

Cotton

EU cotton subsidies and the African cotton farmers

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The European Union (EU) protects its own cotton industry by subsidising its farmers. Meanwhile, West African countries depend heavily on their cotton exports for their economic welfare. Thanks to its subsidy system, the EU is helping to keep the world price of cotton low, thereby making it almost impossible for African cotton-exporting countries to compete on the world market. At the same time, however, it is helping these same cotton-exporting countries in West Africa to develop their local economies and export markets. This is a clear example of an incoherent European policy.

The example of the cotton-producing farmers in Mali shows clearly how low world pricing caused by subsidised cotton production is hampering the economic development of small-scale cotton farmers. Four years ago a farmer in Bassabougou received 300 euro per ton for cotton, and a good harvest produced two tons. Last year, the harvest produced only one ton, and the average farmer earned only 204 euro.ⁱ Apart from the lack of technical and organisational knowledge in poor cotton-producing countries, it is largely the subsidies in the US and the EU that are to blame for the fall in income of producers in Bassabougou.

EU development policy

No fewer than 189 countries, including the EU and the US, committed themselves to the United Nations Millennium Development Goals (MDGs). 'An open trading and financial system that is rule-based, predictable and non-discriminatory'. That is what MDG 8 appealed for. Financially, the EU is speeding up its progress towards achieving these goals, as its member states have increased their contribution to the European Development Fund (EDF) to 22,682 million euro for the tenth EDF period, from 2008 to 2013. By far the largest amount of this is allocated to Africa.ⁱⁱ

When our governments agree to allocate EDF aid to poor cotton-producing countries in Africa, the EU does so within the framework of the Cotonou Agreement . In 2004 they agreed the EU-Africa Partnership on Cotton, under which the EU has made substantial financial assistance available. It focuses in particular on cooperation with Benin, Burkina

ⁱ Source: Association des Organisations Paysannes Professionnelles.

ⁱⁱ The so-called ACP Countries (African, Caribbean and Pacific States) will receive a total amount of 21,966 million euro. The largest amount, 17,766 million euro, will be allocated to national and regional indicative programmes. The rest will be spent on the promotion of intra-regional cooperation, focusing mainly on technical support. Furthermore, 286 million euro have been allocated to the OCTs (overseas countries and territories, belonging to Denmark, France, the Netherlands and the United Kingdom), and 430 million euro to the Commission to support the programming and implementation of the EDF. The amount for the ACP countries is broken down thus: 17,766 million euro to the national and regional indicative programmes, 2,700 million euro to intra-ACP and intra-regional cooperation, and 1,500 million euro to investment facilities. An increased share of the budget is devoted to regional programmes, thereby emphasising the importance of regional economic integration as the basic framework for national and local development. An innovation in the tenth EDF is the creation of "incentive amounts" for each country. In addition to this, the EU member states have their own bilateral agreements with developing countries and implement their own initiatives, which are not financed by the EDF or any other Community funds.
(Source: <http://europa.eu/scadplus/leg/en/lvb/r12102.htm>)

Faso, Chad and Mali, recognising the key role played by cotton in the economic policies of these countries, where the sector employs around two million workers and some 15 million people depend for their living on cotton production and exports. Over 260 million euro have been allocated to cotton programmes and projects since 2004.ⁱⁱⁱ

EU cotton policy

Greece, Spain, Bulgaria and Portugal are Europe's cotton-producing countries.^{iv} With 79,000 farmers, Greece is by far the largest producer, with cotton accounting for 9.1% of the country's entire agricultural output. Next comes Spain, with 9,500 farmers, and cotton representing 4.9% of total agricultural output. A small amount is also grown in Bulgaria. In recent decades, the cotton industry in Portugal has almost died out.

When these countries joined the European Union they demanded support for their cotton-producing farmers. This was first agreed when Greece acceded to the EU in 1981, and it was stipulated in Greece's Treaty of Accession.^v Similar supportive measures were later extended to Spain, Portugal and, more recently, Bulgaria, when they in turn joined the EU.

The support regime prompted a substantial expansion of cotton-growing areas and a surge in cotton production and processing. For example, since joining the EU Greece has increased its cotton area by 165%, while production has more than tripled. Spain's area under cotton grew by 45% and there has been a 62% increase in cotton production there.

