# THE GREAT COTTON STITCH-UP

A Fairtrade Foundation Report
November 2010

FAIRTRADE FOUNDATION

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# ABBREVIATIONS

C-4: The four cotton producing countries of Benin, Burkina Faso, Chad and Mali

CAP: The European Union's Common Agricultural Policy

CFA Franc: Communauté Financière Africaine (African Financial Community) Franc, currency used in West and Central Africa

CP: Countercyclical Payment

DDR: Doha Development Round

FLO: Fairtrade Labelling Organizations International

ICAC: International Cotton Advisory Council

NCC: National Cotton Council of America

OECD: Organisation for Economic Co-operation and Development

PPP: Purchasing Power Parity

USDA: United States Department of Agriculture

WTO: World Trade Organisation

# ACKNOWLEDGEMENTS


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# FOREWORD

Fairtrade plays a crucially important role in reminding us of the ethical dimension of trade, trying to ensure that trade genuinely benefits those, especially the world's poorest people, who participate in it.

Cotton is at the heart of agricultural and economic development in many African countries. It makes a vital contribution to foreign exchange earnings and accounts for a significant proportion of GDP and tax income.

Take Mali. Since independence in 1960, Mali has suffered droughts, rebellions, a coup and 23 years of military dictatorship. But since its first democratically elected president took power in 1992, it has had a civilian government and enjoyed relative political stability. It also produces cotton.

At its peak in 2003/04 cotton production in Mali reached 620,000 tonnes. That involved three million people working on 160,000 farms and contributed 3% of GDP and 38% of export revenues.

Yet the subsidies paid by governments in developed countries mean the real benefits of trade are not felt by farmers in developing countries. This report by the Fairtrade Foundation shows how, in the 10 years since the initiation of the Doha Development Round of world trade talks over $40bn has been allocated by major economies to supporting their own cotton production. Direct losses to West Africa as a result of US and EU subsidies are estimated at $250m per annum, according to Oxfam. The system pits a typical Malian producer, farming two hectares of cotton, who is lucky to gross $400 a year, against US farms which receive a subsidy of $250 per hectare.

Oxfam calculates that removing US cotton subsidies would boost average household income in West Africa by up to 9% – enough to feed a million people.

The current system of subsidies cannot be right and certainly is not fair. The problem is being addressed through Fairtrade, which is a robust economic and business model. But ultimately, the aim must be to make all trade 'Fair Trade'.

The principles of Fairtrade need to be integrated and reflected in the global trading system, to ensure that poor producers receive a fair price and are enabled to take control of their own development.

The UK Government is committed to working towards this aim.

Rt Hon Dr Vince Cable MP
**UK Secretary of State for Business, Innovation and Skills and President of the Board of Trade**

# EXECUTIVE SUMMARY

Two months after 9/11, world leaders came together in a spirit of multilateral co-operation. In the Gulf state of Qatar, 143 member countries of the World Trade Organisation (WTO) launched in November 2001 a process aimed at creating new global trade rules. Known as the Doha Development Round (DDR), its stated aim was to stimulate growth, opportunity and wealth in developing countries. In this way, the likelihood of terrorist atrocities recurring would, it was argued, be reduced. Nearly 10 years later, least developed nations are still waiting for global leaders to deliver on their lofty promises.

The establishment of the DDR was seen also as an appropriate response by the international community following the collapse two years earlier of a WTO Ministerial meeting in Seattle. Then, developing countries walked out of negotiations frustrated that their priorities were sidelined by the United States (US) and the European Union (EU). It marked a sea change in the balance of power within the WTO. Until that moment, the WTO, formed six years earlier, was exclusively a forum where rich nations imposed trade rules on poorer ones.

## Trade Injustice

Swiftly after the Doha trade negotiations began, four cotton growing, poverty-stricken countries in West Africa became the embodiment of international trade and economic injustice.

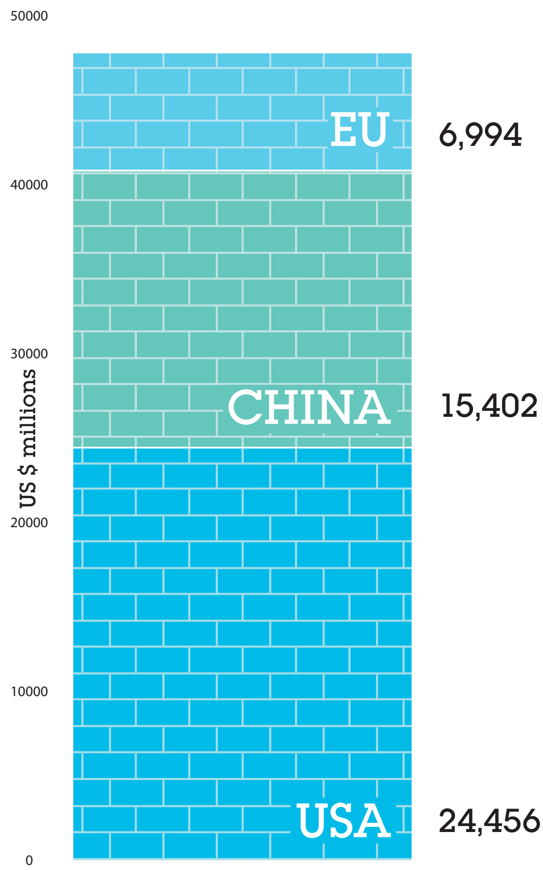
With an average GDP per capita of $637, and among the least developed countries on earth, Benin, Burkina Faso, Chad and Mali (known as the Cotton-4 or C-4) rely on cotton more than any other commodity for their export revenues. These countries produce cotton more cheaply than anywhere else – a competitive advantage that logically should place the C-4 in a prime position to benefit from the world's ever increasing desire for cotton products.

But a wall of subsidies deployed mainly by four trading power blocks has fatally undermined the C-4's ability to trade their way out of poverty. The Great Cotton Stitch-Up reveals that in the nine years since the Doha Development Round was launched, $47bn has been doled out by the United States, the European Union, China and India to its cotton growers. Over 51% of that $47bn has gone directly to US farmers. Figures from the United States Department of Agriculture (USDA) reveal one farm in California has received more than $24m in subsidies over the past 14 years.

It is American growers, the world's biggest cotton exporters, and Europeans to a lesser extent, who enjoy the benefits of 'white gold', so creating a global price dampening effect. Even today, despite a recent cotton price spike, cotton has lost more than half of its value compared with 1975 once the price is adjusted for inflation.

For the Cotton-4, it is a situation that spells economic ruination. With no subsidies to bail them out, Cotton-4 farmers struggle against insuperable odds to compete. And a lack of revenue means C-4 governments cannot afford to build roads, ports and other infrastructure to catalyse a garment industry that would employ millions of people and create greater value in a desperately underdeveloped sector.

### The $47bn wall of subsidies paid to cotton farmers since DDR launch




**Source: International Cotton Advisory Council (ICAC)**

In 2003 the C-4 became a cause célèbre among campaigners sparking interest in some sections of the West's media. The C-4 was seen as a litmus test for whether the DDR was truly pro-poor. To a degree, pressure paid off. Five years ago, the WTO attempted to thrash out a cotton trade framework that would see the phase-out and elimination of US and EU trade distorting cotton subsidies.

But as we now enter the 10th year since the DDR was launched, pledges made have not been implemented. After initial attention, the C-4's story has faded from view. So it is time to remind ourselves what is at stake. The Great Cotton Stitch-Up tells the story of self-serving failure to find a resolution that would enable 10 million of the world's poorest people to trade their way out of poverty more effectively.

While the DDR has floundered, the last decade has seen the rapid growth of the global Fair Trade movement, bringing together producers and consumers in a citizens' movement for change. Fair Trade seeks to develop trading partnerships based on dialogue, transparency and respect which promote greater equity in international trade. The success of Fairtrade certification in the UK, and beyond, shows that there is an appetite for a trading system based on such principles. It is time for our global leaders to respond.

The Great Cotton Stitch-Up also offers recommendations for a fairer trading system at this pivotal moment. The world is now entering into a period in which the shape of global trade will be shaped for the decade.

In the week this report is published, the European Commission will release a draft proposal for the reform of the Common Agricultural Policy, currently costing €45bn. And earlier this year, Congress started negotiating a new Farm Bill replacing the current $288bn five-year programme of US agricultural support.

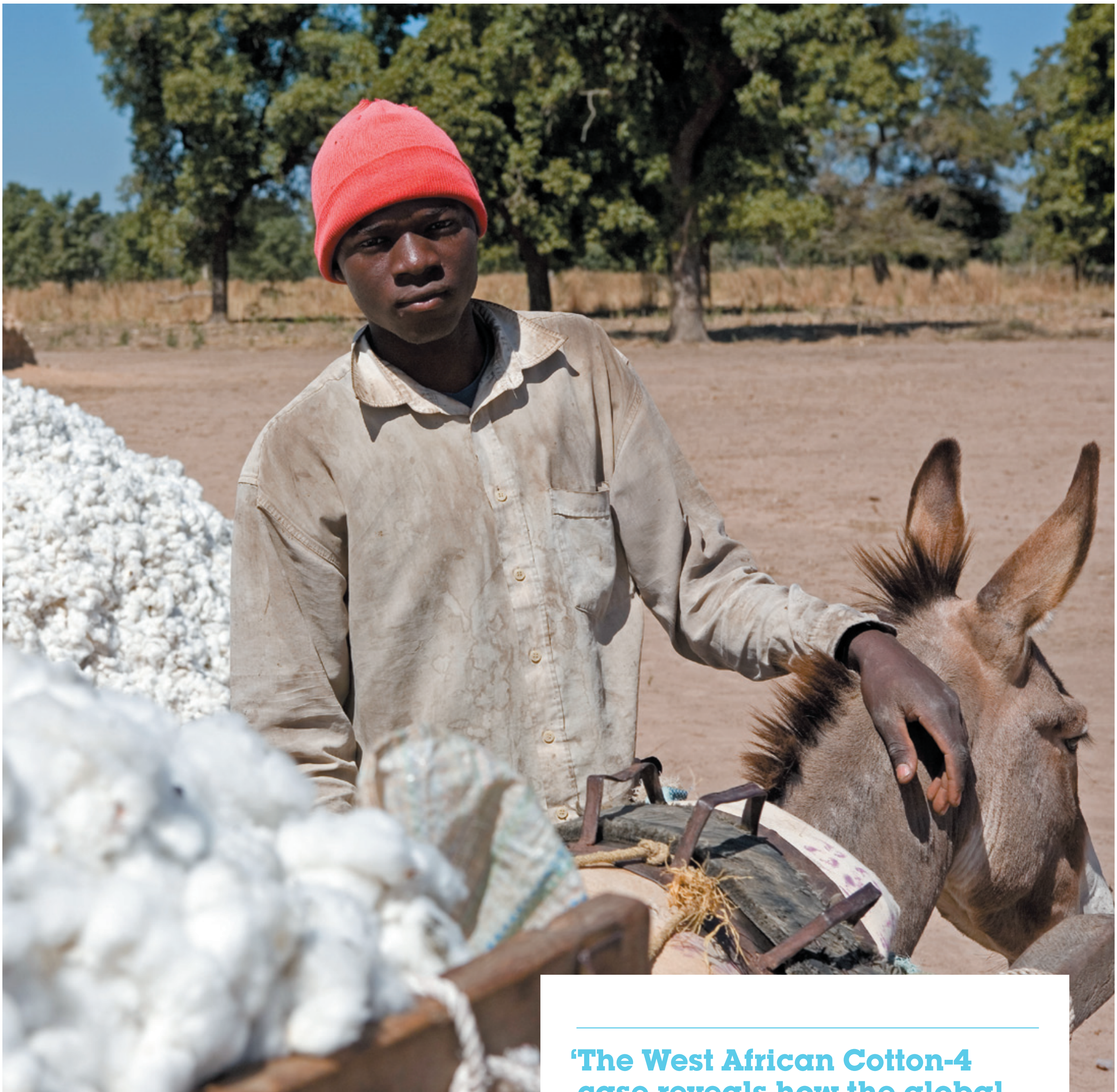
The CAP and the Farm Bill are hugely expensive and are harder to justify in the current economic climate. They also place great emphasis on subsidising cotton growers. As the world struggles to emerge from a global economic crisis which has exacerbated extreme poverty in vulnerable countries, new approaches are required. There is no better time to unpick the Great Cotton Stitch-Up.

