

**IMPLEMENTATION OF THE DEVELOPMENT ASSISTANCE ASPECTS OF THE
COTTON-RELATED DECISIONS IN THE JULY PACKAGE**

Contributions by Proponents, Bilateral Donor Members, and
Multilateral/Regional Agencies

Addendum

*This document has been prepared under the Secretariat's own
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and to their rights and obligations under the WTO*

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I. INTRODUCTION

1. This document contains the verbatim contributions by cotton proponent countries, bilateral donor Members and multilateral/regional agencies and institutions. These written contributions were made in the course of the first two rounds of consultations managed by the WTO Secretariat in the implementation of the July Framework Decision on the Development Assistance Aspects of Cotton. The summary of the contributions in this compilation has been included in the report by the Director-General contained in document WT/GC/83.

II. PROPONENT COUNTRIES

A. BENIN

2. These consultations were long awaited and arrive right on time, taking place after the Framework Decision adopted by the WTO General Council at the end of July and just after the discussions we had this morning with the Chairman of the World Bank and the Director-General of the International Monetary Fund (IMF) on the subject of "reinforcement of the cooperation between the IMF and the World Bank, in particular with regard to technical and financial assistance".

3. Last July, the WTO Members decided to deal with the cotton problem in an ambitious, rapid and specific manner according to paragraph 1b on Agriculture, and paragraphs 4, 5 and 46 of Annex A.

4. The Framework Decision which we reached in July also underlines the need to deal simultaneously with both the development and trade aspects of cotton, taking into account the necessary coherence and complementarity that exists between these two dimensions.

5. Therefore, the conclusions and recommendations made at the Cotonou Workshop put particular emphasis on the need to ensure effective follow-up to this Workshop and a harmonious and effective coordination of the technical assistance which will be provided by the development partners (bilateral and multilateral).

6. Paragraph 13 of the Cotonou Workshop conclusions is very precise in this respect and should be used as the basis for our consultations on the follow-up actions to be done.

7. In reply to your questions about the actions made by my country in the framework of the follow-up to the Cotonou Workshop, as well as on the assistance that has since been received from the development partners, likewise on the inclusion of cotton in the "Poverty-Reduction Strategy Paper (PRSP)" and the "Programme Paper on the *Account of the Millenium Challenge* of Benin", I can provide the following information:

8. In its policy for agricultural promotion, the Government of Benin gives an important place to the production and exportation of cotton.

9. This activity makes an important contribution to Benin's total exportation revenue and agricultural revenue.

10. The "Poverty-Reduction Strategy Paper (PRSP) in Benin 2003-2005" puts a particular emphasis on the production and exportation of agricultural products, including cotton production which represents the "backbone" of Benin economy.

11. In other respects, my country has very actively elaborated its "Programme Paper on the *Account of the Millenium Challenge*" and has associated the different socio-economic players to this task, to reflect the needs and specific situations of the different components of Benin society.

12. According to the information we received from our capital just before we came to these consultations, advanced discussions on the Programme Paper on the *Account of the Millenium Challenge* were held between the American side and the Benin side during the prospection mission to Benin by the American person responsible for the Programme on the *Account of the Millenium Challenge* and also during the mission to Washington by Benin officials at the beginning of October.

13. The Paper on Benin's Programme takes the cotton sector into account.

14. With regard to the partnership with the European Union, for the follow-up of the results from the Cotonou Workshop and the Euro-African Union Forum held in Paris on 5-6 July 2004, a first version of the Strategic Framework document had been drafted for the Forum. As per the editing instructions given by the European Commission, this document should be finalised and transmitted to them.

15. This matter is being closely followed by the Benin Embassy in Brussels and we will be able to obtain confirmation of the situation.

16. In other respects, last summer the Japanese Government announced to the Benin Government its intention to grant technical and financial assistance to Benin within the framework of the follow-up to the Cotonou Workshop.

17. This assistance relates to the improvement of the irrigation services and the development of human resources.

18. The Benin Government would like to thank its bilateral and multilateral partners who have already initiated technical and financial assistance programmes to support the cotton industry, according to the recommendations made at the Cotonou Workshop.

19. The Benin Government would like to invite the other partners to do the same in order to attain the objectives that we have set for the cotton sector.

20. We will very shortly be submitting to them requests for technical and financial assistance to reinforce the cotton industry. These requests will relate at the same time to aspects linked to improvement of production and competitiveness as well as to transformation, development of exportation capacity and financing of the negative impacts.

21. With regard to the commercial aspect of the Sectoral Initiative on Cotton, my delegation would like that the Cotton Sub-Committee, as provided for in paragraph 4 of the July Framework Decision, be rapidly put into place so that the negotiations on cotton can be started according to an agenda to be determined.

22. To finish, I would like to thank you all for being present at these initial consultations organised in the framework of the follow-up on cotton.

III. BILATERAL DONORS

A. EUROPEAN COMMISSION

23. EU attaches a high priority to the cotton initiative, to both its trade and development components. Important progress is made in parallel on both sides of the issue. Welcome

therefore the anticipated establishment tomorrow by the Agriculture Special Session of the Sub-Committee on Cotton envisaged in the July Framework. Today, of course, in this room, we are looking only at the development assistance aspects and I will be pleased to give you an overview of recent relevant activities in the EU.

24. The context of work is sharpened following the recent steep drop in cotton prices on the world market. Average prices are at only USD 48 cents per pound, 20 cents, or 30% lower than last season. This is the sharpest drop in cotton prices since 1985/86. The local currency equivalent of these prices is even more dramatic for francophone West and Central Africa with the local currency, CFA being linked to the (currently strong against the dollar) Euro.

25. Let me try to respond to your three questions.

EU actions (taken + planned) to reflect cotton sector-specific priorities in bilateral donor programmes:

- (a) The EU Council endorsed in April 2004 the proposal for an EU-Africa partnership on cotton as an important specific application of the EU Action Plan on agricultural commodities, which aims at finding responses to the challenges facing commodity-dependent developing countries. The Council urged the European Commission and Member States to address the issues raised, including the question of financial resources, and to undertake all necessary actions to implement it, while basing their activities on the principle of local ownership and effective coordination. (See Annex 2 for the Council conclusions.)
- (b) In June, the EU requested 15 major cotton producing countries in Africa to what extent they are committed to formulate and implement a national cotton strategy, which we see as an important tool prior to extending support. Ten countries reacted favourably (Benin, Burkina Faso, Chad, Madagascar, Mali, Mozambique, Senegal, Tanzania, Togo and Zambia).
- (c) The European Commission had prioritised 'support to cotton' as one of the areas that would be difficult for us to reject if the partner countries were to propose this as part of the 2004 Mid Term Review of the national indicative programs. (In the context of nationally-owned development strategies, the initiative of course has to come from the beneficiary countries.) Consequently, the four proponents of the Cotton Initiative had proposed additional support to cotton.
- (d) On 5-6 July, the EU and Africa organised a Cotton Forum in Paris. The EU and African countries endorsed the EU-Africa Cotton Partnership and agreed on a joint Cotton Action Plan. The Forum contributed to raising the trade and development priority to cotton at both the international and national levels. The action plan agreed at the forum identifies seven areas for action: (i) International trade; (ii) National and regional cotton strategies; (iii) Policies and institutions; (iv) Technological innovation; (v) Risk management and finance; (vi) Chain integration; and (vii) Coordination. (See annex for more details on each of these.)
- (e) The EC has relaxed the access criteria to the FLEX-instrument (part of the Cotonou agreement). ACP countries can apply for support under FLEX in case of a shortfall in total export earnings.
- (f) Through the International Task Force on Commodity Risk Management, the EU advocated with success to broaden the pilots on market-based risks instruments to the cotton sector in West Africa. This has been confirmed in the Cotton Action Plan. As

a result a joint World Bank/EU team will travel to West Africa in December to identify interest and potential for pilots.

EU actions (taken+planned) to provide financial and technical assistance on cotton-specific projects:

- (a) Individual EU Member States have supported the negotiating capacity of the cotton proponents and included new cotton-related projects in their bilateral development assistance programmes. Heard some examples today, although this is not the full picture.
- (b) As part of the Mid Term Review of EC programmes, a total of €40 million is proposed to be allocated to cotton in the national indicative programmes of the four proponents. These mid-term reviews should be finalised soon. The support would contribute to the preparation and implementation of national cotton strategies.
- (c) The EU has tabled a proposal to the ACP for an international capacity building programme with international organisations on agricultural commodities, including €15m for cotton. The programme comes as a complement to national support and covers various activities of the Cotton Action Plan. The targeted international organisations are World Bank, FAO, UNCTAD and the Common Fund for Commodities. The programs allows for multi-donor cooperation.
- (d) We expect that some highly cotton dependent African countries could benefit from FLEX in 2005. These countries include Benin, Burkina Faso and Mali. The EC is considering to mobilise additional short term support from non-EC sources to mitigate the adverse effects of short falls in export earnings.

EU actions to coordinate across bilateral programmes to enhance financial and technical assistance for cotton-sector specific projects:

- (a) Two different types of coordination are support within African countries:
 - (i) *Public-private:* to encourage the strengthening and/or establishment of public-private cooperation between the cotton stakeholders and the government in the cotton producing countries. This was done for the preparation of the Paris Forum and is of crucial importance for refinement or preparation of national cotton strategies and policies.
 - (ii) *Donor coordination:* The EC stimulated donor coordination in several African countries. Donors have identified the EU cotton contacts, which could be an officer from the Commission or one of the Member States. EU donor coordination with other institutions, in particular the World Bank, is strengthened.
- (b) Five different types of international coordination is supported:
 - (i) *An EU-Africa Cotton Steering Committee* has been set up to stimulate implementation of the Action Plan. SC is composed of public and private representatives.
 - (ii) *Informal EU 'cotton donor club'* consisting of the EC and some member States.

- (iii) *'Interagency coordination of International Organisations'* is foreseen that are going to implement the capacity building programme on commodities and cotton.
- (iv) *ICAC.* The Commission explores ways for the European Community to become a member of the International Cotton Advisory Committee.
- (v) *Cotton website and interactive platform.* Special efforts are made to share information and expertise between the ACP, EU and other organisations and countries by means of strengthening the website already in place since last July (www.cotton-forum.org). This website has been updated to include documentation on the implementation of the action plan. New interactive functions should be added in January 2005.

26. Finally, we shall provide the Secretariat with a written response to these questions in terms of EU level initiatives as soon as we can. To the extent possible, we shall include information on relevant EU Member States activities as well, but it may not be possible to provide a fully comprehensive report within the short timetable of the current exercise.

Annex 1: Overview of main areas of the EU-Africa joint cotton Action Plan

27. *International trade.* Continuation of negotiations in DDA with the objective that an effective solution for cotton is found that is satisfactory to all parties. Access to existing trade related assistance programs. Strengthen capacity building to defend and negotiate the cotton trade position in the WTO.

28. *National and regional strategies.* It is necessary that the cotton stakeholders in African countries adopt a more strategic perspective to the cotton sector in their country. This strategic perspective should be build on existing initiatives, be in line with international realities and be embedded in the national development plans. Knowledge, skills and resources of different stakeholders should be combined to achieve a common goal.

29. *Policies and institutions.* A clear division of responsibilities between business associations and government is essential. It was agreed that the government should create an environment that favours investments, strengthens producer associations and encourages farmers' participation in the processing industry.

30. *Technological innovations.* There is need to invest in improving the productive capacity of soil in combination with effective input management. There is a need to substantially reduce the use of pesticides in cotton cultivation, in order to avoid negative impact on the environment and the health of the rural population. It was also agreed to strive for informed decision making with regard to the expansion of genetically engineered varieties in the African smallholder economies.

31. *Risk management and finance.* Vulnerable cotton ginning and traders can reduce their exposure to external price shocks by using modern risk management instruments in combination with realistic price formation policies that are based on the realities of the international cotton market. The international financial sector is prepared to improve access to these instruments for the African countries. Cotton-producing countries could gain from the capacity building on the issue by the World Bank. Furthermore, the efficiency and transparency of self-insurance systems at corporate and sector level will be enhanced.

32. *Chain integration.* Prospecting opportunities for chain integration. Cotton instrument classing will be enhanced in Africa with a view to better service the demand and increase the negotiating capacity. The realistic opportunities in textiles and clothing need also to be explored, in

particular from a regional perspective. More concerted work on organic/fair cotton production chains at international and in-country levels is also highlighted.

33. *Coordination.* Coordination is identified at three levels: in-country, regional and international levels. At the in-country level it is important to strengthen business associations, public-private consultations and local donor coordination. Regional level cooperation is foreseen on certain issues, such as EPA regional integration, technological innovation, processing and producer coordination. International coordination is necessary at the level of the African countries (Geneva, Brussels), cotton donors, international organisations and at the global level with ICAC.

