Working Party on Economic Problems of Chad

DRAFT NOTES ON THE DISCUSSION

Introduction

1. At the eighth session of the Committee on Trade and Development, held at Punta del Este in January 1967, the delegation of Chad submitted a note (COM.TD/37) describing the impact of the recent developments in the international market for cotton on the economy of Chad. It covered the main features of the cotton production in Chad, the reasons for its reduced competitiveness in world markets and the remedial measures taken by the Government to reduce transport and financing costs. In the note the Government of Chad expressed concern regarding the effects on the cotton market of the new farm legislation recently adopted by the United States and called upon the GATT under the provisions of Part IV to consider its specific problems.

2. As stated in the records of that session (COM.TD/42), the Committee recognized the problem posed for the Chad by the recent developments in the international market for cotton and agreed to establish a working party with the following terms of reference:

"Having regard to the provisions of Article XXXVIII to study the problems outlined by the Government of Chad and to make appropriate recommendations to the Committee by its next session."

1These notes have been drawn up by the secretariat. After verification by members of the Working Party, they will be attached, together with the Annexes mentioned in the text, to the "Summary and Conclusions" (see COM.TD/W/59). The whole document will constitute the Working Party’s submission to the Committee.

2For membership of the Working Party see Annex I.
3. The Working Party met from 24 to 26 May 1967. It had before it a secretariat background paper (COM TD/W/57) on international trade in cotton and the economy of Chad. Supplementary papers were also circulated by the Chad delegation at the meeting concerning possibilities for agricultural diversification, cotton problems, and livestock raising (see Annexes III, IV and V). In an introductory statement, the leader of the Chad delegation reiterated the satisfaction of his Government that the GATT had agreed to study the particular economic problems of the Chad. He stressed that the difficulties faced by the Chad were those over which it had no control and he hoped that some suggestions would emerge on how the Chad could deal with the difficult situation in which it had found itself. The exercise which was being carried out would be useful not only to Chad but could also assist in giving greater insight into the problems of developing countries generally. In outlining the main concerns of the Chad, he mentioned that the price support system which would operate until 1969 was insufficient and hoped that adequate corrective measures could be taken in good time. He also hoped that further aid would be granted to the Chad to enable it to develop its transport system. This would be an infrastructural development which could be beneficial to the whole of Africa since Chad was in the very centre of the continent. Similarly, Chad would welcome assistance in increasing productivity and in promoting diversification of its economy because it would continue to be dependent on exports of cotton for a long time to come. (The full statement of the representative of Chad is reproduced in Annex II.)

I. Recent developments in the international market for cotton

4. The Working Party took note of the points made in the secretariat paper on recent developments in the international market for cotton and of the effects of the United States cotton policy on the world cotton market (COM.TD/W/57). The paper included a summary of developments leading to the situation in mid-1956 when the United States became a residual supplier of cotton to the world and
described the factors which had obliged the United States to build up large cotton stocks. The paper also outlined the efforts of the United States since mid-1958 to reduce its stocks. With stable United States export prices from 1958 to 1964, exports from other producing countries increased at the expense of the United States exports obliging that country again to accumulate stocks to the extent that in 1965 it held 51 per cent of the world's total.

5. On the question of developments in the near future and in the long term, the secretariat paper underlined, inter alia, the increasing importance of man-made fibres. It expressed the view that synthetic fibres would continue to increase their share of the textile fibre market and that their prices would continue to decline. At the same time, this development could be expected to stimulate demand for those types of cotton lint which were particularly suited for blending with synthetic fibres. Whilst no reliable long-term forecast of cotton prices was possible, the firm prices which had existed at the end of 1966 were expected to continue throughout 1967 and possibly in 1968. Nevertheless, according to estimates made, a 10 to 14 per cent decline in cotton prices between 1966 and 1970 should be anticipated. A further decline in cotton prices, according to the secretariat paper, could hypothetically cause significant losses of export revenue to producers from developing countries. However, many such countries had been able to achieve increases in cotton export revenues during the past six or seven years despite falling prices; thus declining export prices need not imply a loss in total revenue.

6. The representatives of the United States and the Chad provided clarifications and explanations in reply to various questions put by members of the Working Party on the assessment of the world cotton market. The United States representative explained the factors which had led to the building up of surplus stocks in the United States and the methods which his Government had been employing to overcome the surplus problem without unfavourably influencing the world cotton market, with special reference to the
Food and Agricultural Act of 1965 and to the progress made so far in reducing the surplus. In the United States' view, the reduction of the United States stocks, and therefore of world stocks, had resulted in higher prices for the longer staple lengths which were the main types shipped by many other exporting countries, thus encouraging a substantial upward pressure abroad in cotton production. The resulting increase in world production would, however, negate the efforts of the United States to reduce world surplus stocks and hurt world cotton prices.

