

# **EU-Africa Partnership on Cotton State of Play, November 2007**

## 1. Introduction

At the end of the 1990s, cotton prices on the world market fell for several years in a row, a trend that was continued in the early 21<sup>st</sup> century. World cotton prices averaged 54 cents per pound between 1998 and 2002, sloping down almost continuously over the period and reaching a 30-year low of 41.8 cents in 2001. This prolonged price decline profoundly affected cotton producers and producing countries in Africa. Cotton also gained prominence in trade discussions when the Sectoral Initiative on Cotton was taken to the WTO by four West-African countries (Mali, Burkina Faso, Benin, and Chad) in April 2003. This Initiative sought to correct distortions in the world market price for cotton caused by subsidies, export credits and market access restrictions.

In this setting, the EU-Africa Partnership on Cotton emerged. In early 2004, the Commission produced Communications on agricultural commodities and on cotton, which were adopted by the EU Council in April of that year. The Cotton Communication called upon the Commission and Member States to take all necessary measures to implement an Action Plan, based on principles of national participation and effective coordination, and covering trade and development aspects. The Partnership on Cotton was discussed and endorsed at a seminar in Paris in July 2004. The Paris meeting, which was attended by EU Members States and by African cotton producing countries, adopted an Action Plan with 7 topics: international trade; national & regional strategies; policies & institutions; technological innovations; risk management & finance; chain integration; and coordination.

The purpose of this note is to provide a concise update on the present (November 2007) status of the EU-Africa Partnership on Cotton, with a focus on progress in development cooperation initiatives. The duration of preparatory processes for development assistance initiatives (mobilisation of resources, identification, formulation, preparation on tenders and contracts) has taken longer than expected by many stakeholders in the Partnership. Nevertheless, implementation accelerated in 2007 and is currently in full progress.

This update is organised in five main sections that follow this introduction. Section 2 looks at the trade aspects of the Partnership, section 3 at the financial aspects of development assistance, while section 4 gives highlights of cotton cooperation in 2007. Section 5 describes aspects of coordination, monitoring and review. Some concluding remarks are made in section 6.

This update is relatively brief and focuses on activities within the realm of EDF financed assistance. A more detailed report on overall Partnership progress is envisaged to be produced in early 2008 in the framework the Technical Assistance that is currently provided to the COS Coton.

## 2. Trade Aspects

With respect to international trade, the EU-Africa Partnership on Cotton stated it expects to find an effective and specific solution on cotton within the DDA, with elements on market access, domestic support and export subsidies. Moreover, the Action Plan listed among the expected results: the elimination of all forms of export subsidies for cotton; the provision of

complete market access, without quotas and customs duties, to cotton and cotton-based products from LDCs; and reforms in major cotton producing countries aiming at reducing trade distorting domestic support. These lines have been kept in the WTO DDA negotiations, where the EU has played an active role on the cotton issue and where it supports the demands of the African countries for a more equitable trading system. The negotiating mandate within the DDA is clear: cotton has to be treated in a "specific, ambitious and expeditious" way. The EU remains committed to respect this mandate and to achieve substantial reductions of trade distorting support. In particular, within the DDA negotiations on Domestic Support (DS), the EU cotton reform allows the EU to be ambitious in the reduction of trade distorting DS. On Market Access (MA), the EU has made a proposal, similar to major African producer countries, that developed countries and developing countries in a position to do so, especially those constituting the major importers, shall give duty-free quota-free market access for cotton exports from LDCs. Further MA concession from developing countries would be key as the future market opportunities are in those countries.

The EU has implemented a number of specific measures that have contributed to fairer world trade conditions for cotton. It provides duty and quota free market access for cotton and cotton-based products. Furthermore, the EU does not provide any export subsidies for cotton. The EU has also substantially reformed its regime of domestic subsidies. Starting from 2006, 65 % of subsidies for cotton have been decoupled from production, while the remaining 35 % is linked to cotton growing (area payment), but not to levels of production.