Annex 2: EU Council conclusions on agricultural commodities, including cotton

34. At its meeting on 27 April 2004, the General Affairs and External Relations Council (GAERC) of the EU, in its formation of Development Ministers, adopted COUNCIL CONCLUSIONS on Agricultural Commodity Chains, Dependence and Poverty and an EU-Africa Partnership in Support of Cotton Sector Development

- (a) The Council recognises the crucial importance of agricultural commodities for poverty reduction in developing countries. It stresses the need for urgent measures to address the situation of commodity producers who currently face major challenges, in particular in the most commodity dependent developing countries (CDDCs) where implications extend to the macro level;
- (b) The Council recognises that addressing the issues of international agricultural commodity chains, dependence and poverty is complex and requires a package of measures and a multidisciplinary approach, as well as collaborative and coordinated efforts by all stakeholders - including governments, producers, the private sector, non-governmental organisations, international organisations, and bilateral and multilateral donors;
- (c) In this context it recalls Council conclusions of 17 November on the cotton crises in Africa and of 8 December 2003 on reviving the Doha Development Agenda (DDA). It welcomes the proposal for an EU Action Plan on agricultural commodity chains, dependence and poverty, and the specific proposal for an EU-Africa Partnership in support of cotton sector development set out in the Commission Communications;
- (d) The Council endorses the objectives, orientations, policy priorities and measures of the proposed EU Action Plan; and agrees that the EU and its Member States should pursue these, including the issue of resources, in their bilateral and multilateral cooperation as well as in relevant international fora, and where appropriate, in their respective bilateral dialogue with CDDCs. In this context, it is important to have a gender sensitive approach and to take measures to ensure environmental sustainability. It further invites the EC and Member States at the level of their relevant services to develop measures, actions and means to operationalise the EU Action Plan and invites the Commission to report on progress in the context of the Annual Report.
- (e) The Council considers that the first steps of implementing the EU Action Plan should include:
 - (i) supporting commodity dependent developing countries in the design and implementation of commodity chain strategies, building on existing initiatives and in the context of national development strategies and in particular Poverty Reduction Strategies (PRS);

- (ii) advancing efforts to develop regional markets, policies and services in support of commodity sectors, in the framework of support to regional integration through both development cooperation and trade negotiations. Advantage should in particular be taken of the opportunity presented by the negotiations on EU-ACP Economic Partnership Agreements (EPAs);
- (iii) supporting the CDDCs in their effort towards diversification, in particular by encouraging livelihood diversification for commodity producers, through increasing assistance to productive sectors in rural areas; such support, where appropriate, should be provided in the context of the PRS of the particular country in accordance with the principle of ownership, bearing in mind the important role that regional integration can play to facilitate the process of transformation;
- (iv) extending access to market-based commodity risk instruments at the micro level, and piloting these tools for the macro level;
- (v) developing multi-donor cooperation on agricultural commodities with international organisations (WB, FAO, UNCTAD, CFC), with a view to enhance expertise and development of innovative tools to support national commodity strategies;
- (vi) in the framework of the DDA, ensuring that due attention is paid to products of specific interest to CDDCs, including traditional commodity products and products of importance for diversification and taking into account the issues of major interest for CDDCs in all relevant aspects of the negotiations, as outlined in particular in the Council conclusions on Trade and Development adopted in November 2002¹; the Council encourages all WTO Members to make special efforts in this regard;
- (vii) encouraging all developed countries to give duty and quota free access to all products from LDCs, as the EU has done under the Everything But Arms (EBA) initiative. Major developing countries should also be encouraged to open their markets for commodities;
- (viii) ensuring that the forthcoming reform of the GSP system continues to provide generous and predictable access for CDDCs to the EU market, including through revision of the rules of origin requirements;
- (ix) ensuring that in the short term, resources such as Flex and budget support are provided to CDDCs to mitigate the adverse impact on poverty of shortfalls in exports earnings;
- (x) developing coordinated efforts to encourage sustainable corporate practices and investments, in particular in CDDCs; including the development of public private partnerships, and valorising instruments for private sector developments in non-traditional sectors, bearing in mind the important role that the fair trade movement and the international discussions on codes of conduct can play with regard to sustainable development.

¹[http://ue.eu.int/newsroom/NewMain.asp?LANG=1; doc. 14184/02 \(presse 351\).](http://ue.eu.int/newsroom/NewMain.asp?LANG=1; doc. 14184/02 (presse 351).)

- (f) The Council recognises the important role of International Commodity Bodies as fora for co-operation between producer and consumer countries, both at government and private sector level; in particular, the participation of private sector should be encouraged. It invites the EC and Member States to undertake assessments, deepen the reflections and where appropriate make proposals with a view to ensuring the efficiency of these bodies and of their contribution to market functioning, sustainable development and other common interests of the sectors, and to commodity chain strategies in CDDCs.
- (g) The Council endorses the proposal for an EU-Africa partnership on cotton as an important application of the proposed EU Action Plan. The Council urges the EC and Member States to address the issues raised, including the question of financial resources, and to undertake all necessary actions to implement it, while basing their activities on the principle of local ownership and effective coordination. This implies:
- (i) obtaining fairer international trade conditions by:
- supporting an effective and specific solution on cotton within the WTO agricultural negotiations.;
 - encouraging all developed and major developing countries to follow the EU in providing complete market access to cotton and cotton based products from LDCs;
 - aiming within WTO at the elimination of all forms of export subsidies for cotton;
 - striving to secure a commitment from major cotton producing countries to undertake reforms with respect to trade distorting domestic support. In this context, the Council welcomes the fact that the EC has concluded the reform of its own cotton regime, which, while taking account of the interests of its own producers, will also reduce its trade-distorting impacts and improve coherence with the EC's development policy. The Council notes the intention of the Commission to establish a mechanism that will allow it to monitor the impact of its subsidy schemes and reform measures on cotton production and trade;
 - supporting African countries through trade related technical assistance and capacity building to defend and negotiate their case in the multilateral trade context.
- (ii) supporting cotton producing countries in Africa, and in complement to the measures recommended above for the EU Action Plan to:
- intensify cooperation efforts to consolidate competitiveness of the African cotton sector and rural growth of cotton producing areas;
 - strengthen policies and institutions, encourage private investments for value addition, favour technological innovations and support international recognition of the African cotton quality, in line with national poverty reduction and development strategies;

- ensure that the potential of EPAs is fully exploited to support the development of the cotton economies, in particular through efforts in the area of trade facilitation and investment clauses;
 - support African countries' access to market-based mechanisms that mitigate commodity risks for cotton farmers.
- (h) The Council invites the Commission to consider EC membership of the International Cotton Advisory Committee (ICAC), as one of the main fora for the sector.

B. FRANCE

French Aid to the Cotton Sector in Africa

35. France has long been a traditional and major partner of the cotton sector in Africa. Over the past 25 years it has guaranteed financial aid amounting to €757 million for 17 African countries.

36. Today, France intends to pursue its efforts in support of cotton production by fully contributing to the action plan of the "European – African cotton partnership", an idea launched by the President of the Republic during his trip to Niger and Mali in October 2003. In April 2004, the EU Council adopted the action plan for primary products and the European – African cotton partnership. And in July 2004, France hosted the European – African Forum on Cotton to discuss this partnership.

At the bilateral level, the support strategy adopted by French cooperation with respect to the "cotton" sector in Africa has aimed, and still aims, to help the recipient countries to meet the challenges facing their cotton production and exports.

37. Indeed, in a global context in which cotton prices seem to be on a downward trend, the African cotton sector must improve its competitiveness.

38. The objectives of French aid, particularly in Benin, Burkina Faso, Mali and Chad, have been and remain:

- to assist the countries in restructuring their cotton sector;
- to improve competitiveness at the production level.

39. This cooperation also forms part of a broader framework of actions aiming at sustainable development of cotton belts, fostering access by populations to basic services and addressing the problems posed by the management of rural space and natural resources.

40. This cooperation effort is led by the French Development Agency (AFD), and by the French Agricultural Research Centre for International Development (CIRAD) in the scientific area.

41. The French contribution to the consolidation of the cotton sector amounts to some €48 million for ongoing operations or those under preparation. This aid represents a significant portion of French financial assistance to agriculture in Africa, which today totals €128 million for programmes currently under way or under preparation.

The First Objective of French Support is to Contribute to the Efficient Structuring of the Sector

42. The structural reforms that France has encouraged and supported have involved the privatization of cotton companies in order to make them accountable, to protect them from political interference, to attract private investment, and to create an integrated sector.

43. The aims of these structural reform programmes assisted by France were:

- (a) To develop a balanced partnership between the different actors in the sector (producers, cotton companies) by creating an inter-profession and a forum grouping together all of the actors. French cooperation helps the producers in coming together to form regional and national organizations. They are also given assistance in building up their capacity to analyse, negotiate, and submit proposals;
- (b) To improve and strengthen all of the factors in the industry that contribute to its competitiveness, i.e.: development research, advice to producers, provision of seed and inputs, credit, maintenance of tracks, etc.

The second objective of this aid is to improve competitiveness at the production level

44. French aid has also sought to promote sustainable, efficient, and integrated agricultural practices based on efficiently managed family farms.

45. These efforts have stressed:

- Research to improve soil fertility, to introduce more productive cotton varieties, to combat insects, and to improve fibre quality. This research effort is supported by the AFD and CIRAD;
- agricultural advisory services and management advice for producers;
- establishment of partnerships between producer organizations and the agro-industries;
- introduction of technical improvements.

These cooperation activities have been implemented differently according to the degree of organization of the sector, particularly in Mali, Burkina Faso, Benin and Chad.

In Mali:

46. French co-operation supports the decision to privatize the *Compagnie Malienne de développement des Textiles*: the AFD is supporting the process of structuring the sector and has adopted a programme to help producers to take full advantage of this privatization, and to improve farm competitiveness and soil fertility management. This vast project will probably form part of an even broader programme co-financed by the World Bank.

In Burkina Faso:

47. French co-operation has been proceeding along two lines:

- Progressive privatization of the traditional operator, SOFITEX: creation of 7,000 producers' organizations forming regional and national unions; conclusion of inter-professional agreements; participation of the national producers' association in the capital of SOFITEX;
- AFD support, starting more than six years ago, for the integration of producers and the development of a new assistance project aimed, as of 2005, at consolidating and spreading the management consultancy and training facilities of the producers' organizations and strengthening research and development in the area of soil fertility.

In Benin:

48. French cooperation has focused on aid to farmers in improving and diversifying their farms (family farm management advice, combating diseases, diversification of production). Starting in 2002, the AFD introduced an action programme to foster reform of the cotton sector conducting studies to improve factors involved, providing information and training for producers, building up the capacity of agricultural organizations, providing aid for cotton research).

In Chad:

49. A six-million Euro programme was launched in 1997 for a period of sixty months with a view to supporting rural structures in the Soudanian zone.

At a European Level, France Currently Intends to Pursue its Aid Effort by Contributing Actively to the "European – African Partnership on Cotton" Action Plan

50. The French contribution to this partnership will consist chiefly of the projects that the AFD is currently preparing (three projects in Benin, Mali and Burkina Faso amounting to 15 to 20 million Euros) and of the CIRAD cotton research teams (one million Euros per year).

51. An added contribution of three million Euros for three years is currently being considered to help the African cotton producing countries to build up their negotiating capacity, improve fibre quality, and develop new areas of research.

52. France supports the three main components of the European action programme:

- Correction of the external market destabilization factors by ensuring strong EU commitment in the negotiations under the Doha Agenda, to addressing the trade aspects of the cotton issue;
- consolidating of the African production sector;
- development of a framework to deal with the effects of the volatility of cotton prices on the international market.

C. JAPAN

Statement made on 22 October 2004

53. We welcome the common understanding among the Member States that was reached in the decision of the General Council in July, in which we set ourselves to deal with the cotton initiatives from two perspectives, namely, trade and development aspects.

54. As was agreed in the July package, the member states should work on the issue related to development through all available means, i.e., not only multilaterally but also bilaterally.

55. In June this year, shortly after the Cotonou Workshop held in Benin in March, Japan formulated and presented a package of assistance to Benin, which consists of grant-aid assistance for irrigation facilities and human capacity development. This initiative was a concrete translation of Japanese Government's willingness to be closer to this issue and to participate in a collective reflection.

56. In addition to the above-mentioned initiative, we have continuously been making efforts to implement development assistance related to the cotton initiative as follows.

57. Firstly, we have signed a grant-aid contract regarding the construction of roads for arable land in the surrounding area of Guankuan Village, 130km north of Cotonou city, Benin. In the rainy season, unpaved roads in this village are one of the obstacles for the delivery of seeds and fertilizer to the farmland. This grant-aid assistance is a project which can provide a concrete support to the cotton farms near Cotonou and we believe that this is one of the concrete models for supporting one of the cotton-producing countries.

58. Secondly, as a follow-up of communications between Mr. Nakagawa, Minister for Economy Trade and Industry of Japan and high level representatives from the proponent countries of the cotton initiatives in Geneva, during the week of the General Council in July this year, Japan intensified the dialogues with those countries through diplomatic channels, with a view to identifying further needs of assistance to the four proponent countries.

59. Last but not least, we are planning to host the Asia-Africa Trade and Investment Conference in November 1-2 this year in Tokyo. The most important event of this year under Japanese TICAD initiative.

Statement made on 18 November 2004

60. As far as the concrete bilateral outcome is concerned, we have introduced our new project for Benin regarding the grant-aid assistance contract on the construction of roads for arable land at the last meeting.

61. Although we do not have any new issues to add at this stage, Japan is intensifying the dialogues with proponent countries through diplomatic channels after the July decision with a view to articulating our will to provide assistance and to shape our bilateral cooperation closer to the cotton sector. Japan is ready to move quickly, as explained in October once the concrete requests are made by the proponents.

62. We are pleased to share all the information as soon as any new developments are made in terms of bilateral assistance.

63. Taking this opportunity I would like to report briefly on the outcome of the TICAD Asia-Africa Trade and Investment Conference held in Tokyo, November 1-2, which I introduced at the last meeting.

64. The conference was a first big meeting after the TICAD III summit meeting held last year. Unlike last year's meeting, there was a focused objective for the conference, namely promoting trade and investment through Asia-Africa cooperation.

65. When we prepared the conference, we have anticipated to hold a medium-size meeting with the participation of high level government officials. However, since the expectation for the conference was so high, there were after all more than 700 participants, including those of more than 10 ministerial level. It is also worthwhile to mention that President Obasanjo from Nigeria and President Kibaki from Kenya attended the first session and made key note speeches.

66. These facts illustrate how the Africans as well as Asians are interested in this meeting giving way to closer cooperation between the two regions and how they highly appreciate the TICAD process.

67. Through inviting private sectors both from Asian and African region, we have succeeded in organizing interactive dialogue not only at the government level but also between government and private sector. At the meeting a comprehensive network for facilitating trade and investment between Asia and Africa was also launched.

68. Although the theme of this conference was not limited to the cotton sector, I believe this is one of the good examples of efforts which Japan is continuously making with regard to African development through promoting trade and investment.

