AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Liberalization and globalization:
Trojan Horse for the cotton traders' domination in Francophone Africa

Michel Fok A.C.
CIRAD, Montpellier (France)
UMR Moisa, Montpellier (France)
michel.fok@cirad.fr

Poster paper prepared for presentation at the International Association of Agricultural Economists Conference, Gold Coast, Australia, August 12-18, 2006

Copyright 2006 by Michel Fok A.C.. All rights reserved. Readers may make verbatim copies of this document for non-commercial purposes by any means, provided that this copyright notice appears on all such copies.

1. Introduction

In September 2003, at the WTO Ministerial Meeting in Cancùn, four of the Francophone African Countries (FACs) attracted the international attention by demanding the end of the cotton subsidies. For the first time, the FACs exposed very officially how cotton production was socially and economically important in countries which jointly rank second at the exportation of cotton lint.

The "July Package" lets little hope that the FACs' claim for total subsidy abolition will be met. The African initiative is also debatable in its exclusive focus on national support policies since it is missing the effect of market structure on price formation. The exacerbated phenomenon of concentration and integration, in the areas of trade and processing of agricultural commodities remains overlooked as well as the price capture by the resulting oligopolies (Murphy, 2002).

In this communication, we contend that the FACs are now submitted to the cotton trading oligopoly as the result of the liberalization process advocated to further adapt to globalization. The first part emphasizes the phenomenon of concentration/integration and its effects on price formation. How it is materialized in the cotton case will be discussed. The second part informs on how cotton transactions run and how the FACs were sheltered from the Cotton Trade Muntinational Companies (MNCs). The third part deals with the relationship between the liberalization process and the current MNCs' domination.

2. Exacerbated phenomenon of concentration/integration in the commodity trade

For all agricultural commodities, no increase of commodity prices resulted after the Uruguay Round. For a few analysts, the influence of the market structure is clear (Murphy, 2002).

2.1.General trend of exacerbated market concentration

The reality of oligopoly control of the commodity trade was yet observed during the negotiation process of the Uruguay Round. In Europe, the trade of coarse grains at international level was controlled by three main firms (Scoppola, 1995). These firms are

MNCs: e.g. Cargill operates in 70 countries. In the USA, in 2002, three firms (Cargill, ADM and Zen-Noh) controlled respectively 82% and 65% of the US corn and soy exportations. These figures far exceed the threshold of CR4 > 40% (concentration ratio obtained by the four first firms) at which market competition is doubtful (Trade and Development Board, 1999).

The concentration process takes place along with integration, commodity diversification and international expansion (Heffernan and Hendrickson, 2002). In USA, in addition to grain trade, Cargill belongs to the top four firms producing animal feed, processing meat and dealing with handling and storage operations needed at exportation. Diversification leads trading companies to deal with commodities beyond the ones they traditionally addressed. Cargill became for instance a big cotton trade player within one decade. Concentration and diversification go along with international expansion. The leading companies in the soy trade or processing are more or less the same in USA, Brazil and Argentina.

2.2.Market concentration and price capture

The farm to wholesale price spread is an indication of the price capture: it is observed that, in the USA, the more concentration is, the higher is the price spread (Murphy, 2002). The power on price formation expresses itself through various ways. In the coffee case, physical transactions are organized through the "inversed auction" process which are detrimental to producers (Boris, 2005)and they only account for 10% of total transactions (Kaplinsky, 2004)). Hence, speculation that traders control account far more in price formation. The reality of this price capture is regarded as responsible of the partial conversion of support money into farmers' income (Murphy, 2002).

2.3.Cotton trade concentration and its effect on price

By recording eighty companies involved in the cotton trade worldwide, the International Cotton Advisory Committee inclines to believe that market competition prevails (ICAC, 2005). This position is debatable since there are only a dozen of companies really involved in international trading business (Table 1). These firms are MNCs which are mainly US or

Europe-based MNCs.

