

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

by the Steering Group 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. 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.acp-cotton.org](http://www.acp-cotton.org)).<sup>1</sup>

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, ginners and manufacturers. Other members are the ACP Secretariat, UEMOA (representing African regional organisations), CTA and CDE.

## 1. INTERNATIONAL CONTEXT

### 1.1. World Market situation

The International Cotton Advisory Committee publishes a monthly update on the world cotton market ([www.icac.org](http://www.icac.org)). According to ICAC, world cotton production is forecast to fall below 24 million tons in 2005/06, down 2.4 million tons but still the second largest crop on record. World consumption is expected to reach an unprecedented 23.8 million tons in 2005/06, 550,000 tons more than in the current season. With China (Mainland)'s imports projected to more than double during 2005/06, climbing to 2.8 million tons, world cotton trade is forecast to surpass 8 million tons for the first time. These market fundamentals suggest that the season-average Cotlook A Index will be 65 cents per pound in 2005/06, 13 cents more than the average expected for 2004/05. Initial projections for 2006/07 indicate that production will rise to 24.7 million tons, slightly above consumption.

The season average Cotlook A Index is expected to remain between 60 and 70 cents per pound for a second season. Attention continues to be focused on the direction of China (Mainland)'s policy regarding cotton imports and textiles and apparel exports and its potential influence on the market. After the elimination of all quotas on textiles and

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<sup>1</sup> 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.

apparel trade among WTO members on January 1, 2005, Chinese exports in the largest import markets, the U.S. and the EU, skyrocketed. China (Mainland) concluded an agreement with the EU, whereby a new quota system will come into effect on July 20, 2005 to limit the annual growth in exports of various categories of textiles and apparel to the EU.

## **1.2. Progress on WTO cotton trade negotiations**

### ***African Group has come with a new proposal to the WTO***

The African Group has circulated a text (dated 22 April 2005) for radically reforming trade in cotton and “cotton by-products”, which it says includes textiles goods. The paper contains proposals on all three “pillars” of the agriculture negotiations, which the group says are in line with the 1 August 2004 “framework” decision and are intended to speed up the negotiations:

**Market access:** This would be “improved”, with duties and quotas scrapped for cotton and its by-products when exported by least-developed countries and net exporters.

**Domestic support:** Distorting supports to be eliminated by 21 September 2005 at the latest (the Africans explained in the meeting that this relates to dates in the cotton dispute (DS267, ruling adopted by the Dispute Settlement Body on 24 March 2005)). Also proposed are disciplines for preventing “box-shifting” (re-categorizing supports without reducing their distorting effect), and “ambitious cotton-specific criteria” to be developed for “the measures authorized under the green and blue boxes”.

**Export subsidies:** All types of export subsidies on cotton to be eliminated by 1 July 2005 at the latest (also related to dates in the cotton dispute).

**Emergency support fund:** Amounting to 20% of the highest value of cotton production in the last three years in each country concerned, to “contain the serious socio-economic consequences for the farming communities” of loss of revenue, and managed by representatives of donors, producers and governments. The amount would decrease proportionately as subsidies and supports are eliminated.

### ***EU Trade Commissioner Mandelson calls for fast-tracked WTO action on cotton.***

In a speech delivered to cotton producers in Mali on April 19, 2005, EU Trade Commissioner Mandelson set out the strong EU commitment to concrete measures to assist cotton-producers in West Africa. With particular regards to the treatment of cotton at the WTO, he stated that the EU is “calling for the WTO membership to fast-track cotton in each of the so-called three pillars of the agriculture negotiation...”. He reiterated the EU’s call to eliminate all forms of cotton export subsidy in developed countries; provide duty-free access for cotton imports by all developed and advanced developing countries; and substantially reduce trade-distorting domestic support for cotton producers in developed countries. These commitments should come into effect “from day one of the signing of the Single Undertaking... cotton should be first in the queue”.

### ***Progress report on the work of the WTO-cotton subcommittee***

Since the subcommittee was established in the July 2004 Framework Agreement of the WTO's Doha Round, U.S. cotton industry leaders have argued that the panel's activities should be limited to an advisory role. The four African countries Benin, Burkina Faso, Mali and Chad, and the representatives of France, Japan, the European Commission, the World Bank, the IMF and other international organizations attending the conference have different views on the role of the subcommittee. In the 'Ouagadougou Declaration' dated 21 March 2005, they reaffirm their determination to maintain their chosen strategy in favour of dialogue and multilateral negotiation, and demand results consistent with the July mandate, namely that the issue be addressed ambitiously, expeditiously and specifically under the three pillars of market access, domestic support and export subsidies.