69. We are convinced that investment should be an important answer to the problem we are facing.

D. UNITED STATES OF AMERICA

Statement made on 22 October 2004

70. Mr. Deputy Director General, as we focused on the concerns about cotton, both pre-and post-Cancun, we began at the WTO to develop two tracks for our work: trade related issues and development issues. While the trade issues continued to be pursued in Geneva, we participated in the WTO conference in Cotonou last March, the first opportunity both to describe developmental programs already underway as well as to hear what additional elements were needed. We have continued to follow-up with colleagues from other Members and other development partners and we have also pushed ahead with our own efforts, first in July via a Ministerial travel program in the States, an assessment team visit to Africa in September/October, and our own Millennium Challenge efforts. Let me offer additional details on these three efforts.

Ministerial Visit to U.S.

71. In July this year the Ministers from the four African countries who have been a part of the cotton initiative came to the U.S. to view all aspects of U.S. industry, from seed to planting to grading to apparel and the Ministers also met with Ambassador Zoellick to discuss their concerns. This enabled a good exchange on all aspects of cotton prior to our July framework work in Geneva.

USAID/USDA Initiatives

72. An assessment team lead by USAID and including USDA, Tuskegee University, the National Cotton Council and Abt Associates, visited three of the cotton producing countries in West Africa, Benin, Mali and Chad, in response to concerns about competitiveness and productivity in the sector. In addition, Senegal was included in the visit because of its strong economic and political role in the region. The assessment trip began on 25 September and ended on 15 October and included some 11 members. Burkina Faso was not visited during this trip because of logistical constraints.

73. This was a further step in assessing the qualities and constraints of cotton production, transformation, utilization and commercialization in these countries. The assessment trip was very successful and the team was able to gather enough quantity and quality of information to develop a concise and accurate picture of cotton in West Africa to date. A workshop is now scheduled for 29 October in Washington, DC where the members of this team will gather to analyze this information and begin the process of generating results. A report outlining the cotton industry in these countries, as well as possible points to visit during the reciprocal trip in December and possible technical assistance interventions will be generated at the end of this process.

74. A next step will be the high-level U.S. and private cotton sector tour of West Africa cotton in December 2004, which will also generate follow-up information on the cotton situation in this region to be integrated into the report generated by the recently completed assessment.

75. In early 2005, USAID will begin the process of designing a technical assistance package based on recommendations of the team.

76. It is premature at this point to make any comments as to the state of cotton production and consumption in West Africa or about possible technical interventions in the future. Suffice to say that greater detail and clarity will be available once the assessment data is analyzed and a complete report is finalized.

Millennium Challenge Account (MCA)

77. Benin, Mali and Senegal were selected by the Board to negotiate compacts for FY04 funds. Benin, Burkina Faso, Chad, Mali and Senegal are potential candidates for FY05 funding (selections to be made in early November).

78. Representatives from Benin and Senegal attended the MCA briefing in Geneva last week, which introduced them to the MCA process and encouraged them to plug into the domestic efforts underway to develop a proposal for funding. Mali's Ambassador was not at this briefing.

79. Benin, Mali and Senegal have all shared some concepts with the Millennium Challenge Corporation (MCC), but they have not yet provided any formal proposals. In its concept paper, Senegal focused on the creation of an industrial, commercial and tourism zone and the construction and maintenance of urban and inter-urban roads. It is too early to categorize the ideas from Benin and Mali, since they are still refining them. All concepts are still subject to change before they become formal proposals.

80. The MCA is based on country ownership. MCA programs will, therefore, reflect the priorities of MCA countries. The MCC is open to any proposal that would lead to growth and poverty reduction and has broad support within the country. Thus, if a country decides that improving agricultural productivity is its priority and MCC agrees that the plan looks like it would work, then MCC could support it. MCC will not advocate any area, however, including cotton. The decision on what is in an MCA proposal is up to the country.

Statement made on 18 November 2004

Development Aspects of Cotton

81. We had the opportunity to comment in some detail at the last consultation and, since our last meeting, we have continued the full mobilization of our development agencies to address the obstacles faced by countries in this sector. The Millennium Challenge Corporation, USAID, USDA, and the United States Trade and Development Agency are all working together to create a coherent long-term development program based on the needs expressed.

82. As we develop this long-term program, we also recognize the importance of more immediate activities. The interagency group is carefully considering things like the communiqué of the cotton proponent countries during the US visit in July to see how it may be supportive in the short term.

83. We view our activities as part of a multilateral effort to address the development aspects of cotton. We look forward to coordinating with the World Bank, the African Development Bank, and others.

84. I would like to update you on the USG's most recent activities.

85. First, the Millennium Challenge Corporation efforts:

- Burkina Faso was selected about 10 days ago as a FY05 Threshold Country by Ambassador Zoellick and his fellow Board members. Benin, Mali and Senegal were re-selected by the Board and are now eligible to negotiate compacts for FY04 and FY05 funds.
- Burkina Faso will be invited to submit a proposal to improve performance on the following indicators so that it might become eligible for the full program in the near future: Days to Start a Business, Trade Policy, Fiscal Policy, and Girls' Primary Education Completion. Improvement in the first three areas should help on the development aspects of cotton.
- As with the core MCA program, being selected for the smaller Threshold Program does not guarantee a country will in fact receive assistance. Countries will develop proposals and the best proposals will then be funded.
- MCC CEO Paul Applegarth just left Benin earlier this week. His visit followed one by a technical team from 2-11 November. The mission was very productive and helped the Beninese team further focus their concept. The MCC team had good meetings with the President, with Minister Akplogan, and MCC National Coordinator, Simone Adovelande.
- Again, country ownership remains key for MCC and the concept paper the Benin government has put forward reflects views with a board consultative process. The major components all revolve around increasing market access for Benin's agricultural products and include the following: agricultural extension activities (including research, technical assistance/training to farmers, microcredit), a focus on norms and standards to access international markets, land titling, and a port reform program to increase its efficiency.
- Mr. Applegarth is in Mali today through Saturday and he is hoping to get some ideas and guidance from the Malian government. I understand that there does not seem to be anything new with regard to Mali's concept paper.

- The MCC is open to any proposal that would lead to growth and reduce poverty and which has broad support within the country. Thus, if a country decides that improving agricultural productivity is its priority and MCC agrees that the plan looks like it would work, then MCC could support it. MCC will not advocate any area, however, including cotton. The decision on what is in an MCA proposal is up to the country.

86. Next, the USAID/USDA efforts:

- From 25 September to 15 October, an assessment team lead by USAID and including USDA, Tuskegee University, the National Cotton Council, and Abt Associates visited Benin, Chad, Mali and Senegal in response to concerns about competitiveness and productivity in the cotton sector. The team visited approximately 10 cotton gins in Benin, Chad, Mali, including storage facilities and cotton classing units.
- The assessment team examined all aspects of the cotton supply and demand chain, including production, agricultural technology and best practices, biotechnology or the feasibility of its use in countries where it is not yet available, transport and marketing infrastructure, processing and transformation, value-added activities, ginning, cooperatives and farmer associations, spinning, weaving and garment manufacturing, policy and regulatory climates, and ongoing research and sector development.
- USAID is now working on finishing the assessment report, which has developed approximately a few core areas of possible interventions that will help inform USAID's activities over the next three years. These include elements associated with the supply-demand chain such as upgrading infrastructure, improving technology generation and transfer, improving inputs, grading, classing, ginning, etc.
 - Some of the finding of the assessment include:
 - Farmers are in need of better extension services, "best practices" in production of cotton and better access to information on markets.
 - Infrastructure presents a major constraint to production, including roads and bridges as well as transport, handling and port facilities.
 - Ginning and other transformational operations are in need of reformation.
 - Cotton classing is a major constraint to international marketing of cotton from the region. Estimates are that improved classing of cotton could potentially add as much as US\$ 0.07 to US\$ 0.10 per pound to the sale of cotton in world markets.
 - The design of USAID's potential technical assistance, based on country input, will start in the next few weeks.
 - We are working out the exact dates on a high-level USG and private sector cotton tour of West Africa, which will also generate follow-up information to be integrated into the report. We will be in touch regarding the exact dates.

IV. MULTILATERAL AGENCIES

A. AFRICAN DEVELOPMENT BANK

Multinational Competitiveness of the African Cotton Sub-Sector

Project Background

87. Cotton plays an important role in the economy and development of rural areas in West and Central Africa. In the last thirty years, regional production has multiplied by five, up from about 445,000 tonnes in the early 1970s to 2,373,000 tonnes in 2002, improving thus the incomes of nearly 2 million farmers. However, it must be pointed out the deficit of Governments subsidizing public enterprises engaged in cotton ginning and marketing has increased, in the wake of the drop in world prices. In 2002, West and Central Africa produced 991,000 tonnes of cotton lint, representing about 5% of the world production. The combined exports of countries in the region represented 15% of world cotton trade in 2002, making the region the world's third cotton exporter after the United States and Uzbekistan. West and Central Africa export 95% of their lint production whereas exports of the large producers average only 30%.

88. Since 1994, the African cotton sub-sectors have been boosted by the lucrative international prices and the devaluation of the CFA Franc. Since 1999, the sharp drop in world prices has meant declining returns. Nonetheless, the African producing countries have made considerable effort in recent years to improve the competitiveness of the sub-sector. In particular they: (i) provided inputs on credit at satisfactory repayment rates; (ii) maintained the agricultural yield despite weather hazards; (iii) supported the emergence and took more into account the agricultural professional organisations; (iv) built the capacity of and in some countries privatised the ginning services; and (v) improved the quality of the lint. Through these actions the African cotton sub-sector became one of the most competitive in the international market with production costs at around 50 cents (US\$) per pound of lint.

89. In Europe, the mechanisms of the Common Agricultural Policy (CAP) guarantee producers (Greeks and Spanish in particular) a stabilised price at €1.6 per kilogram of seed cotton regardless of the world market prices, whereas prices to producers in Benin, Burkina and Mali cannot exceed €0.30 per kilogram or the sub-sector's deficit would worsen. In the United States, the world's lead cotton producer, the new Farm Bill, approved on 2 May 2002, provides for an increase of almost 60% in the aid to American farmers, that is to say 173 billion dollars over 10 years. In 2002, the American mechanism thus assured the farmer, a purchase price of 72 cents per pound of cotton whereas the price of the product on the New York Stock Exchange was 35 cents.

90. In the current unfavourable context, without appropriate and immediate actions in favour of the African cotton sub-sector, producers of West and Central Africa may find themselves crowded out of the world market leaving the room to those who are less competitive but are highly subsidised. Concurrently, the incomes generated by cotton of nearly two million producers will drop and affect the poverty reduction efforts in the rural areas of West and Central Africa. In light of the foregoing, the Ministers of Agriculture of West and Central Africa held a meeting on 25 and 26 June 2002, to plan measures for enhancing the competitiveness of their cotton sub-sector. One of the measures is to formulate and implement programmes concerning cotton that are of common interest, within the framework of NEPAD. The programme is consistent with the economic development strategy of the governments of cotton producing countries of West and Central Africa and their poverty reduction strategy papers (PRSP). It is also consistent with the vision, strategic plan, agricultural and rural development policy as well as the Bank's 2002-2004 CSPs for these countries. This programme has

been conceived against the background of the World Trade Organisation (WTO) African Regional Workshop on Cotton for African countries, held in Cotonou, Benin Republic in March 2004 and in which, the Bank participated. The project implementation will also take account of the development aspects of the cotton related decisions by WTO members in the July Framework Decision.

Project Rationale

91. Unskilled labour is one major constraint to the competitiveness of African products and the promotion of private investment in Sub-Saharan Africa. Despite the numerous initiatives at economic and social development in Sub-Saharan Africa, about three quarters of the active population are engaged in subsistence agriculture with incomes decreasing from year to year. More than 60% of the active population are under-occupied or unemployed. The economic growth rate is still lower than that of Asia and Latin America. Sub-Saharan Africa's share of the market is shrinking yearly, down from 4% to 1.5% in 2000. In the last two decades the volume of world level trade has tripled while that of Africa has been less than 10%. In the clothing industry the volume of trade was estimated at 199 billion dollars in 2000. Africa's share in this lucrative business was less than 10%. How to profit from this important clothing business on the one hand, and how to attract more private investments on the other are major development challenges that African leaders must now take up.

92. Against that backdrop, AGOA (The African Growth and Opportunity Act) came into being. AGOA is the most important trade legislation in the history of United States-Africa economic relations. To attain AGOA's objectives of poverty reduction, job creation and better incomes, Sub-Saharan Africa needs skilled labour, capital, and systems for promoting industrial production. Few African countries today benefit from AGOA despite the significant potential for producing raw materials especially for the clothing industry. The European Union through the Lome Convention as well as the United States have lifted all restrictions on the imports of articles of clothing from Sub-Saharan African. American industrialists and consumers of the clothing sector are in search of new duty free sources of supply. However, these investors demand skilled labour, a significant production capacity and strict quality control.

Project Objective

93. The programme's sector goal is to contribute to poverty reduction in the Bank's regional cotton producing member countries. The specific objective of the programme is to secure and improve sustainably the incomes of the cotton sub-sector players (producers, millers, traders, etc.) in the Bank's regional cotton producing member countries.

Project Description

94. The following three main results are expected of the Programme's implementation: (i) better cotton production and productivity in the countries of West and Central Africa; (ii) the capacity for weaving, manufacturing, controlling quality, logistics management, marketing and entrepreneurship in the clothing industry built at local level in countries of West and Central Africa; and (iii) more private investments into countries of West and Central Africa. The programme comprises the following three components: (i) capacity building in the sub-sector; (ii) improvement of production and productivity; and (iii) industrial and commercial development.

(a) Capacity-Building

95. Through the component to build the capacity of the cotton sub-sector, a model regional clothes making and training centre that will attract foreign investors and circulate good clothes making and management principles and practices throughout the region will be established. The local capacity for processing, weaving, clothes-making, control quality, logistics management, marketing and entrepreneurship in the clothing industry will be built through training, guidance, technical

assistance for the production of quality clothes designed for the world market. Consequently, the programme will earmark a support fund for rural area promotion which will be used to finance sensitisation, mobilisation, organisation and training of all sub-sector players with a view to preparing them for technical, financial, industrial and commercial services. This fund will also finance local investments and initiatives that contribute to improving the production, productivity and competitiveness of the cotton sub-sector. Access to the fund will be tied to: (i) a justified request; and (ii) beneficiary participation of not less than 15% including at least 5% cash in the financing of the proposed investment.