On 7 September 2006, the European Court of Justice annulled the cotton reforms, though it also ruled that the regime could continue to be applied until a new regulation was adopted 'within a reasonable time'. While the Court did not question the nature of the reforms, it did query the substantiation of the proportionality of the measures. In particular, the Court ruled that in the adoption process insufficient consideration had been given to the labour costs linked to cotton growing and to the viability of the ginning industry following the reform. Subsequently, the Commission has re-considered the reforms and produced an impact assessment, including on economic, social, environmental and trade aspects of different policy options. Based on the results of the impact assessment, the European Commission presented a renewed proposal for the EU cotton regime in November 2007, which maintains the previous decoupling rate. The aim is to implement the new regime in 2008.

In the DDA trade negotiations, the C4 African countries have been trained and assisted by the Non-Governmental organisation 'IDEAS', through a project that has received financial support from Germany, France, Netherlands, Denmark, UK and Sweden. The objective of the project is to support Benin, Burkina Faso, Mali and Chad in their defence of the 'Cotton Initiative' through negotiations at the WTO. In this framework, policy advice has been provided, covering assistance in the drafting of negotiating positions, analyses or submissions and preparation of meetings, and discussion of negotiating strategies and tactics. Moreover, several West-African persons dealing with the DDA negotiations have been trained, while regular newsletters on the state of the cotton negotiations at the WTO have been produced and widely distributed. Though considered a successful programme, financial assistance will come to an end in December 2007.

### 3. Financial Assistance

EU financial assistance made available in the framework of the EU-Africa Partnership on Cotton currently amounts to more than € 260 million, of which more than € 140 million is

channelled through the EC. This refers (i) to assistance that had started at the time the Partnership was concluded; (ii) to assistance that has started since 2004 (and is currently either completed or ongoing); and (iii) to support that is still in preparation. The amount does include sectoral budget support, when this support is specifically earmarked for cotton, but it excludes general budget support to cotton-producing countries, which has been substantial and has been a major source of support that could and can be used expeditiously in mitigating negative effects of the fall in cotton prices on the macro-economies of the countries concerned. The amount also excludes more general agricultural support, support to rural infrastructure not specifically related to cotton-growing areas, support to farmer organisations etc. Moreover, it excludes smaller amounts of support to cotton, integrated into larger agricultural and/or rural development assistance programmes.

Table 1 below provides an overview of cotton-related assistance in projects and programmes managed by the European Commission. This table shows that cotton-related assistance is provided to 11 African countries in the framework of their national cooperation programmes, as well as at regional and continental levels. Moreover, the total value of the EU assistance that is directly related to cotton is above €140 million (over US\$ 200 million). Of this amount only a rather small part (about € 20 million) refers to projects and programmes that had already started before the EU-Africa Partnership on Cotton was established in 2004.

Country	Description	Source of Funding	Amount Allocated	Amount Disbursed
All	Cotton Component Agricultural Commodities Programme	EDF9	€ 15,000,000	-
All	GMO Cotton Conference	EDF9	€ 400,000	-
All	Support to COS COTON	EDF 9	€ 200,000	-
West-Africa	Cotton classification	EDF8	€ 3,000,000	€ 3,000,000
Benin	Sectoral reforms, cotton roads, producer organisations	EDF9 and Stabex	€ 17,895,000	€ 6,446,072
Burkina Faso	Sector reforms; cotton road	EDF9	€ 19045,000	-
CAR	Cotton arrears settlement	EDF9	€ 4,000,000	€ 1,580,000
Chad	Cotton sector support - tbd	EDF10	tbd	
Cote d'Ivoire	Sectoral reforms; cotton road rehabilitation; cotton arrears settlement	EDF9 (FLEX) and Stabex	€ 42,488,000	€ 24,045,000
Mali	Sectoral reforms; cotton road rehabilitation; farmer organisations	EDF9	€ 15,000,000	€ 3,000,000
Mozambique	Cotton research and extension	Stabex	€ 8,050,000	€ 5,878,000
Senegal	Cotton quality, diversification, strengthening of producers' organisation	Stabex	€ 4,000,000	-
Tanzania	Cotton research	Stabex	€ 350,000	?
Togo	Cotton sector: road improvement, warehouse support, support to producers and inter-professional organisations	Stabex	€ 7,000,000	?
Zimbabwe	Cotton research, training centre and capacity building small-farmers	Stabex	€ 4,274,146	€ 4,274,146
<b>TOTAL</b>			<b>€ 140,702,146</b>	<b>€ 48,223,218</b>

