

Capturing the Margins: World Market Prices and Cotton Farmer Incomes in West Africa[☆]

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Summary. — World cotton prices soared to record levels in March 2011, reaching \$2.20 a pound in contrast to 40–80¢/pound between 2000 and 2010. The price spike serves as a natural experiment that offers insights into the relationship between world cotton prices and producer prices in West Africa. A comparative study of Burkina Faso and Côte d'Ivoire shows that national and regional level processes such as price setting mechanisms, inequalities in knowledge and power, and the oligopsonistic structure of West Africa's cotton economies exert a strong influence on the share of world market prices that producers ultimately receive.

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“Sophisticated, the [price setting] mechanism is only completely understood and mastered by a very small number of actors; even if they are far from understanding its calculations and subtleties, farmers seem to have confidence in the mechanism” (Estur, Gergely, & Cordier, 2011).

1. INTRODUCTION

On July 11, 2011, police and gendarmes descended into a rural cotton growing community in southwestern Burkina Faso to arrest farmers. The farmers were so angry over low cotton prices that they refused to grow cotton. When their neighbors refused to participate in the boycott, they destroyed 100 hectares of their cotton (Kam, 2011). The crop destruction was a violent turn in an initially peaceful boycott of cotton growing by Burkinabè farmers who had been protesting the official producer price for *seed cotton*.¹ They were angry because they knew that *lint cotton* was selling for more than \$2 a pound on world markets but that they would only receive a quarter of that price for their high quality crop (Bognini, 2011).

West African farmers sell seed cotton to cotton ginning companies. Seed cotton refers to unginced cotton in which the fiber is still attached to the seed. The seed is removed during the cotton ginning process. Ginned cotton, fiber without its seed, is called lint cotton. The average ginning rate in West Africa is 42–43%. That is, for every 100 kg of seed cotton, ginning companies produce 42–43 kg of fiber. Thus, farmers produce seed cotton, cotton ginning companies produce lint cotton or cotton fiber.² Ginning companies sell fiber to textile mills and international cotton traders based on the quality of the lint (e.g., fiber length, color, strength, etc.). The question is, what share of the world market price do West African farmers receive for their high quality crop? This question is important to not only cotton growers and their families but also to international aid organizations like the World Bank and the French Development Agency, national governments, and non-governmental organizations like Oxfam who view cotton growing as a potential means of moving millions of people out of poverty.³ Most attention has focused on the adverse effects of African market structures on producer prices (Poulton & Tschirley, 2009), the effects of US agricultural subsidies on world market prices (FAO, 2004; Sumner, 2006), and whether

increases in world cotton prices would result in higher producer prices (Alston, Sumner, & Brunke, 2007; Delpuch, 2011). The protests in Burkina Faso in the spring and summer of 2011 brought the world's attention to the political economy of cotton price transmission and its effects on smallholder livelihoods (Simpson & Katz, 2011).

The producer price for seed cotton in Burkina Faso had been set in late-March at 245 West African francs (CFAf) (about 50¢) per kilogram by the Interprofessional Cotton Association of Burkina Faso (AICB), a regulatory authority governed by representatives of the Burkina government, the three cotton companies that buy all of the seed cotton in the country, and farmers themselves who are organized into the National Cotton Producers Union of Burkina (UNPCB). As in other West and Central African (WCA) countries where cotton sectors are strongly regulated, Burkina's interprofessional cotton association uses a price setting mechanism to determine the price of seed cotton for the upcoming season. The price setting tool forecasts world market prices, currency exchange rates, expected production levels, and how revenues will be divided between producers and cotton companies. Similar interprofessional associations and price setting mechanisms exist in the neighboring countries of Mali and Côte d'Ivoire (Baghdali, Cheikhrouhou, Raballand, & Le Gall, 2007; Fok, 2007). In all three countries, the producer price for 2011–12 was higher than previous years but it was half of what US cotton growers were earning that year for their lower quality crop (Simpson & Katz, 2011).

Burkina's dissident cotton growers circulated petitions and organized marches in April and May of 2011 to demonstrate

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their discontent with the outcome of the price setting negotiations. They demanded a doubling of the producer price for seed cotton to 500 CFAF per kilogram and much lower fertilizer prices. Karim Traoré, president of UNPCB and chair of AICB's price setting cotton sector management committee, tried to diffuse tensions among union members by explaining that the producer price was "not set by chance" but by a fair and "transparent" price setting mechanism (Bakouan, 2011). He exclaimed that the 2011–12 seed cotton price was the highest ever received by cotton growers and dismissed the call for 500 CFAF cotton as utopian. Farmers disagreed and felt betrayed by the UNPCB leadership.⁴ The boycott continued throughout the growing season. During the month of July protesting farmers destroyed 225 hectares of cotton in one cotton growing region. One person died and many more were injured by police during the protests (Ouedraogo, 2011).

