

Update on the EU-Africa Cotton Partnership (July 2004 – January 2005)

by the Cotton Steering Committee of the EU-Africa Cotton Partnership

This note provides an update on the implementation of the EU-Africa Cotton Partnership, which was agreed by the EU and African countries in July 2004. At the Paris forum (5-6 July, 2004), the EU and African countries agreed on a cotton partnership and a joint cotton action plan. It addresses both the trade and the development components of the Partnership. The seven areas of the action plan are: 1. International trade; 2. National & regional cotton strategies; 3. Policies & institutions; 4. Technological innovation; 5. Risk management & finance; 6. Chain integration; and 7. Coordination. An overview by area is annexed to this note (see also www.cotton-forum.org).¹

A joint *ACP-EU cotton steering committee* has been established to monitor the development part of the Action Plan adopted at the Paris Cotton Forum, July 2004. Its priority tasks are to oversee the mobilisation of financial resources, to stimulate the implementation of agreed actions, to coordinate and to disseminate the information. Furthermore, it will periodically consult on progress with a larger group of public and private sectors from the EU and Africa. The Committee is chaired by the Ambassador of Benin, representing the ACP Group on cotton. The EU is represented by the Commission (DG Development and EuropeAid) and one EU cotton donor country (France). Stakeholders are represented at the level of farmers, ginneries and manufacturing. Other members are the ACP-Secretariat, UEMOA (representing African regional organisations), CTA and CDE.

1. INTERNATIONAL CONTEXT

1.1 World Market situation: Financial deficits and lower producer prices in Africa

Due to gliding international cotton prices and hopes for better times, many cotton exporters did not sell much of the 2004/05 cotton in 2004. Cotton is piling up in the countries. This affects the financial position of cotton companies, farmers, governments and donors. Governments and donors have been approached for financial back-up, thereby affecting other development programs. Sometimes the affected countries do meet the more lenient FLEX criteria and could benefit from this compensatory finance scheme. The low price also pushes producer prices down for the 2005/06 season. The African cotton sector again learned that the reserve funds do not suffice anymore to manage the effects of the price risks and that hedging price risks should be considered.

Low prices, but ICAC expects price recovery in 2005/06 season

Supply and demand estimates suggest that international cotton prices (Cotlook A Index) will average 47 cents per pound this season, 21 cents, or 31%, below the 6-year high in 2003-2004. This would be the sharpest drop in absolute terms since 1985/86. This price level, however, is in line with the average ICAC forecasts for the coming years: between 45 and 55 cts per pound of cotton. The cotton farmers of the FCFA zone in West and Central Africa are worst hit by the low cotton prices, because of the simultaneous low value of the dollar versus the Euro (FCFA is pegged to Euro).

The world cotton production is estimated at a record of almost 25.2 million tons in 2004/05, up 4.5 million tons, or 22%, from last season. The world cotton area rose 10% to reach 35.3 million hectares. Increases in production are expected in almost all producing countries, which is quite exceptional. Records or near-records are forecast in the top 5 producing countries: China (Mainland), the USA, India, Pakistan and Brazil.

World cotton consumption in 2004/05 is projected to rise to an all-time-high of 22.7 million tons, up 1.4 million tons from last season. In 2005/06 world cotton consumption is projected to climb to a record of 23.1 million tons, being stimulated by lower prices and economic growth despite higher oil prices. World consumption in 2005/06 will outpace production with 0.2 tons.

In 2005/06, production in China is projected to decrease by half a million tons in 2005/06, while consumption is projected to increase with 4%. Therefore, net imports by China are forecasted to surge to a record of almost 2.5 million tons in 2005/06, up 700,000 tons from the forecast for the current season. As a result, the season-average Cotlook A Index is projected to rebound to 57 cents per pound in 2005/06, up 10 cents (21%) from the projected average for this season.

Source: International Cotton Advisory Committee, Press Releases 1 February 2005; 3 January 2005 and 1 November 2004

¹ The update is a contribution to the need for timely information to be shared with a larger audience, but does not pretend to cover exhaustively all aspects of the partnership.

1.2 Progress on WTO cotton trade negotiations

The new WTO-subcommittee on cotton has been created on 19 November 2004 by the Special Session of the Committee on Agriculture, as provided for in WTO-framework decision of 1 August 2004. All WTO Members and observers can participate in the work of this subcommittee. The subcommittee will report on progress to the Special Session, which will meet regularly in 2005. The WTO framework decision of August 2004 is a positive step ahead in the Doha round after the setback in Cancun, as it provides for the expected framework for detailed negotiations in agriculture. Cotton will be addressed ‘ambitiously, expeditiously, and specifically’, within the agriculture negotiations.

