PAYING THE PRICE

How US farm policies hurt West African cotton farmers—and how subsidy reform could help

Key findings from Julian M. Alston, Daniel A. Sumner, and Henrich Brunke's study: "Impacts of Reductions in US Cotton Subsidies on West African Cotton Producers," 2007

Introduction

Congress is now debating the 2007 Farm Bill—a law that will govern our farm, food, and conservation policy for the next five years. Devised during the Great Depression, the Farm Bill was designed to assist American farmers when the market bottomed out. But these days, the Farm Bill's commodity subsidies do little to help American farmers and rural communities.[1] At the same time, they hurt farmers in developing countries. By encouraging overproduction, subsidies create a glut that lowers the world prices of commodities, directly affecting the prices that farmers in poor countries receive for their crops. This situation is not only unfair; it violates international rules set by the World Trade Organization, as highlighted during the ongoing Doha Development Round of negotiations and the WTO cotton case brought by Brazil.

The international cotton trade provides the best example of the damaging effects of US commodity subsidies. Previous studies have shown that US cotton subsidies lower the world price of cotton and generate losses to cotton-producing countries in West Africa. But what does this impact on price actually mean for a typical cotton farmer in West Africa? This briefing note explains how changes in the world prices would affect household incomes in West Africa.[2] **Cotton subsidy reform could substantially improve the welfare of over one million West African households—10 million people—by increasing their incomes from cotton by 8 to 20 percent.** For farmers living on less than $1 a day, this means more money for food, medicines, school fees, and fertilizer—more money to help sustain lives and livelihoods.

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Key findings

Commodity subsidies: Government payments to producers of a narrow list of program crops (primarily wheat, corn, cotton, and soybeans).

How do US cotton subsidies affect the world price of cotton?

The more bales of cotton an American producer grows, the more dollars that farmer can expect to receive from the US government. Farmers also receive subsidies to offset low cotton prices and to provide a guaranteed cash flow. Therefore, growers produce substantially more than they would otherwise to get more subsidies. Since the US is the world's largest cotton exporter, these additional US cotton exports depress world prices. Past studies suggest that US subsidies lower world prices by between 3 to 30 percent, or an average of about 12 percent. This new study draws on more recent analysis and shows that the elimination of US cotton subsidies would increase the world price by between 6 and 14 percent.[3]

How do world prices affect the income of West African cotton farmers?

Since cotton markets are global, what happens in one region has implications for farmers in another. This means poor West African farmers are directly affected by what happens on the faraway trading floors of New York.

More than 10 million people in West Africa (Inset 1) depend directly on cotton as a major source of income. Virtually all the cotton produced by these farmers is exported onto world markets, competing directly with subsidized US cotton. Lower world cotton prices mean lower prices for these farmers.

INSET 1. COTTON IN WEST AFRICA

Benin, Burkina Faso, Chad, and Mali, major producers in West Africa, are among the poorest countries in the world, ranking between 170th and 190th out of the 210 countries ranked by per capita income by the World Bank. Across these countries, cotton accounts for the following:

- 2.5–7 percent of GDP
- 60 percent of crop revenue
- The majority of agricultural export earnings
- The majority of cash income for slightly over one million farms and about 10 million individuals in farm households

It takes several steps to translate the world price, as altered by US subsidies, into the price paid to the West African farmer. Farmers do not receive the world price directly. Once cotton leaves the farm, it goes through many hands before being exported—companies transport the cotton from the farms to ginning plants, where the seed is removed and the cotton is cleaned, assembled, packaged, and then trucked to the port for shipping. Each of these steps incurs additional costs. Furthermore, in many West African countries, the price farmers receive for their cotton is negotiated before the marketing season by the cotton-marketing companies, based on the expected world price, the production costs, and a markup by ginning companies. This structure means that prices in West African countries often do not follow the year-to-year movements of the world price (Figure 1). Nonetheless, if a permanent policy change raises the world price, the price farmers receive will rise as well.

Removing US subsidies would permanently shift the world price of cotton upward. A part of the higher world price level would pass through to West African farmers even as the world price continues to fluctuate from year to year around its new higher average. By analyzing marketing costs and how West African prices respond to a permanent shift in world price, this study considers the scenario that the prices received by West African farmers rise by 50 percent of the increase in world price per pound of cotton. Under this scenario, a 6 to 14 percent increase in the world price of cotton would raise the price received by West African farmers by 5 to 12 percent. Household net incomes from cotton farming would jump between 8 and 20 percent.[4] Total household income, which also includes the value of food and other goods farmers produce for themselves, would increase by 2.3 to 5.7 percent (Figure 2).

