

IPC Conference Report
February 2007

The Next Steps for Africa:

*A Report of an International Conference on Cotton, held on
October 26, 2006, and hosted by the
International Food & Agricultural Trade Policy Council,
The Woodrow Wilson International Center for Scholars,
and the IDEAS Center*

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The Next Steps for Africa*

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**The following information and presentations can be accessed at:
www.agritrade.org/events/cotton_conference.html**

Conference agenda

Press coverage of the conference

Presentation by Daniel Sumner, "Farm Programs and the Economics of LDC Cotton"

Presentation by Gobind Nankani, "Development of the Cotton Sector in West and Central Africa"

Report by Chiedu Osakwe, "The Role of Donors and Lessons from Implementing the
Mandate on Cotton Development Assistance"

Presentation by Philippe Chedanne, "Pilot Operation on Price Risk
Management for Cotton Sectors in West and Central Africa"

Comments on the Importance of Cotton in Africa, contributed by the International
Cotton Advisory Committee

Remarks on the Experiences from South Africa on Biotech Cotton, contributed by Katoen Cotton

*The sponsoring organizations of this report, and of the international conference which inspired it, would like to thank the conference participants for a rich discussion of the trade, competitiveness, and donor issues related to cotton. They would also like to thank the collaborators on this project, including Natacha Bogorad, Charlotte Hebebrand, Kent Hughes, Nicolas Imboden, Lynn Sha, Yvonne Siu, Amy Testa, and Mitch Yoshida.

Executive Summary

With agriculture at the center of the impasse in the World Trade Organization's (WTO) Doha Development Round (DDR) of multilateral trade talks, the considerable levels of domestic support provided to agricultural sectors in developed countries continue to be one of the main areas of contention for negotiators. Developing countries dependent on agricultural commodity exports have called on the United States and the European Union to reduce or eliminate significant agricultural subsidies.

Liberalization of cotton trade, specifically, has become a central focus within the Doha Round, with the sectoral initiative on cotton championing the plight of African cotton farmers, whose income and food security have been challenged by the low international prices of cotton. Indeed, cotton plays an important role in the livelihoods of rural communities in developing countries, and since many of them have a comparative advantage in producing agricultural goods, it is understandable that the reduction or elimination of developed countries' support to agriculture is their primary objective in the Doha Development Round. The elimination of subsidies, however, is not a panacea. There are many other elements that must be addressed in order to improve the competitiveness of Africa's cotton sector.

Recognizing this complexity, the International Food & Agricultural Trade Policy Council (IPC), the Woodrow Wilson International Center for Scholars, and the IDEAS Centre co-hosted an international conference on cotton called "The Next Steps for Africa," on October 26, 2006 in Washington, D.C. to take stock of the complex and multidimensional issues at play in the African cotton sector. An international array of government officials, private sector representatives, trade and agricultural experts, including the trade and agriculture ministers from the C-4 countries (Benin, Burkina Faso, Chad, and Mali), Crawford Falconer, chair of the WTO agricultural negotiations, and Gobind Nankani, vice-president of the World Bank's Africa Region, examined the impact of cotton subsidies on African cotton farmers.

The conference panelists explored how the African cotton sector could be strengthened through domestic reforms and improved development assistance. They also explored several critical areas, including the importance of the cotton industry for the African economy, global trade in cotton, the historical and predicted patterns of global trade in cotton, progress in the Doha Development Round negotiations, economic competitiveness in Africa, and the role of donor agencies and countries.

Speakers and participants emphasized the need for action on multiple fronts. Their suggestions for "next steps" in Africa included:

- Resuming and rapidly concluding the Doha Round negotiations;
- Urging the U.S. to reform its cotton subsidies, given that these subsidies do play a major role in lowering the international price of cotton, and adversely affect the incomes and livelihoods of African cotton producers;
- Recognizing that the reform of cotton subsidies can best occur through multilateral negotiations;
- Calling for actions by African governments and the private sector to address competitiveness issues;
- Improving donor coordination, and
- Working toward a better donor-recipient dialogue on cotton.

Additional conference material is available online at www.agritrade.org.

Section One: The Importance of Cotton in Africa

In his opening speech, Mali's Trade Minister Choguel Kokala Maïga stressed that "cotton is an especially important economic sector for Africa. More than 15 million African farmers make their living from cotton. The commodity plays a crucial role in Central and West African rural and agricultural life."

Minister Maïga emphasized that cotton production, which is still done manually in the region, is cost effective and naturally competitive, as indicated by the volume of cotton the continent has produced in the past thirty years.

Moreover, cotton has been considered a success in central and West Africa, improving the standards of living for small farmers by increasing access to basic needs and schooling. Cotton cultivation has also contributed positively to the overall agricultural sector, translating into benefits for grain and dairy production. In fact, the cotton industry is responsible for the great majority of job creation in C-4 countries. Cotton also plays an important role in building and strengthening regional integration and synergies. In short, cotton is the essence of a virtuous cycle of economic and social development in West and Central Africa.

However, this virtuous cycle, and Africa's comparative advantage in cotton, will be difficult to maintain if the cotton sector is undercut by subsidies in other countries. In the C-4 countries, cotton amounts to sixty to seventy percent of the income derived from agricultural exports. In some countries, as much as ninety-eight percent of the cotton grown is exported to Asia, Latin America, and the European Union, which explains the importance of the international trade environment.

Trade subsidies in developed countries have led to low prices of cotton on international markets and have a direct impact on cotton farmers in Africa. Small farmers' incomes have fallen at an alarming rate

would lead to improved information exchange and a better understanding of the issues, saying that he hoped the C-4 Ministers themselves, and the importance of cotton to Africa, were "better understood."

Cotton is an important economic sector for Africa. More than 15 million African farmers make their living from cotton. It plays a crucial role in African rural and agricultural life

Minister Maïga stressed that trade subsidies in developed countries have led to low prices of cotton on international markets and have thus had a direct impact on cotton farmers in Africa. National income has been significantly reduced and small farmers' incomes have fallen at an alarming rate. He stressed the high expectations the negotiations on cotton have created, and the disappointment felt by farmers that the world community has not yet responded to their plea. He expressed hope that this international conference on cotton

Section Two: Trade Issues and the Next Steps for Africa

Moderator:

Robert Thompson, Gardner Chair in Agricultural Policy, University of Illinois at Urbana-Champaign, and IPC member

Panelists:

- Crawford Falconer, chair, WTO agricultural negotiations
- Pedro de Camargo Neto, former Secretary of Production and Trade, Brazilian Ministry of Agriculture
- Daniel Sumner, director, University of California Agricultural Issues Center, University of California, Davis
- Ambassador Malloum Bamanga Abbas, permanent representative of Chad in Geneva
- Mark Lange, president, National Cotton Council

The outcome of the current trade and agricultural negotiations within the World Trade Organization is of great significance to Africa. In the first panel on trade issues, the discussion centered on the impact of subsidies on the international market for cotton and other factors that affect the world price of cotton.

