

Cultivating Poverty

The Impact of US Cotton Subsidies on Africa

American cotton subsidies are destroying livelihoods in Africa and other developing regions. By encouraging over-production and export dumping, these subsidies are driving down world prices – now at their lowest levels since the Great Depression. While America’s cotton barons get rich on government transfers, African farmers suffer the consequences.



Oxfam



Summary

I told the people, I said if you give me a chance to be the President, we're not going to treat our agricultural industry as a secondary citizen when it comes to opening up markets. And I mean that... The farm bill is important legislation... It will promote farmer independence, and preserve the farm way of life. It helps America's farmers, and therefore it helps America.

President George W Bush, 13 May 2002¹

Several Central and West African countries are victims of injustice by the US and the EU. These countries subsidize their agricultural producers, ignoring the rules of the WTO. Such practices are undermining the fragile national economies of countries that depend on cotton.

President Blaise Compaore of Burkina Faso, 10 September 2002

Cotton producers of West Africa have clearly understood that to get out of poverty they need to work hard, which they have done. Having managed to produce a record harvest of cotton, they are now faced with the collapse of world cotton prices. Frankly, we are starting to doubt whether rich countries really want to reduce poverty in developing countries... By subsidizing cotton producers the US...is...threatening the survival of the cotton sector in Africa...'

Extracted from Petition of Cotton Producers, Bobo-Dioulasso, 21 November 2001

Francois Traore, National Union of Cotton Producers of Burkina Faso, (UNPCB)

Isaa Ibrahima, Federation of Producers' Unions (FUPRO), Benin

Ampha Coulibaly, Union of Cotton and Food Producers (SYCOV), Mali

Agricultural subsidies in the United States are at the heart of a deep crisis in world cotton markets. American cotton farmers are first among equals in the harvesting of subsidies, reaping windfall financial gains from government transfers. Rural communities in some of the world's poorest countries suffer the consequences. While the US advocates free trade and open markets in developing countries, its subsidies are destroying markets for vulnerable farmers. No region is more seriously affected by unfair competition in world cotton markets than sub-Saharan Africa.

The Brazilian Government has challenged US cotton subsidies through the World Trade Organization (WTO). That challenge has a wider significance. If it succeeds, it will improve prospects for poverty reduction in a large group of cotton-dependent countries. More importantly, it will address a problem that is undermining the potential of agricultural trade to reduce poverty: namely, the use of subsidies to dump agricultural produce on world markets at prices that bear no relation to the costs of production.

World cotton prices have fallen by half since the mid-1990s. Adjusted for inflation, they are now lower than at any time since the Great Depression of the 1930s. Only a limited recovery is in prospect.

Central and West Africa have been devastated as a result. More than 10 million people in those countries depend directly on cotton production. Many millions more are indirectly affected. Cotton is also the major source of foreign exchange and government revenue for countries such as Burkina Faso, Mali, and Benin. According to the World Bank, the region is among the lowest-cost producers of cotton. Yet despite this comparative advantage, it is losing world markets, and its cotton farmers are suffering rising poverty.

The US bears much of the responsibility for the slump in world prices. Estimates by the International Cotton Advisory Committee (ICAC), using its World Textile Demand Model, indicate that the withdrawal of American cotton subsidies would raise cotton prices by 11 cents per pound, or by 26 per cent.

America's only clear comparative advantage in cotton production is in the use of subsidies. More efficient producers in developing countries are losing out because of American subsidies. Costs of production for one pound of cotton are three times higher in the US than in Burkina Faso. Other major producers – such as Brazil – also have far lower production costs. Yet the US has expanded production in the midst of the price slump. Other countries have suffered as a result of both lower prices for exports and loss of world market share.

The scale of government support to America's 25,000 cotton farmers is staggering, reflecting the political influence of corporate farm lobbies in key states. **Every acre of cotton farmland in the US attracts a subsidy of \$230, or around five times the transfer for cereals. In 2001/02 farmers reaped a bumper harvest of subsidies amounting to \$3.9bn – double the level in 1992.** This increase in subsidies is a breach of the 'Peace Clause' in the WTO Agreement on Agriculture, opening the door to the Brazilian complaint.

To put this figure in perspective, America's cotton farmers receive:

- **more in subsidies than the entire GDP of Burkina Faso** – a country in which more than two million people depend on cotton production. Over half of these farmers live below the poverty line. Poverty levels among recipients of cotton subsidies in the US are zero.
- **three times more in subsidies than the entire USAID budget for Africa's 500 million people.**

In an economic arrangement bizarrely reminiscent of Soviet state planning principles, the value of subsidies provided by American taxpayers to the cotton barons of Texas and elsewhere in 2001 exceeded the market value of output by around 30 per cent. In other words, cotton was produced at a net cost to the United States.

Domestic public-policy madness has international consequences. **Using data from an International Cotton Advisory Committee model, Oxfam has attempted to capture the cost to Africa of American cotton subsidies in 2001/02. For the region as a whole, the losses amounted to \$301m, equivalent to almost one-quarter of what it receives in American aid. Eight cotton-producing countries in West Africa accounted for approximately two-thirds (\$191m) of overall losses.**

The small size of the countries concerned and their high level of dependence on cotton magnify the effect of US policies. For individual countries, US cotton subsidies led to economic shocks of the following magnitude:

- **Burkina Faso lost 1 per cent of GDP and 12 per cent of export earnings.**
- **Mali lost 1.7 per cent of GDP and 8 per cent of export earnings.**
- **Benin lost 1.4 per cent of GDP and 9 per cent of export earnings.**

These losses have generated acute balance-of-payments and domestic budget pressures, and pushed several countries to the brink of a renewed debt crisis. The economic losses inflicted by the US cotton subsidy program far outweigh the benefits of its aid. Mali received \$37m in aid in 2001 but lost \$43m as a result of lower export earnings. The cotton subsidy program has also undermined the Heavily Indebted Poor Countries (HIPC) Initiative, costing countries such as Benin, Burkina Faso, and Chad more than they have received in debt relief.

The financial damage inflicted by US cotton subsidies has grave implications for poverty. Cotton growers in the US can shift relatively easily to other crops, but the scope for substitution is much more limited in the Sahel. Grown alongside maize and other cereals, cotton is the main cash crop for a large section of the rural population. It is also an important source of government revenue for spending on health and education. Apart from exacerbating balance-of-payments pressures, lower world prices are transmitted to the poor in the form of reduced farm incomes, lower agricultural wages, and diminished provision of basic services.

Africa's experience in cotton raises wider concerns about American policy. Through its aid program, the Bush Administration has sought to promote free-market reforms in Africa. Similarly, trade preferences under the Africa Growth and Opportunity Act (AGOA) are conditional on African governments liberalizing agricultural markets, including in the cotton sector. **Yet when farmers in Mali or Burkina Faso enter world markets they are forced to compete against heavily subsidized American exports.**

Notwithstanding constant references to the 'family farm' on the part of US policy makers, farm subsidies are designed to reward and encourage large-scale, corporate production. **The largest 10 per cent of cotton farms receive three quarters of total payments. In 2001, ten farms between them received subsidies equivalent to \$17m.**

The Brazilian Government has claimed that its cotton sector has sustained serious losses as a result of US subsidies, and that these subsidies include prohibited export measures. That claim is fully justified. African governments would be equally justified in claiming serious injury. For the eight countries reviewed in this report, aggregate losses for the period 1988-2001 as a result of lower export prices associated with American subsidies amounted to \$333m. This does not take into account losses in market share.

Several cotton-growing associations in West Africa have urged their governments to raise the problems associated with American subsidies at the WTO. The newly established Legal Advisory Centre at the WTO, created to help the poorest developing countries use multilateral trade rules to defend their interests, could play an important role in facilitating such action. However, the realities of political and financial power mean that African countries are highly vulnerable to retaliatory action because of their dependence on aid and debt relief and the threat of unilateral withdrawal of trade preferences.

Looking beyond the Brazil-US case, Northern governments should agree to major reforms of their agricultural policy during the current WTO round, including:

- **A comprehensive ban on agricultural export dumping, or the sale of products at prices below the costs of production.**
- **Agreement on a binding timetable to eliminate all forms of export support, including export credit subsidy programs, before the Fifth WTO Ministerial Conference in September 2003.**
- **The removal from the 'Green Box' of currently permitted subsidies that generate over-production.**
- **The restructuring of domestic support in rich countries towards less-intensive agriculture and measures aimed at enhancing the welfare of small farmers rather than large-scale corporate agriculture.**

Introduction

How can we cope with this problem? Cotton prices are too low to keep our children in school, or to buy food and pay for health. Some farmers are already leaving. Another season like this will destroy our community.

Brahima Outtara, a small cotton farmer in Logokourani village, Leraba Province, western Burkina Faso.

When the price of cotton falls, everybody suffers. The farmers get less, I get less – and my family get less. That is how simple it is.