**'The West African C-4 is a litmus test for whether the Doha Trade Round is truly pro-poor.'**

***Pascal Lamy, Director General of the WTO***

**'The majority of WTO members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration.'**

***WTO Ministerial Declaration 2001***



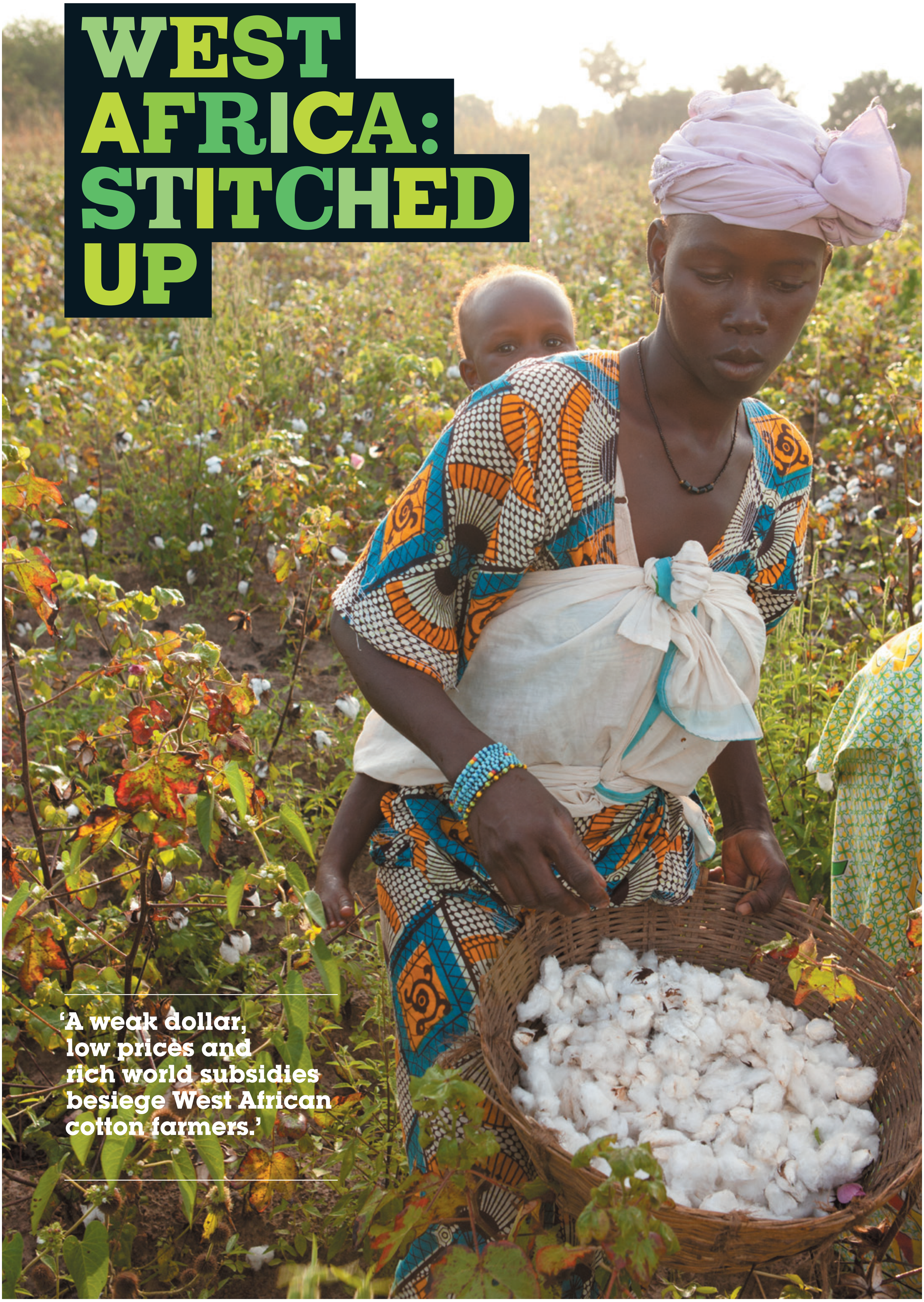
**‘Our demand is simple: apply free trade rules not only to those products that are of interest to the rich and powerful, but also to those products where poor countries have a proven comparative advantage.’**

*Amadou Toumani Touré, President of the Republic of Mali*

**‘The West African Cotton-4 case reveals how the global trade system works against the interests of the world’s poorest farmers. Cotton is cheaper to produce from West Africa than anywhere else. But subsidies from rich power blocks stop West African farmers getting a fair price. It is a situation that needs to change and the time for change is now.’**

*Michael Nkonu, Director of Fairtrade Africa*

# WEST AFRICA: STITCHED UP



‘A weak dollar, low prices and rich world subsidies besiege West African cotton farmers.’

## How cotton was introduced into West Africa

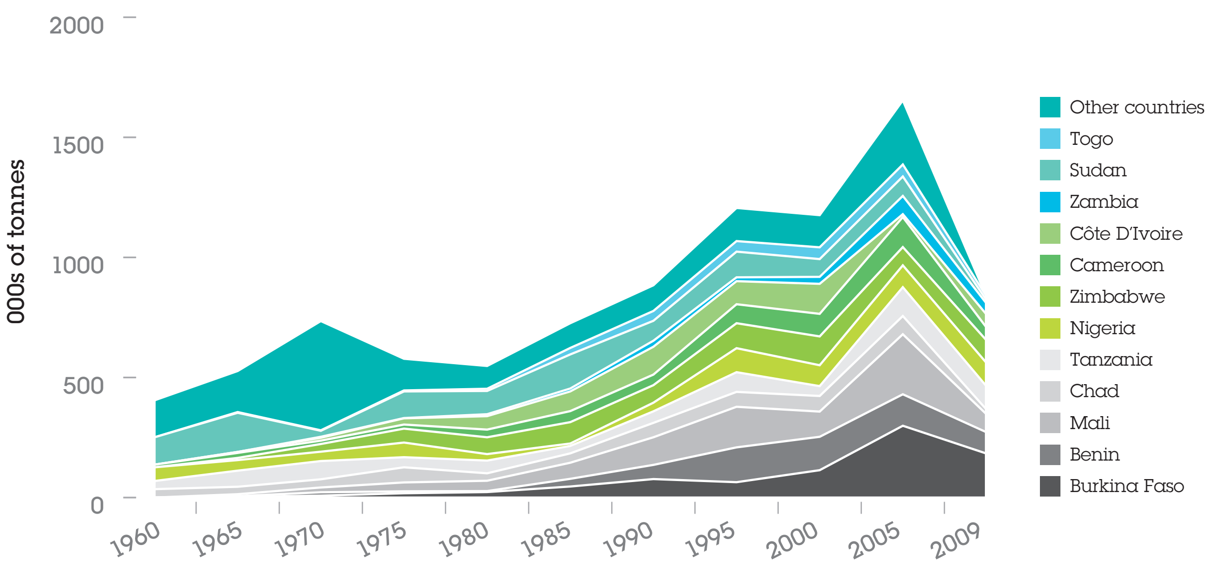
By the 18th century, the Industrial Revolution in Europe was in full swing and a newly mechanised textile industry was supplied with cotton shipped from America and India. By 1834, America, relying on African slaves to work the fields, became the world's largest cotton exporter. A status it has never relinquished.

In the 1850s, cotton prices rose as a result of major strikes in India. A decade later, the Civil War in the United States reduced the amount of cotton exported to Europe.

So European powers, desperate to feed their booming garment industries, turned to their African colonies for a cheap alternative. After trials in various parts of West Africa, Britain and France settled on the savannahs of French Equatorial Africa lying between what is now Cameroon, Chad and the Central African Republic. This constituted the first major African cotton basin.[1]

The independence of African nations during the 1960s saw the cotton industry in West Africa expand. Over the past 50 years, areas assigned to cotton production have almost quadrupled from 800,000 to 3 million hectares (ha). Yields have more than doubled from 400 kg/ha in 1960 to around 1 tonne/ha today.[2] At its peak, cotton was dubbed 'white gold' as it boosted export revenues and rural development.

## Cotton production in selected African countries 1960 – 2009




Source: US Department of Agriculture, ICAC

## The world in which West African cotton operates today

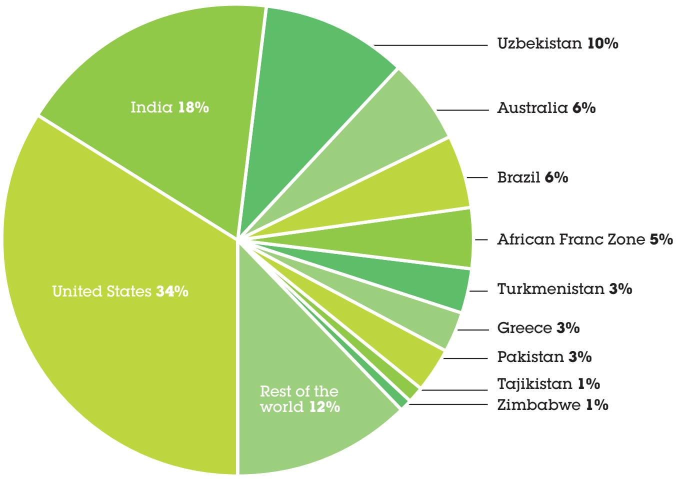
World cotton production more than doubled from just under 10 million tonnes in 1960 to almost 25 million tonnes in 2010. This, despite the introduction of new and cheaper synthetic fibres such as polyester that compete with cotton on price.

Globally, much of the growth of cotton production is due to improvements in yields rather than areas under cultivation. Since 1945, yield levels have increased fourfold whereas the area under cultivation has only increased by a third.[3] West Africa today produces about 4% of global production. The West African C-4 nations export virtually all of their cotton, mostly to China.

China is the world's biggest cotton producer producing 32.5% of global supply. But China consumes most of what it produces to supply its rapidly growing garment sector, and has become a net importer of cotton.

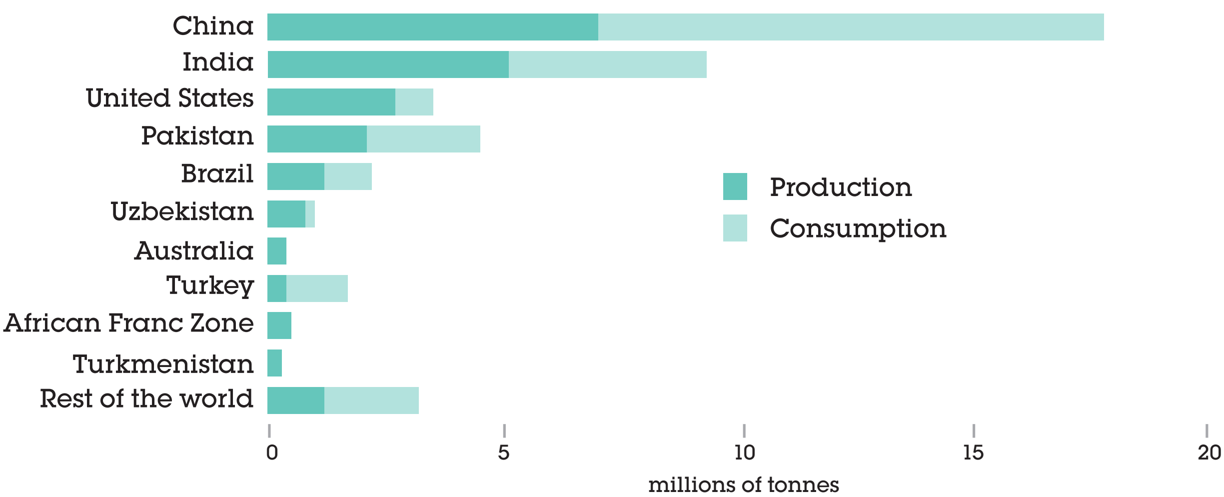
In 2010 India banned exports of its cotton to meet the demands of its own processors. The United States is by some way the world's biggest exporter of cotton. In the most recent figures, it accounts for 34% of global exports. This is projected to rise.

### Share of world cotton exports 2009




Source: US Department of Agriculture

### Major producers and consumers of cotton 2009




Source: US Department of Agriculture

## West Africa's dependence on cotton

Many least developed countries are dependent on cotton for rural livelihoods and export revenue. But few places rely on it to the extent of Mali, Benin, Burkina Faso and Chad where it accounts for 5%-10% of GDP.[4] All four countries are classified as 'low human development' in the UN's Human Development Index.[5]

Unlike other nations, most cotton cultivation in West Africa is rain-fed, so reducing its water footprint. In fact, only a quarter of global cotton is produced in rain-fed conditions rather than irrigated fields.