7. On the question of future prices, the United States representative noted that the secretariat paper had referred to certain estimates published in Volume XIII of the International Monetary Fund Staff Papers, in which it had been envisaged that there would be a 10 to 14 per cent decline in cotton prices between 1966 and 1970. This estimate was somewhat pessimistic; forecasts made since these estimates were prepared had presented a much more hopeful picture.

8. The United States representative considered that it would be difficult to give a precise indication as to whether, and when, the United States stocks would be liquidated since this would depend not only on United States production and consumption but also on world supply and demand. In this connexion, the United States was most interested in launching further studies to deal with the problem. The situation did not appear to be discouraging, however, since reports on developments in the world cotton market indicated that recent developments were towards a general improvement. Perhaps through the multilateral efforts of the International Cotton Advisory Committee a system of consultation and co-ordination could be evolved which will enable the United States to work off its surplus stock over the years ahead without unduly depressing cotton prices and without stimulating at the same time the over-production of certain types of cotton.
II. The economy of the Chad

9. On the basis of the secretariat paper and the supplementary written submission by the Chad delegation (see Annexes II-V), the Working Party also discussed the position of cotton and problems relating to it in the economy of Chad. At the suggestion of the Chairman, the Working Party focused its attention on three broad areas:

(a) the additional measures which may be taken by Chad to increase its export earnings from cotton, given the trend in international prices and the demand for cotton;

(b) the extent to which, and the reasons for, the reliance of the Chad cotton economy on external financial assistance for maintaining income returns to cotton producers and for increasing cotton productivity including infrastructural improvements;

(c) the measures of diversification open to Chad to reduce its reliance on cotton, the problems to be faced thereby and the degree to which outside assistance can assist the Government in this process.

10. The Working Party was advised by the representative of the Food and Agriculture Organization that his organization was in broad agreement with the interpretation of the international cotton market situation given in the secretariat paper. Since the Chad, for many years to come, would remain heavily dependent on receipts from cotton, there was a continuing need on the part of the Chad to maintain the competitiveness of its product which, however, also depended on the extent to which reasonably remunerative prices could be maintained externally, coupled with continued market access abroad. As cotton could not be expected to generate all of Chad's financial requirements, there was a corresponding need to develop new export lines which, among other things, would depend on the development of ancillary infrastructural requirements, especially the transportation system. As far as the problem of livestock
raising was concerned, the Chad would require not only financial assistance in the field of watering facilities, ranching and processing industries but also substantial technical assistance to help in the transformation of this industry. Finally, further detailed studies would have to be made to ascertain the feasibility and detailed requirements for diversification. The FAO would, within its field of competence, give sympathetic consideration to any recommendations by the Working Party.

11. In reply to questions, the Chad delegation described the effects that changes in cotton receipts had had on the national budget. It was pointed out, for example, that if Chad’s cotton had been sold under the same conditions as in 1950 but with the production volume and cost price of the 1966/67 crop year, the present Five-Year Plan could have been financed for a three-and-a-half-year period until 1969 without any external aid whatsoever. The Government of Chad was concerned over the deterioration in cotton prices since 1950. In terms of constant 1965 prices, the cost price of Chad cotton, for a typical crop of 100,000 tons of seed cotton, had fallen from CFAF 346.34 per kg. (lint) f.o.b. in 1950 to CFAF 145.04 per kg. (lint) f.o.b. in 1967. Over the same period, the selling price had suffered a drastic decline from CFAF 438.82 per kg. (lint) f.o.b. to CFAF 129.00 kg. (lint) f.o.b. From the point of view of the cotton farmer, all the efforts undertaken or carried out in Chad to make cotton competitive had, in the final resort, proved beneficial only to the consumer and not to the producer. Admittedly this was but an illustration of a development which had in general marked the evolution of the world economy. It was, nevertheless, regrettable that the benefits resulting from this evolution could not have been better apportioned between producers and consumers. Because of the diminution in real income of the Chad cotton farmer, it would be necessary to re-establish its financial situation to at least that which had existed in 1957 when the purchase price of seed cotton from the producer was set at CFAF 37 per kg. as compared to CFAF 26 during the current season.
12. The delegation of Chad stressed the continued need of Chad for financial assistance. It was stated that the recent decline in cotton prices, combined with a declining level of external price support, had created serious budgetary problems for the Government which, in the absence of additional external assistance, could be solved only by reducing the price guaranteed to cotton growers. The latter step would endanger the whole productivity programme into which much effort had already been invested and which, in recent years had given hopes of accelerated progress in the future. By way of illustration the Chad representative referred to the fact that up until 1962-1963 France had maintained prices of Chad cotton at a level, when expressed in terms of 1965 francs, of CFAF 176.75 per kg. (lint) f.o.b. for a crop of 100,000 tons of seed cotton. This situation had been terminated since 1964 in the context of the Yaoundé Convention and the European Economic Community had succeeded France in supporting Chad cotton according to principles which aimed at making Chad cotton competitive in the world market by 1968-69.

