

ZAMBIA: COTTON TRADE CAMPAIGN

'TRADE JUSTICE MUST BEGIN AT HOME'

1. Background

The cotton sector was reformed in the mid-1990s when the very high international prices for cotton lint allowed ginners to pay attractive prices to farmers. This made cotton growing a highly profitable enterprise for both ginning companies and small farmers. However, the decline in prices from 1995 undermined this profitability as prices of seed cotton in Zambia fell from \$0.56/kg in 1995 to \$0.18/kg in 1999 and averaged US\$0.225/kg in the past three harvest seasons of 2001/2003.

We have no doubt that farmers grew accustomed to several years of increasing prices and they did so with limited information on world market conditions. Thus they found it difficult to understand the reasons for decline in prices the ginning companies were giving them. This, together with lack of transparency in how each buyer determined his prices and how they deducted input costs, led farmers and their representatives to conclude that they were being exploited.

We note that this environment of lack of information created mistrust and in all likelihood led to the increasing rate at which farmers defaulted on their loans. It also led to their being involved in side selling of their yield to other firms and the loan repayment rate dropped from 86 per cent in 1996 to 65 per cent in 1999 and 2000.

In September 2004 Organisation Development and Community Management Trust (ODCMT) re-launched its programme to gather one million signatures in its campaign for fair cotton trade. From now on, the ODCMT will emphasize the issues listed below which it believes once achieved would improve the livelihood for small farmers. We wish to further emphasize that our campaign will culminate in the trade Week of April 2005.

2. Cotton Prices

We note that competition among ginners began to emerge in 1997. We also note that price competition was a key tool ginners used in attracting buyers and that this contributed to repayment problems that ensued.

We have described above how farmers felt exploited by ginning companies because of lack of transparency in setting prices. This contributed to misunderstanding between farmers and ginning firms – hence to the repayment crisis.

We further note that there has been no government mandated price, nor any pricing guidance of any kind from government since liberalization in 1994. Besides there is no evidence that ginning companies engaged farmers in dialogue or negotiation regarding the price they will pay, although Zambia National Farmers Union has been involved in at least two sector-wide stakeholders' meetings since 1999.

We however, acknowledge that Dunavant has as a result of its dominant role acted as a price leader. It has been the only company that has in late October announced a new cotton price before each planting season. But Dunavant prices have generally been lower than the smaller ginners who have paid higher prices.

We recognize that we cannot campaign for higher prices on the world market while locally we keep prices to the small farmer low. Hence our slogan is – better prices must start at home. We urge government to create the environment in which our farmers are better paid than they are now.

3. Government Lack of Direction

We are sad that it appears that for government privatization has meant a hands off approach to the cotton sector. However, we wish to note that government has, while leaving the cotton sector alone, continued periodically to suggest how much it will pay to support maize prices. For example at planting time in 2001 government announced that it intended to offer a maize price of US\$140/metric tonne.

We agree with some ginners that this focus on maize distorts decisions by some farmers and results in swings away from cotton into maize and then out of the maize crop when government fails to fully deliver on its commitments.

We also note what other observers and some farmers suggest that these government policy statements have little effect on farmer behaviour. This is due to their skepticism about government's ability to deliver. Recent policy initiatives by government have included the Cotton Outgrower Fund and the proposed Cotton Board. It appears these may suggest the beginning of a broader focus within government to a move driven by comparative advantage or by perceived commercial opportunities within the agricultural sector.

4. Stakeholders Forum

We have already alluded to the fact that government appears to have abandoned its role in the cotton sector. Thus, we wish to emphasize the point that there is no body in Zambia which serves as a forum for ginners and farmers to address and resolve conflicts among them.

The Cotton Development Trust we describe later has a mandate that is broad enough for it to play this role. But presently it is not doing so. Instead the CDT is focusing mostly on technical issues.

Another organization, the Agricultural Consultative Forum in conjunction with the Ministry of Agriculture has held a few meetings, bringing farmers and ginner together, but this has not been sustained nor has the effort continued.

We propose that a Forum that will bring together the main players in the cotton sector be established without any further delay. We also proposed that our organization be included in any such forum as we have direct contact with many small cotton farmers especially in Eastern Province.

5. Lint Prices

After the fall in prices described above, international lint prices rose in the 2002/03 marketing year (August 02 – July 03) to nearly US\$0.56/lb from the historic low of US\$0.42/lb the previous year. In September 2003 projections by the International Cotton Advisory Council showed that prices would continue their recovery and would possibly average US\$0.60/lb for the 2003/04 marketing year, then fall slightly to US\$0.59/lb for 2004/05. We feel these improvements in prices do not trickle down to small farmers who produce this wealth.