Crawford Falconer urged for a resumption and conclusion of the Doha Round and warned that, “nothing will happen on cotton unless negotiations move forward.” Describing the current status of negotiations on trade-distorting domestic support, he highlighted the positive progress towards domestic agricultural reforms as expressed by the European Union’s Common Agricultural Policy. “You have one major subsidizer who is in a position to deliver because they have unilaterally undertaken domestic reforms or have committed to doing so,” Falconer said, but noted that “the United States is not yet in the same position.” Referring to the differing estimates of the impact from cotton subsidies on international cotton prices, which range from three to twenty percent, Falconer stressed the fact that domestic support for cotton contributes to poverty among producers in developing countries. He also said that there will be no result in the cotton negotiations unless there is a result in the agricultural negotiations, and urged the C-4 to support the agricultural negotiations as a whole. Moreover, he underlined the importance of dismantling subsidies for cotton.

Ambassador Malloum Bamanga Abbas, the permanent representative of Chad in Geneva, discussed the Chadian experiences and perspectives on cotton, and specifically, the WTO’s special sectoral cotton initiative. He reminded the audience that the C-4’s WTO initiative was established due to the importance of cotton to the economic and social health of Benin, Chad, Burkina Faso, and Mali. The C-4 countries launched the regional cotton initiative in order to highlight the \$3.9 billion spent in 2001 on U.S. cotton subsidies, and to demonstrate how these subsidies create an inequitable trading system and threaten the livelihoods of cotton producers. Echoing Malian Trade Minister Maïga’s central point of how vital the commodity remains to millions of Africans, Ambassador Bamanga said that cotton was central to winning the fight against poverty in rural Africa. Specifically, Ambassador Bamanga clarified that the C-4 countries are calling on the United States, the European Union, and Turkey to reduce cotton subsidies that adversely affect the world price of cotton, and to lend assistance and aid to support Africa’s cotton industry to help it remain competitive on the world market.

Highlighting cotton as a “symbol of inequities between developed and developing countries,” IPC Member Pedro de Camargo Neto, former Secretary of Production and Trade for Brazil, spoke of the urgent need for U.S. subsidy reform and compliance with the ruling in the cotton case brought before the WTO’s dispute settlement body by Brazil in 2002.

The WTO’s Ruling on the Brazilian Cotton Case Against the US:

In late 2002, Brazil initiated a dispute settlement case at the World Trade Organization (WTO) claiming that subsidy programs for upland cotton in the United States were inconsistent with WTO obligations that the U.S. had undertaken. Brazil pursued its case through the panel decision and the appellate body phases, and is acknowledged to have prevailed on its major claims. As a result, the United States was instructed to bring the offending cotton subsidy measures into compliance with its WTO obligations. The U.S. made some adjustments in response to the WTO decisions, but it has so far not satisfied Brazil that it has sufficiently altered its subsidies. Exercising its rights to urge full compliance, Brazil has requested that the panel investigate and rule on the U.S. claims of compliance. The WTO Dispute Settlement Body accepted the compliance case, and it is now proceeding with the compliance panel’s interim decision. The Dispute Settlement Body’s decision is expected at the end of March 2007.

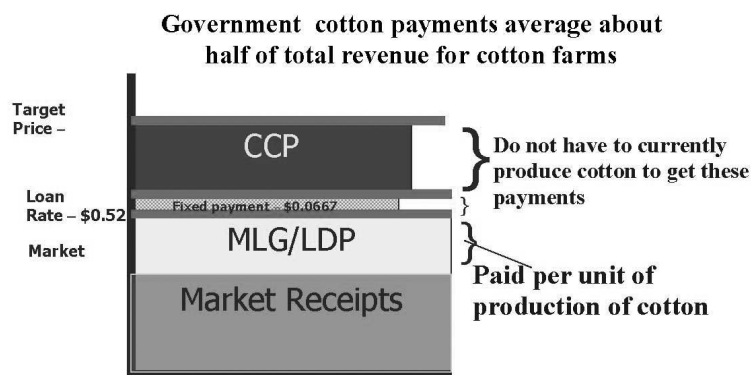
Emphasizing that developed countries ignored the international ramifications of their domestic policies, Camargo Neto said agriculture was left out of the multilateral trading system for half a century. Now, however, developing countries understand the importance of eliminating trade-distorting support, and are unified in calling for the end of such subsidies, especially for cotton. “Farmers should compete with farmers,” he said, noting that developing countries are already disadvantaged in agricultural production given their lack of strong public services, insufficient public agricultural research and extension services, limited infrastructure, and a macroeconomic environment that rarely favors agricultural development. In his opinion, cotton subsidies reflect U.S. policies that hurt African development, and inefficient production practices. He urged the U.S. to acknowledge the political difficulties of changing agricultural policies, and to be sensitive to the effect its farm policies have on other countries.

Developing countries are at a disadvantage given their lack of strong public services, insufficient public agricultural research and extension services, limited infrastructure, and a macroeconomic environment that rarely favors agricultural development

Dan Sumner, director of the University of California Agricultural Issues Center at the University of California, Davis, presented the results of a forthcoming study to be published by the International Food & Agricultural Trade Policy Council (IPC) entitled “U.S. Farm Programs and African Cotton.” Sumner discussed the Brazilian cotton case against the United States, the C-4 Cotton Initiative, and the next U.S. Farm Bill as three potential vehicles for the reform of U.S. cotton subsidies. Sumner noted that cotton, although it constitutes only a tiny part of world trade, attracts large amounts of subsidies in the United States and the European Union relative to other subsidized commodities, and as such has garnered much attention in the Doha Round. The United States enjoys a large market share and its subsidies have a major influence on world markets, and consequently impact developing countries that are significant exporters of cotton.