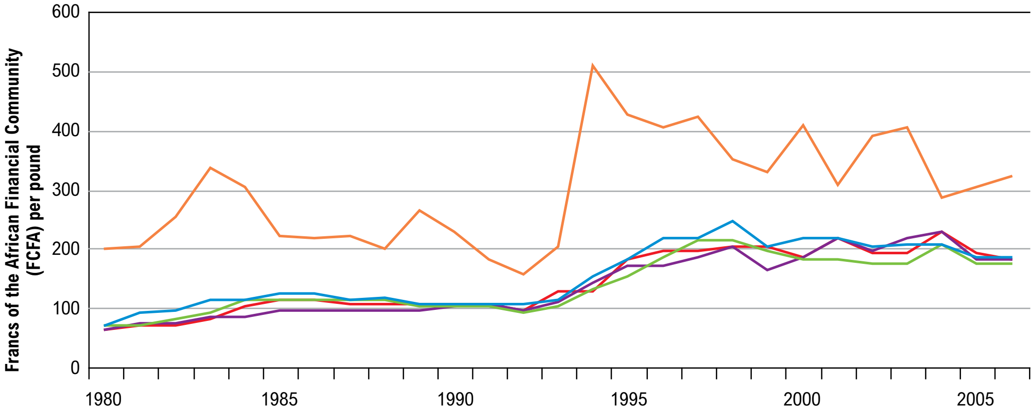

FIGURE 1. WORLD COTTON PRICE AND PRODUCER PRICES IN WEST AFRICA, 1980–2006

Source: Alston, Sumner, and Brunke (2007). Cotton Outlook A Index (Cotlook A) reflects the world price.

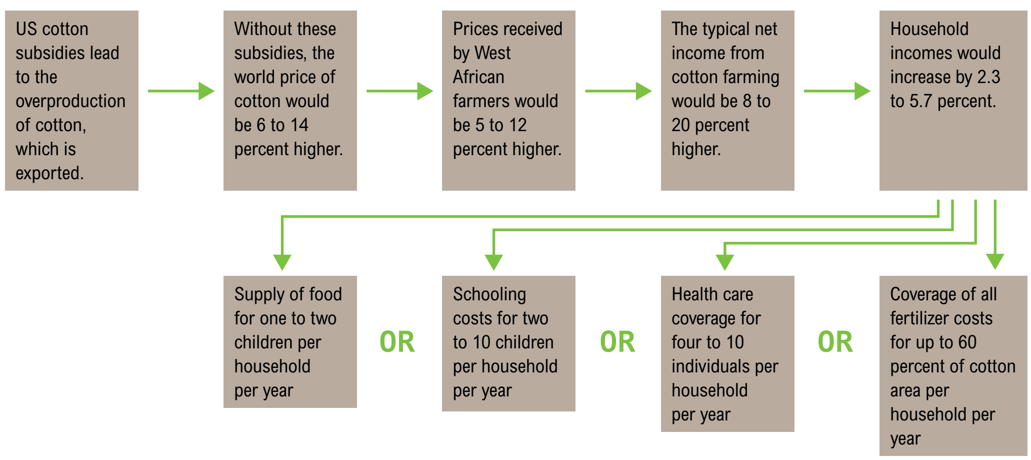

FIGURE 2. LINKING US SUBSIDIES TO THE WEST AFRICAN FARMER

What would removing cotton subsidies mean for a typical cotton farm household?

A typical cotton-producing household of 10 in West Africa earns about $200 per person per year, or $2,000 for the entire household (Inset 2).[5] This includes cash from cotton sales plus the value of food and other goods the household produces for itself. **An increase in household income of 2.3 to 5.7 percent would mean an extra $46 to $114 for the household.** How might this additional income be spent?

- Food: The added income could feed one to two children per household for an entire year.[6] Alternatively, the higher price could allow a family to provide 20 percent more food each year for at least five children. This income could have a real impact on rates of malnutrition in cotton-growing zones of West Africa, where 40 percent of children under age 5 are malnourished.[7] With more than 10 million people in cotton-growing households in West Africa, about half of them children, higher incomes could help feed several million impoverished children every year.[8]
- Education: In many countries in West Africa, school is not provided for free to children. Families must pay school fees of $1 to $2 a month. Additional income from cotton sales could allow families to send two to 10 additional children to school each year. Even when governments offer free primary education, families still have to pay for uniforms, books, supplies, and benches.
- Health care: Households across West Africa spend about $12 per person a year on health care costs.[9] Higher incomes could pay for life-saving medicines, hospitalizations, and consultations for four to 10 individuals for an entire year.
- Fertilizer: This extra income could also cover the cost of fertilizer for 25 to 60 percent of a family's cotton area.[10] And since inputs used for cotton tend to benefit other crops, too, this additional fertilizer could help farmers produce more cotton to sell and more food crops to feed their families.

