



شركة السودان للأقطان المحدودة  
The Sudan Cotton Company Ltd.

من بريد : 1672 - الخرطوم - ت : 771567 - 779573 - 775755 - فاكس : 22245 Post SD - Fax : 770703  
P.O.Box : 1672 - Khartoum - Tel : 771567 - 779573 - 775755 - Fax : 22245 Post SD - Fax : 770703  
E-mail : sccl @ sudanmail. Net

Our Ref : .....  
Date : .....

الرقم : .....  
التاريخ : April 13, 2002...

TO : Mr. Terry Townsend,  
Executive Director,  
ICAC, Washington

Subject : Injury to National Economies  
From Low Prices

Dear Terry,

Reference Memorandum No.2 of the Working Group on  
Government Measures.

Glad to enclose herewith a copy of Sudan Report on Injury  
to its Economy from Low Cotton Prices.

Best Regards.

Sincerely,

  
Dr. Abdin Mohamed Ali  
Director General

## Sudan Report On INJURY To Its Economy From Low Cotton Prices

### 1- Introduction :-

The agricultural sector dominates Sudan economy, as it provides the livelihood for over 80% of its population and it constitutes about 46.4% of its GDP.

Cotton as the main agricultural crop plays a dominant role in Sudan economy. Nearly about 3 million people ( about 10% of the country's population ) earn the bulk of their income from cotton by one way or another. Out of these nearly three hundred thousand families depend directly on cotton earnings for their livelihood. Several other thousands are engaged in cotton related activities ( Ginning, Transportation and other related services). Cotton proceeds used to constitute the biggest share of the country's foreign currency earnings ( about 40 to 60% of the total export earnings ).

### 2- Overview of the Cotton Sector:

Declining world cotton prices in recent years have a negative impact on cotton industry in the Sudan. These negative effects can be summarised as follows:

#### 1- Reduction in cotton acreage and Production:

The decline in world prices adversely affected farmers' income from cotton, which lead to reduced cotton acreage yield and production as shown in the following table:

Season	Cotton acreage (feddans*)	Production (Bales of 420 lbs )	World Price Index "A" (U.S cents/lb)
96/97	663,000	519,000	78.55
97/98	421,000	461,000	72.20
98/99	278,000	242,000	58.90
99/2000	387,000	275,000	52.80
2000/2001	380,000	395,000	57.20
2001/2002	294,000	366,000	44.00

• ( one feddan = 1.038 acres )

**2- Rising cost of Production:**

In recent years cost of production increased sharply for the following :-

- a- Increase in inputs prices ( which are mainly imported, fertilizers, insecticides, hessian ..... etc ).
- b- Increase of fixed cost due to acreage reduction .
- c- Up to the year 2000 cotton was heavily taxed ( on both local and national levels). Local government taxes Ranged between 5 to 8% plus the export tax ranged between 5 to 10% ).
- d- High cost of finance ( up to 1999/2000 season ).

**3- Impact of declining prices and production on cotton related activities:-****A- Ginning:**

The ginning facilities are adversely affected by the reduction in cotton production caused by low prices and consequently leaving the greater portion of the ginning capacity idle. This also has it's negative effect on the cost of ginning, as the ginning industry is known for its high fixed costs which lead to an increase in the ginning per unit cost.

**Ginning Capacity**

Season	Installed ginning capacity ( in large Kantar of 315 lbs)	Total production( in large kantars of 315 lbs)	Percentage of idle ginning capacity %
1997/1998	4,460,000	1,803,000	60
1998/1999	4,460,000	1,061,000	76
1999/2000	4,460,000	1,124,000	75
2000/2001	4,460,000	1,557,000	65
2001/2002	4,460,000	1,325,000	70

**B- Transportation:**

The reduction in cotton output largely affected the transportation industry ( both rail and road transportation as cotton is the biggest agricultural commodity in which transport facilities are engaged in all stages of production. The revenue of this industry is highly reduced and considerable size of its capacity is becoming idle.

**C- Edible Oil Mills:**

Cotton seed is considered the main input for edible oil and cakes for animal feed. Reduction in cotton production has largely affected this industry causing many crushing mills to work below their capacity ( less than 25% ), as shown in the following table:-

**Oil seeds production in SUDAN (Thousand Tons) :**

Season	Total installed capacity of crushing mills	Total production of all seeds	Cotton seed production	Percentage of cotton seed to total production of all seeds
88/89	2,324,000	1,156	329	29%
92/93	2,324,000	794	108	14%
96/97	2,324,000	1,134	189	17%
2000/2001	2,324,000	1,381	148	11%

Share of cotton seed in total production of oil declined from 29% in 1988/89 season to about 11% in 2000/2001 season .

**D- Other cotton related Activities:**

Many other sectors of the economy are largely affected by the reduction in cotton output. The most affected of these sectors are:-

- \* Agricultural services e.g. land preparation companies, ginning contractors ... etc .
- \* Inputs importing companies.
- \* Banks and insurance companies.
- \* Domestic services and trade ( cotton export companies, whole salers, retailers ...etc) .

**E- Impact on value of Exports :**

While the total exports value of the country is rising, the cotton export value is declining due to the continuous reduction in both volume of production and prices. The sharp rise in value of exports during the last two years was mainly attributed to the fact that Sudan began in 1999 to export crude oil and other petroleum products as shown in the table below:-

Page 5 of 6

Year	Total Exports Value (million U.S Dollars)	Cotton Exports Value (million U.S Dollars)	Percentage share of cotton %
1997	594.2	105.2	17.7
1998	595.7	90.3	15.2
1999 *	780.1	43.1	5.5
2000 *	1,806.7	52.3	2.9

This table clearly shows the sharp decline of cotton contribution in the total value of Sudan's exports, as its contribution dropped to about 2.9% in the year 2000 compared with 17.7% in 1997 and more than 50% in the late nineteen eighties of the last century .

**F- Level of added government expenses:**

Developing countries depend largely for their revenue on indirect taxes . Sudan is not an exception, and upto the year 2000, taxes on cotton were considered one of the main sources of revenue on both national and local government levels. This is automatically reflected, negatively, on the government plans ( rural development plans, poverty alleviation programmes, social services and so on).

**Summary:**

The agricultural sector in the Sudan is directly contributing to 46.4% of the GDP and over decades cotton was the most important agricultural crop. The poor situation of world cotton prices in recent years is affecting Sudan economy harmfully. The socioeconomic impacts of the low proceedings of cotton were agrivating the situation of the already weak economy of the country. These adverse effects can be summarized as follows:-

- \* The farmers, receiving low incomes from cotton – their main cash crop – have experienced very hard times in recent seasons .
- \* The recession in Sudan cotton industry reflected in a big drop of cotton acreage, yield and production is a direct result of these low prices.
- \* The decline in cotton related activities, with all its incorporated implications, is also a direct effect of low cotton prices .

- \* Cotton which was the largest export crop of the country through years is losing its position to other export commodities.
- \* Reform measures undertaken by the government ( alleviation of taxes on cotton ) largely affected the government revenue needed to cover its expenditure .
- \* All the above mentioned implications of low cotton prices left many problems to be solved (unemployment, poverty alleviation , social reforms, rural development ... etc), adding more burden on the government.

In conclusion, world cotton price distortions caused by production and export support programmes applied in many producing countries ( especially developed countries ), have far-reaching, detrimental implications on the economies of those developing countries that can not afford to apply such programmes. Consequently, Sudan strongly call for the removal of all measures distorting international trade and cotton production.