Moreover, Sumner highlighted how much the 25,000 U.S. cotton farmers receive in agricultural support from the U.S. government, which accounts for nearly half of their overall revenue (Table 1). Indeed, considering the payments farmers receive from counter-cyclical payments, direct payments, and marketing loan program payments, it is clear how substantial U.S. government support actually is, and how vital it is to the profitability of U.S. cotton growers.

Table 1



If U.S. subsidies were eliminated, the world price of cotton would increase by 10 percent. That would garner around \$75-100 million per year for C-4 countries

Clarifying the effect of U.S. subsidies on the international price of cotton, Sumner suggested that despite the other factors affecting cotton, such as weather conditions, U.S. subsidies play a significant role in keeping U.S. production high and international prices low. Focusing mainly on U.S. programs, including the loan deficiency payments and countercyclical payments, most cotton farmers in the United States derive their revenue from the government and not from the market. According to Sumner's estimates, if U.S. subsidies were eliminated, the world price of cotton would increase by 10 percent. That would translate into an average gain of \$0.05 per pound of cotton, which would garner around \$75-100 million per year for C-4 countries. "In the context of the economies of the growers we're talking about, this is a huge benefit to some very poor people," Sumner said. He specifically noted that, in addition to the revenue gains, there would be dynamic "multiplier effects" throughout the C-4 economies if subsidies were abolished.

Dr. Mark Lange, president of the National Cotton Council, highlighted important international and African domestic factors affecting the cotton market, besides subsidies. Indicating that seventy to eighty million cotton growers world-wide are small-holders, Lange reminded the audience that those small farmers face increasing competition from middle-income countries, like China and India, which now account for sixty-six percent of all cotton spun each year, and that figure is growing. Additionally, Lange suggested that a reduction of subsidies, leading to an increased price of cotton, could price cotton out of the market. "We'd better be careful what we're asking for," said Lange, implying that more expensive cotton would be no match against alternative fibers like polyester. Together, these factors help to put U.S. farm programs into perspective within the context of the changing international cotton market.

Next, Lange discussed the challenges to African cotton. In recent years, he noted that West Africa has experienced a decline in cotton yields due to high prices for inputs in the region. "The West African producer pays more for his inputs than most of the rest of the producers in the world—they pay 35 to 40 percent more for fertilizer than elsewhere," Lange said. This, added to the lower price producers receive due to contamination from feather, animal and human hair as well as transport problems, further erodes cotton farmer profits in the

C-4 countries. Moreover, the peg of the CFA franc to the euro has an adverse and immediate impact on cotton farmers, making their production inputs more expensive and further eroding African farmer revenues.

On development assistance, Lange noted that no West African countries have applied for aid related to cotton from the Millennium Challenge Corporation. He added that the National Cotton Council has worked with USAID and the USDA to create several initiatives that are part of the West African Cotton Improvement Project. These initiatives aim to assist African governments dealing with domestic issues affecting the cotton industry, including soil fertility, etymology, and the availability of other inputs.

Lange referred to the U.S. elimination of its Step 2 Program in response to the WTO case brought by Brazil, and to the U.S. WTO proposal of 2005 as “aggressive,” and argued that it would be in Africa’s best interest to support a rapid conclusion of the Doha Development Round if they wanted to see reforms of U.S. cotton subsidies.

Section Three: Lunch Presentations of Crawford Falconer and Florizelle Liser

Speaking during the lunch, Crawford Falconer made a compelling case for concluding the Doha Round, which would in essence cement agricultural reform policies already underway in the United States, the European Union, and Japan. Speaking of significant EU agricultural reforms and plans for reform in these other countries, he urged for the “political reality in these capitals to be transformed into reality in the Geneva process.”

Assistant U.S. Trade Representative for Africa Florizelle Liser echoed Chairman Falconer’s push for a resumption of the Doha negotiations and outlined U.S. assistance to Africa for cotton. Liser emphasized that the U.S. proposal for agricultural reform in the WTO is the best way to move forward in the Doha Round and to address the cotton subsidy issue. “Only with reduced trade barriers can we open the world economy and reduce poverty worldwide,” she said. Addressing cotton specifically, Liser said the United States is working with African countries on a development track within and outside the WTO to strengthen their cotton sectors. The United States has committed itself to making significant contributions and has engaged in programs to help the competitiveness of African cotton farmers. Emphasizing this point, Liser noted that reform is necessary to improve the competitiveness of the West African cotton sector, so that farmers can benefit from liberalized trade with increasing yields and productivity. Without this improvement in capacity, Liser said, the elimination of trade distorting support would likely result in a production shift of cotton to Asian countries, which currently enjoy a global comparative advantage in cotton. Given this, Liser reiterated the “unwavering” U.S. commitment to help Africa take advantage of global trading opportunities by focusing on trade and capacity building activities.

Section Four: Addressing African Competitiveness

Moderator: Sara Rogge, Senior Trade Policy Advisor, DATA

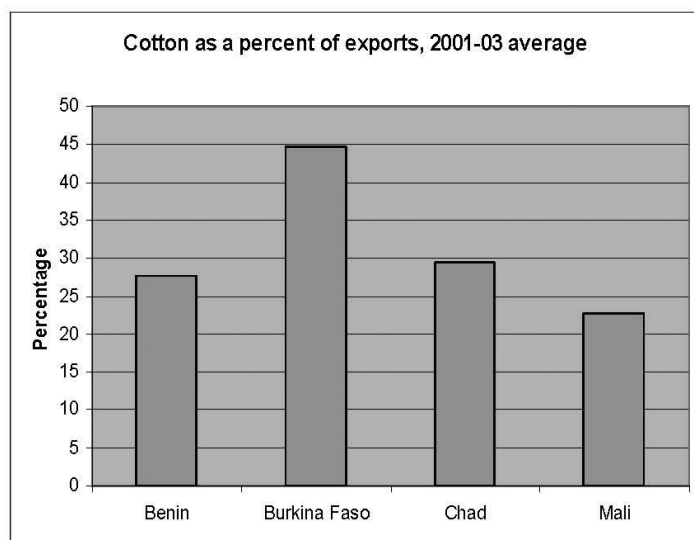
Panelists:

- Gobind Nankani, vice-president for the Africa region, World Bank;
- Bonundaba Dabiré, Minister of Agriculture, Burkina Faso;

- Francois Traore, president, African Cotton Producers Association;
- David Blackwell, vice president and chief financial officer of global procurement, Wal-Mart.

