, p.76.


44 United States Department of Agriculture, 2002 Census of Agriculture.
46 2002 Census of Agriculture.
47 Ibid.
49 EWG, Farm Subsidy Database, accessed at Hhttp://www.ewg.org/farm/home.phpH. To obtain totals for crop years as opposed to calendar years, subsidies were calculated using the payment detail option.
50 2002 Census of Agriculture.
54 From James Meek, ‘Field of Dreams: Two Cotton Farmers: one in Benin, the other in the USA,’ The Guardian, September 8, 2003.
55 ICAC, ‘Cotton This Month,’ September 2004.
56 Exchange rates have had a large impact on the prices received by cotton farmers in West Africa. The francophone countries share a common currency known as the CFA franc, which until devalued in 1994 had remained on par with the exchange of the French Franc to the US dollar. Price variations in the CotIndex A, measured in US dollars, translated to an inverse relationship between producer prices in West Africa and the valuation of the dollar. When the dollar appreciates, buying cotton from the US becomes more expensive for importers and thus a decline in price occurs to maintain US export levels.
59 ICAC, ‘Cotton This Month,’ October, 2004.
60 Ibid.

63 Ibid, p.10.

64 ICAC, ‘Cotton this Month,’ October, 2004.

65 ICAC, ‘Cotton this Month,’ October, 2004.

66 Ibid.

67 Ibid.


71 This is not to suggest that US farmers do not take into consideration a host of factors when making production decisions. For example, their decisions are based on costs and expectations about a variety of production incentives (see Sumner, ‘A Quantitative Simulation Analysis of the Impacts of US Cotton Subsidies on Cotton Prices and Quantities.’) It is estimated that US cotton production will decline in 2004/05 by 300,000 tons, largely due to the more attractive prices currently offered for soybeans.


73 See TN/AG/GEN/4, 16 May 2003. A further submission was made in July 2003, specifying more clearly modalities for implementing the proposal and a revised proposal in October 2003, following the Cancun meeting.

74 http://www.wto.org/english/thewto_e/minist_e/min03_e/min03_10sept_e.htm


On these issues, see ‘White Gold turns to dust, which way forward for cotton in West Africa’, Oxfam Briefing Paper 58, March 2004.

This interview is from a series of interviews conducted in Central Benin in May 2004 by Sally Baden and commissioned by Oxfam Great Britain.

Oxfam’s previous briefing paper on this issue (‘Cultivating Poverty: the impact of US cotton subsidies on Africa’, Oxfam Briefing Paper No.30, Sept 2002) omitted Senegal for the 2001/2002 estimated value losses as a result of US subsidies, which had losses of $3 million that year. If you include Senegal then the total losses for sub-Saharan Africa were $305 million.