

‘White Gold’ Turns to Dust

Which Way Forward for Cotton in West Africa?

West African farmers continue to face severe deprivation because of depressed cotton prices. One factor is the dumping of exports from the USA, where overproduction is the result of government handouts worth \$2.3bn. The US government shamefully disregarded the Africans when they took their complaint to the WTO, but the issue remains high on the agenda and is now the critical test of whether the Doha Round can deliver on development. Aid for West Africa is currently under discussion, but it must not divert attention from the scandal of US subsidies.

Summary

Low prices on world cotton markets are driving ten million Africans deeper into poverty. The crop is typically grown on small family farms in West and Central Africa (WCA), for whom it provides essential cash income for basic needs such as medicines, school textbooks, and tools. In Benin, Mali, Burkina Faso, Chad, and Togo, which are among the poorest countries in the world, cotton accounts for 37 to 71 per cent of agricultural export earnings.

There are several initiatives to mobilise the international community to provide economic assistance to WCA, such as the WTO-sponsored meeting in Cotonou which starts on 23 March 2004, and a mid-year donor meeting in Paris. It is vital that these events generate significant resources which reach down to small-scale producers. However, Oxfam and its partners in the region are deeply concerned that the promise of financial aid will be used by Washington to avoid dealing with the heart of the matter, which is the damage caused in these impoverished regions by massive subsidies to US domestic cotton producers.

In the past, West Africans described cotton as 'white gold'; but the worth of this asset began to decline when prices started sliding in the mid-1990s, reaching an all-time low by October 2001 and generating both hardship and unprecedented political mobilisation among producers. Prices have risen recently, but are expected to fall again once China has recovered from poor harvests. One major factor in the slump is overproduction and the dumping of exports by the United States, made possible by handouts to agribusiness which totalled \$2.3 billion in the 2001-2002 season. Last year, 68 per cent of US cotton was exported, at prices substantially below true production costs. This avalanche of cotton, produced by a mere 25,000 US plantations, deprives the highly competitive African smallholders of markets and pushes down world prices. Greek and Spanish production, although much less than that of the USA, has risen sharply as a result of \$700 million in annual CAP subsidies, making it harder for Africa to compete in Europe, its principal market. Direct losses to West Africa as a result of US and EU subsidies are estimated at \$250 million per annum.

This 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. The ten largest producers in the USA, whose government regularly preaches the virtues of free trade to developing countries, together pocket annual subsidy cheques for up to \$17 million.

The West Africa governments of Benin, Chad, Mali, and Burkina Faso, supported by active producer associations, have been in the forefront of efforts to persuade the industrialised countries, above all the United States, to reduce cotton subsidies and to provide interim compensation for the damage that their economies are enduring. They managed to place the issue squarely on the WTO agenda at the Cancun ministerial conference in September 2003, but the USA refused to change its policies, proposing instead that these countries should diversify their farm production away from cotton. This reaction offended the developing countries and added to the acrimony of the talks. There has since been no significant progress on the issue at the WTO, which is only now emerging from its post-Cancun coma.

The failure of the US government to respond to one of the starkest examples of rigged trade rules, combined with its willingness to jeopardise the multilateral system over the issue of cotton, is disturbing. It demonstrates that US trade policy is vulnerable to small but powerful domestic lobbies with friends in high places, and is shockingly indifferent to poverty in Africa. The Europeans are more prepared to countenance reform of their subsidy regime for cotton, although their current proposals might not in practice have a significant impact on production levels. It is vital that they do scale back production, not least in order to maintain political pressure on the USA. Both the EU and the USA, regrettably, have rejected the notion of compensation, no doubt fearing that it would set a dangerous precedent.

The forthcoming international meetings on WCA's cotton crisis are both an opportunity and a threat. They could mobilise external resources to partially alleviate the suffering of rural producers and repair some of the damage caused to local economies and the balance of payments. And funds are needed for investment in longer-term development of WCA cotton sectors, promoting improved production, local processing and marketing, including exploration of niche markets such as organic or GM-free cotton. The meetings should also review the very mixed experience of liberalising domestic cotton sectors, for example abolishing State marketing boards, which has often been done at the instigation of the international financial institutions. But there should be no illusions: aid will not bring about poverty reduction of the scale and durability that could be achieved by ending artificial overproduction and dumping by the USA.

And there lies the threat. The promise of aid, combined with strong diplomatic pressure, could be a way to push WCA governments to drop their demands for urgent reform of agricultural subsidies. This would help the USA to keep its subsidies untouched, and allow the WTO to kick an awkward and apparently intractable issue into the very long grass of the agriculture negotiations. Even if the industrialised countries were to deliver an aid package of appropriate quality, the structural problem would persist, and eventual losses for WCA would far outweigh the immediate benefits. One might in any case ask whether international donors should use taxpayers' money to foot the bill for US economic vandalism. At a political level, a retreat on subsidies would weaken the broad coalition of developing countries that supports WCA on cotton and calls for deeper and faster reform of world farm trade. It is therefore essential that aid to WCA or any US or EU offer to pay compensation for damages, should not be conditioned on such a retreat and considered transitional. The more enlightened industrialised countries have a vital role to play in ensuring that this does not happen.

Unfortunately, the agenda of the WTO meeting to be held in Cotonou between 23 and 25 March 2004 focuses on development aid and marginalises the issue of subsidies and compensation. In addition, participation is restricted to selected governments and international organisations. Oddly, for an event purporting to address financing and technical assistance, key stakeholders such as producer organisations and processing companies are not invited; nor are key development ministries such as the UK government's Department for International Development, nor any national and international NGOs. This raises the suspicion that it may be an ill-designed exercise in buck-passing, or worse, an effort to put pressure on WCA countries to moderate their demands. If, indeed, there are aid proposals forthcoming, it is essential that producer groups should be invited to comment and later participate in the transparent management of resources.

Conclusion and recommendations

Oxfam believes that West and Central African countries have a powerful moral and economic case for their demands for reform of the cotton subsidy system and payment of interim compensation, especially by the USA. The challenge is to build a coalition of developing countries, civil-society organisations, and enlightened industrialised countries to put effective pressure on the USA and EU to change their policies. The success of this alliance would deliver enormous benefits to millions of Africans living in poverty in rural areas and, at the same time, bring a much-needed sense of progress and legitimacy to the world trade talks. Oxfam makes the following recommendations:

- The USA should eliminate all cotton subsidies that affect international trade, as a matter of urgency. This will include most domestic subsidies, including those officially classified as minimally trade-distorting ('green box').
- The aim of EU subsidy reform should be to increase West Africa's share of the European market, while protecting the livelihoods of small European producers. The EU should urgently review its current proposals to ensure that this goal is met.
- As a transitional measure, the USA and EU should agree to compensate WCA producers for losses caused by subsidies.
- Cotton should continue as a separate issue in WTO negotiations. If it is merged into the broader agriculture talks, it should be fast-tracked with an early deadline for deciding commitments on substantial subsidy reform and rapid implementation.
- Financial and technical assistance should be given to WCA for short-term needs created by the cotton crisis and for longer-term development of the sector. This aid should not be conditional on African governments changing their position on subsidies, should not add to their debt burdens, and should involve full participation by all stakeholders.
- Aid could usefully be targeted to establish mechanisms for stabilising incomes and prices at local and national levels, improving the quality and grading of cotton, developing 'fair trade' and organic production, and supporting initiatives to add value. The experience of domestic liberalisation promoted by the World Bank should be critically examined.

