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Sub-Committee on Cotton

**IMPLEMENTATION OF THE DEVELOPMENT ASSISTANCE ASPECTS OF THE
COTTON-RELATED DECISIONS IN THE 2004 JULY PACKAGE AND
PARAGRAPH 12 OF THE HONG KONG MINISTERIAL DECLARATION**

**ITEM 2C - COHERENCE BETWEEN TRADE AND DEVELOPMENT ASPECTS:
UPDATE ON THE DEVELOPMENT ASPECTS OF COTTON**

*Report of the 25th Round of the Director-General's
Consultative Framework Mechanism on Cotton¹
1 July 2016*

1 INTRODUCTION

1.1 The 25th Round of the Director-General's Consultative Framework Mechanism on Cotton (DGCFMC) took place on 1 July 2016, under the chairmanship of Deputy Director-General David Shark.

STATEMENT BY THE C4 COORDINATOR

1.2 Ambassador Thiam Diallo (Mali), speaking on behalf of the C4 countries and all other cotton-producing countries from ACP, Africa and LDCs, said that the Nairobi Ministerial Decision on cotton constituted an encouraging step forward towards reaching a fair and balanced resolution of the cotton dossier. She reaffirmed the C4's commitment to the multilateral trading system and its potential to enhance the integration of African countries into the global value chains. She underscored that trade was the best development driver in the fight against poverty and an important tool in reaching inclusive growth in Africa.

1.3 She noted with satisfaction the continued mobilisation of donors as reflected in the last version of the Evolving Table on Cotton Development Assistance. She underlined that, despite some shortcomings due to insufficient rain in certain regions, cotton production in the C4 countries had been steady in 2016. However, she expressed concern with the continued downward trend of international cotton prices.

1.4 She thanked China for its financial support which had made possible the participation of the C4 focal points in the DGCFMC, and encouraged all interested parties, including developed and developing country Members, to nominate their focal points so as to expand the information exchange and build synergies on the cotton issue through the Consultative Framework Mechanism.

1.5 The Ambassador of Benin, speaking on behalf of the LDC Group, underlined the vital importance of the cotton sector in African cotton-producing countries. He brought to the attention of participants that several LDCs would be soon submitting to the Secretariat certain regional projects on cotton for which they would be seeking support.

1.6 The representative of Côte d'Ivoire highlighted that his country had become the third largest cotton producer in Sub-Saharan Africa. The Consultative Framework Mechanism had been useful to foster support for its cotton sector. In that regard, he thanked developing and developed country

¹ This document has been prepared under the Secretariat's own responsibility and is without prejudice to the positions of Members or to their rights and obligations under the WTO.

Members in particular the EU, France, the Islamic Development Bank and the World Bank for providing such financial and technical assistance.

1.7 The representative of Pakistan stated that the cotton economy was fundamentally important for his country. He pointed out that Pakistan had become the fourth largest world cotton producer and had the third largest spinning capacity in Asia. He underscored that 40% of the industrial labour in the country was linked to cotton and 1.5 million farmer families depended directly on cotton for their livelihood. Cotton growers in his country were facing major challenges. Over the last three years, cotton production had slipped by 34%, not only due to extreme weather conditions, but also because of subsidies given by certain countries. He thanked the EU for its support which had helped to mitigate those adverse consequences.

COTTON PRODUCTION AND TRADE TRENDS

1.8 The Executive Director of the International Cotton Advisory Committee (ICAC), Mr. José Sette, gave a detailed presentation on the organization of the cotton sector in Africa. His in-depth analysis addressing the different typologies of competition (atomistic and concentrated) and the monopoly structure in various regions of Africa was followed by an assessment of the impact and sustainability of cotton price risk management. He also showed the purpose of, and the challenges involved in, contract farming arrangements, highlighting, in particular, aspects of compliance, linkages between smallholders and markets, transparency, double contracts and the relationship between cotton and food crops. Mr. Sette also gave an account of the advantages, disadvantages and challenges of the different types of structure in terms of yield performance, employment, sharing of benefits, input credits, extension services and promotion of cotton by-products. He emphasised that, even if some variables were not correlated with the structure of the sector, the way in which it was organized did explain to a large extent the variability in performance.