Assita Konate, Malian agricultural laborer, Logokourani village.

These voices, recorded in a series of interviews commissioned by Oxfam in September 2002, are from Logokourani – a small village in a remote part of Burkina Faso. Almost all the farmers in the village and many migrant agricultural laborers make their living from cotton. Burkina Faso is one of the world's lowest-cost producers of the crop. Most farms operate on 1-3 acres, with the planting, weeding, and harvesting done by hand. Animal traction provides power for ploughs. Water shortages are often a problem.

Cotton is a vital cash crop in Logokourani. Grown alongside staple food crops such as millet and banana, it provides income for spending on everything from health and education to the purchase of tools and building equipment. Production has expanded rapidly in recent years, and villagers cite increased income from cotton as the main reason for improvements in education and health.

These gains are now under threat. Prices for this year's harvest are 10 per cent lower than last year's already depressed levels. Household incomes and agricultural wages are in decline. Even the larger farmers are struggling to purchase the seeds and other inputs they need for next year's crop. There is widespread fear that health and education will become unaffordable, that children will drop out of school, and that households will be unable to respond to the threat of diseases such as malaria. Agricultural laborers such as Assita Konate, a migrant from Mali, are among the most vulnerable people. She earns around \$230 a year, almost entirely from working on cotton farms. Part of this income keeps her children in Mali in school. The rest keeps her alive.

Logokourani is a long way from the High Plains of Texas around the city of Lubbock – an area that produces more cotton than any other

part of the United States. The landscape is dominated by vast cotton estates – 1500 acres is regarded as a ‘small’ farm. Separated from the dusty valley further east by rising gullies and wide river courses, this is a green oasis. The cotton farms operate on irrigated land, drawing water from the giant Ogallala Aquifer beneath the western plains. Huge computerized harvesters pick cotton 18 rows at a time. Automatic water sprinklers, also controlled by computers, operate throughout the growing season. Aerial spraying is used to administer insecticides, pesticides, and fertilizers.

For all their differences, the lives of people in Logokourani and the High Plains of Texas are intertwined in a deadly embrace – deadly, because the cotton barons of Texas are part of a system that is destroying the markets on which farmers in Burkina Faso depend. Through the subsidies it provides to American cotton farmers, the US Government is driving down world cotton prices and the household income of cotton farmers in Africa and elsewhere. The injury is every bit as real as the damage caused by a drought, by bad national policies, or by corruption – and it is being inflicted on some of the world’s poorest people by its wealthiest nation.

Cotton subsidies in the US – amounting to \$3.9bn in 2001/02 – have been the single biggest force driving down world prices. The scale of the current crisis has made cotton the latest flashpoint for agricultural trade disputes at the World Trade Organization (WTO). Citing injury to its domestic economy, Brazil has accused the US of provoking and maintaining the deepest crisis in world cotton markets since the Great Depression. Relative to the size of national economies, Africa has suffered far more. Yet the voice of African governments has been conspicuous by its absence at the WTO.

Various factors explain their silence. The financial barriers to entering a WTO dispute are prohibitive for poor countries, especially when complaints are directed against rich countries able to call on armies of lawyers and economists. Whatever the benefits of a rules-based system, differences in capacity to use the rules in defence of national interests have a crucial bearing on trade disputes. Up to a point, the newly established Advisory Centre on WTO Law in Geneva should help to overcome the barriers to entry facing poor countries seeking recourse to the WTO, though the problem goes beyond capacity at the WTO.

Most fundamentally, the WTO arena is not insulated from the imbalances in financial and political power between rich and poor countries. Developing-country governments are highly vulnerable to retaliatory action by rich countries if they challenge their trade policies in areas regarded as politically sensitive – and few issues

are more sensitive than agricultural policy. Africa is especially vulnerable because of its high level of dependence on aid, debt relief, and trade preferences. For example, the preferences provided by the United States under the Africa Growth and Opportunity Act (AGOA) can be unilaterally withdrawn. Similarly, US food aid can be withdrawn or limited by the Secretary of Agriculture for any reason, including the filing of a complaint against US farm subsidies. The dominant role of the US on the Boards of the IMF and World Bank provides another sphere of influence given the key role of these agencies as gatekeepers for aid and debt relief. It is unlikely in the extreme that the US would hesitate to use one or all of these channels of influence in its effort to dissuade any African government contemplating a WTO action against agricultural subsidies.

Whatever the explanation for Africa's non-engagement on cotton subsidies at the WTO, it is their citizens who have suffered the deepest injury. Cotton is the main cash crop and a major source of government revenue for a significant group of countries in Central and West Africa – one of the world's poorest regions. Three major cotton-producing countries in the region – Burkina Faso, Chad, and Mali – figure in the bottom ten of the 173 countries covered by the United Nations Development Program's Human Development Index. More than half the population lives below the poverty line. Other indicators – such as child and maternal mortality, illiteracy, and access to water – are among the worst in the world.

Falling world cotton prices have inflicted enormous damage on vulnerable people in the region, undermining household nutrition and jeopardizing gains made in public health and education. In contrast to many other countries – notably the US and the European Union – producers in Africa do not have the luxury of social safety nets, or of ways to diversify their livelihoods. Prospects for economic growth have suffered as a consequence of deepening foreign-exchange constraints and falling investment. For some countries, the world cotton price has raised the spectre of a renewed debt crisis.

This paper is divided into four parts. Part 1 looks at the scale of the crisis in the world's cotton market, its implications for Central and West Africa, and the role of US farm subsidies in generating the crisis. Part 2 uses a trade model developed by the International Cotton Advisory Committee (ICAC) to assess the impact of US subsidies on Central and West Africa. Part 3 explains the structure of US subsidies and identifies the main beneficiaries; the small 'family farm' is conspicuous by its absence. Part 4 explains briefly the background to the Brazil/US dispute at the WTO.

1 The Great Depression comes to cotton

Cotton is one of the most widely produced agricultural crops in the developing world. It is a vital source of foreign exchange, investment, and economic growth for some of the world's poorest countries. Cotton also occupies a pivotal role in the livelihoods of poor people. Around one billion people in developing countries are thought to be directly or indirectly involved in its production and marketing.² They include smallholder farmers in the arid regions of countries such as Burkina Faso and Mali, women working as seasonal laborers on the cotton farms of Maharashtra in India, and workers in the coastal areas of Peru. For millions of poor rural households, the state of the world's cotton economy has a critical bearing on nutrition, and on whether they have sufficient income to send their children to school and to cover health costs.

Since the mid-1990s, that state has been one of chronic price depression (*Annex 1*). Adjusted for inflation, average prices are lower than at any time since the Great Depression of the 1930s. The depth and duration of the current slump is unparalleled in recent history. In 2001/02, prices were around 42 cents per pound, the fourth year in succession that they were below the long-term average of 72 cents per pound. Even the most efficient producers are now operating at a loss, unable to cover the costs of production and marketing.

Projections by the International Cotton Advisory Committee (ICAC) suggest that prices will remain chronically depressed for the foreseeable future. Forecasts point to a modest recovery in 2003, but prices look likely to remain at between 50-60 cents per pound until 2015.

For a large group of developing countries, the price collapse has generated major losses, both in export earnings and in the value of domestic production. The Government of India puts the total cost at \$1.3bn. Costs to Argentina, a country in the midst of a profound financial crisis, are also estimated at more than \$1bn. The Brazilian Government claims losses of \$640m for 2001/02.³ It is the scale of these losses that is at the heart of an increasingly bitter trade dispute with the United States, which many developing countries see as the main architect of the price slump.

Central and West African countries have suffered far graver injury than any other developing region. More than two million

households are directly involved in cotton production, the income from which provides small farmers and laborers with their principal – and in some cases their only – source of cash (see *Box 2: Cotton is Everything Here*, on p.19). Many millions more depend indirectly on cotton. The crop also occupies a pivotal position in the macro-economy of many countries. There are 11 countries in Africa where cotton accounts for more than one-quarter of export revenue, rising to one-half for Benin and two-thirds for Burkina Faso.⁴ These exports are a vital source of foreign exchange, financing essential imports such as food, fuel, and new technologies. They also underpin government revenues, providing the funds needed to invest in health and education.

Despite the serious social and environmental problems that have accompanied the expansion of cotton cultivation, there is little doubt that already low incomes would be far lower, and poverty higher, without cotton. One study of sub-Saharan Africa carried out by the World Health Organization found that households growing cotton and maize had better nutrition and higher income than households growing maize alone. The study concluded that the expansion of cotton cultivation had been a major factor in improving health indicators. The 175 per cent increase in cotton production recorded between 1993 and 1998 was associated with a fall in poverty levels from 50 per cent to 42 per cent in cotton districts. Over the same period, poverty increased among farmers growing only staple food.⁵

High levels of poverty and limited government provision of basic services make Central and West Africa acutely vulnerable to adverse trends in world prices. Falling world prices mean that farmers have less to spend on health, education, and investment. Wages for agricultural labor also decline, as does the government's capacity to provide basic social services.

