



## Rethinking Mozambique's cotton price fixing system to align producers' prices with international prices

### Main Findings and Recommendations

Although the government supports cotton farmers by regulating prices, cotton producers in Mozambique receive prices that are lower than international reference prices. MAFAP analysis suggests that the following measures would improve prices for producers:

- ▶ fostering competition along the entire cotton value chain, especially among processing companies (ginners);
- ▶ making processing more efficient to increase both the quantity and quality of outputs;
- ▶ revising the domestic price fixing system to align producers' prices with prices in international markets; and
- ▶ strengthening the market power of producers, relative to ginners, to improve transparency and equity in cotton market transactions.

### SUMMARY

Producer prices fixed by the Cotton Institute of Mozambique (IAM) are relatively low compared to those in seven cotton producing countries analysed by MAFAP (Figure 2). Indeed, producers receive lower prices than they would obtain without existing domestic policies (Figure 1). This indicates that they are not benefiting as expected from the national price fixing system. Even when the IAM increased producer prices in 2009 and 2010, the gap between producers' and international prices continued to increase.

Reforming the price fixing system, as well as fostering a more competitive processing and marketing environment, would benefit cotton producers. Currently, processing and marketing

activities are dominated by three firms which control over 75 percent of total production. Thus, processing companies have much more power in the market than farmers.

### INTRODUCTION

Cotton is the most important agricultural export crop in Mozambique (representing 17 percent of total agricultural exports). It is estimated that more than 1.5 million people - including 350,000 smallholder farmers - make their living in cotton farming or related activities. Yields are one of the lowest among MAFAP cotton producing countries (Figure 3). Indeed, yields grew by only 0.1 percent between 2005 and 2010.

After harvesting, farmers sell their produce directly to ginning companies for the minimum price fixed by the IAM. Ginners

Figure 1: Price for seed cotton in Mozambique at farm gate level (Mozambique metical/ton), 2005-2010

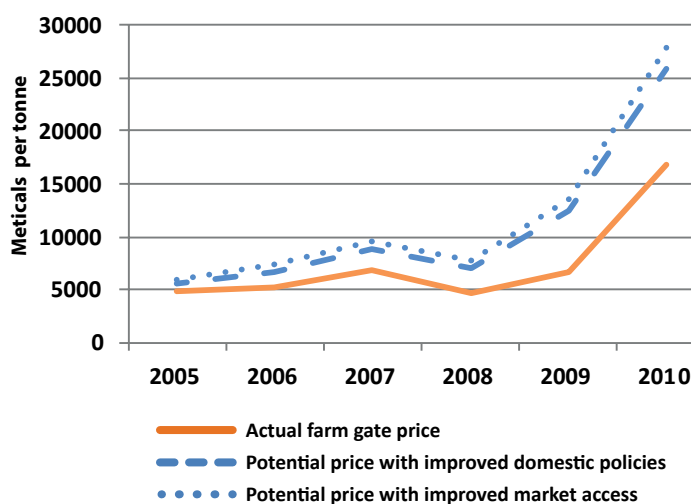
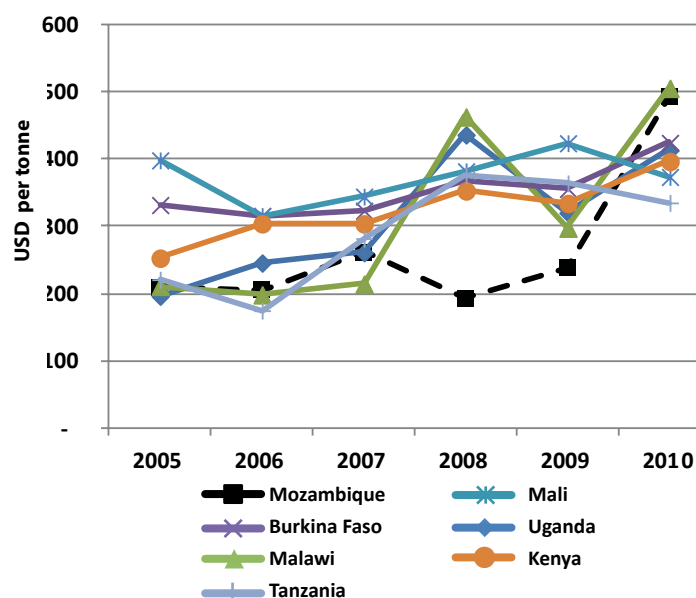


Figure 2: Farm gate prices for seed cotton (USD/ton) 2005-2010



are responsible for transporting cotton to factories, as well as processing and classifying it. Processed cotton is then transported by train to export ports. Exports are processed directly by ginners and the IAM collects a 2.5 percent export tax.