Out of the total allocation, an amount of € 48.2 million has been disbursed to date. This represents more than 1/3 of the allocation (34.4%). It concerns disbursements in various countries, including Benin, Central African Republic, Cote d'Ivoire, Mali, Mozambique and Zimbabwe. Most programmes and projects are currently in progress and increases in disbursement can therefore be expected in the months to come.

One programme that has not yet led to any specific cotton disbursement yet is the cotton component of the Agricultural Commodities Programme. However, implementation of this programme has started and a contract has been signed for a value of € 2,5 million to support an ICAC/CFC project to assist African countries to implement instrument testing systems for cotton quality assessment.

An overview of financial assistance to cotton is also compiled by the WTO Secretariat, as part of the Director-General's Consultative Framework Mechanism on Cotton. An excerpt of the latest table (November 2007), with updates for the EC, is provided in annex.

#### 4. Some Highlights of 2007

In the course of 2007, a number of events were undertaken and milestones achieved that merit specific attention. They include:

- *The operationalisation of the all-ACP Agricultural Commodities Programme.* This programme of € 45 million, contains an allocation of € 15 million to support the implementation of the EU-Africa Cotton Programme. In 2007, the programme became operational with the recruitment of a Coordination Unit, the establishment of a Steering Committee and the signing of contracts with International Organisations (World Bank, FAO, UNCTAD, ITC and CFC). Of specific importance to cotton are: (i) the agreement concluded with CFC on the Commercial Standardisation of Instrument Testing of Cotton, with capacity building components in Africa, including the establishment of reference laboratories in Mali and Tanzania, and (ii) the financing of World Bank work on price risk management on cotton, specifically focused on West-Africa.
- *The approval and/or implementation of cotton support programmes in Mali, Burkina Faso and Benin.* The support programme to Mali (€ 15 m) contains a mix of sector budget support (€ 8.7 m), linked to cotton reforms, and project support (€ 6.3 m) for rehabilitation of rural roads in cotton-growing areas and for strengthening of producer organizations. A first tranche of budget support (€3 m) has been disbursed. In Burkina Faso, all support will take the form of sectoral budget support in order to finance the producer's share in the recapitalization of the cotton companies. In Benin, the lion's share (€ 9.2 m) will support the implementation of the cotton reforms and will take the form of budget support. The remainder will a.o. be used for strengthening of producer organizations.
- *The organization of a Cotton Conference in Tanzania, 3-6 September.* This meeting was organised by the Tanzania Cotton Board and financially supported by the EC. It allowed representatives from various countries (the conference was attended by about 75 persons from 12 African countries, representing both public and private sectors) to exchange and learn from experiences elsewhere on the continent. Against the background of recent trends in Africa's position as cotton producer, the meeting focused on three main topics: (1) cotton reforms, (2) price risk management, and (3)

quality and niche markets. With respect to reforms, the presentations and discussions made clear that there should be no 'one-size-fits-all- recipe' for reforms. Cotton quality (particularly contamination with plastic) was repeatedly emphasized as a crucial factor in improving prices for African cotton. Another conclusion was that regional representative bodies on cotton need strengthening, particularly in Eastern and Southern Africa.

- *Support to COS-Coton has become operational.* The overall coordinating body of the EU-Africa Partnership on Cotton, the 'COS-Coton' has long been hampered in its effectiveness by the absence of budgetary resources for its operation. However, by mid-2007, a support package has become effective that provides the COS-Coton with technical assistance, as well as with the means for the attendance of meetings, for consultation and for communication. This assistance also allowed several members of the COS-Coton to be present in the Tanzania Cotton Conference. Further assistance to the COS COTON will be provided through the All ACP Programme.
- *Preparation of a GMO Cotton Conference has started.* The EU-Africa Partnership on Cotton lists as one of its targets 'the building of capacity to facilitate informed decision-making regarding genetically engineered cotton'. In order to assist African countries in making informed decisions about the introduction of Cotton GMOs, a conference is being prepared that will be held in the first half of 2008. The aim is to provide neutral information on pros and cons, taking into account economic, environmental, social, legal and institutional aspects. Consultants have been recruited to prepare the background materials, contents and programme of the conference.

