

IMPROVING AFRICA'S COTTON VALUE CHAIN FOR ASIAN MARKETS



IMPROVING AFRICA'S COTTON VALUE CHAIN FOR ASIAN MARKETS

Abstract for trade information services

ID= 43027

2013

SITC-263 IMP

International Trade Centre (ITC)
Improving Africa's Cotton Value Chain for Asian Markets.
Geneva: ITC, 2013. ix, 25 pages (Technical paper)
Doc. No. MAR-13-230.E

This study assesses the potential of African-Asian cotton trade using both, quantitative and qualitative information - provides a general overview of world cotton production and consumption, and the evolution of cotton trade from 2007-2008 to 2011-2012; reviews Africa's market position in cotton production and trade, the major challenges Africa is facing; highlights the need for improvements along the value chain that are necessary to meet Asia's growing demand; analyses the necessary and sufficient conditions to improve the marketing of African cotton; concludes with a review of ITC's action strategies that have been implemented to address these issues, discussing also some recommendations on partnership development between Asia and Africa.

Descriptors: **Cotton, Asia, Africa, Value Chain, International Trade, South-South Trade.**

For further information on this technical paper, contact Ms. Mariem Nouar (nouar@intracen.org)

English

The International Trade Centre (ITC) is the joint agency of the World Trade Organization and the United Nations.

ITC, Palais des Nations, 1211 Geneva 10, Switzerland (www.intracen.org)

Views expressed in this paper are those of consultants and do not necessarily coincide with those of ITC, UN or WTO. The designations employed and the presentation of material in this paper do not imply the expression of any opinion whatsoever on the part of the International Trade Centre concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

Mention of firms, products and product brands does not imply the endorsement of ITC.

This technical paper has not been formally edited by the International Trade Centre.

Digital images on the cover: © ITC; lower right corner photo © iStockphoto

© International Trade Centre 2013

ITC encourages the reprinting and translation of its publications to achieve wider dissemination. Short extracts of this technical paper may be freely reproduced, with due acknowledgement of the source. Permission should be requested for more extensive reproduction or translation. A copy of the reprinted or translated material should be sent to ITC.

Acknowledgements

This report is the result of a cross-sectional collaboration between Mariem Nouar in the Market Analysis and Research section (Part 1), Matthias Knappe in the Sector Competitiveness section (Part 2 and 3) and Eric Buchot in the Export Strategy section (Part 3) of the International Trade Centre (ITC). The study was produced on the occasion of WEDF 2012 in Indonesia and coordinated within the Market Analysis and Research section by Mariem Nouar.

The work on Part 1 was supervised by Yvan Decreux, Senior Market Analyst and Mondher Mimouni, Chief of the Market Analysis and Research section. Julia Spies, Associate Market Analyst, helped with the drafting of the publication. The authors would like to thank Anders Aeroe, Director of the Division of Market Development, for substantive comments and suggestions. Helen Lassen, Senior Market Analyst, is to thank for her support in drafting the introduction of the study.

The ITC Communications and Events team has helped in finalizing this publication.

Contents

Acknowledgements	iii
Acronyms	vii
Executive summary	ix
Introduction	1
Chapter 1 Overview of the world cotton market	2
1. World cotton supply	2
2. World cotton demand	3
3. Cotton trade	5
3.1. World exports	5
3.2. World imports	6
3.3. Overview of Indonesian cotton consumption and trade	7
4. Cotton prices	9
Chapter 2 African cotton	10
1. Africa's market position	10
1.1. African production	10
1.2. African exports	10
1.3. International competition	13
1.4. Yields	13
1.5. African cotton quality	14
2. Trade-related challenges of African cotton	15
2.1. Companies trading African cotton	15
2.2. The high price volatility and its impact on cotton trade	17
2.3. The role of banks in trading African cotton	18
3. Marketing of African cotton: the necessary and sufficient conditions	19
Chapter 3 ITC's role in developing the cotton sector in Africa	20
1. Regional sector strategy development	20
2. South-South cooperation	21
3. Spinner-ginner relationship building	22
Conclusions	24
Appendix African cotton producing country groups	25

Figure 1.	Cotton production by country in 2011-2012 (in millions of tons)	2
Figure 2.	Textile fibre consumption between 2007-2008 and 2011-2012	4
Figure 3.	Cotton consumption by country in 2011 (in millions of tons)	5
Figure 4.	Cotton exports by country in 2011-2012 (in millions of tons)	6
Figure 5.	Cotton imports by country in 2011-2012 (in millions of tons)	7
Figure 6.	Indonesian cotton suppliers in 2010-2011 (in thousands of tons)	8
Figure 7.	Indonesian consumption and imports between 2007-2008 and 2012-2013	8
Figure 8.	Cotlook A index evolution since September 1975, monthly averages	9
Figure 9.	African production between 2007-2008 and 2011-2012	10
Figure 10.	African cotton exports by country in 2011-2012 (in thousands of tons)	11
Figure 11.	African exports to Asia between 2007-2008 and 2011-2012	12
Figure 12.	Exports of top five African exporters to Asia between 2007-2008 and 2011-2012	12
Figure 13.	Africa's competitors in the Asian cotton market in 2011-2012	13
Figure 14.	Yield trends between 2001-2002 and 2011-2012	14

Acronyms

Unless otherwise specified, all references to dollars (\$) are to United States dollars, and all references to tons are to metric tons.

The following abbreviations are used:

AAACP	All African Caribbean Pacific Agricultural Commodities Programme
API	Asosiasi Pertekstilan Indonesia
ASEAN	Association of Southeast Asian Nations
Bt	<i>Bacillus thuringiensis</i>
CFR	Cost and freight
CDI	Cotton Distributors Inc.
CIF	Cost, insurance and freight
COMESA	Common Market for Eastern and Southern Africa
ECCAS	Economic Community of Central African States
ESA	Eastern and Southern Africa
EU	European Union
FOB	Free on board
FOT	Free on truck
GDP	Gross domestic product
ICA	International Cotton Association
ICAC	International Cotton Advisory Committee
ICT	International Cotton Trading
ITC	International Trade Centre
L/Cs	Letters of credit
T&C	Textile and clothing
USDA	United States Department of Agriculture
WAEMU	West African Economic and Monetary Union
WTO	World Trade Organization

Executive summary

The textile and clothing (T&C) industry is a key sector contributing to the economic growth of many developing countries. It is particularly important for Africa where raw cotton is among the top exports of a large number of African countries. Internationally, African raw cotton suffers, however, from a market perception of being of low quality (mainly related to contamination issues) which, combined with Africa's small world market share, reduces its price bargaining power in key markets. In addition, production subsidies of China and the United States, among others, distort the world price and make it even harder for African suppliers to compete.

This study assesses the potential of African-Asian cotton trade using both, quantitative and qualitative information. A general overview of world cotton production and consumption but also the evolution of cotton trade from 2007-2008 to 2011-2012 is presented. The study also analyses African cotton market share and identifies the major challenges Africa is facing, particularly in terms of improvements along the value chain. Finally this paper presents an overview of ITC action strategies that have been implemented to address these issues and discusses also some recommendations on partnership development between Asia and Africa.

African cotton producers face a number of challenges when exporting to Asian markets. There is particularly room for building stronger supplier-consumer ties and in reinforcing thereby the market positioning of African cotton.

African cotton companies and then also farmers face a number of obstacles that limit their export revenues. First of all, after the severe economic crisis that depressed global demand for cotton and subsequently also world production, the latter rebounded and reached a record of 27 million tons in 2011-2012. However, world cotton consumption is lagging behind, and since 2010-2011 consumption is lower than production. This trend has been considerably reinforced in 2011-2012. As a result, the international price for cotton has decreased over time, inducing some countries to raise their subsidies in line with price declines, which in turn has fuelled the price decline further.

Asia, where demand for cotton is strong and growing, imports predominantly come from India, the United States, Australia, and Brazil. Africa is a small player in the Asian market. Its cotton is also often perceived as being of low quality preventing African exporters from negotiating any premium on the declining international prices. Their small size forces them to trade via international merchants so that direct links between the seller and its client are non-existent. As a consequence, African exporters do not receive feedback as of whether their cotton meets the client's needs or not.

While much has already been achieved through supply-side assistance to improve the quality of African cotton, efforts are still needed to rebuild the sector's poor image in key markets. The International Trade Centre (ITC) supports in building direct ties between African cotton producers and Asian buyers to create opportunities for technical cooperation and knowledge transfer and to improve the reputation of African cotton with the aim of allowing producers to obtain a premium on the price of their cotton.

Introduction

The cotton textile industry is a key sector contributing to the economic growth of many developing countries but it is particularly important for Africa. Although the continent is a small player in world production terms, raw cotton is among the top exports of a large number of African countries. The sector provides income for food security, education, health, housing and transportation. African raw cotton suffers, however, from an often incorrect market perception of being contaminated which, combined with Africa's small world market share, reduces its price bargaining power in key Asian markets. In addition, production subsidies of China and the United States, among others, distort the world market price and make it difficult for African suppliers to compete.

This study reveals that while much has already been achieved through supply-side assistance to improve the quality of African cotton, efforts are needed to rebuild the sector's poor image in key markets. Building direct ties between African cotton producers and Asian buyers will enable to create opportunities for technical cooperation and knowledge transfer and to improve the reputation of African cotton with the aim of allowing producers to obtain a premium on the price of their cotton. The world's production of cotton is increasing and the industry is being transformed by new technologies that have improved cotton productivity and quality and have enabled the development of varieties that can be grown successfully under various climatic conditions. After the severe economic crisis, global demand for cotton started to increase in 2009-2010, which coupled with a low level of stocks, has stimulated production the next years. World cotton production has increased gradually until 2011-2012, thus reaching a higher level than consumption that was lagging behind.

Asian developing countries, and in particular China – the world's largest producer and exporter of textiles and clothing are importing cotton for the production of fabric.¹ The strong and increasing demand for cotton in Asian countries is accompanied by an insufficient domestic production capacity. It is therefore not surprising that in 2011-2012, the five largest cotton importers were Asian countries. Most Asian cotton imports originate from India, the United States, Australia, and Brazil, which account for around 80% of total imports. In comparison, Burkina Faso, the biggest African supplier, has a share of less than 2% of the Asian market. Despite the small market share, Asia is a key market for African cotton suppliers. Cotton is produced and exported by the majority of African countries and is a major economic sector for a few of them, particularly for Mali, Togo and Benin, among others.

A number of challenges currently prevent Africa's producers from accruing higher export revenues and from better positioning themselves in the Asian market. One major problem is falling prices. Many cotton producing countries and especially the European Union (EU) and the United States continue to grant subsidies to their cotton growers that substantially distort the market for cotton. Because African countries are relatively small players in the world cotton market, they have a limited impact on international cotton prices. In addition, spinning mills in Asia often perceive African cotton to be of inferior quality, which prevents producers from applying any premium on their cotton.

This study assesses the potential of African-Asian cotton trade using both quantitative and qualitative information. The first part presents a general overview of world cotton production and consumption but also the evolution of cotton trade from 2007-2008 to 2011-2012. The second part focusses on African cotton, its market share and the major challenges Africa is facing. This paper highlights the need for improvements along the value chain that are necessary to meet Asia's growing demand. It also presents an analysis of the necessary and sufficient conditions to improve the marketing of African cotton. Finally, in the third part, an overview of ITC action strategies that have been implemented to address these issues is provided, discussing also some recommendations on partnership development between Asia and Africa.

