

Prepared for
30th International Cotton Conference
Bremen, 24 – 27 March 2010

Understanding Cotton Demand and Promoting Origin – The Example of African Cotton

Introduction

Africa, both francophone as well as anglophone, has traditionally been an important cotton production base. Cotton produced in Africa is mainly exported by international merchants to Asia, where today almost 80% of world cotton fibre is processed into yarn. Fibre transformation rates in Africa are at a historic low, with only 5% of francophone and 43% of anglophone African cotton being processed on the continent.¹ Thus, on average, 83% of sub-Saharan African cotton is exported as lint, almost exclusively through intermediaries.

The high rate of cotton exports demands a closer link with the market, more so with the emergence of strong new competitors such as Brazil and India. Closer interaction with clients and cotton consumers is vital to maintain international competitiveness. African countries have traditionally focused their attention on production rather than on the market. Market linkages towards Europe were secured by Western (often French) mother companies, and since 2005 increasingly towards Asia by international cotton merchants. A market-oriented culture did not develop as market-related aspects were handled outside of Africa. Moreover, in the past cotton almost always sold easily as world cotton demand was higher than world cotton production. As a result, direct market linkages with clients did not develop and therefore no direct feedback loop from spinning mills back to ginning companies and producers emerged. This is a strategic disadvantage in a declining market, as was the case in the 2008/9 season, and in slow growing markets as forecast by ICAC for the seasons to come. Therefore, Africa needs to find a strategic solution to integrate a market feedback loop into its operations and link market-related activities closer to adaptations at the production level.

Modern approaches towards competitiveness stress the importance of a holistic value chain approach. During the 67th Plenary Meeting of the International Cotton Advisory Committee (ICAC) in Ouagadougou, for example, cotton experts discussed the 'Competitiveness of African Cotton Production' and stressed the importance of 'traditional' aspects such as activities in research, agricultural inputs, production, finance and reduction of contamination, but emphasized as well that 'it is also necessary to promote African cotton, and ... improve marketing'.²

This paper analyses some of the experiences gone through and lessons learned in linking African cotton producers and ginning companies closer to consuming markets in Asia. Since 2007, the International Trade Centre (ITC) has been organizing value chain capacity building seminars and African cotton promotion activities in major cotton producing and consuming countries in Asia. In

¹ Own calculations based on ICAC figures. Anglophone countries include South Africa as well as West African countries such as Ghana and Nigeria that have more important transformation rates than most East African cotton-producing countries.

² ICAC Press Release, 18 February 2009, 'The Competitiveness of the African Cotton Sector could benefit from Implementation of Realistic Results'.

cotton producing countries seminars and on-the-job training were organized in the People's Republic of China (in 2006, 2007 and 2009), India (2006 and 2007) and Turkey (2008 and 2009) to understand their cotton philosophy, success factors and how the cotton value chain is actively managed. China and Turkey are also important cotton importing countries. Cotton value addition seminars and promotion activities were also organized in Bangladesh and Thailand in 2009 to help participants get a better understanding of the market and the quality requirements of clients.

The following sections analyse cotton marketing, including promotion of African cotton in Asian markets. Section 2 describes the necessary and sufficient conditions that need to be in place so that marketing of African cotton can achieve sustainable results. Section 3 looks at the 'four Ps' of (cotton) marketing, incorporating some of the experiences from Asian markets. Section 4 describes possible initiatives that could be undertaken to enhance Africa's cotton visibility in Asian markets. Section 5 concludes the paper.

2. Necessary and sufficient conditions for cotton marketing

Competitiveness starts from the market. A clear understanding of the entire value chain and the market as well as the client and the client's client is necessary to become competitive. This is very obvious with regard to consumer goods such as garments. Without a clear understanding of fashion trends and market/buyer requirements, a clothing manufacturer will not be successful in world markets. This, in principle, is no different for a commodity such as cotton. For example, American farmers and cooperatives and more recently also their counterparts in Brazil and India have organized market familiarization missions to cotton-consuming countries in Asia to learn what their clients expect from them but also to promote their cotton. However, African cotton companies, independent ginners and producers (i.e. cotton stakeholders) have hardly ever had this opportunity. As a result, they have no clear understanding of the entire value chain nor the immediate market where their cotton is being sold. Direct contacts with the immediate consumers of their cotton, i.e. spinning mills, have been rare, and direct feedback on quality and buyer requirements was sporadic and often 'filtered' by intermediaries. If feedback or training was given it was provided to the sales directors of ginning companies only and did not filter down to the producer level, thus depriving sector stakeholders of vital information for improving quality and customer services. Such a selective approach risks creating a dependency relationship, and could be seen as favouritism if vital information and knowledge are not passed on to all cotton stakeholders. As international competitiveness starts with understanding the market, a feedback loop needs to be introduced that links producers and ginning companies closer to the market.