## 5. Coordination, Monitoring and Review

Within the EU-Africa Cotton Partnership coordination takes place at national, regional and international levels. The most important overall coordination organ of the Partnership consists of the *Comité d'Orientation et de Suivi du Plan d'Action sur le Coton (COS-Coton)*. The COS-Coton is based at the ACP Secretariat and is chaired by an ACP representative. In 2007, the chairmanship was handed over by Ambassador Hinvi (Benin), who completed his tour of duty in Brussels, to Ambassador Ouedraogo (Burkina Faso). Other members of the committee include representatives of the cotton sector (producer organisations, ginners, cotton industry), of regional organisations, of the European Commission (DEV and AIDCO) and of the EU Member States. In addition, the CTA and CDE are also invited to the meetings of the COS-Coton. In 2007, the Committee met three times. An important stimulus to the effectiveness of the COS-Coton was provided by mid-2007, when financial and technical assistance became available to support the operations of the Committee. The COS-Coton commenced playing its role in the framework of the All-ACP Agricultural Commodities Programme, where it is represented in the Steering Committee and where it will assess and monitor the cotton-related initiatives.

As part of the work by the technical assistance provided to COS-Coton, more detailed reporting on progress will be developed that will facilitate the monitoring of progress in the Partnership. The technical assistance to the COS-Coton will also allow the revitalisation of the website dedicated to the EU-Africa Partnership on Cotton: [www.cotton-acp.org](http://www.cotton-acp.org). Management of this website had stopped in 2006 when funding ceased to be available. The web-site keeps track of progress in the EU-Africa Partnership on cotton and reports on various events and initiatives related to cotton in Africa.

To improve coordination between EU Member States, the European Commission and interested organisations, three *Cotton Club* meetings have been organised in 2007 (in Brussels, The Hague and Geneva). The Cotton Club is an informal group that exchanges information on cotton developments (incl. trade negotiations), external assistance and other initiatives with an aim to enhance coordinated action. Moreover, in the framework of the WTO, regular *Consultations on the Development Aspects of the Cotton Initiative* take place. These consultations concern an exchange of information on cotton assistance provided by the various bilateral and multilateral institutions and an update on cotton reforms in recipient countries. In this framework, a High Level meeting on Cotton, with a focus on development aspects, was organised by the WTO in March 2007.

The Action Plan of the Partnership on Cotton did not include provisions for review. Nevertheless, as the EU-Africa Partnership on Cotton will be in existence for four years in 2008, a more general review of progress achieved by the Partnership could possibly be undertaken next year. The precise form of such a review will need discussion with all relevant parties concerned. In terms of contents and coverage, it could build on the updates on Partnership progress that will be produced by the technical assistance to the COS-Coton.

## 6. Concluding Remarks

The current update provides a general overview on selected aspects within the EU-Africa Partnership on Cotton. More detailed information, including on developments within African cotton producing countries, is planned to become available within the next months, with progress assessments by the technical assistance to COS-Coton and with the revival of the Partnership website.

Nevertheless, it is clear that an acceleration of implementation is taking place with respect to the EU commitments in the Partnership. Significant financial assistance has been made available and has in most cases become operational, leading to support for new initiatives and rising levels of disbursement. The financial assistance provided by the EC is mainly financed from 9<sup>th</sup> EDF and (remaining) Stabex resources. This will allow continuation of assistance in the short-medium term. However, it is uncertain whether financial assistance can be provided for a much longer period, as few of the African cotton producing countries have included cotton among the priority sectors for cooperation during the 10<sup>th</sup> EDF period (2008-2013).