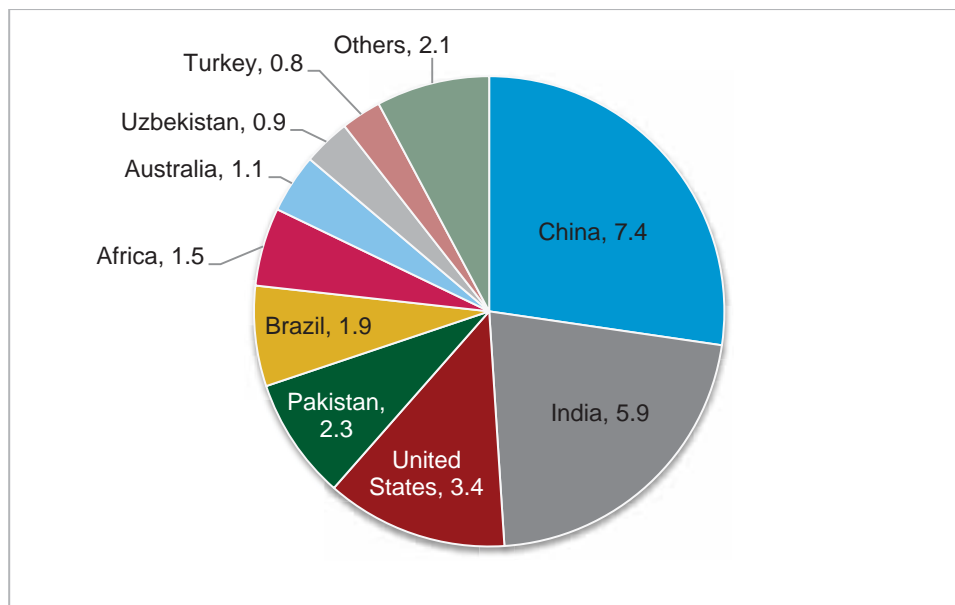
¹ In 2011, the output value of the textile industry accounted for 7% of China's gross domestic product (GDP). Since 2009, the Chinese Government supports the textile industry with export rebates, exemptions and reductions of exit and entry quarantine fees. This stimulation of domestic demand has enlarged the market and will certainly provide development opportunities in the future.

Chapter 1 Overview of the world cotton market

1. World cotton supply

While cotton producing countries are numerous, world production is dominated by a few of them as shown in Figure 1. In 2011-2012, China produced 7.4 million tons (27%), India 5.9 million tons (22%) and the United States 3.4 million tons (13%) of cotton. Total production by these three countries has fluctuated since 2007-2008 between 62% and 67% of the world's total.

Figure 1. Cotton production by country in 2011-2012 (in millions of tons)



Source: ITC staff calculation based on ICAC data.

World cotton production has quadrupled since the 1950s. After high growth rates in the 1950s and 1960s, the 1970s were marked by a deceleration due to slower world economic growth and limited gains in cotton yields. In the 1980s, thanks to an increasing use of improved seed varieties and methods of plant protection, production surged to reach 19 million tons in 1984-1985. Diseases and resistance to pesticides caused yields to stagnate during the early 1990s. Starting in 1996, the use of biotech cotton (also called Bt cotton)² varieties and the expansion of the world cotton area resulted in a renewed upswing of world cotton production.

Recently, world cotton production has been characterized by large fluctuations. While in 2007-2008, the world production level was at 26.1 million tons according to the International Cotton Advisory Committee (ICAC), it has decreased to 22 million tons in 2009-2010. The turmoil in world financial markets is a major reason for this disappointing performance: tight credit conditions and low cotton prices were an obstacle to cotton planting in Brazil for instance. Other factors comprise high input prices at planting time, and increased returns on competing crops, such as food grains and oilseed production. Indeed, globally the harvested cotton area declined by 7% in 2008-2009 compared to the previous year. In addition, world average yields decreased by 3% and 5% during the first and second year of the crisis primarily due to unfavourable weather conditions around the world.

² Biotech cotton is a variety of cotton that has been genetically modified to produce a protein, originally produced by the *Bacillus thuringiensis* (Bt), that is a natural insecticide.

Given China's large role in the cotton world, world cotton production is to a great degree driven by Chinese production, which declined in 2009-2010. In 2009-2010, cotton growers reduced the area dedicated to cotton due to the rise in production cost and the increase of subsidies to grain producers. Increased market prices, improved access to credit and favourable growing conditions caused production to rebound in 2010-2011. Particularly in China and India, extraordinary high world market prices resulted in an enlarged production area and consequently, world cotton production peaked at 27.3 million tons in 2011-2012. It is expected to balance at 25.5 million tons in 2012-2013 (ICAC, October 2012), as a result of lower prices, rising production costs and a high attractiveness of grains and soybeans.

Direct support to cotton production, 2010-2011

- 1) EU: US\$ 368 million (+4.2%)
- 2) China: US\$ 329 million (-84%)
- 3) United States: US\$ 319 million (-29%)
- 4) Turkey: US\$ 306 million (+17.7%)
- 5) Colombia: US\$ 9 million (-59%)

World total: US\$ 1.33 billion (-58%)

Source: ICAC.

Note: percentages refer to variation from previous year.

The world cotton market is distorted by large subsidies that some countries grant to their cotton exporters. In 2010-2011, these producing countries provided a total of US\$ 1.33 billion in subsidies (box). The EU came first in terms of subsidies that year but it is accountable for less than 1% of world production. China, which used to be the largest supporter of cotton production, dramatically reduced its subsidies in 2010-2011, so that it ranked second that year. The United States came third but its impact on the world market is more visible as it is the largest exporter.³

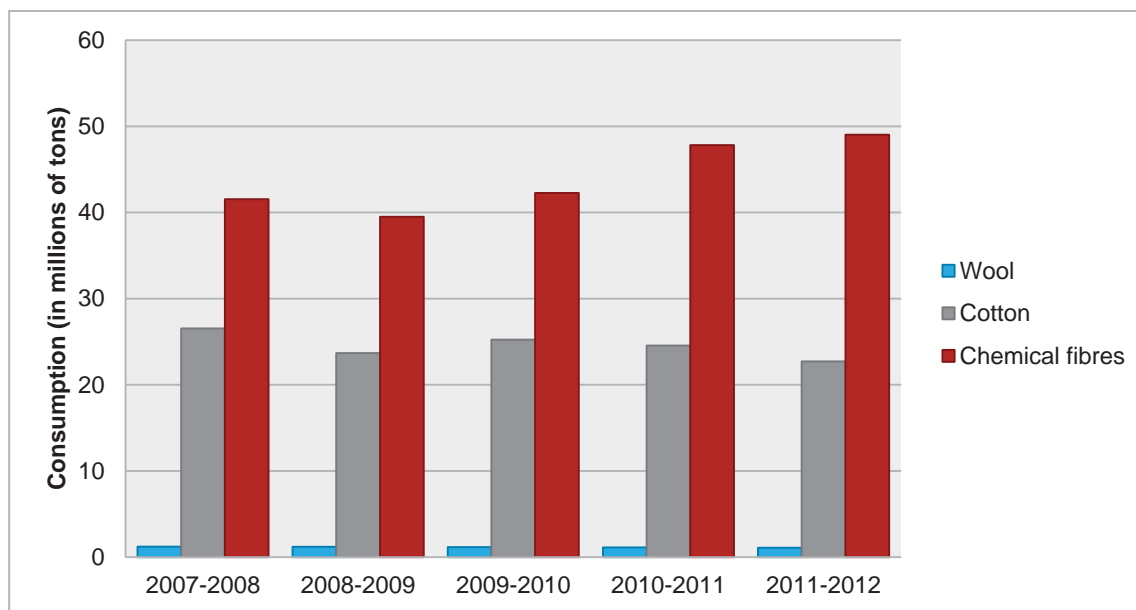
2. World cotton demand

World cotton production is demand-driven. Given that spinning mills are the main customers of cotton, its evolution largely depends on the growth of the T&C industry. As a result of population and economic growth, world textile fibre consumption is nowadays nine times higher than in the 1950s.

Cotton used to have a dominant share of the textile market until the beginning of the 1990s. Although cotton fibre was already losing market shares to the benefit of polyester, its consumption still increased in absolute terms until 2007-2008. But since 2007-2008, demand started to decline mainly due to the overall global economic slowdown. Subsequently, production declined and demand partially switched to polyester (Figure 2).

Whereas cotton mill use registered a decline of 10.7%, chemical fibres registered a decline of only 4.9%. In 2009-2010, global cotton demand resurged as China announced to release import quotas and raised its cotton consumption by 9% compared to the previous year. However, this recovery was interrupted in the following years as China's demand for fibre weakened and thus global mill use declined again. One potential reason for the decline in Chinese, and more largely in Asian mill use, were lower export orders for finished apparel goods from developed economies like the EU and the United States, which suffer from a combination of stagnating economic growth and rising apparel prices. Overall, between 2007-2008 and 2011-2012, world cotton consumption decreased by 14%, falling to 22.8 million tons. As a consequence, production has surpassed global mill use since 2010-2011.

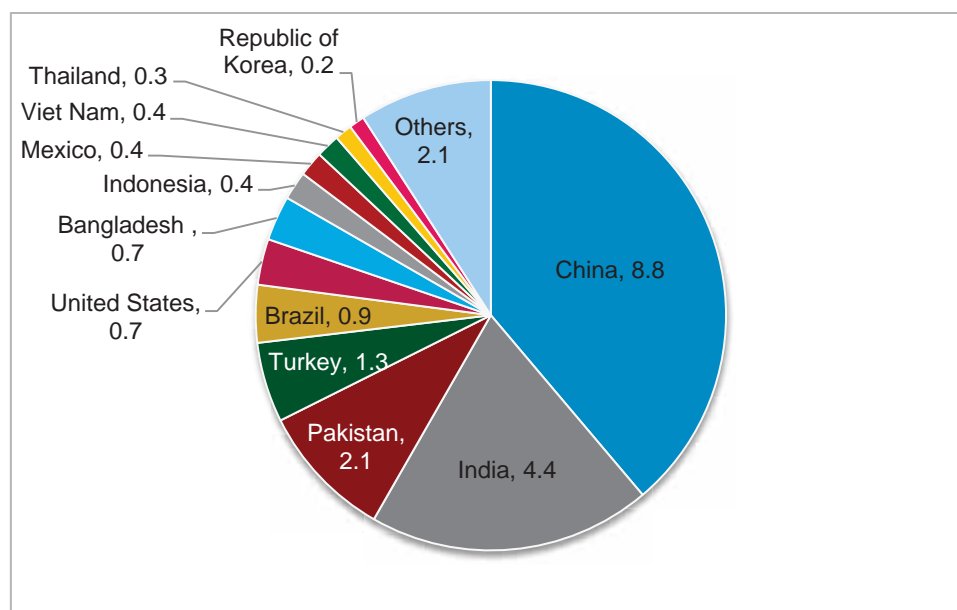
³ In fact, Brazil, supported by four African cotton producers, namely Benin, Burkina Faso, Chad and Mali, which are known as the Cotton-4, brought the United States to the World Trade Organization (WTO) Dispute Settlement Body in 2002. In order to comply with trade rules of WTO, the need to reform the Farm Bill in the United States has become urgent.