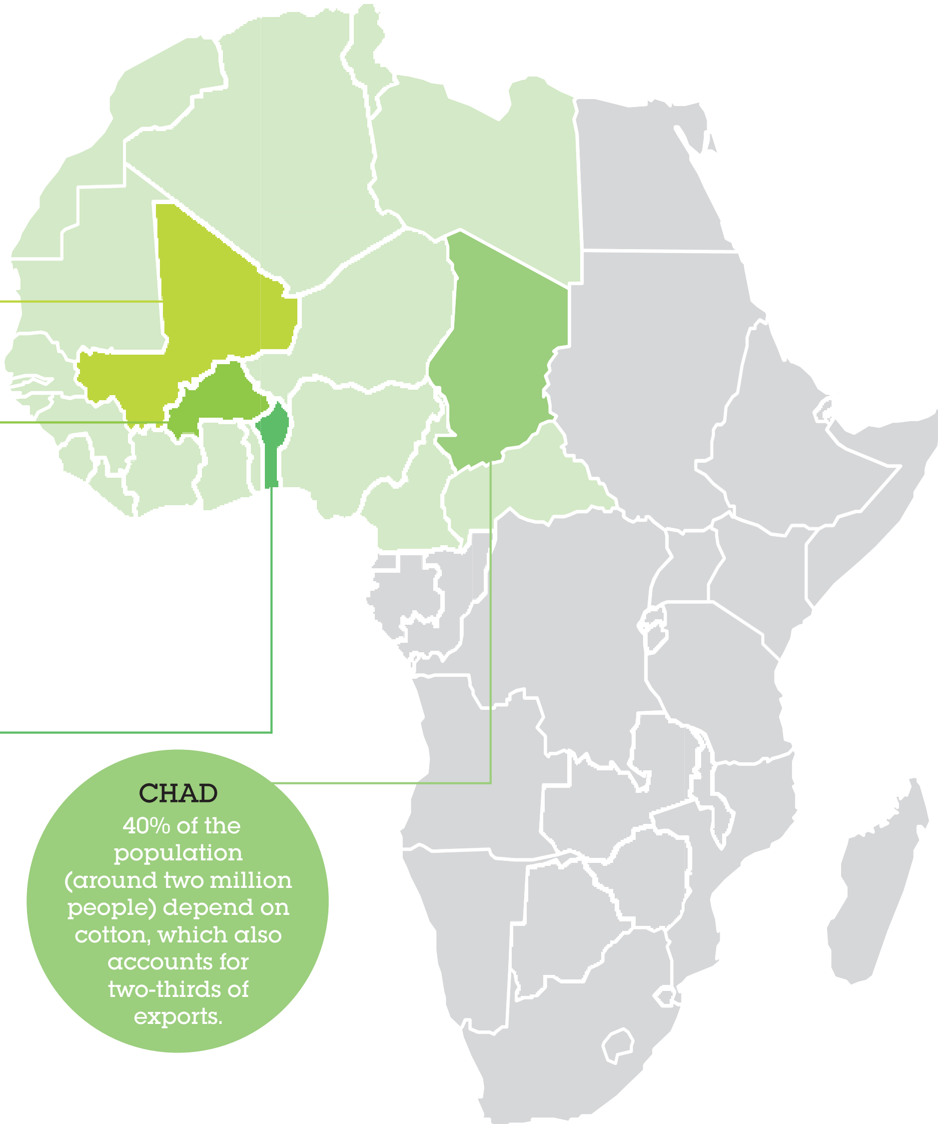
### The West African C-4

**MALI**
About 40% of rural households, or 2.5 million people, depend on cotton for their livelihood. Cotton is grown on around one-third of cultivated land, and provides the second largest source of foreign exchange earnings.

**BURKINA FASO**
Cotton accounts for around 60% of export earnings and is produced by 250,000 cotton growers, supporting the livelihoods of two million people.

**BENIN**
Cotton accounts for 60% of foreign exchange earnings and employs 45% of rural households.

**CHAD**
40% of the population (around two million people) depend on cotton, which also accounts for two-thirds of exports.



Source: UNCTAD INFO COMM

## West African cotton: the 'monster with three heads'

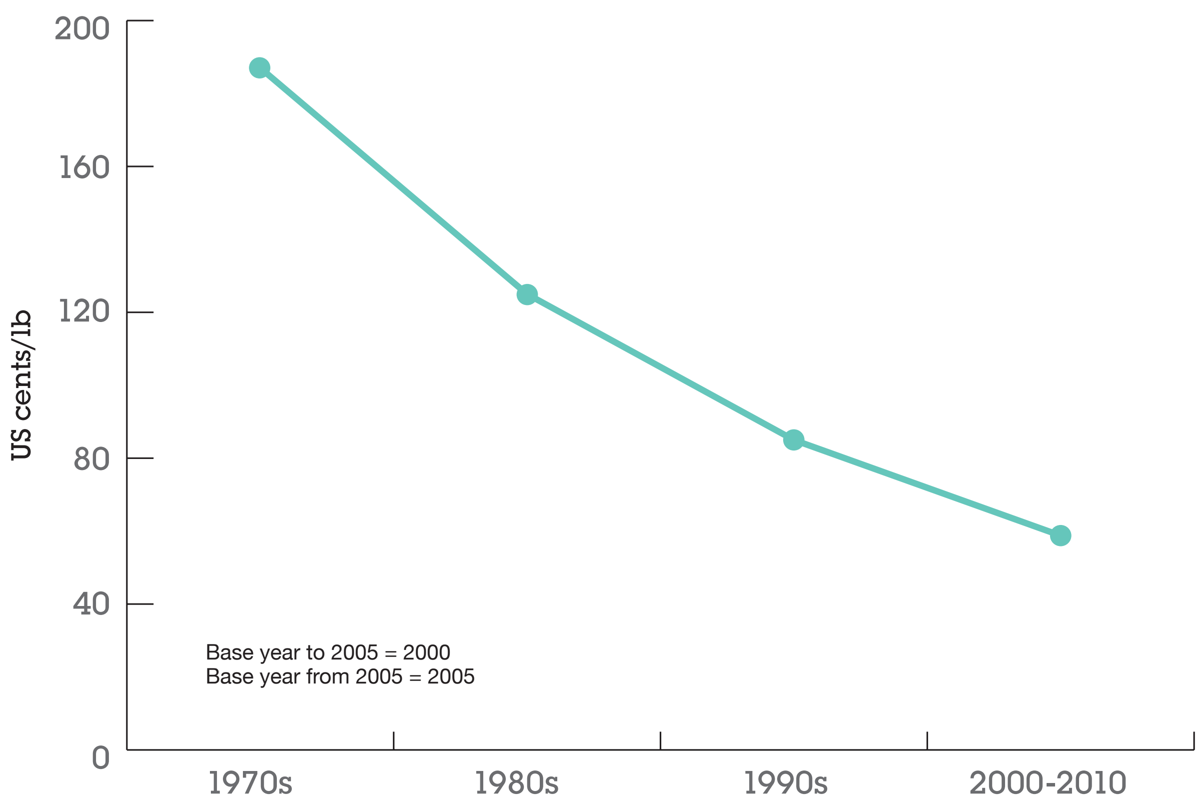
'The monster with three heads' is the way people from Burkina Faso describe the problems besieging their cotton industry: a weak dollar, low world prices and US cotton subsidies.[6]

**Weak Dollar:**
Increases in cotton prices on world markets between the end of 2007 and 2008 passed West African farmers by because the dollar was weak against the CFA franc (the Communauté Financière Africaine/ African Financial Community currency) which is pegged to the Euro. While the nominal US dollar price of cotton has returned to its 1995 value, the real CFA rate was 65% that of its 1995 value.

**Low Prices:**
The decline in real terms of cotton prices over the last 60 years has disproportionately disadvantaged African farmers as they are so heavily reliant on cotton exports for their livelihoods. This partly explains why cotton production in the 12 main African cotton producers fell by 23.7% between 2008 and 2009. The fall was almost 50% between 2005 and 2009.

Increases in global production have affected the price of cotton. There is 30% more cotton now produced per hectare compared to 10 years ago as a result of improvements in agricultural technology and innovation such as genetically modified cotton.

### Cotton prices in real terms, 1970 – 2010




*NB: The upward trend from 2007 is too small to be apparent in this series.*

Sources: UN Food and Agriculture Organisation, Trade and Markets Division (EST) and Cotton Outlook, Cotlook 'A' Index

## Moussa Doumbia: earning just $322 this year, with his family hit by malaria, a West African farmer struggles to cope

'Yes I'm very afraid,' admits Moussa Doumbia, 45. 'Sometimes I can't sleep.' Moussa lies awake at night wondering whether he will be able to afford medicine to treat the malaria that he and his two youngest children, just three and five years old, suffer from.

Sometimes Moussa, a Malian cotton farmer with nine children, is too ill to work. Acutely aware of his role as 'chief of the family', Moussa quietly conceded, 'sometimes it's hard and unbearable.'

Moussa farms corn, peanuts, beans and rice to feed his 10-member family. He breeds cattle, sheep and oxen which he sells in dire emergencies. And he grows cotton, like three million other Malians, as a cash crop. Moussa is like the vast majority of developing world smallholder farmers. He is not in the Fairtrade system so does not get an enhanced price for his cash crop.

The three tonnes of cotton Moussa produces gives him an annual income of $322– less than $1 a day. The price he gets for his cotton is clearly insufficient to support his family. So Moussa has no choice but to rely on occasional handouts from his two brothers who work abroad – one in Côte d'Ivoire and the other in Spain. 'The cotton price is not enough for farmers to cover our needs including school fees and health,' he said.

It is clear Moussa feels let down by the system both nationally and internationally. Mali's cotton industry is currently controlled by a quasi-state monopoly, Malian Company for Textile Development (CMDT). It is about to be partly privatised. CMDT delivers fertilizers to farmers, collects harvested cotton and pays for crops. But Moussa complains about late deliveries, collections and payments, which can be as much as six months after harvest. This means Moussa's family can go hungry. And food is more expensive in Mali the longer the time is from harvest.

Though cotton prices have surged on world markets, Moussa is not benefitting as CMDT set a price for cotton the previous year. And Moussa confirms that the price he receives has fallen over 10% from previous highs he once enjoyed.

Moussa also believes US subsidies work against his interests, 'These grants to American cotton farmers are really unfair because Mali can't get a good price in international markets so the Mali government becomes poor'.

External factors, including the recent food price hike together with an increase in the price of the inputs needed to cultivate cotton, have led many farmers to switch to producing alternative food crops. These are not necessarily more profitable but can ensure food security for farmers' families.

The current relatively high market prices are ensuring farmers stay cultivating cotton, but the high prices of inputs means that many smallholder farmers in Africa are barely surviving.[7]

**Subsidies:**
Global cotton prices are not only dependent on the supply and demand of cotton. They also depend on the level of subsidies available to producers and exporters in other nations. With a guaranteed price, production decisions are not entirely market driven. Subsidies lead to higher levels of production that demand and supply would naturally determine in a free market. The world price slumps when the supply of cotton is artificially increased in this way.

Burkina Faso, for instance, incurred losses of $27m in potential revenue in 2002 because of depressed prices of agricultural products – roughly the same amount it saved in debt repayments under the World Bank's Heavily Indebted Poor Countries initiative, a programme to reduce poor countries' debts.

While no data exist to measure the impact of trade distorting subsidies at a national level, recent World Bank studies have projected that falls in cotton prices of between 20% and 40% could lead to increases in overall rural poverty of 3.4% – 4.6%, and even higher increases among cotton farming households.

If subsidies were eliminated, production would decline in countries that subsidise cotton, but would rapidly expand in other countries in response to higher prices. As a result production would shift toward lower-cost producing countries.

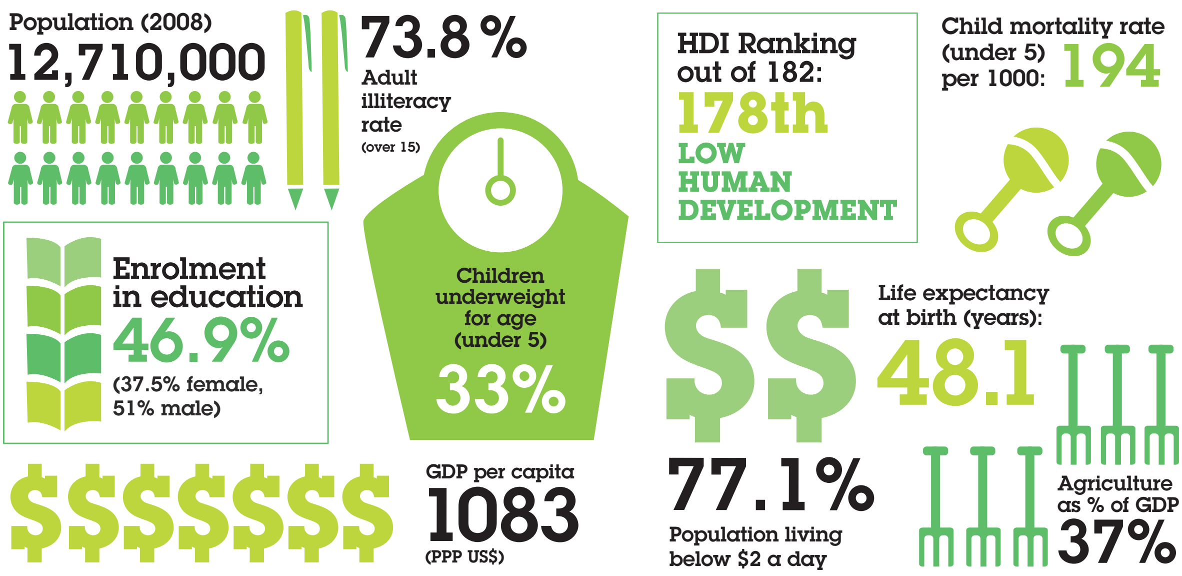
The International Cotton Advisory Committee (ICAC) says subsidies reduce prices by 10%; the World Bank says 12.9%, amounting to an annual revenue loss to African producers of $147m. Oxfam calculates that removing US cotton subsidies alone would increase world prices by 6-14%, producer prices in West Africa by 5-12%, and average household income in West Africa by 2-9% – enough to support food expenditure for a million people.