1 The cotton crisis and poverty in West Africa

Well over half the populations in West and Central Africa (WCA), live below the poverty line, mainly in rural areas.¹ In some of the world's poorest countries – Mali, Burkina Faso, Benin, Chad, and Cameroon – economies are highly dependent on cotton or export revenues,² and cotton is a significant contributor to GDP. In many WCA countries, the cotton growing and processing sector currently provides the only real option for access to cash income and employment for an estimated 10 million poor people in rural areas.³ Their incomes and wages, in turn, stimulate local demand and markets, and pay for education and health care for their families, and tools and inputs for cultivation.

'Everything is linked to cotton here. We pay for everything with money that grows on the cotton vine – our clothing, building our homes, everything.'
(Cheik Kone, Konsenguila, Mali, who has farmed cotton since the 1970s.⁴)

West African cotton is already produced at one of the lowest costs in the world. And yet West African farmers have to struggle to compete in world markets with some of the highest-cost producers, who are guaranteed prices well above that paid in the world market. In 2000-2001, US and EU cotton farmers were guaranteed prices 70 and 150 per cent higher than the world price (see Table 3 in the Annex to this paper). Meanwhile, West Africa's producers, who negotiate annually with cotton companies or their respective governments, achieved around 30 per cent of world prices.

In these conditions, a typical small-scale West African cotton producer like Soloba Mody Keita, from the Kita region in Mali, with a holding of two hectares, can expect to make 150,000 CFAF (equivalent to less than US \$400) on his annual crop: an income which barely covers his costs, let alone compensates him for the back-breaking labour that went into production. With this level of income, he is unable to keep all his children in school or buy basic furniture.⁵ Meanwhile, 25,000 US farmers receive subsidies of \$250 per hectare of cotton grown, with the 10 largest producers netting up to \$17 million in subsidies.⁶

During the period 1997-2002, total cotton-subsidy payments worldwide ranged between 3.8 billion and 5.3 billion dollars per year. In 2001-2002, total US subsidies were \$2.3 billion in the cotton sector; EU support to Greece and Spain totalled 700 million; and China provided \$1.2 billion in support (Gillson *et al.* 2004).⁷ Moreover, as other countries such as Brazil try to compete with the USA, the largest net exporter, they are increasingly forced to subsidise, compounding the problem. The USA is the world's largest

exporter, and the share of its production going to exports continues to grow, rising from 31 per cent in 1988-1989 to 68 per cent in 2002-2003 (Goreux 2004).

Cotton is not the only commodity on which poor developing countries depend heavily for export revenues, but it is almost unique in being a primary commodity export in respect of which small African farmers are in **direct competition** with highly subsidised US farmers and agro-industries on global markets – farmers who have benefited for many years from taxpayers' support and who would not, for the most part, be competitive in liberalised markets. They also compete in the European market with heavily subsidised domestic producers.

With the volatility of world prices in primary commodity markets, crises in the West African cotton sector are not new. The difference now is firstly the severity of the crisis and secondly changes in the political context. In October 2001, at 42 cents a pound, cotton prices reached their lowest level in 30 years: in real terms, their lowest level since prices have been recorded. This effect was exacerbated by the effects of liberalisation in the domestic cotton sector, which (although not without conferring some benefits) by and large had created insecurity for cotton farmers. For West and Central Africa, 'white gold' looked as though it were turning to dust.

However, the most significant difference was the signals coming from developed countries, with the US Farm Act, passed in 2002, indicating that the already huge subsidies to US producers were likely to continue for some time, if not to increase, in spite of the promises made at the launch of the Doha round of trade negotiations at the World Trade Organization.⁸ With the current provisions of the Agreement on Agriculture allowing Northern countries to continue their practice of subsidies to agro-industry, millions of poor farmers in the developing world are forced to compete in global markets with these same producers, with decreasing or negligible support from the State. In the absence of action on Northern subsidies, pressing poor countries and producers to reduce their costs even further is tantamount to making Africa 'the variable of adjustment' and squeezing an already impoverished population beyond any acceptable limits.

'It is indecent to ask us to adapt to an unequal competition created by our developed country partners, when it should rather be them who adjust to a fair and free trade.'

(The President of Senegal, Abdoulaye Wade, in 'Afrique n'est pas un variable d'ajustement', *Le Monde*, 10 September 2003)

2 Cancun and the cotton initiative

The challenge to subsidies

In the face of the conditions described in the previous section, producers in Africa began to campaign internationally to challenge Northern subsidies, and they gained support from non-government organisations (NGOs).⁹ Finally, in April 2003, after more than a year of campaigning by producers, cotton companies, and other actors, four West African governments, led by Benin, took the unprecedented step of submitting a proposal to the WTO for a sectoral initiative on cotton, as part of the agenda for the Cancun Ministerial Conference in September 2003. The substance of this proposal was in two parts:

- an immediate decision to put in place a system for reducing cotton subsidies, as a step towards their eventual elimination ('Early harvest');
- transitional compensation to Least Developed Country (LDC) net exporters of cotton.¹⁰

What characterised this initiative was the close co-operation between governments and regional organisations, in alliance with cotton companies, producers, and other actors. This in itself constituted a huge advance in African countries' assertiveness in the WTO system, and ensured that African governments were responding to the interests of their own populations and industries, to whom they would be held accountable. The President of the Cotton Producers' Union of Burkina Faso, Francois Traoré, presented a petition, signed by thousands of cotton farmers, to the Conference Chair, Derbez, demanding action on cotton subsidies. Similar presentations were made to several West African Ministers before they left for Cancun (see Box 1).

Box 1: A petition to the Cancun conference

On 5 September 2003, on the eve of the Cancun conference, Moussa Sabaly, President of the Federation of Cotton Producers of Senegal, speaking in his national language, Wolof, presented a petition of cotton producers, to trade minister Aicha Agne Pouye, denouncing the impact of subsidised cotton production on the livelihoods of Senegalese cotton producers. More than 100,000 signatures had been collected in cotton-growing areas of Senegal alone. Sabaly urged: 'It would be good to have compensation for our losses, but even better to end the subsidies immediately. Rather than giving people fish, it is better to let them do the fishing!'

