
COTTON UPDATE – 18 November 2005:

US Cotton Package – Can Aid Replace Trade?

A high level trade and diplomacy team headed by U.S. Secretary of Agriculture (Michael Johanns) and U.S. Trade Representative (Robert Portman) visited Ouagadougou, Burkina Faso on 10 November 2005 with a view to addressing the WTO Cotton Initiative with the West and Central African countries (see IDEAS Centre newsletter no. 30).

The US Proposal

In Burkina Faso the US announced the launch of the West Africa Cotton Improvement Program (WACIP) aimed at the cotton sectors of Benin, Burkina Faso, Chad, Mali and Senegal as part of a wider comprehensive aid package. The measures were apparently compiled in consultation with experts from the countries to improve production, transformation, and marketing of cotton in the region. The elements presented by the US with their interpretations are as follows:

- The WACIP, providing an amount to US\$7 million in a once-off contribution.
- Assistance through the development agency - The Millennium Challenge Corporation (MCC – see <http://www.mca.gov/>). The US is of the view that the MCC offers the most significant opportunity for many key countries to address long-term development obstacles in cotton. Currently, Benin's proposal to the fund stands at \$300 million; Mali's proposal at \$212 million; and Senegal's proposal at \$255 million.
- The G-8 debt relief package agreed in Gleneagles in July 2005 includes relief for Benin, Burkina Faso, Mali and Senegal. This relief could free up resources for cotton.
- The US according to its analysis, will be doubling aid to Africa by 2010 under the G-8 commitment.
- The new African Global Competitiveness Initiative, a \$200 million, 5-year program, is being designed to help improve competitiveness and stimulate

regional and international trade. The program is aimed at helping selected countries to diversify their trade and remove key barriers to expanding growth.

- USAID is tasked to provide \$200 million a year over the next five years to support the Comprehensive African Agricultural Development Program, in which African Heads of State aim achieve and sustain a 6% annual agricultural growth rate.
- The US National Cotton Council sponsors entomologists from the region to receive training on cotton insect problems in Africa.
- The United States Trade and Development Agency has earmarked grants related to agribusiness and transportation integration in West Africa.

Comment on the programmes can be made in 3 steps:

1. The WACIP Element

At \$7 million once off, the US is providing West and Central Africa with the equivalent of what they pay their own cotton growers every 15 hours through each day of the year. (Or less than half of half of a single percent of what is paid in cotton subsidies in the US). In essence this gesture is very limited indeed. Other commentators were prompt in indicating that \$2 million of the announced \$7 million package is in fact a pre-existing commitment.

2. The MCC

The MCC is not new or unique to cotton. It has been operating for near on 3 years now. It is a US government agency providing aid on the proviso that the assistance is only provided to those countries that 'rule justly, invest in their people, and encourage economic freedom'. The US Congress provided \$1 billion in initial funding and President Bush has requested \$3 billion for 2006. It is interesting to note that this \$3 billion is provided across a spectrum of 23 independent countries; while Congress provides \$4 billion annually to a mere 25'000 US cotton growers.

A country that is given the privilege of MCC funding eligibility does not mean that it is getting money. This is simply a 'green card' that allows the country to present the fund with a funding request for evaluation. This is what it means for Burkina Faso now joining Benin, Mali and Senegal as 'eligible' for MCC money. For a look at the proposals from these countries see:

Benin: <http://www.gouv.bj/mca/publication.php>

Mali: http://www.mcamali.org/prop_mcamali.html

Senegal: <http://www.minfinances.sn/mca.html>

3. Other elements

The remaining programmes as listed above are generic, such as the G8 initiative, and would in their own time be provided regardless of the WTO Cotton Initiative. One need only refer back to the G8's July meeting in Gleneagles Scotland, to realize that historically, the G8 have been extraordinarily slow or absent in making good on promised aid.

The overarching principle to keep sight of is that the potential gains from trade reform outweigh international aid payments by a staggering ratio of about 12:1. The point is that fixing the distortions, such as US cotton subsidies, in the trading system financially far outweighs the benefits of aid payments. In addition the gains from trade do not leave the recipient countries beholden to the donor for funding approval based on a the donor's socio-political agenda or in a state of perpetual gratitude for the handouts from a rich country. While it may seem ungrateful to question aid, the overarching dynamic of trade trumping aid must not be forgotten. President Bush himself in fact cautions against this in his 14 November 2005 press release: *"Through the pursuit of the Millennium Development Goals and the G-8 agreement to cancel 100 percent of the debt of the world's most heavily indebted nations, we have made good progress on aid and debt relief. However, **trade is the engine** for a sustained expansion of prosperity around the world."*

Concluding Comment

In summary the 10 November 2005 intervention by the US should not be viewed as a solution to the WTO Cotton Initiative or to the US obligations to the trading system to comply with the subsidy reducing measures in the WTO Upland Cotton dispute.

Africans have indicated that the current US initiative is seen as an encouraging sign of goodwill, that the US is now concretely indicating a willingness to proceed to the next, long awaited step, of seriously addressing the early elimination of cotton subsidies and providing a safety net for the African cotton producers, under the Doha Cotton Initiative and also; speedily complying with the instruction of the WTO Dispute Settlement Body in bringing current WTO illegal cotton subsidies into line with US obligations under the WTO Agreements.

African Ministers responded to the US in Ouagadougou by submitting their own proposal for cotton in Hong Kong. This was based the submission made by Chad at the WTO heads of delegation green room held in Geneva on 9 November 2005 (see IDEAS Centre newsletter no. 30).

IDEAS Centre offers policy advice services to developing and transition country governments in the areas of international trade, development and economic governance. In relation to the World Trade Organization (WTO), IDEAS Centre helps low-income countries defend their trade interests and thus use their WTO membership in a way that supports their development.

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