For instance, the pricing of lint by gins to the local spinners in the country has, on the one hand provided a major draw back to spinning in Zambia and on the other not benefited small farmers. Before government privatized Lint Company of Zambia, lint was available to spinners at Liverpool Index price less the freight element. This is not so at the moment as spinners indicate that the ginner have put a premium on the Liverpool Index price which they now treat as the Liverpool FOB price.

We feel that this issue needs to be addressed so that benefits of improved prices can spread to all players – namely, the producers, the ginner and the spinners.

6. District Levies

We are aware that district levies have been a feature of local government finance for many years. Districts have, with the approval of the ministry of Local Government and Housing, power to levy produce from within their areas. For example in early 2003 levies became a point of conflict between districts and cotton companies.

In Eastern Province Chadiza district raised its cotton levy from K5/kg to K100/kg. However, Chadiza did not charge the levy at the time of marketing but in November 2002. In Feb 2003 an ad hoc group composed of Clark and Dunavant dealing in cotton, Stancom and Dimon in tobacco and a local petrol filling station formally protested and requested the council reconsiders its decision. The tobacco and cotton companies emphasized their position by saying that they

would fully pass the levy on to the producer, meaning they would reduce the price they pay by the amount of levy.

In April Chadiza council reduced levies on cotton to K40/kg and K70/kg for tobacco while levies on other crops remained unchanged.

We are aware that Dunavant and the ministry of Local Government have indicated that all other districts charge K10/kg or 1 per cent of the anticipated price of cotton. But, interestingly, however, Katete district also gained approval in June 2003 in which the council raised its levy to K200/kg for cotton seed and K100/kg for raw cotton.

Our view on this matter is that whatever arrangements for levies charged by districts these should not be to the disadvantage of small farmers. We thus deplore the action of ginners in Chadiza where they, literally, gained what they wanted by threatening to deprive farmers a decent price for their produce.

7. Cotton Development Trust

We have already mentioned the fact that there has been little government involvement in the cotton sector since 1994 when LINTCO was privatized. Government has done nothing in cotton both as a participant or as regulator of private activities and to date it still has no role in pricing, competition policy or marketing regulation. However, government has defined as its main role agronomic research through the Cotton Development Trust (CDT) created in November 1999. The CDT has several objectives which are quite broad but in particular to promote and develop cotton including research, extension, farmer training and seed production. The CDT also has to undertake cotton programmes which government or other sector bodies may be unable to initiate, continue or complete and to complete and complement and supplement the agricultural research, extension and seed production activities of government of the republic of Zambia or other bodies. While all these objectives are well-meaning, we note that the CDT has done nothing that has involved the protection of small farmers in their relationship with ginning companies.

We are aware of the CDT's added role in disbursing funds under the Cotton Outgrowers Fund. We restate that initially government proposed US\$2 million but later the amount was increased to K15 billion (US\$3.5 million) though only K3.5 billion was later released (US\$800,000). We further restate that this money when disbursed was given mostly to Dunavant (K1.1 billion) and Continental in Livingstone and that in 2003/04 CDT planned for K2.2 billion and this time would include Clark Cotton as well.

While these efforts are commendable we believe they still do not really address the problems of small cotton farmers as they leave the determination of cotton prices to ginning companies. Thus this assistance is not to farmers but to ginning companies. We propose that this issue be addressed so that both the ginning companies and the farmers must benefit from the scheme.

8. Inputs

At present, coordination among ginners and smallholders focuses primarily on efforts by ginning companies to resolve the input delivery and credit recovery problems that began to emerge in 1997.

We note that with few exceptions, smallholders as a group have not been able to participate actively in broader coordination efforts. The reason for this is that there are few, if any, independent and self-supporting smallholder farmers or farmer organizations in Zambia capable of engaging in commercial negotiations with ginning companies on the delivery of marketing or other services to their members.

Generally the bulk of the inputs to farmers are distributed by the ginners or their agents. Each ginner has a standard package with standard rules. These packages and use are similar among the ginners generally consisting of micro-nutrient (boron) foliar feed, aphicide, bollworm complex, and buffering solution. Jassids do not appear to be a serious problem in Zambia because both varieties in use are relatively hairy. Due to this hairiness, which also protects against aphids, Dunavant recommends spraying for aphids only late in the season to avoid honeydew, which has emerged as a quality concern in Europe.