On the same day, a delegation of ten men and two women cotton producers from Burkina Faso met their Minister of Trade, Benoit Outtara, in Ouagadougou, in the presence of national and international media, and representatives of the cotton company, Sofitex. The Vice President of the National Union of Cotton Producers of Burkina Faso, François Tani, presented M. Outtara with a petition bearing nearly 80,000 signatures of protesters against cotton subsidies. 'Our action, as well as being symbolic, is a heartfelt cry of thousands of cotton producers who live from the sweat of their brow, and whose survival, as well as that of future generations, depends on cotton,' François Tani said.

The West African Cotton Initiative, which attracted huge political support¹¹ and media attention worldwide in the period before and during the Cancun ministerial meetings, has become a litmus test of the willingness of the powerful nations, notably the USA and the EU, to make genuine concessions to the poorest countries, through reforms to their own agricultural and trading systems, in multilateral trade negotiations. The collapse of the talks in Cancun hinged on this unwillingness to concede any ground, even while pushing for more liberalisation from developing countries.

Hopes dashed at Cancun

Initially, there were positive signs that the groundswell of support for reform of cotton trading would lead to results at Cancun. A special working group was established, chaired by the WTO Director General himself. Unfortunately, the hopes of millions of West African cotton farmers for a signal that the WTO would address their concerns were dashed on 13 September 2003, when a draft declaration was issued with no reference to the specific cotton proposal of West African countries.

Box 2: The draft text that angered West African WTO members

'We recognise the importance of cotton for the development of a number of developing countries and understand the need for urgent action to address trade distortions in these markets. Accordingly, we instruct the Chairman of the Trade Negotiations Committee to consult with the Chairpersons of the Negotiating Groups on Agriculture, Non-Agricultural Market Access and Rules to address **the impact of the distortions that exist in the trade of cotton, man-made fibres, textiles and clothing** to ensure comprehensive consideration of the entirety of the sector. The Director-General is instructed to consult with the relevant international organizations including the Bretton Woods Institutions, the Food and Agriculture Organization and the International Trade Centre to effectively **direct existing programmes and resources toward diversification of the economies where cotton accounts for the major share of their GDP.**'

In fact, the text was virtually a verbatim reproduction of the US position, a fact which angered even the EU delegation, which had been pushing for softer language. The hard-line US position failed even to acknowledge the damage caused by subsidies; instead, it recommended that West African producers should diversify into other crops. West Africans and other developing-country delegates were outraged.

While the EU had already proposed some limited reforms – a partial decoupling of subsidies from the level of production – their impact remains unclear, and they may not lead to significant reductions. Despite its diplomatic rhetoric, the EU was not prepared to give explicit support to the West African proposition, without extracting concessions in other areas.¹² In addition, both the USA and the EU refused to accept the principle of the demand for transitional compensation, pending the phasing out of subsidies in the sector.

It is clear that both the EU and the US negotiating teams at Cancun underestimated the political force of developing countries, the significance of the cotton issue, and the unity of African nations and G90 and other emerging alliances in support of this issue. Informal pressure in the corridors was insufficient to make West African countries rescind or trade off their demands.

3 Developments since Cancun

Since the WTO talks failed to reach a resolution in Cancun, cotton has been identified as one of the four key issues on which progress must be made in order to restart the negotiations. As such, it can no longer be ignored. The initiators of the cotton proposal resubmitted a modified proposal in October 2003, in order to clarify their position. However, the planned resumption of negotiations on 15 December failed to take place, because there had been no overall shift in positions.

In January 2004, US Trade Representative Robert Zoellick sent a letter to Ministers of all WTO member countries, urging progress in WTO talks, in spite of the apparently unfavourable political climate. This signalled a more positive approach by the USA towards the multilateral system. His letter and related press statements emphasised the need to resolve key issues in agriculture but offered no substantive move to resolve the cotton controversy. In February 2004, meanwhile, the EU published its initiative for an EU-Africa partnership on cotton (see Box 3).

Box 3: The EU–Africa partnership in support of the cotton sector

On 12 February 2004, the EU Commission unveiled its two-part strategy for an EU-Africa partnership in support of the cotton sector:: general endorsement of the West African initiative to seek a reduction of trade-distorting subsidies on cotton; and trade-related technical assistance and support for African cotton-producing countries in their efforts to consolidate the competitiveness of their cotton sector.

While this may be regarded as a positive signal that the EU has recognised the scale of the problem, the initiative is seriously limited in a number of respects.

1. It proposes that cotton should be dealt with at the WTO as part of overall agricultural negotiations, rather than as a separate issue.
2. The proposal for reform of the EU's cotton sector consists essentially of decoupling 60 per cent of payments from production levels. This reform is needed, because – thanks to huge subsidies – Greece, the main EU producer, has expanded its output by more than 250 per cent since its accession to the EU in 1981. The current proposal's true impact on output, while sounding significant, is in fact unclear. Since available studies draw contradictory conclusions, a review is urgently needed to ensure that current reform will allow for higher exports of African cotton to Europe, while protecting small European farmers.
3. The EU has a critical political role to play in arguing for the elimination of US cotton subsidies, which still constitute the biggest problem. In this context, it is important for the EU to show a genuine commitment to compromise on other commodities (such as dairy products and sugar) which the EU itself subsidises heavily and dumps on world markets. This is essential to persuade the USA to make a commitment on cotton.
4. The EU proposal for a revival of the FLEX mechanism, which would provide budgetary support to States facing difficulty as a result of commodity-price falls, could be helpful, although it does not address the issue of direct losses suffered by farmers.

In an informal meeting between selected African trade ministers and Pascal Lamy and Robert Zoellick in Mombasa in February 2004, African ministers' commitment to reform of the cotton sector was reaffirmed. Bilateral attempts by the USA to get the issue taken off the agenda have not worked. A more recent meeting of the trade ministers of the countries that initiated the cotton proposal, which was held in Ouagadougou in February, intimated that a possible compromise was being considered. The spirit of compromise is clearly necessary for progress in the multilateral negotiations. But the WCA countries must resist being 'bought off' before the real issues are addressed.