## KEY ISSUES

### *Making the ginning sector more competitive would improve ginning capacity and the quality of outputs*

The ginning industry is characterized by high costs of processing, due to poorly maintained equipment, and poor levels of ginning outputs compared to other countries. This is due to dirty cotton caused by poor picking techniques and the use of mixed seed varieties which result in inconsistent fibre quality. Ginning capacity is also limited by the small number of ginning companies.

Fostering competition in the ginning sector would increase ginning capacity and investments aimed at modernizing the industry. This would help increase the quantity and the quality of exported cotton and thus raise export prices.

### *Strengthening the market power of producers, relative to ginners, would foster more equity at the bargaining table*

Producers' prices are low (Figure 2) and increased by only 14 percent between 2005 and 2009. Export prices increased by 70 percent in the same period. Producers' prices are disconnected from international markets and thus farmers do not benefit from current high international prices. Moreover, the asymmetrical distribution of market power between ginners and farmers makes it difficult for farmers to negotiate better prices. Indeed, the Mozambican Farmers Association is one of the weakest in Africa.

Increasing the market power of producers would allow them to advocate for regular price updates and a revision of the

price fixing system. This would help producers obtain prices that better reflect international market trends. Moreover, the IAM, working with farmers and ginners, should better monitor prices along the cotton value chain to make sure all stakeholders benefit.

### *Improving transport infrastructure and fostering competition between ginning companies would reduce access costs*

Value chain efficiency is hampered by weak infrastructure and high transport costs. Improving roads between the farm gate and processing plants would help reduce transport costs. Moreover, since the ginning industry is in charge of transportation and marketing activities, fostering competition between ginning companies would reduce access costs.

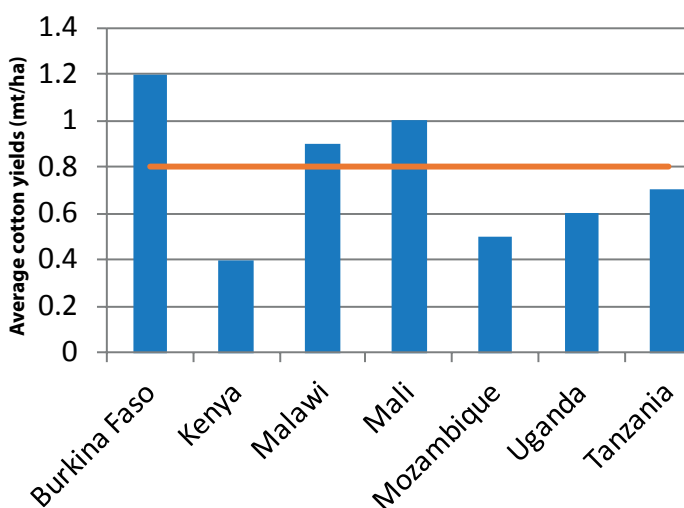
### *Producers are penalised by a lack of autonomy since only a few ginning companies are in charge of providing production inputs, processing and marketing services.*

In addition to transport, producers also rely on ginning companies for inputs such as seed and fertilizers. Producers' lack of autonomy should be taken into account before modifying the Mozambican cotton system and opening it up gradually to competition.

## CONCLUSIONS

The current production and marketing support system provides enough incentives to keep producers from substituting cotton with more profitable crops. However, this is also one reason why most cotton is still grown on smallholder farms. Moreover, low producer prices do not encourage farmers to increase production and contributes to volatility in cotton production levels.

**Figure 3: Average yields in seven MAFAP cotton producing countries (metric tonnes/hectare), 2005-2010**



### Further Reading

**MAFAP Technical Note on Cotton in Mozambique (2012)** by Dias, P  
Available at: <http://www.fao.org/mafap>

### CONTACTS

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