Figure 2. Textile fibre consumption between 2007-2008 and 2011-2012

Source: ITC staff calculation based on ICAC data.

Cotton processing has continuously shifted from developed countries to developing countries. High cost structures and increased import competition from developing countries prompted cotton textile industries in many industrialized countries to reduce their production in the early 1990s. At the same time, there is a trend of concentration to a few countries including, China, India, Pakistan and Turkey that have expanded their mill use. The major reason of this shift was the dismantling of the Multifibre Arrangement, which governed the world trade in textiles and clothing from 1974 until 2004. The phaseout of the quota starting from 1995 accelerated the abandonment of cotton production in developed countries. Since 1998, these four countries, dominated by China, have contributed most to the growth of cotton demand. China's textile industry is heavily dependent on the export market, and China has significantly increased its share in world exports of T&C.

The increasing importance of China as a cotton processor and textile exporter is also well reflected in its consumption. As Figure 3 shows, China accounts, with 8.8 million tons, for the biggest share of world cotton consumption (39%), followed by India (19%) and Pakistan (9%).

Figure 3. Cotton consumption by country in 2011 (in millions of tons)

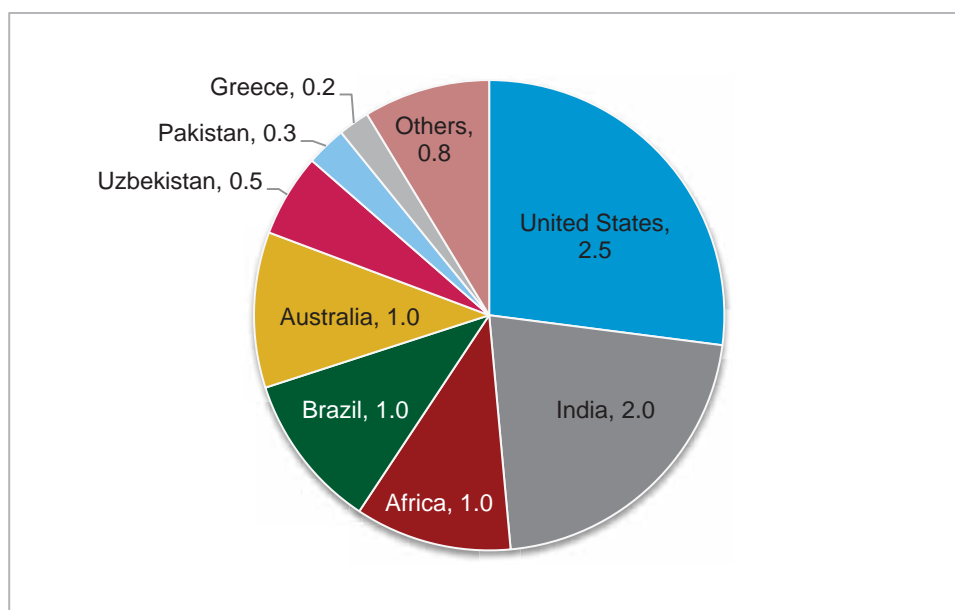
Source: ITC staff calculation based on ICAC data.

3. Cotton trade

3.1. World exports

The subsidies granted by some governments also affect the level and geographical distribution of world exports. Subsidising countries such as China and the United States are among the largest cotton producers in the world. However, unlike China, the United States consumes only a small fraction of its own production (21% in 2011-2012). Because the large surplus goes to international markets, the United States has been the largest cotton exporter for many years. Figure 4 illustrates that the top four exporters, the United States, India, Brazil and Australia, contributed to approximately 70% of world cotton exports in 2011-2012.

Out of the top eight cotton producers, China is the only country which is not ranking also among the top eight exporters. The reason is that the country absorbs its entire production for the domestic textile industry. In 2011-2012, China exported only 0.5% of its total production, corresponding to 37,000 tons of specific cotton fibres. Also, domestic cotton prices are high compared to world market prices and do not allow the Chinese cotton to be competitive on the international market. Turkey, which was the ninth biggest world producer in 2011-2012, exported less than 1% of its production, and is therefore not among the world's largest exporters.

Figure 4. Cotton exports by country in 2011-2012 (in millions of tons)

Source: ITC staff calculation based on ICAC data.

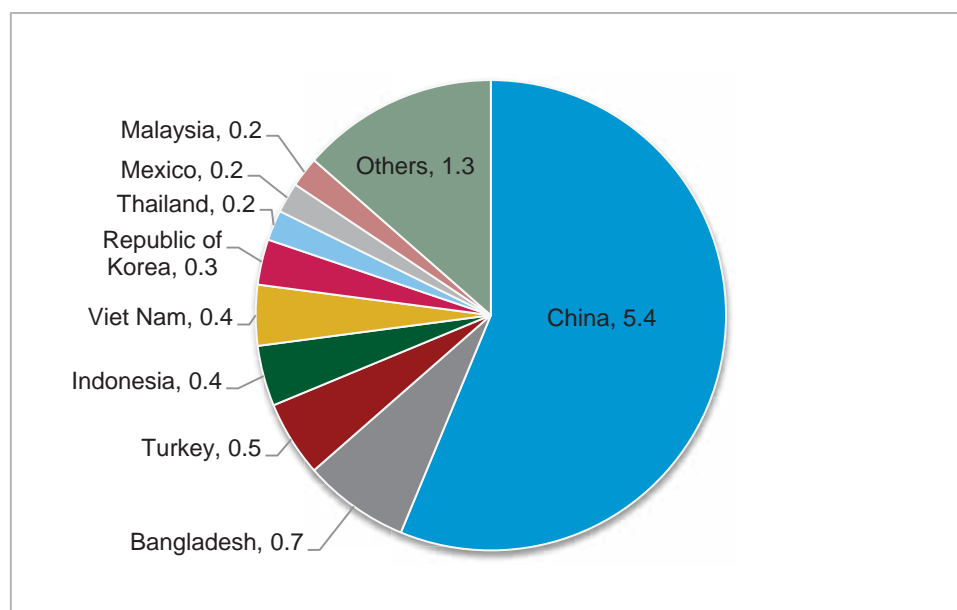
World exports of cotton increased from 8.4 million tons in 2007-2008 to 9.7 million tons in 2011-2012, which represents an average growth of 3.8% per year over the period. However, the period is characterized by fluctuations. In 2008-2009 for instance, in response to the reduction in mill use, global cotton exports fell to 6.6 million tons, the lowest volume since 2002-2003. Exports rebounded the following years, and reached a record volume in 2011-2012 as a consequence of rising production levels in several countries.

3.2. World imports

Since the end of the 1990's, due to the fast growth of the T&C industry, cotton imports have increased sharply by more than 55%. China was by far the largest importer in 2011-2012, as a result of its production (7.4 million tons) being smaller than its consumption (8.8 million tons), but also because it had started a stockpiling campaign aimed at shoring up domestic prices⁴, combined with an increase of import quotas. Meanwhile, China benefited from cheaper import prices for cotton as compared to previous seasons. This resulted in a highly concentrated market during this specific season: China was by far the largest cotton importer in 2011-2012 with 5.4 million tons, accounting for 56% of world imports (Figure 5). However, the 2011-2012 campaign was considered as unusual for the aforementioned reasons. Indeed, during the previous campaigns (except for 2004-2005), China was importing between 1.8 and 2.8 million tons of cotton lint. As a result of their structural production deficits, Bangladesh, Turkey and Indonesia were the largest cotton importers after China.

While China's imports grew strongly at 18% p.a. between 2007-2008 and 2011-2012, Bangladesh and Turkey experienced declining imports over the same period (-4% p.a. and -8% p.a., respectively). While Bangladesh imported 758,000 tons of cotton in 2007-2008, the country imported only 650,000 tons in 2011-2012. Similarly, Turkey's imports decreased from 711,000 to 500,000 tons.

⁴ 42% of the 2011-2012 Chinese cotton crop was bought by the China National Cotton Reserve Corporation between October 2011 and March 2012.

Figure 5. Cotton imports by country in 2011-2012 (in millions of tons)

Source: ITC staff calculation based on ICAC data.

3.3. Overview of Indonesian cotton consumption and trade

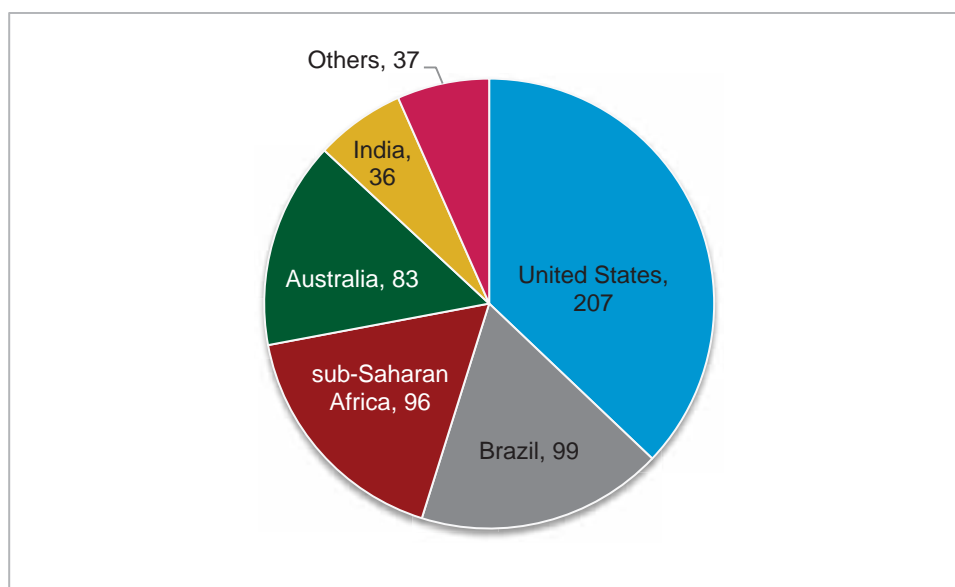
Indonesia's T&C industry plays a significant role in the country's economy and is largely export-oriented. In 2011, it exported textiles and clothing worth US\$ 10.1 billion, and directly or indirectly employed 1.4 million people or just over 10% of the entire industrial workforce of the country. While Indonesia is a significant clothing and textile exporter, it accounts only for a marginal fraction of world cotton production. The country produced only approximately 6 thousand tons in 2011-2012.

In spite of the important role the T&C industry plays for the domestic economy, Indonesia's cotton consumption represents merely 2% of the world's total. This is mainly due to two developments: first, Indonesia's cotton consumption has paralleled the global downward trend since 2007-2008 and fell to 444 thousand tons. Second, the share of cotton in Indonesia's total fibre demand has decreased to 37%.

Yet, to meet the needs of its T&C industry, Indonesia has to massively import cotton and tap into its stocks. The country imports 98% of its consumption. Indonesia has ranked fourth among the importing countries since 2007-2008. In addition to Indonesia's lower cotton consumption, the United States Department of Agriculture (USDA) explains that the decline in Indonesian cotton imports was also due to the international cotton price volatility during 2011. As a result, Indonesia imported only 433,000 tons of cotton in 2011-2012, accounting for 4.6% of world cotton imports.

