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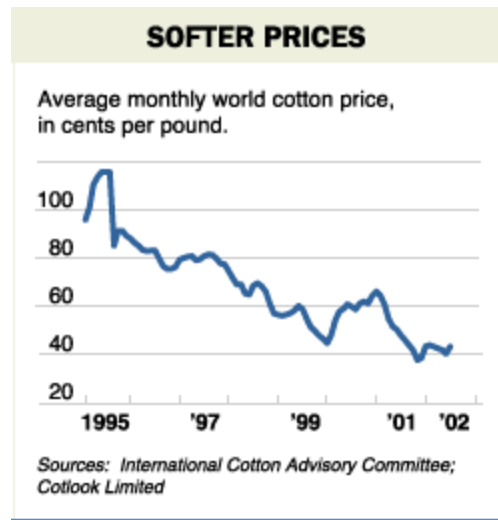
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U.S. Subsidies Create Cotton Glut That Hurts Foreign Cotton Farms

By **ROGER THUROW** and **SCOTT KILMAN**
 Staff Reporters of THE WALL STREET JOURNAL

KOROKORO, Mali -- After the first good rains of the season visited this West African village earlier this month, Mody Sangare hitched his one-blade plow to two lanky oxen and began turning over the dirt of his fields. Walking barefoot behind the plow, the 22-year-old farmer would spend the next 14 days tilling and planting 15 acres of cotton.

And for what, he wonders? The price being offered to Mali's cotton farmers this year is 10% lower than last year's -- a pitiful sum itself, given that world cotton prices had fallen to the most unprofitable level in three decades. After the last harvest, once the farming costs were paid, the Sangare family was left with less than \$2,000 for the year to support two dozen family members and relatives. Mr. Sangare worries that this year's lower prices, along with higher fertilizer and pesticide costs, probably mean that the family will be unable to replenish their cattle stock. They may also have to stop supporting their youngest brother's high-school education, which is a luxury here.



Mody Sangare and his nephew use oxen to plow their cotton field.

don't.

In past years, farm subsidies have been criticized for widening the gap between rich and poor. Since Sept. 11, such subsidies have generated an even sharper controversy: they work directly against the U.S. effort to combat global poverty as part of a broader campaign against terrorism. Fearing that misery in the developing world may make it a breeding ground for instability and terrorism, the U.S. government is aiming to promote development aid and open trade.

But this strategy is undermined by subsidies to U.S. farmers, which help depress global prices of some vital cash crops that developing

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"We'll have to reduce what we can buy," says Mr. Sangare, wearing a sweat-soaked brown shirt and tattered green pants. "These prices are really going to ruin us."

On the same June day that the rain came to Korokoro, cotton seedlings half a world away in the U.S. pushed up through the thick black soil of Perthshire Farms, a 10,000-acre cotton plantation in the Mississippi Delta. Kenneth B. Hood, the eldest of four brothers who run the farm, climbed into the air-conditioned cab of a \$125,000 Case tractor and prepared to give the seedlings a dousing of fertilizer.

The enormous tractor, one of 12 on the farm, is equipped with digital displays, four-wheel drive and an air-cushioned seat. The 61-year-old Mr. Hood, wearing a button-down oxford shirt, fiddled with a global positioning satellite system that indicates how much fertilizer to squirt onto the plants.

There's no obvious sign here in Gunnison, Miss., that world cotton prices are at rock bottom. Mr. Hood and his family are continuing to buy parcels of land. The next day, in New Orleans, he went to the Ritz-Carlton hotel, meeting with other directors of the National Cotton Council. "There are lots of reasons to be optimistic," says Mr. Hood, who this year is chairman of the powerful industry trade group.

The biggest reason for Mr. Hood's upbeat outlook is also the biggest reason for Mr. Sangare's despair: subsidies. American farmers get them in abundance. Malian tillers

countries count on. In Mali, the U.S. spends \$40 million a year on education, health and other programs. That investment is blunted by sagging prices for cotton, Mali's main cash crop. The state cotton company predicts a deficit of about \$30 million this season.