Table 1. International cotton trading oligopoly

Origin	1994	2004
USA	Allenberg cotton co.	Allenberg cotton co.
	Conticotton	
	Dunavant Enterprises Inc.	Dunavant Enterprises Inc.
	Hohenberg Bros. Cny	
		ECOM USA Inc.
		Cargill Cotton
		Weil Brothers & Rountree
Europe	L. Dreyfus Cotton international (B)	L. Dreyfus Cotton international (B)
	Copaco (Fr)	Copaco (Fr)
	Paul Reinhard AG (Sz)	Paul Reinhard AG (Sz)
	Stahel Hardmeyer AG (Sz)	
	Ralli Brothers & Coney (UK)	
		Aiglon Dublin Ltd (Sz)
		Plexus
Asia & Pacific		Toyo Cotton (Jp)
		Queensland cotton Corp. (Aus)

Source : From ICAC data in 1994 & 2004

The influence of the trading MNCs on the world price could be unveiled through the analysis of the A Index, set up and published daily by Cotlook (a private firm based in Liverpool) which serves as international price. A index is calculated from a basket of 19 cotton origins with a specific appearance grade ("Middling") and a lint length (1inch 3/32). The A index is the mean value of the quotations of the five cotton origins which are least priced. For more than fifteen years, the cotton growth coming from the FACs has been regularly retained in the A Index calculation.

A Index construction is not based on real transactions but intention declarations provided through telephone calls or faxes. In reality, only traders declare selling intentions. It comes out that A Index is totally a virtual one, managed with not any transparency, and more importantly, which is sensitive to manipulations[1].

Additional observation confirms that A Index should suffer some manipulation, in particular at the expense of the FACs. The quality of the cotton of these countries is generally

[1] An African commercial director observed that A Index had several times plunged severely without reason, just before a big trader proposed him a contract for a great amount of cotton.

acknowledged to be good. This is why quality-demanding countries (EU, Japan, Taiwan) account for 25-40% of the outlets of the FACs' cotton these recent years. The FACs produce a great share of lint length longer that the one required for the A Index cotton (Table 2). This observation questions why the West African cotton comes out to be the cotton growth the most regularly quoted, every of the quotation days in Liverpool, to the extent that A Index curve is totally confused with the one for the West African cotton (Figure 1). This is a paradox which sustains that A Index should be polluted by false declarations.

Table 2. Quality distribution of the cotton lint production in West Africa countries

	Share of lint length > 1"3/32		Grade > Middling	
	5 countries	The best one	5 countries	The best one
1995	38%	21%		
1996	37%	22%		
1997	44%	30%	63%	49%
1998	31%	44%	56%	36%
1999	26%	53%	62%	39%
2000	24%	42%	76%	67%
2001	19%	57%	70%	59%
2002	23%	45%	75%	70%

Source : Fok & Bachelier, 2004

3. FACs' isolation from the cotton trade oligopoly prior to liberalization

3.1.Private regulations of cotton trade

All cotton transactions refer to specific sets of rules and bylaws defended by cotton professional associations. These rules are the basis for dealing with any conflict in the contract implementation and can be called Private Regulation Systems (PRSs). Various PRSs wear the names of the towns where they originated (Liverpool, Le Havre, New York, Memphis…) in the second half of 19th century (Bernstein, 2001). The FACs refer exclusively to the Réglement Général du Havre (RHG).

The PRSs are basically sets of general conditions of cotton transaction contract. They specify quality criteria that can be contracted and the penalties that must apply in case the quality supplied is below the level agreed upon. The real agreement signed by contracting parties corresponds to specific conditions (i.e. quantities, quality criteria, price, date of delivery…) which are mentioned in less than two pages. It is worth emphasizing that PRSs rules deal

explicitly with contradictory control modalities at delivery (in terms of quantities and quality). They acknowledge the natural feature of cotton, with some degree of heterogeneity, through the notions of franchise and tolerance threshold which mean that some part of the contracted amount can be provided below the agreed quality (Fok, 2004).

3.2.Organization of the cotton sales prior to liberalization

In all FACs, state control applied to cotton production and commercialization prior to the liberalization process in the first half of 1990s. From mid-1970s, a joint-venture company enjoyed national monopoly right in managing cotton production, i.e. supplying inputs and technical assistance to farmers, buying farmers' productions, ginning seedcotton. Except in Benin, the capital of the cotton company is shared between the African State and a French company with a minority share (DAGRIS, formerly Compagnie Française de Développement des Textiles or CFDT). Till mid-1980s, in most of the FACs, the exportation of all agricultural commodities (including cotton) was managed by a public organism distinct from the cotton company. After the first world cotton crisis in 1985, all cotton companies in the FACs got the responsibility of exporting its own cotton.