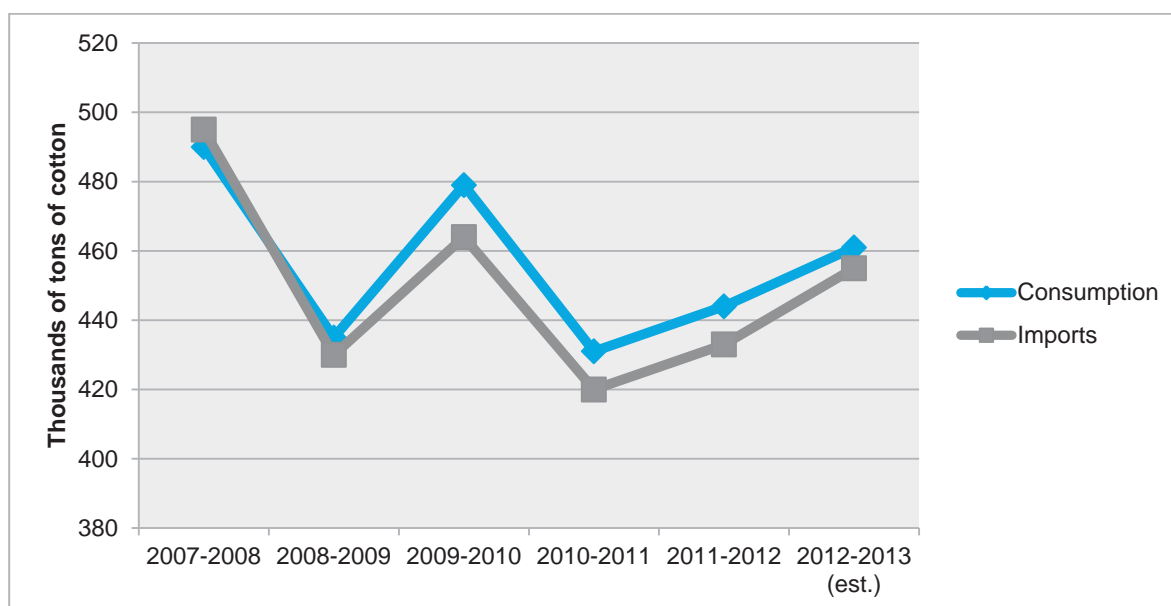
As Figure 6 indicates, most Indonesian cotton imports originate from the United States (37%), Brazil (18%), sub-Saharan Africa (17%) and Australia (15%). ICAC statistics reveal that Indonesian's top 20 suppliers have accounted for about 90% of national imports since 2002.

Figure 6. Indonesian cotton suppliers in 2010-2011 (in thousands of tons)



Source: Global Trade Atlas. Note: detailed information on cotton suppliers was not available for the 2011-2012 campaign.

Figure 7. Indonesian consumption and imports between 2007-2008 and 2012-2013



Source: ITC staff calculations based on ICAC data.

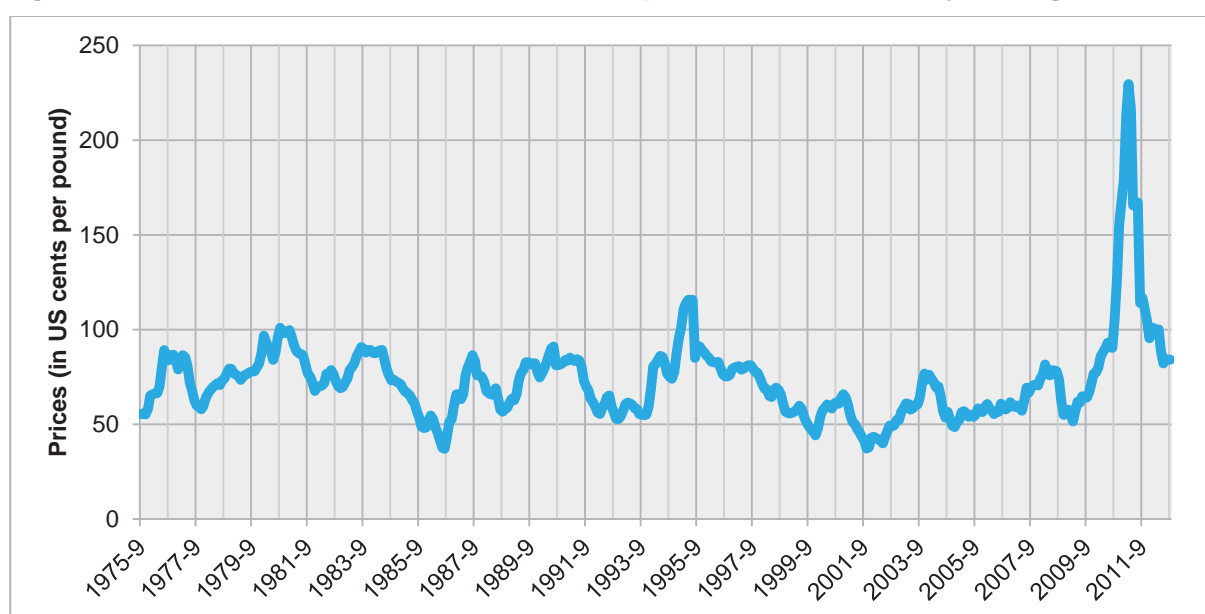
The T&C sector association API⁵ is very optimistic about its future predictions for the industry. For 2015, API predicts exports worth US\$ 19 billion, destined amongst others to fast-growing markets of the Association of Southeast Asian Nations (ASEAN), and another US\$ 13 billion of domestic sales. With an expanding export market and increasing domestic sales of textiles and clothing, cotton fibre consumption is likely to increase again. ICAC forecasts a growth of Indonesian cotton consumption of 3.8% in 2012-2013 compared to 2011-2012, corresponding to a demand of 461,000 tons. As Figure 7 indicates, cotton imports are also expected to grow by 5.1% compared to the current level, hence amounting to 455,000 tons. Given these projections, Indonesia will become an even more important market for sub-Sahara African cotton exports in the future.

⁵ API stands for Asosiasi Pertekstilan Indonesia, the Indonesian textile association.

4. Cotton prices

Compared to the high volatility of commodity prices in general, the international price of cotton has been relatively stable over the long term. Figure 8 shows that the Cotlook A index, an indicator of world cotton prices has fluctuated mostly within the 50-100 cents range, averaging just below 70 cents per pound over the past 36 years. Nevertheless, increased cotton supply due to technological progress as well as competition from other fibres, have introduced a downward trend. While the index was at 74 cents per pound over the period from 1973-1974 to 1997-1998 on average, it fell to 56 cents over the period from 1998-1999 to 2006-2007. To compare, the United States' Consumer Price Index increased by 367% between 1973 and 2007, meaning that the price of cotton relative to other consumer goods has strongly declined over the last four decades. Despite the overall decrease of cotton prices, there has been a recent peak in March 2011 at 229.6 cents per pound (monthly average). Very tight stocks at the end of 2010-2011 and anticipated shortages fuelled cotton prices. Thereafter, prices tumbled until August 2012 as global cotton stocks rose, and have continued to slightly decrease since (Figure 8).

Figure 8. Cotlook A index evolution since September 1975, monthly averages



Source: Cotton Outlook. Prices are in current US\$.

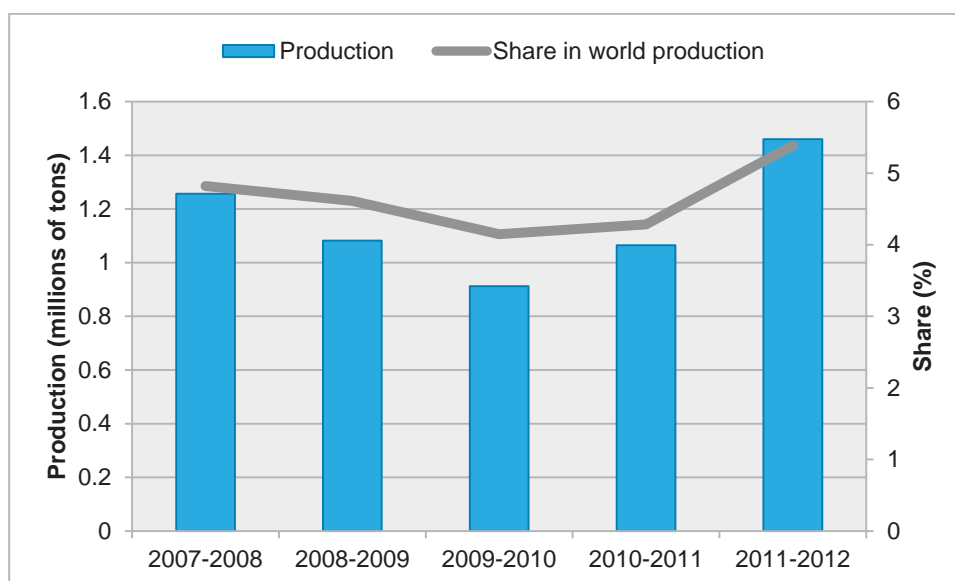
Chapter 2 African cotton

1. Africa's market position

1.1. African production

Overall, 37 out of 55 African countries produce cotton. However, when taken as a whole, Africa is a relatively small producer. In 2011-2012, the largest African producers were Mali, Egypt and Burkina Faso with a total production of 519,000 tons altogether, accounting for 36% of total African production. Cotton is a critical crop for some African countries, in which it accounts for a significant proportion of GDP or total exports. For instance, in 2011, 48% of Mali's, 31% of Togo's and 16% of Benin's exports in value were based on cotton. Figure 9 shows that Africa contributed only 5.4% to world production in 2011-2012 with a total volume of 1.46 million tons. Even though production has increased by 16.1% between 2007-2008 and 2011-2012, there was a sharp drop in the aftermath of the economic crisis, when production volumes reached only 912,000 tons. The expansion of African production was mainly driven by a large increase of the area devoted to cotton (especially in francophone Africa) rather than by rising yields. The rise in seed cotton prices paid to farmers for the 2009-2010 and 2010-2011 campaigns, combined with heavy government subsidies for inputs (fertilizers and pesticides) contributed to the expansion of cultivated areas in this region of Africa.

Figure 9. African production between 2007-2008 and 2011-2012



Source: ITC staff calculation based on ICAC data.