The confrontations taking place in Burkina Faso's cotton growing areas were not unique. Smallholder cotton growers in neighboring Côte d'Ivoire were also engaged in heated discussions with representatives of the country's monopsonistic cotton companies on the distribution of record world market prices. The high stake encounters that took place across the region are instructive because they bring into focus the politics and institutions that mediate price transmission from global to national markets. These politics and institutions are often missing in the debate on the effects of agricultural subsidies in the global North on farmer incomes in the global South. A major assumption of this literature is that if the trade-distorting subsidies were eliminated, then world market prices and the incomes of smallholder cotton growers would significantly rise (Alston *et al.*, 2007; FAO, 2004; Oxfam, 2002).

This paper's focus on the political economy of price formation in West Africa offers insights into the domestic challenges faced by smallholder farmers in realizing the assumed benefits of potential subsidy reforms in the global North. Its focus on power relations between producers and national cotton companies during the annual price setting negotiations demonstrates the importance of national and regional-scale relationships that strongly influence producer prices. Indeed, the main argument of this paper is that West African farmers will benefit from buoyant world cotton prices only if they are able to negotiate a significantly higher price at the national level where price setting mechanisms and monopsonistic markets determine their share of world market prices. This paper's attention to national level processes does not mean that global-level dynamics are unimportant. If the 2011 global price spike in cotton is indicative, the elimination of cotton subsidies in the USA could have significant effects on world market prices, which could, in turn, have a major impact on the incomes and livelihoods of smallholder cotton growers in West Africa.⁵ Indeed, the cotton price spike of 2011 serves as a natural experiment that allows us to see what effects the elimination of subsidies might have on prices paid to African cotton producers.

Three research questions structure this paper. What is the relationship between world cotton prices and producer prices in West Africa? What is the relationship between price formation and power relations in West Africa's cotton economies? Why didn't West African cotton growers' incomes significantly increase during the 2011 cotton boom? To answer these questions, the paper examines the structure of the partially privatized cotton economies of Burkina Faso and Côte d'Ivoire and the implementation of their annual price setting mechanisms. Detailed analysis of the 2011–12 price setting negotiations in Côte d'Ivoire illuminates the institutions and power relations that disproportionately benefit cotton

companies over cotton growers. The paper concludes with a summary of the challenges facing cotton growers as they seek to obtain a larger share of world market prices in the context of national cotton sector reforms.

2. RESEARCH METHODS

This study is inspired by research originally conducted in Burkina Faso, Mali, and Côte d'Ivoire for Oxfam America in 2004 in the context of its Make Trade Fair campaign (Bassett, 2008). That research focused on the cotton value chains of these three countries and the likelihood of farmers benefiting from any increase in world market prices in the event that the US and EU ended their cotton subsidy programs. I interviewed cotton company officials, farmer organization representatives, agro-input suppliers, aid donors, cotton consultants, farmers, and researchers on various aspects of the cotton value chain.

That study showed farmers fighting for their fair share of cotton earnings on multiple fronts. At the national level, they actively put pressure on cotton companies to raise producer prices and to reduce costly fertilizer and pesticide prices. At the global scale, the C-4 countries (Benin, Burkina, Chad and Mali) and Brazil demanded that the World Trade Organization rule against the United States' cotton subsidy program (Baffes, 2011). However, the larger question of whether West African farmers would ultimately benefit from higher world market prices remained largely hypothetical. In the absence of any significant reforms of US and EU cotton subsidy programs, the distribution of any fair trade bonus was uncertain. The spike in world market prices in 2011 presented an opportunity to examine this distribution question in more detail, despite the lack of subsidy reform in the global North.

The present study is based on four months of field research in Côte d'Ivoire in 2011–12 and 2012–13 and updated information on Burkina Faso derived from cotton sector documents and newspaper accounts. In Côte d'Ivoire I interviewed the representatives of cotton companies, cotton growers, and the Ministry of Agriculture who participated in the price setting negotiations in 2011. These interviews were complemented by interviews and documents provided by Intercoton, Côte d'Ivoire's interprofessional cotton sector association that organizes the annual price setting negotiations.

3. COTTON PRICE TRANSMISSION

Price transmission analysis examines the relationship between changes in prices in one market on prices in another market (IFPRI, 2012). The following analysis studies the relationship between the world market price of lint cotton and the producer price of seed cotton in West Africa. The unit of analysis is a kilogram of lint cotton in West African CFA francs.⁶ I use a regional ginning rate of 43% to convert seed cotton to lint cotton. Since cotton is sold in US dollars in world markets, I use the average exchange rate between the US dollar and CFA franc during the December–March ginning period to determine world cotton and producer prices in CFA francs.

Figure 1 shows the trend in producer prices in relation to world market prices based on the Cotlook A indicator for the period 1995–96 to 2012–13. Since West African cotton is not quoted on stock exchanges, the A index is commonly used as a proxy measure (Baffes, 2005; Fok, 2005).⁷ The graph demonstrates that a major effect of the price setting mechanisms has been to stabilize domestic prices under conditions of fluctuating world market prices. No co-movement in prices

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