Prospects for economic growth – a key requirement for poverty reduction – have also been damaged. Governments in the region have been expanding cotton production, with economic reforms concentrated on improving the supplies of inputs, investing in marketing infrastructure, and raising the share of final export value that goes to producers. Production was given a major boost by CFA devaluation in 1994, a move that enhanced export competitiveness and increased local prices. However, serious problems have emerged in the reform process. In Benin, privatization led to the collapse of input supplies previously provided through cotton ginning. In Burkina, the experience of the two private companies set up to replace the old state monopoly has been mixed. One of the companies has a worse track record on financial management than

the state company it replaced. While producer associations have acquired a stake in the privatized ginneries, they have a mixed record in shaping outcomes and – critically for poverty reduction - representing the interests of more marginal producers.

Such outcomes raise important questions about the design and implementation of privatization programs – and about the role of the IMF-World Bank, which have figured prominently in driving the reform process. More generally, much work has been done on the technical aspects of cotton production, but serious problems associated with the indebtedness of farmers, and with the health risks and environmental pollution caused by high pesticide and fertilizer use, have been overlooked. There are also inherent dangers in reinforcing dependence on a single crop for which global markets are highly volatile. For all of these problems, cotton will continue to play a central role in defining prospects for economic growth and rural poverty reduction.

At present, many governments are in the invidious position of seeing increased export production generating less foreign-exchange revenue. For example, Burkina Faso has increased exports by almost 50 per cent since 1994, but now receives \$60m less from export earnings than in the mid-1990s (*Annex 2*). This is undermining prospects for diversification. At the same time, there is something inherently unbalanced in the World Bank using loan conditionality to drive cotton market liberalization in Africa when its major shareholder – the United States – is using subsidies to destroy local markets. National policies will continue to play a critical role in the reform process, and in shaping the distribution of benefits from cotton exports. Yet no reform program is likely to make a decisive impact on poverty unless reform in the US generates more remunerative world prices.

Factors behind the world cotton crisis: the role of US subsidies

The crisis in the world cotton market has no single cause, and no easy solution. But one problem figures prominently: namely the heavy use of subsidies by the United States.

While there are a large number of countries producing cotton, just four – China, the US, India and Pakistan, in descending order – account for two-thirds of total production. Most cotton is consumed in the country that produces it. The major exception to this rule is the United States. In a typical year more than half of US cotton is

exported. The upshot is that the US is by some margin the world's largest exporter (*Annex 3*).

Since the steep downturn in world prices began in the mid-1990s, US cotton production has appeared to defy the standard laws of supply and demand. By international standards, the US is not a particularly low-cost producer. The US Department of Agriculture estimates the average cost of producing one pound of cotton in the US to be 73 cents per pound. However, one-third of output is produced at costs above this level.⁶ By contrast, the most recent survey of the costs of producing raw cotton states that average production costs in Burkina Faso amount to 21 cents per pound.⁷ Productivity levels are also lower in the US than in other major exporting countries: approximately 20 per cent lower than in Brazil or China, for example. Yet while international prices have fallen by 54 per cent since the mid-1990s, the US has expanded its area under cotton cultivation and increased output, apparently defying the signals from the international market.

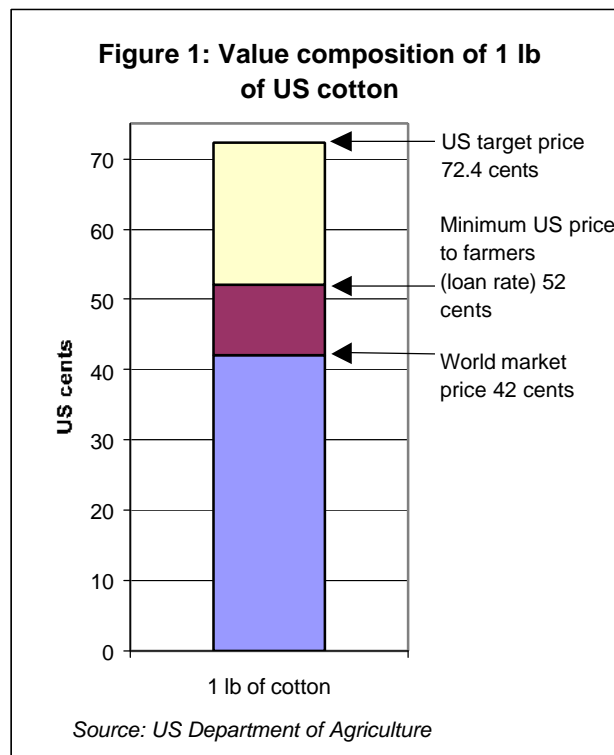
In 2001, in the fifth year of an almost unprecedented price slump, American cotton farmers produced a record crop of 20.3 million metric tons – a 42 per cent increase over 1998. The area planted to cotton increased by six per cent during the same period.⁸ While world production for 2002 is forecast by the USDA to fall by around 10 per cent, reflecting the impact of world prices on investment, the same agency predicts another bumper crop – the fourth largest on record – for the United States.⁹ In 2000, cotton acreage surpassed 15 million acres for only the second time since the 1960s. At a time of falling world prices, the volume of US exports almost doubled – from 946,000 metric tons in 1998 to 1.8 million tons in 2001. Over the longer-term, subsidies have enabled the US to expand its share of world cotton production (on a linear trend basis) from around 16 per cent at the start of the 1990s to over 20 per cent at the end of the decade.

From the perspective of any textbook economic theory, such trends are counter-intuitive. Market principles would dictate that, in an open market, prices would follow the costs of the more efficient producers. Less efficient, higher-cost producers will reduce production. In the world cotton market this proposition is stood on its head. Several highly efficient producers in Africa and elsewhere have been cutting production – Brazilian production of upland cotton fell by 25 per cent in the 2000/2001 marketing year, for example – while investment decisions by less efficient producers on the American cotton belt are immune to changes in market price. And yet there appears to be an inverse relationship between world

cotton price and US production. The reason can be summarized in a single word: subsidies.

The United States accounts for approximately one-half of the world's production subsidies for cotton (*Annex 4*). In 2001/02 the value of US cotton production amounted to \$3bn at world market prices. In the same year, the value of outlays in the form of subsidies to cotton farmers by the USDA's Commodity Credit Corporation (CCC) was \$3.9bn.¹⁰ In other words, cotton was being produced at a net cost to the American economy.

Figure 1 helps explain how such an outcome is possible, by breaking down the unit value of a pound of cotton produced and marketed in the US. It summarizes the structure of support to American cotton farmers following the passage of the 2002 Farm Act. Under the new marketing arrangements, cotton farmers will receive a guaranteed price of around 52 cents per pound, regardless of what happens to world market prices (which are currently 19 per cent below that level). In addition, farmers will receive a further set of payments to top up their income to a target price level. **The result will be that they will receive a price some 73 per cent above world market levels.**



What makes the overall level of US subsidies so important for world markets is that such a large share of domestic production is exported. In effect, American export prices set or greatly influence the world price, with attendant implications for farmers in developing countries who are competing against US exporters in international and domestic markets. While different subsidies have different consequences, to the extent that they are linked to production or influence production decisions, they inevitably impact on world markets by virtue of their sheer scale.

Various attempts have been made to capture the impact of US subsidies on world prices. Any reduction in American exports resulting from the withdrawal of government support would be expected to raise world market prices, stimulating a supply response in other countries. This in turn could partially – or totally – offset any price changes. Similarly, higher prices would be expected to reduce the growth of cotton consumption.