The African Cotton Producers Association (AProCA) has understood this requirement and the need to react. AProCA assists its members to develop clearer ideas about marketing and the quality requirements demanded by the consumer. Even though most of the producers in Africa are illiterate, AProCA attempts to make farmers more commercially minded and enable them to think about marketing and all aspects of their crop once it leaves the farm.³ The first step is understanding market behaviour and how other countries have managed the difficult world market situation. 'Producers need to know how cotton is selling at the international level and they must also know the consumers needs says François Traoré'⁴, the President of AProCA.

Before cotton stakeholders can engage in a more proactive approach to marketing, the necessary condition – a full understanding of external issues i.e. the value-chain and world markets – needs to be met. In addition, cotton stakeholders need to find ways to translate gained information and knowledge into know-how that is applied at national and regional level (the sufficient condition). This is a step-by-step approach.

³ Michael Bleby, *Financial Times*, Monday 1 June 2009, p. 10, 'African Farmers cotton on to marketing skills'.

⁴ Ibid.

The first step is to understand the value chain and the various steps of value addition until the cotton reaches the final consumer in the form of a cotton garment. This mainly includes the spinning process, but should extend towards the fabric-making process, the clothing manufacturing stage and the end consumers' fibre preferences.

Understanding the value chain also includes an in-depth understanding of common trading practices and their advantages and disadvantages. These include:

- Cotton trading rules in general and as applied in the destination markets, including contractual terms, arbitration rules, paperwork and documentation;
- Logistics and transportation issues, including bills of lading and electronic paperwork;
- Cotton controlling, including underlying rules and regulations;
- The role of banks and forms of payments such as letters of credit;
- Warehouse receipt systems;
- Insurance requirements;
- Risk management.

The second step is to understand the specific market and buyer (client) requirements at each stage of the value chain. At each stage a processed cotton product finds a new buyer with a particular requirement. These requirements, while different, have their origin in the quality and type of cotton garment demanded by the end-consumer. Depending on the garment, specific processes need to be applied during the various textile and clothing manufacturing stages of the value chain. In addition, for each product and corresponding processing technology different types of fibres and fibre qualities are required. To offer the required fibre quality and related services to clients, cotton producers would thus need to understand these quality requirements.

Understanding buyer requirements thus refers on the one hand to product quality requirements related to the fibre and its cleanness. On the other hand it refers to tailor-made solutions and business practices according to the specific needs and wishes of cotton-consuming spinning mills. In that respect cotton trading and marketing becomes a service-intensive industry.

The first and second steps (the necessary condition) will give cotton stakeholders a good basic knowledge and overview of the value chain and market requirements. It would defeat the purpose if all stakeholders became experts in all aspects. However, a good understanding of the major issues is necessary to address production-related aspects in Africa, such as contamination.

During the third step value chain and market knowledge is applied at the national and regional level to build capacity to respond to market and buyer requirements. This includes the following activities:

- Translating market knowledge and quality requirement insights into practical application at the production (i.e. ginning and farming) stage.
- Maintaining these applications on a large scale with thousands of small-scale farmers.
- Building the capacity of multiplier organizations in the form of national and regional producers and ginning associations.

One immediate example is that of the high contamination levels found in some African origins. In order to tackle this problem at each stage of the value chain, the market consequences need to be understood. Once this is done, a sector-wide approach can be applied at home to tackle the problem. Ideally, a close relationship should be kept with the market, including the involvement of clients in solving the problem in the country. Contamination is, to a large extent, a problem at the farm and also gin level. The damage, however, is accumulated in a snowball effect at each processing step. Generally, neither producers nor gin operators had the opportunity to interact with spinning mills or with fabric and garment manufacturers to understand how a small piece of white polypropylene, for

instance, could lead to damage worth several million United States dollars.⁵ Such an understanding, however, is vital in order to tackle the problem in the long run. Additional measures such as price premiums for clean cotton (sufficient condition) would act as a catalyst to turn the knowledge about cotton contamination effects (necessary condition) into practical results.