The concerns of both producers and governments may be temporarily dulled by the current rise in the global price of cotton, which has reduced the immediate fiscal and income squeeze on the

sector. Prices have risen since November 2001 and currently stand at about 70 cents/lb. However, the current rise, mainly caused by an unexpected fall in production in China, combined with a rise in demand in advance of the phasing out of the Multifibre Arrangement (MFA), is unlikely to last into 2004-2005; and in the next few years, it is likely that prices will remain below their long-term average (ICAC 2004; Goreux 2003, 2004).¹³

Meanwhile, the issue of transitional compensation – a principle not yet accepted by the USA or the EU – appears to be sliding off the agenda, to be replaced by discussions on cotton-sector financing and technical assistance. This was the essence of the US response to cotton producers. The option of a separate financial package also seems to be favoured by Europe.

Indeed, the WTO will hold a seminar in Cotonou on the subject of financial and technical assistance to the cotton sector, from 23 to 25 March 2004, just as the agriculture negotiations recommence in Geneva. Participants invited to the meeting are government representatives from African cotton-producing countries, regional organisations, multilateral institutions, major players such as the EU, USA, Japan, and China, and some donor agencies.

Although the seminar is purportedly a meeting about financing and technical assistance, which is normally a domain of donor agencies – who have already planned a meeting for late May in Paris – this meeting is to be held under the auspices of the WTO, whose remit is normally trade negotiations. Trade issues, however, are apparently excluded from the meeting: *'The purpose [of this meeting] is exclusively focused on the Development Aspects [of the cotton initiative], particularly the scope and opportunities for financial and technical assistance'*.¹⁴ For a meeting about development of the cotton sector, the absence of any non-government actors in the process – in particular producer organisations and cotton industries – seems to contradict principles of producer or private-sector participation, currently cornerstones of the reform processes in the sector.

4 Key issues remain unresolved

Agriculture negotiations: in or out?

Following the recent round of bilateral diplomatic meetings and the appointment of a new Chair of the WTO agriculture committee, talks on agriculture are due to recommence in Geneva on 22 March 2004.

Both during and since the meetings in Cancun, it has become clear that the WTO secretariat, the EU, and the USA all wish to see the

issue of cotton-sector reform reintegrated into the broader agriculture negotiations, rather than treating it separately as a special case. However, this runs the risk that it would become submerged in the wider deals on subsidy reduction and other concessions – probably relating to market access – and could delay action for many years.

Thus far, African governments have refused to merge the clear demands of the cotton initiative into the wider debate on agriculture, particularly given the lack of progress in agriculture before and during the Cancun conference. It would be risky to change this position at this stage, before any significant gains have been made. If cotton-sector reform is reintegrated into the broader negotiations, WCA countries should seek an agreement that it will be fast-tracked, with an early date set for deciding commitments on subsidy reductions and timing.

Subsidy reform: a necessary condition for sustainable cotton production

Following reports by the International Cotton Advisory Committee (ICAC) and Oxfam in 2002, and studies commissioned in the context of the case brought to the WTO by Brazil, and in the light of more recent analyses, it is now clearly established by several well-known economists specialising in trade and commodity-market issues that cotton subsidies reduce world cotton prices and thus create losses for WCA countries (see Table 4, Annex). Most estimates suggest that WCA countries lose something like \$250 million per year in **direct** income losses only (on the basis of net export revenues forgone).¹⁵ This is a conservative estimate which does not include indirect impacts of increased cotton incomes on the wider economy, nor market-share effects.

Given the weight of available evidence, and the commitments of principle already made in the Doha Round, there is no doubt that the issue of cotton subsidies will have to be addressed at some stage. But which subsidies? and when? African governments initially pressed for all subsidies in the cotton sector to be removed within the next three years. Their position has now been somewhat modified to differentiate between export and production subsidies.¹⁶

If the USA and EU take the proposal seriously and honour their promises on trade reform, made at Doha, they should now be making concrete offers, specifying which subsidies can be reduced, and in what time frame. With the cotton-sector reform under the CAP, the EU has begun the process of decoupling some payments, but has not achieved any serious reduction in subsidies. The USA has yet to produce any concrete proposal for cotton-subsidy reform.

Detailed technical proposals on how to tackle reform of cotton subsidies are beyond the remit of this note. But some starting principles can be established. Oxfam is not opposed in principle to farm subsidies in OECD countries. However, it is opposed to subsidies that

- directly support exports (all export subsidies, including export credits);
- have distorting impacts on world markets and other producers (via price or market-share effects);
- have negative social and environmental effects;
- represent a grossly inefficient use of taxpayers' money.

While the USA does fund some export subsidies on cotton, the bulk of subsidies in the sector are in fact internal support; so simply limiting the discussion to export subsidies is inadequate. This internal support is set so high that vast surpluses are inefficiently produced and then dumped on world markets. Reforms to domestic support measures, equally, will not be effective in reducing production unless decoupling covers a high proportion of the total subsidy, and unless continued support is clearly transitional (Baffes 2003, Goreux 2003, 2004). In the case of the EU, the current reform proposal, based on partial decoupling, may not be satisfactory. Its impact on EU output is not clear, and it may not allow West African producers to gain a greater market share in Europe. Nor will it protect livelihoods of poor and vulnerable cotton farmers in Europe. Oxfam's concern is that the reform could only encourage continued production by the richest and most competitive cotton farmers in Europe, while threatening the livelihoods of the poorest. Several NGOs and EU member states are also calling for the EU to decouple 100 per cent of its cotton subsidies.¹⁷ This is one direction that merits further exploration, provided that direct payments guarantee sustainable livelihoods for poor European cotton farmers and that they encourage more environment-friendly methods of production.

This is one direction that merits further exploration, provided that direct payments are targeted at poor European farmers and that they encourage more sustainable methods of production.

Subsidies by the USA, the largest exporter, have a major impact on world prices and thus directly on the revenues of other cotton exporters. The share of exports in US production continues to rise. EU subsidies, by contrast, have an effect on the market share of West African producers that is disproportionate to their relative magnitude, because the EU and West African markets are closely integrated. Specifically, Greek producers – who are more numerous and produce a much larger volume of cotton than Spanish producers

– have a significant impact. It is notable that Greek farmers, in spite of lower price levels than Spain as a result of penalties that were meant to limit production, continue to expand their output (Goreux 2003, 2004).

China's subsidies on cotton production also have an impact on other producers, but its impact on West and Central Africa is limited, because most of its cotton currently comes from the USA and Australia. The magnitude of subsidies is also decreasing (Gillson *et al.* 2004). In addition, China is the largest consumer of cotton in the world, and this consumption is likely to increase if developed-country quotas on China's imports of textiles and clothing are fully phased out by the end of 2004, as provided for by the Agreement on Textiles and Clothing.