Even a modest increase in the world price that only partly reaches the farmer could greatly improve the daily lives of some of the world's poorest people.

Oxfam America

Oxfam America is an international relief and development organization that creates lasting solutions to poverty, hunger, and injustice. As part of our Make Trade Fair campaign, we are working to reform the 2007 Farm Bill so that it better protects the environment, feeds the hungry, and gives farmers here and abroad the chance to make a decent living.

Take action

Americans have an extraordinary opportunity to create meaningful positive change during the next few months. Call on Congress to reduce misguided agriculture subsidies and redirect the money to the programs that need it most: conservation, nutrition, rural development, and the research and development of renewable sources of energy. Let's put our tax money to work for farmers, families, and our future.

Visit www.oxfamamerica.org/farmbill.

INSET 2. A TYPICAL WEST AFRICAN COTTON HOUSEHOLD

A typical cotton-producing household in West Africa has about 10 family members. The average life expectancy is about 48 years, and fewer than one in four adults are literate.[11] These households produce corn, cassava, and other cereals for home consumption, and they plant from two to seven acres (one to three hectares) of cotton. Farmers hand-pick their cotton, rely on rains for irrigation, and sell to only one cotton company. Cotton is often the only source of cash income for these families.

The Farm Bill, Doha, and the West African cotton farmer

West African cotton farmers face many challenges beyond US commodity subsidies. Cotton prices have declined and the costs of production have risen. Yields in competing regions have grown while yields in West Africa have stagnated. And a stalled Doha Development Round of WTO trade negotiations has broken the promises made by the US, European Union, and other members of the WTO to give cotton special treatment.

This study shows substantial potential gains for West African farmers if Congress reforms commodity subsidies in the Farm Bill. Subsidy reform alone will not resolve all the challenges facing the cotton sector. But it could significantly ease the burden on cotton farmers struggling to support their families.

Notes

1 See Oxfam America's "Fairness in the Fields: A Vision for the 2007 Farm Bill" at www.oxfamamerica.org/farmbill.

2 Based on a study by Julian M. Alston, Daniel A. Sumner, and Henrich Brunke, "Impacts of Reductions in US Cotton Subsidies on West African Cotton Producers" (2007), report prepared for Oxfam America. Alston and Sumner are professors in the department of agricultural and resource economics at the University of California, Davis, and Brunke was a research specialist at the UC Agricultural Issues Center.

3 Julian M. Alston and Henrich Brunke, "Impacts of Reduction in US Cotton Subsidies on the World Price of Cotton and Implications for West African Producers" (2006), report prepared for Oxfam America.

4 The estimates for impacts on world price are from Alston, Sumner, and Brunke (2007), using the same approach and very similar parameters as Alston and Brunke (2006).

5 According to the results of the International Food Policy Research Institute and Laboratoire d'Analyse Régionale e d'Expertise Sociale Small Farmer Survey as reported in Minot and Daniels (2005), per capita expenditures (a measure of income) of cotton households are about 99,437 FCFA per person per year. Figures in US dollars reflect an exchange rate of 500 FCFA per US dollar. See Nicholas Minot and Lisa Daniels, Impact of Global Cotton Markets on Rural Poverty in Benin, Agricultural Economics, Vol. 33, 2005, pp. 453–466.

6 Assuming a child's food consumption is about 50 percent of an adult's food consumption.

7 Data for Mali from James Tefft and colleagues (2003), "Linkages between Child Nutrition and Agricultural Growth in Mali: A Summary of Preliminary Findings." Policy Synthesis, Number 64. United States Agency for International Development/Michigan State University.

8 According to Minot and Daniels (2005), about half of cotton household members are under the age of 15.

9 Average per capita household expenditure on health estimated from World Health Organization Statistical Information System.

10 Assuming an area of 6.2 acres (2.5 hectares).

11 Average for Benin, Burkina Faso, Chad, and Mali, from World Development Indicators.

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