The second panel of the international cotton conference focused on competitiveness policy in cotton to highlight how African countries can be best poised to take advantage of opportunities in trade. Speakers focused on specific domestic reforms that African countries can take, including investing in increasing yields, improving the quality of cotton, adopting risk management tools for producers and ginners, moving up the value chain, and promoting sustainable agriculture.

Table 2



Source: World Bank. 2006

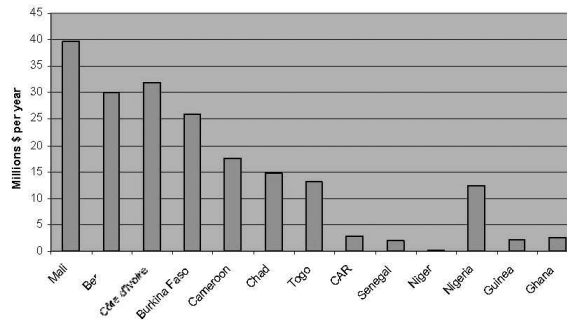
The truth of the matter is that countries in Africa still need to do a lot more on the internal side in order to remain competitive

Emphasizing the relevance of cotton to the C-4 countries, Gobind Nankani of the World Bank noted that cotton production accounts for almost forty-five percent of total exports in some countries (Table 2). In recent history, international cotton prices started to become increasingly volatile only during the 1990s. During that time, large amounts of subsidies were introduced in OECD countries. Since 2002, studies have shown that the average reduction in export earnings from cotton annually are \$28 million per country in the C-4, and that the elimination of subsidies in developed countries would lead to a significant increase in the global price of cotton. The average net export earnings foregone by African countries due to subsidies are quite substantial, according to Nankani (Table 3). Despite this, Nankani pointed out that, “the truth of the matter is that countries in Africa still need to do a lot more on the internal side in order to remain competitive.” Having said this, Nankani described four specific domestic factors affecting cotton in the C-4: the slow reform of the ginning process, stagnating yields that have plagued West Africa since 1980, input costs, and price stabilization for producers and ginners.

We need the four countries to do as much as they can to improve their yields, improve the quality of cotton, and to lower ginning costs to raise earnings

Table 3

Average Net Export Earnings foregone by Africa due to Cotton Subsidies (1998-2002)



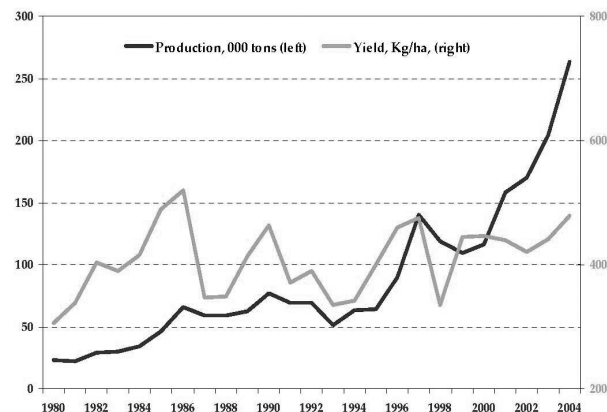
Source: Consultant study by Louis Goreux

Slow reform of the ginning process has contributed to the difficulties faced by African cotton, and although Burkina Faso has experienced success on this front, every country should develop its own reform program to increase the financial health of their ginning companies. Stagnant yields are also a problem, specifically in Burkina Faso, where high production has nonetheless suffered from low yield growth since 1980 (Table 4).

Nankani suggested targeted solutions for increasing crop yields, including: updating fertilizer formulas, employing a more integrated management of soil fertility, improving the use of seed varieties, such as GM cotton, and improving irrigation systems.

Regarding input costs, Nankani suggested that input price setting, procurement, and distribution need attention in all four countries, given that both ginners and producer associations now procure inputs. On the challenge of price stability, producers face a stable, but low price for cotton, while ginning companies face high price volatility, with important implications for producer incentives. “We need the four countries to do as much as they can to improve their yields, improve the quality of cotton, and to lower ginning costs to raise earnings,” Nankani said.

Table 4



Source: World Bank, 2006

At the same time, Nankani also recognized that the pressure brought to bear on the international community must continue in order to reduce cotton subsidies. He highlighted the useful role of international action, specifically by World Bank initiatives focused on technology transfer and capacity building for producers, lending and technical assistance, analytical work on what is working in African input markets, and ways to move up the value chain in commodity markets.

Burkina Faso's Agriculture Minister Bonundaba Dabiré in turn spoke of the vital role of cotton in poverty reduction in Africa and identified four significant challenges to the cotton industry: the growing market for synthetic fibers, the introduction of genetically modified (GM) cotton, how to increase investment, and how to add value to the cotton industry. Addressing these concerns, Minister Dabiré said, would go a long way toward improving the competitiveness of C-4 cotton.

Minister Dabiré described Burkina Faso's reform program, indicating that its main objective was the privatization of the cotton industry. Burkina Faso, he stated, has broken the monopoly of cotton production and re-organized the cotton sector into three large, publicly traded companies. Additionally, as part of the reform, the companies took on the role of providing inputs to farmers, thus enabling a more beneficial relationship between farmers and producers.

He went on to say that Burkina Faso was experimenting with transgenic cotton and its effects on the environment. According to the figures, growing GM cotton would allow producers to recoup a savings up to 36,000 francs per hectare. Pointing out that transgenic cotton could increase the country's competitiveness, Minister Dabiré said, "four out of six parasites that regularly attack cotton are no longer a problem with biotech cotton." He went on to say that although Burkina Faso has not yet approved GM cotton for commercial production, authorities believe that field trials to date indicate that transgenic cotton can improve the quality of Africa's cotton.

Minister Dabiré added that initiatives were underway to improve the competitiveness of the sector, including regional activities supported by the African Development Bank, and programs to improve cotton processing to add value to the industry. "We produce much cotton, but a small part of it is processed here," he said, describing a program for improving management of the processing industry, so that by 2010, 25 percent of C-4 cotton would be processed before export. Lastly, he mentioned the sectoral cotton initiative in the WTO, pushing for the removal of cotton subsidies. If the cotton industry was more equitable, Minister Dabiré said, "African cotton producers would be able to school their children, and be able to meet their health and basic needs on their own."