(b) Improvement of Production

96. The two main activities of the component "Improvement of production and productivity" are systems research, outreach, and supply of selected cotton seeds. The programme will finance the training, equipment and running of the research teams working on cotton-based systems in countries of West and Central Africa. The management of natural resources, especially the protection, restoration and improvement of soil fertility, mixed farming, agro-forestry, reforestation, land management, crop diversification and improvement of the sub-sector's competitiveness (lint quality, yields, etc.), selection of the varieties that improve field yields and technical characteristics especially gin outturn, etc. will be the priority research topics for operating systems approach. With the programme's support, a programme for self-sufficiency in selected cotton seeds will be formulated and implemented. As a basic principle, it will consist in producing sufficient quantities of pre-basic and basic seeds through a mechanism of research and seed selection through a network of seed farmers. Processing, conditioning and marketing of selected seeds will be entrusted to private operators (traders, NGOs, farmer organisations, etc.). Other activities under this component are: (i) efficient control by the Government services of the quality of agricultural inputs and possible risks on the collective natural capital (soil, water, forests, etc.); (ii) efforts to reduce production costs, especially of inputs. Cost reduction implies a better utilisation rate of the ginning and modernisation capacity of the industrial units, which would mean a drop in committed costs on the cost price and return for lint yields; (iii) reduction in the bank interest rate and transport costs; and (iv) modernisation of the agricultural farms through increased mechanisation and motorisation.

(c) Industrial and Commercial Development

97. Through the provisions of AGOA and the Lome Conventions, the programme will facilitate access to the world market of clothes and various products manufactured in West and Central Africa. At the same time, the programme will facilitate private investment in West and Central Africa, and trade between the region and the rest of the world. The results expected of the implementation of the programme's first six-year phase are: (i) 100 private companies with an average of 1,000 qualified employees per company established in the textiles sector; (ii) 100,000 new direct jobs and 500,000 new indirect jobs created in the textiles sector of West and Central Africa; (iii) a total income of about two billion dollars generated by the sector; and (iv) a larger share of countries in West and Central Africa in world trade. Industrial and commercial development will concern the processing of seed cotton into lint, weaving, manufacture, quality control, logistics management and marketing of clothes.

(d) Programme Implementation

98. The programme's executing agency will be the Council of Agriculture Ministers of West and Central Africa (CMA/AOC), UEMOA or any other competent regional development institution. An independent programme management unit to be created within the CMA/AOC and national coordination units in the beneficiary countries will coordinate all the programme's activities under the

aegis of the supervisory ministries, CMA/AOC and the regional economic communities (WAEMU and CEMAC). The main partners identified at this stage for the programme's implementation are UATALCO (The US-Africa Trade and Aid Link Corporation), N.C. State (North Carolina State University), USA and MFI (Manitoba Fashion Institute Training Centre), Canada.

99. In five years of activity, UATALCO has developed unique skills in technology transfer and trade between the United States and Africa with focus on light and industrial products. N.C. State has a department specialised in textile, fibre and clothing. It is currently taking part in capacity building in the field of clothing in Hong Kong and Mexico. MFI is specialised in capacity building in manufacture, quality control, logistics management, marketing and entrepreneurship in the clothing industry.

100. The agricultural research institutes, the directorates of agriculture, the cotton boards and companies of West and Central African States will implement activities for capacity building and improving cotton sub-sector production and productivity in collaboration with NGOs. Private operators will implement the industrial and commercial development component. For an efficient management of the operation, the programme will build the capacity of the executing agencies by providing them with technical assistants.

(e) Cost Estimate

101. The total cost of the programme's first phase is estimated at UA 500 million. The public investment requirements are estimated at UA 60 million and private investments at UA 440 million. The cost estimate by component is: (i) capacity building: UA 40 million; (ii) improvement of production and productivity: UA 20 million; and (iii) industrial and commercial development UA 440 million.

Project Benefits

102. A complete development of cotton through processing at local level thanks to the programme identified, would have the twofold advantage of maximising the local value added, with a positive impact on the industrial growth of countries of West and Central Africa, fiscal revenue, trade balance and the incomes of the sub-sector players. The programme will make it possible to better protect cotton from West and Central Africa from the fluctuations of the price of lint. In addition, it will help advance economic integration at regional or even global level. Integration in West and Central Africa could involve areas such as research and training, energy, seed production, fertilisers and pesticides, spinning and product processing, information systems, development research and concerted action on the world market.

Technical Assistance Requirements

103. To be determined.

Issues and Proposed Actions

104. The programme's total cost is estimated at UA 500 million. The ADF resources being limited, a co-financing of the programme is to be envisaged. To that end, a donor meeting (sort of consultative group), will be necessary to mobilise more resources. Moreover, within the framework of the programme's preparation it will be necessary to conduct the following studies: (i) trend of the sub-sector's value added, in order to better determine its macroeconomic contribution; (ii) industrial development in particular, an analysis of the main activities as well as the prospects for partnership

with private investors and promoters; (iii) an in-depth review of the market with a view to assessing indicators for the current trade situation between West and Central Africa and the main export markets targeted, that is to say, North America and Europe; and (iv) privatisation of agricultural services (inputs, seeds, transport of inputs and products, etc.).

Sector Assumptions/Risks

105. The programme's success is conditioned by the implementation of all its components. The following assumptions can be mentioned: (i) continued peace, justice and political stability in the beneficiary states; (ii) further economic reforms by the beneficiary States; (iii) better basic services (education, health and communications in terms of transport and information) in the rural areas; (iv) decentralisation with delegation of development project ownership at local level; (v) sufficient and evenly distributed rainfall; and (vi) timely availability of the programme's financial resources.

B. DAC/OECD

Background

Introduction

106. This Briefing, to be held on 28 January 2005, is organized in response to the WTO Secretariat's request for the OECD/DAC's support in the follow-up process to the WTO African Regional Workshop on Cotton held in Cotonou on 23-24 March 2004.

107. DAC members agreed that there were two avenues through which they could support the broader international effort to treat the development dimensions of African cotton:

108. First, by expanding and deepening the information on cotton-related assistance in the joint WTO/OECD Trade Capacity Building Database (TCBDB). This would require close cooperation with the bilateral and multilateral donors involved with following through and tracking progress on the Cotonou Workshop outcomes.²

109. Second, by holding a more comprehensive briefing for DAC Members with the participation of the relevant development agencies and key African actors on international efforts to address the development dimensions of the African cotton issue.³

110. The DAC Briefing is also in line with article 1b of the Decision adopted by the General Council on 1 August 2004 on the Doha Work Programme (WT/L/579, referred to below as the July Framework Decision), which stipulates that "Members should work on related issues of development multilaterally with the international financial institutions, continue their bilateral programmes, and all developed countries are urged to participate. In this regard, the General Council instructs the Director General to consult with the relevant international organizations, including the Bretton Woods Institutions, the Food and Agriculture Organization and the International Trade Centre to direct effectively existing programmes and any additional resources towards development of the economies where cotton has vital importance."

²The DAC Secretariat suggests that this proposal should be evaluated in the light of information needs revealed at this meeting. It would then need to be discussed with the TCBDB Working Group.

³DAC Chair's letter to WTO Deputy Director-General, Dr. Rana, WTO, dated 7/07/04 (RM(04)064).

Purpose

111. Against this backdrop, the DAC Briefing aims to bring together key stakeholders from headquarters and field offices of donor and multilateral agencies, international financial institutions (IFIs), regional organizations, as well as the WTO representative of African countries involved in cotton production and trade. The main objectives are:

- In light of the importance of cotton production and trade for the development of some African countries, *to examine* whether the cotton sub-sector is appropriately reflected in developing countries' development policies and poverty reduction strategies;
- In the light of the July Framework Decision, *to share information* on emerging approaches to development assistance programmes and examine the extent to which the latter are incorporated in agency Country Assistance Programmes;
- In order to increase aid effectiveness, *to discuss* how to apply lessons of alignment and harmonization to the design and delivery of assistance programmes for the cotton and other related sectors.

The briefing will be structured as follows:

- **Session I** will set the scene by providing (1) an update on the status of the WTO agricultural negotiations; (2) an overview of global market trends in cotton production and trade; and (3) a reflection of the possible impact of changes in the external trade environment on African cotton producers and exporters.
- **Session II** will then examine (1) the economic and social importance of cotton production and trade for key African countries and their strategies and reform approaches in the cotton and related sectors; and (2) assess how these are reflected in country-owned development policies and poverty reduction strategies.
- **Session III** will focus on recent evolutions in the design of assistance programmes for promoting the sustainable development of the cotton sector in Africa and assess how to apply lessons of alignment and harmonization to that area of development assistance.

Participants to be invited

- DAC Members;
- Representatives from the Sahel and West Africa Club (SWAC) Secretariat, the Trade and Agriculture Directorates and the Development Centre of the OECD;
- World Bank, IMF, African Development Bank (AfDB); FAO and ITC staff (including those that are involved in the Integrated Framework and JITAP);
- Representatives of regional organisations, e.g. ECOWAS; WAEMU; UNECA; African Union, NEPAD Secretariat;
- Representatives of the four West African cotton producing countries and Senegal;
- Representatives of African producer associations and the private sector;
- WTO Secretariat;
- Chairman of the WTO Agricultural Negotiations Group (Tim Groser).

DRAFT ANNOTATED AGENDA

Presentations by speakers will be limited to max. 15 minutes, in order to leave time for discussion

WELCOME SESSION – 28 January 2005

9.15 – 9.30 Welcome by WTO Deputy DG Dr. Rana

SESSION I – CHALLENGES AND OPPORTUNITIES FOR AFRICAN COTTON PRODUCERS AND TRADERS IN LIGHT OF THE WTO NEGOTIATIONS

9.30 – 10.30 This session will set the scene by providing (1) an update on the status of the WTO agricultural negotiations; (2) an overview of global market trends in cotton production and trade; and (3) a reflection of the possible impact of changes in the external trade environment on African cotton producers and exporters.

Chair: **Jean-Marie Metzger, Trade Directorate, OECD - TBC**

Lead speaker: **Tim Groser, Chairman of the WTO Agriculture Committee Meeting in Special Session (WTO Agriculture Negotiating Group) on (1)**

World Bank on (2 and 3) - TBC

10.30 – 11.00 Discussion

SESSION II – COTTON: HOW IMPORTANT IS IT AND HOW IS IT REFLECTED IN NATIONAL DEVELOPMENT/ POVERTY REDUCTION STRATEGIES?

11.00 - 11.45 This session will aim to (1) build a better understanding of the economic and social importance of cotton production and trade for key African countries, regional development and intra-regional trade; (2) examine national and regional cotton sector development and policy reform programmes; and (3) assess how these are reflected in country-owned development policies and poverty reduction strategies.

Chair: **Stefan Tangermann, Agriculture Directorate, OECD - TBC**

Lead speakers: **Cotton producer association and Karim Hussein, SWAC, OECD on (1)**

African Development Bank on (2) - TBC

Leendert Solleveld, World Bank on (3) - TBC

11.45 - 12.30 Discussion

12.30 – 14.00 Lunch Break

SESSION III – DEVELOPMENT ASSISTANCE FOR THE AFRICAN COTTON SUB-SECTOR: MAXIMIZING AID EFFECTIVENESS

14.00 – 15.00

This session will provide the opportunity to (1) share information on recent evolutions in the design of assistance programmes for promoting the sustainable development of the cotton sector in Africa and examine in what measure such programmes are included in agencies' Country Assistance Programmes; and (2) consider how to apply lessons of alignment and harmonization.

Chair: Richard Manning, DAC Chair, OECD

Lead speakers: Chiedu Osakwe, WTO Secretariat- status update on (1)

USAID and EC on (1)- progress since the Cotonou Workshop

Richard Carey, OECD on (2)

15.00-15.45

Discussion

15.45 -16.15

Coffee Break

16.15 – 17.30

Discussion on ways forward

17.30 – 18.00

Conclusions

C. FAO

Statement made on 22 October 2004

112. The FAO would like to report on two issues:

- first, on the results of an FAO consultation on the likely impacts of subsidies in OECD countries on WCA countries, and
- second on some project ideas on what FAO could do to address specific developmental issues of cotton dependent WCA countries.

(a) Impact of Cotton Subsidies

113. You will recall that when the cotton initiative was launched last year, there was considerable controversy on the size of the impact of OECD cotton subsidies. The range of likely impacts was very wide and FAO considered appropriate to review the results of different studies, to examine the assumptions behind the numbers and, specifically, what factors were responsible for the substantial differences between the different estimates.

114. This activity culminated in an informal consultation of experts on 31 May - 1 June 2004 in Rome. FAO brought together analysts that had done substantive work on the subject. The consultation discussed the modelling approaches, the parameters assumed and the base data used in the different exercises. The idea was to understand better the shortcomings of different modelling exercises and the nature of the differences between them.

115. The general conclusions that emerged from the FAO informal consultation are as follows:

What are the estimated impacts?

116. First, all the studies reviewed in the FAO consultation unambiguously demonstrate that the removal of subsidies in OECD countries would reduce cotton production and exports from these countries.

117. Second, the removal of subsidies would have, as expected, a positive effect on world prices. However, there is significant divergence in the magnitude of this increase, with studies estimating increases between 2% and 35%. Will revert to some explanations of differences shortly.

118. Third, who gains and by how much from this world price increase would depend on the supply response in different countries. However, irrespective of the differences in the magnitude of the gains of WCA countries, all models estimate positive effects on their export earnings, totalling between US\$ 26 million to US\$ 504 million.

119. Fourth, some of the analysis also attempted to assess the impact of cotton subsidies on poverty. For example, one study estimated a 22% increase in cotton-producing households in Benin falling below the poverty line. In Zimbabwe, real incomes of cotton producers were estimated to fall by between 13 and 31%, depending on the household characteristics.

What are the reasons for the differences in estimated impacts?

120. First, the fundamental parameter in any modelling exercise is the choice made on the supply and demand elasticities. In other words, how responsive to price increases is cotton production in different countries and, also, how does demand in importing countries respond to such price increases?