In terms of social and environmental costs, the original objectives of subsidy programmes, which may have been initially motivated by the desire to protect the incomes of small-scale family farmers, have become lost as they have become institutionalised. As they are based on acreage, by far the largest share of the subsidies in the USA goes to large-scale agro-industrial producers, rather than small-scale family farms, so that the subsidies are highly regressive. Moreover, since the subsidies have been in place, there has been an increasing process of concentration in the sector, so that a smaller number of large farms are dominating the sector. There are political considerations, as well as considerations of principle. The next chance to reform the US Farm Act will occur in 2006, and it is therefore critical to maintain and build pressure on and within the USA in order to achieve change. There will not be another opportunity to do so for several years, by which time the current trade round will be complete. Equally, the EU CAP reforms are still being negotiated. Moreover, several EU countries (the UK, Germany, Sweden, Netherlands) strongly support the West African initiative.

Compensation vs. financing?

The second outstanding issue is the question of transitional compensation, which was explicitly ruled out by both the USA and the EU. However, a recent UNCTAD report on economic development in Africa also highlights that 'a mechanism is required at the international level to ensure that countries providing subsidies to their producers compensate African countries for their income loss on a pro-rata basis'.

Technically, several arguments have been raised against this. Firstly, that the WTO currently has no mechanisms to award compensation. It only allows the injured party to impose punitive tariffs on the offender's exports, following a successful case before a Dispute

Settlement panel. This is of little use to poor developing countries, since retaliatory trade measures would have no impact on their more powerful counterpart, but would probably damage their own import-dependent economies. There are many historical precedents for this demand for financial compensation, and indeed there are currently negotiations underway about the Dispute Settlement procedures at the WTO, to make them more relevant to developing countries. This case further highlights the need for advances in these negotiations.

The second argument against transitional compensation is that it might not benefit the real actors, the producers. However, concrete proposals have been made on this issue, as structures already exist for making additional payments to producers. At a West Africa regional meeting of all the actors concerned in Saly, Senegal, before Cancun, it was broadly agreed that producers should have an *a priori* claim on, and voice in, the use of compensatory funds, possibly via their strong representation in coalitions representing all sectors in the cotton business (Goreux 2003, 2004, ICTSD 2003).¹⁸

While (in principle at least) compensation paid by the subsidisers in proportion to the effect of their subsidies provides an incentive to end subsidies, direct financing of the sector by diverse donors and multilateral institutions does not. Herein lies a problem in the shift from compensation to financing and technical assistance. Furthermore, if African governments accept the idea of financing as an alternative to compensation, in the absence of subsidy reform donor governments – using taxpayers' money – will be picking up the bill for the subsidising countries.

The question of financial assistance to the cotton sector does not reach the heart of the problem. Currently, in fact, the availability of financing for the cotton sector does not appear to be a major constraint, either for the private sector or for multilateral institutions. From a development perspective, there are some key questions for African governments about financial assistance: on what terms, with what conditions, and with what broader economic and social effects?

If financing is being offered on loan terms, countries are storing up future debt problems. If financial assistance to the sector is simply a reorientation of other development aid, there are important trade-offs to be considered. If it comes with further conditions linked to sector reform, these need to be reviewed in the light of the mitigated impacts of cotton-sector reform programmes in the Africa region to date.

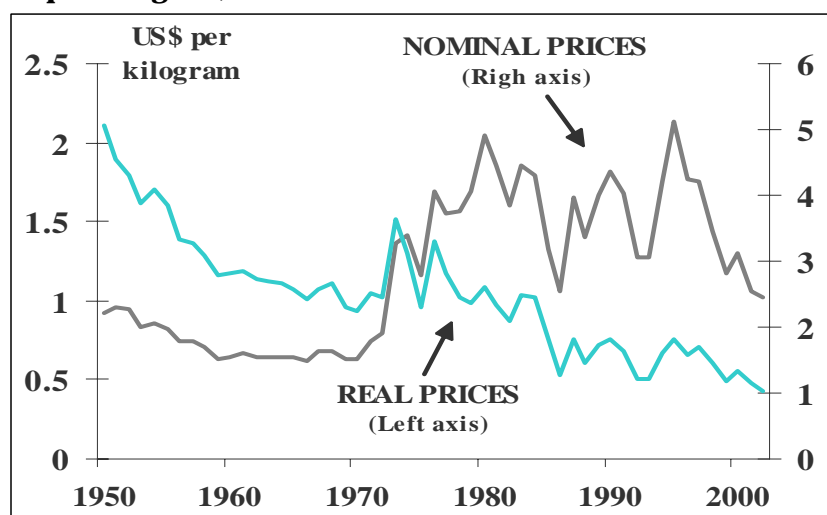
In view of the forthcoming WTO seminar and the proposed donor meeting in Paris later in 2004, the final section of this paper offers some preliminary indications of ways in which financing of cotton-related initiatives may be favourable in the current scenario, and identifies some potential risks.

5 Beyond subsidy reform: a necessary but insufficient condition for West African cotton production

Managing price volatility

Pending the outcomes of negotiations to reduce subsidies, global cotton markets will continue to be characterised by features similar to those affecting other primary commodities, i.e. long-term price decline and volatility (see Figure 1). In order to address the issue of price volatility and its impact on incomes, mechanisms for stabilising prices or incomes, at global and national levels, need to be put in place. A one-off financial package cannot achieve this.

Figure 1: International cotton prices, nominal and real, 1950-2004 (US\$ per kilogram)



Source: World Bank Commodity Price Data (Baffes 2003)

Can prices or producer incomes be effectively stabilised using market-based interventions? Is some form of supply-management arrangements possible? These are issues requiring further detailed analysis and feasibility study. Initial studies are already underway (ICAC, World Bank, UNCTAD), and addressing these issues and further research to move from analysis to implementation of options identified would be useful. For the francophone African countries, an additional problem in the dollar-denominated cotton market is the Euro-Dollar exchange rate, which creates further instability in the FCFA price (see Figure 2, Annex). Whether the establishment of a Euro-denominated or African cotton market is viable is another

option to be explored in this regard, although current developments suggest the establishment of an Asian cotton exchange.

Growing market share

African countries, though major beneficiaries of any future subsidy reform, need to ensure that they maintain or grow their share of the global markets in the face of on-going competition in world markets, given the stagnating overall demand for cotton.¹⁹ Seeking to gain market share by cutting costs further, as one World Bank analyst proposes, however, is not a sustainable option (Baffes 2003).

West African production costs are already among the lowest in the world. This low level of production costs derives in large part from the ability of small-scale farmers to draw on unpaid family labour on a flexible basis. But family labour is not infinitely elastic, and the price of making further demands on the time and energy of women and young people in cotton-growing areas would be high in terms of health, education, and potential social conflict.

For the more cotton-dependent countries (Mali, Benin, Burkina Faso, and Chad), in the longer term increased dependency on cotton is not desirable for balanced and sustainable development, even in a more propitious world market. In regions where cotton is already a dominant crop, increasing the area of land given to cotton production may also intensify environmental conflicts.