### ***The appellate body of the WTO rules in favour of Brazil on their complaint against the United States subsidies on cotton (3<sup>rd</sup> of March 2005)***

In its ruling, the Appellate Body maintained the key finding that the U.S. subsidies totalling \$12.5 billion between 1999 and 2002, had caused serious harm to the trade interests of Brazil by depressing global prices for cotton. The Appellate Body also upheld the key panel findings that the United States misclassified direct payment programs for U.S. cotton producers as "green box" support exempt from WTO subsidy spending caps and that U.S. export credit guarantees for cotton and other commodities such as rice, soybeans, and sugar constitute illegal export subsidies.

The U.S. is changing its export credit guarantee programs effective July 1, 2005, and the U.S. Administration is working with the Congress to change the Step 2 program for upland cotton to comply with WTO rules. In addition, the American Pima competitiveness payment formula will be changed on August 5, 2005. These changes are not expected to affect the volume of U.S. exports.

## **1.3. Plurilateral Consultations**

### ***African Cotton Association – annual seminar***

The 3<sup>rd</sup> seminar of the African Cotton Association (ACA) was held in Ouagadougou, Burkina Faso, from 10 to 12 March 2005. It was dedicated entirely to the analysis of the cotton situation in Africa and worldwide. The participants discussed the prospects for the world cotton market and the Cotlook indexes; genetically-modified cotton; hopes and fears for Africa; possibility of reducing inputs while improving agricultural yield; cotton subsidies in industrialised countries; their effect on the African cotton sectors and progress within the WTO; and finally, determining the quality of cotton with electronic instruments.

According to the conclusions of the meeting, the ACA plans to hold discussions with the financial partners to find a permanent solution to the deficit facing the African cotton sectors. It also intends to assist in maintaining the pressure for the rapid treatment and successful conclusion of the cotton dossier at the WTO. Finally, one last remarkable

outcome of the meeting: the ACA invited the African States to launch a major initiative with a view to significantly reducing the cost of cotton inputs by convening a meeting of all the actors concerned.

***Regional conference on cotton, organized by IMF in Cotonou (Benin), May 18, 2005.***

This conference was attended by cotton sector stakeholders from the region, ministers from Benin, Burkina Faso, Chad, and Mali; representatives from the governments of France, Japan and the United States; as well as the European Commission, the World Bank, the WTO, and the Managing Director of the IMF. It recognized that the viability of the sector is under pressure for different reasons, i.a. distortions in global agricultural trade, and that these developments in the cotton sector could have adverse macroeconomic effects in the region: reducing growth; weakening the fiscal and external position; and, straining efforts to reduce poverty. It focused on potential policy responses.

Participants reached a consensus that a multi-pronged response is necessary. The key points of this response are: i) Maintaining macroeconomic and fiscal stability in the region; ii) Raising efficiency is key to the long-term viability of the sector and boosting farmer incomes, and will also strengthen the ability to cope with external shocks; iii) Tackling trade distorting policies affecting the cotton sector within the framework of the multilateral trade negotiations; iv) Mobilizing development partner support to strengthen the supply side and to preserve poverty reduction objectives.

<http://www.imf.org/external/np/sec/pr/2005/pr05121.htm>

***Meeting of the Trade ministers of the African Union Member States***

Trade Ministers of the African Union Member States meeting in Cairo on 8 and 9 June 2005 supported the African Group's submission to the WTO. They specifically requested that the proposals contained in the submission be implemented no later than the 6<sup>th</sup> WTO Ministerial Conference.

***ACP Council of Ministers***

At their 81<sup>st</sup> session, held in Brussels on 21 and 22 June 2005, ACP Ministers adopted a Resolution on Cotton in which they expressed serious concern over the considerable delay in the implementation of the Plan of Action accompanying the EU-Africa Partnership on Cotton. The ACP Ministers also reaffirmed the ACP Group's strong support for the proposals submitted by the African Group to the WTO Cotton Subcommittee, and insisted on the fact that a rapid resolution of the cotton dossier at WTO was necessary to give the green light for the successful completion of negotiations under the Doha Development Agenda.