1.2. African exports

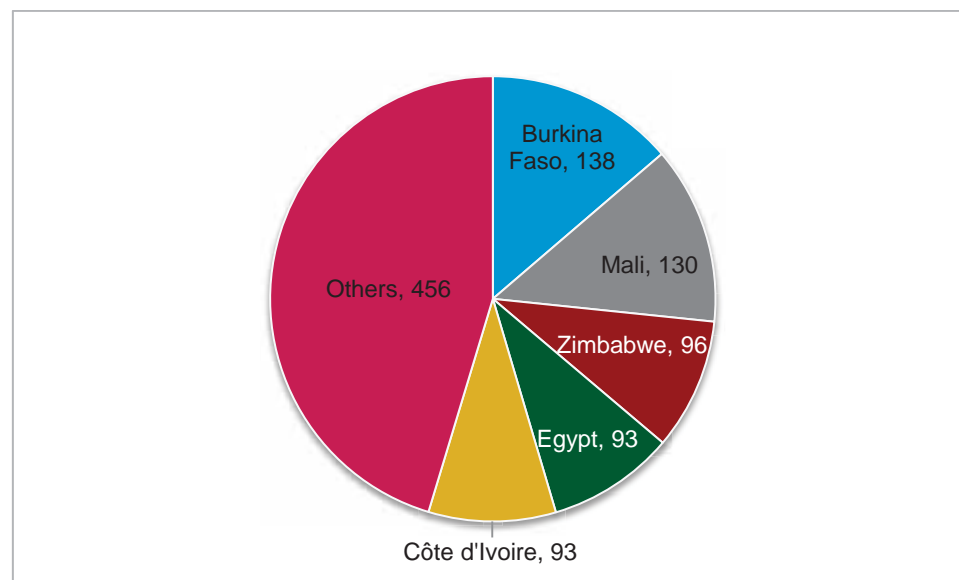
According to ICAC, Africa is a marginal player in terms of cotton processing with an industrial cotton consumption of 316,000 tons in 2011-2012, which represented less than 1.5% of the global world mill consumption. African consumption of cotton has been steadily declining since 2007-2008 (-67%). At the regional level, North Africa is the largest consumer of cotton, with a consumption of 155,000 tons in 2011-2012. This volume represents 69% of its production. The second largest consumer is Eastern/Southern Africa whose consumption reached 144,000 tons, i.e. only 26% of its production. Finally, francophone Africa, consumed 17,000 tons of cotton in 2011-2012, which corresponds merely to 2.5% of its regional production.

As a result of the low and declining cotton consumption, the continent exported almost 70% of its cotton production and was the third largest exporter in the world in 2011-2012. Africa exported one million tons

(11% of world exports) of cotton to the world in 2011-2012, which is equivalent to its level of exports in 2007-2008. However, exports fluctuated over the period with a low in 2008-2009 when only 816,000 tons were exported.

The five major African exporting countries in 2011-2012 were Burkina Faso (138,000 tons), Mali (130,000 tons), Zimbabwe (96,000 tons), Egypt (93,000 tons) and Côte d'Ivoire (93,000 tons) as shown in Figure 10.

Figure 10. African cotton exports by country in 2011-2012 (in thousands of tons)



Source: ITC staff calculations based on TradeMap data.

Exports to Asia

Africa has exported 666,000 tons of cotton to Asia in 2011-2012, down from 681,000 tons in 2007-2008. Figure 11⁶ shows, however, that the past five years were marked by ups and downs.

Out of the top 5 African cotton exporters, namely Burkina Faso, Mali, Zimbabwe, Egypt and Côte d'Ivoire, only Zimbabwe does not also rank among the top African exporters to Asia. The reason for that is that Zimbabwe exports mainly to South Africa but also to the United Kingdom, the United Arab Emirates and Lesotho (compare Figure 10).⁷

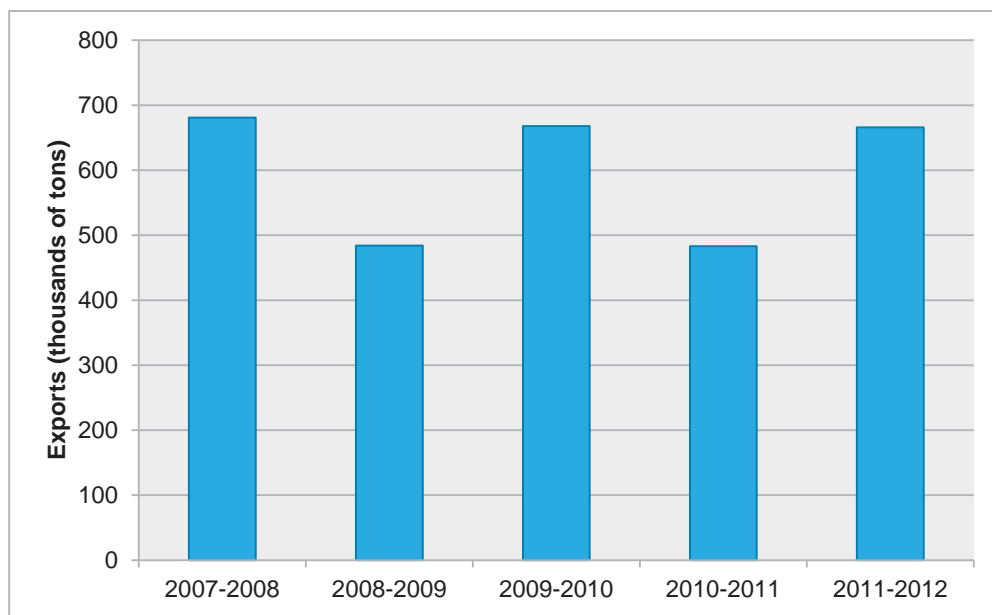
Figure 12 depicts the evolution of exports for the five largest African exporters to Asia – Burkina Faso, Mali, Benin, Côte d'Ivoire and Egypt. They accounted for 65% of African cotton exports to Asian markets. Figure 12 shows that all five cotton exporters were hit by the crisis in 2008-2009 but experienced a recovery thereafter. Benin is the only country which has not expanded its export volume (due to lower production levels) over the time period considered and has therefore lost its rank to Mali as Africa's second biggest cotton exporter to Asia.

Most African exports to Asia centre around the top cotton consumers, namely China, Indonesia, and Thailand.

⁶ Calculations on exports have been made on the basis of 12 Asian reporting countries' data: Bangladesh, China, Hong Kong (China), India, Indonesia, Japan, the Republic of Korea, Malaysia, Chinese Taipei, Thailand, Turkey and Viet Nam (TradeMap, ITC).

⁷ Exports to the United Kingdom and the United Arab Emirates are mainly to international traders based in these countries.

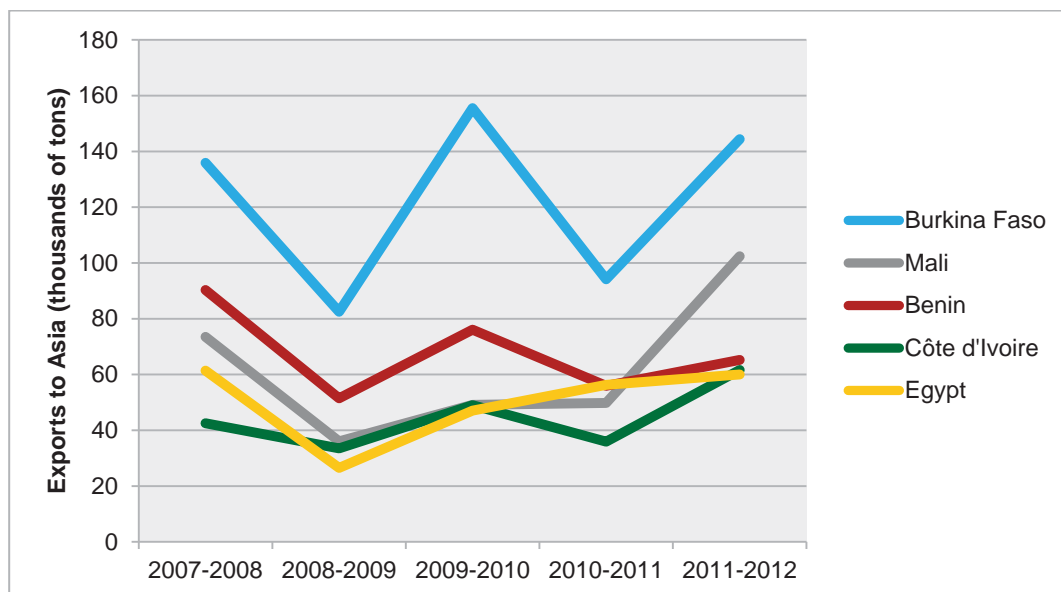
Figure 11. African exports to Asia between 2007-2008 and 2011-2012



Source: ITC staff calculations based on TradeMap data.

Note: data are mirror statistics as reported by 12 Asian countries.

Figure 12. Exports of top five African exporters to Asia between 2007-2008 and 2011-2012



Source: ITC staff calculations based on TradeMap data.

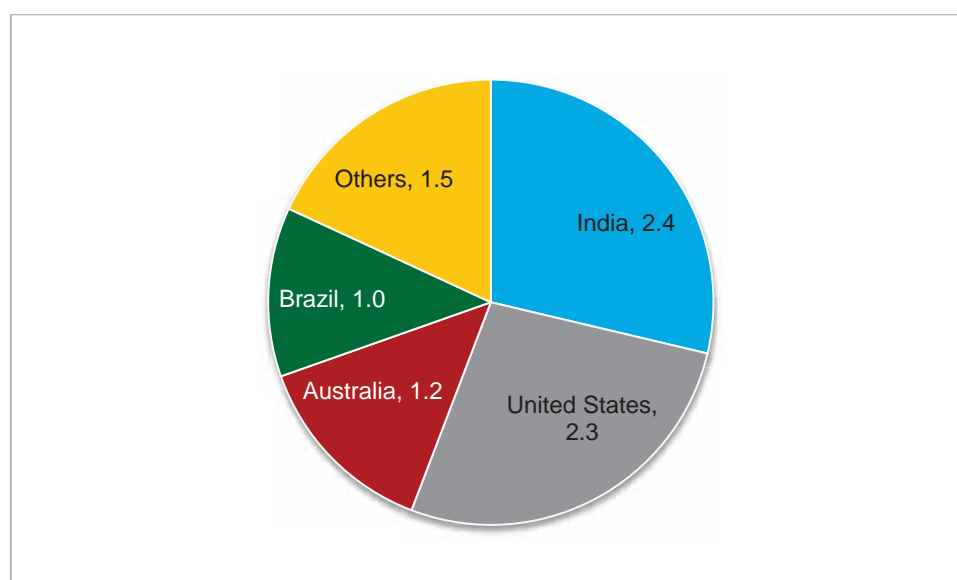
1.3. International competition

The main competitors for African cotton in the Asian market are India, the United States, Australia and Brazil as shown in Figure 13.⁸ They accounted in 2011-2012 together for 82% of the market. The first African country to appear in the list is Burkina Faso, accounting for less than 2% of Asian cotton imports.

Africa's share in world exports in general and its market share in Asia in particular are low because Africa's production level is relatively low. Growing and ginning cotton are seasonal activities, whereas spinning and textile industries operate all the around year. Therefore, producers/ginners offer cotton rarely at the same period as mills wish to buy, and mills do not want to buy when the producers want to sell. In addition, long storage periods are costly and do not pay off for small quantities that African producers can provide. Mills therefore use African cotton only when it is available and usually in a mix with cotton of other origins so as to maintain the same quality standards over the year.

Thus, unless Africa becomes able to produce more cotton it will not be able to capture more market share or play a more important role in international cotton trade.

Figure 13. Africa's competitors in the Asian cotton market in 2011-2012



Source: ITC staff calculation based on Cotton Outlook and USDA data.

1.4. Yields

One of the reasons of low African production is low yields. African cotton yields are the lowest in the world. The average yield of cotton in Africa stood at 355 kg of lint/ha in 2011-2012, much less than the world average of 750 kg of lint/ha (Figure 14). In 2011-2012, while francophone African countries in West and Central Africa had an average yield of cotton lint per hectare of 364 kg, Eastern and Southern African countries produced only 229 kg/ha. In fact, African cotton yields have been declining over the last 10 years by almost 30%, while world average cotton yield was increasing. The highest cotton yields can be found in Australia with 1,800 and Israel with 1,930 kg/ha. In Turkey, yields of 1,384 kg/ha are achieved on average without the use of Bt cotton.