3. Cotton marketing and promotion of African origin

Once the necessary and sufficient conditions are in place, African cotton producers will be able to more directly engage in marketing or selling cotton. Demand at the farm level is ultimately the sum of domestic and foreign consumers' demand for cotton products in the retail market. Thus, general marketing principles of product, price, place and promotion also apply to cotton and the cotton industry, although possibly to a lesser extent. Managing the mix of marketing's 'four Ps' to optimize income and livelihood is therefore an important undertaking.

As cotton is a more or less homogeneous good (a commodity), marketing possibilities are limited. Cotton marketing is nevertheless a complex operation that includes buying, selling and reselling of cotton from the time the cotton is ginned until it reaches the textile mill.⁶ Among the four Ps, price policy is the most effective and widely applied for marketing of cotton. However, place (distribution policy) and promotional activities are increasing in importance as client-oriented solutions are needed to satisfy more and more demanding clients who expect tailor-made solutions for their specialized spinning operations.

Analysing the four Ps of marketing with regard to African cotton reveals potential for African stakeholders to play a more active role in the market as follows:

Product. The product has always been the focus when it comes to cotton marketing. Cotton, like any other product, needs to satisfy the wants and needs demanded by a consumer, i.e. a spinning mill. Satisfying the demand of the consumer means producing a product for the market rather than just producing a product and then looking for a customer. This also applies increasingly to a commodity such as cotton. African competitors in the United States, Australia or Brazil, for example, are actively developing new varieties that help clients to find new applications and solutions using cotton. Until now, African producers and ginners have not developed direct relationships including a direct feedback loop with existing clients or potential new clients.

The marketing component of cotton production usually begins with the product, i.e. lint quality. Several quality factors can have a significant impact on the price paid. The quality factors determine the grade. The components of cotton grade determinants include leaf grade, fibre length, uniformity, strength, micronaire, trash and colour.⁷ In addition, 'clean' (non-contaminated) cotton can get price premiums while discounts may be applied to highly contaminated cotton. Thus the higher the grade and the lower the contamination the higher the possible price premiums. The lower the grade and the more contaminated the cotton the higher the price discounts will be.

At the national level, the fibre characteristics of African cotton are relatively homogenous because growing conditions are similar and the number of varieties is low. However, bale variability is much higher in Africa than in most competitor countries, because the cotton from various farmers is often

⁵ For example, in discussions with Bangladeshi textile and clothing manufacturers, cotton stakeholders learned about real business cases in which a major United States retailer rejected a full shipment of garments because some garments had dyeing defects. Stakeholders thus could understand how a small contaminant could lead to millions of dollars of rejects at the retail level, affecting each processing step in a snowball effect.

⁶ 'Cotton: From Field to Fabric', found at Cotton Counts, www.cotton.org/pubs/cottoncounts/fieldtofabric/classing.cfm.

⁷ T.J. Dumler and S.R. Duncan, *Cotton marketing basics*, Kansas State University www.agmanager.info/marketing/publications/marketing/cotton_marketing_basics.pdf.

mixed into a single bale.⁸ This is one of the reasons why African cotton is penalized on world markets. More importantly, however, is the fact that high quality lint that is not reliably classified (including through HVI instrument testing) will not earn the premium that it otherwise would.⁹

Price. Individual cotton producers are price takers without any possibility of influencing the price. As with any commodity, world market prices are determined by world supply and demand. These market forces are channelled through and meet at commodity exchanges where world market prices are determined for a standard product with predetermined quality requirements.

World market prices are highly volatile and expose suppliers as well as consumers to large price risks. A marketing plan, therefore, is often a price contingency plan of actions that the producers will take in various possible, but ultimately uncertain, future situations in the market.¹⁰ A traditional marketing plan offers growers and spinning mill customers alike a choice of contracts that include a variety of price and delivery alternatives. In essence, it is an insurance programme for a cotton company, combining elements such as forward contracting, selling at harvest, marketing pools and use of bonded warehouses. This enables each party to manage its market exposure.

