

THE COTTON CASE

In the upcoming WTO Ministerial in Cancun

A decision on cotton is needed at Cancun

The survival of the African cotton sector is at stake. An urgent solution to the problem of cotton subsidies must be implemented. The African countries therefore call upon Members of the WTO (World Trade Organization) to take a decision during the WTO Ministerial Conference to be held in Cancun (Mexico) from Sept. 10th to 14th 2003 on the two following matters:

- A timetable for the accelerated phasing out of cotton subsidies starting 2004 and eliminating them by 2006. Only the total removal of cotton subsidies will provide a long term solution for all competitive cotton producers.
- Financial compensation for the income losses being sustained by least developed countries. Given the tragic situation of these countries and their millions of cotton producers, this transitional compensation is vital, pending the complete elimination of the subsidies.

The African negotiating proposal on cotton

It was on behalf of the cotton-producing countries of West and Central Africa that Benin, Burkina Faso, Mali and Chad formally submitted a negotiating proposal to the WTO at the end of April 2003 (TN/AG/GEN/4 dated 16th May 2003 "Poverty reduction: sectoral initiative in favour of cotton"). That proposal was followed up with a document laying out the implementation modalities, including their commitment to hand over the compensation directly to local cotton growers' associations (TN/AG/GEN/6 dated 4th August 2003). Recently, the same countries submitted a draft decision concerning specific measures in favour of cotton, in view of the Ministerial Declaration that should be adopted in Cancun (WT/GC/W/511 dated 22th August 2003).

The African negotiating proposal on cotton has gotten the formal approval of different individual countries (for instance, Norway, Canada, Indonesia, Pakistan, Paraguay, Brasil) as well as of some groups of countries. The necessity to find a solution to the cotton question is explicitly included in the official declarations of :

- LDCs countries, Ministerial Conference of Dakha/Bangladesh, 31.05.03 - 01.06.03
- African Union, Summit of Heads of States of Maputo/Mozambique, 10.06.03
- African countries, Conference of Trade Ministers of Grande Baie/Maurice, 16.06.03 – 18.06.03
- ACPs countries, Ministerial Conference of Bruxelles, 31.07.03 – 01.08.03

The African countries are not seeking hand-outs

Cotton is one of the few products through which the countries of West and Central Africa can benefit from the world trading system. With their submission on cotton, they are not asking for grants, loans or exceptions. They are merely calling for the respect of the basic principles of the WTO, in other words, for fair competition and equitable trade. The WTO cannot overlook a distortion of this nature in the cotton market. Especially in the light of the "Doha Development Agenda", the commitments made in favour of disadvantaged Members must not be forgotten.

At Doha in November 2001, the negotiators acknowledged that the industrialised countries were profiting more from the outcomes of the last round of negotiations of WTO (Uruguay Round) than the poor regions. They promised to take into account the impacts of trade on development and agreed to correct and prevent restrictions and distortions in world agricultural markets. The countries of West and Central Africa wish to see the promises of Doha honoured. Their initiative in favour of cotton is a step in that direction.

Cotton is no longer white gold

Cotton is a prime example of inequitable trading relations. Supported by subsidies in OECD countries, a handful of producers is jeopardising the sole "source of income" of 10 million poor farmers in countries of West and Central Africa. Millions more are also being indirectly affected by the problems currently besetting this sector. African cotton is no longer profitable in relation to that of its subsidised competitors, although it is of high quality and costs half as much to produce.

Cotton is vitally important to African countries. For Benin, Burkina Faso, Mali and Chad it accounts for an average of 6.5% of Gross Domestic Product (GDP), 66% of agricultural export earnings and 28% of overall export revenues. Cotton-related export earnings fell by 31% between the 1999/2000 and 2001/2002 harvests in the region, while output rose 14%. Recent studies show that the direct and indirect losses in export earnings of these countries engendered by subsidies are put at around US\$ 1 billion per year.

While cotton represents only a minor share of economic activity in OECD countries, it plays a pivotal role in reducing poverty in African least developed countries. It is produced in the traditional manner by farmers and is rotated with food crops. The possibilities for substitution are non-existent in those Sahel countries, while cotton can be replaced by other crops elsewhere. Moreover, cotton from the mechanised plantations of developed countries is of lesser quality, it provides few jobs and is harmful to the environment.