## Higher prices in Mali lead to investment in education

The impact of increased incomes through higher prices can in part be seen by what farmers invest in if they receive a higher price. For example, producers who have sold cotton on Fairtrade terms often talk about education. In Mali, in the Kita district, one of the first projects resulting from boosted income was the construction of a block of two classrooms.

ICAC notes, 'Some female family members – particularly those involved in premium-paying niche market value chains such as Fairtrade and organic – report increased independence and status in family decision-making, as a result of their work on an export crop such as cotton.'[8]

## Mali fact file




Source: Data from the United Nations Development Programme, 'Human Development Report 2009' and World Bank 2009

‘If subsidies were eliminated, production would decline in countries that subsidise but would rapidly expand in others, in response to higher prices.’

A water bore hole paid with Fairtrade premiums in Diadoubala, Mali

# MALI COTTON FARMERS FIGHTING FOR A FAIR DEAL IN AN UNFAIR WORLD

Malian Organic Movement (Mobiom) is a Fairtrade organic farming co-operative that has reduced infant mortality, improved maternal health and delivered both education opportunities and effective climate change mitigation strategies for tens of thousands of West Africa's extreme, rural poor.

Mobiom consists of 8,000 farmers who are members of 76 separate co-operatives in the cotton growing fields of southern Mali, West Africa. Since its 2002 inception, the experience of Mobiom suggests that significant social and economic improvements can be achieved when cotton farming communities in Mali, the fourth most deprived nation on earth, receive a relatively small uplift over the conventional price of cotton.

Extra money generated from Fairtrade organic cotton has resulted in 95% of eligible children born of Mobiom farmer parents attending school.[9] This compares with a national average of 43%.[10] Strengthened Mobiom member village communities have banded together to employ a trained midwife in a maternal health centre also built with Fairtrade receipts. The initiative has saved lives. Previously if a pregnant woman needed medical attention, she would have to travel 25km along mainly bumpy dirt tracks. The medical centre benefits not just Mobiom farmers but families in neighbouring villages.

Out of Mobiom's 76 farm co-operatives, 73 cotton storage facilities have been built which help protect farmers' crops, while dozens of water bore holes have been sunk improving access to water. In addition, farmers are trained in environmental agriculture techniques which improve crop quality and yields.

Abdoulaye Diakite, a Mobiom official responsible for technical support to farmers said, 'There are more than 7,000 farm co-operatives in Mali but Mobiom includes social development on its balance sheet. Since Mobiom started with Fairtrade organic certification, we have helped farmers to increase income. Farmers have bought donkey carts to transport fertilizers and made further investments in oxen. Fairtrade activities have helped send kids to schools and paid school fees.'

Though Mobiom farmers enjoy better incomes than the majority of Mali cotton growers, there is still considerable disquiet over the huge disparities of income between them and their US counterparts. Anger and frustration is specifically directed at state subsidy support enjoyed by US farmers. They maintain that the tens of billions of dollars of US government support to its cotton farmers have directly led to production decreases in Mali. The result, say Mobiom farmers, is increased poverty and economic malaise in their country.

Douda Samake is the 42-year-old secretary of a Mobiom co-operative centred on the village of Madina about 20km from Bougoni in southern Mali. Samake signed a petition with other co-operative secretaries, demanding their national government do all in its power to persuade the United States to eliminate subsidies. The petition was also sent to the American government. No answer has so far been received in Mali from US officials.

'Cotton is our only income. These (US subsidies) are the reason we're not producing as much cotton,' said Samake. 'Mali cotton farmers are hardly able to cover their living costs. They've got a lot of debts and so people are walking away from cotton. That makes me really angry. If it was you, what would you think? The economy of the country suffers. Mali is hugely dependent on cotton. It obviously hurts the economy if there's less people producing cotton. It's the main export for Mali and the state does not have funds to pay for healthcare and education. They don't have money which means it falls to us to pay the costs.

'The subsidies from American growers really give us a lot of serious concern. Because American farmers get billions in subsidies they can secure their health. Mali farmers can't do that. They (American farmers) get a lot of money in international markets where Mali cotton farmers don't get enough. They can't send their kids to school.

'It makes me sad because cotton production has fallen in Mali. These subsidies for American cotton are not fair because it's leading to decreased income of other cotton farmers. Especially in Mali.'

Douda Samake

**'Subsidies from American growers give us serious concern. US farmers get billions. They can secure their health. Mali farmers can't do that.'**

*Douda Samake, Mobiom co-operative secretary*


**Clockwise from top left: 1) Cotton grower in Madina, Mali; 2) a water bore hole paid with Fairtrade premiums in Diadoubala, Mali; 3) a mother with her baby in a maternal health clinic built using Fairtrade premiums in Mafele, Mali; 4) to 7) Children in Bagani attending school. In Mali, school attendance is just 43% on average. 95% of Mobiom Fairtrade farmers' children attend school 8) a maternity nurse holding one of her new born in a Fairtrade premium funded maternal health clinic**

# COTTON USA: ANOTHER WORLD

**‘When prices are very volatile it causes farmers to get into a cash crunch and they can’t afford to have big dips in the prices that they receive for commodities because if they did they wouldn’t be able to meet their requirements on infrastructure, equipment and all the inputs for the crops and things like that.’**

*Jay Boyette, commodity director at the US North Carolina Farm Bureau, responding to criticism of the US cotton subsidy regime. (March 2010)*

## Another world

Ronald Rayner has been growing cotton for over 40 years in the West Valley in Arizona. His ranch is run with the help of his two brothers and two nephews. In 2010, Rayner planted 1,000 acres – up from only 200 acres two years ago. He, like many other American farmers, is feeling optimistic: ‘It’s hard to see that we could supply more than what the market would need in the next few years. That should bode well for cotton farmers in the state.’[11]

The good times are rolling for US cotton. With Chinese imports forecast to be 28% higher, the ICAC suggests the volume of US exports will increase 33% to a five-year high of 3.5 million tonnes in 2010/11. Fuelled by the expected larger crop and restrictions in shipments from India, its largest export competitor, the US share of global exports is projected to rebound from 34% in 2009/10 to 42%.

The main US cotton producing states include Texas, Georgia, Mississippi, Arizona and California. American cotton farming has consolidated into larger farms. Over the last 80 years, the number of cotton farms dropped by 98% down to 31,500 in 2000 from 2 million in the 1930s. Meanwhile, cotton acreage has declined by 25% showing that the average farm size has increased. Cotton farms are primarily owned by individuals and families and are dedicated to cotton monoculture.

**‘Interestingly, in the countries where they subsidise, only about 5% of the population are farmers. Here, farmers represent some 80% of a population that is becoming increasingly impoverished on land that is itself becoming poorer, without the least help from the state.’[12]**

***National Union of Cotton Farmers of Burkina Faso***

According to the ICAC, the world's leading exporter is also the country with some of the highest costs of production. Whilst the average cost of production is $0.80/lb in the USA, the cost of production is $0.35/lb in Benin. The US therefore subsidises its exports to be competitive with the world's poorest countries who also hold a natural competitive advantage in cotton.

## 'Monster' US cotton subsidies

The contrast between West African and American cotton growers could not be more extreme. While African farmers lost their livelihoods during the price crash of 2004, US direct support to cotton producers that same year totalled $3.9bn.

US agricultural subsidies began as a New Deal response to the Great Depression and the American Dustbowl. It is uncertain whether they were ever meant to be permanent. During the Second World War, agricultural subsidies were defined as part of national defence strategy. Today, congressmen admit that subsidies are necessary for American agriculture to remain competitive in the global economy.

Cotton is situated firmly within the context of US agricultural policy and politics. The 2008 Farm Bill which expires in 2012 was vetoed by President Bush twice. Both times his veto was over-ridden by Congress and the bill passed into law in June 2008.

The 2008 Farm Bill subsidies – a five year programme worth $288bn – were supposedly designed to move the sector towards more market-oriented decisions about productions levels. However, the 2008 Bill continued the practice of countercyclical payments, marketing assistance loans, and loan deficiency payments, which the Department of Agriculture claims do not encourage over production. American farmers remain insulated from the fluctuations of global cotton prices.

## Inside US Congress: signing cheques to the cotton lobby

The Senate Committee on Agriculture is the supreme power that maintains the American cotton subsidy regime. It consists of Senators from the cotton-producing states of Georgia, Mississippi, Texas and Arkansas. Agricultural subsidies provide an important source of income for their constituents.

Until the 2010 US mid-term elections, the Democrat Chair of the committee was Blanche Lincoln from Arkansas and the ranking Republican member, Saxby

### Countercyclical payment: a licence to print money

Countercyclical payments (CP) are based upon historical, not current, production rates and do not even require the farmer continue to plant that historical crop. CP allows farmers more flexibility in choosing their crops, which in theory should result in a move away from cotton production.

The lower the current commodity price is from the historical price, the higher the countercyclical payment. While there is no direct tie to production, there is similarly no market incentive not to produce when there is an oversupply and falling prices.

Chambliss represents Georgia, America's second biggest cotton state after Texas. The rest of the committee members come from heavy agriculture and meat producing states. There is a similar make-up on the House of Representatives sub-committee.

Because cotton has such a long supply chain, the cotton lobby's interests include an array of middlemen. The National Cotton Council of America (NCC) represents farmers, ginners, warehousers, cotton-seed sellers and manufacturers. They regularly appear before the House sub-committee stressing 'stable farm policy' on behalf of the entire industry.[13] Similarly, each cotton growing state has regional cotton associations to advocate the interests of farmers and ginners. For example, The Plains Cotton Growers of Texas monitors national policy to advise farmers when to express the appropriate amount of outrage to their local politicians.

The size of cotton subsidies in the United States certainly appears to confirm that political funding and extensive lobbying generates significant returns for farmers.

## WTO confirms United States use 'prohibitive' cotton subsidies

In 2002, as world attention focussed on the billions of dollars of cotton subsidies paid by the US government to its farmers, Brazil used the WTO dispute settlement system to file a legal complaint against America. The emerging South American superpower argued that US cotton subsidies violated agreements made during the previous global trade deal, the Uruguay Round and that US cotton subsidies harmed Brazilian cotton growers.
In a long drawn out legal tussle under the auspices of the WTO, Brazil in 2009 won the right to retaliate against the US. The WTO condemned the US for

using prohibited export subsidies and exceeding the cap on the amount of trade distorting subsidies.

In early 2010 an interim agreement between the two nations resulted in Brazil suspending retaliation until the US passes a new cotton support regime in the framework of the next Farm Bill expected in 2012.

In the meantime, the US and Brazil agreed on the following:

- The US will allocate $147m a year to the Brazilian cotton growers in the form of a 'technical assistance fund'
- The US will work on new benchmarks for its Export Credit Guarantee Program. Discussions with Brazil will be held every six months
- The US will define a cap to trade distorting subsidies for cotton. Bilateral talks will be held four times a year.

Ironically this deal results in US tax payers having to now pay Brazilian cotton growers $147m per year just to continue to subsidise their own cotton producers. This embarrassing contradiction led four House Democrats to write a letter to President Obama suggesting the US cotton programme is 'quickly becoming a liability for future trade growth'.[14]

According to the Washington Post, the April 2010 settlement of the cotton dispute between Brazil and the US has: 'Laid bare the truth about the US cotton: not only is it a wasteful sop to special interests, but it's an obstacle to free and fair trade that needlessly complicates US relations with the rest of the world. Reform – or better, repeal – is long overdue.'[15] This echoes the sentiments of American academics and policy organizations from across the political spectrum.[16]

However, reform depends on communicating the expense of subsidies to policymakers and the public. Because of decreased acreage and production, the agricultural sector could sacrifice cotton subsidies more readily and with less pain than subsidies for any other agricultural commodity. All of the pieces to end US cotton subsidies exist and are available. What is missing is the political will to effect change.

Currently, America is going through a volatile political phase. The recession has increased media scrutiny on Federal spending. The Tea Party Movement, which advocates for a tax revolt, has fractured the Republican Party. Similarly, Democrats are under enormous pressure to introduce progressive reform while not spending.

### Cotton subsidies in United States 1995-2009

| Recipient | Location | Cotton Subsidies |
|---|---|---|
| Tyler Farms | Arkansas | $24,297,410 |
| Due West | Mississippi | $19,024,517 |
| Balmoral Farming Partnership | Louisiana | $17,788,866 |
| Kelley Enterprises | Tennessee | $16,784,452 |
| Gila River Farmers | Arizona | $15,685,771 |

### Cotton subsidies in United States 2009

| Recipient | Location | Cotton Subsidies |
|---|---|---|
| S J R Farming | California | $2,069,453 |
| Bowles Farming Company, Inc | California | $1,357,884 |
| Adams Land Co | Arkansas | $1,308,070 |
| Balmoral Farming Partnership | Louisiana | $1,248,658 |
| Kelley Enterprises | Tennessee | $1,241,127 |

Source: US Department of Agriculture

2010 and 2012 are both important election years for both parties in the US. This has and will result in changes to the make-up of the Senate and House Agricultural Committees and it means agribusiness will spend more on political campaigns in the lead up to drafting the 2012 Farm Bill.

While the next Farm Bill will be drafted during an election year, the combination of a prolonged recession, the need to slash spending, a decline in cotton production and the $147.3m a year payout to a foreign government signals US cotton support measures can potentially be reformed – despite the money the cotton lobbyists pay.