121. On the demand side, most models assumed rather inelastic demand, which would result in higher world market increases than otherwise. Whether demand is elastic or inelastic would also depend on competition from synthetics, and the extent to which cotton price increases would be moderated by relative price effects of competing products such as polyester and other synthetic fabrics.

122. Most models also assumed low supply elasticities. However, as regards supply response in developing countries, it should be noted that these countries have been increasing their production and their share of world exports in spite of suppressed world prices. This suggests that there is the potential for a significant supply response in developing countries, should prices rise. Thus these countries would benefit from both a higher price as well as a higher volume exported.

123. A second important factor which explains some of the differences between models is how decoupled payments are assumed to effect production. Most studies assume that a subsidy reduction would translate directly into a reduction in the price that the producer receives, irrespective of other existing support mechanisms. To the extent that producers receive support through other mechanisms, such as the reallocation of support through various forms of decoupled measures, then the increase in world cotton price is overestimated.

124. A third important factor is whether reduction in cotton subsidies would be in isolation from reform in other agricultural commodities or as part of a wider reform. Most studies assumed that support to alternative crops would remain unchanged. To the extent that the reduction in cotton subsidies would be associated with reductions in subsidies in other crops, then the impact on the cotton sector would be lower than otherwise.

125. A fourth factor is whether China is included or excluded from the analysis. China accounts for one third of world output and consumption and the effects of China in or out could be significant.

126. Finally, different models have not used the same data sources in their analysis, nor the same base period, and this also contributes to the differences in the results derived from them.

127. Overall however, despite the substantial differences between different models, the FAO consultation came to the conclusion that cotton subsidies have an important impact on the global pattern of cotton production, world market prices and cotton trade. All of the studies reviewed point to a positive outcome for cotton producing WCA countries as a result of the removal of subsidies in OECD countries.

(b) Some FAO Project Ideas for a Competitive Cotton Industry in WCA

128. Following the launching of the cotton initiative last year and the possible role of organizations like FAO in the developmental aspects of the cotton sector in the WCA countries, FAO formulated a set of *Project Ideas* reflecting what FAO could do, based on its technical expertise and comparative advantage within the specialised agencies of the UN.

129. The main thrust of these *Project Ideas* is to increase the profitability, competitiveness and sustainability – economic and environmental – of the cotton industry in WCA countries. For that it is essential to develop appropriate sectoral policies and strategies to cope with the international market dynamics and requirements, while also helping the region develop more cost-effective and sustainable production systems and improve efficiency in product processing, handling and marketing.

130. I will mention briefly three of the project ideas elaborated by FAO.

131. The first is on sectoral and trade policies.

132. This aims at reinforcing the capacity for developing and implementing policies and strategies to ensure prosperity of the cotton industry in the cotton producing countries. It could comprise, *inter alia*, the following elements:

- Regional and country-based policy and strategy studies on critical factors affecting viability of the cotton industry.
- Technical support and training in order to strengthen institutional and human capacity for putting into action the identified policies and strategies.
- Training workshops to focus on concrete measures - such as sectoral and infrastructural investments and policy reforms - for increasing the competitiveness of African cotton and textile exports in world markets.

133. The second project idea relates to supply chain performance.

134. It aims at addressing major performance issues in the cotton supply chain, including, *inter alia*, the following:

- Ways of increasing the profitability of cotton production by identifying and promoting options for increasing productivity and reducing production costs, as well as flexible management strategies for farmers to respond to changes in world markets.
- Ways of improving the performance of the cotton marketing system, focusing on marketing costs and efficiency, risk management, access to inputs, etc.
- Ways of increasing the competitiveness of textiles and clothing industries, because it is essential for the cotton industry to move into value-added textiles production and exports to counter price declines in raw materials.

135. The third project idea relates to sustainable integrated production practices.

136. This aims at improving the production efficiency of smallholder cotton/cereal producers through Integrated Production and Pest Management (IPPM) and includes elements such as: crop rotations and crop residue management, plant nutrient use in synchrony with crop rotations, etc.

137. A major input here could be the introduction and application of a Good Agricultural Practices approach that addresses the economic, social and environmental dimensions of sustainability within a multi-stakeholder framework. Integrated Production and Pest Management (IPPM) Farmers' Field Schools (FFS) could be central for building farmer capacities to use good agricultural practices.

138. These are some project ideas that reflect FAO's technical expertise and comparative advantage. However, the implementation of these project ideas would require a multi-disciplinary approach and cooperation between technical experts from FAO and other international organizations, research institutes, local governments and institutions, and the cotton industry. For example, appropriate technical support for the cotton-related industries could be ensured through collaboration with the agro-industries branch of UNIDO, which is already active in these countries.

139. More broadly, these project ideas could be seen within the context of a wider partnership for development assistance to support the Cotton Initiative, such as the EU-Africa Cotton Forum convened in July this year, which formulated an Action Plan with specific activities, timetables and the involvement of different development agencies and institutions.

Statement made on 18 November 2004

FAO Development Assistance Activities on Cotton in African Cotton Producing Countries

140. Given the significant importance of cotton in rural employment, poverty reduction, food security and national economic growth in African cotton producing countries, FAO, under its mandate, has played an active role in assisting the development of the cotton sector in the major cotton producing countries in Africa such as Benin, Burkina Faso, Chad and Mali over the past few years. FAO activities related to cotton development in African countries have had two important features: (1) they have covered both market development and technological development, and (2) while not focussed strictly on cotton they have been of significance to cotton producers because either the cotton sector was included in the overall agricultural development project or the cotton sector benefited indirectly from the general rural development aspects of the project.

141. With regard to market development assistance, FAO has organized various workshops and seminars in Africa to assist African countries to implement the Agreement of Agriculture (AOA) and play an active role in the WTO negotiations. FAO has undertaken a series of studies which were among the first to advocate the significant contributions of cotton production to rural employment and food security in African countries, examined issues related to improving cotton market efficiency and analysed how African cotton producing countries would benefit from the reduction in domestic supports to the cotton sector in developed countries. Recently, FAO has organized an expert consultation on the effects of domestic farm subsidies to the cotton sector on the world market and the African cotton producing countries. These activities along with FAO regular market analysis and information dissemination have assisted governments' cotton policy formulation and industry's development decisions.

142. FAO has implemented numerous agricultural and rural development projects in African countries, which should benefit cotton farmers directly and indirectly. Concerning technological assistance specifically to cotton, FAO has been implementing an Integrated Production and Pest Management (IPPM) project in two of the four major West Africa cotton producing countries (Burkina Faso and Mali) as well as Senegal. This project is being funded by the Dutch Government and the first phase, which started in 2001, will conclude in December 2004. A second phase has been accepted, in principle, by the government and donor, and is currently under design. This second phase will expand to include Benin and Cape Verde. The Phase I project budget is about US\$ 2.9 million. Phase II will be around US\$ 4 million.

143. FAO is also executing a project "Reducing Reliance on Agricultural Pesticide Use in the Senegal and Niger River Basins through Integrated Production and Pest Management, and a Community-based Pollution Prevention System". The project is co-financed by the Global Environment Facility (GEF-UNEP) and will be implemented in, Guinea, Senegal, Mauritania Mali, Niger and Benin. The overall objective of this project is to initiate high-quality monitoring of pesticide residue levels in the Senegal and Niger River Basins, and through a Farmer Field School

approach, to drastically reduce the use of chemical inputs in crop production (including cotton), while positively impacting production, profit and human health. The pilot phase was conducted in 2003 in Senegal with a budget of US\$ 531,850. The full phase six-country program is expected to start in late 2005 and will be around US\$ 8 million.

144. In south-western Burkina Faso, FAO and partners such as IITA and CIRAD are working with diverse local institutions on opportunities to improve incomes through improved production systems with emphasis on crop/pasture/livestock integration. Reduced tillage to improve soil organic matter is central to the theme of the project and small-holder no-till equipment from Brazil is being demonstrated and promoted in this regard. Farmer enthusiasm is high for a range of ideas they are testing. This initiative dovetails into the IPPM work, especially the part that focuses on cotton management. Training of trainers is planned for the next season to permit scaling up improved management practices based on farmer participatory approaches. In addition, small holder fruit producers in this region are beginning to organize for export of banana and mango to Europe, and in response FAO is beginning to explore opportunities to assist the farmers associations to meet good agricultural practice (GAP) requirements for the market.

145. Cotton is one of the anchor crops being developed under the FAO PRODS PAIA (Production Priority Area for Interdisciplinary Action) in its benchmark sites in Burkina Faso and other countries of West Africa. The main activities that FAO is involved in relating to the cotton zones of West Africa, include:

- (a) support for promotion of Good Agricultural Practices in Burkina Faso, which is a pilot activity for promoting GAPs throughout the cotton-cereal-livestock zone of West Africa
- (b) support to the pilot project for the Onchocerciasis-freed zones in Burkina Faso and Ghana which includes cotton growing areas
- (c) support to the Nigeria SPFS (FAO's Special Program for Food Security) which covers the cotton zone in northern Nigeria

146. Moreover, a few new technological projects have been under preparations. Preliminary discussions between FAO [through the AGST Service] and the German Michael Otto Foundation have been initiated regarding a project to promote small holder cotton growing in Africa. The main issues being discussed include how to introduce an environmentally sustainable way of growing cotton which is, at the same time, economically profitable. It is proposed that the cotton from this initiative will be marketed under a newly created label "cotton made in Africa". The Otto foundation will link the commercial side of the marketing to the Otto group and to other textile enterprises signing into the initiative. The role of FAO is expected to be mainly to assist in the development and implementation of a sustainable, environmentally and economically sound way to grow cotton, based on conservation agriculture and integrated pest management as well as the establishment of socio economically sustainable input supply and marketing arrangements for small farmers. At this moment the initiative is at a very early brainstorming phase and FAO is just entering into contact with the stakeholders. The initiative has created interest of the World Bank as well as some German Ministries and will start with pilot field sites in several African countries, such as Uganda, Tanzania, Mali, Burkina Faso and Benin.

147. After moving steadily higher since the record low in late 2001, the world cotton price has sharply declined since March 2004. As the world cotton output this year is expected to reach another record level at 24 million tonnes, the current world cotton price is dropping below US\$ 0.5 per pound again. If the exchange rate factor is taken into account, the current cotton price would be lower than the 2001 price level. The world cotton market is considerably volatile in recent years. After surging by nearly 50% during March - October 2003, the current cotton prices are more than 30% lower than

six month ago. Given such an extremely challenging market environment, African cotton producing countries urgently need an implementable strategy to ensure the long-term prosperity of the cotton sector by increasing both market efficiency and technological efficiency. Given FAO expertise in both areas, FAO will actively pursue further projects to assist African cotton producing countries to improve the efficiency and sustainability of the cotton sector, and to design appropriate market and development strategies. Since a stable world cotton market is of great importance for all African cotton producing countries, FAO will work with the world major cotton producing and consuming countries, as well as other international institutions, to promote actions and measures to reduce the unpredictability of the world cotton market for African producers, and manage efficiently the attendant market risks.

D. IMF

Background

148. The IMF is providing assistance to its members, including cotton-producing countries in Africa, through three key channels: surveillance, financial support, and technical assistance. Given the systemic importance of the cotton sector in the countries concerned and hence its impact on overall macroeconomic performance, the IMF has been, and will remain, closely involved in encouraging, monitoring and advising cotton-producing countries to push ahead with reforms to improve the efficiency of their cotton sectors, diversify production, and introduce market-based mechanisms to stabilize farmers' incomes. While the World Bank would continue to take a lead role in supporting structural reforms to the cotton sector, the IMF can support countries in managing balance of payments imbalances and adjustment needs—including those that may stem from the volatility in cotton prices. Looking beyond the structural measures directed at the cotton sector, the long-term decline in cotton prices highlights the need for cotton-producing countries to pursue broad-based reforms to improve the environment for strong, sustainable growth led by the private sector. The IMF will continue to provide advice and assistance in support of such reforms—guided, for an increasing number of countries, by the framework for broader economic development set out in the Poverty Reduction Strategy Papers (PRSPs).

149. In general, the IMF's main instrument for supporting low-income countries is its Poverty Reduction and Growth Facility (PRGF). Arrangements under the PRGF support governments' macroeconomic programs directed at achieving sustainable adjustment in response to balance of payments difficulties of a structural character. In this regard, PRGF-supported programs seeks to provide a consistent framework integrating macroeconomic and structural policies that will contribute to enhancing prospects for sustainable growth and reductions in poverty. More broadly, programs supported by the IMF reflect economic policies set out in countries' PRSPs, prepared by each country through a broad-based participatory process.

150. While the IMF is prevented under its Articles of Agreement from providing assistance to specific sectors, it can support countries facing balance of payments shocks, including those emanating from the cotton sector. IMF staff are considering how the needs of cotton-dependent countries could be given more explicit recognition, and how the IMF could underscore its willingness to consider, within the framework of the PRGF, increased financing should a need arise as a result of unexpected shocks to the balance of payments. From this perspective, the main point of the approaches under consideration would be to provide a more explicit, advance indication of the IMF's intentions for countries with macroeconomic programs supported by arrangements under the PRGF.

Consultations on the Development Assistance Aspects of Cotton

151. At the first round of consultations, the IMF (Mr. Hans Peter Lankes) noted that as a macroeconomic institution, the IMF could only play two specific roles, namely (i) to judge how developments in the cotton sector link into the overall economic picture; and, (ii) to contribute to

mitigating balance of payments shocks. The IMF informed participants about the flexibility for financing existing under the Poverty Reduction Growth Facility (PRGF). This flexibility was provided for in the legal provisions for PRGF funding, and with regard to Fund financing arrangements in the African cotton exporting countries, the Fund's Board was explicitly recognizing the need for possible increases in financing as a result of shocks (a precedent in this regard was set in the new Mali 3-year PRGF arrangement, which was approved subsequent to the Cotonou workshop). Although the IMF was concerned with the broader macroeconomic picture and did not provide sectoral support, the IMF was currently working on the financing and modalities of the Fund's engagement with low-income members, including instruments to help members face shocks. This work aims to address the particular challenge faced by cotton producers in Africa or similar challenges faced by other commodities producers with systemic implications for macroeconomic performance. In response to a question on the applicability of the IMF's Trade Integration Mechanism (TIM), the Fund clarified that the TIM was designed to apply to the class of situations where multilateral (or third country) trade liberalization created adjustment costs in home countries.