1.9 The representative of Bangladesh said that his country was one of the largest cotton importers in the world and one of the leading exporters of garments. He commended the DGCFMC for being instrumental in monitoring and tracking assistance that the donor community had given to the cotton sector in LDCs. He expected that in the future such support would continue to help adequately LDCs to improve their cotton production and exports. He hoped that traders in Bangladesh could engage with African cotton-producing countries so as to find mutually beneficial trade opportunities.

1.10 The focal point of Mali intervened to say that in his country cotton prices were no longer based on the production performance, but were the result of a concerted price-fixing mechanism where producers were directly involved in the decision-making process. He highlighted that the low yields in Africa were due, in part, to the rain-fed type of cotton cultivation and also as a consequence of some shortcomings in the inputs' supply chain in certain regions. He pointed out that efforts were being made to add value to cotton seeds. He stressed that the cotton premium quality was an important incentive for cotton growers. He pointed out that the total gross income made by the local private cotton company was split between 68% for producers and 32% for the company.

1.11 The focal point of Benin stated that in his country cotton prices were fixed at the beginning of the season to encourage farmers to plant cotton and those prices were adjusted at the end of the season in relation to international cotton prices. There was an open debate on how best to address price fluctuations between the start and the end of the season. With respect to the persistent low yields registered in Africa, he observed stressed that varieties adapting to local conditions and better extension services were key to increase productivity. He expressed disappointment at the low level of value-added cotton by-products made in his country. Cotton was exported mainly raw, missing in-country transformation opportunities. He finally underscored that, given the prevailing unattractive low prices of cotton, the cotton production area had been decreasing markedly in Benin.

1.12 The focal point of Burkina Faso underlined that the cotton sector in his country was divided by zones amongst three companies and that there was a uniform fixed cotton price, reflecting world prices. He commented that the "Smoothing Fund" had been utilized recently and its resources were very low, as the regional financing component of the Fund had not materialized. He underscored that the cultivation of genetically modified (Bt) cotton in his country had faced a

technical difficulty as the fibre produced was shortened and, as a result, the premium quality for the crop had not been obtained. In view of that significant revenue loss, the Government had decided to reduce momentarily the production of Bt cotton in order to recover the top quality. He highlighted that an Inputs Fund had been established to manage the distribution of fertilizers and stressed that in-country cotton transformation remained a big challenge that merited to be addressed.

1.13 The representative of Nigeria expressed concern that Africa registered the lowest cotton yields in the world in the last season. He requested participants if it was possible to share experiences that could help remedy the situation and also could address some long-standing issues, such as after-harvest contamination.

1.14 The representative of Chad emphasised that the level of local transformation of cotton in Africa amounted to just 2%. That posed a particular challenge in deriving development dividends from cotton. He underlined that research on cotton should be enlarged to include other actors, including the private sector.

1.15 The representative of Brazil said cotton cultivation was part of Brazil's agricultural history and that it had influenced the role that his country had played in international trade. Geography, history and institutional and cultural features were important to analyse how markets were organized. He suggested that participants should reflect on the best possible ways to reconcile the need to act on developmental long-term activities on the one hand, with short-term and specific projects on cotton, on the other hand.

1.16 The Executive Director of the ICAC, responding to some queries from the floor, agreed that the involvement of cotton growers in the price-setting mechanism in Africa was a positive step forward, but suggested that some flexibility tools were needed to enable the adjustment of prices between the start and the end of the seasons. He stressed that the most important challenge the African cotton sector faced was the need to improve yields. In relation to the cotton transformation possibilities in Africa, he pointed out that the two major challenges were the need to provide a low-cost and efficient supply of electricity as well as the need to improve further on logistics.

DIRECTOR-GENERAL'S EVOLVING TABLE ON COTTON DEVELOPMENT ASSISTANCE

1.17 The Chairman, in introducing item 4 of the agenda, made reference to the 21st version of the Evolving Table (ET), circulated to Members on 15 June 2016 and contained in document WT/CFMC/6/Rev.20. He invited Mr. Gerardo Melogno, from the Secretariat's Development Division, to highlight the main points of the latest version of the ET.

1.18 The representative of the Secretariat (Mr. Gerardo Melogno) informed participants that the latest version of the Evolving Table had been prepared on the basis of inputs from Australia, Brazil, the European Union and some of its member States, Japan and Switzerland. He noted that the updates received from the Netherlands were not possible to include in the latest version, but would be reflected in the next revision. Inputs had also been received from the FAO, IMF and the World Bank.