## An American masterclass in how to play the waiting game

The US has proven ability in pushing the WTO system to the limit. It uses procedures and appeals to prolong and postpone final rulings.

For the US, the interim Brazil deal is useful as it won what it needed: time. The US employed every possible legal measure to gain breathing space. The bilateral deal with Brazil allows the US to avoid sanctions while pushing the internal reform process to at least 2012 through a new Farm Bill whose scope will be controlled by the US Congress Agriculture Committees.

And the Brazil v United States case has wider ramifications for the C-4. The world's most powerful nation will likely offer the settlement as the basis for its negotiations in the DDR. The risk for the C-4 therefore is that the US takes advantage of the coexistence of the two approaches – litigation and negotiation – to try to 'sell' the same thing twice: that is to sell something as a concession in the DDR negotiations that they are in any case obliged to implement following the dispute settlement, but have still not carried out. Furthermore, the settlement with Brazil does not seek to eliminate subsidies – only to cap them.

## Could the C-4 take the US to court?

In the Brazil-US dispute, Benin and Chad gave their support to the litigation as third parties. In 2004, a Benin trade official stated: 'I would note that many people in Sub-Saharan Africa believe that the rules of the multilateral trading system were written by major countries for the benefit of major countries. However, we believe that the WTO system can and will recognise the impairment of rights suffered by least developed countries.'

The C-4 has the same legal case as Brazil and could launch a dispute against the US with near certainty of victory. But for the C-4, introducing their own dispute settlement would only give them a moral victory. In practice, retaliatory measures are applied to imports. Brazil has many ways to retaliate against the US, but C-4 countries do not import much from the US. And sanctions on this small amount will not hit the US economy hard.

Moreover, the dispute settlement has as its objective compliance with existing laws and commitments. What the C-4 want is a new commitment to eliminate all trade-distorting cotton subsidies. The only means available for that are negotiations within a round such as the on-going DDR.

This means that a potential reform by the US in line with the dispute settlement panel ruling would not fulfil the commitments made at the WTO in 2005 to treat cotton ambitiously within the DDR.

This, however, does not mean that litigation and related procedures are useless for the C-4:

1) A twin-track approach between the legal procedure and the trade negotiation round contributed to strengthening the cotton case at the WTO and gained media attention in the past.

2) Brazil's victory confirms that US subsidies for cotton are indeed harmful to other countries and thus confirms the legitimacy of the C-4 arguments.

3) Litigation procedures can be used as an instrument for negotiation: as the objective of the procedure is to find settlements rather than imposing a ruling, the procedure requires the parties to negotiate a settlement within a given time frame. Through mediation and consultations phases, parties are invited to find a settlement instead of pursuing the dispute. Therefore, dispute settlement procedures could be a means for the African cotton producing countries to force the US to sit down and negotiate – something they have refused so far to do.

It is, however, difficult for poor countries – which receive aid from the US to 'challenge' a big power like the US in a legal case within the WTO. Powerful economies have many opportunities to put political and economic pressure on small and vulnerable states. Any such action would therefore need to be introduced by all (or most) African cotton producing countries thereby limiting the exposure of any one of them.

| US and C-4 economic indicators | Total C-4 or Average C-4 | US |
|---|---|---|
| GDP nominal $bn | 30.6 | 14,260 |
| GDP per capita PPP $ | 1,450 | 46,000 |
| HDI rank out of 182 | 173 | 13 |
| area under cotton cultivation (million ha) | 1 | 3.05 |
| yield kg/ha | 357 | 871 |
| cotton exports in 480lb bales | 1,825 | 15,000 |
| agriculture share of GDP | 39% | 1% |

Source: CIA world factbook 2010

# THE EU: THE HIGHEST SUBSIDISER PER POUND OF COTTON IN THE WORLD

**'The EU admits reducing its subsidies would help African producers and gain itself credibility, but continues paying out regardless.'**

## Europe's vital role

US farm subsidies are the highest. But the European Union plays a small and significant role in keeping West African cotton farmers poor.

Per pound of cotton, the EU hands out the largest amount of subsidies. The EU produces less than 2% of the world's cotton. The value of subsidies for this minimal production is low – $353m compared to $818m in the US in 2009/10 – but European farmers enjoy the highest subsidy per pound of cotton. The 2009/10 average assistance per pound produced in the EU was $2.51 compared to $0.14 in the US.

Cotton subsidies in the EU began as part of the Common Agricultural Policy (CAP) in 1981 when Greece was the first cotton producing country to join the then European Community. Spain shortly followed into the EC, and today, cotton subsidies are distributed to around 100,000 producers in Europe: 10,000 in Spain and 90,000 in Greece.

A subsidy is given to cotton producers based on the difference between the world price and a set support price. There is a maximum guaranteed quantity of cotton that the subsidy will cover, and penalties apply for excess production. In addition to output subsidies, EU cotton producers also receive subsidies on inputs such as credit to invest in machinery, insurance and publicly financed irrigation.

Some 65% of the aid to farmers has been 'decoupled' from production, i.e. no longer linked to production and is paid to producers irrespective of their planting decisions. But critically, 35% remains in the form of a payment specific to cotton production. The European farmer is still paid for producing cotton. This coupled element has been kept to avoid abandonment of production in those cotton producing regions which typically lag behind in their economic development.

Decoupling subsidies from production makes them less trade distorting as priority is given to supporting the income of producers, rather than what they produce. However, eliminating coupled subsidies all together will have a positive impact on the C-4. It is estimated that had the 2006 CAP reform changes been implemented over the period 1998-2007 the world price of cotton would have increased by 0.7%.[17]

In a 2007 cotton impact assessment, the European Commission acknowledged that, ‘A fully decoupled support regime would be consistent with the EU’s negotiating position in the Doha Round’ made in the WTO in 2006 to treat cotton ‘ambitiously, specifically and expeditiously’. Moreover, the impact assessment states that the ‘full decoupling option has the further advantage of being in line with the reformed CAP, whose central element is the decoupling of income support.’[18]

So why are cotton subsidies only partially decoupled? Holding back CAP reform and the fulfilment of the EU’s commitments in the WTO is a constitutional constraint which prevents the European Commission from further decoupling aid.

The European Community accession agreements for Greece and Spain stipulate that the EU must provide aid for cotton production, not just for cotton producers, because of the importance of cotton to the local economy. The 2007 impact assessment concludes that to avoid any real impact on production, decoupling must not exceed 65%. Meanwhile, the West African farmers are struggling to maintain cotton production on their own farms – their only source of income. The opportunity presented by higher cotton prices remains out of reach for a farmer who cannot risk his livelihood on investing on such an uneven playing field. The C-4 are trapped in limbo between an old and new Europe: one that will condemn, the other that will secure their future.

The European Commission is aware of the inherent conflict between its cotton policy and its commitment to the development of the world’s poorest countries – cotton was highlighted in the 2007 Policy Coherence for Development Report as an issue where coherence between Development, Agriculture and Trade policies could be improved: ‘The EU continues to spend €800-€900m per year related to cotton farming, while the same product is grown in Africa at a lower cost supporting the livelihood of over 15 million people. The EU is not an important cotton producer globally. But by further reducing its cotton production, the EU would take a step that is likely to assist African producers. The EU would also gain in credibility in trade negotiations.’[19]

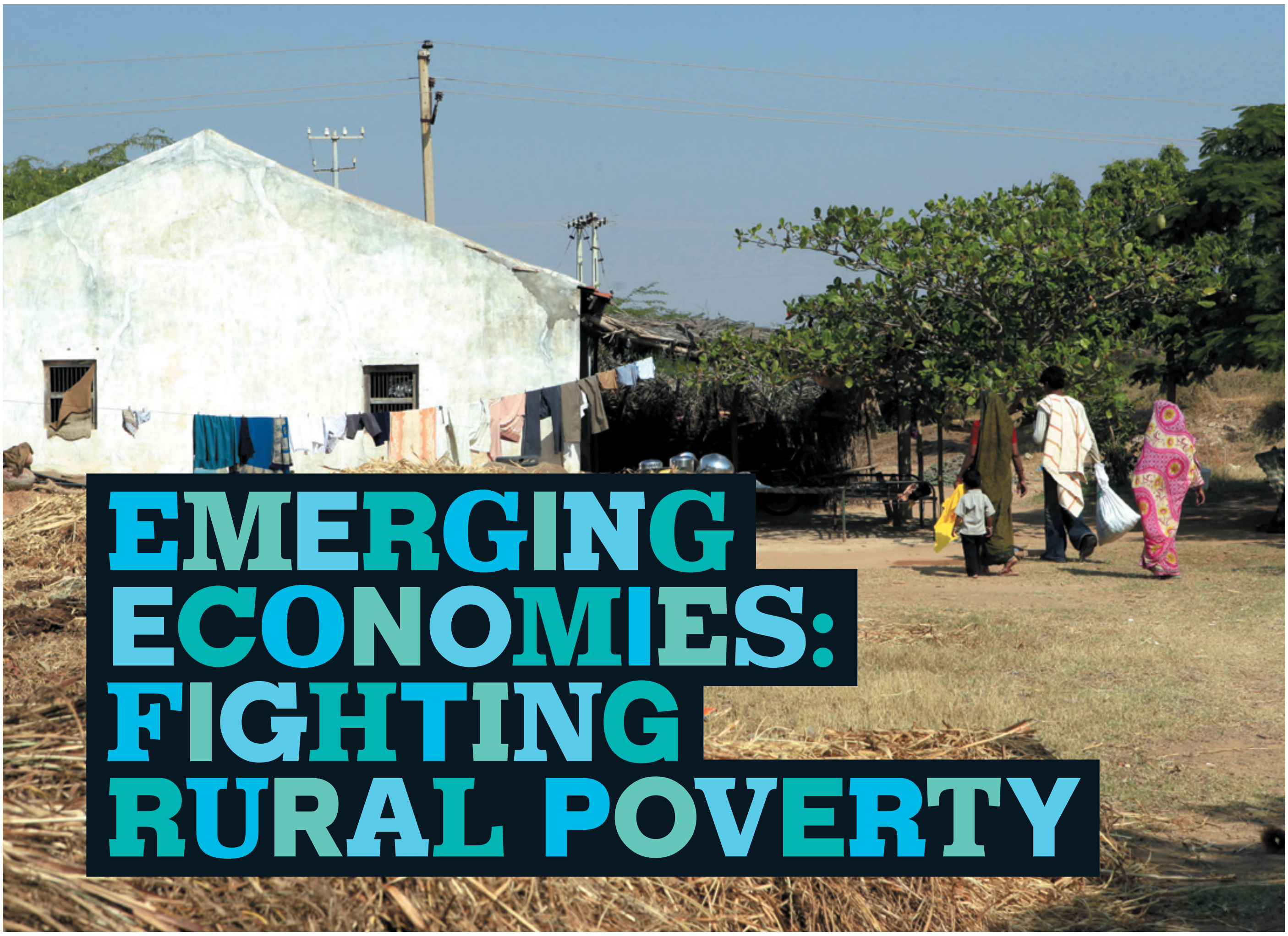
Surprisingly, in the 2009 Policy Coherence for Development Report, the cotton issue is no longer pointed out as an area for policy coherence improvement but presented as a success for policy coherence: ‘Currently, total EU production is estimated at less than 1.3% of world production. Moreover, the EU market is completely open and there are no export subsidies. Furthermore, the EU supports the cotton sector in Africa through the EU-Africa Partnership on Cotton which seeks to boost the competitiveness of African cotton and to lessen stakeholders’ vulnerability. The Commission and the EU Member States have supported this Partnership with projects and programmes of a value of more than €300m.’[20]

The 2009 report focuses on progress made as well as assistance provided but fails to address the discrepancy between most subsided agricultural products, which receive a 90% decoupled rate of support, and cotton, which only receives 65%. The European Commission seems to have simply decreased coherence expectations regarding cotton. By focusing on the €300m of aid, the European Commission is losing sight of the trade component of the deal, something warned against in the 2010 update relating to the EU-Africa Partnership on Cotton: ‘Aid cannot be considered a substitute for a commercial solution.’[21]

**‘The EU is aware of the conflict between its cotton subsidies and its commitment to the world’s poorest nations.’**

The EU’s cotton policy must be seen in the wider political context. All WTO members agreed in 2006 to advance negotiations on cotton, and to date the issue is held up as the ‘litmus test’ of development in the DDR. The EU has reformed its cotton policy and substantially decoupled the cotton subsidy from production. But so long as the EU maintains any trade distorting element to its cotton policy, its creditably in urging its trading partners, notably the US, to reform its cotton subsidies is severely undermined. While the value of EU subsidies is dwarfed by the US subsidies, it remains the highest subsidiser of cotton per pound. The damage to the EU’s negotiating position when it comes to arguing for reform is immeasurable.

The current CAP expires in 2013 and negotiations are underway for its reform. And the highly sensitive issue of cotton will not readily be addressed. To fulfil the commitments that the EU made in the WTO in 2006 to treat cotton ‘ambitiously, specifically and expeditiously’, and to show commitment to concluding the DDR negotiations, the EU needs to act now to decouple cotton subsidies from production. This paper makes an urgent call for cotton to be addressed in the 2013 CAP reform.