Our views regards inputs is that there is need for better arrangements that would be beneficial to both ginning companies and farmers. Further our view on issues of pesticides referred to here as parts of packages of inputs are discussed below.

9. Pesticides and Safety

We are aware that one of the major ginning companies is very interested in promoting the use of herbicides on cotton in Zambia because of its concerns about labour bottlenecks. The company is promoting Zamwipe, essentially a push broom with a tube to apply Roundup or another herbicide to the brushes through a bag carried by the applicator. This approach seems fast and eliminates drift but adoption rates do not appear to be high at this time. There is also strong interest among ginners in Bt and Roundup-ready cotton, but Zambia's biosafety regulations are not yet sufficiently developed to allow this.

We are aware that three public safety bodies exist to test products manufactured or imported into the country. These bodies are the Phytosanitary Unit (PU) of the Ministry of Agriculture and Cooperatives, the Environment Council of Zambia (ECZ) and the Zambia Bureau of Standards (ZABS).

We note that the PU assesses the suitability of agricultural products while the ECZ is mostly visible where there is an environmental concern and ZABS monitors and sets up standards of almost an unlimited number of products. It is worth emphasizing that there is no organization in Zambia that routinely tests pesticides or dangerous agricultural chemicals.

Thus the lack of a clear law as to who should test inputs such as fertilizer, herbicides or insecticides has created a situation where firms import these inputs and sell them to farmers with no central review, control and approval. At times these firms conduct their own "tests" but these tests are usually for commercial effect.

We are against this open door policy on pesticides. We are also against the use of pesticides without proper protection of small scale farmers because information gathered by Government's own institutions suggests these companies are a law unto themselves. The following example tells the story of our concern.

Dunavant and Clark have worked at developing clear extension messages to farmers, emphasizing a few key points, such as "plant early", "weed early" and "apply pesticides on time."

We are aware that results from the Supplementary Survey gives support to this claim as the company agents only explained the proper use of pesticides and little of the health risks of pesticides to growers. It is interesting to note that even less numbers of farmers received such messages from the ministry of Agriculture agents while others received this from neighbouring farmers.

We wish to alert Government that this position is dangerous. There is need for a properly constituted institution to control the import, sale and handling of pesticides and other dangerous chemicals in the country.

10. Lint and Yarn Export

Both Dunavant and Clark devote over 90 per cent of their lint to export while the smaller gins devote 70 per cent for local consumption. Mulungushi and Mukuba as owners of spinning plants devote 100 per cent of their production to their spinning plants. Generally Dunavant exports its lint to Europe while Clark exports to South Africa. The US Africa Growth and Opportunities Act (AGOA) have resulted in significant foreign investment in spinning and garment making in South Africa, Mauritius and Madagascar. This suggests that these countries may become important export markets for Zambian cotton.

Our concern here is the high percentage of lint both Dunavant and Clark export because these companies get high prices for this and yet this does not trickle down to small farmers. We have said earlier that better prices must begin at home and not abroad. We say even the provision of AGOA will be meaningless to small farmers if this existing situation is left as is.

The bulk of the yarn (over 90 per cent) produced by spinners is also destined for the export market. The rest is retained for weaving into cloth – mainly chitenge material and blankets. Our view is that small farmers do not benefit from these exports. A mechanism must be devised to allow excess earnings from exports to trickle down to small farmers.

Similarly all ginners devote 10 per cent of the seed from gins for redistribution and they sell about 80-90 per cent to local oil processors. Obviously ginning companies get good prices for seeds sold to oil processors while nothing goes back to farmers who initially produced the seed. Using his labour and land. Only ending up being given the same seed s/he grew on loan.

In this regard, it is worthy noting that over 95 per cent of cotton growers are found in Eastern, Central and Southern provinces with Eastern accounting for 60 per cent of all growers. What have they benefited from their labour on cotton? As things stand, very little.

11. Proposed Bill

As early as 2000 Dunavant began working with CDT and other stakeholders in the cotton sector to develop a regulatory framework that would allow the orderly development of the sector over time. A key concern driving this process was avoiding a repeat of the credit default crisis that nearly destroyed the sector from 1997 to 1990. The Dunavant effort resulted in a draft Cotton Bill whose central provision was the creation of a Cotton Board with broad regulatory powers.

We note that the proposed Bill establishes a Cotton Board with nine voting members, appointed by the minister of Agriculture upon nomination by their own institution. Members of the board are the Permanent Secretary of Agriculture; two persons each from CDT, Cotton Ginners Association and the Cotton Growers Association; one person each from the Controller of Seeds and the Environmental Council of Zambia.