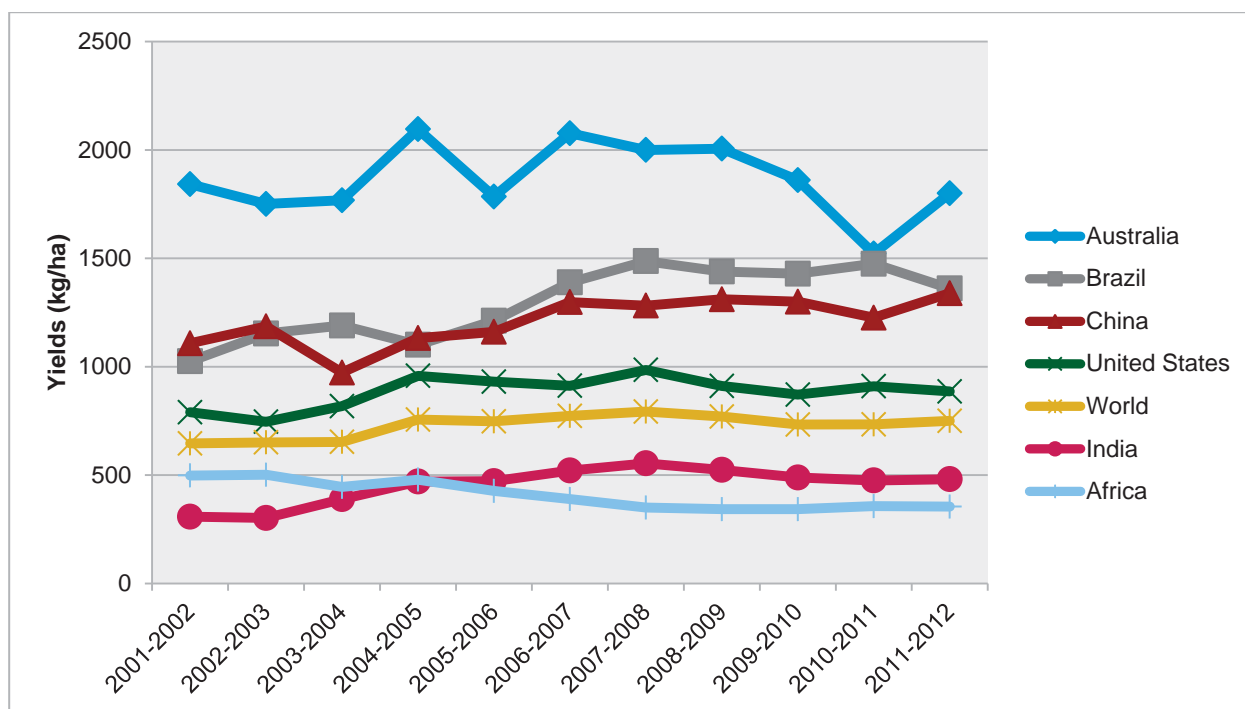
Several reasons explain why yields in Africa have stagnated in recent years, which include the lack of access to inputs, inadequate research and a low rate of technological innovation. Moreover, all sub-Saharan African cotton is cultivated under pluvial conditions, as no irrigation schemes exist. However,

⁸ On the basis of 12 Asian importing countries' data: Bangladesh, China, Hong Kong (China), India, Indonesia, Japan, the Republic of Korea, Malaysia, Chinese Taipei, Thailand, Turkey and Viet Nam (TradeMap, ITC). They imported 8.4 million tons of cotton in 2011-2012.

during 2011-2012, periods of drought have hit Eastern and Southern African countries, contributing to the deterioration of yields, while in francophone Africa, better weather conditions have boosted yields (+7%) the same year.

Cotton farmer sales revenues increase with higher sales and/or higher prices for seed cotton. To increase cotton yields and production, it is necessary to increase seed quality. For this, applied research in new varieties is important. It is equally important to invest in good agricultural practices, integrated pest management and other aspects to improve field management from planting to harvesting.

Figure 14. Yield trends between 2001-2002 and 2011-2012



Source: ITC staff calculation based on ICAC data.

1.5. African cotton quality

Africa has a natural advantage to grow cotton, a tropical plant. Raw cotton is not a homogeneous product. There are many different types of cotton, referred to as growths or varieties, with distinct characteristics that determine the use of the cotton, and thus, also its value.⁹ Yet, African cotton is relatively homogeneous due to similar growing conditions despite the fact that most cotton is grown without irrigation by small farmers. Nevertheless, variability within bales is greater than in developed countries because the production of several farmers can be mixed in a single bale.

The quality of cotton lint¹⁰ is an important parameter for its competitiveness in world markets. Fibre properties affect textile processing performance, quality, costs and value. Price differentials (premiums or discounts for quality) vary widely. Traditionally, the price of cotton was largely determined by factors such as staple length, grade, colour and micronaire. Those factors are still the major determinants of price, but new technologies in the textile industry place increasingly severe technical demands on textile fibres, raising the importance of other properties of cotton: strength, uniformity, maturity, fineness, elongation, neps, short fibre content, spinning performance, dyeing ability and cleanliness.

⁹ Cotton fibre represents about 50% of the cost of yarn and there is a direct correlation between specific quality characteristics of the fibre and those of the yarn.

¹⁰ The quality of cotton is its ability to satisfy the stated or implied needs of its users (the spinners).

The fibre properties of most African upland cotton are above those of the medium grades used in the calculation of the Cotlook A Index, the benchmark for international cotton prices.¹¹ Most African upland cotton is suitable for the medium-high level of ring spinning (combed yarns) although they do not always match the specifications required for the production of finer ring spun combed yarns. However, contamination of lint by foreign matters (metal, wire, stone, wood, oil, insects, hair, yarns, polypropylene, etc.) is the most serious problem confronting cotton spinners around the world, and it is crucial for pricing. In principle, handpicked cotton, such as African, cotton should be cleaner than machine-picked cotton and produce fibre with better characteristics. However in practice, seed cotton is handpicked in countries with inappropriate infrastructure and tools for storage, handling or transport, so that handpicked cotton becomes more contaminated eventually. As a consequence, African handpicked cotton trades at a discount to machine-picked cotton.¹²

Contamination found in cotton increases the production costs for spinning factories. Costs go up as factories will need to hire more staff to clean manually; however, this is not enough to secure a clean yarn. Therefore, quality conscious factories also invest in special contamination detection equipment in the blow room and in the yarn formation stage. Despite these investments, factories cannot be fully assured that contaminants could not find their way into the yarn. Should their clients (i.e. fabric and garment manufacturers) detect contaminated yarns, for example during the dyeing stage, the spinning mill will be confronted with high compensation costs, which are usually calculated on the basis of forgone sales at the retail level.

In order to avoid such drastic compensation claims, which can go into millions of US\$, spinners prefer to use cotton that they believe is cleaner than others. Unfortunately, the perception prevails that African cotton is more contaminated than other cotton, despite immense progress made. The best perceived quality in terms of cleanliness is attributed to the cotton coming from Australia, the United States and Brazil. Therefore, addressing contamination in African cotton stands out as the first priority for quality improvement. Nonetheless, a reputation for high contamination is difficult to overcome.

Cotton prices are not solely determined by the intrinsic fibre properties and lint cleanliness, and the perception about contamination. Other criteria, such as reputation and other marketing factors generally not included in contracts, have an influence on prices. Trust and reputation matter in the cotton business. Premiums and discounts that are attached to international cotton derive partly from the reputation of national origins, and prices are influenced by the way cotton is marketed and shipped. The market rewards origins and shippers that have strong records of delivering according to quality standards and with consistency, while respecting contract terms. However, most African cotton is still classed through visual and manual inspections, while major competitors are classing all their bales by instrument, which enables testing for cotton fibre properties. Shipments of African upland cotton are considered less reliable and have longer transit times than those of their major competitors. They lack homogeneity and consistency in terms of quality and packaging. Buyers frequently complain about the poor condition of bales upon arrival.

As the reputation of a given origin and the efforts to improve quality have an important effect on cotton prices, Africa needs to improve its quality image to advance its market position.

2. Trade-related challenges of African cotton

2.1. Companies trading African cotton

International cotton merchants play a leading role in the trading and marketing of African lint. Until the mid-1980s, most lint produced in Africa was sold by national cotton companies and marketing boards to international merchants or to spinners through commissioned agents. Until the mid-1990s, cotton from West and Central Africa was sold directly to end-users through an exclusive sales agent.¹³ Nowadays,

¹¹ Staple length is the most important cotton fibre property in ring spinning, and most African production now reaches the typical benchmark of 1-1/8 inch (2.86 cm).

¹² In theory, seed cotton picked by hand is cleaner, and the fibre obtained has fewer neps and a lower short fibre content than cotton picked by machine, which must be cleaned more vigorously because it has more plant residues.

¹³ Compagnie Cotonnière (COPACO), Paris.

African ginning companies do not sell lint directly to export markets.¹⁴ Independent ginners sell lint to international cotton merchants, while ginning companies affiliated with such merchants sell lint to or through their mother companies.¹⁵ Some 15 international cotton trading firms, including the world's largest cotton merchants, are active in Africa as shown in the following table.

International companies trading African cotton

Cotton trading firms ¹⁶	Country (headquarter)	Affiliated ginning in Africa
Louis Dreyfus Commodities	Netherlands	
Cargill Cotton	United Kingdom	X
Olam International	Singapore	X
Paul Reinhart	Switzerland	X
Ecom Agroindustrial	Switzerland	
Plexus Cotton	United Kingdom	X
Toyoshima	Japan	
Otto Stadlander	Germany	
Devcot	France	
Mambo Commodities	France	
Noble Resources	Singapore	
ICT (International Cotton Trading)	Switzerland	
Copaco	France	X
Agrocorp International	Singapore	
Glencore	Switzerland	
CDI (Cotton Distributors Incorporated)	Switzerland	

Source: ITC.

Vertical integration between traders and ginners/exporters has increased. In order to supply spinners with the large volumes of lint they require on a regular basis, major international cotton trading companies have developed relationships with African exporters and invested directly in ginning operations. By and large, most cotton from Africa is actually bought by international merchants rather than marketed/sold by ginners. African countries have very little active promotion of their cotton.

International cotton merchants follow a marketing policy that links cotton producers with spinning mills worldwide. Their aim is to develop and maintain long-term relationships with reliable quality-focused spinning mills by supplying premium cottons, on time, and in accordance with the customers' needs. For them, the origin of cotton does not play an important role. Other aspects such as quality parameters, availability or government support play a more important role in their marketing strategies. International merchants thus promote their services and knowledge of cotton-producing regions, and their ability to deliver the right mix to individual spinners rather than promoting a specific origin, let alone African cotton.

International cotton merchants take advantage of asymmetric information in their transactions, on both sides, such when they buy cotton from African ginners and when they resell it to the Asian spinners. This is because they have more information than the sellers (ginners) on the market, and have also more information than the buyers (spinners) on African cotton production. By contrast, independent ginners have little knowledge of the world cotton market, and usually receive very little market information through merchants. As lint is sold free on truck or free on board to international merchants, ginners are ignorant about the actual selling price of their lint as well as intermediary costs. Therefore, the cotton marketing system may send biased signals to ginners and producers. Moreover, as African cotton is marketed almost exclusively through intermediaries, there is no direct feedback loop on quality and buyer requirements from

¹⁴ Cottco in Zimbabwe is an exception.