Productivity increases may be possible at other levels. However, yields in West Africa are generally high by global standards, and ginning ratios are also high. Aside from the controversial question of increased dependence on big international seed suppliers, the potential of genetically modified cotton to deliver increased yields is not well researched in the African context. Too many questions are yet to be answered before this might be seen as the way forward for the sector.

As demand is growing fastest in developing countries which have large textiles and clothing industries, negotiating preferential arrangements to access these markets for LDC cotton producers would be one possible route to reform. Another approach would be to improve competitive advantage, rather than comparative advantage, for example by working closely with buyers in Asia as well as nearby countries such as Morocco, in order to improve quality, labelling, timely delivery, etc. The relatively high quality of hand-picked African fibre is an advantage here. But concerted industry-wide efforts to develop a consistent set of quality standards across the continent and to improve the image of African cotton would help to increase demand for cotton both within and outside the region.²⁰

Increasing value added

A key issue for the region is the need to add value to cotton by increasing local transformation and linkages to industry. While a much higher proportion of local cotton production was processed in the early 1980s, the volume of production has expanded enormously since then, and the global organisation of textiles and clothing industries has changed beyond all recognition.

Under current conditions, major investments in large-scale textiles and clothing-processing initiatives are unlikely to be viable without significant reductions in the costs of energy, improvements in infrastructure, and reductions in the costs of transport.²¹ They may also require a temporary and targeted raising of tariff barriers on specific product lines, and other measures to prevent fraudulent imports.

There may be innovative alternatives for adding value, apart from large-scale industrial development of textile and clothing industries. Developing manufacturing capacity for other products, such as household textiles, and medical supplies for which there might be less fierce competition in the regional market, deserves more emphasis. Other by-products of the cotton chain for which a strong local market and potential export market exist – for example, oilseeds and animal feed – and which can create rural employment are also areas worthy of more exploration. In all these cases, however, a review of relevant trade measures would be necessary to ensure that they are coherent with sector development.

Finally, a more devolved approach could be taken to developing brand-name or even designer clothing, with high value added, based on local yarns, fabrics, and designs, using improved artisan techniques, and clusters of small-scale workshops, rather than large-scale plants.

In a regional integration scenario, however, cotton-producing zones and cotton farmers need to bear in mind that textile and clothing and associated industries have an interest in maintaining low-input prices, including the price of cotton fibre.²²

Of more direct interest to cotton producers are ways to increase returns to cotton fibre. While vast resources are made available for research relating to chemical and biotechnological inputs in cotton production, relatively few resources are currently devoted to research into the potential for scaling up production of organic and low-input cotton production based on improved organisation, new techniques using local organic fertilisers and pesticides, and the rehabilitation of ginning facilities for organic processing. The latter could be particularly viable in areas where there is currently excess ginning capacity.

Currently only 0.3 per cent of world production of cotton is organic. While cotton may not reach levels similar to those achieved by organic coffee production, because of its different market structure, it clearly has considerable potential for expansion from this very low level. In addition, the Fair Labelling Organisation, which sets global fair-trade standards, has recently established a set of standards for the cotton sector. These now enable labelling of cotton that meets these standards as 'fair trade', thus opening up a new market. Although this niche cannot absorb all of West Africa's production, it is one worthy of serious investment, particularly as its direct impacts on poverty – through increased producer prices – are likely to be more immediate.

Sectoral reform and co-ordination

Beginning in the late 1980s and early 1990s, the World Bank and IMF pressed governments to introduce policies to privatise and liberalise the cotton sector in francophone Africa; this led to the division of cotton companies and reorganisation of the sector into zones, rationalisation of cotton companies' operations, selling off of State shares in companies, and the entry of private-sector actors.²³ These policies had already been applied more comprehensively in East and Southern Africa and in Ghana at an earlier stage. The '*filière intégrée*' in West and Central Africa had its failings – including poor management in some cases and relatively low producer prices – but it also had advantages. It provided guaranteed access to credit and inputs otherwise not available to many small farmers, and guaranteed markets, as well as a developed social and physical infrastructure in cotton-producing areas.

Proponents of further liberalisation argue that if producers are able to negotiate with several private-sector actors, they will get a better price. But, even if this is true, a better share of an artificially low and declining world price is not much comfort to producers. Where there are no clear mechanisms in operation to replace pre-existing systems of price negotiation and stabilisation, or to direct investment into social and physical infrastructure development in cotton-producing areas, privatisation and liberalisation expose producers to greater insecurity in the face of highly distorted and volatile markets.

A recent authoritative assessment of privatisation and liberalisation in Africa's cotton sectors, commissioned jointly by the World Bank and French interests, came to the conclusion that the francophone countries, which had liberalised later and more slowly than the anglophone ones, had generally fared better (Goreux 2003). Even those in the World Bank who favour such policies admit that these processes were rushed in some cases before conditions were in place,

leading to many problems. However, thus far, the direction of the Bank's policy approach on the ground has not qualitatively changed. The difficult conditions currently prevailing in world markets, as well as the benefit of hindsight on sector reform, signal the need for a reevaluation of the appropriateness of such policies, based on lessons learned.

Meanwhile, minimum conditions for existing privatisation should be established, including the following:

- producers' inclusion in the capital of all privatised societies;
- the development of strong independent and representative producer organisations able to negotiate effectively and manage key sector operations;
- and a defined and clearly funded role for the State, decentralised local authorities, and, in some instances, non-government agencies in rural development activities formerly carried out by cotton companies and in monitoring and regulation of private-sector company activities.

6 Conclusion and recommendations

A wide-ranging reform of US support to the domestic cotton sector will result in world cotton prices rising to a higher equilibrium level and to West African producers gaining from increased incomes and market share. This would be a major step on the way to adequate rewards paid to cotton producers in West Africa and their families for their labour.

Tempting as it must be to renounce the battle, given the possibilities of increased aid for the cotton sector, and the recent price rises, any such move would be costly in political and economic terms to West African governments. It would mean revenue forgone in the longer term, if subsidies on their current damaging scale are allowed to continue, and it could also be divisive and damaging for newly developing alliances with other developing countries who stand to gain from the phase-out of unfair cotton subsidies. Other LDC net exporters of cotton, for example, stand to gain in a compensation scenario, but not in a separate financing deal for West Africa.

There is a need to push hard now for serious reform, in preparation for the renewal of the US Farm Bill in 2006.