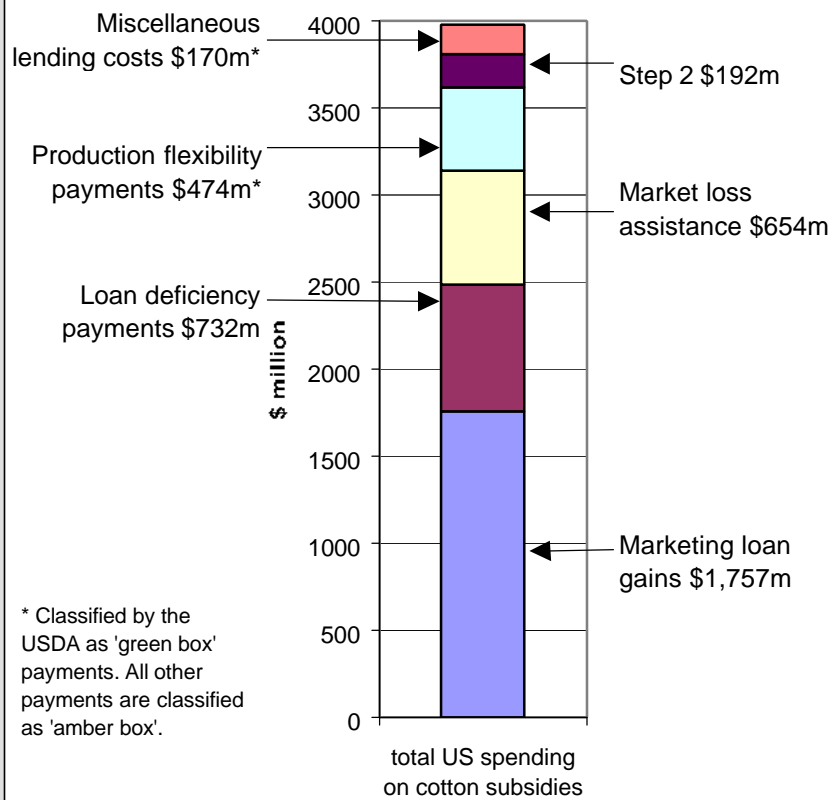
For all of these problems, joint research by the UN's Food and Agriculture Organization and the International Cotton Advisory Committee has provided some important insights. Using the ICAC's World Textile Demand Model, this research found that the withdrawal of subsidies would result in a decline in US production of 1.4m tons, or around 10 per cent. The overall effect, taking into account increased production by lower-cost exporters, would be to raise world prices by 11 cents per pound, or by almost 26 per cent.¹¹

The scale of the price-depressing effects raises serious concerns about the threat of the 2002 US Farm Act for future over-production by US cotton farmers and continued low world prices. By insulating American farmers from world prices, while at the same time rewarding production, they could add another downward twist to the spiral in world cotton markets.

Box 1 When is a subsidy not a subsidy?

The form in which subsidies are provided to US cotton producers is important both in world market terms and in relation to compliance with WTO rules. Under the WTO Agreement on Agriculture, governments are required progressively to reduce production and export subsidies subject to one exemption, the wording of which is critical. 'Domestic support measures for which exemption is claimed shall meet the fundamental requirement that they have no, or at most minimal, trade-distorting effects on production.' Measures that meet these criteria fall into a category known as the Green Box. Policies that influence production fall into another category (the Amber Box) where the overall level of subsidies (the 'aggregate measure of support') has to be cut. These definitions have an important bearing on the trade dispute between the US and Brazil. The main forms of US subsidy (summarized in Figure 2) are as follows.

Figure 2: US cotton subsidies by category in 2001/02 (\$m)



Direct Payments. Most cotton farmers benefit from direct payments under the 2002 Farm Act. These payments are based on the value of production and yields during a previous production period. On this basis, the US Government insists that its support is 'decoupled' from production, and therefore eligible for the Green Box. Until this year, the reference period for calculating payment levels was 1986-1988. Under the 2002 Farm Act, the reference period has been updated to 1998-2001. This seemingly technical change matters, since acreage under cotton and yields were higher in the latter period – thereby raising the entitlement to subsidies. In effect, the change has 're-coupled' subsidies to production by linking payments to recent output levels. Other implicit incentives are provided for cotton production. For example, eligibility for direct payments is contingent on farmers using land for an agricultural purpose, which inevitably has an influence on production for crops such as cotton. In addition, the 2002 Farm Act prohibits direct payments on land used for cultivating fruits, vegetables, and other crops. This encourages farmers to grow crops eligible for support, including cotton. For all of these reasons, there is serious doubt whether the direct payments to US cotton farmers are properly within the Green Box.

Counter-cyclical payments. These were introduced under the 2002 Farm Act, and replace the 'emergency market loss payments' provided by the US to cotton farmers from 1998-2001. Payments are triggered by lower prices: this subsidy is designed to increase payments to farmers during periods of low world prices, thus enhancing production at the very time it should be declining. In the case of cotton, at today's prices they would amount to as much as 13 cents per pound, or one-third of the market value of the crop. On this basis, US cotton farmers would receive \$1.1bn in subsidies from this program in 2002/03. Because these payments are based on the market price falling to a certain level, they fall into the Amber Box.

Loan Deficiency Payments and Marketing Loan Gains. These payments are triggered when world prices fall below \$0.52 per pound. The further world prices fall below that level, the more they increase. Because they are linked to the volume of farm production, they fall into the Amber Box.

Step 2 subsidies. These payments aim to keep US export prices in line with low-cost competitors. They are provided both to exporters of US cotton and to domestic mills using US cotton, the aim being to eliminate any difference between US internal prices and the international price. In the 2001/02 marketing year, the transfer ranged from 0-7 cents per pound, or up to 18 per cent of the world market price. Total export subsidization under this heading was around \$197m in 2001.¹² However, the US insists that, for the purposes of the WTO's rules, these are not export subsidies, on the grounds that they form part of a program that does not discriminate between exporters and domestic users.

The Export Credit Guarantee Program (ECGP). The ECGP provided \$398m in funding in fiscal year 2001. Under the program, importers can borrow in dollars at US interest rates, and banks lending to them have the loans guaranteed by the US government. This gives American exporters an enormous advantage over rival exporters in countries with shortages of hard currency and high interest rates. Exporters in countries such as India, Pakistan, and Egypt, let alone Burkina Faso and Mali, are obviously unable to draw on comparable levels of support.

US Crop Revenue and Insurance Program. This covers over 90 per cent of cotton acreage and protects farmers against crop loss caused by adverse weather or other conditions. It effectively takes a large share of the risk out of farming. These programs are part of the Amber Box for cotton producers. However, because they are implemented using non-commodity specific interventions (that is, they apply to all crops), they are permissible, as long as they do not exceed five per cent of the total value of production.

Like the EU, the US has developed a strong track record in creative interpretation of WTO rules. For example, any claim that Direct Payments do not influence production decisions is clearly incorrect, not least for reasons explained in a recent USDA paper: 'Because...these...payments raise farmers' income and financial well-being, they can potentially affect agricultural investment and thereby enhance production. Lenders are more willing to make loans to farmers with higher guaranteed incomes and lower risk of default. Greater loan availability facilitates additional agricultural production.'¹³ By the same token, Step 2 payments and export credit guarantees are export subsidies that clearly serve to lower the costs of US exports in third markets, while subsidized insurance programs remove the risk from investment decisions.

2 The costs of US cotton policy to sub-Saharan Africa

Using the results of the joint FAO-ICAC research based on the World Textile Demand Model described above, Oxfam has attempted to capture the specific effects of US cotton subsidies on exporters in sub-Saharan Africa. That is, we have estimated the foreign-exchange costs associated with the lower prices caused by US subsidies. These costs are significant for a large group of countries, with a marked concentration in West Africa.

In 2001, sub-Saharan exporters lost \$302m as a direct consequence of US cotton subsidies (*see Annex 5 for a country-by-country breakdown*). Two-thirds of this loss (\$191m) was sustained by eight countries in West Africa, with Benin, Burkina Faso, Mali, Cameroon, and Côte d'Ivoire the worst affected (**Table 1**). The cumulative loss suffered by this same group of countries over the three-year period 1999-2001, taking into account the price decrease for each year, was \$334m (*Annex 6*).¹⁴ Outside this group, countries such as Zambia, Nigeria, and Tanzania have also suffered serious losses.

The small size of several West African economies and their high levels of dependence on cotton inevitably magnify the adverse effects of US subsidies. For several countries, US policy has generated what can only be described as a major economic shock. Its impact amounts to a foreign-exchange loss equivalent to the following:

- Burkina Faso: 1 per cent of GDP, and 12 per cent of export earnings.
- Mali: 1.7 per cent of GDP and 8 per cent of export earnings.
- Benin: 1.4 per cent of GDP and 9 per cent of export earnings.

Trade losses associated with US farm subsidies heavily outweigh financial transfers through USAID programs for the eight major cotton-exporting countries of West Africa. Mali received \$37.7m from the US in aid during 2001, but lost \$43m as a result of cotton subsidies. The \$33m losses sustained by Benin as a result of US subsidies represent twice its level of aid provision.

Table 1: Foreign exchange losses as a result of US cotton subsidies in selected countries in West Africa (\$m)

Country	Actual cotton export earnings in 2001/02, in \$m	Export earnings with the withdrawal of US subsidies, in \$m*	Value lost as a result of US subsidies, in \$m
Benin	124	157	33
Burkina Faso	105	133	28
Cameroon	81	102	21
Central African Rep	9	12	2
Chad	63	79	16
Cote d'Ivoire	121	153	32
Mali	161	204	43
Togo	61	77	16
Total	725	917	191

* Using ICAC model result predicting an 11 cents/lb net increase in world cotton price.