Cotton was sold through a selling commissioner, COPACO[2], the same for all FACs. In the opposite of a trader, a commissioner never takes possession of the cotton. He only plays an intermediation role, represents the mandatory in case of conflicts with buyers and gets a commission based on the contract value. All sales were at CIF position, with high organization requirements for proper shipping. Clearly, till the beginning of 1990s, most of the FACs had no relation with international traders. The option of selling through commissioner sheltered[3] these countries from the cotton trading MNCs.

---

[2] COPACO is totally owned by DAGRIS since the end of 1980s, but its dates back to 1863.

[3] Of course, since COPACO and CFDT are both French companies and which eventually became connected, risk of collusion may be questioned and actually might have been questioned. For the purpose of this paper, it suffices to note that there was no downstream integration since COPACO intermediated and did not take ownership of the African cotton.

4. Questionable globalization-assisted expansion of the cotton trading MNCs in the FACs

The implementation of the liberalization process of the FACs' cotton sectors enables the MNCs to enter a sheltered market and to become dominant within less than one decade.

4.1.Trade liberalization: a concession gesture within a harsh debate

In FACs, liberalization was contended to enable cotton sectors to better adapt to world market fluctuations to the benefit of farmers (Banque mondiale, 1998; Varangis, et al., 1995). Harsh and passionate debate resulted. Some observers saw an opposition between the World Bank and French interest while the general advocacy of liberalization of agricultural sectors provoked skeptical and critical analyses from various horizons (Bayliss, 2001; Hibou, 1998).

The reform of the cotton sectors eventually was launched, at different rhythm and following various modalities. Privatization surely took place but not really liberalization of the whole cotton sectors (Bourdet, 2004). Amazingly, change of the cotton lint commercialization scheme occurred and gave rise to no or very discreet discussion. It seems that the acceptance to diversify the cotton selling scheme was a concession gesture from CFDT, if not from the French government, as a sign of good will to reform cotton sectors. Questionable outcomes we observe now likely were not anticipated.

4.2.Dominant position of cotton trading MNCs within one decade

We succeeded to have access to data related to the cotton transaction contracts of one country (we call country X for not disclosing its name). The data for the 1991-2002 period provide some information on how the trading MNCs achieve a dominant position in the FACs.

Today, it is acknowledged that in every FAC, cotton is mainly exported by selling it to traders, all MNCs. This is the result of a gradual process. In country X, we observed that it was from 2000 that traders caught up COPACO in getting the cotton of this country (Table 3). The conversion to exclusive sales on FOB position came abruptly, in 2002.

The data cannot help to appraise who are the traders involved (except COPACO) and how many they are. However, we know informally that, till 2000, there were only 5 to 6 cotton

trading companies in most FACs. Even COPACO has turned to operate as a trader and no longer as commissioner.

Table 3. Distribution of cotton exportation in country X

	Sales via or to			Sales position	
	COPACO	Traders	others	CIF	FOB
1991	93,8%	0,7%	5,4%	71,7%	28,3%
1992	95,7%	3,2%	1,1%	70,0%	30,0%
1993	93,6%	2,7%	3,7%	89,6%	10,4%
1994	86,9%	12,7%	0,4%	80,1%	19,9%
1995	91,5%	8,5%	0,0%	79,5%	20,5%
1996	98,0%	1,8%	0,2%	95,8%	4,2%
1997	95,5%	4,0%	0,5%	95,2%	4,8%
1998	90,5%	9,1%	0,4%	93,4%	6,6%
1999	83,5%	16,4%	0,1%	83,3%	16,7%
2000	73,2%	26,8%	0,0%	89,9%	10,1%
2001	60,6%	39,4%	0,0%	95,2%	4,8%
2002	50,6%	49,4%	0,0%	2,7%	97,3%