13. The Chad delegation stated that the support subsidy provided for in the Yaoundé Convention had not been sufficient because the decline in the selling price of cotton had been very much greater than had been expected (CFAF 129 instead of CFAF 141 in 1967-68). While the Community had sought other means to remedy the additional deficit that such a substantial decline in the selling price implied for Chad, any current solution could only remedy the deficit until the 1968/69 crop year. Thereafter, the situation would be serious unless the Community and other interested parties were prepared to view the Chad situation with the sympathy and understanding which they had manifested in the past. In support of this statement, the delegate of Chad referred to a series of calculations and hypothetical projections to illustrate the situation (see Annex IV).
14. Members of the Working Party discussed with the Chad delegation the cost structure of Chad cotton, in particular the breakdown of processing and marketing costs as detailed in Table 16 of COM.TD/7/57. The delegation of Chad explained that the cost price of cotton was a function of the volume produced so that, depending on the success of the crop year, considerable fluctuations could be expected in the variable costs. The breakdown referred to f.o.b. prices and was thus inclusive of external transit charges from the Chad frontier to port of shipment.

15. As regards the projections given in the tables in Annex IV, the Chad delegation explained the various underlying assumptions. The increase in seed cotton production was to be achieved through a substantial improvement in productivity and not through an increase in area under cultivation; it was the intention of the Chad Government to raise yields from an average of 400 kgs. of seed cotton per hectare to one ton of seed cotton per hectare. At present, the greater part of Chad cotton culture was produced in the traditional manner. As a result, yields were low, 400 kgs. per hectare as contrasted with the 1,000 kgs. per hectare levels reached on cotton farms using modern intensive methods of cultivation. Of a total of roughly 300,000 hectares, only 20,000 were at present being cultivated by modern methods. Under the current development plan, it was intended to extend intensive cultivation to the remaining areas. Part of the increase in productivity would be due to a spread in the use of pesticides and fertilizers and part due to the replacement of existing varieties of cotton by higher yielding strains producing stronger fibres and longer staples. At the Research Institute new varieties of cotton had been developed which were superior to the Allen varieties now in use. Several examples were given of the percentage increases expected from the more extended cultivation of these varieties.
16. In answer to a question, the representative of Chad gave a brief explanation of the basic system under which cotton was produced and sold in Chad. Production, processing and marketing of Chad cotton was in the hands of two organizations: the Cotton Stabilization Fund and the Société Cotonnière Franco-Tchadienne (COTONFRAN). The Stabilization Fund was responsible for overseeing cotton production in the Chad in broad terms: this involved the stabilization of seed cotton purchase prices, the setting of economic incentives, the partial financing of the income gap before planting and harvesting and the execution of cotton development programmes. The processing and marketing of Chad cotton, on the other hand, according to a ten-year Convention signed in 1960 between the Chad and COTONFRAN, was the sole monopoly of that company. Under the Convention, the company was obliged to purchase all the cotton made available for sale at a guaranteed producer price which was established each season by the Government. In turn, COTONFRAN was reimbursed by the Stabilization Fund for the difference in payment between the purchase price of the raw material and the final contractual price, which was a function of the actual selling price. The Stabilization Fund obtains its funds (a) from the Chad budget, (b) from the French aid programme, FAC (Fonds d'Aide et de Coopération) and (c) from the FED (Fonds européen de développement), the development fund of the European Economic Community. Each year a "prix de réalisation" was established based on the average f.o.b. price for cotton lint in the previous year. From this figure the amount due in export taxes was deducted; the remainder being termed the "prix conventionnel". The latter amount was considered sufficient to enable COTONFRAN to defray its working, production and transport costs while paying, in turn, a fixed producer price ("prix achat contractuel"); the latter was a function of the "prix conventionnel". According to the Convention, the price paid to the producer was set at a constant rate of 17 per cent of the average f.o.b. price after deduction of export taxes; in other words, at 17 per cent of the "prix conventionnel". The difference between the Government guaranteed price to the farmer, which has remained stable since 1957-1958 at CFAF 26 per kg. and the calculated farm producer price was reimbursed to COTONFRAN by the
Stabilization Fund. The delegate of Chad stressed the flexibility of the system and, by way of illustration, gave various examples of the levels of profit obtained by COTONFRAN depending upon the success of the crop season and their sales activities.