Source: International Cotton Advisory Committee

For the wider international community, the impact of US cotton subsidies on the effectiveness of the Heavily Indebted Poor Countries (HIPC) Initiative should be a serious source of concern. Three countries covered by the IMF-World Bank's Heavily Indebted Poor Countries (HIPC) Initiative (Benin, Burkina Faso, and Chad) are now in urgent need of increased debt relief.¹⁵ In the case of Burkina Faso, the \$27m provided in debt relief under the HIPC Initiative has been wiped out by an equivalent loss caused by US cotton subsidies. Meanwhile, the slump in prices for cotton exports has been instrumental in increasing to 20 per cent the share of export earnings allocated to debt servicing for 2000 from the 12 per cent projected by the IMF-World Bank. Both Benin and Chad have lost more as a consequence of US cotton subsidies than they have gained from the HIPC Initiative – in the case of Benin, by about one-third.

In addition to the direct foreign-exchange losses caused by US cotton subsidies, part of the cost of adjusting to lower world prices has been absorbed by already over-stretched government budgets.

In Benin and Mali, governments are spending \$20m and \$13m respectively in an effort to put a price floor under the cotton market and prevent the wholesale collapse of the sector.¹⁶ Total subsidies to the cotton sector aimed at cushioning producers in Central and West Africa from falling world prices are estimated to exceed \$50m. These expenditures have generated major losses in price stabilization funds, which have in turn exacerbated budget deficits and generated tensions between national governments and the IMF. Most recently, the IMF has prohibited Benin from increasing cotton subsidies on the grounds that it would breach targets for reducing the fiscal deficit.

These transfers represent a major diversion of resources from education, the delivery of health services, and the development of rural infrastructure. For a country like Burkina Faso, the costs are enormous. This is a country in which one in five children die before the age of five, most of them from preventable diseases. More than four out of five women are illiterate, and the average number of years girls spend in school is less than three. There are desperate shortages in the provision of basic social services. Efforts to overcome these shortages have been severely compromised by foreign-exchange losses equivalent to the combined national budgets for health and basic education.

Box 2 Cotton is everything here

Cotton here is everything. It built our schools and our health clinics. We all depend on cotton. But if prices stay this low, we have no hope for the future.

Cotton farmer, Logokourani village, Burkina Faso.

Since the mid-1990s, the countries of Central and West Africa have emerged as important exporters of cotton. Prospects for economic growth and poverty reduction in the region are now heavily influenced by the state of the world cotton market – and by the policies of countries such as the United States.

Cotton plays a very different role in the social and economic life of Central and West Africa than in some of the other major cotton-exporting regions. Around two million households depend directly on the crop, compared with 25,000 in the US. This reflects the labor-intensity of production and the central role of smallholder farmers. Most farms average between 1-3 acres in size, and they employ large amounts of labor during planting, picking, and in other key seasons. By contrast, farms of less than 3000 acres in the main cotton-producing state of Mato Grosso in Brazil are considered too small to be viable.

In contrast to their African counterparts, most Brazilian and American farms are fully mechanized. On a typical cotton farm in Africa, fields are prepared

using hand-held ploughs drawn by oxen, seeds are planted and cotton bolls picked by hand, and weeding is carried out by women.

By comparison with other major exporters, output per acre in Africa is very low. It averages around 400 pounds per acre compared with 1000 pounds in Brazil and China and 700 pounds in the US. However, international comparisons demolish the mythology that, when it comes to cotton, large-scale agriculture is inherently more efficient than smallholder farming. They show the countries of West and Central Africa to be among the world's lowest-cost producers. Most cotton sectors in the region can operate profitably at prices of 50 cents per pound, far below the level at which many rival exporters could compete in the absence of subsidies.

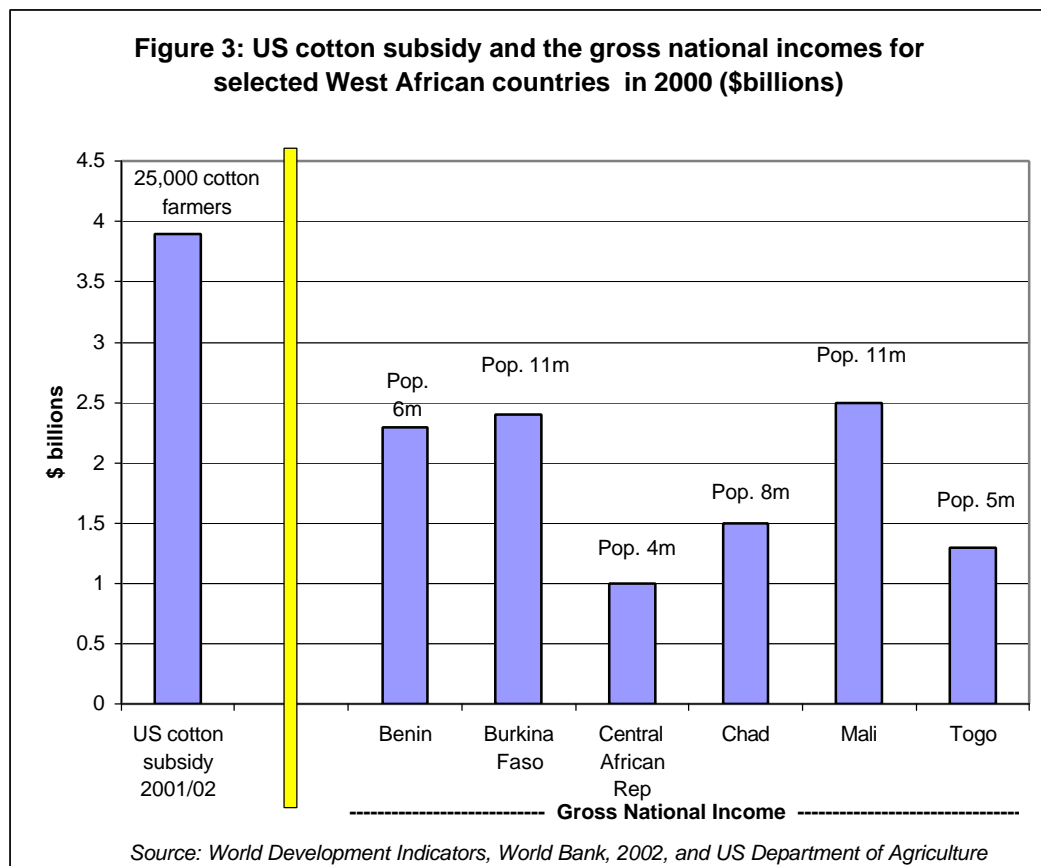
As one assessment by the IMF and World Bank put it: 'few other countries can produce cotton profitably at this price level.'¹⁷ One reason for the competitiveness of African cotton is the advantage of smallholder production. Because cotton plants are picked by hand and carefully tended during the growing season, quality levels are consistently high. Moreover, smallholder farmers have developed systems of soil nutrient replenishment and pest control that are well-suited to local conditions, and far less costly in financial terms than in more capital-intensive systems.

The world price of cotton has a major bearing not just on the income of farmers, but also on agricultural wages for farm laborers employed to pick cotton (most of whom are women) and on the general health of rural economies. For many households in Central and West Africa, cotton is the main cash crop. Given that an estimated two-thirds of the population live below the poverty line, income from cotton plays a critical role in the household economy. In Benin, cotton is virtually the only source of cash income for an estimated 100,000 farm households, and generates one-fifth of total household wealth in the country.

The protracted slump in world cotton prices has had devastating consequences for progress towards poverty reduction. Since 1994, when devaluation increased export competitiveness, cotton production has increased sharply – by over 300 per cent in Burkina Faso, 140 per cent in Mali, and nearly 100 per cent in Mali. Income poverty has been declining in some of the major cotton-growing regions of Burkina Faso and in parts of Benin and Mali. It is true that overall performance has been mixed. For instance, the more commercialized cotton-growing regions of southern Burkina Faso have done better than the dryer western provinces, where infrastructure and extension services are weaker.

Such problems illustrate a failure on the part of governments to put in place the policies needed to spread the benefits of export production more widely. Other pressing policy challenges also have to be met.¹⁸ Across the Sahel there is a relatively large gap between producer prices for cotton and export prices for lint, reflecting the high costs of cotton marketing and processing. There are also serious problems with the supply of inputs and credit. Most governments in the region are involved in extensive reforms in these areas. However, unless current trends in world cotton markets can be reversed, any attempt to develop viable cotton sectors will fail, with attendant consequences for national poverty-reduction efforts.

For cotton exporters in Central and West Africa, the rhetoric used by governments such as the US in trade-policy arenas has a distinctly hollow ring. The \$3.9bn in subsidies provided to American cotton farmers exceeds the entire GDP of countries such as Burkina Faso and Mali, where cotton is a mainstay for millions of people (**Figure 3**). These subsidies create a huge disadvantage for resource-poor African farmers, and a parallel unfair advantage for their American counterparts. By driving down prices for these farmers, US taxpayers – along with their European counterparts in other product groups – bear a direct responsibility for poverty in Africa.