Considering the steep fall of cotton prices to a low level, it is even more important that WTO members participate with constructive positions in the work of the subcommittee on cotton trade negotiations. WTO negotiators need to give full priority to the cotton issue. It is often heard that cotton is the Isthmus test for DDA.

The WTO US-Brazil cotton dispute might have an influence on the WTO discussion on cotton. The final panel decision underlined that the US has to make significant changes to its agricultural policies. The US appealed and the Appellate Body announced its report for 3 March 2005.

The Chair of the WTO agricultural negotiations and the Subcommittee on cotton, Ambassador Tim Groser, indicated in January 2005 that he aims at a ‘first approximation of agricultural modalities’ before the summer.

The ACP Council of Ministers decided in November 2004 to convene a meeting of the ACP Ministers of Trade in the first half of 2005 to formulate a strategy for defending ACP interests in the Doha programme and coordinate with G90. Furthermore, this ACP Council adopted a resolution on cotton urging the EU to support the ACP in the WTO subcommittee on cotton.

The EU position on cotton will follow its decision to reform the cotton sector as part of a larger package of reforms of the Common Agricultural Policy (CAP). As a result the EU trade-distorting subsidies in the cotton sector will be significantly reduced and public expenditures capped. Starting in 2006, 65 per cent of EU cotton subsidies will be decoupled from production and paid out as farm income support. Access to income support will become conditional to compliance with good agricultural practices and environmental standards. The Commission is developing a scheme to monitor the impact of the cotton reforms on production and trade.

2. EU-AFRICA CONTEXT

2.1 Programming EU support to cotton at the INTERNATIONAL level

€45m for all-ACP capacity building program on agricultural commodities, including €15m for cotton

The ACP approved in January 2005 the allocation of funds for an all-ACP capacity building program on commodities, with an indicative amount of €45m, of which €15m are reserved for cotton. Under this program, the capacity building will focus on reinforcement of strategies and policies, the smoothening of transactions and the empowerment of farmers. The new program will be of help to those countries that are committed to develop their commodity/cotton sectors and complement nationally funded initiatives. The new program is a response to the Council conclusions of 27 April 2004 and to the implementation of the Cotton Action Plan, which was agreed to in Paris in July 2005. The Council concluded that one of the first implementation steps should include ‘developing multi-donor cooperation on agricultural commodities with international organisations (WB, FAO, UNCTAD, Common Fund for Commodities), with a view to enhance expertise and development of innovative tools to support national commodity strategies.’ Based on input from the concerned international organisations, DG Development formulated a proposal programme, which will be validated in the coming months. Results will be shared and discussed with a larger network. The program allows for multi-donor cooperation through international organisations, as already is the case with the commodity risk management (CRM) with the World Bank. The extension of the EC support to the CRM-initiative in the ACP is foreseen under this new programme.

Capacity building announced on Commodity Risk Management in cotton

During the World Bank mission in December 2004 to Burkina Faso, the major cotton ginner (SOFITEX), its main bank (BIB) and the Union of Cotton Producers (UNPCB) expressed their interest in hedging or insuring price risks at the international market. The use of risk markets could complement the use of the insufficient reserve funds for emergencies. The need for capacity building on hedging instruments was also confirmed by the Minister of Commerce. World Bank is programming a capacity building on the subject in the second week of March 2005 in Ouagadougou in line with the annual meeting of the African Cotton (ginners) Association.

ROPPA capacity building program of African producers organizations

The Network of Peasant Organisations and Producers in West Africa (ROPPA) has proposed the framework for a capacity building program for African producer organisations concerning the support to the cotton sector. It aims to make available appropriate supports, define their responsibilities in the implementation and, consequently, to reinforce their capacities to play their part. Cotton is considered an example for other commodities. The ROPPA proposal will be assessed for inclusion in the above mentioned intra-ACP capacity building program on agricultural commodities, including cotton.