Alienated and Angry

As a result, the very people who are supposed to be soothed by the anti-poverty offensive are becoming more alienated and angry. Mali, a predominantly Muslim country, has been largely peaceful since Sept. 11, but frustrations are mounting nonetheless. "This is where America is heading: It wants to dominate the world, economically and militarily," says Mody Diallo, a leader of the farmer's union in the Malian regional center of Bougouni.

Meanwhile, a new U.S. farm bill rich with subsidies means that many U.S. cotton growers will receive half of their income from the government this year. Although a relatively small share of the farm population -- just 25,000 of America's two million farmers actually raise cotton -- their affluence and influence is legendary in Washington. The average net worth of a full-time American cotton-farming household, including land and nonfarm assets, is about \$800,000, according to the U.S. Department of Agriculture.

This contradiction is likely to be spotlighted this week, when the leaders of the Group of Eight industrialized nations meet in Canada with plans to launch a new effort to help develop Africa's economies. Back home, many of those same leaders will be raising or maintaining subsidies and tariffs on a range of products that would further marginalize African trade.

"Our rhetoric doesn't match our behavior," says Allan Gray, an agricultural economist at Purdue University in West Lafayette, Ind. "It goes to show that when push comes to shove, U.S. domestic policy trumps foreign policy every time."

While subsidies protect growers in America and several other countries from falling world prices, they generally further depress prices by encouraging continued production, and thus cripple growers in less subsidized countries. Few places are these skewed economics more evident than in the gap between the cotton growers in the U.S.'s Mississippi Delta and Africa's Niger Delta. America is the world's largest exporter of cotton, and West Africa is the third, leaving both subject to market forces that have slashed prices by 66% since 1995 to 40 cents a pound. World trade in cotton has stagnated, ever since Russia's textile-making industry, long a big consumer of fiber, collapsed in the 1990s. What's more, cotton is increasingly competing with polyester, which is becoming more popular in some parts of the world.

Armed with roughly \$3.4 billion in subsidy checks, U.S. farmers last year harvested a record crop of 9.74 billion pounds of cotton, aggravating a U.S. glut and pushing prices far below the break-even price of most growers around the world. This year, U.S. cotton farmers are expecting to pocket even more, thanks to the \$118 billion, six-year farm bill signed by President Bush in May. The government program ensures farmers reap about 70 cents a pound of cotton by making up for any shortfall in the market with federal checks. Unlike several past farm bills, the latest one doesn't require farmers to leave some of their land idle in order to qualify for the aid.

In contrast, Mali's government, hard-pressed to provide even the most basic health care and education to a nation that is one of the 10 least developed in the world, can't keep up with subsidies of its own.

Cotton could be a key engine of poverty reduction for Mali and nearby states, according to a joint study by the World Bank and International Monetary Fund. In West and Central Africa, cotton cultivation employs more than two million rural households. African cotton, much of which is hand-picked, is just as good as American cotton.

The report estimates that the removal of U.S. subsidies -- which account for much of the \$5 billion a year in subsidies world-wide -- would produce a drop in U.S. production that would lead to a short-term rise in the world price of cotton. In turn, that would increase revenue to West and Central African countries by about \$250 million. That is a princely sum in a region where vast numbers of people live on less than one dollar a day.

Instead, the opposite is happening. The new farm bill increases the amount of money a U.S. cotton farmer can count on making this year by at least 16%. At the same time, in Mali, where cotton makes up nearly half the nation's export revenue, the government is telling cotton farmers they will be getting about 10% less this year from the state cotton company.

By widening the wealth gap, the subsidies sow a potentially bitter harvest. Citizens of the cotton countries of West and Central Africa, where Islam is the major religion, are crowding into the cities of Europe. Those who stay are seeing more clerics from Pakistan and the Middle East visit their mosques and Quranic schools. In Mali, Western diplomats hear reports of some Malians crossing the Algerian border for religious training abroad.