Thus far the operation of the Partnership has included a few actors only from the EU side and a broadening beyond the core group (France, Germany, Netherlands, UK and Commission) would be highly desirable.

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**Annex: Excerpts (covering EC and MS) from the WTO Working Table on Cotton Development Assistance, November 2007**

<b>WTO DIRECTOR-GENERAL'S WORKING TABLE ON COTTON DEVELOPMENT ASSISTANCE</b>					
<b><i>PART I – COTTON SPECIFIC DEVELOPMENT ASSISTANCE</i></b>					
<b>Development Community</b>	<b>Programmes/Projects/Activities</b>	<b>Value</b>	<b>Operational Status<sup>1</sup></b>	<b>Disbursement Status<sup>2</sup></b>	<b>Beneficiaries</b>
<b>BILATERAL DONOR</b>					
EU	Programme on Agricultural Commodities: Cotton Component (EU/Africa Cotton Partnership)	€ 15,000,000	IP 2007-10		C4 + All African producers
	Conference on GMO cotton	€ 400,000	IP 2007-08		C4 + All African producers
	Support for national cotton reforms/cotton sector support	€ 10,000,000	PFS 2007-10		Benin
	Rehabilitation of rural roads in cotton areas	€ 7,850,000	IP 2002-08	€ 6,446,072	Benin
	"Programme d'Appui Régional de l'Intégration" (PARI) - Cotton classification in West Africa	€ 3,000,000	C 2001-05	FD € 3,000,000	West Africa
	Cotton road rehabilitation	€ 9,045,000	PFS 2007-10		Burkina Faso
	Cotton sector: seeds, support to producers and inter-professional organisations, sector strategy development, institutional framework, mechanisation, etc.	€7.720.000	PFS/IP 2007-2010		Côte d'Ivoire
	Coton road réhabilitation	€5.500.000	IP 2007-2008	€ 640,000	Côte d'Ivoire
	Cotton road rehabilitation (FLEX funding)	€4.000.000	PFS 2008-2009		Côte d'Ivoire
	Cotton arrears settlement (debt clearing)	€ 10 .985.000	C 2005	FD € 10 .985.000	Côte d'Ivoire
	Cotton arrears settlement (debt clearing)	€12.420000	C 2006-2007	FD €12.420.000	Côte d'Ivoire
	Cotton arrears settlement (debt clearing)	€1.863.000	IP 2007-2008		Côte d'Ivoire

<sup>1</sup> Five operational implementation categories exist: PFS: project formulation stage; IP: in progress; C: completed; S: suspended; D: discontinued.

<sup>2</sup> FD reflects full disbursement.

Cotton sector: road improvement, warehouse support, support to producers and inter-professional organisations	€ 7,000,000	IP 2007-09		Togo
Support to the "Association interprofessionnelle du coton" (AIC)	€ 45,000	IP 2006		Benin
Cotton sector support	€ 10,000,000	PFS 2007-10		Burkina Faso
Cotton arrears settlement (debt clearing)	€ 4,000,000	IP 2007-08	€ 1,580,000	Central African Republic
Cotton sector support	t.b.d.	PFS 2008-		Chad
Cotton sector support	€ 15,000,000	IP 2006-08	€ 3,000,000	Mali
National Cotton Institute funding for extension & technical assistance to smallholders executed by cotton concessionary companies	€ 5,000,000	IP 2002-08	€ 3,828,000	Mozambique
National Institute of Cotton capacity-building, rehabilitation of testing laboratories, equipment and vehicle supply	€ 1,550,000	IP 2003-07	€ 1,550,000	Mozambique
National Institute of Agriculture Research Support (identification, adaptation and multiplication of cotton varieties)	€ 1,500,000	IP 2007-2011	€ 500,000	Mozambique
Cotton quality, diversification, strengthening of producers' organisation	€ 4,000,000	PFS 2007-09		Senegal
Cotton Training Centre/Cotton Research Institute	€3,121,146	C 1998-2005	€ 3,121,146	Zimbabwe
Training and capacity-building for small scale cotton farmers – Cotton Training Centre	€ 1,153,000	IP 2007-?	€ 1,153,000	Zimbabwe