New initiative on Cotton Instrument Classing with regional and international dimension

During the annual ICAC meeting in Bombay (December 2004), it became apparent that there is a need for Africa to rapidly introduce instrument classing in its cotton marketing. China will require in a few years all its imports to be classed with instruments. This is to the advantage of the main supplier to China (US²), but not to Africa. The annual meeting unanimously adopted the 7 points Action Plan presented by the ICAC Expert Panel for a "Commercial Standardisation of Instrument Testing of Cotton". The agreed actions include the definition and implementation of international test rules, as well as the certification and inspection of laboratories. The Bremen Fibre Institute will play a central role and be supported by, inter alia, the USDA, the Liverpool Cotton Exchange (which will be named International Cotton Association), CIRAD. The role of ICAC will be the issuance of certificates, but only on recommendations of the earlier qualified institutions. It has been agreed that the international rules need to be considerably more lenient than the US system. ICAC will formulate an instrument classing project for submission to the Common Fund for Commodities, which the EC could co-finance through the foreseen cooperation with the CFC. EU Member States could also be considered to support. The project may have an international component and some regional capacity building centres in Africa. The regional component could build on the current pilots in West Africa by UNIDO and CIRAD, funded by the Commission's regional funds (UEMOA).

2.2 Programming EU support to cotton at the NATIONAL level

Cotton producing countries are slowly advancing with the formulation of national cotton strategies or plans. For the EU donors, these nationally-owned strategies or plans constitute the framework for the support to cotton. During the Mid Term Review of the national programs in 2004, the EC mobilised new support to cotton to the four proponents of the Cotton Initiative (Benin, Burkina Faso, Chad and Mali). France and Germany are also active with the programming of new support to various cotton initiatives:

- **Burkina Faso** is well advanced with the formulation of a cotton sector plan in support to the cotton liberalisation, which entered a new phase with the creation of two new companies in the east and central zones of the country. In December 2004, an EU-donor mission consisting of the Commission, France, Netherlands and Germany, expressed broad support to the initiatives of both Government and stakeholders. The Commission programmed €10m in support to the implementation of the cotton sector plan. France started recently the feasibility study for the third Phase of a Project (PAPP-OPC II) with an indicative amount of €10m to aim at strengthening the mechanisms of the self-insurance fund at the inter-professional level and at exploring the options for a regional (insurance) fund for an exceptional crisis of cotton prices.
- **Mali:** In the reporting period, Mali announced delaying the privatisation of the cotton sector, which jeopardized its relation with some international financial institutions. The Commission will assess programming support to the Mali cotton sector in the first quarter of 2005 (indicative amount €15m). France supports an ongoing project (PASE) of €6.8m in support of cotton sector reform. It aims at strengthening the capacity of the government and cotton producers' organisations, at the creation of the inter-professional association and at improving the sustainability of cotton production at field level. A new project, still under study (PRCC of about €1m), would aim at improving the quality of Mali cotton.
- **Benin:** The Benin government has regulated the cotton sector for 2004/05, but not yet for 2005/06. Furthermore, the privatisation of the Sonapra experiences several delays. The short listed companies

² Cotton classification by instruments has been developed over the last 50 years essentially by the USDA.

expect the Government to formalise the regulatory framework. France and World Bank organized a joint mission at the end of January to assess the restart of an extension project (on technical and financial issues) to producers in the cotton areas (indicative amount €7m). Germany commissioned some studies on cotton growing systems, including on pesticide reduction, biotech cotton (Bt) and organic cotton. As part of the Paris Forum, the EU-donors had expressed their reservations to supporting new cotton initiatives prior to the formalisation of the regulatory framework to the cotton sector.

- **Tchad:** Recent exchanges between donors and the government have concluded the need to move on the cotton sector reform. A joint donor mission has taken place at the end of January 2005. Germany supports a pilot project on the organisation of supply chains for maize and sesame, in rotation with cotton production.
- **Côte d'Ivoire:** The EC commissioned a study on cotton sector performance. Due to the domestic situation, the cotton sector is in despair. The study concluded that not much can be done on the short term, but to settle outstanding financial commitments by and to the sector. The donors, however, can program resources in line with the priorities agreed in the EU-Africa action plan.
- **Senegal:** the EC in Senegal considers supporting the cotton sector with an indicative amount of €5m (from previous non-programmed STABEX funds).
- **Togo:** The Ministry of Trade has made a request to the EC in Lomé (for use of Stabex funds) in order to support the creation of an interministerial committee for a new cotton strategy in Togo. The Ministry of Agriculture tries to assist in the creation of a national federation of cotton producers.
- **Cameroon:** France supports a study into the construction and financing (loan) of a new ginning industry in the southern part of the cotton region. The ginning capacity is insufficient in that sub region.
- **Madagascar:** the Government privatized the cotton company HASYMA by selling 52% of the total capital to Dagrís, who currently holds 90%. Dagrís seems committed to leave 40% to cotton producers and local companies. The new company is expected to double production to 29.000 mt of fibre. World Bank will commission a study in the beginning of 2005. There is intensive public-private consultation.