For now, the peril isn't imminent: The secular governments of Mali and the neighboring states insist that they won't allow their countries to become recruitment camps for terrorist organizations seeking to enlist the world's disaffected. Yet they warn that frustrations are rising with the persistent poverty.

Two years ago, the last time the Mali government cut the price it paid to cotton farmers, the farmers boycotted their fields, production plummeted, and the shock staggered the entire economy, triggering a 3% decline in the gross domestic product. Midway through the growing season, the government, fearing instability, raised the price back to the previous year's level.

Mr. Diallo, the farmers' union leader, helped organize the planting boycott and won't discount the prospect of future social upheaval. "The

Americans know that with their subsidies they are killing so many economies in the developing world," he says.

Little Sympathy

In the Mississippi Delta, there is little sympathy for such pleas. U.S. farmers don't want the added competition of Africa's farmers. With the U.S. textile industry shrinking, they are having to sell more and more of their crops to overseas buyers. About half of last year's U.S. cotton crop is being sold into the world market, where it competes against cotton grown by lower-cost growers in China, Pakistan and Africa.

"Maybe the farmers in Africa should be the ones not raising cotton," says Mr. Hood, the Mississippi cotton farmer and industry advocate. "The Delta needs cotton farmers, and they can't exist without subsidies," he says.

After President Bush signed the new farm bill during a ceremony in Washington, the first man he shook hands with was Mr. Hood, whose family farming operation reaped roughly \$750,000 in subsidies last year, and now stands to gain more this year.

American farmers haven't always been so dependent. In 1996, the booming Asian economy had boosted demand for U.S. commodities so much that they decided they didn't want the planting restrictions and red tape that came along with government aid. Even cotton farmers, among the most dependent on aid, went along with other farm groups to successfully back a plan by Republicans in Congress that called for the elimination of subsidies by this year. That would have marked an end to the more than \$500 billion in farm subsidies issued since such aid started, during the Great Depression of the 1930s.

But farmers lost their nerve shortly afterward, when the Asian economic crisis punctured the export boom. Washington rushed in with record levels of aid. The new farm bill officially returns the country to the long-term policy of aggressively subsidizing agriculture, and with far fewer planting restrictions on growers than in the past. The upshot is that heavily subsidized crop production is likely to keep commodity prices depressed even as the world economy picks up.

Congress -- not the White House -- writes U.S. farm policy, and the two most powerful members of the House Agriculture Committee are from Texas, the source of a fifth of the nation's cotton: Reps. Larry Combest and Charles Stenholm. Five U.S. senators from cotton states sit on the other chamber's agriculture committee, including Mississippi's Thad Cochran. Mississippi's other senator is Republican leader Trent Lott.

Ronnie Shows, a Mississippi Democrat who sits on the House Agriculture Committee, dismisses suggestions of reducing U.S. cotton subsidies to help Africa. "What good does it do to make our own people poor?" he asks.

In Mississippi, the 1,700 or so mainly white cotton farmers in the Delta and their landlords can count on receiving as much as hundreds of millions of federal dollars this year. As in Mali, cotton is the single biggest part of the Delta economy, one of the poorest regions in the nation. Cotton and the businesses that depend on it generate more than \$3 billion in revenue for the region. Roughly half the jobs in some Delta counties are tied to supplying goods or services to cotton farmers or working for them.

The reason Delta farmers are so dependent on subsidies is that they are among the highest-cost cotton producers in the world: it can take \$600 to produce an acre of Delta cotton.

Farmers in the Delta operate on a vast scale compared with growers in Mali. One mechanical cotton picker can reap enough cotton in a day to make 150 bales, each weighing 480 pounds. A man picking cotton by hand needs several days to collect enough for a bale. But it takes thousands of acres of land to justify the machine's expense, which can carry a \$300,000 price tag.

Much of the Delta land is irrigated so the cotton plant can survive the region's intensely hot summer. The seed is premium-priced because it is genetically modified to resist bugs. Fertilizers spur growth in the spring, and defoliants expose the boll for harvest in the fall.