We further note that the Board would have no authority to set prices nor to directly engage in marketing. Its functions are regulatory and advisory and includes the following specific functions:

- Regulate the production, processing, and marketing of cotton
- Advise Government on regulations and policies related to the sector
- Monitor and report on implementation of policies and matters related to the sector, and

We are worried that this Bill appears interested in policing the cotton sector and we discuss some of the details of our concern below.

12. Key Sections of Bill

As indicated above the key sections of the proposed Bill are licensing (Part 3, section 15) and registration (Part IV). The Board will have a Cotton Licensing Committee of not more than seven members and its functions are to issue certificates and licenses, approve “distinguishing marks” (or company trademarks) and maintain data bases on land planted with cotton, registered cotton growers, and distinguishing marks.

The proposed Bill also stipulates that “any person dealing in cotton” must be registered and must pay a fee for registration, and that any cotton leaving a registered ginner must have the distinguishing mark clearly shown (subsection 30.1). Licensing is specified for cotton ginners, cotton seed sellers, cotton seed producers, inspectors and “any other license which the Board may prescribe.”

We are worried about the possibility that not only the cotton ginners, cotton seed sellers and inspectors but also small farmers will be subjected to licensing as suggested in this draft.

We are further worried that the Board can refuse registration (Part VI subsection 33.3) and no criteria for such refusal is given. We are also worried that all licence holders (including small farmers) will be expected to maintain records on cotton transactions which “shall be open to inspection at all reasonable times, by the Board” (Part VI section 35).

What are we trying to do to the small farmer let alone to the cotton sector? Do we intend to criminalize cotton production?

13. Weaknesses of Bill

Some of the weaknesses of the Bill have been mentioned above. Others include the proposal that the Cotton Development Trust Fund for technical activities be created but without giving specific mechanism on how to generate funds for this.

The proposed Bill does not address how to improve the capacity of cotton growers to negotiate and sign informed contracts with ginners – especially with the near monopoly positions of the major buyers of cotton, which even the trade minister admits, they use this monopoly ruthlessly' with threats. As exemplified in the case of Chadiza levies. And especially too that most of the farmers in the country have limited education and not organised to withstand this ruthlessness individually.

Besides the proposed Bill does not address the issues of how ginning companies can achieve higher repayment rates at lower cost. Some observers have proposed the creation of a credit bureau – a kind of clearinghouse for information on the credit status of borrowers. We suggest that such a proposal be examined. The dilemma is that in all these discussions, schemes and machinations that affect the lives of the key participants who bare the brunt –

the small-scale cotton producer – is not consulted. Even if these regulations, procedures and practices are a question of her/his life and death and that of his children and their environment.

Our view is that the small scale cotton producer should be empowered with information, knowledge on the social and environmental hazards and determine the price of their products as sellers and not the buyer as the case is. They have no bargaining power. They are thus prone to exploitation.

14. Conservation Farming

We wish to take note that Dunavant has many times claimed that it promotes conservation farming among all its farmers by training its distributors. The company also claims that where conservation farming has been practiced this contributed substantially to minimizing the effects on cotton yields of the serious drought during the 2002 growing season. However, we are aware of findings that have shown that the growth of conservation farming is general because both Government and NGOs, including the ordinary small scale producer, have aggressively promoted this type of agriculture, and not because of Dunavant or any other ginning company.

15. United States Subsidies

Subsidies, especially in the US have contributed to low prices and profitability of ginners and farmers in Zambia. Recently the WTO has ruled against the United States on this issue. We believe that it would be in Zambia's interest to join the move by Brazil, India, China, South Africa and other developing countries depending on agricultural exports to form a negotiating block in the WTO. This would increase Zambia's capacity to negotiate a better deal for its produce.

We also believe that a balanced application of free trade rules in the WTO would certainly lead to the elimination of subsidies on cotton and on other commodities in the developed world. This would allow Zambia and other developing countries to compete on the world market on a level playing field.

We propose that as Government creates an environment that will improve local cotton prices, they should at international level take this route. We repeat our view – better prices must begin at home.

*Produced by Organisation Development and Community Management Trust (ODCMT), a grassroots NGO building capacity of small and emerging NGOs in Zambia, P.O. Box 38665, Lusaka, Tel: 260-1-231322
Telefax 260-1-231583 Email: odcmt@microlink.zm*