Fraçoise B. Traoré, president of the African Association of Cotton Producers, and president of the National Cotton Producers Association of Burkina Faso, emphasized the level of producer organization and reform in his country and suggested that African cotton is, contrary to other views, of high quality. Cotton producers in Africa have become more politically active, forming an alliance in the form of the African Association of Cotton Producers, which currently serves twelve member countries. The association provides technical assistance, reform programs, and

If the cotton industry was more equitable, African cotton producers would be able to school their children, and be able to meet their health and basic needs on their own

Farmers thought the most important benefits of transgenic cotton were that they lowered input costs for pesticides and contributed to a peace of mind

advice to promote sustainability of the cotton industry. Moreover, this association has been successful in advocating for reforms at the international level. In terms of quality of fibers and packaging processes, Traoré stated that the international cotton standards have perhaps been set to unfairly discriminate against African cotton, without considering the true quality of its product. He added that West African cotton has been considered of high quality by many U.S. actors in several meetings he has attended. He also called for the removal of generous U.S. cotton subsidies, noting the millions of African cotton producers whose lives depend on a healthy cotton market.

David Blackwell, vice president for global procurement at Wal-Mart, emphasized the private sector's role in the international cotton market and described Wal-Mart's role in terms of corporate social responsibility and the global cotton supply chain. Wal-Mart sells 3.5 billion garments a year and its interests would be well-served to ensure a supply of raw materials to meet the needs of its customers in ten years.

Forty-two out of one hundred of the largest economic entities in the world are not countries but private corporations, Blackwell noted. Therefore, the consideration of the impact of corporate activity on global issues benefits from a recognition of the need for corporate social responsibility. Wal-Mart's new initiative of business sustainability in the 21st century will focus on creating and maintaining surety of supply, ensuring sustainable business practices, and producing in a more environmentally-friendly way.

Sustainable business practices are necessary for the company to ensure that there will be enough resources in the future to produce in step with its current growth projections. Given this, Wal-Mart has become more visible in its interest and participation in the full supply chain, moving away from the historic role of the retail company as a factory to retail operation. Now, Blackwell said, Wal-Mart is focusing on what it calls "earth to earth." "That means that we do care about where our products are grown, how they're grown, how are they transported, how are they manufactured, how are they packaged, how are they sold, and how are they disposed."

Regarding how Wal-Mart views Africa, Blackwell suggested that the company considered the continent favorably as a potential source for the future supply of cotton, textiles, and food. In fact, he suggested that in terms of sustainability, Africa might be a better place to grow cotton in the long run, "because I think it's more important to invest in something that is sustainable, rather than try to subsidize something that might not be."

Representing the views of a South African cotton farmer who was unable to attend the conference, Charlotte Hebebrand, chief executive of IPC, summarized the farmer's experiences with GM cotton. South Africa was one of the first countries to commercialize GM cotton in 1997, and by 2002, 90 percent of all cotton produced in the country was biotech. According to a University of Pretoria study, small and large-scale cotton farmers alike thought the most important benefits of transgenic cotton were that they lowered input costs for pesticides and contributed to a peace of mind knowing that their cotton was free from harm by insects. Particularly for rural farmers, the pesticide savings was most beneficial, given that it is more difficult to employ effective pesticide management in rural areas. The peace of mind led to managerial freedom so they could engage in other farming activities.

The study also mentioned the drawbacks of biotech cotton, including high costs for the GM seeds and technology fees. Also, African farmers are still faced with aphids and other insects which are not repelled by GM cotton. Spraying for these are in turn hurting predator insects which help control harmful insect populations. In sum, GM cotton in South Africa has been adopted successfully and has offered farmers substantial benefits, although challenges remain.

Section Five: The Role of Donors

Moderator: Ambassador Tertius Zongo of Burkina Faso

Panelists:

- Chiedu Osakwe, director, Doha Development Agenda Duties Division, World Trade Organization
- Phillippe Chedanne, Agence Francaise de Developpement (AFD)
- Mary Barton-Dock, sector manager for agriculture, environment, and social development of West Africa at the World Bank
- Elena Bryant, U.S. Trade Deputy Assistant for Capacity Building
- Hennele Tikkanen, trade counselor, Delegation of the European Commission

The Role of Donors panel highlighted the important function that aid can play in helping African governments take full advantage of new market access opportunities. It specifically focused on how donors and recipients can do better to improve the aid relationship and what progress has been made thus far in cotton-specific aid to Africa.

Chiedu Osakwe started the discussion by detailing the challenges and progress of the WTO sectoral initiative on cotton development assistance over the last two years. Since 2004, bilateral donors and multilateral institutions such as the World Bank, International Monetary Fund (IMF), Fairtrade Labelling Organizations International (FLO), United Nations Conference on Trade and Development (UNCTAD), African Development Bank, and United Nations Industrial Development Organization (UNIDO) have collectively made one hundred and eighty-four specific forms of commitments, and the WTO is now moving ahead to consolidate and monitor them.

One major challenge Osakwe indicated with cotton development assistance, however, is the lack of information in terms of status and progress reports on development projects from implementation agencies, and from donors on operational implementation. Inadequate information flows between donors, recipients, and domestic agencies was cited as a major area for improvement. A second problem is the gap between donor commitments and disbursements, and a third was the confusion between cotton-specific and non cotton-specific aid, including assistance for trade infrastructure and energy. Additionally, the consultative framework process, whereby recipients and donors gather to report on domestic reform processes, might not be enough, as the donor community has reported that it needs to have a presence in recipient countries.

On the lessons the DDA Duties Division has learned, Osakwe noted that coordination and coherence are critical to the aid process. Specifically, African countries involved in international aid programs should prioritize cotton and submit cotton sector projects for funding requests. This would be especially important for the Millennium Challenge Account, Japanese aid programs, and for EU-African cotton partnerships.

African countries involved in international aid programs should prioritize cotton and submit cotton sector projects for funding requests

Next, Philippe Chedanne of the French Agency for International Development (AFD) discussed the AFD's role in analyzing commodity price volatility and risk management systems. A series of studies they released in 2004 on risk management allowed them to engage in a useful dialogue with multilateral donors and African industries on how these tools would be most effectively used. The risk management tools the AFD has designed are intended to mitigate excessive variations of prices for producers, to stabilize the price and provide a sense of predictability to the market.