Differentials in quality will be reflected in price changes; with improved product quality, premiums can be achieved that increase the price. For small-scale farmers this needs to be done collectively as otherwise the quantity will be insignificant. The development of a quality image or even label could also increase the possibility of achieving premiums. Probably the most important aspect for African cotton in that respect is to reduce contamination as price premiums could be achieved with cleaner cotton. For premiums to be sustainable, the price policy needs to be well communicated to spinning mills, which will entail the need to closely cooperate with international cotton merchants.

Since basic fibre parameters in Africa are very similar, price differentials between different African origins mainly reflect the level of contamination.¹¹ According to the World Bank, concentrated sectors such as Zambia and Zimbabwe as well as Cameroon received substantial premiums in the past. On the other hand, liberalized sectors in the United Republic of Tanzania and Mozambique had to live with deductions due to high contamination levels.¹²

Place. Distribution policy appears relatively unimportant as cotton is a very storable commodity and transport is relatively inexpensive. However, as Asian spinning companies buy C&F ('cost and freight') or CIF ('cost, insurance and freight') to Asian ports, African ginning companies, who used to sell FOB ('free on board'), need to bridge the gap. Cotton of African origin has traditionally been distributed through international merchants that buy from the ginnery and find spinning mills in Asia that use the cotton. This takes place without the involvement or knowledge of cotton producers and ginning companies.

Distribution policy is therefore not being created directly by African cotton stakeholders. International merchants offer a mix of different origins to spinners to cater to the specific requirements of the client. This mix usually follows the product quality requirements (grade and contamination level) of the client but does not take account of origins if not specifically requested. As international merchants are pure service providers, catering to the needs of spinning mills, their applied distribution policy does not necessarily cater to the needs of specific origins. There is, thus, no specific distribution policy in place

⁸ David Tschirley, Colin Poulton, Patrick Labaste (editors), *Organization and Performance of Cotton Sectors in Africa: Learning from Reform Experience*, The World Bank, Washington D.C., 2009, p. 83.

⁹ Ibid.

¹⁰ J.R.C. Robinson, Department of Agricultural Economics, Texas A&M University, website at <http://agecon2.tamu.edu/people/faculty/robinson-john/>

¹¹ David Tschirley et al, op cit, p. 84.

¹² Zambia received + 4 cents/lb, Zimbabwe + 3 cents/lb and Cameroon + 2 cents/lb in the 2006/7 season, while Mozambique and the United Republic of Tanzania received deductions of 2 cents/lb each for their cotton. Ibid pp 85–9.

for African cotton.¹³ Thus, if African cotton producers would like to promote their cotton more actively they will also need to take over more responsibilities and introduce flexibilities with regard to the distribution policy required by clients in the market. More services would need to be offered to spinning mills, starting with an offer that fulfils expectations on C&F or CIF delivery.

Promotion. Being a commodity, promotion activities for cotton are somewhat limited, as promotional efforts have been most successful for products with brand recognition. For that reason a large part of ongoing promotional activities focus on cotton as a fibre against other competing fibres (mainly polyester and other artificial fibres). But this does not favour one origin over another and attracts free-riders that benefit from activities promoting cotton as a whole. African cotton has mainly benefited from promotional activities undertaken by other cotton-producing countries, most notably the United States.

While promotional activities for a commodity such as cotton are less effective than those for consumer goods such as clothing, promotional activities nevertheless have a potential impact on cotton sales in destination markets. Some major producing countries, such as the United States, Australia, and Brazil, have managed to create a quality image and brand recognition in the market that helps to cash in premiums over other cotton. Indian cotton, which had a notoriously bad reputation only a few years ago, has been improving its cotton quality through large investments in upgrading ginning capacities and quality improvement measures undertaken under the leadership of the Ministry of Textiles. In addition, India has been able to successfully communicate these improvements and reverse its image among clients.

Many Asian spinning mills associate cotton from the United States or Australia, for example, with very clean and thus non-contaminated cotton, and are willing to pay a higher price (premium). While both countries work with very sophisticated classing and grading systems at bale level, the United States also follows resource-intensive promotional campaigns to cement its positive brand image in the market.