Resources are needed to assist African governments to identify which subsidies have the greatest impact and which should be targets for early reform, in order to make or assess negotiating proposals. What is clear is that the USA needs to reduce domestic

subsidies for cotton, because these have a substantial impact on output and prices. The European Union should urgently review its current reform proposal to assess whether it will actually lead to a decline in EU production and a greater market share of the European market for West African production, while ensuring sustainable livelihoods for poor cotton farmers in Europe through targeted direct payment programmes. The USA must move in a similar direction with deep cuts in all its current cotton-subsidy programmes, including those currently classified in the 'green box' (which are supposedly only minimally trade-distorting).

Until likely concessions from developed countries and also larger developing countries are clearer, it does not make sense for West African countries to allow the cotton initiative to be submerged in the wider agricultural negotiations. Should this situation arise, cotton reform must be fast-tracked. Nor should African countries discard the option of taking their case to the WTO dispute-settlement system, once the Brazil case against unfair US cotton subsidies has reached a conclusion.²⁴

While negotiations continue, additional financing for the cotton sector can be usefully directed to establishing mechanisms for income and price stabilisation, especially at national and local levels, to further increasing the quality and grading system of West African cotton production, to developing the capacities of producer organisations to be active in sector management, and to research on scaling up fair trade and organic cotton production, as well as innovative 'value added' initiatives in the private sector.

However, without genuine and far-reaching subsidy reform and binding timetables, pouring more funds into the cotton sector will not yield sustainable results for poverty reduction in West Africa. If West African governments can strengthen their alliances with other actors in the cotton sector, and with other developing countries, while at the same time mobilising civil society locally and internationally, and engaging the support of the world's media, they can achieve deeper and more lasting benefits than any offered by a short-term financial package.

Summary of recommendations

Oxfam believes that West and Central African countries have a powerful moral and economic case for their demands for reform of the cotton subsidy system and payment of interim compensation, especially by the USA. The challenge is to build a coalition of developing countries, civil-society organisations, and enlightened industrialised countries to put effective pressure on the USA and EU to change their policies. The success of this alliance would deliver

enormous benefits to millions of Africans living in poverty in rural areas and, at the same time, bring a much-needed sense of progress and legitimacy to the world trade talks. Oxfam makes the following recommendations:

- The USA should eliminate all cotton subsidies that affect international trade, as a matter of urgency. This will include most domestic subsidies, including those officially classified as minimally trade-distorting ('green box').
- The aim of EU subsidy reform should be to increase West Africa's share of the European market, while protecting the livelihoods of small European producers. The EU should urgently review its current proposals to ensure that this goal is met.
- As a transitional measure, the USA and EU should agree to compensate WCA producers for losses caused by subsidies.
- Cotton should continue as a separate issue in WTO negotiations. If it is merged into the broader agriculture talks, it should be fast-tracked with an early deadline for deciding commitments on substantial subsidy reform and rapid implementation.
- Financial and technical assistance should be given to WCA for short-term needs created by the cotton crisis and for longer-term development of the sector. This aid should not be conditional on African governments changing their position on subsidies, should not add to their debt burdens, and should involve full participation by all stakeholders.
- Aid could usefully be targeted to establish mechanisms for stabilising incomes and prices at local and national levels, improving the quality and grading of cotton, developing 'fair trade' and organic production, and supporting initiatives to add value. The experience of domestic liberalisation promoted by the World Bank should be critically examined.

Statistical annex

Table 1: Cotton production 2002-3 for selected countries in West and Central Africa (1000 metric tons)

COUNTRY	PRODUCTION 2002/03
Mali	200
Côte d'Ivoire	162
Burkina Faso	144
Benin	137
Cameroon	83
Togo	64
Chad	60

Source: International Cotton Advisory Committee: 'Cotton: Review of the World Situation' (Baffes 2003)

Table 2: Share of cotton lint exports in total agricultural exports and in total GDP

COUNTRY	Share in agricultural exports	Share in total GDP
AVERAGE 1999-2002		
Benin	70.8%	5.6%
Mali	57.0%	3.2%
Burkina Faso	62.1%	4.2%
Chad	54.1%	4.7%
Togo	37.0%	2.8%
Cameroon	20.2%	1.0%
Côte d'Ivoire	6.1%	1.2%

Source: FAOSTAT and World Bank

Table 3: Ratio of domestic producer price to international price in 2002/2002

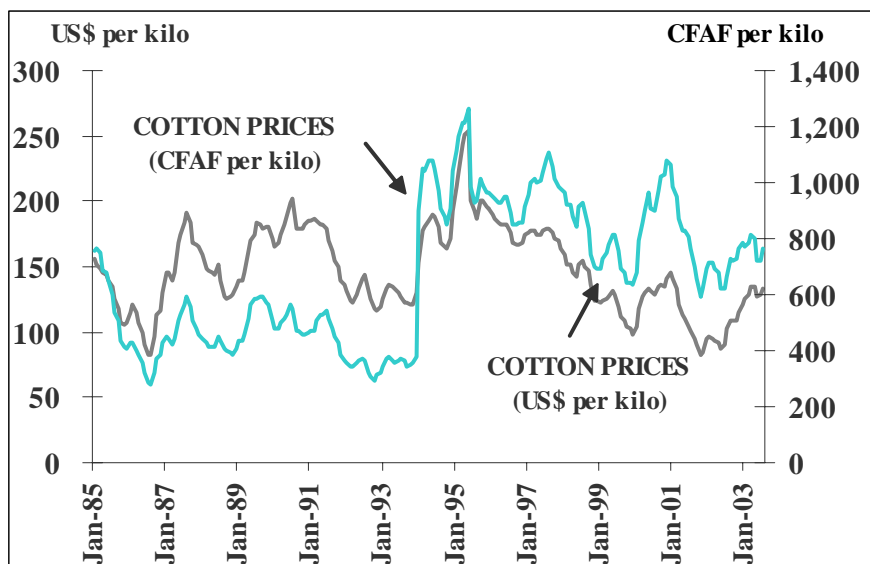
COUNTRY	Producers' prices as percentage of world price
West African countries	30
United States	170
European Union	254

Table 4: Comparison of different estimates of impact on prices, production, and exports of reductions in subsidies in the cotton sector

STUDY	IMPACTS IN COTTON SECTOR	
Quirke (2002)	Removal of US and European production and export subsidies	Price rise in 2001/02: 10.7% US production decline: 20% US exports decline: 50%
Centre for International Economics (2002)	Removal of cotton production and export subsidies on cotton sector	Price rise in 2001/02: 2.2% US production decline: 15.9% Chinese production decline: 19.5%
FAPRI (2002)	Effect of full liberalisation of all commodity sectors	Price rise (10-year period average): 12.7% US production decline: 6.7% US exports decline: 3.5% EU production decline: 70.5% African exports rise : 12.6%
Tokarick (2003)	Removal of price support	Price rise: 0.8%
	Removal of production subsidies	Price rise : 2.8%
ICAC-FAO (2003)	Removal of direct subsidies on cotton sector	Price rise in 2000/01: 30% Price rise in 2001/02: 71%
	Removal of US subsidies	Price rise in 2000/01: 14% Price rise in 2001/02: 26%
Goreux (2003)	Removal of subsidies in the cotton sector	Price rise: 15.2% Export earnings for West and Central Africa: US\$ 250 millions for 2001/02

Source: Baffes 2003

**Figure 2: International cotton prices
(CFAF and US\$ per kilo)**



Source: Goreux 2003

Notes

¹ Twelve out of the 15 ECOWAS states and six of the seven CEMAC states are Least Developed Countries (LDCs).