In January 2004 this generous EU support system was changed in response to pressure from the WTO. Since then, the total amount of aid (803 million euro) has been split up into decoupled and coupled payments: 65% for decoupled payments and 35% for crop-specific area payments.^{vi} This has resulted in a transition to producing amounts better suited to the size of the market. Most of the production support 65% was now calculated without looking at the production amount. A good development. However, 35% of the support was still calculated on the basis of the number of hectares on which cotton was grown, so European cotton farmers knew that if they produced more cotton they would receive more subsidies. Thus the 2004 reform still stimulated overproduction and kept world market prices for cotton artificially low.

ⁱⁱⁱ http://ec.europa.eu/trade/issues/sectoral/agri_fish/agri/pr060208_en.htm

^{iv} From: the Commission Staff Working Document accompanying document to the Proposal for a Council Regulation amending Regulation (EC) No 1782/2003 establishing certain support schemes for farmers, as regards the support scheme for cotton.

^v As Protocol No. 4.

^{vi} The decoupled 65% consists of 562 million euro, the coupled 35% of 275 million euro. The remaining aid goes to rural development in the regions concerned (22 million euro) and to the creation of Inter-branch Organisation (four million euro). From: the Commission Staff Working Document accompanying document to the Proposal for a Council Regulation amending Regulation (EC) No 1782/2003 establishing certain support schemes for farmers, as regards the support scheme for cotton.

On 7 September 2006, following a legal challenge by the Spanish Government, the European Court of Justice annulled the 2004 reform.^{vii} According to the judges, the European Commission had failed to carry out an impact study, to take family labour costs into account in the evaluation and decision-making process, or to assess the impact of the new regime on the ginning industry. So the 65/35 reform introduced in 2004 has been annulled, because it was implemented without knowing what its impact might be. A new proposal of the Commission that involves continuing the 65/35 system and includes an impact analysis, which we will discuss in the next section, has been approved by the Parliament and adopted by the Council in June 2008.

Lack of coherence

The EU

Once again, the EU is heading for a political compromise at the expense of both European taxpayers and African farmers. On the one hand, with the EU-Africa Partnership on Cotton it is keeping its own farmers satisfied, as laid down in the accession treaties with Europe's cotton-producing countries.

Meanwhile, it aims to create an open, non-discriminatory world market in the trade of agricultural goods. So at the very same time that it is upholding up its trade-distorting support mechanisms for the benefit of European farmers, the EU is providing aid to West Africa for the development of cotton production.

This not only works against the EU's contribution to the achievement of the MDGs, it is also a very inefficient way of spending EU taxpayers money. The 65/35 regulation is more favourable to developing countries than the support regime in force before 2004, when the European cotton area expanded. But the new regulation is still not good enough, and the outlook for developing countries is still very bleak.

Lets take a look at the impact analyses of the Commissions new regulation (EC Regulation no. 637/2008). What would happen if the EU were to decouple subsidies for European cotton production completely? The Commissions impact study highlights several changes for cotton production in Europe. First of all, decoupling would lead to a substantial decline in cotton production at European level. The Spanish cotton area would disappear completely, while in Greece there would also be a marked decline, and only cotton grown extensively under agri-environmental programmes would be expected to continue.

^{vii} Case C-310/04

Secondly, cotton farmers would probably switch to maize and durum wheat. A switch to maize would require more water in those areas, but a switch to durum wheat would be beneficial for the environment.

Thirdly, it appears to be difficult to predict the impact on European family farm incomes. This will largely depend on a farmer's ability to switch to other crops: age and access to capital will play an important role, but so will access to water.

The overall conclusion is that, in the short term, decoupling subsidies will lead to a fall in income, but this can be compensated for financially. In the longer term, farmers will adapt to the new circumstances.^{viii}

Given this conclusion, the EU should decouple its subsidies completely, in order to make a genuine contribution to a free world market in cotton.