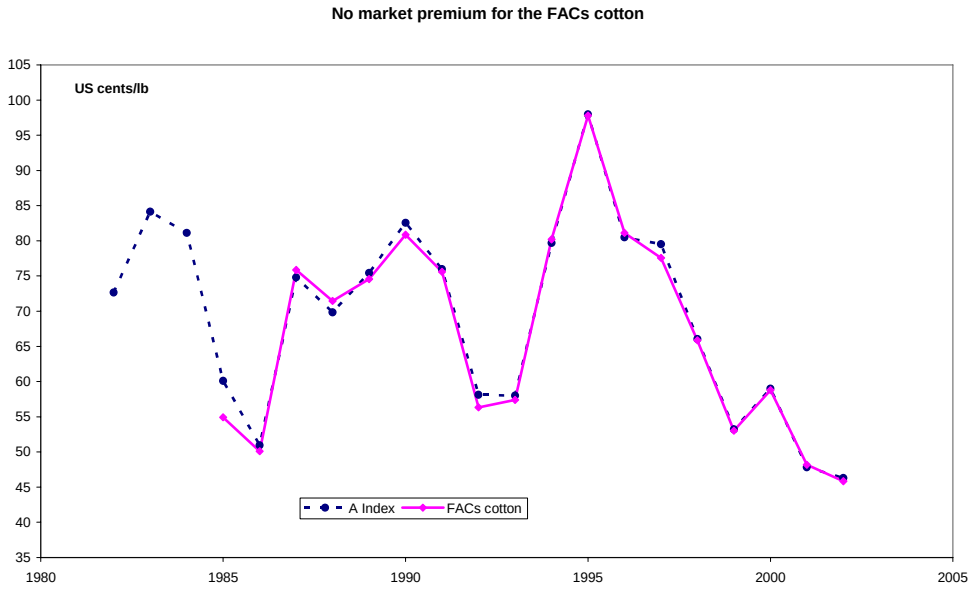
In a nutshell, cotton of the FACs is nowadays exclusively sold to traders after an exclusive selling through commissioner. This shift implies also a dramatic change in the selling position (all sales are on FOB position) with modification of the transaction rules (cf. infra).

The liberalization of the cotton selling enabled the cotton trading MNCs to conquer the FACs' cotton market. The privatization of the cotton companies which followed enabled them to consolidate their position through an upstream integration process. Cotton trading companies like Reinhard, Dreyfus, Aiglon, are running cotton companies in Côte d'Ivoire, Burkina Faso, Benin. Dunavant tried too. DAGRIS itself is committing himself in this upstream integration process (Senegal, Madagascar, Mozambique, Burkina Faso). In short, a substantial share of the transactions of the whole FACs' cotton is actually intra-firm exchanges generally less profitable for the subsidiaries.

4.3.Negative price effect

In the opposite of the objective sought, Figure 1 shows that there is no change in the price of the FACs' cotton relatively to A Index after the liberalization of cotton commercialization while some quality criteria got improved both in terms of lint length and appearance grade during the recent years (Table 2). Unchanged price status for a quality which globally got improved is then indication of depressed performance.

Figure 1. Confusion of A Index and price for the FACs' cotton



This is confirmed by the real prices obtained by country X although it is delicate to compare mean prices when exportation occurs during the whole season with fluctuating prices which are also influenced by quality differentials. Under this reservation, we observe that , at the beginning, traders did propose better prices than COPACO either for sales at CIF or FOB positions, but with quantities which were far lower (0). When traders start dealing with bigger quantities, up to reach the same level than COPACO, traders no longer showed any price advantage[4]. This result may reveal a penetration strategy from traders which was put aside once the penetration objective is reached.

Table 4. Evolution of the traders' price advantage in country X

	Sales at FOB position				Sales at CIF position			
	Amounts, tons		Average price, FF/ton		Amounts, tons		Average price, FF/ton	
	COPACO	Traders	COPACO	Traders	COPACO	Traders	COPACO	Traders
1991	24 931	300	8 526	9 550	78 620	500	9 254	10 360
1992	29 960	3 727	7 806	6 412	80 573		7 286	
1993	7 890	1 273	6 156	6 498	119 640	2 400	6 443	6 721
1994	7 900	11 866	8 327	9 291	79 460	950	7 525	10 226
1995	16 300	10 105	8 024	10 317	101 692	850	9 291	10 218
1996	3 740	3 000	8 700	9 022	161 897		9 311	
1997	900	7 500	8 474	9 147	181 345	150	8 792	9 480
1998	1 867	11 945	8 228	8 182	199 486	8 300	9 327	9 762
1999	600	35 830	7 490	7 233	182 294		7 838	
2000	2 060	17 725	6 514	5 623	141 697	35 010	6 962	7 813
2001		5 053		5 462	63 253	36 040	8 319	8 137
2002	115 145	112 980	6 421	6 220	3 590	2 750	8 368	8 445

[4] When quality criteria are considered, the assumed price advantage of traders is furthermore debatable.