Mary Barton-Dock of the World Bank noted that as the World Bank is very country-focused, it is critical that countries themselves request that assistance is applied toward cotton. A good example of this situation is Mali, which currently receives aid through the World Bank's Agricultural Services Program. The program targets producers associations and helps with the introduction of new technologies. Unless Mali requests that the World Bank funds remain

for the cotton sector, however, the program risks being eliminated. Prioritizing cotton in aid requests applies to other donors as well. "Resources are scarce, countries have to make decisions. "At the end of the day if you're signing a 500 million dollar deal with the [Millennium Challenge Corporation] and there's no request for cotton in there, that tells everybody something about the priorities," Barton-Dock said.

Describing the other various areas funded by the World Bank, Barton-Dock noted that it supports technology transfer and capacity building for producers' associations, supply chain development, agricultural services, community development, development of frameworks for testing GM cotton, and training on how to add value to the supply chain in cotton. This last area is significant, and Barton-Dock suggested that more discussion should center around it to increase the strength of the cotton sector in Africa.

U.S. Trade Deputy Assistant for Capacity Building Elena Bryant spoke next, briefly outlining the efforts of the U.S. government to help Africa's cotton industry. She noted that the main funding mechanisms are through the U.S. Agency for International Development (USAID), the U.S. Department of Agriculture (USDA), and the Millennium Challenge Corporation (MCC). The USDA addresses cotton needs through the West African Cotton Improvement Project (WACIP), which now has \$27 million to lend over three years. WACIP funds the support of the following programs:

- expansion of good practices;
- research linkages between U.S. and West African organizations;
- better classification of seed cotton;
- establishment of regional training programs for ginners;
- support for policy development to facilitate private management in the cotton sector;
- expanded access to high quality inputs; and
- exploration of ways to add value to West African cotton through regional processes.

Describing the MCC as a body that can make significant investments in countries through compacts for economic growth, Bryant noted that it requires recipient countries to consult widely with the private sector, civil society, and donor partners to secure a broad coalition of support for MCC funds. Moreover, funding is demand-driven, with the countries themselves designing their own projects and prioritizing their poverty reduction strategies. Benin, Mali, and Burkina Faso are eligible for MCC funding. In fact, in February 2005, Benin

entered into a \$307 million compact with the MCC over five years to increase private sector investment by improving land tenure, access to financial services, improving the judicial system, and removing constraints to trade at the port of Kotunu. Mali also was to sign a \$460 million MCC compact for investments to increase the productivity of agriculture and small businesses, as well as to expand the country's access to trade.

Hannele Tikkanen, trade counselor with the European Commission (EC), concluded the panel discussion by describing the EU's assistance for African cotton provided by the European Commission. Specifically, she discussed the EU-Africa cotton partnership, endorsed in 2004, which covers seven areas:

- international trade;
- national and regional strategies;
- policies and institutions;
- technological innovation;
- risk management and finance;
- chain integration, and
- coordination.

These seven areas fall within the main development objective of the cotton partnership, which is to support African cotton producing countries through improvements in competitiveness, and to enable African governments to better take advantage of trade opportunities. The EC has allocated 100 million Euros to cotton in the course of the partnerships, and EU member states have added their own assistance programs for cotton, notably France, Germany, and the Netherlands. In conjunction with the EU, the EC, and member states, they have also earmarked over 200 million Euros for non-cotton development assistance, mainly to Africa. All projects were to be in operation by 2007.

Overall, "the EU remains committed to supporting the African cotton producing countries in the framework of the EU-Africa partnership on cotton," Tikkanen said.

Section Six: Conclusions and the Next Steps for Africa

Moderator:

Nicolas Imboden, executive director of the IDEAS Centre in Geneva

Panelists

- Mr. Moudjaidou Issifou Soumanou, Minister of Industry & Trade, Benin;
- Ambassador Samuel Amehou, Ambassador of Benin to Switzerland; and
- Robert Thompson, an IPC member and Gardner Professor of Agricultural Policy, University of Illinois.

Nicolas Imboden of the IDEAS Centre, a sponsoring organization of the conference, opened the last panel by sharing some concluding points. He said he was encouraged by the willingness of all participants to talk to each other and to try to find common solutions. He acknowledged that the cotton issue is complex, requiring international and domestic reforms to realize the potential of cotton as a development engine for Africa. He underlined other important issues related to the future of African cotton, including the emergence of Asian countries as cotton competitors and the need for improved capacity and competitiveness by African produc-

ers. Better donor coordination and a better understanding of the comprehensiveness of the cotton issue would lead to better solutions. Imboden emphasized the need for a comprehensive and integrated package of aid and trade measures engaging all stakeholders. In terms of the WTO negotiations, he underlined the urgency of finding a solution for African farmers, and the need to restart serious negotiations. Rather than concentrating on what the others should do to come to a satisfactory conclusion of the Doha Round, Imboden urged participants to define what they each could contribute to advance the negotiations, and to make trade work for the poor.

Referring to a set of meetings the C-4 Ministers had participated in during the days leading up to the conference, including with Congressional staff, U.S. Trade Representative Susan Schwab, and Agriculture Secretary Mike Johanns, Minister Moudjaidou Issifou Soumanou spoke optimistically about potential progress in cotton trade and African development. The show of interest from officials and conference participants for collaboration “exceeded our expectations,” he said. “I hope the recommendations made here today will translate into concrete results for helping the cotton sector and poverty reduction in Africa.”

Ambassador Amehou called on the Americans and Europeans to revise their negotiating positions in the Doha negotiations and launched an appeal for them to work towards concluding the Doha Round. He asked the United States to consider a \$200 million compensation fund for the 15 million African farmers adversely affected by U.S. cotton subsidies. He also noted that they were counting on American public opinion to help raise awareness about the cotton issue, and he acknowledged the need for donors and recipients to work together in solidarity to save the cotton sector from market distortions.

Robert Thompson concluded the conference by saying that the speakers had appropriately focused on cotton’s impact on poverty in Africa. “It is important to consider that 70 percent of those living on less than \$1 day are in rural areas when thinking about the cotton issue,” Thompson said. So in addressing world poverty, we must think about agriculture, and rural development. Economic research yields evidence that compellingly demonstrates that export growth is an effective way to achieve economic growth for developing countries, yet the commodities they are best poised to export are those same goods that are subsidized in OECD countries.

In addressing world poverty, we must think about agriculture and rural development

The most trade-distorting support is found for cotton, rice, milk, and sugar in developed countries, preventing developing countries from accessing needed markets and eroding farmers’ revenues. A small reduction in the price of cotton can have a substantial impact on the revenues of many in Sub-Saharan Africa. So, “while OECD countries do much to talk about poverty reduction, they often do not follow through,” Thompson said.