The international market

United States (US) plays a bigger trade-distorting role than the EU. The EU accounts for 2 percent of the world cotton market, while nearly half of the world's cotton production comes from the US and China. The US pays about four billion dollars annually to its 25,000 cotton producers. Thanks to these subsidies, the US remains the world's largest cotton-exporting country, accounting for 37% of the world market.^{ix} This is an argument that the European Commission likes to use to trivialize the consequences of its own cotton policy. Although these facts are true, the cotton producing countries in West Africa (Mali, Burkina Faso, Benin and Chad), whose cotton export reaches approximately 50% of their total export, definitely notice the only 2 percent of the EU. According to the World Bank, the greatest benefits of the complete removal of subsidies for the production and export of cotton worldwide would be felt in sub-Saharan Africa thus, mainly, by the Cotton Four. It would boost economic welfare in sub-Saharan Africa by a total of 147 million dollars a year. If the distortions to cotton markets were removed, US policy reform would be responsible for more than half of the overall gain in wealth. And, surprisingly, the EU would be responsible for nearly all of the rest mainly thanks to its intensive trade relations with sub-Saharan Africa.^x A huge increase in cotton exports from Africa to Europe is expected in the long term if trade-distorting subsidies are removed.

^{viii} Source: the Commission Staff Working Document accompanying document to the Proposal for a Council Regulation amending Regulation (EC) No 1782/2003 establishing certain support schemes for farmers, as regards the support scheme for cotton. Pages 7-37.

^{ix} CAC, World Cotton to Remain at a Record Level in 2006/07.

^x To illustrate the importance of cotton for that region: the \$ 147 million gain is as much as one-fifth of the estimated \$ 733 million gain for the region from the freeing of all goods markets globally. Of course if textile and clothing tariffs were also removed, global economic welfare would increase far more: by an extra € 6.8 billion per year. Information: The World Trade Organization's Doha Cotton Initiative: A Tale of Two Issues. Kym Anderson and Ernesto Valenzuela. Development Research Group, World Bank, Washington DC. May 2006.

Further more, even if the EU accounts for only 2 percent of the world cotton market, it is still a policy incoherence that affects developing countries. Seeing that the EU strives to policy coherence for development, the cotton policy thus requires change in the form of decoupling the subsidies to European farmers.

The Doha Round

Negotiations on the liberalisation of international trade started within the WTO in 2001. Within this so called Doha Round, the Cotton Four have demanded that the WTO's Doha Development Agenda should include a Cotton Initiative. They have demanded cuts in cotton subsidies and tariffs, and assistance to encourage growth in farm productivity in Africa. Because of the importance of cotton for these countries, some African trade negotiators have threatened to walk out of this round of WTO talks unless substantial reforms to cotton policies are included in the final agreement.^{xi} Since the start of the Doha Round, the EU has been cooperating with 77 ACP countries (former European colonies, mainly in Africa) in the Cotonou Agreement. Under this agreement, EU leaders have supported the Cotton Initiative put forward by the Cotton Four. Since 2007, however (and, according to some, thanks mainly to the credit crisis in the US), the negotiations have been completely deadlocked.

Especially given current economic climate, the EU should unite with the poor cotton-producing countries, particularly the Cotton Four. If it did, within the Doha Round real pressure could be put on the US to reduce their subsidies. And that is necessary because it is only in the Doha Round that real change for the better is possible.

Conclusions

Reforming the European cotton market is necessary and will lead to a freer world market in cotton, a much-needed transition to other crops within the EU, and a fair chance in the world cotton market for poor cotton-producing countries. But if the cotton market worldwide is to be completely free the US also needs to reform its cotton market and start reducing its subsidies. So, once it has removed the inconsistencies in its own dealings with developing countries, the EU should unite with African leaders in the Doha Round and urge the US to start reducing its subsidies. Only then will it be possible to achieve an open trading and financial system in the cotton sector that is rule-based, predictable and non-discriminatory, in accordance with the MDGs to which the EU and US have committed themselves.

^{xi} Source: The World Trade Organization's Doha Cotton Initiative: A Tale of Two Issues. Kym Anderson and Ernesto Valenzuela. Development Research Group, World Bank, Washington DC. May 2006.

Policy Recommendations

- Complete decoupling of EU subsidies to cotton farmers.
- Within the WTO's Doha Round, European Union and African leaders should urge the United States to start reducing their subsidies.

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