# EMERGING ECONOMIES: FIGHTING RURAL POVERTY

## China

The Chinese Cotton Association states that in 1949 China's cotton production was 440,000 tonnes. Today nearly 100 million cotton growers produce five million tonnes – 32.5% of the world total. Extensive investment in research and innovation means Chinese yields beat the US.

China's consumption of cotton for its garment factories has more than doubled between 2000 and 2008 because the country has been allowed to export textile products without restriction to the US and the EU following its admission to the WTO.

To fuel its textile industry, China's cotton imports grew eightfold from 50,000 tonnes in 2001 to 4.2 million tonnes in 2006 before dropping down to 2.4 million tonnes in 2009/10. It consumes almost half of global imports. Chinese imports are expected to increase by a third in 2011.

The Chinese authorities support their cotton growers with subsidies. While the US has consistently been the world's biggest subsidiser of cotton, last year for the first time Chinese subsidies overtook them. ICAC estimates that Chinese producers received about $1.95bn in 2008/09 and $1.96bn in 2009/10. That means each of the hundred million cotton growers receives around $20 per head compared with the millions received by individual US farmers.

China is a direct competitor to US manufacturing and services exports. So Chinese government subsidies and tariff rates provoke the US's attention. 'China needs to be held fully accountable as a mature member of the international trading system – for the benefit of US companies and workers, the global trading system, and for its own sake,' US Trade Representative Susan Schwab said in 2007.[22]

China plays a significant role in the Great Cotton Stitch-Up. In 2008 the US argued that the extent to which it cuts cotton subsidies will depend on how much China cuts its cotton tariffs,[23] and more recently sources suggest that the US uses the existence of China's cotton subsidies to justify its own. As trade negotiations in the DDR develop further, the C-4 cannot ignore China.

## India: the world's second-largest cotton producer

Since the mid-1990s, thousands of debt ridden Indian cotton farmers have committed suicide each year. As the crisis escalated, the Indian government in 2008 raised the price at which it bought cotton from farmers. The 'minimum support price' (MSP) saw increases of up to 40% on some cotton fibres to insulate farmers from fluctuating prices. Textiles Minister Dayanidhi Maran described the move as 'part of the social obligation which the country owes to the farming community.'

The US took a different view. America's NCC was, 'very concerned with the ongoing and expanded subsidies for cotton that Indian farmers are receiving in violation of their WTO commitments.'

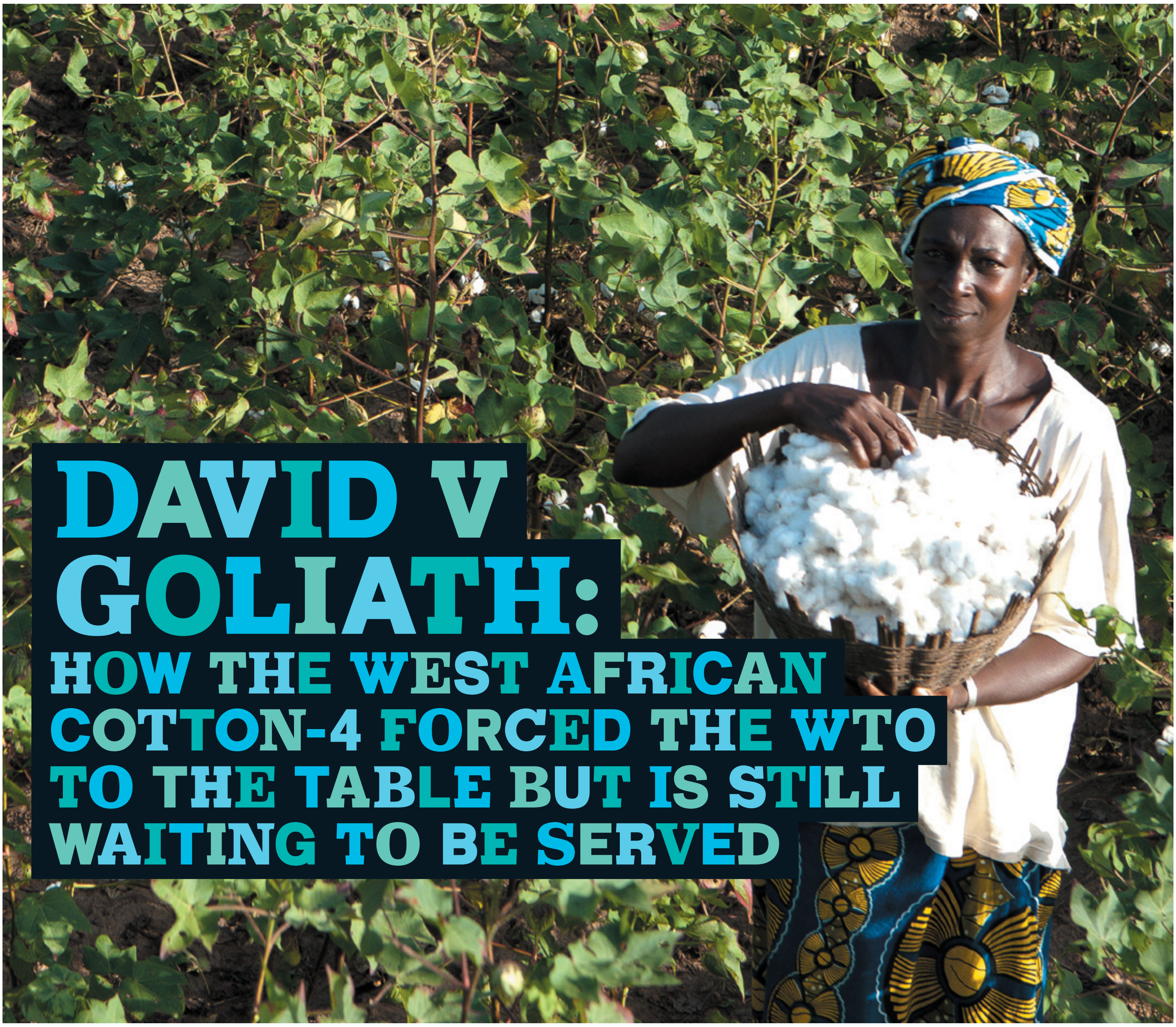
Indian production grew rapidly after the introduction of genetically modified cotton seed in 2003. Indian yields have risen 74% (from 301 kg/ha in 2002/03 to 523 kg/ha in 2008/09), and the cotton harvest has grown 61% (from 14 million to 22.5 million bales). India's emergence threatens US dominance of global cotton export markets. While production reached 4,930 thousand tonnes in 2008/09 (compared to 2,790 thousand tonnes in the US), average Indian government assistance per pound to its farmers was no more than $0.03 – 15 times less than in the US.

The Indian government has consistently backed the C-4 countries in their quest for a level playing field in the WTO. June 2010 saw India standing alongside new and old players – China and Argentina – warning that the ongoing negotiations for a global trade deal could be in trouble if the US does not give a firm commitment to reduce its high cotton subsidies. 'All three countries pointed out that if the cotton issue is not resolved, the ongoing round would not be concluded,' a WTO official said.[24]

**'Thousands of Indian cotton farmer suicides prompted the Indian government to act.'**

However, while the C-4 have identified the US as the main protagonist in the Great Cotton Stitch-Up, the C-4 position is based on an opposition to all trade distorting subsidies. But the C-4 has not publicly reacted to Indian government support measures. It appears mindful of maintaining unity among developing countries in the WTO and possibly conscious of the power of the emerging Indian economy.

Looking ahead, it is not clear how long the MSP will be maintained or if the Indian government will introduce further enhancements to it. However, opposition is mounting in the US, and the C-4 will have to be clear on where their priorities and allegiances lie.



# DAVID V GOLIATH: HOW THE WEST AFRICAN COTTON-4 FORCED THE WTO TO THE TABLE BUT IS STILL WAITING TO BE SERVED

## The Doha Round and cotton:

### Key dates on negotiation and development aspects

**2001**

- **Nov 2001:** Doha Round of Multilateral Trade talks launched

**2002**

**2003**

- **May 2003:** C-4's 'Sectoral initiative on cotton' published
- **June 2003:** Blaise Compaoré, President of Burkina Faso, makes the case at the WTO
- **September 2003:** Cancun Ministerial meeting: cotton is singled out

**2004**

- **March 2004:** WTO African Regional Workshop on Cotton, Cotonou, Benin
- **July 2004:** July package: cotton is still singled out but backed into the agricultural negotiations; there is agreement on special treatment for cotton and paragraph five of Annex A of the 1 August 2004 Decision seeks coherence between the development assistance and trade policy aspects of cotton
- **Nov 2004:** creation of the WTO Sub-Committee on Cotton

Never before had a world leader addressed the WTO Trade Negotiation Committee in Geneva. But in June 2003, President Compaoré of Burkina Faso took the unprecedented step of personally travelling to the inner sanctum of the WTO. It was a gesture born from the desperation of 10 million West African cotton growers who demanded West African governments make the case for a fairer trading system.

'Our producers are ready to face competition on the world market – provided that it is not distorted by subsidies,' Compaoré told senior WTO negotiators to their faces. 'We want to be able to organise stronger legal defence around cotton for our farmers and for our nations. So put clearly, we are calling for dismantling subsidies and their total elimination.'

With just three months until a crucial WTO Ministerial meeting in Cancun, Mexico, Compaoré's words were like an electric cattle prod to the international community. It was a turning point that placed the C-4's concerns at the heart of a global trading system which had until then failed developing countries.

Compaoré's mission to Geneva came just one month after the C-4 formed into a distinct grouping to challenge the world's most powerful countries at the WTO by 'inviting' them to abide by the law. The C-4's formal proposal included:

- An explanation of how developed countries' cotton subsidies artificially lower cotton world prices, damaging their competitiveness and export revenues
- A request to reduce and then eliminate trade distorting subsidies, not only because it will contribute to their fight against poverty but also because these subsidies are unfair
- A request to be paid compensation to safeguard their sector while waiting for subsidy reduction/ elimination.

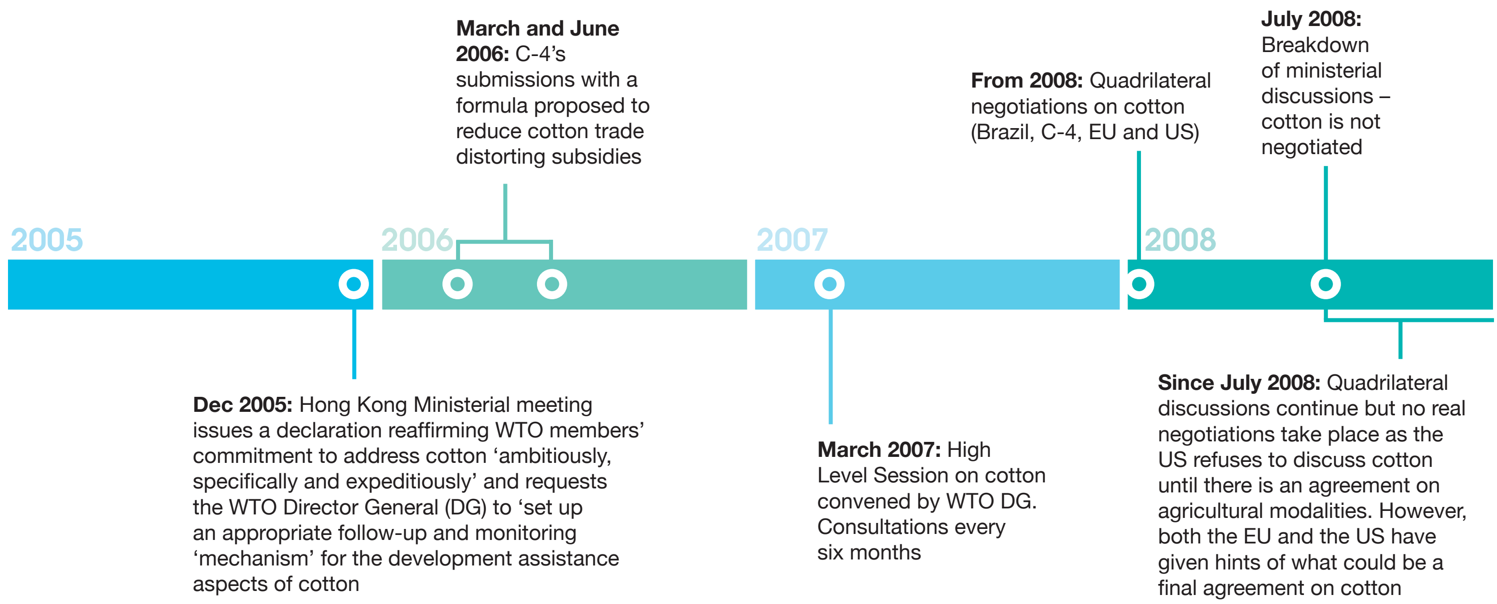
**'We are not asking for help. We are not begging. We are saying: You have passed laws. We are asking you to respect them.'**

***Choguel Maiga, Mali Trade Minister***

At the 2003 WTO Cancun summit, cotton became centre stage. It had a specific chapter in the Cancun papers. It was treated with the same importance as three key negotiating areas: Trade in Agriculture, Industrial Goods and Services.