In contrast, African cotton is not promoted in major cotton-consuming markets. In fact, the successful promotional activities of other cotton origins, combined with an existing negative reputation due to issues of contamination as well as stickiness (in the past) in some African countries, has created a negative image of African cotton among many spinning mills. While this image might not necessarily reflect the status quo of African cotton and is an undifferentiated generalization of the situation, it has created a 'brand-recognition' of African cotton that is unfavourable.¹⁴ In order to reverse this, promotional activities in the market are vital to communicate the efforts undertaken and results achieved to reduce contamination and enhance quality in Africa. Such efforts need to involve African stakeholders, but also international merchants.

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

¹³ Exceptions can be found in cases where merchants also operate ginning factories, which is the case in several African countries.

¹⁴ In fact, some African origins, such as Zambia and Zimbabwe, receive premiums for their clean cotton from knowledgeable spinning companies with experience in using this specific cotton. Overall, however, this does not change the generalized view of many spinners in Asia, who regard African cotton as one single origin with high contamination levels.

companies and individual ginners, international merchants will have to play a more important role in promoting African cotton.

To the four Ps of marketing one could add a fifth, namely **people** – in the African context the building of capacity among all cotton stakeholders is an important prerequisite in order to achieve long-lasting sustainable results.

4. Initiatives to enhance Africa's visibility in Asian markets

The following is a non-exhaustive list of possible initiatives to market and promote African cotton more effectively in Asian markets and to establish closer, sustainable linkages with clients, i.e. to fulfil the necessary and sufficient conditions to start cotton marketing and apply some of the marketing tools.

Capitalizing on the training and marketing activities. Following the 'typology of African cotton sectors' introduced by Colin Poulton and the World Bank, in Africa one could distinguish between two market-based cotton systems, namely competitive and concentrated systems, as well as between three regulated systems: national monopoly, local monopolies (concession system) and hybrid systems (most notably in Benin and Uganda).¹⁵ Capitalizing on the value chain capacity building and export marketing activities organized by ITC, market-based competitive sectors and most notably the United Republic of Tanzania have been performing much better than **regulated [= concentrated?]** sectors with national or local monopolies. The entrepreneurial spirit of individual and independent ginners (combined with the pressure applied by the local CRDB Bank to explore new business models) led to independent follow-up activities in Thailand, Bangladesh and Turkey. Tanzanian cotton was sold in direct marketing activities from independent ginners to spinning factories in both Bangladesh and Thailand. Feedback from Thailand on the quality of the cotton received was very good. Individual score card assessments by the buying spinner resulted in above average scoring for the Tanzanian cotton in almost all categories, except for contamination, which was slightly below average but still acceptable.¹⁶ Moreover, in Turkey, the Tanzania Cotton Board and other textile and clothing stakeholders are actively engaging with the private sector in Turkey to establish lasting cotton development and textile investment activities.

Hybrid systems (Uganda and Benin) showed good follow-up initiatives although they have not yet led to concrete individual marketing activities in the market. However, the lessons learned during training and the information gathered in the markets were actively applied in the countries. Sectors with national or local monopolies scored lower in the assessment, even though active follow-up activities were highly dependent on individual initiatives of participants. Mali and Senegal, for example, showed a very proactive approach with good results (according to individual feedback received from CMDT in Mali and Sodefitex in Senegal) while some other countries seemed to continue with business as usual.¹⁷

Table 1 gives an overview of the key indicators of cotton sector performance and expected performance by sector type, including for cotton export marketing, as introduced by the World Bank.¹⁸

¹⁵ David Tschirley et al, op cit, p. 55

¹⁶ This is an interesting outcome as Tanzanian cotton is generally regarded as one of the most polluted cottons according to David Tschirley et al, pp. 83–9.

¹⁷ These assessments are made by the author based on feedback received from participants and on his own judgements. They are thus subjective and not based on scientific evaluations. Moreover, the results of capacity building activities and training of trade support institutions are difficult to measure and can be judged only over a long-term period.

¹⁸ This is an amended version of the table shown on page 15 of David Tschirley et al. The first process indicator of export marketing was added to the existing table based on the author's own experience in working with African sectors on trade capacity building and export marketing activities.

