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

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The Francophone African Countries (FACs) exclusively fight for the abolition of subsidies applied by a few big cotton producing countries. Although legitimate, it is doubtful that the outcome could be so much satisfactory because subsidizing countries have room in re-arranging measures of their support policies. The FACs are missing the effect of market structure on price formation. Market power of trading Multinational Companies (MNCs) is getting stronger and stronger. It concerns cotton too and 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 have become totally dominant. Liberalization then served as Trojan Horse for the MNCs penetration.

Negative price impact resulted. Unilateral and unfair change of cotton transaction rules took place. Historical private regulation systems are being pushed down to the sole benefit of traders and at the expense of cotton producers.

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 through power in price formation and adjustment of transaction rules.

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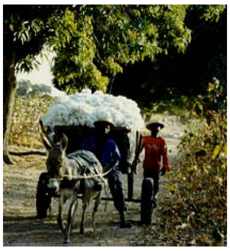
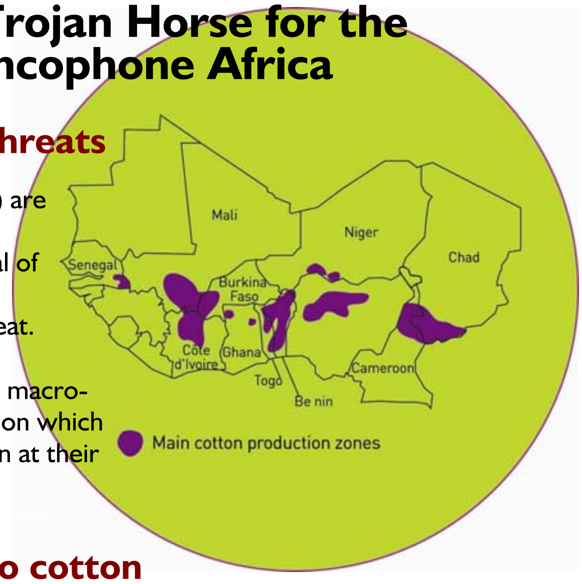
Africa cotton under visible and invisible threats



The Francophone African Countries (FACs) are protesting against the subsidies of a few countries which distort market. The survival of their cotton sectors, of crucial social and economic importance, is actually under threat.

The FACs nevertheless are overlooking the macro-phenomenon of concentration and integration which encompasses huge power in price formation at their expense.



Expansion of the concentration process to cotton

Concentration process is general

Concentration and integration is exacerbated in all agricultural commodities trading and processing. The threshold of Concentration ratio of 40%, ensuring some competition, is far much exceeded in all cases in many countries.

Concentration of cotton trade is clear

An oligopolistic situation prevails in the international trade of cotton lint. Its majors members are enjoying a dominant position in the FACs within less than one decade

Major cotton traders in 2004

Origin	Companies
USA	Allenberg cotton co.
	Dunavant Enterprises Inc.*
	ECOM USA Inc.
	Cargill Cotton*
	Weil Brothers & Rountree
Europe	L. Dreyfus Cotton international (B)*
	Copaco (Fr)*
	Paul Reinhard AG (Sz)*
	Aiglon Dublin Ltd (Sz)*
	Plexus*
Asia & Pacific	Toyo Cotton (Jp)
	Queensland cotton Corp. (Aus)

* Yet present in FACs

Detrimental price capture

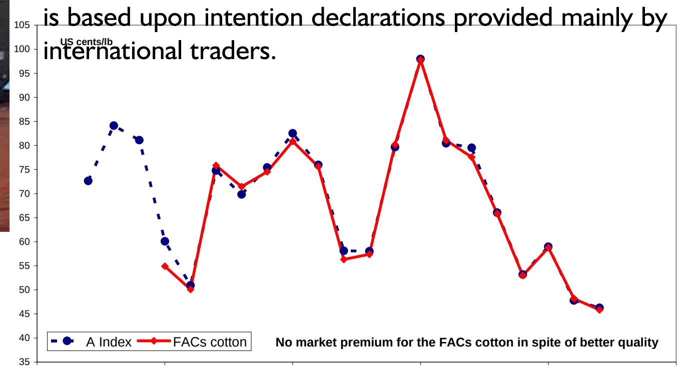
Materialization of abuse in price formation

Negative impact on the price obtained by producers can be feared when oligopolistic situation prevails. Higher the concentration is, higher is the wholesale price spread. Abuse of dominant position is frequent through the modalities of the procurement of raw material by food processors (like in coffee).

Photo FOK

Subtle and strong control of cotton price

It can be suspected that price control of cotton takes place through the direct influence on the A Index, regarded as an indication of international price while it is based upon intention declarations provided mainly by international traders.



The offer of slightly higher prices on small amounts helped. It disappeared once traders felt their penetration set down. Their' position was consolidated afterwards when they took over cotton companies forced to be privatized.

How Trojan Horse came in

Till the beginning of 1990s, the scheme of exporting cotton lint through a commissioner protected the FACs from the intervention of cotton traders. This scheme was forced to evolve as a reaction to the globalization process, assuming that liberalization would enable to get profit from competition between traders.

How Trojan Horse hurts

Liberalization did not correct the fact that the FACs still suffer from pricing which does not compensate the higher quality of their cotton.

Unilateral change of the selling rules by traders is taking place (abandonment of contradictory quality control, non-strict respect of commitment to remove cotton bales when market is bearish). This is financially costly and image damaging to the FACs.

Disconcerting paradox

While concentration is reinforced worldwide, African countries were forced to dismantle their cotton companies, which hence became easy prays for trading MNCs. This paradox is puzzling with regard to the negative impacts being observed.