Thompson described other challenges to African agriculture, mentioning that improving soil fertility is essential to reducing poverty in Africa. He said that the continent’s soil has been exposed to the elements longer than all the continents. He urged the recapitalization of African soil with organic matter and nutrients to form a strong basis for a flourishing African agriculture sector.

It is important to consider that 70 percent of those living on less than \$1 day are in rural areas when thinking about the cotton issue

“The first challenge is recapitalization to rebuild the fertility of African soil, because without nitrogen, phosphorus, potash, and micronutrients, there is no potential for plant growth.”

A second challenge to the cotton sector Thompson identified is the underinvestment in research and technical change, particularly in biotechnology. Third, both domestic and international policies turn the terms of trade against African farmers so that they face higher input costs and receive a lower price for cotton. To address the sources of these problems, Thompson noted that improvements need to be made in the value chain of cotton, particularly in transportation and communication technologies to reduce production costs.

African governments and donors can work together to create an enabling environment for agriculture. But first, agriculture has to be placed on the development agenda of the development banks, bilateral donors, and African countries. National African governments need to tell donors that agriculture does matter and must prioritize the sector in their strategic poverty reduction plans. “There is a role for all three actors to create an enabling environment for Africa in agriculture so Africa can develop as it opens up to the world economy.”

Thompson also urged forward progress on the Doha trade negotiations by calling for the reduction of trade-distorting support in agriculture and increasing market access for developing countries to help them to stimulate economic growth. He also stressed the importance of aid for trade to increase competitiveness in industries in which developing countries have a comparative advantage. Lastly, Thompson said that although the resources of the international community should be used to create an enabling environment for African agriculture and cotton, developing countries should also seek market access from other developing countries, which is where their biggest growth market in the future lies.

There is a role for trade, competitiveness, and donor coordination to create an enabling environment for Africa in agriculture so it can develop as it opens up to the world economy

Biographies of Participants

Minister Youssouf Abbassalah

Mr. Youssouf Abbassalah is the Minister of Trade, Industry and Craft in Chad. Prior to his current position, he was the Minister of Mining and Energy. He also served as the Minister of Oil, the delegated Minister of Budget, the Finance Secretary of State, and the Director General of Trade and Tourism. Mr. Youssouf Abbassalah received his DEA in International Rights from Kiev State University in Ukraine. He also holds a license in civil rights and a certificate in foreign languages.

Minister Bonoudaba Dabiré

Mr. Bonoudaba Dabiré is the Minister of Agriculture for Burkina Faso.

Minister Chiguel Kokalla Maïga

Mr. Maïga Chiguel Kokalla is the Minister of Industry and Trade in Mali. Prior to his current position he was the Advisor to the Director General of the Telecommunications Society of Mali. Mr. Maïga Chiguel Kokalla also served as the Director of the National School for Stations and Communications in Mali, National Coordinator for the development and implementation of Telecommunications and Broadcasting programs in Mali, and Head of the Engineering Department Engineering at the Telecommunications Society of Mali. He holds a Ph.D. in Telecommunications from the Telecommunications Institute in Moscow.

Minister Moudjaidou Issifou Soumanou

Mr. Moudjaidou Issifou Soumanou is the Minister of Industry and Trade in Benin. Prior to his current position he was the Director of Internal Trade from 1999 to 2001 and the Director of Competitive Pricing from 1996 to 1999. Mr. Moudjaidou Issifou Soumanou is a graduate from the faculty of Legal Economic Sciences at the National University of Benin.

Crawford Falconer

Crawford Falconer is the Chairperson of the World Trade Organization Agriculture Negotiations.

Ambassador Samuel Amehou

Ambassador Samuel Amehou is the Benin Ambassador to Switzerland.

Ambassador Tertius Zongo

Ambassador Tertius Zongo has been the ambassador from Burkina Faso to the US since January 2002. Ambassador Zongo has an extensive background in economics and accounting. He most recently served as the minister of Economy and Finances from 1997 to 2001, and as the minister of Budget and Planning from 1995 to 1997 at the Ministry of Economy. He also served as governor for Burkina Faso to the World Bank, the International Monetary Fund, the African Bank of Development and the Islamic Bank of Development. In 1992, Ambassador Zongo worked as director general of Cooperation at the Ministry of Finances and Planning and as chief of the Department of Multilateral Cooperation from 1988 to 1992. He has also been a professor of accounting, business economy and financial analysis at the University of Ouagadougou in Burkina Faso.

David Blackwell

David Blackwell is Vice President and Chief Financial Officer of Global Procurement, a division of Wal-Mart Stores, Inc., responsible for the direct sourcing of products for Wal-Mart's global retail operations. Prior to his current position, he served as Vice President and CFO of Wal-Mart Europe. In 2000, David joined Wal-Mart International as a Director of International Finance. Before Wal-Mart, David spent 20 years in the oil and gas industry with the Atlantic Richfield Company. He gained a broad business and global perspective through assignments in the US, United Arab Emirates and Tunisia, and through participation in negotiations of multi-billion dollar business ventures in China and Russia. He is a member of Financial Executives International, on the Corporate Executive Board's Procurement Strategy Council, and actively supports Students in Free Enterprise (SIFE).

Philippe Chedanne

Philippe Chedanne is a representative from the Agence Française de Développement.

Pedro de Carmargo Neto

Pedro de Camargo Neto is the former Secretary of Production and Trade for the Brazilian Ministry of Agriculture. During his time in office, he was responsible for agricultural negotiations in the WTO, FTAA, Mercosur, and other bilateral agreements from 2000-2002. De Camargo is currently the President of ABIPECS - Brazilian Association of Pork Producers and Exporters and the Past President of the Sociedade Rural Brasileira. He has been an IPC Member since 1995.

Nicolas Imboden

Nicolas Imboden is a partner and cofounder of IDEAS Centre. Previously, he was Senior Vice President of SGS, a Swiss Government trade and aid official with the rank of an ambassador, Governor of the regional development banks (ADB, AFDB, IDB) and Executive Director at the EBRD. He was the Swiss negotiator for market access and agriculture during the Uruguay Round negotiations. He also worked in the World Bank as an agricultural economist, OECD as researcher on aid monitoring, and UNDP as Program Officer in Chad. He is currently a member of the Board of the Foundation of the Institut Universitaire d'Etudes de Développement (Geneva) and of the International Institute for Sustainable Development (IISD) in Canada.