The word 'cotton' has not left the negotiations since. Although in the July 2004 WTO framework cotton was reintegrated into the general Agriculture section, it was still singled out among all the other commodities. A sub-committee on cotton (within the Agriculture negotiations committee) was created – but has remained inactive because global power the United States has so far failed to engage with it.

Though the Cancun Ministerial collapsed in acrimony, cotton was on the map. 'For the first time, African countries are not asking for a hand out,' said Mali Trade Minister Choguel Maiga. 'We are not asking for help. We are not begging. We are saying: You have passed laws. We are asking you to respect them.'



In 2005, trade ministers from every WTO member state, including those of the EU and the US, took a further step. They solemnly agreed in the WTO Hong Kong declaration that cotton had to be treated 'ambitiously, expeditiously and specifically'.

The agreed WTO statement was admirable. But it has so far failed to be acted upon. The problem was that the scope of subsidy cuts in broader agriculture negotiations at the WTO had yet to be decided. The United States has used this as an excuse to stall a cotton deal despite global agreement. In the July 2008 ministerial conference, cotton was on the agenda but was not discussed: the trade negotiations broke down before the ministers came to the cotton issue.

Seven years after President Compaoré encapsulated the trade injustice damaging his country, the inability of the C-4 to drive through trade reform has been exposed. Perhaps more significantly, the inability of the WTO to fast track what would put at its heart developing countries' concerns, has also been exposed. While the C-4's concerns have been taken seriously by the WTO, the US has – at least up to now – largely refused to enter into a real negotiation.

## Aid versus trade

The Doha negotiations may have been designated a 'development round' to help developing countries fight poverty through trade and economic development rather than aid. But as negotiations developed, the EU and the US quickly discovered that it is easier to give aid than to fully reform cotton subsidies.

Despite West African farmers' requesting their politicians fight for a fairer trading system, in 2005, both the Africans and the OECD countries agreed to divide the cotton issue into two components:

i) a development component which was supposed to be achieved by aid, and
ii) a pure trade component.

The stated purpose of the Doha Round of development and not aid, appeared to be somewhat glossed over.

Without a deal in the WTO on cotton subsidies in sight, perhaps the African politicians accepted the deal thinking a bird in the hand is worth two in the bush. WTO members Brazil, Japan, US and the EU, among others, pledged $551m for cotton related 'development assistance' in the WTO. But these pledges to boost the competitiveness of the sector have been slow to materialise; since 2005, only $266m of pledges have been disbursed to 41 African cotton growing countries.

Aid mechanisms should be designed to ensure that they do not jeopardise the fairness of the market as Mamadou Sanou, former Minister of Trade, Entrepreneurship and Handicrafts of Burkina Faso and currently Coordinator of the C-4, said in Washington in 2009: 'Development and structural assistance cannot be a substitute for equitable trading rules and a level playing field in the international cotton market: assistance is an essential but not sufficient component of the solution.'

**'Development and structural assistance cannot be a substitute for equitable trading rules and a level playing field in the international cotton market.'**

***Mamadou Sanou, Coordinator of the C-4***


Cotton harvest: a farm worker near Diadoubala in Mali

## Time is of the essence

In 2003, cotton prices were very low and plunging the African cotton sector into crisis. The crisis deepened the following year through inefficient domestic privatisation reforms, the CFA franc pegged to the Euro (a major problem for exports when the Euro is high), increasing costs of inputs and extreme weather conditions.

Although cotton prices are increasing again, the marginalised smallholder African cotton farmer cannot be reactive. With no money to invest in cotton seeds and lack of price predictability, West African farmers are highly risk averse. After several bad years, they do not dare invest the little resources they have into cotton production.

## Can negotiation and litigation level the playing field at the WTO?

Small countries have very few options to defend their trade interests. The multilateral trading system is their best option. Their market size is too insignificant to be of interest to powerful trading nations. Any concession they might want to give would have very limited trading value for their partners.

The growing trend towards bilateral trade agreements is not necessarily in small countries’ interests. The multilateral trading system is supposed to protect against the power imbalance between powerful countries and smaller nations.

The only forum where poorer and smaller countries have a fair chance to defend their interests is in multilateral negotiations within the WTO, where they benefit from pooling their interests with other poor countries in defence against the big powers.

Cotton is an example of a successful (at least partially) coalition strategy. It was immediately and nearly unanimously seen as legitimate. The world community recognised the unfairness of OECD cotton subsidies. However, the cotton case also shows that it is not enough to convince WTO members that your case is legitimate to obtain change. In this sense, the cotton case points out the potential as well as the limits of the multilateral trading system.

The cotton case embodies the emergence of developing countries’ coalitions, pro-actively defending common interests at the WTO. As a coalition, the C-4 countries managed to get the support from nearly all WTO members and improved significantly their efficacy within the negotiation process. It remains the embodiment of what poor developing countries could achieve through the system. Moreover, negotiating skills acquired during the whole WTO process will continue to be used to strengthen the position of poor developing countries.

## Great Powers still dominate the WTO

The cotton case has also shown that the system continues to be biased in favour of big powers. The old habit of the so-called Great Powers making the rules and demanding developing countries 'take it or leave it' dies hard. Even if every country represents one 'voice' at the WTO and consensus is needed to ensure change in the rules, some countries are more equal than others. Poorer countries that are unable (or think they are unable) to have challenging positions are too often left behind.

The Great Powers also have shown that they know how to play the system. Today's situation seems to validate the Great Powers' strategy at the expense of poor countries. The WTO, now 15 years old, reflects the growing power of China, India and Brazil. But it has failed to become what it aspires to be: a truly multilateral institution that is sensitive to both the needs and rights of both small and big countries alike.

With the rise of the importance of the emerging markets in the Doha negotiations, WTO policies have come under scrutiny. Important cotton producing countries such as China and India also subsidise their cotton production. The EU and the US argue these countries' subsidies will be, in the longer term, more significant to African cotton producers than OECD countries' subsidies.

But total Chinese subsidies last year worked out at about $20 per farmer, while most Indian cotton farmers struggle to make a meagre income. US cotton farmers can receive millions of dollars in subsidies each year, while EU farmers receive the highest per pound of all.

## Doha deadlock and the need for action beyond the WTO

To achieve a breakthrough in the Doha negotiations, African cotton producing countries have to ensure that the cotton subsidies issue is addressed in US and EU internal debates, within the framework of their own national reform processes and strengthened by domestic-based arguments for change.

Two major players will define what will be included in a final Doha deal in terms of domestic support for cotton: the US, as the biggest cotton subsidiser by total value and the EU, as the biggest cotton subsidiser per pound.

As far as the US is concerned, the pressure to reform its cotton support regime is reinforced by the dispute settlement ruling which authorizes Brazil to retaliate against the US. At present, higher cotton prices undermine to a degree the C-4's powerful

**'The C-4 case demonstrates the system is biased in favour of the Great Powers.'**


Moussa Keita, cotton farmer in Dogourakoroba, Mali, checking his harvest

arguments to request the elimination of subsidies that are price-based. However, the existence of subsidy mechanisms already creates a distortion because US farmers receive a guaranteed price whatever happens to cotton prices in the future. Therefore, they are encouraged to continue to produce cotton. As far as the EU Commission is concerned, it has always considered that EU cotton production does not have an impact on the world cotton market as it is not exported and is limited in quantity. Moreover, the EU argues that it has already made steps in the right direction by redesigning its cotton subsidies and making them less trade distorting.

## The US Farm Bill and the EU Common Agricultural Policy

A resolution of the global cotton subsidy issue hinges on the next US Farm Bill, which is scheduled for 2012, and the EU CAP reform process, scheduled for implementation in 2013.

The US-Brazil settlement colours how the US deals with cotton in its Farm Bill. And it is the Farm Bill that will define the US position as it approaches further DDR cotton negotiations. In this context, C-4 countries and civil society organisations need to campaign for the US to introduce within the next Farm Bill a reform of the cotton support regime that goes beyond its legal requirements to fulfil commitments it made at the WTO Hong Kong Ministerial.

Though the US is the major culprit, EU cotton policy remains distorting and its position within the negotiations remains essential. First, cotton subsidies remain more trade distorting than other crop subsidies in the EU and so contradict EU efforts to increase policy coherence between development and other EU policies. It is particularly disturbing to realise that the EU – for which cotton is a minor issue – is not willing or able to take into account the interests of their development partners. Second, as long as the EU remains a cotton subsidiser, it gives the US cover within the negotiation and thereby minimises the pressure that could be put on US authorities.

Despite this, the cotton issue is not on the European Commission’s agenda. Therefore, it is essential to mobilise members of the European Parliament to ensure that the cotton issue is addressed in the debate on the Common Agricultural Policy.

Fairtrade co-operative members in Madina say they now have more money to spend on health and education

The fact that C-4 and other African cotton producing countries have to go beyond the WTO and campaign within domestic policies to ensure that cotton has a chance to be addressed by major players within multilateral negotiations, shows that the multilateral trading system has yet to fulfil its role.

## Review of the multilateral trade architecture is needed

The cotton case also illustrates the desperate need to review the governance system of the WTO. Trade negotiations are based on a mercantilist exchange of concessions. Such an approach is adapted for negotiations among equal partners. A 'development' round, like the Doha Round, which is supposed to rebalance the trading system in favour of developing countries, cannot be based on an exchange of concessions.

Existing coalitions are based on political groupings such as least Developed Countries Group, the African Group and the Group of Developing Countries. Such groupings are useful as advocacy groups; however, negotiating rounds are based on concrete interests. Egypt and Lesotho do not share common, concrete specific interests. Nor does South Africa share the same trade concerns as Burkina Faso. Singapore and Hong Kong are in the same group of 'developing countries' as Chad and Nepal. New coalitions, based on concrete interests, may have to be created.
The conflicts of interests explain much of the stalemate in the negotiations. A debate on structural reform therefore is essential to reinforce the multilateral trading system and to establish a true balance of power.

## Will there ever be a cotton deal that works for the C-4?

It is easy to conclude that the C-4 countries have not obtained anything, that the C-4 countries won't get anything if the Doha talks fail, and that the C-4 countries have no certainty about the level of ambition which will be attributed to cotton in Doha's final deal, if indeed there is one.

Such a conclusion is misleading. The cotton case allowed the C-4 to learn from the system and the system to learn from the C-4. Achievements have been fourfold:

- C-4 countries have been able to draw attention to the issue of cotton and they have received aid money for their cotton sectors
- The C-4 has become an established coalition within the Doha talks. The C-4 representative has a seat in agriculture-related green room meetings and the C-4 co-ordinator is part of mini-ministerial meetings
- DDR will not be concluded without any commitments being made on cotton. There have been so many statements on cotton by the Director General and other major players within the WTO system that the system itself would lose face without a result on cotton
- The C-4 has shown that poor developing countries can use the system and have an impact on the multilateral trading system.

The C-4 used these long years of negotiation to reinforce their diplomatic presence in Geneva, acquire new negotiation skills, strengthen their own coordination mechanism and shape their role and place within the negotiation process.

Today, there is no certainty that Doha will deliver for the African cotton producers nor if, or when the negotiations will conclude. However, two things are currently true:

- There will be no result of the Doha negotiations without addressing the cotton issue
- A meaningful and substantial result in the cotton negotiations is only possible if cotton subsidy reform is embedded in a larger effort to reform agriculture subsidies in rich countries.

# RECOMMENDATIONS

## Recommendations to the EU and the UK government

**1.** Ensure that the EU's commitment in the WTO to eliminate all trade distorting cotton subsidies is carried out through:

a) Adopting a bottom line position in the current negotiations on post-2013 CAP reform that EU cotton subsidies are fully decoupled from production.

**2.** Use the bilateral relationship with the US and multilateral forums to influence the US to:

a) Implement the WTO dispute settlement panel ruling on cotton;

b) Engage in negotiations on cotton with the C-4 countries in the WTO;

c) Deliver on development in the whole DDR and not just on cotton.

**3.** Continue its engagement in the WTO reform process through:

a) In the short-term, ensuring that areas of interest to all developing countries and not only the major trading economies are negotiated in the DDR;

b) In the long-term, building consensus to carry forward the institutional reform agenda.

**'The C-4 cotton case illustrates the desperate need to reform WTO governance.'**

# FIVE YEARS OF FAIRTRADE COTTON

'Our vision is of a world in which justice and sustainable development are at the heart of trade structures and practices.'

## What is Fairtrade?

Fairtrade is a strategy for poverty alleviation and sustainable development. Its purpose is to create opportunities for producers and workers who have been economically disadvantaged or marginalised by the conventional trading system.

Our vision is of a world in which justice and sustainable development are at the heart of trade structures and practices so that everyone, through their work, can maintain a decent and dignified livelihood and develop their full potential.

The Fairtrade Foundation's mission is to work with businesses, community groups and individuals to improve the trading position of producer organisations in the South and to deliver sustainable livelihoods for farmers, workers and their communities.

## Why did Fairtrade start working with cotton farmers?

Cotton is vital to the global textile industry and to the social and economic development of developing countries. Cotton is a crucial cash crop for many developing countries and is often the only means of cash income for farmers.