152. At the second round of consultations, the IMF (Mr. Jean-Pierre Chauffour) focused on the more immediate issues faced by cotton-producing countries arising from the sizable decline in world cotton prices.⁴ Policy advice needed to balance two objectives: (i) production efficiency—this calls for letting the price mechanism work, allowing the pass-through of world price movements into domestic price signals, taking into account cotton market structures;⁵ and (ii) social stability—indicating that, in some cases, financial support may be warranted to those affected by the price declines. Preferably, the two objectives should be addressed by different instruments: (i) price pass-through to achieve production efficiency, while ensuring cross-country consistency, especially in neighbouring countries (like Burkina Faso, Benin, and Mali);⁶ and (ii) targeted income support (or other, non-price-related support) to address the social concerns. However, implementing the above may face serious practical obstacles if the implied decline in domestic cotton prices were to be very large. In this case, sufficient income support mechanisms may simply not be available to protect the poor, or the implied effect on cotton production may have adverse political consequences affecting very large constituencies in some countries. This may open the case for budgetary support to cushion, at least temporarily, the fall in domestic producer prices. Financial support from donors could also help cushion the impact of the cotton price decline.

⁴ World cotton prices have fallen by some 27% in U.S. dollar terms over the past year (October to October) and, with the euro's appreciation, by some 32% in euro (and CFA) terms. Cotton prices have, amid some volatility, shown a generally declining trend, and available information (including from futures market) suggests that much of the recent price declines is likely to be permanent.

⁵ Cotton market structures differ considerably across countries in sub-Saharan Africa. Notably, producer prices are set by state-owned companies in some countries (e.g., Mali), but by largely private-owned companies in others (e.g., Burkina Faso). Related in part to the ownership structure, budgetary support to the cotton sector varies considerably across countries.

⁶ Large producer price differences (say of more than some CFA 20 per kilo) are unlikely to be tenable due to both political repercussions and goods arbitrage.

E. ITC AND JITAP

Informal note on Cotton specific priorities in ITC country programmes and JITAP facilities and mechanisms for financial and technical assistance to cotton sector-specific projects

153. At this point in time, other than the elements incorporated in the JITAP country project documents, the ITC has no cotton-specific priorities in country programmes. This note answers the two questions raised by the WTO⁷ with regard to ITC broad actions and to the activities planned under JITAP.

Actions by ITC

How can the International Trade Centre (ITC) provide financial and technical assistance to cotton-specific projects?

154. ITC's specific technical cooperation activities are demand-driven. Therefore, detailed needs assessment in close cooperation with national counterparts would be the starting point for the development of specific technical assistance programmes and projects that would help address priority needs to support the export development of cotton, cotton by-products and value added products derived from cotton.

155. Activities proposed by ITC could be undertaken in three delivery modes and at national, sub-regional or regional levels. Multi-country activities can also be planned to complement specific country level activities.

156. Financial resources will be required to enable ITC to develop technical assistance programmes and projects to address priority needs as identified.

(a) Three delivery Modes

Technical assistance proposed by ITC could be delivered through one of the following modes:

- Generic tools and multi-country programmes
- Customised initiatives
- Multi-agency, multi-country programmes, more specifically JITAP and the IF

(b) Three levels of technical assistance

(i) At national level

- Capacity building at institutional level:

- Strategic and operational market analysis: This entails an analysis of trade flow statistics, using ITC's tool *TradeMap*, to assess trade performance at sector and product levels.

⁷The two questions raised by the WTO in the letter of 4 November 2004 relate to the actions already taken and the actions which the agencies further intend to take, to:

- Reflect cotton sector-specific priorities in their country programmes and other relevant facilities and mechanisms; and,
- Provide financial and technical assistance to cotton sector-specific project.

- Market Access assessment and simulation tool: Decision makers in the cotton sector can use the ITC Market Access Map - *MacMap* to assess market access conditions.
- Trade information: ITC can help Trade Support Institutions (TSIs) strengthen trade information services to assist the cotton business community to adjust to the new emerging trends.
- Export Quality Management: ITC can strengthen the capacity of the National Enquiry Points (NEPs) on SPS and TBT with regard to the cotton sector.
- Product sector strategy development: In order to benefit from the export of cotton or value-added products in a sustainable way, a strategic approach is needed, especially when considering the expected changes to take place in 2005.
- Capacity building at the enterprise level:
 - Product and Market Development for Clothing: With the 2005 Quota Phase-out, competitiveness requirements for garment manufacturers will increase tremendously. To meet these challenges, ITC addresses 6 major needs of developing countries garment manufacturers. This includes i) clothing sector strategy development; ii) benchmarking with competitors around the world; iii) sourcing information and supply management skills; iv) understanding changing markets after 2005 and developing tailor-made market penetration approaches in traditional and newly emerging markets; v) promotion of e-applications in the clothing sector; and vi) south-south cotton trade development.
 - Export Quality Management: While ITC does not work in the area of agriculture production, it can help with quality improvement of the export products by assisting producers and ginners to produce according to market/buyer requirements, which essentially covers post-harvest handling.
 - Market development: ITC can provide assistance to SMEs, small growers, ginners and intermediaries to link them to the right business partners by organizing market tours and market missions to selected markets.
 - Competitiveness assessment: ITC "*Fitness Checker*" tools assist enterprises to undertake self-assessment through simple interactive checklists.

(ii) At the regional and sub-regional levels

ITC could provide trade-related technical assistance at regional and sub-regional levels to create synergies and to ensure that initiatives undertaken help to strengthen the export capacity of cotton producing countries within the region or the sub-region.

- Strengthening sub-regional negotiating capacities: ITC can organize *Business for Development* workshops, training and information dissemination sessions at regional and sub-regional levels. South-South trade along the value chain: Some African countries are looking into the feasibility of developing an integrated value chain from cotton towards clothing production. While ITC cannot assist in the development of a textile industry, it can assist in creating business linkages between African countries with complementary production factors and trade

interests. ITC can bring cotton growers, ginnerers, fabric manufacturers and clothing manufacturers closer together to do business along a regional value chain to be finally able to penetrate the major clothing markets.

- South-South trade development along an inter-regional value chain of cotton, cotton textiles and cotton clothing products: Exporting cotton to China and cotton fabrics back to Africa for exportation of clothing to the US and EU, fully complying with rules of origin requirements.

(iii) At global level

A selected number of products/activities would also enable ITC to help link national capacities to regional and global networks.

- A "*Cotton Guide*": ITC could prepare a "trader's manual on cotton". The guide would contain basic and operational information on the international cotton market and its requirements, with practical help to the trader and the producer.
- Market studies on cotton by-products and valued-added cotton products: these studies would help producing countries to identify and analyze potential export markets in order to diversify exports beyond the commodity market.
- Facilitation of Technical Cooperation among Developing Countries (TCDC): As more cotton consuming industries will be based in developing countries, especially after the textiles and clothing quota phase-out, ITC can facilitate the transfer of knowledge and especially market/buyer requirements from cotton consuming industries in developing countries to growers, ginnerers and intermediaries.

Actions under JITAP

157. There is no specific chapter in the JITAP programme document for cotton, and none for any other product sector, as sector-specific actions are determined in the country project documents through consultations among the countries and the JITAP agencies, ITC, UNCTAD and WTO. In the framework of JITAP five modules however, some activities and capacity-building targets touch upon the cotton sector or directly relate to supporting the cotton economy.

(a) Generic capacity-building actions

(i) Preparation of negotiating positions

158. Through its Module 1, led by UNCTAD, JITAP supports the Inter-institutional Committees (IICs) in each JITAP country and their technical sub-committees that cover among other topics, the negotiations on agriculture. As the "cotton case" is now embedded within the negotiations on Agriculture, institutional capacity-building support will also cover the cotton sector and related negotiations. JITAP's interventions are undertaken in the form of technical advisory missions and communications, as well as limited financial support to the operations of the IICs and their subcommittees. In several countries, "Technical Notes" are being prepared, upon request by and under the supervision of the Ministry of Trade, to help the various IIC subcommittees, involved in ongoing negotiations, to have a quick summary of the status of play at the WTO, with some elements relating to the impact of negotiations on the country's interests. Such notes are normally prepared by national consultants. Many of these notes relate to the negotiations on agriculture. The agencies, particularly UNCTAD, as leader of Module 1, would assist on an *ad-hoc* basis when needed. This

type of interventions does not relate specifically to cotton, as no specific requests for *ad-hoc assistance* have been received as yet.

(ii) Managing MTS information

159. Under Module 2, led by WTO, JITAP helps the countries in setting up National Enquiry Points and Reference Centres, including two NEPs that can be solicited in supporting action in the Cotton sector, namely one on Technical barriers to Trade (TBT) and one on Sanitary and Phytosanitary Measures (SPS). Similarly, three Reference centres geared to servicing the officials in the national Governments, the business community and the academia can play a role in disseminating information on the MTS in general and on the negotiation of agriculture.

(iii) Training and networking on the MTS

- Training workshops on cotton-related topics

160. Under its Module 3, implemented jointly by ITC, UNCTAD and WTO, JITAP has scheduled a number of training and capacity-building workshops, including one on Agreement and negotiations on Agriculture, including Cotton and on Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT) to be held in Cameroon, Kenya and Tunisia. Three to four trainers and professionals from each JITAP country will participate in this workshop, with the aim to acquire up-to-date knowledge and expertise for improving the support to national activities on the related topics, which will cover the cotton sector.

- Videoconference on textiles and clothing

161. In the framework of its networking Module 5, JITAP has also scheduled a capacity-building and briefing videoconference to be organized during the second quarter of 2005, to update all JITAP stakeholders and exchange views with them on the new situation and trends on the international market of textiles and clothing, further to the phasing out of the MFA by the end of this year. This videoconference will be jointly supported by ITC, UNCTAD and WTO. The relevant members of the inter-institutional committees, and private sector stakeholders in JITAP countries will participate in the videoconference.

Country-Specific Actions

162. Three of the "Cotton case" proponent countries are members of JITAP, namely Benin, Burkina Faso and Mali. From among the thirteen JITAP countries⁸ interested by the sector, eleven underscored the cotton sector in their JITAP country-specific project documents, as being important for their economies.

163. Benin, Burkina, Cameroon, Côte d'Ivoire, Ghana, Kenya, Mali, Tanzania, Tunisia, Uganda and Zambia made specific requests for some action to be undertaken, in the form of needs assessment studies, formulation of sector specific strategies, or even for precise product and market development actions, as follows:

164. Benin – Due to the "absence of a strategic vision for some important sectors, ... notably the cotton sector, ... that could contribute to the diversification of exports", the authorities requested JITAP to provide technical assistance for the strengthening of the country's negotiation capacity, with a focus on the cotton sector. More precisely, the Benin project document has stated "For the cotton

⁸From among the "26 involved African countries" in the WTO African regional workshop on cotton, held at Cotonou, Republic of Benin on 23-24 March 2004, Benin, Burkina Faso, Cameroon, Côte d'Ivoire, Kenya, Malawi, Mali, Mozambique, Senegal, Tanzania, Tunisia, Uganda and Zambia are JITAP countries.

sector and to help diversify products and markets, a study will be undertaken to present the country's needs for assistance by the development agencies, in the context of JITAP or other programmes."

165. Burkina Faso – The following is extracted from the JITAP project document "Since few months, the attitude of indifference of the general public towards the Multilateral trading system has changed with the denunciation of subsidies granted by the United States and the European Union to their cotton producers. This issue resulted in a higher awareness (of the critical importance of the MTS) by all stakeholders in the cotton sector, among the civil society, the private and public sectors, politicians and the media and culminated in the trip undertaken by the President of the Burkina Faso the WTO headquarters in June 2003, to defend the desperate situation of African cotton producers ...".

166. Among the problems faced by Burkina Faso that could be addressed by JITAP, the project document mentioned the following:

- Better knowledge by the members of the National Commission to Follow-up the WTO agreement of MTS negotiations and international economic relations;
- Improvement of the skills of the trade negotiators;
- Formulation of a "strategic vision" for priority sectors, including the cotton sector.

167. As for Benin, the Burkina Faso project document requested a study to define the country's needs for assistance by the development agencies, in the context of JITAP or other programmes, to help develop new products and markets.

168. Cameroon – The formulation of export strategies in the agricultural sector was also retained as a national priority, particularly for subsistence and export crops including cotton. The cotton exports in this country amount to about 80,000 tons of cotton yarn and more than 200,000 tons of cotton seeds. In an initiative to prevent negative effects on the important cotton sector in Cameroon, due to subsidies on the international market, the JITAP project document also requested the implementation of an export development programme to promote agricultural outputs including cotton and by-products. This would entail conducting:

- Diagnostic studies with regard to the supply capacity of the country;
- Market orientation tours and product-market development actions to be defined;
- Formulation of a sector strategy for cotton that would take into account existing surveys and work relating to the priority sectors and their potential for alleviating poverty in Cameroon;
- Organizing a national symposium in conjunction with the Ministry of Trade, the Ministry of Agriculture, the Cotton National Development Company and other stakeholders.

169. Cameroon also intends to conduct an impact survey on the cotton and textiles industry and proposed to organize a subregional workshop to improve the knowledge and foster interactions on this sector.

170. Côte d'Ivoire – This country pointed similar problems in their cotton sector that could be addressed by JITAP, including the following:

- Enhanced expertise of the National Inter-Institutional Consultative Committee on the WTO;
- Improvement of trade negotiators' skills related to agriculture including the cotton sector;
- Review of the "quality chain" and assistance to exporters in this area; and
- Development of a strategic approach for the for the cotton sector.

171. Mali – The lack of a strategy to develop the cotton sector that takes into account the recent developments on the international markets was also pointed out as a weakness to be addressed. The project document, however, did not call for specific actions by JITAP. A validation workshop is planned under the Integrated Framework for end of November 2004, when the country might review its needs for assistance, further to which more precise requests may be received from Mali.