The ACP Ministers appealed to the European Union to take the necessary steps to speed up the independent implementation of the EU-Africa Plan of Action on Cotton, and to firmly support the proposals made by the African Group to the WTO Cotton Subcommittee, in addition to the efforts announced by the European Trade Commissioner in his declaration in Bamako on 19 April 2005.

## **2. Implementing EU-Africa Cotton Partnership**

### **2.1 Programming EU support for cotton at the INTERNATIONAL level**

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

A fact-finding mission has just been launched to formulate this programme that would, among other things, facilitate support for the implementation of the Plan of Action on Cotton. The initial findings of the mission will be made available in September/October and will be the topic of major discussions with the actors in the agro-based products sector, including the stakeholders in the EU-Africa Cotton Partnership.

#### ***€25m for a Global Index Insurance Facility***

In February 2005, the Commission proposed to the EU-Council and ACP to allocate €25m for a risk management facility to help ACP to access market based instruments. The use of these instruments complements compensatory finance (e.g. FLEX) and debt relief. Since then, WB has prepared a discussion note for the establishment of a Global Index Insurance Facility (GIIF), to which the EC could contribute the planned support to the benefit of the ACP. GIIF would have a commercial (re-insurance) objective and a development objective that would allow donors to subsidize insurance premiums. Cotton will be one of the commodities covered by the Facility.

At the annual meeting of the International Task Force on Commodity Risk Management (Interlaken, 18-20 May 2005), a working group was established to prepare a concept note on GIIF (deadline July 2005). The commercial part of the budget will be funded by IFC, EIB, regional banks and private investors (initial total target about USD 100m). Donors, such as the EC, will support the operational costs and subsidize insurance premiums in case of extreme crisis (price, weather or natural disasters), which impact on the governments budget and/or vulnerable positions.

### **2.2 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 of 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, the African Cotton Association (ACA) for the private sector, and ROPPA and APROCA, the producers associations.

Dutch cooperation has joined forces with the French cooperation (FSP) in the “RESOCOT” initiative on the technical information system on cotton in Africa.

### ***Multi-state programmes***

In addition to the regional and national programmes under way, the French cooperation has programmed 81M€ for the period 2005-April 2006, for multi-state initiatives, including more specifically, the following aspects:

- Improving field productivity (Benin, Burkina Faso, Senegal)
- Preserving natural resources (Benin, Burkina Faso, Senegal, Mali)
- Industrial productivity (Burkina Faso, Senegal, Cameroon)
- Regional or supranational funds for price risk management (10M€)
- Equitable cotton (Senegal, Mali, Cameroon, and start-up in Burkina Faso)

German cooperation supports a cooperation project with the private sector in the cotton sector in Benin, Burkina Faso and Zambia, for an amount of 3M€.

### **2.3 Programming EU support for cotton at NATIONAL level**

***Benin.*** The government has regulated the cotton sector for 2005/06. Furthermore, the privatisation of the Sonapra experiences several delays. The short listed companies 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. The EC has offered the GoB a support with the preparation of a cotton strategy, including an options paper for future development of the cotton sectors.

***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. The Commission will formulate a support project to the cotton plan for an amount of €10m. 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. France undertook 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.

***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.

***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. Some EC-Stabex resources could be programmed to cotton provided the situation in the country allows for appropriate programming.

***Mali:*** In the reporting period, the Government of Mali recommitted itself to the privatisation of the cotton sector. Its intentions can be summarized to a three stages process: the opening of the share capital of the CMDT to the cotton producers, followed

by the regionalization of some central functions in 2006, and the subsequent the privatization of the regional centers. During a joint mission with France in February 2005, the EC decided that it will assist this reform process in the form of sectoral budget support with an amount of €15m. France considers complementary technical assistance as a follow-up to the ongoing project (PASE). 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 cotton quality.

**Senegal:** the EC in Senegal considers supporting the cotton sector with an indicative amount of €5m (from previous non-programmed STABEX funds).