Development Community	Programmes/Projects/Activities	Value	Operational Status <sup>1</sup>	Disbursement Status <sup>2</sup>	Beneficiaries
<b>BILATERAL DONOR</b>					
FRANCE	Commodity Risk Management	€ 210,000	IP		West African countries
	Value chain cotton sector support	€ 2,000,000	PFS		West & Central African countries
	Quality classification of cotton categories. Capacity-building of producer associations. Support for biotechnologies and phytosanitary coordination	€ 2,000,000	IP 2006-09		West & Central African countries
	Price risk management facility	€ 10,000,000	PFS 2007-		West African countries
	Value chain cotton sector support	€ 6,800,000	IP 2006-2007		Mali (Kita region)
	Strengthening competitiveness of cotton products	€10,000,000	IP 2006-2007		Mali
	Loan for industrial programme	€ 15,000,000	IP 2006		Burkina Faso

Development Community	Programmes/Projects/Activities	Value	Operational Status <sup>1</sup>	Disbursement Status <sup>2</sup>	Beneficiaries
<b>BILATERAL DONOR</b>					
	Technical & financial support for cotton producers' organizations	€ 4,300,000	IP 2006		Burkina Faso
	Strengthening of legal framework and financing of self-insurance scheme for producer organizations	€ 11,000,000	IP 2006-		Burkina Faso
	Loan to SOCOMA for industrial programme	€ 15,200,000	IP 2005-		Burkina Faso
	Support for, and enhancement of, family and other cotton producers	€ 10,000,000	IP 2006-		Benin
	Cotton sector reform	€ 1,850,000	IP 2002-07		Benin
	Financing of ginning factory	€ 10,000,000	IP 2005-		Cameroon
	Capacity Building through the "Interprofession sénégalaise du coton"	€ 1,000,000	IP 2007-		Senegal
	Loan to SODEFITEX (industrial programme, capacity building)	€ 10,000,000	IP 2006-07		Senegal

<sup>1</sup> Five operational implementation categories exist: PFS: project formulation stage; IP: in progress; C: completed; S: suspended; D: discontinued.

<sup>2</sup> FD reflects full disbursement.

**WTO DIRECTOR-GENERAL'S WORKING TABLE ON COTTON DEVELOPMENT ASSISTANCE**

***PART I – COTTON SPECIFIC DEVELOPMENT ASSISTANCE***

<b>Development Community</b>	<b>Programmes/Projects/Activities</b>	<b>Value</b>	<b>Operational Status<sup>1</sup></b>	<b>Disbursement Status<sup>2</sup></b>	<b>Beneficiaries</b>
<b>BILATERAL DONOR</b>					
GERMANY	"Cotton Made in Africa" partnership; sustainable cultivation	€ 5,200,000	IP		African countries
	Support to follow-up & coordination of cotton secretariat	€ 100,000	IP		Burkina Faso
	Promotion of production standards	€ 50,000	IP		Burkina Faso
	Study on competitiveness and ecological sustainability of cotton production	€ 130,000	C 2005	FD	Benin
	Conservation and management of natural resources. Technical and organizational support to small scale cotton farmers	€ 120,000	IP 2004-14		Benin
	Diversification of cotton production	€ 60,000	IP		Chad
NETHERLANDS	Non-Chemical Pest Management	€ 500,000	PFS 2007-2010		Benin
	Cotton made in Africa	€ 42,000	C 2006	FD	Sub-Saharan Africa, Benin
	Cotton competitiveness enhancement	€ 450,000	IP 2006-09		Benin
	Support to Unions of Communal Cotton Producers (UCPC)	€ 37,000	C 2005-06	FD	Benin
	Support to the Ministry of Industry and Commerce (MIC)	€ 42,000	IP 2005-07		Benin
	Support to Unions of Communal Cotton Producers (UCPC)	€ 2,300,000	PFS 2007-12		Benin, Burkina Faso, Mali
DK, F, GER, NL, SWE, UK	Support for the Cotton Initiative through negotiations at the WTO	€ 1,700,000	IP		C4