Addressing contamination and communicating success. Problems with cotton contamination are evident but generalized, and overall African cotton is labelled as contaminated. While there is still some way to go for African cotton, some success has been achieved at the national level and also at the regional level. Serious efforts are being undertaken but are ineffectively communicated in the market.

The African Cotton Association (ACA) is addressing the issue of contamination and is developing a common approach and fibre quality standard at the regional level.¹⁹ That will help to overcome Africa's reputation of delivering highly contaminated cotton. ITC is helping ACA by providing the market perspective and engaging interested spinning mills and cotton stakeholders from major Asian consuming countries in the process. With reduced contamination levels, price premiums are achievable in the future. To achieve this, however, sustainable success need to be communicated and spinning mills convinced that clean cotton will be delivered every time.

Moreover, under the European Community All ACP Agricultural Commodity Programme, the Common Fund for Commodities, with support from the World Bank, is initiating a programme for clean cotton in three pilot countries in West Africa, targeting the farm and gin level.

In East and Southern Africa, ITC is planning to assist progressive ginners from Uganda and the United Republic of Tanzania to tackle the contamination issue by involving Asian spinners and thus potential clients in the efforts.

Revising an unfavourable African image in the market. Although production methods and cotton quality are not homogenous in Africa, and certain African countries receive price premiums in certain markets, African cotton overall suffers from a negative image of being highly contaminated cotton. This reputation is widespread and could be found in all markets visited. Only a few spinners that deal with specific origins know about the quality and price differentials for certain African cotton. But overall, among the majority of Asian spinning companies, African cotton is associated with high contamination and subsequent low prices.

In order to overcome this negative image, African cotton stakeholders will need to engage in a more aggressive and long-term image-building campaign in destination markets. Such a campaign needs to target the general image of Africa in Asia, namely that of an underdeveloped and backward continent, as well as the negative image of highly contaminated cotton originating from Africa.²⁰

Notwithstanding the existing overall negative image, the development situation in each African country is different and so is the situation in the cotton sector. While image building for an African label needs to be longterm and should benefit all African countries, more short- to medium-term marketing efforts could target specific country origins. This needs to take into consideration the present status of each cotton-producing African country and their individual need to promote their cotton in destination markets. Experiences gone through and lessons learned by individual African countries could then be shared and utilized for a common regional or multi-country approach.

In addition, the promotion of African cotton in destination markets to improve the unfavourable perception of African cotton could be done, for example, through the following means:²¹

- Regular participation in international cotton conferences such as the China International Cotton Conference. A regular presence will sharpen the consumer's perception of African

¹⁹ ACA held the second 'Journée de Qualité' in Cotonou, Benin 14–16 January 2010, specifically addressing contamination issues.

²⁰ In some markets African cotton was also associated with high sugar content (stickiness) because in the past some spinners had problems with a few African origins.

²¹ These suggestions were made during ITC-facilitated activities in various Asian markets.

cotton. Moreover, during such conferences many **domestic [i.e. African?]** spinning mills will be present and could be approached to communicate the positive characteristics of African cotton and the efforts undertaken to tackle issues such as contamination.

- Development and distribution of tailor-made promotional material to convince Asian spinners of African cotton quality and the efforts being undertaken to reduce contamination. In many countries spinners made reference to the promotional efforts undertaken by United States cotton and the useful communication material, such as buying guides, distributed.
- Strengthening the cooperation with cotton associations and cotton textile associations in many producing and consuming countries. A closer cooperation with, for example, the China Cotton Association and the China Cotton Textile Association, the Bangladesh Textile Mills Association, the Thai Textile Manufacturers Association, or national associations of ginners and farmers on all aspects of the value chain, including cotton trading and marketing, would be very beneficial.
- Combining promotional and educational efforts about cotton as a natural product with positive sustainable effects for the environment with educational efforts on the importance of cotton for Africa's development and the contribution it can make to achieving the Millennium Development Goals, including its contribution to poverty reduction and a sustainable environment.