Furthermore, the ACP Council of Ministers recently urged the European Commission and the other development partners to explore all possibilities for providing prompt support to the cotton sector, with a view to mitigating the effects of the dramatic fall in cotton prices, and avoid social and political upheaval in the countries concerned.

2.3 Programming EU support to cotton at the REGIONAL level

France programs new regional support

France studies the feasibility of a new regional program in support to cotton with an indicative amount of €3m. It aims at strengthening the capacity of regional bodies concerning trade negotiations, biotechnology control and awareness, quality of African ginned cotton, information systems, and a regional price insurance scheme in complement to national self-insurance initiatives. The support would benefit the following regional bodies: UEMOA and CEMAC for cotton policy, CORAF for research, ACA the African Cotton Association for the private sector, and ROPPA and APROCA, the producers associations.

Need to build capacity on biotech cotton

During the annual ICAC meeting in Bombay, the ICAC expert panel on biotech cotton (not to confuse with organic cotton!) made a detailed presentation of the conclusion of a well conducted work, expressed in a balanced way (www.icac.org). Many countries are showing interest in picking up genetically modified technology and cultivating biotech cotton. Biotech cotton has been expanding rapidly since 1996 and represents now 21% of world cotton area, 30% of production and 36% of trade. The rapid uptake has to do mainly with the ability to reduce significantly the number of sprays, increase yields and consequently improve profitability. However, biotech cotton is not necessarily profitable everywhere due to the higher cost of seeds and the difficulty for the farmer to use second generation seeds. The net benefits for biotech cotton seem low where the number of sprays is already limited because of low pest pressure, as may be the case in Uganda and some West African countries. Burkina Faso has initiated the testing of biotech cotton, but results will only be available in some years. The use of biotech cotton is only one of the elements of a sound integrated pest management. Capacity building is critical in Africa, with the need to put in place an adequate regulatory framework with corresponding ability to conduct risk and benefit assessments (as is foreseen under the EU-

Africa Cotton Partnership). Continuation in the use and development of conventional breeds is also necessary for implementing such strategies.

3. COORDINATION AND COMMUNICATION EFFORTS

Members of the ACP-EU cotton steering committee have attended international meetings and informed international audiences on the progress reached in the implementation of the cotton action plan. This is a key component to reach visibility for the EU-Africa Cotton Partnership as well as to keep the priorities of the African cotton producers in the international agenda.

ICAC plenary meeting in Mumbai (28 November – 3 December 2004)

About 700 people from the global cotton community had gathered for the 63rd plenary meeting of the International Cotton Advisory Committee. They represented both the public and private sectors from 48 countries. The EU and African countries were well represented. The EU had prepared a statement on the achievement in 2004, thereby highlighting the partnership with Africa. The Commission also announced its interest in EC-membership to ICAC. The ICAC meeting focussed on the “Enhancing Cotton Competitiveness”. Relevant sub-themes included world cotton outlook, government measures (subsidies), cotton classing systems, input provision, biotech crops, good trading practices and price risk management. ICAC aims at delivering pragmatic solutions for facilitating trade and developing the cotton sector. It works in an efficient manner with inputs from all stakeholders and relies on expert panels (e.g. on government measures and on biotech crops, see also www.icac.org). The ICAC work usefully complements the Plan of Action put in place under the EU-Africa Cotton Partnership.

OECD/DAC Briefing on the Development Dimensions of African Cotton (28 January 2005)

The OECD/DAC organised on 28 January 2005 a briefing on the development dimension of African cotton. It concluded that development assistance is no remedy for the trade distorting subsidies; a solution to the cotton trade problem is seen as the Isthmus test for the Doha Development Agenda. Furthermore, as the African cotton sector expects severe financial deficits (due to low prices and weak dollar), donors are encouraged to consider short term measures within their current instruments and operations. It also concluded that the African countries will need to map out cotton strategies or programs to accompany to reform process and other challenges to the sector. There was agreement that the coordination on the cotton development dimension will centre on the EU-Africa Cotton Partnership, as was proposed by the African countries. A consultation should be organised to align the different initiatives. Several African countries presented the progress of the cotton sector in their countries. The Commission and the ACP made a presentation on the EU-Africa Cotton Partnership and distributed the new CTA-publication: “Summary of Proceedings of the EU-Africa Cotton Forum”. (available in French and English). The DAC Briefing was in line with the WTO August Framework Decision, which stipulates that WTO Members should work on development-related aspects of the Cotton Initiative multilaterally, continue their bilateral programmes, and (re-) direct effectively existing programmes and any additional resources towards development of the economies where cotton has vital importance.