² In Benin and Burkina Faso, cotton accounts for about 40 per cent of merchandise export earnings, while in Mali and Chad it accounts for 30 per cent. The contribution to GDP in these countries is around 5 per cent. See also Table 2 in statistical annex.

³ While cotton and textiles production has a long history in some countries in West Africa, the expansion of cotton production in Francophone West and Central Africa occurred mostly in the post-independence period. In the 1960s, cotton production in Francophone Africa was around 100,000 tonnes; it is now around one million tonnes. As competition from synthetic fibres increased in world textiles markets, with technological improvements, West Africa provided a cheap source of cotton for Europe and also furnished newly established governments with much-needed revenues. With CFA devaluation in 1994, a further major expansion of cotton production occurred in many of the UEMOA countries, and West African producers became more competitive on world markets. But this effect did not last, as world prices went into steep decline again from 1996 (see Figures 1 and 2).

⁴ Interview by BBC Africa correspondent, Joan Baxter, May 2003.

⁵ Oxfam interview with Soloba Mody Keita, Kita region, Mali, May 2003.

⁶ Environmental Working Group Farms Subsidies Database 2001.

⁷ These estimates may actually understate the level of US subsidies, due to under-reporting.

⁸ In Doha, developed countries committed themselves to 'elimination of all forms of agricultural export subsidy and significant reductions in other trade distorting subsidies ...' (Doha declaration, November 2003).

⁹ In November 2001, a call for action was launched on the Internet by four producer organisations. Earlier, in 2000, Malian cotton producers went on strike, causing the level of production to halve in protest, among other things, at continued low prices. In the first half of 2002, producers lobbied governments and regional institutions to address the pressing issues affecting the sector and take action at international level. Finally, in June 2002, a communiqué of the Agriculture Ministers of West and Central Africa, following their biannual conference, committed WA governments to action at WTO level and research on this issue. A further impetus was given to the cause of West African cotton producers when Brazil, in September 2002, requested a panel of the dispute settlement body of the WTO to look into the effects of US cotton subsidies.

¹⁰ TN/AG/GEN/4, 16 May 2003. A further submission was made in July 2003, specifying more clearly modalities for implementing the proposal and a revised proposal in October 2003, following the Cancun meeting.

¹¹ At intergovernmental level, the WA cotton initiative was supported by ECOWAS trade ministers (April 2003), LDC trade ministers (May 2003), African Union trade ministers (June 2003), and UEMOA ministers of agriculture, trade, and industry (June 2003). West African civil-society forums supported the initiative in their pre-Cancun statements. International NGOs such as Oxfam, Action Aid, International Centre for Trade and Sustainable Development, and IDEAS centre also gave backing to the proposal. At Cancun itself the majority of those who spoke at the cotton plenary session – developed as well as developing countries – spoke out in favour of the initiative.

¹² Some member states had proposed more decisive action and donor support to the cotton sector in advance of Cancun. French President Jacques Chirac had singled out cotton as one commodity where there should be a moratorium on subsidies on EU products exported to Africa (March 2003 proposals).

¹³ ICAC, 2004. Future demand also hinges to some extent on developments in the textiles and clothing sector, in particular the phase-out of the quotas under the agreement on textiles and clothing and whether quotas are replaced by other barriers.

¹⁴ Page 1 of WTO, African Regional Workshop on Cotton, Cotonou, Benin, 23-25 March 2004, Provisional Programme, 23 January 2004.

¹⁵ Calculations vary, depending on the year of reference, on underlying assumptions about the structure of markets as well as the supply response of major producers to changes in market conditions. See Goreux 2004, Gillson *et al.* 2004, and Baffes 2003, as well as Table 4.

¹⁶ OMC: WT/GC/W/516 7 October 2003. In this proposal, governments would be obliged to take measures within a three-month period, to eliminate export subsidies on cotton within three years and production subsidies within four years, starting from 2005. A transitional fund to support LDC cotton producers would be put in place, and a working group established.

¹⁷ See CAFOD *et al.*, March 2004.

¹⁸ How such funds should be used and shared between actors of the filière and/or with governments is a point which needs further debate to establish clear principles.

¹⁹ Subsidy removal will also benefit developing and transition countries, such as Brazil, that are exporters of cotton. Gillson *et al.* suggest that Australia and Uzbekistan may have reached their production limits due to water shortages.

²⁰ Although African cotton fibre is generally considered of high quality, suspicions of contaminated fibre may be preventing some buyers – in India, for example – from looking to African cotton suppliers. Pricing structures in global cotton markets do not adequately reflect the relatively higher quality of African cotton.

²¹ There may be a strong case for selected investments, particularly in those countries able to rapidly meet some of the conditions listed above. Yarn production is apparently still viable and relatively low-cost in West Africa. There may be potential for a regionalised cotton/textiles supply chain, as was

developed in the SADC region, bringing together cotton imported from Zambia, Zimbabwe with textile and clothing manufacturing capacity in other countries with low labour costs, co-ordinated by South African, Mauritian, and Asian companies which have the necessary design and marketing capacity, commercial contacts, etc. UEMOA and BOAD have developed extensive proposals on a renewed cotton-textiles chain (UEMOA, March 2003).

²² Goreux specifically cautions against governments using resources to subsidise the cotton price to domestic textile industries (2004).

²³ Privatisation and liberalisation of the cotton sector, though less advanced in francophone Africa than elsewhere, is nevertheless well underway, to varying degrees in different countries. It is the most advanced in Benin and Cote d'Ivoire; in Burkina, liberalisation is now underway, following privatisation in the early 1990s. In Mali, Senegal, and Chad, progress has been slower, but privatisation has either been agreed by governments or is in process.

²⁴ In a case brought in September 2002 at the WTO, Brazil is claiming that US agricultural programmes act as export subsidies for cotton, resulting in over-production and exports of excess amounts. As a consequence this depresses world prices and enables non-competitive US producers to gain more international market share than they would have otherwise gained. This case is important, because an adverse ruling for the United States would support the legitimacy of the West African initiative on cotton, and put pressure on the US position in the agriculture negotiations.

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