3 Subsidy farming on the cotton belt

The US cotton industry...contributes significantly to the nation's economic health.

The National Cotton Council of America, 2002

I believe the (farm) bill is balanced regionally and by commodity, but it will undoubtedly be an economic shot in the arm for the West Texas region... I have been criticized by the national media because the Farm Bill benefits producers and communities in the 19th District of Texas. I welcome that criticism, because I believe that constituents want me to represent our interests in Congress. I believe the new Farm Bill will benefit our area and our farmers.

Larry Combest, Republican Chair of the House of Representatives Agricultural Committee, and Representative for a major cotton-growing area in West Texas.¹⁹

This (Farm Bill) is a good compromise and sends a strong message to our producers that the US Government will stand shoulder-to-shoulder with them in the market place.

Charlie Stenholm, ranking Democrat on the House of Representatives Agricultural Committee, and cotton farmer in West Texas.²⁰

Even by the normal standards of American and European agricultural policy, the US cotton sector is governed by a curiously bizarre set of public policies. These policies are built on Alice in Wonderland economics, and driven by powerful vested interests masquerading as defenders of the public good. No sector does better out of the pork barrel congressional politics that dictate the distribution of subsidies. Despite the scale of US cotton production, and in contrast to other sectors such as cereals, the number of cotton farmers is small. Yet they inflict enormous damage on poor farmers in Africa and elsewhere. To paraphrase Winston Churchill, nowhere in the entire field of human trade is so much damage inflicted on so many vulnerable people by so few wealthy farm corporations.

The US cotton belt extends across a large area from southern California in the West, through Texas and Arizona, to Mississippi, Alabama, and the Carolinas in the East. It covers approximately 14m acres of farmland. There are now around 25,000 farmers, their numbers reducing each year through a process of consolidation and take-over.

Farm sizes range from an average of 2000 acres in the more arid regions of the Texas Plains to 500 acres in the Carolinas and Mississippi. The largest farm in the US – and one of the largest in the world – is a cotton farm of some 200,000 acres, located in Central California.

The political lobby for cotton is one of the strongest in US agriculture, as witnessed by the 2002 Farm Act. Led by the National Cotton Council of America, cotton barons have helped to foster an image of a sector dominated by farmers operating in a harsh environment, but displaying an entrepreneurial drive that benefits the entire nation. The pre-eminence of the US in world markets is a common theme.

As in other aspects of farm policy, good public relations and political influence has helped to obscure some hard truths. The US is an inefficient producer of cotton at current levels relative to many other countries, while the sector represents a huge drain on taxpayers. Viability depends on huge infusions of capital from the general public on an annualized basis.

In relative terms, the scale of the transfers dwarf those made to other producer groups. In 2001/02, every acre of cotton farmland was worth around \$230 in subsidy, compared with \$40-50 for wheat and maize (*Annex 7*). The fact that every acre of cotton land receives a subsidy equivalent to average income in Burkina Faso further highlights the scale of the inequities involved.

Ironically, these inequities are mirrored within the US itself. One of the great myths of US agricultural policy, promoted in grand style by the Bush Administration, is that government subsidies support small family farmers and vulnerable communities. Nowhere is the myth further removed from reality than on the cotton belt.

According to USDA figures, the richest 10 per cent of American farmers receive two-thirds of total payments to agriculture. Subsidy payments are most concentrated among cotton producers, where the top 10 per cent receive 73 per cent of total payments. The top one per cent alone collected one-quarter of total payments. At the other end of the spectrum, more than half of America's farms get no subsidies at all.

For a very small group of very large farms, government subsidies are a huge financial windfall. Between them, just ten farms received \$17m in cotton subsidies in 2001 (**Table 2**). Total subsidies to this group amounted to \$62m over the five-year period 1996-2001.²¹ It has to be stressed that this figure, large as it is, captures only part of the overall subsidy transfer. Most of these farms are also heavily

involved in cattle and cereals production, providing further opportunities for tapping the public purse. Total subsidies for the big ten cotton farms amounted to \$21m in 2001.

Table 2: Top 10 recipients of cotton subsidies in 2001

Rank	Name	State	Cotton subsidy for 2001, US\$	Cotton subsidy for 1996-2001, US\$	Total farm subsidy for 2001, US\$
1	Tyler Farms	Arkansas	5,993,748	23,210,940	8,089,543
2	Dixie Farms	Mississippi	1,694,392	5,687,087	2,282,054
3	Ritchey Bayou Farms	Mississippi	1,398,726	3,799,964	1,612,708
4	Colorado River Indian Tribes Farm	Arizona	1,146,266	5,243,510	1,389,312
5	Bruton Farms Partnership	Mississippi	1,144,571	4,854,689	1,532,998
6	John M Mobley & Sons	Georgia	1,142,589	3,343,619	1,207,711
7	Martin Farm	Alabama	1,062,742	3,527,703	1,146,315
8	Benton Farms	Alabama	1,011,266	3,517,016	1,278,012
9	Due West	Mississippi	1,009,631	5,256,640	1,205,916
10	GPA Management Group	Arizona	964,862	3,183,069	967,379
Total			16,568,793	61,624,239	20,711,948

Source: Environmental Working Group farm subsidies database

One of the biggest subsidy gatherers in the US is Tyler Farms, an Arkansas-based corporation that controls 40,000 acres – an area almost as large as the District of Columbia. The farm also grows corn, rice, sorghum, and oilseeds. All of these crops generate a healthy return by way of government subsidies. However, cotton is the major subsidy crop, generating almost \$6m in 2001. This one farm receives subsidies equivalent to the average income of 25,000 people in Mali.

Farm executives have been at pains to put a commercial gloss on the subsidized nature of their operations. Commenting on the subsidy system in an interview with Associated Press in 2001, Tyler Farms executive Philip Ring commented: ‘It’s not like a welfare check. It

goes into this big pot of money that determines whether Tyler farms is profitable.’²² From the perspective of cotton farmers in other countries, the distinction is of dubious relevance.

4 The Brazilian challenge at the WTO

When someone alleges that the farm bill violates US commitments under the World Trade Organization (WTO), they are just plain wrong.

Ann M Veneman, US Secretary of Agriculture, 23 May 2002²³

By challenging US cotton subsidy practices at the WTO, the Brazilian Government is raising issues that go to the heart of inequalities in world agricultural trade. The case highlights the central role of production subsidies and associated export dumping in driving down world prices, generating unfair competition in the domestic markets of non-subsidizing developing countries, and artificially expanding the world market share of rich countries. The scale of rich-country agricultural subsidies – more than \$1bn a day – is undermining developing-country trade prospects in a sector where they enjoy a natural comparative advantage. In this context, the cotton dispute has a far wider relevance to the agricultural negotiations in the Doha round of WTO talks.

Behind all the legal complexity surrounding the Brazilian case against the US are some relatively straightforward principles. The most straightforward of all is the proposition that American farm subsidies artificially raise the level of cotton production in the US, stimulate exports and, by extension, artificially depress the world market price of cotton. Given that these subsidies amounted to more than 130 per cent of the value of US production in 2001, it is difficult to argue that they had no bearing on production and exports – not least given the fact that many subsidies are directly linked to production and exports. The dominant position of the US in world cotton export activity means that these subsidies have obvious implication for the prices and world market share of other exporters.

When the Agreement on Agriculture was adopted at the end of the Uruguay Round it included a ‘Peace Clause’, mainly at the insistence of the EU and the US. Essentially, this was an agreement between governments not to challenge each other’s agricultural subsidies, subject to a proviso that ‘such measures do not grant support to a specific commodity in excess of that decided during the 1992 marketing year.’²⁴ The US has lost this protection by virtue of the

fact that the level of subsidies it provided in 2001 was double that provided in 1992. This has opened the door to Brazil challenging American practices under the WTO's subsidy codes, which are designed to provide protection against unfair competition, and the Agreement on Agriculture.

Because Brazilian upland cotton is interchangeable with American upland cotton, it competes in the same markets for the same customers – and hence is affected by the prices offered by American exporters. Like producers in Central and West Africa, India, and elsewhere, Brazil has been losing foreign exchange as a result of two factors linked to American subsidies: a reduction in export prices and a loss of world market share. These are the primary grounds upon which Brazil is claiming damages under the WTO's subsidy code. If it wins the case, it will open the door to further – and no less justified – claims for damages payments by other affected developing countries. On the basis of data presented in this report, Central and West African producers would have strong grounds for claiming \$334m in lost earnings for the period 1998-2001.

The second leg of the Brazilian government's case concerns the use of export subsidies by the US. It has challenged the Step 2 program of subsidies to exporters on the grounds that the US scheduled no export subsidies for cotton in the list of subsidies notified by the US to the WTO under the Agreement on Agriculture. This renders it technically prohibited, since the Agreement on Agriculture does not permit a WTO member such as the USA to provide any export subsidies beyond the quantity and values listed in its export-subsidy schedule. Technicalities aside, Step 2 payments are among the most damaging form of subsidies, despite their relatively small size in overall terms, because they give US exporters a clear advantage over competitors. The same applies to Export Credit Guarantee programs, which have also been challenged.