¹⁵ Cargill, Olam, Plexus and Geocoton.

¹⁶ Firms are arranged by size (volume of sales of cotton from all origins) based on ICAC estimates.

spinning mills and back to ginning companies and producers. Therefore, African producers and ginners receive feedback that has been “filtered” by merchants according to their own interests; complaints about the poor quality of shipments or negative feedback are most of the time concealed.¹⁷

Ownership structure of African cotton companies and ginners

Some trading companies hold minority or majority shares in West and Central African cotton companies, but also in some gineries in Eastern and Southern Africa. In francophone Africa, this is a heritage of the French influence while in anglophone Africa traders engage in ginning activities to secure supply only since the past decade. Traders, in fact, co-own the companies and therefore have decision-making influence and in some cases authority. Usually these trading companies have the first right to buy the cotton and at equal price offering will be the “preferred” buyers. For them it is an ideal situation as they can buy cotton when they need it and thus have a security of supply that is important for building long-term relationships. In case they do not want the cotton, for example if they do not have interested buyers at hand, the cotton is sold to someone else (often a competing trader) at higher prices. In that case, they will benefit as shareholders through increased profits.

Such an ownership structure, however, is not favourable to build closer links between African suppliers and Asian consumers for three major reasons. Firstly, traders are not always in favour of creating a transparent environment between the producer and the consumer for obvious reasons. Secondly, cotton for more direct sales will only be available at higher market prices as the traders has the first choice and will usually be able to sell the cotton at the prevailing market rate. Thirdly, a cotton company will need to have a regular and constant supply of cotton every year for preferred spinners in order to build long-term partnerships based on mutual trust. Relying on traders which have priority on cotton supply prevents companies from engaging in such a relationship with a buyer.

2.2. The high price volatility and its impact on cotton trade

While volatility provides opportunities for those able to take advantage of favourable price movements, it imposes costs and risks in terms of uncertainty and direct expenses for those who cannot.

International cotton prices experienced extraordinary volatility during the cotton season 2010-2011. On contrast to previous periods (compare chapter 1.4), cotton was in fact the single most price volatile item in the period August 2010 to July 2011 among all traded commodities. It is important to note that the surge in cotton prices from 90 cents to 243 cents was caused by fundamental factors and not by increased speculative activity.¹⁸ Very low stocks of cotton, limited supply, robust demand that increased faster than expected by the industry after the recession ended in Western markets and a depreciation of the US\$ have contributed to the increase.

Spinners in receipt of large yarn orders, still able to spin cotton at a profit, kept on buying cotton, even at unprecedented high prices. In the second quarter of 2011, the market started to ration demand. As cotton prices declined steeply, so did yarn prices. A weak global economy exacerbated this situation. As most spinners still had not taken delivery of the cotton for which they paid peak prices, they were stuck with record priced cotton and tumbling yarn prices.

The high price volatility increased contract defaults by market players. While prices were rising, farmers that trade themselves started defaulting. They had sold cotton forward at relatively modest prices, and saw the opportunity to take advantage of record prices.¹⁹ When prices collapsed spinners that bought cotton at record prices in turn started defaulting, they could not pass the high prices on to their yarn customers. For some spinners the alternative of honouring the contracts was bankruptcy, others did not want to accept long-term suffering. It became clear that buyers down the textile value chain were in fact very sensitive to volatile prices. Many spinners had inadequate financial structures to cope with high prices and extreme

¹⁷ In an attempt to lower their purchasing price, as reporting positive feedback from the end-users would encourage producers to raise the price of their cotton.

¹⁸ ICAC, Cotton Supply and Demand: the role of speculation, other reasons for high prices in 2010-2011. Washington DD, February 2011.

¹⁹ It is, however, important to note that none of the cotton companies in West Africa defaulted on their contracts despite the relatively low prices they agreed upon before prices exploded.

volatility. As a result, about 250 companies, often textile mills from Asia, are on the default list of the International Cotton Association (ICA). ICA received an unprecedented wave of 242 requests for arbitration, compared with an average of 70 in the previous seven years.

ICAC reckons that approximately 20% of all contracts signed in the affected season, as much as US\$ 12 billion had to be reneged or rewritten.²⁰ While mainly traders were affected by these contract breaches, it has undermined the previously familiar trading pattern and is changing the way cotton will be traded internationally in the future. Knowledge of the market and close linkages with reliable customers will be increasingly important. Developing solid relationships based on mutual trust with a few preferred partners towards a long-term relationship will be key for success.

What is true for global cotton trade is especially true for developing equal trade between African cotton companies and Asian spinners. Given the opacity of the present market structures of who supplies and who consumes, knowledge of each other needs to be built. Knowing each other contributes to and finally builds transparency. Transparency is the basis for developing trust over time, and trust is essential to develop closer quality feedback loops between spinners and ginners and subsequently more direct trading relationships. Thus, the high price volatility of the last season disrupted trade, affecting African cotton, but also opened opportunities for developing closer relationships and partnerships between producers and consumers of cotton.

2.3. The role of banks in trading African cotton

Banks have an important role to play in the development of the cotton sector in Africa. Banks pre-finance the crop in almost all cotton-producing countries, and thus ensure that cotton companies can provide seeds and inputs to farmers. This widely applied system has three major disadvantages when it comes to building closer relationships with cotton companies, ginners and cotton-consuming spinning mills. Firstly, banks keep ownership of the crop as collateral until it is sold. In many African countries cotton shipments are released only once a reputable international buyer has signed a contract and opened a letter of credit. Many local banks regard only strong international merchants as fully creditworthy, since they do not know how cotton is being traded nor do they know the spinning industry in Asia. Similar to cotton companies and individual ginners, banks know their direct client (the cotton company), but they do not know the fibre transforming spinning mill, i.e. the client's client, nor they have knowledge of cotton trade.

Secondly, banks (or at least their technical staff in charge of operations) do not offer flexible trade finance or credit instruments that are needed by ginners to manage their cash flow. Many ginners in, for example, Eastern and Southern Africa buy seed cotton on the limited credit they are able to obtain. They then gin the seed cotton as quickly as possible so that they can sell the lint (often on a FOT basis) quickly. With the incoming money they buy new seed cotton. Such a system is geared towards a dependency situation where cotton needs to be sold quickly. Only traders and commission agents will be able to provide such quick payment. Furthermore, banks often do not provide the bridging facility for L/Cs where spinning mills regularly require 60 to 90 days deferred payment, an approach that is quite common in the textile industry. Therefore, even more advanced ginneries that are able to sell FOB or CFR (cost and freight) will face a situation that penalizes them to sell more directly.

Thirdly, many cotton companies in West Africa work together with European (often French) banks due to the long and still existing involvement of French companies in government-owned or privatized cotton companies. These banks traditionally favour European-based trading companies over unknown Asian spinning mills as buyers of the lint cotton.

Banks' lending practices have become more cautious due to the financial and economic crisis, sudden price hikes in the cotton sector in March 2008 and the extreme volatility in the market in the 2010-2011 season. Even traders receive less trade finance from their banks, and are not willing to buying forward anymore, which poses problems for African cotton farmers and ginners.

Banks, therefore, have an important role to play to assist African cotton stakeholders to become equal partners in the international cotton business and to explore more direct trading relationships.

²⁰ *Wall Street Journal Europe*, 4 September 2012.

3. Marketing of African cotton: the necessary and sufficient conditions

Competitiveness starts from the market by understanding market and buyer requirements and addressing identified bottlenecks along the entire value chain from cotton research to premiums available in the market. A clear understanding of the entire value chain, the market, the client and the client's client is a necessary condition for becoming competitive. In addition, cotton stakeholders need to find solutions on how to translate the information and knowledge gained into know-how at the national and regional level (sufficient condition). Gathering knowledge about the value chain, the market and clients and subsequently applying this knowledge at home – i.e. developing the know-how to engage all cotton stakeholders in Africa – is a step-by-step approach.

African producers, ginners, executives of professional associations and cotton regulatory boards, government officials, textile manufacturers and bankers need to acquire knowledge of the whole cotton value chain, gaining a better understanding of market requirements, including on import procedures, quality price fixation, shipping, financing, contracts.

Once the necessary and sufficient conditions are in place, African cotton producers will be in a position to benefit from directly engaging in cotton marketing. The 'four Ps' of a marketing mix, namely product, price, place (distribution policy) and promotion, can and should be addressed more dynamically in Africa. While product policy mainly refers to the quality of lint and tackling the issue of contamination, price policy often refers to contingency planning against price volatility, price risk and market exposure management. However, it also refers to capitalizing on possible premiums for better quality and cleaner lint. Place or distribution policy in cotton refers to providing logistical and other services to bridge the gap between the African FOB offer and spinning mills in Asia, who buy CFR or CIF (cost, insurance and freight).

Promotion of African cotton will need to first address the prevailing negative image of African cotton in the market. This is, to a large extent, a communication issue that starts by understanding the specific requirements of clients. The successful promotional activities of other cotton-producing countries, most notably the United States, show how a brand image can be created in the market. In the African context that needs to be tackled jointly by all stakeholders, including international merchants.

Promotional activities will aim at differentiating African cotton from competing origins, based on a perceived competitive advantage for the consumer. Promotion will aim at influencing high-end spinners' behaviour by changing their (mis-) perceptions about African cotton characteristics in order to alter their preferences, assuring them that Africa will be a reliable and long-term supplier of their fibre needs.

Chapter 3 ITC's role in developing the cotton sector in Africa

1. Regional sector strategy development

The regional dimension is an essential unifying base for the optimization and upgrading of the cotton industry in Africa, leading to wealth creation and development over the continent. The configuration of the sub-regions and the characteristics related to the production, processing and marketing of cotton favour regional approaches and integration. Yet national development policies are not always aligned with regional initiatives while international development partners often lack the proper development framework to align their regional intervention with. Persistent dysfunctions inherent to this lack of coordinated actions prevented the various operators of the cotton-textile industry to develop compatible or coherent strategies capable of fulfilling the expectations raised among states and sector stakeholders. To move Africa's cotton-textile industry forward, production needs to be stabilized, farmers' revenues secured, yields increased, the cotton-related value chain optimized, contamination reduced and marketing technics enhanced. In order to achieve this and to improve African's competitiveness, a more strategic orientation needed to be given to African cotton, and farmers as well as ginning companies had to be empowered.

Therefore, global trends call for African countries to think regionally when it comes to strategies for the cotton-to-clothing industry. While some countries have difficulties establishing individually an entire value chain from cotton to textiles and clothing, this can often be achieved at the regional level.

The ITC initiative is aimed at developing regional cotton-textile strategies that focus on the revival of activities in all segments of the value chain, particularly in agricultural production, processing and promotion of cotton on the continent. The objective is to improve the sector's performance, building on regional economies of scale and expertise:

- Allow African countries to become stronger competitors in international cotton trade by boosting competitiveness to ensure long-term stable markets for cotton;
- Tap into international markets for clothing and fashion products originated from seed cotton produced by small farmers in Africa.