It is estimated that 100 million households are involved in cotton production in 70 countries around the world. Small-scale farmers often earn less than $2 a day and struggle to provide a decent living for their families. Farmers are at the sharp end of a long and complex supply chain, often cheated by middlemen, as Khima Ranchhod in Gujarat, Western India told the Fairtrade Foundation, 'The buyer would always find a reason to offer us a poor price.'

Recognising that most sustainability and ethical trading initiatives were focusing on garment manufacturing, the Fairtrade system decided to focus its work firstly on the cotton farmers themselves, often the invisible part of the supply chain for Western consumers.

## What is Fairtrade Cotton?

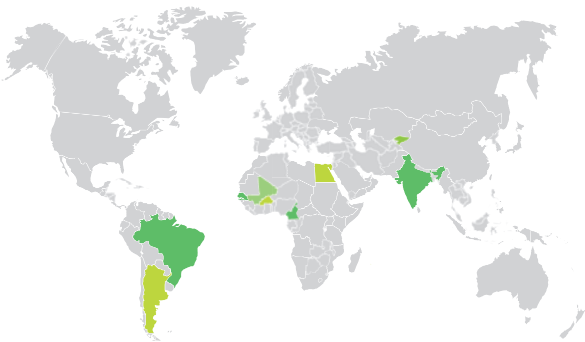
Fairtrade producer organisations receive:

- A Fairtrade minimum price that always covers the costs of sustainable production. This price varies by region and by cotton species
- A Fairtrade minimum price for organic cotton set around 20% higher than the Fairtrade conventional minimum price
- A Fairtrade premium of €5 cents/kg. The premium is used by producer organisations for social and economic investments such as education and health services, processing equipment and loans to members
- Pre-export lines of credit on request of up to 60% of the purchase price.

In addition:

- Fairtrade environmental standards restrict the use of agrochemicals and encourage sustainability. Fairtrade growers are not obliged to be organic but standards require increased diligence in avoiding banned pesticides, encouraging reduction of chemicals and use of integrated crop management and biological alternatives where possible. They are also required to make progress towards implementing a system of integrated crop management to promote environmental protection by progressively replacing traditional inputs with organic fertilizers, enabling them to gradually convert to organic farming if they wish to do so
- Fairtrade cotton standards prohibit the use of genetically modified seeds in production but recognise that small-scale farmers may not always be able to protect their own land from cross contamination from neighbouring farms
- Every operator in the supply chain that takes ownership of Fairtrade cotton and uses it in the processing or manufacture of Fairtrade products until the point of licensing must submit independent verification documenting their efforts to comply with 11 International Labour Organisation conventions, including those concerning forced labour, child labour, hours of work and freedom of association. Where the operator uses a sub-contractor for processing or manufacturing cotton products (including ginning, spinning, weaving, knitting, dyeing or other activities), the operator must demonstrate how the sub-contractor has made progress towards compliance with those conventions
- Fairtrade is also working with some dedicated Fair Trade Organisations which, in addition to using Fairtrade certified cotton, are also applying Fair Trade principles to the garment manufacture stage. Many of these organisations work with traditional, artisanal manufacturers who themselves have a social mission to provide decent employment conditions and invest in additional worker benefits.

Fairtrade certification of cotton is currently helping over 95,000 farmers, workers and their families to improve their lives. There are 38 producer organisations certified to Fairtrade standards in Argentina, Brazil, Burkina Faso, Cameroon, Egypt, India, Kyrgyzstan, Mali and Senegal.



## The Agrocel Cotton Growers Association

In 2005 Agrocel Industries formed the Agrocel Cotton Growers Association in Kutch, India, from an informal group of farmers who previously met a few times a year to discuss organic farming issues. After establishing a legal entity with a democratic structure in 2005 and gaining Fairtrade certification, the farmers now supply the UK market with Fairtrade cotton. Agrocel Industries has expanded to involve 20,000 farmers across six Indian states, it promotes sustainable farming, helps growers convert to organic growing, pays a sustainable price and provides agricultural inputs at cost price, interest free pre-finance and agricultural advice and support from Field Service Officers. The Fairtrade premium has helped build water sources, schools and clinics. Agrocel reported in 2006 that its cotton farmers earned 37% more from Fairtrade sales compared to local markets.

Agrocel cotton growers hear latest Fairtrade developments

## Five years of progress

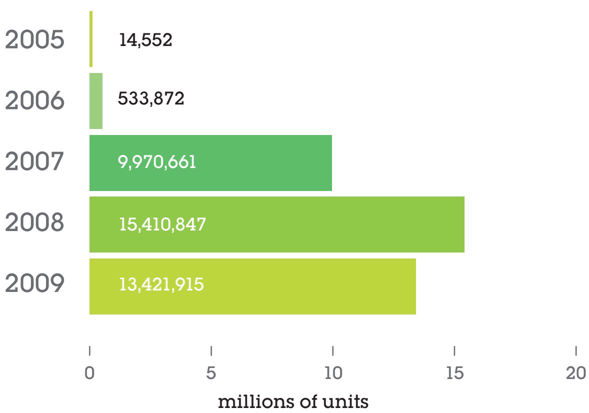
The first Fairtrade certified cotton products were launched in France in early 2005, based on exports from four West African countries. In November 2005, the first Fairtrade certified cotton products were launched in the UK by eight dedicated Fair Trade Organisations, including companies that had been working with both cotton farmers and artisanal garment makers in India, such as Gossypium, Traidcraft, People Tree and Bishopston Trading. Shortly after, Marks & Spencer became the first mainstream high street retailer to make a major commitment to Fairtrade cotton, with the first products launched in 2006. Fairtrade certification of cotton is currently helping over 95,000 farmers, workers and their families to improve their lives in Argentina, Brazil, Burkina Faso, Cameroon, Egypt, India, Kyrgyzstan, Mali, and Senegal where 38 producer organisations are certified to Fairtrade standards.

In the 2007/08 season, the Fairtrade price paid to producers was 46%[25] higher than conventional prices in Mali and 61% higher in Burkina Faso. [26]

In 2008, global Fairtrade cotton sales reached €176m, amounting to over 27 million items, almost double the sales in the previous year. In the UK, Fairtrade sales of cotton have grown exponentially, rising sevenfold in 2007 and more than doubling in 2008, to reach £77.9m. UK sales of Fairtrade cotton amounted to 73% of all Fairtrade cotton sales in 2008. Sales of garments made from Fairtrade cotton reaching 15 million units in 2008.

Success is also demonstrated by the type of products available in Fairtrade cotton, ranging from household textiles, bags, cotton wool, garments and baby clothes. However, in the global recession of 2009, sales of garments dropped to 13 million units.

### UK unit sales of Fairtrade cotton



## Challenges of the last five years

Although growth in Fairtrade cotton sector has increased, there have been numerous challenges over the last five years.

From the West African producer perspective, the distance between the cotton farmer and the consumption decisions in the fast paced, high turn-over fashion industry disadvantages the producers by limiting their capacity to forecast demand for their product. Because cotton is easily stored by traders, large purchases in one harvest season may not necessarily be repeated, and therefore the market signals to cotton farmers can be misleading. Production decisions can therefore often over- or under-shoot demand. High street retailers have found it challenging to accurately predict their cotton requirements in this context of fast changing fashions and market trends.

Furthermore, West Africa still lacks the textile industry infrastructure to process raw cotton to export standards. West African cotton is traditionally exported to China for ginning and spinning.

Processing Fairtrade West African cotton therefore involved setting up new supply chains, working with Fairtrade registered spinners, weavers and garment manufacturers in India or other parts of Africa. These alternative supply chains have proved a challenge to set up efficiently and cost effectively as neither party had established relationships. In India, processors prefer sourcing from their familiar and more local cotton producers, than using imported West African cotton. Indian cotton producers have therefore also found it easier to sell their cotton into the more established processing and garment supply chains in Asia, and clothing manufacturers have found it more straightforward to source from these supply chains too. As the market for Fairtrade cotton struggled against the countervailing cheap and fast fashion trends and the overall economic downturn, falling demand for Fairtrade cotton has hit West African cotton particularly hard.

Meanwhile, using traceable Fairtrade certified cotton requires clothing retailers to plan their cotton requirements about 18 months in advance. Given the speed of turnaround for their high-end fashion ranges, retailers therefore looked to their core product ranges (T-shirts, underwear, basic shirts) for integrating Fairtrade cotton, as volumes and sales are easier to predict for these. However, basic T-shirt ranges, for example, are also subject to major price competition between high street retailers, whilst for the higher value designer items it would be easier for the additional costs of Fairtrade purchasing and certification to be absorbed in the final retail price.

Finally, certification of the seed cotton used in garments was always considered as just the first step in applying fair trading principles to the garment and textile industry. In the five years since Fairtrade cotton first became available, there has been a complex debate about how to expand this initial work to other parts of the supply chain such as ginning, spinning, dying, weaving and garment manufacture. Given the range of ethical sourcing and anti-sweatshop initiatives already in existence, the Fairtrade movement does not wish to duplicate this work, but build on it and add further value. At international level, a number of research projects and pilots are now being developed to explore approaches to international standards for Fairtrade textiles.

## Where to go in the next five years

1. Consultations with major stakeholders will begin in the last quarter of 2010 to actively address supply chain problems with a view to creating standards for Fairtrade certified textiles. The Fairtrade model will become less complex and costly to work with.

2. A new product strategy is being developed to change the perception of Fairtrade cotton, to make it more appealing to a fashion conscious shopper and to the trade press. Creating demand and awareness is central to this strategy.

3. The Fairtrade Foundation is capitalising on opportunities to work with a wider variety of end users from high profile designers, to those involved in public procurement such as schools, hospitals and hotels where larger orders and long-term contracts provide greater commitment to Fairtrade cotton for producers.

4. The Fairtrade Foundation is working with schools across the UK and young designers at Central St Martins and Northumbria University to develop modules to make young designers of the future aware of the impact of their sourcing decisions.



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# GLOSSARY

**The African Group:** A coalition of 41 African countries in the WTO agriculture negotiations

**Aid for Trade:** Assistance offered by the WTO to developing countries to assist with the adjustment to trade liberalisation and the utilisation of open markets, with the intention of stimulating economic growth and poverty reduction

**Area Payments:** Subsidy payments made according to the size of a farm

**Boll:** Rounded seed pod of the cotton plant

**Cash Crop:** A crop grown for direct sale rather than subsistence crops which, for example, are grown for home consumption and to feed livestock

**Common Agricultural Policy:** Agricultural support scheme for EU Member States which constitutes 45% of the EU budget. This budget is intended to be spent on the preservation and management of natural resources including support for a competitive rural economy, environmental programmes, and aid for the fisheries sector. It is reviewed periodically

**Countercyclical Payment:** USDA mechanism of producer support, based on an historical planted area and yield. It is paid when the world price falls below the USDA determined target price

**Coupled subsidies:** Payments to farmers that are linked to current levels of production, prices, or resource use

**Decoupled subsidies:** Payments to farmers that are not linked to current levels of production, prices, or resource use of a specific crop, but on the area under cultivation (see area payments)

**Dispute Settlement:** The WTO's method of resolving trade disputes which arise when a member government believes another member government is violating an agreement or a commitment that it has made in the WTO

**Export Credit Guarantee Program:** The USDA administers export credit guarantee programs for commercial financing of US agricultural exports. These programs encourage exports to foreign buyers

**Fairtrade Premium:** Money paid (on top of the Fairtrade minimum price) as part of a contractual arrangement between producers and traders that is invested in social, environmental and economic development projects. Projects are decided upon democratically by producers within the organisation or by workers on a plantation

**Farm Bill:** The primary legal framework for US agricultural policy set through a legislative process and renegotiated approximately every five years

**Ginning:** A stage in cotton processing when cotton lint is separated from cotton seed

**Group of Developing Countries:** Formed in 1989. Represents 17 developing countries across the globe, with a common aim to increase growth and prosperity

**Least Developed Countries Group:** Coalition of 32 WTO member countries identified by the UN as the least developed countries in the world. 12 WTO observer countries and five non-WTO member or observer countries also comprise the wider group

**Loan Deficiency Payment:** Type of US agricultural subsidy paid to those who agree not to claim the Marketing Assistance Loan despite eligibility. Intended to minimise the accumulation of stocks and allow US-produced commodities to be marketed competitively

**Marketing Assistance Loan:** Type of US agricultural subsidy. Provides producers with interim financing to store, rather than sell, their commodities when market prices are typically at harvest-time lows

**Prohibited Export Subsidies:** Categories of subsidies, such as export subsidies, prohibited by the WTO because they are designed to directly affect trade and thus are most likely to have adverse effects on the interests of other members

**Subsidy:** A sum of money granted by the state or a public body to help an industry or business keep the price of a commodity low, usually to encourage production or consumption or to help the business to be more competitive. Subsidies which stimulate over production causing prices to fall are trade distorting

**UN Human Development Index:** Measures such factors as adult literacy rates, income and life expectancy, in order to give an indicator of the level of socio-economic progress in a state

**World Trade Organisation:** Open-membership international body launched in 1995 dealing with the trade rules between nations

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