172. Uganda – Among the main commodities produced by Uganda, cotton ensures important export earnings with even higher potentials. In recent years, Uganda has made efforts, including through ITC and JITAP, to diversify its economic activities into specialty crops such as floriculture, spices, fruits and vegetables to reduce its dependence on a few volatile export commodities, with remarkable success. The shortfall in export earnings from coffee, cotton and tea has been more than offset by exports of these crops.⁹ The industrial sector makes up an increasing share of real GDP and now accounts for about 20 per cent, with agro-processing making up the bulk of industrial production, next to manufacturing, mining and quarrying, public utilities and construction. Services contribute some 38 per cent to GDP and 13 per cent of employment, whereby tourism plays an important role.

173. While JITAP did not cover specifically the cotton sector during its first phase in Uganda, it facilitated the development and implementation of targeted activities under other bilateral projects, including by the USAID. Under the current phase of JITAP, Uganda did not specify any particular action for the cotton sector.

174. Zambia – The agricultural sectors with high growth potential include cotton and textiles, especially cotton yarn. Like other countries Zambia's has elements of a national export strategy premised on the promotion of non-traditional exports, which include cotton and textile products. "To make it more effective, the strategy however needs to be consolidated through sector-specific interventions, intended to be undertaken in the framework of JITAP."

175. Ghana – Kenya – Tanzania – Tunisia – In various ways, JITAP helped develop during its first phase in these four countries, a number of export sector strategies, including for textiles and garments. In Tunisia, market development actions were also undertaken in specific countries. There is a need to follow up these actions and perhaps to integrate approaches in the context of the totally liberalized international market for textile products. While Ghana and Tanzania requested the implementation of some elements of the sector strategy that was defined for their textiles sector, actions in the other countries remain to be determined with due account taken of the resources available to the JITAP programme.

⁹See Memorandum on Economic and Financial Policies of the Government of Uganda for 2003-04.

176. The priority actions expressed by Ghana for example relate to:

- "Capacity building and training in garment designs, fashions; and
- Strategic alliances with other textile associations to easily penetrate markets;
- Massive Promotion of textile products;
- Initiation of pilot projects for the textiles and garments sector;
- Initiation of work for the identification of additional products for development".

177. Tunisia in turn, intends to concentrate efforts on promoting high quality products in the textile sector, targeting the upper segments of international markets.

178. Other countries – Several other JITAP countries, such as Botswana and Senegal have stressed the need for the promotion of export-led industrialization and foreign direct investment into non-traditional goods, such as textiles, clothing, etc, without further precision on what needs to be done. This may be a scope for further needs assessment through a closer involvement of stakeholders in the countries.

179. All the above activities fall under the ITC-led Module 4 of JITAP on export sector strategies for goods and services. Actions will be implemented using the various tools and expertise enumerated under Chapter A. above, subject to the availability of resources. Specific actions are programmed with the countries in the yearly implementation plans prepared by the agencies and the country stakeholders. It must be noted that JITAP resources may not be sufficient to address all the priority needs that were expressed.

F. UNIDO

Second Round Of Consultations on the Development Assistance Aspects of the Cotton Initiative, November 2004

180. Mr. Chairman, UNIDO participated in the WTO Regional Workshop held in Benin, last March and there we presented how we see UNIDO's role in the context of our various technical assistance programmes which focus on improvement of competitiveness of the cotton sector, UNIDO also participated in the conference organised by the EU in Paris last July, which aimed at discussing the EU initiative on cotton. At this conference the EU presented a draft roadmap related to the Africa Cotton Partnership Initiative. In this occasion UNIDO expressed its willingness to cooperate. As proposed in the Paris forum I would like to confirm the interest and availability of UNIDO to participate in the implementation of the EU – Africa Cotton Partnership Initiative, in a comprehensive and sustainable manner and in close cooperation with the other international organizations.

181. UNIDO is now assisting the UEMOA country producers of cotton through the UEMOA/EU/UNIDO quality programme. In view of the social and economic importance of the cotton sector, it has been included as a priority sector in our quality programme. The following actions amongst others are now under implementation:

- The development and promotion of a special cotton label for UEMOA cotton, together with other activities to enhance the market image and promotion of UEMOA cotton products in cooperation with the African Cotton Association. To this end, an Expert Group Meeting will be organized in Ougadougou from 6 to 8 December 2004. The Association Cotonnière Africaine (ACA) and the "Association Française du Coton" have been invited. The event will bring together experts from the 8 UEMOA countries to

elaborate on the establishment of sub-regional standardization facilities in the cotton sector.

- The purchase of two instrumental cotton classification systems and accessories High Volume Instrument (HVI) for Mali and Togo. The system should be capable of measuring on one sample and in one single process various physical parameters of cotton fibers (such as fiber length, short fibers, fiber length uniformity, fiber strength and elongation, micronaire, maturity, colour, and trash), giving results with known precision and accuracy. The system should provide test results recognized worldwide in international trade, with successful applications in cotton processing.
- UEMOA also agreed assistance for reparation of the HVI of Burkina Faso. The HVI equipment will be used for the classification of cotton fiber in the three UEMOA countries and will also serve for training of technicians and classifiers of cotton in the region.
- A training programme on capacity building on the measurement in relation to classification, ginning and commercializing will run during the picking season in the principal cotton-producing countries (Benin, Burkina Faso, Mali, Senegal, Togo and Cote D'Ivoire). More than 120 classifiers of cotton, technicians of HVI and traders will participate in the training.

UNIDO's possible Contributions

182. Based on UNIDO's mandate, experience and comparative advantages, the following actions could be implemented by UNIDO:

183. National and regional strategies:

- National policies and strategies for development of cotton and related institutional and regulation reforms (Investment, Funding, Technology transfer, etc) elaborated for selected African countries producers of cotton and submitted to policy-making organs for approval. The strategy will include sectoral competitiveness analysis including actions plans and Road map (Green and White Papers). The analysis should focus on problems facing export of the African cotton products, investments in chain integration activities, technology transfer and quality of cotton products and establishment of strategy and action plan for selected African countries producers of cotton;
- National capacity building in the field of investment and technology transfer including: strengthening capacities of the national investment promotion agencies, establishment of regional/national investment data basis, organization of sub-regional Cotton Investment Forums.

184. Policies and institutions:

- Capacities of the existing support institutions enhanced: Cotton/Textile Technical Centres and Cotton Trade Associations in selected countries and assistance for transforming them into sub-regional center for technical assistance in the field of cotton (Centre of reference). The Technical Centers could provide to the various players of the cotton chain appropriate technical assistance in the field of training, consultancy, information and technology watch services, CAD/CAM services, quality management and productivity, analysis and testing; Technical centres are critical to the success of cotton value chains and are important providers of specialized services to their members.

- Traditional textile industry promoted through entrepreneurial, technical and market training; upgrading of equipment; new product development, organization of artisan associations and regional cooperation.

185. Technology innovation:

- National capacities of the quality infrastructure strengthened with focus on cotton at regional and national levels including: harmonization of policy and procedures for testing and classification of cotton products, development, adoption and promotion of standards related to cotton products (including the African Standard for Cotton), accreditation of selected laboratories (specialized in testing cotton products) to be selected from selected African countries producers of cotton, training of classifiers of cotton fibre, laboratory staff, association of farmers, reduction of contamination, development of documentation centres (TBT and standards library) with focus on cotton needs;
- Quality Assurance systems and GMP (Good Manufacturing Practice) introduced on pilot demonstration basis in selected cotton and textile enterprises;
- Instrument-based cotton quality evaluation system (HVI - High Volume Instrument) established for grading and testing cotton fibre on pilot basis in four Sub-regional Cotton Technical Centres;
- Cotton quality database developed based on HVI classification for selected African countries producers of cotton (countries using HVI systems). This system is being implemented in some developed country producers of cotton - the USA, Australia, Brazil, Israel, China, etc. The Secretariat of the International Cotton Advisory Committee estimates that 30% of world cotton production was evaluated with instrument classing systems in 2002/2003;
- Special Cotton Label for African Cotton developed and promoted with the aim to standardise the quality of cotton in cooperation with the African Association for Cotton.

186. Chain integration:

- Supply capacity strengthened to improve productivity and competitiveness on pilot demonstration basis through restructuring and upgrading of selected cotton and textile enterprises (access to new technologies and innovations, strategy development, market promotion,). The enterprises will be selected from selected African countries producers of cotton. Our objective is to increase the local transformation at first and second levels in the cotton, textiles and garments value chain;
- Export capacities of cotton and textile enterprises and market information system developed in selected African region;
- Market image enhanced and Brand of African cotton/textiles and Garments products promoted in cooperation with the African Cotton Association;
- Global forums (in each African region) on Integration of African Cotton/Textiles and Garments products in the Global Production Networks in cooperation with the African Business Round Table (Cotton/Garments/Textiles cluster).

G. WORLD BANK

World Bank's Activities in the Cotton Sectors of West and Central African Countries¹⁰

187. The objective of this note is to outline the World Bank's lending and non-lending activities in the cotton sectors of West and Central Africa. The Bank's involvement typically takes the forms of policy analysis, technical assistance and capacity building, and lending operations (either investment or adjustment) from IBRD loans or IDA credits. The remaining of this note briefly describes the main activities in these areas, each accompanied by a detailed table.

(a) Policy Analysis

188. The World Bank has been active in assisting the reform process in the cotton-producing countries of sub-Saharan Africa (table 1 gives a comprehensive list of World Bank's activities in policy analysis).¹¹ In the case of the policy debate of the West and Central African cotton producing countries, numerous consultations have taken place among the relevant stakeholders, including farmers' organizations, the cotton companies, the French cotton parastatal, and the multilateral donors. Initially, the discussion regarding the reasons for reform took a heated tone, most likely due to misunderstanding. Later, however, a consensus emerged [1]. As the special issue of *Cotton Outlook* on the cotton sector of West and Central Africa noted (p. 2): "Much of the impetus for change in the regions has come from ... the World Bank [which] provides a clear outline of the main policy options now under consideration. It is encouraging to note that the sometimes acrimonious nature of the recent debate with regard to the future of cotton in Francophone producing countries appears to be giving way to a more constructive dialogue." Following up actions between the World Bank and AFD included two major regional meetings, a technical symposium on cotton sector policies in Ouagadougou in 1999, and a ministerial meeting in Abidjan in 2002 on the cotton reforms and the global environment for cotton trade.

189. The World Bank and the International Cotton Advisory Committee co-sponsored the conference on "Cotton and Global Trade Negotiations" (July 8–9, 2002) during which trade policy-related issues of the global cotton market were fiercely debated.¹² A large number of participants attended the conference, including staff from international organizations, Ambassadors from African cotton producing countries, academics, CSO representatives, and a representative from the National Cotton Council of America. The conference was instrumental in boosting awareness of the global policy environment in the cotton market and is believed to have triggered the debate on the 'cotton problem.'

190. Other analytical work on cotton includes a large study which examined in great detail the market setting and trade policy issues of the cotton market [9]¹³ Updated versions of that report were presented at the WTO-sponsored Cotonou workshop (March 23-24, 2004) [10] and the FAO cotton consultation (May 31-June 1, 2004) [12]. A summary version of that report appears in *Global Agricultural Trade and Developing Countries*, a volume edited from the World Bank analyzing commodity and cross-cutting trade policy issues [9]. Other policy-related work includes two *Trade*

¹⁰Presented at the second round of consultations on the "Development Assistance Aspects of the Cotton Initiative" WTO, November 18, 2004. Questions/comments should be directed to John Baffes, (202) 458-1880, jbaffes@worldbank.org.

¹¹It should be noted, however, that the list of studies is not meant to be exhaustive since it only includes reports and papers that have been published or presented at conferences. Numerous other reports that have served as background material to lending operations and other sector work is not listed here.

¹²The proceedings can be found at http://www.icac.org/icac/govt_measures/documents/english.html.

¹³An early version of this report was the first document to precisely outline the nature and extent of US cotton subsidies. OECD, which monitors transfers to the agricultural sectors on an annual basis through its producer support estimate calculations, does not include cotton. ICAC, on the other hand, which has been monitoring cotton subsidies since 1994, reported only part of US subsidies.

Notes, which focused on the US and EU assistance to their cotton sectors [6] and the implications of the recent WTO Dispute Panel's decision on the US/Brazil cotton dispute [13]. Other studies include work on the price relationship between synthetic fibers and cotton [8], evaluation of policy reforms undertaken by African cotton producing countries [3, 4, 5, 7], and evaluation of some recent attempts to introduce cotton futures contracts [2, 11]¹⁴

191. Several analytical pieces are under way, including examination of prices received by growers in numerous cotton producing countries and whether reforms undertaken during the 1990s had any detectable (positive or negative) effect on such prices. Another study will evaluate the cotton models analyzing the effects of liberalization of the global cotton market on world prices and export shares of major exporters. This study is motivated by the desire to shed some light on the diverse outcomes of a plethora of models that were developed following the "Cotton Initiative" and the Brazil/US cotton dispute.

(b) Technical Assistance and Capacity-Building

192. The two main areas of the World Bank's involvement in technical assistance and capacity building are identifying ways to manage risk through market-based risk mitigation devices and identifying constraints to trade facilitation and expansion through the Diagnostic Trade Integration Studies.

193. The Commodity Risk Management Group (CRMG) provides technical assistance and training to build the capacity of developing country producers to use international risk management markets to hedge their exposure to short-term price and weather-related risks.¹⁵ Price-risk management in the cotton sector is complicated due to the presence of high basis risk—that is, low correlation between the New York Board of Trade futures contract and the A Index, the main price measure of the world cotton market. In addition to the basis risk, use of the New York contract by producers and traders outside the United States involves currency risk (for example, €\$ exchange-rate risk in the case of West and Central Africa). Despite these difficulties, the CRMG has had some success in helping cotton producers to gain access to these markets. For example, in Tanzania, the group worked with a rural financial institution as intermediary to help cotton farmers hedge their price risks.