1.19 He highlighted that in Part I of the ET, concerning the ongoing activities of cotton specific development assistance, the number of beneficiaries had increased from 28 to 29, and the total value of commitments had increased from US\$226 million to US\$294 million. The total value of disbursements had increased to US\$115 million from US\$102 million. He underlined that the ratio of total disbursements to total commitments had declined from 45% to 39%.

1.20 With respect to Part II of the ET, concerning ongoing activities in the broader framework of agriculture and infrastructure-related development assistance, he underscored that the value of commitments had decreased markedly from US\$4.78 billion in the previous version to US\$3.47 billion in the revised version. The total value of disbursements had slipped to US\$1.76 billion and the ratio of total disbursements to total commitments had declined to 51%.

1.21 Regarding information on completed activities, he reported that the total value of commitments in Annex 1, listing finalized activities under cotton specific development assistance, had increased to US\$545 million and the actual disbursements related to those activities amounted

to US\$450 million. Turning to the completed activities in Annex 2, under the framework of agriculture and infrastructure-related development assistance, the total value of commitments and disbursements had increased to reach US\$4.08 billion and US\$4.04 billion, respectively.

1.22 The representative of the Secretariat commended donors for their latest updates which showed steady progress. He highlighted, in particular, the notable increase in the completion of activities in Part II and encouraged the donor community to continue with that positive trend.

1.23 As far as the notification of National Cotton Sector Focal Points was concerned, he noted that their number had remained the same at 15. He urged other African cotton-producing countries to communicate the names and coordinates of their national focal points to complete the list.

1.24 The focal point of Japan made reference to the Sixth Tokyo International Conference on African Development (TICAD VI), which would be held for the first time in Africa in August 2016. He said that his country would improve its notifications to the Evolving Table in the future. He stressed that Japan would continue to engage to enhance the cotton sector in developing countries in general, and in African countries, in particular.

1.25 The Ambassador of Benin, on behalf of the LDC Group, praised the follow-up activities tracked in the Evolving Table. He underscored that it would be useful to know the operational status of the projects listed in Part III of the ET under the World Bank and for which no disbursement sums were communicated. Furthermore, he wondered whether it was possible to get precise details of the amounts that were specifically allocated to the cotton sector.

1.26 The representative of the Secretariat pointed out that, even if it was paramount to monitor the evolution of the ratio disbursements/commitments in the ET, particularly in relation to projects with a long time-frame, it was also important to take into account the dynamics behind the numerical values, i.e. in respect of new activities introduced and those which had been completed.

SOUTH-SOUTH COTTON COOPERATION

1.27 The representative of China updated participants on his country's South-South cooperation activities in favour of cotton producers in Africa, particularly in Benin, Chad and Mali. He announced that four workshops on cotton would be organized by China, three in favour of African cotton-producing countries, and one specifically for Chad. He underlined that his country was about to complete a high-speed road in Benin which would facilitate the transportation of cotton from remote areas. He highlighted that President of his country had announced at the Second Forum on China-Africa Cooperation (FOCAC) held on 4 December 2015 in Johannesburg, that China would be launching 10 major plans to boost cooperation with Africa by enhancing infrastructure and helping modernize Africa's agricultural sector, including cotton, over the next three years. Those plans involved providing new seeds, fertilizers, agro-equipment and facilitating joint research and technology transfer to African producers.

1.28 The representative of Brazil made reference to an independent evaluation of the results of Brazil's technical cooperation and capacity building programme in favour of the C4 countries in relation to the introduction of new cotton varieties adapted to local conditions, transfer of planting techniques and development of best agricultural practices and extension support materials. He updated participants on Brazil's ongoing three activities for the development of the cotton sector in the C4 countries, Togo, Malawi and Mozambique. He also mentioned other activities undertaken by Brazil in support of several Latin American and Caribbean countries.

1.29 The representatives of Benin, Burkina Faso, Chad and Mali expressed their gratitude to Brazil, China and India for their active cooperation in the cotton sector. They thanked China for its financial support which allowed the participation of the C4 focal points at the meeting. The representative of Benin thanked Brazil for supporting three out of the five projects on cotton that Benin had submitted and which had been recently circulated by the Secretariat. The projects were designed to reinforce the productive capacity of Benin in the cotton sector and would help integrate its economy in regional and international cotton value chains.