Increase transparency in farm inputs and seed cotton price determinations. One important aspect of closer links with other cotton-producing regions is that of increasing the knowledge of how agricultural cotton inputs are calculated and managed and how seed cotton prices are determined. This is especially important in liberalized cotton sectors, where farmers and farmer representatives have no insights into the real costs of the ginning sector and where ginneries compete against each other. Transparency in ginning cost structures and farm inputs (in the case where ginners distribute seeds, fertilizers, insecticides and pesticides and operate extension services) is vital to determine accurate seed cotton prices and to build a fruitful relationship of trust and mutual recognition and cooperation. Knowledge leads to transparency, and with a transparent structure trust will be built, which is an important prerequisite for tackling sector-wide issues such as contamination that need the involvement and full support of all sector stakeholders.

Closer involvement of local banks. As a result of the financial and economic crisis as well as the sudden price hikes in the cotton sector in March 2008, banks' lending practices have become more cautious. Moreover, traders receive less trade finance from their banks and are not willing to buy forward anymore, which poses big problems for African cotton farmers and ginners. In many African countries cotton shipments are released only once a reputable international buyer has signed a contract and opened a letter of credit. Many local banks regard only strong international merchants as fully creditworthy. This, however, does not assist African cotton stakeholders to become equal partners in the international cotton business.

CRDB bank in the United Republic of Tanzania is actively engaged in understanding foreign markets, their requirements and how to help domestic ginning companies to find more advantageous markets overseas. The presence of a bank during negotiations with foreign clients makes a difference as financial and contractual concerns are immediately addressed. Moreover, CRDB bank also helps its clients to improve operations and follow internationally recognized standards and contract requirements as well as building an institutional support structure for the cotton industry.

Closer cooperation with spinning mills. While most Asian spinners visited buy on price and quality quotations, an increasing number are interested in developing closer and more direct relationships with cotton companies and independent ginners in Africa. More and more spinners are concerned with finding a steady and secure long-term supply to satisfy their increasing cotton needs. As a result, they are interested in investing in developing closer relationships with cotton companies and

independent ginners to secure supply of their specific quality requirements. This includes longer-term buying arrangements as well as provision of technical assistance to improve on cotton contamination at the gin level and to a certain level also at the farm level. For example spinning mills from Bangladesh, China and Thailand participated in the African Cotton Association's Second 'Journée de Qualité' of the in Cotonou, Benin, 14–16 January 2010 to get a better understanding of ACA's efforts to reduce contamination and to establish more direct contacts for long-term relationships.

Developing closer cooperation and more equal relationships with international merchants to market African cotton. Merchants have an important role to play as modern service providers to bridge the gap between the needs of spinning mills and the production on offer from Africa. Services include matching production with consumption, timing of purchases and sales according to clients' needs and requests, logistical arrangements, finance, risk management, buying and selling in different currencies, and assessment of the honesty and financial reliability of business partners.²² Feedback received from African participants on ITC's training and capacity building activities in Asian markets reveals that in the past the relationship between international merchants and African cotton companies and independent ginners was not always one of equal partners. With more transparency and full availability of market and client information, and an established feedback loop on delivered cotton and the quality requirements of spinning mills, cotton companies, independent ginneries and farmer representatives can cooperate more effectively with merchants to deliver the quality the market demands. An equal relationship between merchants and cotton companies or ginners as well as producers is the basis for jointly elaborated promotional approaches. With improved quality, marketing and promotion efforts could be undertaken jointly in the market, benefitting African cotton and remunerating service provision by merchants. Each side would be able to focus on its comparative advantage more effectively, while undertaking its activities in full transparency. To achieve long-lasting results, all partners need to work together and forego short-term profits to achieve long-term benefits.

In the meantime, some international merchants have (re-)started to invite sales managers of selected West African cotton companies to visit clients and spinning mills in Asia. While they have done so sporadically in the past this is a step in the right direction. From a development perspective, however, such market-related activities should not stop at the level of sales directors. They need to include various representatives of the African cotton value chain, including classers and farmer representatives so that the feedback loop reaches back to the production process. This would also increase transparency and thus eliminate potential favouritism.

Provision of a more regular and continuous offer. National production levels in Africa are relatively low compared to major world market competitors. As a result, cotton is on offer during the four or five months of the cotton season only, whereas spinning mills need delivery throughout the year. That makes national stakeholders vulnerable in price negotiations.