Mark Lange

Dr. Mark Lange is President and CEO of the National Cotton Council (NCC). Dr. Lange came to the NCC in 1990 and directed its Economic Services and Information Services before being named Vice President, policy analysis and program coordinator in 2001. Before joining the NCC, Dr. Lange was an associate professor of agricultural economics at Louisiana State University. He has served on editorial boards and other committees in several professional agricultural economics associations and currently is a member of the National Agricultural Statistics Service Advisory Committee. Dr. Lange holds Bachelor's and Master's degrees from Indiana State University and received a Ph.D. in Economics from Iowa State University.

Florizelle Liser

Florizelle (Florie) Liser is the Assistant U.S. Trade Representative for Africa in the Office of the United States Trade Representative (USTR). She previously served as Assistant U.S. Trade Representative for Industry, Market Access, and Telecommunications. Ms. Liser has also worked at the Department of Transportation and served as senior trade policy advisor to the Secretary in the Office of International Transportation and Trade. From 1980 to 1987, Ms. Liser worked in the USTR GATT Affairs office on WTO developing country trade issues, including the Committees on Trade and Development, Least Developed Countries, and Balance-of-Payments, and coordinated USG participation in a number of balance-of-payments consultations, including the first-ever Nigeria balance-of-payments consultations. Ms. Liser was a founding member of TransAfrica, co-chair of the Education Committee of the Washington, DC Chapter of TransAfrica, and has over many years been actively involved in promoting trade and development policies that recognize Africa's growing importance to the U.S. and its African-American citizens.

Gobind Nankani

Mr. Gobind Nankani has been the World Bank's Vice-President for the Africa Region since 2004. He is a development economist and has held management positions in various regions and sectors across the Bank. In Dr. Nankani's previous position, he was head of the Poverty Reduction and Economic Management Network, where he provided leadership in developing the Bank's strategic work on poverty reduction in low- and middle-income countries. Mr. Nankani joined the Bank in 1976 as a Young Professional. Mr. Nankani attended the University of Ghana as an undergraduate and holds a Ph.D. degree in Economics from Harvard University.

Chiedu Osakwe

Mr. Chiedu Osakwe is presently Director, Technical Cooperation Division at the Secretariat of the World Trade Organization, and adviser to the Director-General on developing country matters. Before his appoint-

ment as Director in 2001, he held several positions in the WTO Secretariat. Prior to joining the World Trade Organization, Mr. Osakwe was a Nigerian Foreign Service Officer. He served at the Permanent Missions of Nigeria in New York, from 1983 to 1986, and the Permanent Mission of Nigeria, in Geneva, from 1993 to 1998, in which period he represented Nigeria at the GATT and the WTO. As Nigerian delegate, he was Chairman of the WTO Committee on Rules of Origin and was Chairman of the Working Party on Preshipment Inspection (PSI). Mr. Osakwe who has a Ph.D in Politics from New York University (NYU), was educated at the University of Ibadan, Nigeria, New York University, and St. Hughes College, Oxford.

Sara Rogge

Sara Rogge is Senior Trade Policy Advisor for Debt AIDS Trade Africa (DATA), and is responsible for advocating on trade and economic development issues as they impact sub-Saharan Africa. Prior to joining DATA, Sara was Director for Market Access in the Office of Industry, Market Access, and Telecommunications at the Office of the United States Trade Representative (USTR). Prior to USTR, Sara worked as an International Economist and an International Trade Specialist in the International Trade Administration (ITA) of the U.S. Department of Commerce. Sara's interest in international development issues began with volunteer service in Africa with World Teach and as a Program Officer for Mercy Corps, an international relief and development agency. Sara has an MA in International Economics and African Studies from the Johns Hopkins School of Advanced International Studies (SAIS) and a BA from Valparaiso University.

Daniel Sumner

Dr. Daniel A. Sumner is the Frank H. Buck, Jr., Professor, Department of Agricultural and Resource Economics, University of California, Davis and the Director, Agricultural Issues Center, University of California. He is also the Chair of the International Agricultural Trade Research Consortium. Before returning to academics in 1993, Sumner spent several years in government service, including a year as Assistant Secretary for Economics at the U.S. Department of Agriculture. Prior to that Dr. Sumner spent about 10 years on the faculty of North Carolina State University. Sumner's research and writing has won awards from the American Agricultural Economic Association for Quality of Research Discovery, Quality of Communication, and Distinguished Policy Contribution. In August 1999, in recognition of his career achievements, Sumner was named a Fellow of the Association.

Robert Thompson

Mr. Robert Thompson is the Gardner Farm Bureau Chair in Economic Policy at the University of Illinois. He previously served as Director of Rural Development at the World Bank. From 1993-1998, he was President and CEO of the Winrock International Institute for Agricultural Development. Before that Mr. Thompson was Dean of Agriculture at Purdue University from 1987-1993, Assistant Secretary for Economics at the US Department of Agriculture from 1985-1987, and Senior Staff Economist for Food and Agriculture on the Council of Economic Advisors. Thompson is a founding member of the International Policy Council and is Past President of the International Association of Agricultural Economists.

François Traoré

François Traoré is the President of the National Cotton Producers Union in Burkina Faso and the African Cotton Producers Association.

About IPC

The International Food & Agricultural Trade Policy Council (IPC) promotes a more open and equitable global food system by pursuing pragmatic trade and development policies in food and agriculture to meet the world's growing needs. IPC convenes influential policymakers, agribusiness executives, farm leaders, and academics from developed and developing countries to clarify complex issues, build consensus, and advocate policies to decision-makers. www.agritrade.org

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The Wilson Center is a nonpartisan institute for advanced study and a neutral forum for open, serious, and informed dialogue. It brings pre-eminent thinkers to Washington for extended periods of time to interact with policymakers through a large number of programs and projects. The Center seeks to separate the important from the inconsequential and to take a historical and broad perspective on the issues. www.wilsoncenter.org

About the IDEAS Centre

IDEAS Centre is an independent, non-profit organization dedicated to helping low-income countries to integrate into the world trading system in a way that supports their national poverty reduction and economic development efforts.

The Centre offers practical, results-oriented advisory services and executes projects aimed at strengthening the capacities of developing/transition country governments to shape both their domestic economic policies as well as the international policies that affect them.

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