1.30 The Chairman underlined the importance of South-South Cotton Cooperation in the work of the DGCFMC. He encouraged other Members in a position to do so to consider forging similar kinds of cooperation.

DOMESTIC COTTON SECTOR AND OTHER REFORMS / NATIONAL COTTON SECTOR FOCAL POINTS

1.31 The Chairman made reference to the thirteenth version of the Table on Domestic Cotton Sector Reforms for Enhanced Development Assistance which had been circulated on 15 June 2016 as document WT/CFMC/21/Rev.12, with new inputs from Burkina Faso, Chad and Mali. He also noted the prevailing initiatives of Benin in that area. He mentioned that the recent submission received from Côte d'Ivoire would be duly reflected in the next version of the Table.

1.32 He underscored that the total number of focal points in Part IV of the Evolving Table had not changed and remained at 15. He said progress was needed in that area and urged other cotton-producing countries to designate and notify their National Cotton Sector Focal Points.

1.33 The focal point of Benin pointed out that in order to give impetus to the cotton sector in a public-private partnership dynamic, the Framework Agreement with the Cotton Trade Association (AIC) had been re-established in April 2016. Furthermore, in May 2016 a transitional Technical Committee between the Government and the AIC had been created to manage the 2016/17 season and ensure the timely implementation of the new reform measures. Moreover, Benin had decided in June 2016 to discontinue subsidising inputs for cotton.

1.34 The focal point of Burkina Faso commended Japan for its support to the cotton sector in the TICAD framework. He highlighted that the liberalisation of the cotton sector in Burkina Faso was going ahead under the new zoning system. The governance tools and follow-up instruments which had been put in place were fully operational, such as the Inputs Fund, Smoothing Fund and price-fixing mechanism for cotton. The production forecast for the 2016/17 season was of 750,000 tons of conventional cotton, as the cultivation of Bt cotton had been suspended.

1.35 The focal point of Chad stressed that the cotton sector, which constituted a major source of income for four million people in the country, was confronted with big challenges. It was in that context that the Government had put in place in December 2015 various institutional and assistance measures to help cotton growers. Those measures included the creation of local coordination committees, the setting up of two new ginning facilities, upgrading old mills and renewing a vehicle fleet for the transportation of cotton. The national company Cotontchad SN had drawn up a plan to increase cotton production to the level of 300,000 tons for the 2017/18 season.

1.36 The focal point of Mali made reference to a re-organization and new strategic orientation set up by governmental authorities to reinvigorate the cotton sector aimed at enhancing the industrial processing of cotton and boosting the national textile industry. To that end, the newly established "Compagnie malienne pour le développement du textile (CMDT)" would go through a state-managed transitional phase after which it would be opened to private investors. He mentioned that two new ginning facilities would be constructed in the country in the near future. As regards cotton production in Mali, following an increase of 25% in the 2014/15 season, the output dropped by 6% in the 2015/16 season, mainly due to lack of rain.

2 CONCLUSION

2.1. The Chairman concluded the meeting by highlighting the enriching interaction amongst participants that had taken place and reiterating the importance that Director-General Roberto Azevêdo attached to the cotton dossier. He underscored that the work of Members and other participants in the Director-General's Consultative Framework Mechanism was widely recognized as helping consolidate the development dimension of the multilateral trading system. The Secretariat would continue to assist the process by monitoring and reporting to Members on new contributions, disbursements and operational status of activities listed in the Evolving Table as well as progress in the implementation of domestic cotton sector reforms. He stressed the importance of regular and timely submissions to the Secretariat's cotton database.

2.2. He pointed out that South-South Cotton Cooperation was an important aspect of the implementation of the mandate on the development assistance aspects of cotton. The significant contributions of Brazil, China and India in that respect were duly acknowledged and appreciated by all participants in the Consultative Framework Mechanism.

2.3. He announced that the next round of consultations would take place in the second half of the year, and that it would be held back-to-back with the next dedicated discussion to examine relevant trade-related developments on cotton in the context of the Committee on Agriculture in Special Session. The Secretariat would consult with regard to the specific dates.
