

## OXFAM CASE STUDY:

### The effect of the Free Trade Agreement with the US on cotton farmers in Peru

#### *'Cotton is no longer 'white gold'*

Agriculture employs nearly a quarter of the people in Peru, and cotton is a major crop. The proposed Free Trade Agreement (FTA) between the US and Peru threatens the livelihoods of thousands of cotton farmers in Peru.

If the agreement comes into force more heavily subsidised US cotton will flood the Peruvian market, pushing down prices and destroying livelihoods.

There are 25,000 cotton producers in the US who receive approximately \$3.5 billion per year in subsidies. There are 28,000 cotton producers in Peru who receive no subsidies and who have few alternative ways to make a living.

At the moment, Peruvian producers are protected from import surges by a tariff of 12% on cotton imports. This would be removed under the FTA, with devastating results.

Juan de Dios Quispe Rojas, 52, a cotton producer, in Pisco, in the south-east of Peru, explains: *"With the US-Peru Free Trade Agreement, cotton farmers here will be disadvantaged because of the subsidies that the US pays to its farmers. We are going to have to sell our cotton below the cost of production."*

His colleague, Luis Chavez Valentin, 30, agrees: *"At the moment what I am earning is just about enough to look after the family. With the free trade agreement what little we have now will become even less. We will have nothing leftover after paying the costs. I really don't know how we are going to survive. When the subsidised US cotton enters we are simply not going to have enough money to live. Cotton is no longer 'white gold':"*

Prospero Meza Franco Director of ANPAL (the National Association of Cotton Producers) said: *"Peruvian cotton will have better opportunities in the market if the free trade agreement is stopped, cotton producers receive credits and financial support from the government, and the prices are not previously agreed by the private sector"*

Lily Arteaga Cabrera, 47 also grows cotton in Pisco. She gets up at 5 in the morning to prepare food for the family and then goes to the cotton field at 8, where she stays until 6 in the evening. The cotton they grow earns them just enough to feed the family – but not very well. It is hard work but they are locked into a cycle of debt – they borrow to plant and then work eight months caring for the crop until they harvest and earn enough to pay the debts: They rarely have any extra left over. Lily looks after the family money and has to budget carefully. She says: *"How are we going to live now [under the FTA]? We are going to die of hunger. My kids would like to be professionals – my daughter a dentist, my son wants to join the army. But they can't they have to stay at home and work in the cotton field."*

The US is already the main cotton supplier to the Andean community, of which Peru is a part. Under a system of trade preferences (linked to the US drug eradication scheme), Andean textiles can enter the US markets without paying taxes, but only if they are made mainly from US cotton. As a result, imports of US cotton to Peru have

increased significantly and national cotton production has fallen: 260,000 hectares of cotton were grown in Peru in 1960; in 2004, barely 89,000 hectares.

Ervin Palma, Director of the Association of Small and Medium Agriculture Producers, in the Valley of Chincha, a few hours from the capital Lima explains in more detail: *“The problem for Peruvian cotton is the imports of low quality, subsidised US cotton. This is affecting the prices here. A producer does not receive more than 100-105 nuevos soles (US\$31-33) per quintal (45.36kg) of cotton, which is not enough to survive. How can someone live on 14 soles a day – feed their children, send them to school, buy medicine?”*

*Peruvian cotton is of a very high quality and well sought after, but the producers are in a chaotic state, without support from the State. What they are earning from selling their cotton is not even enough to cover the costs of production. Many are having to sell their land because they can't pay their debts.”*

The existing preferences scheme **was suppose to expire at the end of 2006 but it has been extended for six months**. The FTA is being seen as a way to extend the preferences, but Peru will have to sacrifice a lot just to keep the market access they have now. The exchange is not worth it.

The current preferences favour export-agriculture (e.g. asparagus, artichokes and mangos) not traditional crops like cotton and maize, which are grown and subsidised in the US. Small producers generally grow traditional crops. They face barriers in trying to get into the export market. So the people benefiting from the opportunities to export tend to be big businesses, with money to invest, and access to the international markets. The FTA would confirm the preferences for agribusiness, while exposing cotton and maize farmers to more dumping. Of course, the export agriculture creates jobs, but these tend to be precarious, with insecure labour rights.

Ervin Palma again: *“[We are seeing] the reversal of the agrarian reform of the 1970s [when land was redistributed in favour of the poor]. Many agro-exporters are increasing the land under cultivation, buying up land from small producers, who have to sell their property to pay debts. People talk of the “agricultural export boom” here in Peru, but the truth is that the money generated by the sale of asparagus and other export products is not helping the communities or the workers on the big farms. The profit remains in the hand of a few.”*

Rogelio Condori Reyna, member of ANPAL and Director of the Cañete-Mala processing plant has the same reservations: *“They say we are passing through an agro-export boom but how much does the farm worker receive? Six soles for an hour's work? Ten soles from 10 hours work?”*

Palma concludes: *“If we are suffering now from US subsidies, I ask you how is it going to be under the Free Trade Agreement? While there is no clarity about the impact on small producers, we cannot accept the FTA with the US. The FTA has to be comprehensively revised. In its current form it will not help Peruvian farmers. It will inevitably cause the destruction of small farms, because the producers will have to sell their land.”*