Delta cotton farmers could grow corn, soybeans and wheat much more cheaply, but switching would render much of their investment worthless. "I can only run cotton through my cotton picker," says Ed Hester, leaning on the hood of his Chevy pickup truck as a crop duster circles on the horizon.

And there is little incentive for the 71-year-old Mr. Hester to change. His 4,200-acre farm in Benoit, Miss., received roughly \$400,000 in subsidies last year. "Cotton is still king in my book," says Mr. Hester.

In the Niger River Delta, Mr. Sangare gasps at tales of the wealth of fellow cotton growers on the other side of the world. "I don't know if we will be able to afford a new plow blade this year," he says, chewing on a tree root, which serves as a toothbrush.

Poor Life

Cotton is supposed to be king here, too, but its growers live a poor life. The Coulibaly and Sylla families operate one of the biggest cotton spreads in Mali -- 50 acres. Eighty-six people, most of them related, live in a warren of one or two-room mud-brick huts outside the town of



Kenneth Hood

Fana. Last year, they produced about 40 metric tons of cotton, but it wasn't spun into any riches.

There is no electricity, no telephone service, no running water. A crude television antenna wobbles above one of the huts. The TV inside the house is connected to a car battery. While most of the children attend school, few of the adults did.

The clan does have two tractors, including a 22-year-old French model. But most of the time they sit idle in a shed, because the family lacks harvesting implements. "We just use them for plowing," says Diamba Coulibaly, 59, one of the elders of the family. "Everything else we do by hand. Planting, fertilizing, picking."

The goal this season is to buy more equipment, but the outlook is bleak given the price cut. Last year, Malian farmers received about 13 cents per pound of cotton, after expenses. This season they will get about 11 cents. At the same time, the price of fertilizer has gone up about two cents a pound. In Mali, every cent counts, because cotton must pay for everything from school and food to malaria tablets to dowries for the families of prospective wives.

"What do you do if you can't pay expenses?" says Mr. Coulibaly, 59, one of the elders of the family. A big goiter bulges on his neck, the curse of iodine deficiency. "For us, all farmers, in the U.S. and in Mali, are members of the same family," he says. "We shouldn't let one group of brothers make all the profits while the others get nothing."

Money is also tight at Cie. Malienne pour le Developpment des Textiles, Mali's state cotton company, which runs the nation's entire industry, from providing the seeds to ginning the cotton. It is responsible for the livelihoods of the three million of Mali's 11 million residents who live off cotton. Last year, Malian farmers grew more than half a billion pounds of cotton on nearly 1.3 million acres. This was a record crop, but it only led to a bigger loss for the CMDT, where the total cost of each pound of ginned cotton exceeds the world price.

This deficit restricts CMDT spending on other programs, such as building roads and other infrastructure improvements in the cotton regions. It also puts pressure on the meager budget of the Malian government, which owns 60% of CMDT. It doesn't help that the CMDT is an inefficient monopoly. Now, under prodding from the World Bank and IMF, the organization is trying to restructure itself and rely more on the private sector, in order to pass more money on to the farmers.

Still, Malians wonder whether these reforms will do much good without changes in cotton subsidy policies elsewhere in the world. "It would be better [for the U.S.] to pay their farmers not to plant cotton," says Bakary Traore, the CMDT president, sitting in an office darkened by a sudden power failure. "We see U.S. farmers as our competition, but the problem is that the competition isn't fair."

In Korokoro, the Sangares are feeling the effects of the uneven cotton fields. While Mody Sangare returns to plowing behind the oxen, oldest brother Madou, 39, explains the precious family dream of using cotton income to send his younger brother Bala to college in France, or even the U.S. -- somewhere with better jobs and prospects than Mali. The hope is that Bala would then send money back to his brothers on the farm, alleviating their dependence on the cotton price. Now that Bala is about to graduate from high school, the cotton revenues are dwindling, and the dream is fading.

"We want him and all our children to have better lives than us," says Madou Sangare. Beyond the cotton, it is the one thing, he believes, he has in common with U.S. farmers.

"Isn't that what everyone wants?" he asks.

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