ITC, under the framework of the All African, Caribbean and Pacific states Agricultural Commodities Programme (AAACP) programme financed by the European Commission, assisted the General Secretariat of Common Market for Eastern and Southern Africa (COMESA), the Commission of West African Economic and Monetary Union (WAEMU) and the General Secretariat of the Economic Community of Central African States (ECCAS) to develop, through a participatory approach, cotton-textile regional strategies. The development of these strategies was the subject of widespread consultations with public and private sector stakeholders coming from the various links of the regional cotton-textile value chains.

The project comprised five initiatives (1) conducting a situational analysis of the sector performance at sub-regional levels through structured consultations, value chain analysis, interviews, and reviews of the literature; (2) identifying competitiveness issues along the value chains; (3) reinforcing public-private platforms for dialogue and action to ensure optimization of resources based on jointly identified priorities; (4) developing detailed and market-led plans of action for the sector that respond to the value chain needs and equally represent national and regional priorities and (5) establishing regional coordinating bodies to coordinate and to monitor implementation and mobilize required resources.

Strategic priorities were set on the basis of the needs which provide the best prospects for export development and competitiveness according to actual market conditions and demand. Public and private stakeholders who contributed to the elaboration of the strategies participated in market orientation missions organized by ITC to Asian cotton importing countries, experiencing market/buyer requirements first hand. In addition, bilateral consultations were held with large cotton trading corporations to best understand their roles and the dynamics of forward contracts on the InterContinental Exchange. Market access issues as well as the impact of the Doha Round on the sector were also considered. The following outcomes were achieved:

- Regional cotton strategies have been developed and adopted: cotton-textile sector strategies for West (WAEMU), Central (ECCAS) and Eastern and Southern (ESA) Africa have been fully completed and endorsed by stakeholders, national and regional authorities in an unprecedented display of alignment. Strategies were adopted at Head of states or ministerial levels.
- The implementation plans are used, and seen as, the reference road maps for the sector by industry operators, institutions and industry support organisations, development partners and funding providers. This is with a view to creating consensus and integration of public and private actions towards the same objectives in order to develop an integrated response for the industry. Recently the European Commission confirmed an allocation of €11 million under the 10th European Development Fund (EDF) cotton programme for implementation of the three regional cotton-textile strategies. All activities under this new cotton programme are drawn from the strategy implementation plans endorsed by stakeholders and will be coordinated by the regional coordinating committees.
- Committees and their subsidiary organs have been formally created by decree or ministerial decision with the aim to coordinate, monitor and mobilize resources for implementing the export strategies in line with other export development plans.
- The three Regional Economic Commissions, as well as the other public and private institutions involved in the process gained the capacity to revise, implement effective and sustainable market-led strategies in other sectors and to mainstream trade and sector development into national planning policies. This strategy development initiative improved the ability of counterpart organisations to receive and utilize aid-for-trade efficiently, and ensure the adequacy between the resources and priorities.

These strategies offer built-in responses and development frameworks to optimize the use of available national and international resources in support of the cotton to clothing industry. Key success factors to achieve sustainable, transparent and far-reaching results for all stakeholders do not lie only in the increase of financial resources to implement the strategies, but also in the coordinated participation of national and regional stakeholders. Most international development partners led by the European Commission have already acknowledged that these strategies provide them with the appropriate implementation plan and operational framework i.e. political endorsement, private sector buy-in and improved collaboration with national institutions and international agencies. It is now important to capitalize on the momentum gained during the design process and leverage it for efficient implementation; this is precisely what the new cotton program under the 10th European Development Fund aim at.

2. South-South cooperation

The African ITC cotton development initiative uses South-South cooperation to make Africa a stronger competitor in the international cotton trade. It has two major focus areas: facilitate learning and collaboration with countries that have successfully built a cotton and T&C sector and sustainable trade linkages (exports and imports). With regards to the former, ITC facilitates at four levels:

- *Learning* from success. Training programmes organized by ITC allow successful cotton producers in e.g. China, India and Turkey to share their knowledge with cotton professionals from Africa.
- *Developing* capacity to transform cotton. Successful textile and clothing producers in Asia are relaying their experiences to African countries. Closer linkages with cotton consuming spinning mills will lead to closer partnerships between spinners, ginner and farmer groups. These partnerships in turn will lead to major improvements along the value chain, including on the quality of cotton, and ensuring long-term stable markets.
- *Encouraging* intra-African cooperation. Extensive knowledge and know-how is available in Africa but often neglected. Africa has extensive experience in the cotton sector but is not capitalising on it. Pockets of excellence could be found in many countries, but this know-how is not shared. For example Senegal, and through recent projects also Burkina Faso, Côte d'Ivoire and Mali, are advanced in reducing contamination levels of its cotton while Burkina Faso and South Africa can

share their experience in introducing Bt cotton. While farmer-owned ginneries in Uganda are performing well, farmer organization at national and regional levels is advanced in West Africa.

- *Sourcing* from other developing countries. Finding new suppliers in the developing world promotes savings on items ranging from seeds and fertilizer to ginning and textile technology.

3. Spinner-ginner relationship building

The second approach under the ITC African Cotton Development Initiative is to develop sustainable trade linkages. This includes:

- Promoting African cotton: ITC assists African cotton companies, independent ginners and producers to benefit from closer linkages with cotton-consuming countries in Asia to get a better insight into what their clients, i.e. cotton-consuming spinning mills, expect from them but also to promote their cotton.
- Reducing cotton contamination in Africa remains an important issue even though in many cases the reputation of African cotton is “more contaminated” than the actual cotton itself. To overcome this ITC identifies interested spinning mills willing to assist selected ginning factories to produce clean lint.

As the world’s largest cotton importer and consumer, the textile industry in Asia needs African cotton. However, African cotton must satisfy the requirements of a demanding and expanding textile industry. Africa needs to build confidence among high-end spinners in Asia to increase the use of African cotton.

ITC has assisted in developing more direct trade between Africa and Asia by supporting selected African countries and ginners in developing direct trade linkages with Asia, including the provision of market knowledge.

For most African cotton producers and companies/ginners not affiliated to international cotton merchants, the market and value chain transparency visits organized by ITC were the first opportunity to learn what their clients, the spinning mills, expect from them but also to promote their cotton. Visits were organized to the six largest cotton importing markets, namely to China, Bangladesh, Turkey, Indonesia, Thailand and Viet Nam. Training events gave sector stakeholders a better understanding of the entire cotton value chain and of the markets where their cotton is sold and the quality requirements of clients, providing them with vital information for improving quality and customer services.

Many of the trained ginning companies started to export directly on a trial basis, amounting to more than US\$ 10 million worth of sales. Furthermore, many countries engaged in concentrated efforts to reduce contamination levels. For example, the African Cotton Association has made the fight against contamination a major focus area for the next couple of years. Moreover, some countries introduced new legislation banning polypropylene as baling material. In addition, efficiencies along the value chain were enhanced at national level in various countries in West as well as Eastern and Southern Africa. Finally, closer relationships between spinners and ginners were forged.

Better knowledge of the market, the cotton-consuming spinning mills, their customers and suppliers allows linkages to be forged and business opportunities to be identified and captured, i.e. fulfilling the sufficient condition to become more competitive. In a forthcoming project, ITC will foster closer linkages between preferred Asian spinners and selected African ginners on a pilot basis.

It is expected that the enhanced market insights gathered under the first phase will allow African cotton ginners and exporters to target preferred buyers and to develop closer linkages with cotton-consuming spinning factories. Overall, many spinners have some experience with African cotton and appreciate its low short fibre content and low neps which is characteristic for handpicked cotton. Thus, most spinning factories are still reluctant to engage in any direct trade. Reluctance in direct trading relationships was fuelled by the high price volatility in the market, and the resulting contract defaults. In addition, spinners emphasise the need to build direct feedback loops to improve quality and transparency along the value chain.

Some Asian spinning factories have chosen to develop longer-term relationships with preferred suppliers they know and trust. Their aim is therefore not to buy origin but rather cotton ginned in a specific ginners they know and appreciate. This kind of spinners would be ideal targets for African ginners that would like to develop lasting relationships with preferred buyers. This approach would need to be long-term, starting with getting to know each other and building trust.

Finally, ITC activities under the African Cotton Development Initiative are designed to complement and to reinforce each other to ensure maximum support to the marketing of African cotton as outlined in section 3 of chapter 2. For example, South-South cooperation activities with countries such as China, India or Turkey also include the promotion of cotton as these countries are not only cotton producing countries but also cotton consuming and importing countries. Moreover, these countries have developed sophisticated support industries for the cotton sector, including fertilizers, chemicals, seeds, ginning and textile technology, among others. Africa needs these inputs to enhance efficiency and productivity in the cotton sector. At the same time, while promoting African cotton in consuming markets and building spinner-ginner partnerships, south-south cooperation activities are initiated on fibre transformation and the reduction of fibre contamination. Cotton importing countries such as Bangladesh, Indonesia, Thailand and Viet Nam have developed vibrant textile industries without any fibre base and could therefore provide valuable insights for other countries into how to establish and successfully run a textile industry.

Conclusions

Cotton is cultivated by a majority of African countries and it is critical to a few of them, as it accounts for a large share of their income. However, at the world level, Africa remains a small player, in a market that is dominated by China on the demand side, while the largest exporters are the United States and India. Following the unprecedented peak in the beginning of 2011, cotton prices are still high on average in a market which is distorted by significant policy interventions that usually drive prices down.

Production in Africa is characterized by very low and decreasing yields as compared to the world average. The small size of African producers on international cotton markets prevents them from keeping control of their own trade. This absence of control in turns leads to a situation where African growers do not receive appropriate signals to improve the quality of their product and have no possibility to differentiate it positively in foreign markets. This combined with that African cotton at times is perceived as suffering from contamination problems, lead to that the cotton is sold with a negative premium.

Among the issues facing African cotton, ITC has engaged in programmes which have had a main focus on addressing two of these issues, namely the contamination issue and the control of trade relationships. Contamination has already been reduced in large parts thanks to improvements in production, ginning, storage and transport, but there is a need to rebuild a positive image for African cotton. Building closer ties between buyers and sellers is actually linked to the improvement of quality as it raises awareness about this issue among producers. Involving Asian buyers in this process is essential as they represent a major part of world demand.

Appendix African cotton producing country groups

North Africa	Algeria
	Egypt
	Morocco
	Sudan
	Tunisia
Francophone Africa	Benin
	Burkina Faso
	Cameroon
	Central African Republic
	Chad
	Côte d'Ivoire
	Guinea
	Madagascar
	Mali
	Niger
	Senegal
	Togo
	Eastern and Southern Africa
Democratic Republic of the Congo	
Ethiopia	
Ghana	
Kenya	
Malawi	
Mozambique	
Nigeria	
South Africa	
United Republic of Tanzania	
Uganda	
Zambia	
Zimbabwe	

Source: ICAC country classification.



FSC is an independent, non-governmental, not for profit organization established to promote the responsible management of the world's forests.

Printed by ITC Reprographic Service on FSC paper, which is environmentally-friendly paper (without chlorine) using vegetable-based inks. The printed matter is recyclable.

A free pdf is available on ITC's website at:
www.intracen.org/publications.



Street address
International Trade Centre
54-56 Rue de Montbrillant
1202 Geneva, Switzerland

P: +41 22 730 0111
F: +41 22 733 4439
E: itcreg@intracen.org
www.intracen.org

Postal address
International Trade Centre
Palais des Nations
1211 Geneva 10, Switzerland

The International Trade Centre (ITC) is the joint agency of the World Trade Organization and the United Nations.