194. Currently, the World Bank along with the EU and AFD are working together on a project to examine the possibility of introducing market-based risk management tools in West and Central Africa. They are expected to explore the potential for a pilot in Benin and Burkina Faso. An identification mission is expected to visit these countries in December 2004. The specific issues to be addressed during this mission are: (i) assessment of the need and interest of cotton ginners to pilot the use of market-based instruments in addition to current practices; (ii) assessment of the need for corporate reserve funds (self-insurance) taking into account the increased use of international risk markets, and how the operation of these funds would mesh with possible market-based approaches to risk management; (iii) identify elements for a realistic price formation policy (with or without the pilot); (iv) identify modalities for the pilot, the required commitment, funding and timing; and (v) assess the need for and feasibility of a credit line or financing facility to facilitate access to market-based risk management instruments.

¹⁴Twice a year the World Bank publishes a one-page update on the global cotton market (along with other commodity markets) which includes short- and long-term price forecasts.

¹⁵The Commodity Risk Management Group of the World Bank serves as the secretariat for the International Task Force on Commodity Risk Management, a group comprising representatives of producer groups, private sector providers of risk management instruments, donors, nongovernmental organizations, and international institutions, all of whom share a commitment to a market-based approach to managing risks in commodity production and processing in developing countries. The CRMG has been active in its current structure since 2001. The group's early work was largely with coffee producers, but recently the focus has expanded to cotton and other commodities.

195. A second channel of technical assistance and capacity building in which the World Bank has played a key role is the Diagnostic Trade Integration Studies (DTIS).¹⁶ The purpose of these studies is to identify key constraints to a country's successful integration with the multilateral trading system and global economy. Eventually these studies are to be followed by some type of technical assistance. Chad, Burkina Faso, and Benin have applied to join the Integrated Framework. Given the importance of cotton to these countries, it is likely that in the IF studies, cotton will feature in the policy and technical assistance. Mali has undertaken a diagnostic trade integration study.

(c) Lending Operations

196. The World Bank's lending operations are either directed to a particular sector in the form of investment or go to support the general budget and are typically accompanied by conditionalities in a particular sector; these operations are either Poverty Reduction Strategy Papers (PRSCs) or adjustment lending. During the last few years, the World Bank made loans in West and Central Africa that had components directly or indirectly affecting the cotton sector (for related operations between 2001-2003 see table 2).¹⁷ Note that projects in West and Central Africa mentioned here are on IDA terms—i.e., either grants or loans which carry a low interest rate; for instance, IDA loans during 2004 had a 70% grant element on US\$ 2.9 billion and 100% grant on US\$ 1.3 billion.

(i) Investment Lending

197. Under the Agricultural Services and Producer Organizations Project, approved in 2001, the authorities in Mali are expected to implement the first phase of the reform program. Its objectives were to (i) restore the cotton company's financial stability so as to allow it to secure financing; (ii) achieve efficiency gains in the cotton company through restructuring and divestment of non-core activities; (iii) divest to the private sector the cotton collection and marketing activities in one cotton growing area; (iv) privatize the cotton-oil company; (v) assure that the producer price of cotton for the 2001-02 crop year was high enough so that confidence of the farmers would be maintained, compensate for the heavy losses in rural incomes suffered in 2000-01, and redress the impact on rural poverty; and (vi) define and prepare the final phase of the sectoral reform program.

198. The Cotton Sector Reform Project in Benin (approved in 2002), is expected to facilitate transition to a competitive system through support of private sector operations and institutional change resulting from the privatization of the National Company for Agricultural Promotion's (SONAPRA) ginning activities. This project component's main focus is supporting the institutions involved in cotton ginning and primary marketing to help them become strong and effective. Technical assistance and advisory services will cover management responsibilities, auditing, and financing operations, including training for institutional capacity building. Furthermore, the project

¹⁶The DTISs are carried out by the Integrated Framework for Trade Related Technical Assistance (IF), a multi-agency forum, which was envisaged by the WTO at its first Ministerial in Singapore in December 1996, and formally endorsed at a High Level Meeting in October 1997. The specific objective of the IF is to assist Least Developed Countries (LDCs) to better integrate into the world economy and the multilateral trading system as a basis for sustainable growth and poverty reduction. This objective is to be achieved, in part, by strengthening coordination among participating agencies and donor countries and ensuring that technical assistance is demand driven. Participating agencies are the WTO, the IMF, the International Trade Center, UNDP, UNCTAD, and the World Bank.

¹⁷Two cotton-related lending operations were approved during the 1990s. Approved in 1994 for a total of US\$ 14 million, the Cotton Development Project in Uganda sought to improve performance in the cotton industry through liberalization of cotton processing and export marketing; establish an efficient regulatory framework for the cotton industry; and improve managerial, technical, and operating efficiency in a creditworthy ginning industry. Approved in 1995 in the amount of US\$ 66 million, the Cotton Improvement Project in Uzbekistan was designed to liberalize prices of cotton seed, bring producer prices for seed cotton marketed under the state system closer to international prices, create a private cotton-planting industry, eliminate input subsidies, and shift cotton trade from barter-based to cash-based transactions.

will support the implementation of sectorwide technical-service programs to help the private sector take over the agricultural services and other technical support functions carried out by SONAPRA. The effort to privatize SONAPRA's ginning plants includes assistance and advisory services, notably to address social issues and the financial needs of the government's conversion program.

(ii) PRSCs and Adjustment Assistance

199. In addition to the lending operation with components directly linked to the cotton sector, a number of Poverty Reduction Support Credits (PRSC) and Adjustment Operations have components with strong likely impact in the cotton sector. The Third Structural Adjustment Credit in Mali, approved in 2001 (and closed in June 2004), supported (i) recovery and restructuring of the cotton sector to restore positive economic growth and (ii) public expenditure reforms aimed specifically at advancing the government's poverty reduction objectives. The government laid out its policy for reforming and liberalizing the cotton sector, including a plan to privatize the cotton company's agro-industrial and commercial activities. The first phase of the project included initial divestment activities and design of a full sector-liberalization program. The restructuring program will necessarily span several years and require an effort to create an appropriate framework to attract private capital and know-how and to build the capacities of key participants, notably the farmers' organizations. Reinforcement of the capacity of farmers' organizations to play an increasing role in the management of the cotton sector will be provided separately.

200. The Second Poverty Reduction Support Credit Project in Burkina Faso, approved in 2002, is an integral part of the Country Assistance Strategy to support the implementation of the PRSP. It is the second in a series of three planned operations. The project is designed to help the government achieve better outcomes in public resource management by (i) strengthening program budgets and linking allocations to specific sector objectives, strategies, and action plans; (ii) improving service delivery in education, health, and rural development; and (iii) strengthening the fiduciary framework to promote accountability and transparency in the use of public funds, including external aid. In the context of its rural development component, the government, in collaboration with the World Bank, will closely monitor the poverty impact of cotton liberalization in the medium-term and take corrective measures if necessary.

201. The Fourth Structural Adjustment Credit Project in Chad, approved in 2003, is designed to support the cotton-sector reform program. Its primary goal is to improve the livelihoods of about 300,000 poor families. Given the complexity of the reform program, which was introduced in a context of depressed world cotton prices and barely functioning rural markets, it was a challenge to ensure the program's consistency with its stated objective. To overcome this risk, a study has been carried out to identify the most appropriate scenario for the state's divestiture from Cotontchad. Moreover, an extensive poverty and social impact analysis is being completed, the results of which would feed into the design of the reform program and allow for ex-post adjustments if necessary.

202. Numerous lending operation with likely impact in the cotton sectors of the WCA countries are under way. In Mali, the fourth Structural Adjustment Credit (not yet appraised) aims to reduce the fiscal risk of 2005 cotton sector deficit as well as potential future cotton deficits (in the transition period toward privatization of the national cotton ginning company), by ensuring burden sharing in the coverage of the 2005 deficit among sector stakeholders, and strengthening the producing pricing setting mechanism. The Credit (if it proceeds as planned) would be a one tranche operation disbursed upon effectiveness, with all actions to be completed in advance of Board presentation.

203. In Burkina Faso, the upcoming third Poverty Reduction Support Credit (US\$ 50 million) is expected to continue to foster the reform process in the cotton sector by supporting participatory mechanisms for developing the rules and conditions governing the opening of two cotton zones to private investors, awarding the contracts, and addressing issues related to input financing. Three more operations with important cotton-related components are the Agricultural Diversification Project in

Burkina Faso currently under preparation (about US\$ 35 million, but the exact amount will depend on IDA funding availability); in Chad, the Institutional Support Credit is expected to help the cotton sector begin its transition to a more market-oriented structure; and, the Agricultural Diversification Project in Mali (US\$ 35 million) will assist the diversification of cotton growers away from cotton to other crops.

TABLE 1: COTTON-RELATED POLICY ANALYSIS IN THE WORLD BANK: 2000-2004

DATE	TITLE	DESCRIPTION
[1] December 2000	Cotton Reforms in West and Central Africa, and the World Bank	Articulated, for the first time, the World Bank's position on the cotton sector reforms in West and Central Africa [appeared in the special issue of the <i>Cotton Outlook: Cotton in the Franc Zone</i>].
[2] December 2001	Identifying Price Linkages: An Application to the World Market of Cotton	Examined the degree to which cotton price are linked. It concluded that while West African and Central Asian price quotations move together, other quotations, including US, do not [appeared in <i>Applied Economics</i>].
[3] May 2001	Policy Reform Experience in Cotton Markets	Studied the cotton sector reform experience of Uganda, Tanzania, and Zimbabwe [published in <i>Commodity Market Reforms: Lessons of Two Decades</i> , ed. Akiyama et al. Regional and Sectoral Studies, World Bank].
[4] July 2002	(a) Cotton Sector Strategies in West and Central Africa	Examined the reforms required to make the cottons sectors of West and Central Africa competitive [appeared in World Bank's <i>Policy Research Working Paper Series</i>].
[5] December 2002	(b) Tanzania's Cotton Sector: Constraints and Challenges in a Global Environment	Looked at the reform process of the Tanzanian cotton sector and identified excessive regulation and taxation as major impediments for further growth of the sector [appeared in the World Bank's <i>Africa Region Working Paper Series</i> and a shorter version in <i>Development Policy Review</i>].
[6] September 2003	Cotton and Developing Countries: A Case Study of Policy Incoherence	Identified policy interventions in the cotton sectors of the US and the EU and reported a detailed breakdown of the US support. It was distributed widely at the Cancun Ministerial [appeared in World Bank's <i>Trade Note</i> series].
[7] November 2003	Reforming the Cotton Sector in Sub-Saharan Africa	Evaluated the reforms efforts in many East and West Africa cotton producing countries [appeared in World Bank's <i>Africa Region Working Paper Series</i>].
[8] December 2003	Relationship between Cotton and Polyester Prices	Examined the relationship between cotton, polyester, and crude oil prices [presented at the FAO sponsored commodity workshop; also to appear in a volume edited by Sarris and Hallam].
[9] February 2004	Cotton: Market Setting, Trade Policies, and Issues	A comprehensive study which looked at the market structure and trade policy aspects of the global cotton market [appeared in World Bank's <i>Policy Research Working Paper Series</i> ; summary version also appeared <i>Global Agricultural Trade and Developing Countries</i> , ed. Aksoy and Beghin].
[10] March 2004	Cotton: Market Structure, Policies, and Development Issues	In addition to the market and policy information, it included a section with World Bank's activities on the cotton sector [presented at the Cotonou cotton workshop].
[11] June 2004	Cotton Futures Exchanges: Their Past, their Present, and Their Future	It looked at the history of cotton futures exchanges and examined the prospects that one of the recently launched (or proposed) exchanges will become successful [appeared in <i>Quarterly Journal of International Agriculture</i>].
[12] June 2004	The "Cotton Problem"	An updated version of the February 2004 paper with detailed information on the "Cotton Initiative" and the Brazil/US WTO cotton dispute [discussed at the FAO-sponsored cotton consultations].
[13] July 2004	Brazil vs US: Cotton Subsidies and Implications for Development	Discussed the likely implications of the WTO Dispute Panel's decision regarding the dispute by Brazil against the US cotton subsidies [appeared in World Bank's <i>Trade Note</i> series].

Note: These documents will be posted soon at the World Bank's web site.

TABLE 2: COTTON-RELATED LENDING OPERATIONS IN WEST CENTRAL AFRICA: 2001-2003

COUNTRY	YEAR ¹⁵	PROJECT (amount)	DESCRIPTION
Cotton-related Lending Operations			
Mali	2001	Agricultural Services and Producer Organization (\$43.5 million)	Objectives: (i) restore the cotton company's financial stability so as to allow it to secure financing for the forthcoming crop season; (ii) achieve efficiency gains in the cotton company through restructuring and divestment of non-core activities; (iii) divest to the private sector the cotton collection and marketing activities in one cotton growing area; and (iv) privatize the cotton-oil company.
Benin	2002	Cotton Sector Reform (\$18 million)	Objectives: (i) support the private sector operations and new institutions after the partial divestiture of the National Company for Agricultural Promotion (SONAPRA); (ii) give technical assistance and advisory services in management, audit, capacity building, and agricultural services; (iii) monitor the divestiture of SONARA in such a way so that social issues and the financial needs for the government's conversion program are addressed.
PRCSs and Adjustment Operations			
Mali	2001	Third Structural Adjustment Credit (\$70 million)	The credit supported (i) recovery and restructuring of the cotton sector to restore positive economic growth and (ii) public expenditure reforms aimed specifically at advancing the government's poverty reduction objectives. The project closed in June 2004.
Burkina Faso	2002	Second Poverty Reduction Support Credit	It is designed to help the government achieve better outcomes in public resource management by (i) strengthening program budgets and linking allocations to specific sector objectives, strategies, and action plans; (ii) improving service delivery in education, health, and rural development; and (iii) strengthening the fiduciary framework to promote accountability and transparency in the use of public funds, including external aid.
Chad	2003	Fourth Structural Adjustment Credit (\$40 million)	Its primary goal is to improve the livelihoods of about 300,000 poor families by supporting the cotton-sector reform program

¹⁵Denotes year of approval by the World Bank's Board of Executive Directors.

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