Owing to the data of country X, the FACs seem to actually suffer from traders' price capture. These countries suffer also from detrimental changes in transaction rules.

4.4.Unilateral and unfair readjustment of transactions rules by traders

After the liberalization of the cotton lint commercialization, transaction contract still refer to RGH rules which nevertheless are unilaterally re-interpreted. Many signs indicate that traders get themselves organized in implementing control before shipment. This control enables traders to reject cotton bales they are not satisfied with, for reasons they not necessarily specify. The real fact is that the principle of contradictory control -implemented in the face of representatives of selling and buying parties- is over. The unilateral revocation of a sacrosanct principle of contradictory control goes along with the abolition of the notions of franchise and tolerance threshold mentioned above. No tolerance is now applied, and for sure at the expense of the selling parties.

The delay in removing or delivering contracted cotton bales might neither be respected. This is what several cotton companies complained when market is bearish. This behavior of traders leads cotton companies to lose three times without compensation: storage cost, deterioration-linked penalty and discredit on the image of their cotton.

5. Conclusion

The FACs exclusively fight for the abolition of subsidies applied by a few big cotton producing countries but the negative impact of the MNCs' market power should be addressed in addition. In the cotton case, there are signs that an international price index serves as an expression of this power.

The FACs were protected from MNCs in the cotton trade. Within less than one decade, and thanks to the implementation of the liberalization process, these companies has become totally dominant. Similar phenomenon is observed with cocoa in Africa (Kaplinsky, 2004; Losch, 2002). Liberalization hence served as Trojan Horse for the MNCs penetration.

It is worth noting the paradox of exacerbated concentration of the commodity trade at the

international level while developing countries were forced to go into a fragmentation movement by abolishing marketing boards or public monopoly companies which provided some price protection to farmers. This fragmentation movement made easier the domination of trading MNCs in developing countries. Is it just coincidence?

References

Banque mondiale, 1998. Politiques cotonnières en Afrique francophone, problématiques (version préliminaire). World Bank, Washington.

Bayliss, K., 2001. The World Bank and privatisation: a flawed development tool. Public Services International Research Unit. University of Greenwich, London.

Bernstein, L., 2001.Private commercial law in the cotton industry: creating cooperation through rules, norms and institutions Michigan Law Review 99, 1724-1790.

Boris, J.-P., 2005. Commerce inéquitable. Le roman noir des matières premières, Hachette Littérature, Paris. 188 pp.

Bourdet, Y., 2004. A Tale of three countries - Structure, Reform ad Performance of the Cotton Sector in Mali, Burkina Faso and Benin. Swedish International Development Authority, Stockholm.

Fok, A. C. M., 2004. Les facteurs d'efficacité des Systèmes de règlements privés comme institutions de régulation des transactions marchandes. Communication presented to Conference 'Premier Colloque de l'Association Française de Sociologie', 24-27 Février, 2004Villetaneuse, France, 19.

Heffernan, W. D. and Hendrickson, M., 2002. Multi-national concentrated food processing and marketing systems and the Farm crisis. Communication presented to Conference 'The Farm crisis: how the heck did we get here', Boston, MA, USA, 21.

Hibou, B., 1998.Economie politique du discours de la Banque mondiale en Afrique sub-saharienne. Du catéchisme économique au fait (et méfait) missionnaire Les études du CERI 39, 1-44.

ICAC, 2005. The structure of World Trade. ICAC, Washington, DC.

Kaplinsky, R., 2004. Competitions policy and the global coffee and cocoa value chains. UNCTAD, Geneva.

Losch, B., 2002.Global restructuring and liberalization: Côte d'Ivoire and the End of the International Cocoa Market Journal of Agrarian Change 2, 2, 206-227.

Murphy, S., 2002. Managing the invisible hand. Markets, farmers and international trade. An executive summary. Institute for Agriculture and Trade Policy, Minneapolis, USA.

Scoppola, M., 1995.Multinationals and agricultural policy in the EC and USA Food Policy 20, 1, 11-25.

Trade and Development Board, 1999. Report of the expert meeting on the impact of changing supply-and-demand market strcutures on commodity prices and exports of major interest to developing countries. UNCTAD, Geneva, Switzerland.

Varangis, P.,Larson, D. and Thigpen, E., 1995. What does experiences in other cotton producing countries suggest for policy reforms in Francophone Africa. The World Bank, Commodity Policy and Analysis Unit, Washington.