Key cotton statistics

- US\$ 4 billion in subsidies for United States and European cotton producers.
- 50% drop in world cotton prices between 1997 and 2002.
- 10 million African farmers jeopardised by 125,000 subsidised cotton producers.
- 2/3 of West and Central Africa's agricultural export earnings come from cotton.
- US\$ 1 billion in annual losses for West and Central Africa because of cotton subsidies.

Subsidies jeopardise African farmers

Producers in West and Central Africa have effected important reforms in recent years to restructure and liberalise the cotton sector. Unfortunately, the outcome of their efforts has so far been nullified by cotton subsidies. According to the International Cotton Advisory Committee (ICAC), those subsidies amounted to US\$ 5.8 billion for the 2001/2002 season. Two highly developed regions are principally concerned, namely the United States (US\$3.3 bn) and the European Union (US\$1 bn). There are some 10,000 producers in Spain, 25,000 in the United States and 90,000 in Greece.

The subsidies accorded in OECD countries place the competitors of the African countries at an unquestionable advantage. For example, the United States producers received subsidies in 2001 worth more than the total GDP of Burkina Faso for instance, where 2 million people depend on cotton production. During the same year, Mali received US\$ 37 million in international aid, but saw its export earnings from cotton contract by US\$ 43 million.

There is a correlation between the massive subsidies and the price decline of the past decade. The price of cotton hit a 30-year low in 2000/2001. Studies have demonstrated that African cotton production would be profitable and exert a significant leverage effect on development if the cotton subsidies were eliminated.

The subsidies also pose a threat to the system of world trade

The WTO is expected to ensure the proper functioning of the world market. With their initiative in favour of cotton, the countries of West and Central Africa have opted for the path of negotiations. They believe that an adequate review of agricultural trade rules would pave the way for a long term solution to over-production and the collapse of the world price of cotton. The multilateral trading system must take the needs of its disadvantaged members into account. What is at stake is the credibility of the trading system in general and of the WTO in particular.

In the case of cotton, the African countries are asking that the basic WTO principles be also applied when they are the ones with a clear comparative advantage. It is time for the United States and the European Union to carry out economic reforms. The process will be difficult and painful for the producers affected. But without such an effort, the weakest countries and the most vulnerable producers will be the ones to pay the price.

Quotes of African leaders

"Our producers are ready to face competition on the world cotton market - provided that it is not distorted by subsidies"

Mr. Blaise Compaoré, President of Burkina Faso, in his address at the WTO in June 2003.

"Our demand is simple: apply free trade rules not only to those products that are of interest to the rich and powerful, but also to those products where poor countries have a proven comparative advantage"

Mr. Amadou Toumani Touré, President of the Republic of Mali, during his visit to Washington in June 2003.

"We must clearly reject the continuing dependence of several million Africans - who derive most of their income from cotton cultivation - on distortions induced by subsidies"

Mr. Moussa Touré, President of the Commission of the WAEMU, at a ministerial meeting in Ouagadougou, June 2003.

"Compensation is in fact only a stop-gap solution in relation to the benefits that will flow from the restoration of the free market"

Mr. Samuel Amehou, Ambassador of Benin to Geneva, in his statement at the WTO in July 2003.

Further references

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For more information, please contact IDEAS Centre

In Cancun (07 - 15.09.03) :
C/o Hôtel Gran Melia Cancun
Blvd Kukulcan km 16.5 zona hotelera
Phone 52 998 881 11 00
Fax 52 998 881 17 40

Headquarters in Geneva :
10, rue de l'Arquebuse
1004 Genève / Suisse
Phone + 41.22.807 17 40
Fax + 41.22.807 17 41

Nicolas Imboden nicolas.imboden@ideascentre.ch
Nadine Keim nadinekeim@bluewin.ch
Nicole Wyrsh nicole.wyrsh@ideascentre.ch

(mobile +41 79 238 83 64)
(mobile +41 79 796 97 52)