17. The representative of the Commission of the EEC also commented on the operation of the Community’s development fund, the FED. The FED had agreed to devote US$7.5 million to the Chad for the duration of the Yaoundé Convention. 75 per cent of the total was scheduled for the Chad cotton programme; the remaining quarter of aid for diversification efforts. In assuring the Working Party of the Community’s concern with the problems faced by Chad, he pointed out that, apart from investigating other proposals for alleviating the country’s difficulties, such as the establishment of textile mills, infrastructural projects and help in transportation improvements, the FED had allowed the full 75 per cent of the aid previously referred to, to be devoted to price support rather than to the production programme as a whole.

18. The representative of the Central African Republic stressed the interest of his country in the subject under discussion. Being a contiguous land-locked neighbour of the Chad, both countries faced similar problems in the production, transportation and marketing of cotton. He emphasized the continued need for external support to the cotton cultivation of Chad and suggested that aid and assistance could be profitable to the Chad in the commercialization and the production of cotton. In the processing of cotton lint production costs could be reduced if by-products from cottonseed could be commercially exploited. The GATT International Trade Centre should follow up its previous studies on oilcakes and timber by studying the market for cottonseed and cottonseed oil. Other market studies to aid diversification could profitably include sesame - a suitable crop for production in the southern region of Chad - and tobacco. A comparative study of cotton production and marketing in such countries as the
Cameroon, the Central African Republic, Nigeria, the Democratic Republic of the Congo, Kenya, Malawi, etc. would enable Chad to benefit from the collective experience of other West and Central African producers.

19. In discussing the Chad productivity programme, the delegation of Chad stated that a minimum period of four years was needed to raise yields from their present average of 400 kgs./ha to the target level of 1,000 kgs./ha. Approximately one local expert would be needed per 300 hectares to assist in the implementation and co-ordination of the programme. As a minimum estimate, costs would approximate to CFAF 17,498 per hectare or CFAF 5.3 billion in total; this was a measure of the financial needs of Chad to implement the cotton productivity programme.

20. Some members of the group suggested the establishment of common procurement agencies and/or programmes among neighbouring States for such commodities as fertilizers, pesticides, etc. Representatives from member countries of the Central African Economic and Customs Union present at the meeting drew the attention of the Working Party to the Treaty setting up the Union and to the relevant articles ensuring a system of co-ordination among member governments for activities and projects of a common interest.

21. In the course of the Working Party's examination of the possibilities of reducing Chad's dependence on cotton through the diversification of its agriculture, particularly in the export sector of the industry, the representative of Chad informed the Working Party that its own research, as well as studies undertaken by several international and national organizations active in the field of economic development, indicated good possibilities for expanding the exports of meat and slaughter, by-products such as hides and skins, of simply preserved fish and fish products and, in particular, of the products of intensive agriculture, such as vegetables, fruit, wheat and other products to be established in the area specified by the Five-Year Development Plan. Details
were also provided on the development and prospects of the Lake Chad Co-operative Project.

22. Several members of the group were of the opinion that, in order to promote a more rapid progress in the export diversification programme, the Chad Government would require technical assistance not only in terms of the type of export marketing surveys alluded to in the remarks made previously by the representative of the Central African Republic but, even more importantly, in the form of personnel able to handle the practical export arrangements of what would be new lines of development for the Chad. Members of the Working Party felt that the development and diversification of the economy of Chad were inextricably bound up with a substantial improvement of the existing infrastructure, especially transport.

III. General observations

23. At the close of the discussion the Working Party agreed to the "Summary and Conclusions" set out in Part A above.

24. The leader of the Chad delegation thanked the Working Party for the valuable work it had accomplished and expressed appreciation for the atmosphere of understanding which had prevailed throughout the discussions. He hoped that the Committee on Trade and Development would find, in the documents transmitted by the Working Party, all the elements which will enable it to take decisions for follow-up work. He was confident that the same support which Chad had found in the Working Party would be manifested in the Committee on Trade and Development.