With its access to large numbers of lawyers, economists and other specialists paid for by cotton trade associations, the US is likely to put up an impressive legal defence. The details of that defence are not available at the time of writing. However, some of the arguments have already been well rehearsed.

To take one example, the USDA claims that the counter-cyclical payments introduced under the Farm Act could be viewed as 'decoupled' from production and trade. As explained earlier, these payments are triggered by world prices, and they go up as world prices fall. This would appear to be difficult to square with the relevant text in the WTO Agreement on Agriculture: 'The amount of

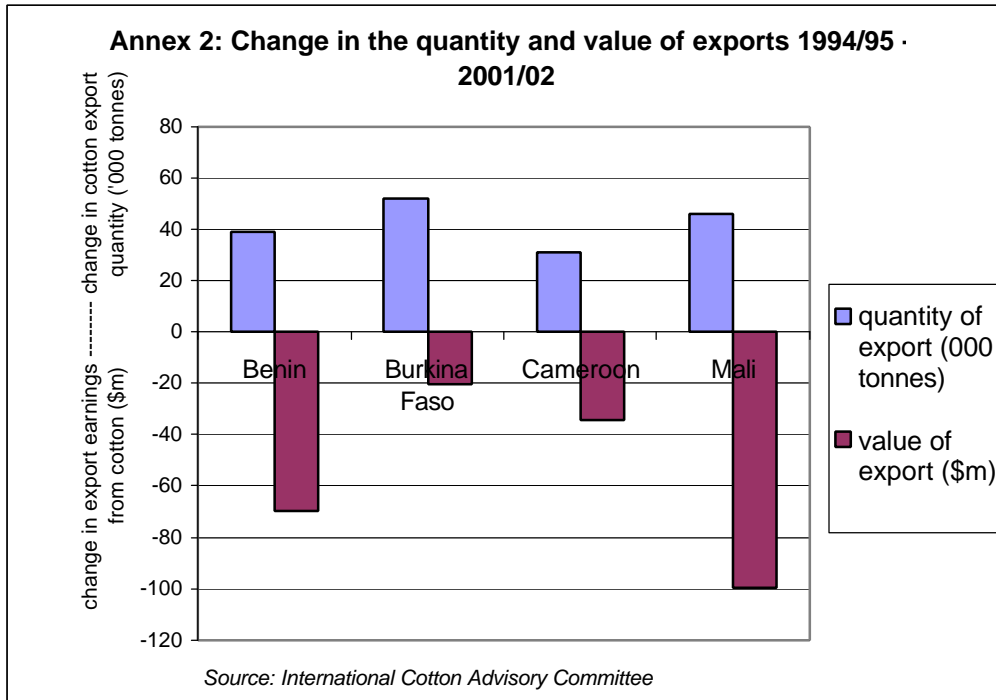
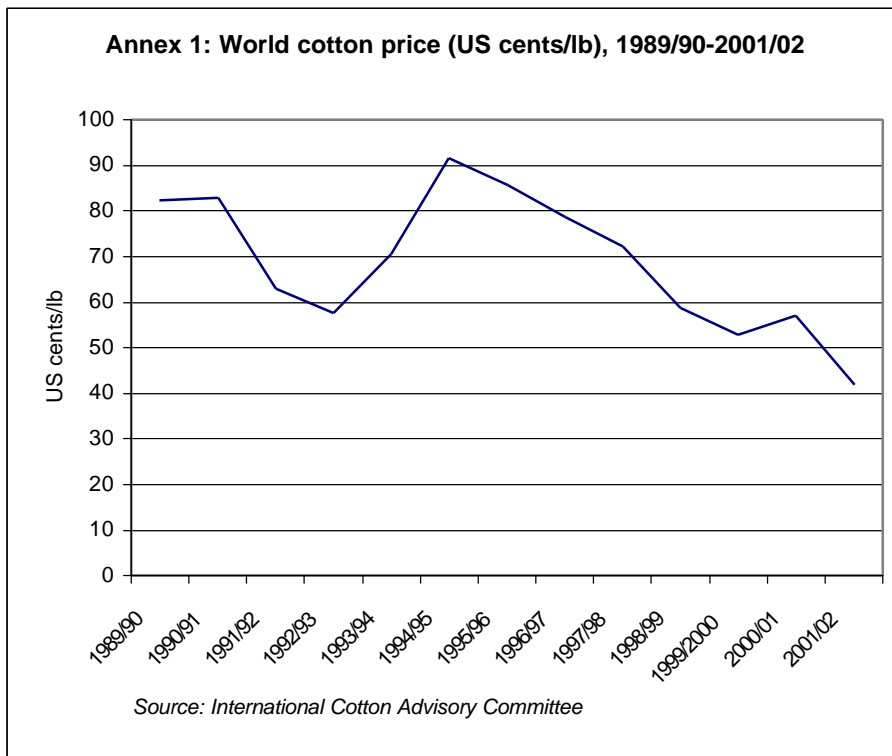
such...decoupled...payments in any given year shall not be related to or based on prices, domestic or international.’²⁵

The USDA has also claimed in the past that Step 2 payments are not export subsidies, in the WTO’s definition, since any user of American cotton can claim them. Yet the fact is that subsidies of \$197m were given to traders in 2001 explicitly to export cotton. Moreover the USDA itself defines one of the central purposes of Step 2 as being to ‘keep upland US cotton competitive on the world market.’²⁶

Whatever the rights and wrongs of such arguments in terms of the letter of WTO law, current US policies on cotton clearly violate the spirit of fair trade. For an African cotton farmer struggling to compete against huge American corporate farms receiving millions of dollars each year in subsidies, the impending debate between Brazilian and American trade lawyers will have an air of unreality. Farmers in Africa are among the most efficient in the world, despite climatic uncertainties, limited infrastructure, and high levels of poverty. On a level playing field, they could compete with US cotton farms. **What they cannot compete with is US cotton farms selling produce on international markets at prices that bear no relation to the costs of production, courtesy of corporate welfare checks underwritten by the world’s most powerful treasury.**

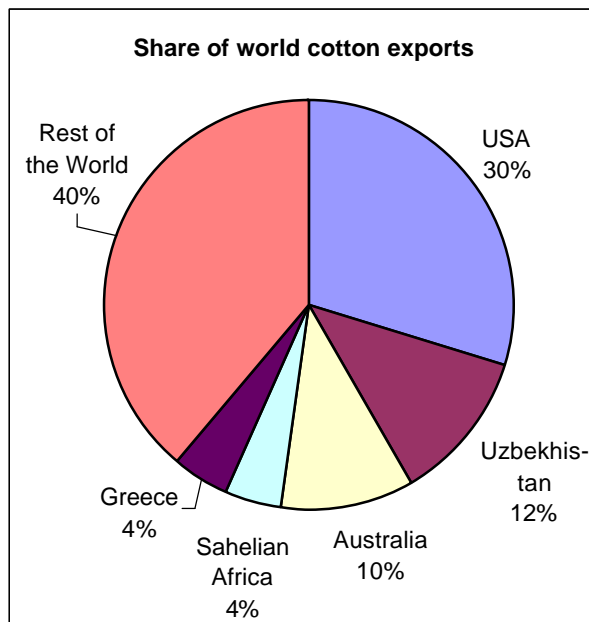
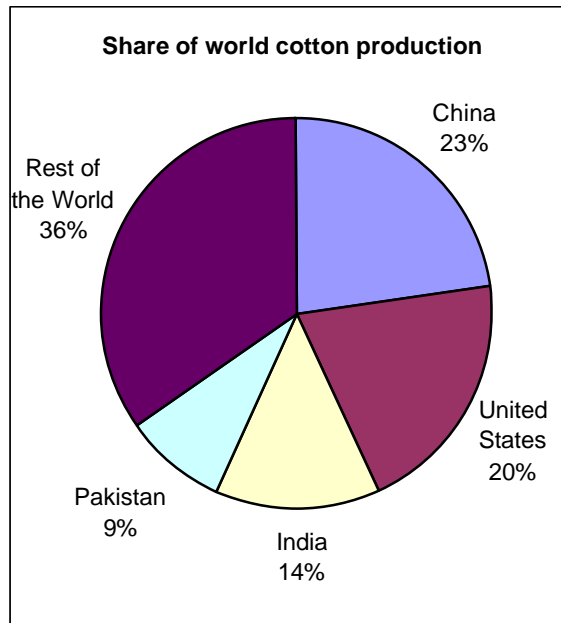
Whatever its outcome, the cotton dispute at the WTO highlights the need for new approaches to agricultural trade. The following are among the priorities for any agricultural agreement in the Doha ‘development round’ of talks:

- **A comprehensive ban on agricultural export dumping, or the sale of products at prices below the costs of production.**
- **Agreement on a binding timetable to eliminate all forms of export support, including export credit subsidy programs, before the Fifth WTO Ministerial Conference in September 2003.**
- **The removal from the ‘Green Box’ of currently permitted subsidies that generate over-production.**
- **The restructuring of domestic support in rich countries towards less intensive agriculture and measures aimed at enhancing the welfare of small farmers rather than large-scale corporate agriculture.**



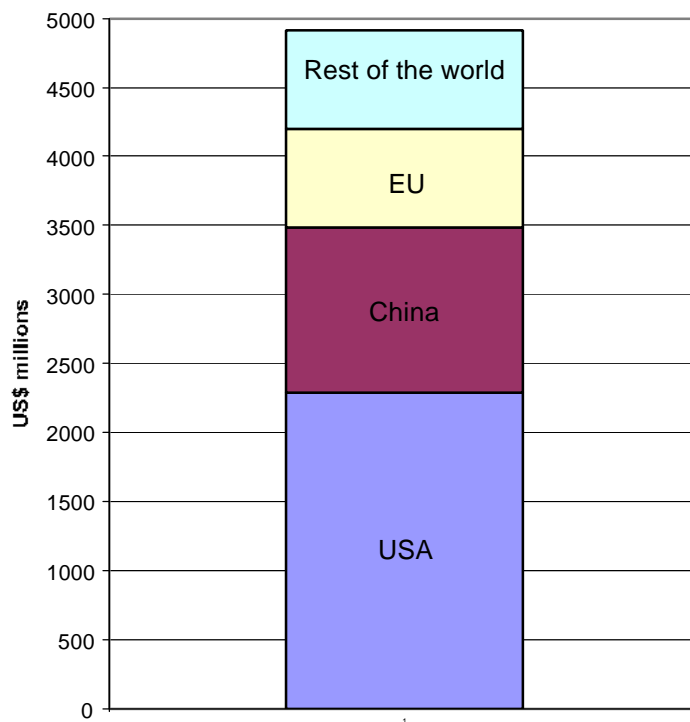
Annex 3: World cotton production and exports

Market shares in 2001/02



Source: International Cotton Advisory Committee

Annex 4: World spending on cotton subsidies, by country, 2001/02 (\$m)



Source: World Bank

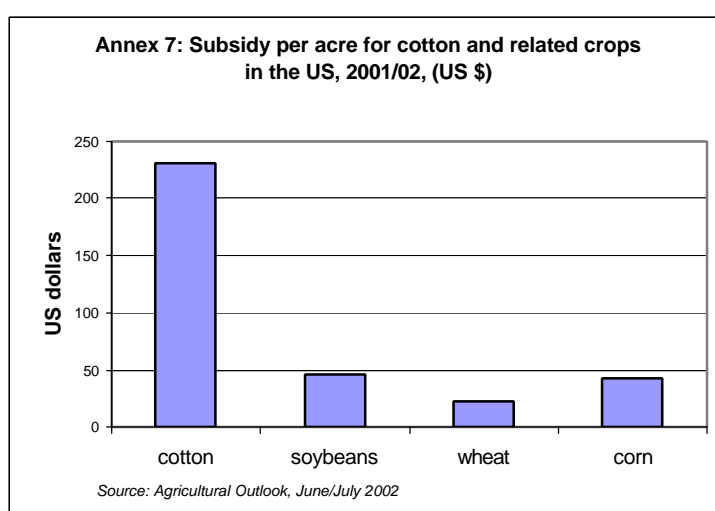
Annex 5: Foreign exchange losses as a result of US cotton subsidies in selected countries in Sub-Saharan Africa (\$m)

Country	Actual cotton export earnings in 2001/02 (\$m)	Export earnings with the withdrawal of US subsidies ²⁷ (\$m)	Value lost as a result of US subsidies (\$m)
Benin	124	157	33
Burkina Faso	105	133	28
Cameroon	81	102	21
Central African Rep.	9	11	2
Chad	63	79	16
Congo	3	4	1
Cote d'Ivoire	121	153	32
Ethiopia	18	23	5
Ghana	7	9	2
Guinea	13	16	3
Kenya	5	6	1
Madagascar	10	13	3
Malawi	6	8	2
Mali	161	204	43
Mozambique	23	29	6
Nigeria	55	69	14
Somalia	2	3	1
South Africa	17	21	4
Sudan	65	82	17
Tanzania	79	100	21
Togo	61	77	16
Uganda	18	23	5
Zambia	29	37	8
Zimbabwe	69	87	18
Total	1,144	1,446	302

Annex 6: Cumulative loss of export earnings, 1999/2000 - 2001/02, for selected West African countries (\$m)

	1999/2000		2000/01		2001/02		1999/2000 - 2001/02	
	export value (\$m)	loss of export value (\$m)	export value (\$m)	loss of export value (\$m)	export value (\$m)	loss of export value (\$m)	export value (\$m)	total cumulative loss of export earnings (\$m)
Benin	176	10	169	18	124	33	469	61
Burkina Faso	123	7	132	14	105	28	360	49
Cameroon	83	5	97	10	81	21	261	36
Central African Rep	15	1	13	1	9	2	37	4
Chad	83	5	69	7	63	16	215	28
Cote d'Ivoire	186	11	142	15	121	32	449	58
Mali	234	13	158	17	161	43	553	73
Togo	71	4	52	5	61	16	184	25
Total	971	56	832	87	725	191	2528	334

Source: International Cotton Advisory Committee



Notes

¹ Remarks by the President on signing the Farm Bill, The White House, Office of the Press Secretary, 13 May 2002.

² Remarks by Terry Townsend, Executive Director of the International Cotton Advisory Committee, at the conference on cotton and global trade negotiations, 2002.

³ These figures are cited in Lima Campos A., 'Causes and Consequences of Low Prices in the Cotton Sector'. Paper presented to ICAC/World Bank conference on cotton and global trade negotiations, Washington, 9 July 2002.

⁴ FAOSTAT, Food and Agricultural Organisation of the United Nations, 2002. The figures for commodity dependence are for 2000/01.

⁵ Goreux, L. and Macrae, J., 'Impact of Liberalisation on the Cotton Sector in sub-Saharan Africa', African Fund for Development, mimeo, 2002.

⁶ Agricultural Resource Management Study, Economic Research Service, USDA, 1997.

⁷ International Cotton Advisory Committee, 'Survey of the Cost of Production of Raw Cotton', 2001.

⁸ USDA 'Cotton and Wool Outlook', Economic Research Service, 13 August 2002, p2.

⁹ USDA 'World Agricultural Supply and Demand Estimates', Agricultural Marketing Service, 13 August 2002, p2.

¹⁰ This figure includes export subsidies, but not export credits and crop insurance.

¹¹ International Cotton Advisory Committee, 'Production and Trade Policies Affecting the Cotton Industry', Washington, 2002.

¹² Communication from International Cotton Advisory Committee.

¹³ Westcott, P. and Young, E., 'US Farm Program Benefits: Links to Planting Decisions and Agricultural Markets', Agricultural Outlook, US Department of Agriculture, October 2000.

¹⁴ The price-depressing effect of US subsidies estimated by the ICAC is 3 cents/pound for 1999/00, 6 cents for 2000/01, and 11 cents for 2001/02.

¹⁵ World Bank, Heavily Indebted Poor Countries Initiative, 'Status of Implementation', August 2002, p26.

¹⁶ According to the World Bank, governments in West and Central Africa are spending \$60m a year subsidizing their cotton farmers.

¹⁷ Badiane, O. et al, 'Cotton Sector Strategies in West and Central Africa', World Bank Policy Research Working Paper 2867, July 2002.

¹⁸ See Reichert, T., 'Study on the Cotton Sector in West Africa: Macroeconomic Aspects', Oxfam GB West Africa Regional Office, Dakar, Senegal, 2001. Moussa, W., 'Study of the Cotton Industry (Burkina Faso, Côte d'Ivoire, Ghana, Mali, Senegal)', Oxfam GB West Africa Regional Office, Dakar, Senegal, 2001.

¹⁹ Larry Combest, press release, 30 August 2002, Weekly Roundup series.

²⁰ Cited in www.house.gov/stenholm.

²¹ Derived from Environmental Working Group Farm Subsidy Database, 1996-2001.

²² Brasher, P., 'Corporate Farms, State Agencies Reap Bailout Harvest', Associated Press, 18 August 2001

²³ Letter to the *Financial Times* of that date.

²⁴ WTO Agreement on Agriculture, Part VII, Article 13, b(ii).

²⁵ *Ibid.*, Annex 2 (6).

²⁶ USDA cited in www.ers.usda.gov/briefing/cotton/specialprovision.

²⁷ Using ICAC model result predicting an 11 cents/lb net increase in world cotton price. Source: International Cotton Advisory Committee

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