CFC-UNCTAD workshop on Sustainability of Cotton Production in West Africa (28 Feb – 1 March 2005)

From 28 February to 1 March 2005, the Common Fund for Commodities and UNCTAD will jointly organize a cotton workshop in Mali on the sustainability of cotton production in West Africa. Cotton experts/policy makers from several countries will reflect on the issues that are of importance to the development of actions plans for the national and regional level. Discussions will dwell on the results of a study in the field of input supply systems, technology transfer to farmers, environment impact, credit supply systems, etc.

Updated cotton website available in February 2005- www.cotton-forum.org

Special efforts are made to share information and expertise between the ACP, EU and other organisations and countries by means of strengthening the website already in place since last July. The main objectives of this website have been upgrade to (i) strengthen awareness on the economic and social importance of cotton for African countries; (ii) show information on the implementation of the EU-Africa Action Plan in support of the cotton sector adopted in Paris; (iii) provide a technical and factual resource centre on cotton covering the seven areas of the action plan; (iv) to strengthen the input of African ACP actors into the dialogue by providing an interactive platform (e-forums). This website, upgraded with funding from Germany and France, will be launched with new interactive functions by Mid February 2005.

Additional information

News and update on the partnership and general information will be available on the website www.cotton-forum.org. For more information, you may contact Henny Gerner at the Commission (henny.gerner@cec.eu.int) or Isolina Boto at CTA (boto@cta.int).

The cotton Steering Committee encourages the input of all stakeholders in sharing information with the objective to strengthen the African cotton sector. Therefore any additional contribution will be appreciated.

Annex: Overview of main areas of the EU-Africa cotton Action Plan

1. *International trade.* Continuation of negotiations in DDA with the objective that an effective solution for cotton is found that is satisfactory to all parties. Access to existing trade related assistance programs. Strengthen capacity building to defend and negotiate the cotton trade position in the WTO.
2. *National & regional strategies.* It is necessary that the cotton stakeholders in African countries adopt a more strategic perspective to the cotton sector in their country. This strategic perspective should be build on existing initiatives, be in line with international realities and be embedded in the national development plans. Knowledge, skills and resources of different stakeholders should be combined to achieve a common goal.
3. *Policies & institutions.* A clear division of responsibilities between business associations and government is essential. It was agreed that the government should create an environment that favours investments, strengthens producer associations and encourages farmers' participation in the processing industry.
4. *Technological innovations.* There is need to invest in improving the productive capacity of soil in combination with effective input management. There is a need to substantially reduce the use of pesticides in cotton cultivation, in order to avoid negative impact on the environment and the health of the rural population. It was also agreed to strive for informed decision making with regard to the expansion of genetically engineered varieties in the African smallholder economies.
5. *Risk management & finance.* Vulnerable cotton ginning and traders can reduce their exposure to external price shocks by using modern risk management instruments in combination with realistic price formation policies that are based on the realities of the international cotton market. The international financial sector is prepared to improve access to these instruments for the African countries. Cotton-producing countries could gain from the capacity building on the issue by the World Bank. Furthermore, the efficiency and transparency of self-insurance systems at corporate and sector level will be enhanced.
6. *Chain integration.* Prospecting opportunities for chain integration. Cotton instrument classing will be enhanced in Africa with a view to better service the demand and increase the negotiating capacity. The realistic opportunities in textiles and clothing need also to be explored, in particular from a regional perspective. More concerted work on organic/fair cotton production chains at international and in-country levels is also highlighted.
7. *Coordination.* Coordination is identified at three levels: in-country, regional and international levels. At the in-country level it is important to strengthen business associations, public-private consultations and local donor coordination. Regional level cooperation is foreseen on certain issues, such as EPA regional integration, technological innovation, processing and producer's coordination. International coordination is necessary at the level of the African countries (Geneva, Brussels), cotton donors, international organisations and at the global level with ICAC.