**Chad:** 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.

**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.

### **3. REGIONAL AND NATIONAL INITIATIVES IN AFRICA**

#### ***3.1 Regional level***

***Sub-Saharan Africa's textile organization formed.*** An African cotton and textile industry body has been formed by sub-Saharan Africa's textile, apparel and cotton industries. The alliance is the culmination of negotiations by industry executives at an inaugural regional cotton and textile executive summit in Nairobi in April. Its aim is to foster regional integration so that the region collaborates in a cohesive manner, acts with a common voice, and interacts on all issues that affect its competitiveness in the global market. <http://www.tralac.org/scripts/content.php?id=3751>

***Eastern Africa.*** At the regional level, two American institutions are setting up a textile training centre to support existing and new garment manufacturing factories in East and Southern Africa. USAID has joined in partnership with the US-Africa Trade and Aid Link, and will set up the centre in Nairobi to serve eight AGOA eligible countries - Ethiopia, Kenya, Uganda, Rwanda, Malawi, Zambia, Madagascar and Tanzania. The Government has donated 25 acres of land in Nairobi for setting up the centre, to be known as the Regional Model Manufacturing and Training Centre. It will provide training and career development for African workers in the best manufacturing practices.

#### ***3.2 National level***

***Angola.*** The Ministry of Agriculture and Rural Development and EximBank of South Korea signed on Monday, at Luanda, a Memorandum for financing estimated at 31,440,000 US dollars (according to AngolaPress). The monies will be used for a project

to re-launch cotton production in a 5 000-hectare area in the Kwanza-Sul province, and is expected to create employment for 10 000 families. The project will also cover irrigation structures and technical assistance for producers over three years. The financing resources will be repayable in 30 years with a 10-year grace period.

**Burkina Faso.** On 6th June, the SOFITEX company from Burkina Faso received the international prize for the cotton industry awarded by the *Institut International de Promotion et de Prestige* for its capacity to attract financial and technical partners and to adapt to the current context.

**Kenya.** The president instructed Finance, and Trade and Industry ministers to have consultations with operators in Export Processing Zones. He said there is a real threat to 40,000 local jobs in Kenya's garment and apparel industry, due to rising exports to Europe and United States from Asia. It has been reported that at least six companies have closed down in the last five months and an average 2,000 jobs are lost monthly. Kenyan textile firms are reeling from the effects of the quota system, which was scrapped by the World Trade Organisation (WTO) in January. Kenya says it plans to invest KES250 million into its flagging cotton industry to allow it to keep its preferential trade deal with the US.

**Madagascar.** A consultation platform for stakeholders in the cotton sector was set up in Madagascar in February 2005. On 29 June 2005, it held its first meeting which heard presentations on the economic prospects for the Madagascar cotton sector and changes underway, as well as the implications of the cotton initiative and the Paris Forum for Madagascar. The meeting also enabled the Platform's activities to be defined in relation to the Plan of Action and ongoing studies. A study of the cotton sector, financed mainly by the World Bank, was launched on 10 February 2005. Its findings will be made available in August 2005.

**Senegal.** Since 6 June 2005, textiles and hand-crafted traditional clothing from Senegal have had free access (duty-free and without quotas) to the US market. In exchange, exporters must respect the provisions governing the AGOA textile certificate of origin.

The Textile Fibres Development Company (SODEFITEX) recently obtained ISO 9001 certification, version 2000, for the purchase, transport and ginning of cottonseed, the production and marketing of cotton fibre, seed cotton and crop seeds. SODEFITEX is now the first African cotton company in which the quality control system has been certified as being in conformity with ISO requirements. According to the company's management, the certification confirms "the recovery of Senegalese cotton in an extremely difficult international environment where all African cotton-producing countries are calling for adherence to the universally-accepted market rules."

**South Africa.** The South African Department of Trade and Industry has amended the duty credit certification scheme (DCCS) to allow clothing and textile exporters to claim back 25 percent of their earnings for clothing exports, as opposed to 15 percent which used to be the case if their export sales constituted less than 15 percent of their total revenue. From the 1st of April 2005, the 25 percent in duty credits can be used for rebates

to the tune of 17.5 percent for household textiles, 12.5 percent for fabric and 8 percent for yarn.

#### **4. COORDINATION AND COMMUNICATION**

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.

##### ***Updated cotton website [www.acp-cotton.org](http://www.acp-cotton.org)***

The ACP cotton website is officially launched with as main objectives 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 support from the CTA, ACP Secretariat, Germany and France, provides news, events, information on the main stakeholders as well as interactive functions.

##### ***Seminar on the challenges on genetically engineered cotton for Africa- Brussels, end September 2005***

The ACP-EU Action Plan recommends building capacity on GE-cotton for Governments, private sector and farmers in Africa. A seminar will be organized in Brussels in autumn to raise awareness on the major issues involved in GE-cotton as well as to provide information as objective as possible to support informed-decision making.

***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.