The need for a more consistent offer requires a closer regional cooperation within Africa. In East and Southern Africa, for example, the four countries of Mozambique, Zambia, Zimbabwe and Malawi (MoZaZiMa) will work closely together to tackle this issue and to cooperate along the entire value chain, from seed development to research into joint marketing and promotion of MoZaZiMa origin cotton. This initiative is still in its infancy, but the direction is right.

It is also important to use other available tools to increase market presence and expand the offer in the market. One important tool is that of bonded warehouse receipts in destination markets. The use of Free Trade Zone cotton warehouses in Mersin (Turkey) or Qingdao or Tianjin (China), for example, would benefit African cotton presence in the market. With warehouse receipts, ginners (or

²² Some international merchants also operate ginning factories in selected countries and provide crop inputs such as fertilizer and funding to cotton farmers. See also *Cotton Exporter's Guide*, International Trade Centre, Geneva, 2007, pp. 169–74.

merchants) would still receive their payment, while having cotton bales present in the market, deliverable at any time. To test this option, ginneries could get together to send cotton bales on consignment from Africa to test the Turkish or Chinese market, or any other market, to promote African cotton and to secure a long-term offer in the market.

Utilization of duty-free and quota-free access for African cotton. The Indian government has officially announced quota-free and duty-free entry for African cotton to the Indian market. In addition, the Chinese Government has announced that it will provide duty-free and quota-free access to the Chinese market for products, including cotton, from African LDCs.²³ Details for China are not yet available, but the Ministry of Textiles in India has developed a brochure that explains the details of the unilateral decision.²⁴ However, information on how to utilize this facility is not yet widely known. Efforts are therefore needed to disseminate the information. In the case of China, additional diplomatic efforts will be needed to request more specific and practical details on the arrangements and how to actually make use of them. This could ideally be done in conjunction with market players, i.e. spinning companies in China as well as international merchants that would have a legitimate interest in importing African cotton quota-free and duty-free.

5. Conclusions

Cotton became established as a prominent industry in Africa to supply cotton of favourable quality at relatively low prices for export. Due to a shift in demand from industrialized countries to Asian emerging economies, efforts to boost cotton production in major Asian producing countries, and an increasingly integrated value chain, efforts to promote African cotton in Asia are a vital component in sustaining the industry in Africa.

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

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

²³ See the full text of the Chinese Premier's speech at the Fourth Ministerial Conference Forum on China-Africa Cooperation, www.focac.org/eng/dsjbjzjhy/zyjh/t627391.htm. See also the statement of the Chinese representative during the twelfth meeting of the (WTO) Director-General's Consultative Framework Mechanism on Cotton, Geneva, 23 October 2009.

²⁴ India's Duty Free Tariff Preference (DFTP) for Least Developed Countries (LDCs), Ministry of Commerce and Industry, Government of India, India-Africa Forum Summit, New Delhi, 8 April 2008. See also the statement of the Indian representative during the twelfth meeting of the (WTO) Director-General's Consultative Framework Mechanism on Cotton, Geneva, 23 October 2009.

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

Some promotional activities for Africa cotton that could be undertaken include:

- Capitalizing on the training and marketing activities undertaken and the contacts already established;
- Addressing contamination issues and communicating success in reducing contamination;
- Revising an unfavourable image of African cotton in the market;
- Increasing transparency in farm inputs and seed cotton price determinants to create trust among cotton stakeholders;
- Involving local banks more closely in all efforts;
- Cooperating more closely with interested spinning mills in the market;
- Developing closer cooperation and more equal relationship with international merchants;
- Providing a more regular and continuous offer through regional cooperation efforts on joint use of bonded warehouse facilities in destination countries (ports);
- Utilization of quota-free and duty-free access for African cotton in India and possibly China.

However, cotton marketing and promotion is not a panacea or immediate solution for the African cotton industry. Overall, production needs to be stabilized, yields increased, contamination reduced and premiums for clean cotton captured. In order to achieve this and to improve African competitiveness, a more strategic orientation needs to be given to African cotton, and farmers as well as ginning companies need to be empowered. Marketing, including promotion, is just one of many aspects that need to be addressed in a strategic approach. However, it is the aspect that links the entire process by understanding the client, addressing their requirements in the entire value chain operation and finally promoting the cotton to spinning mills. A sustainable feedback loop from spinning mills to ginning companies and cotton producers is therefore vital to improve Africa's competitiveness in a sustainable manner.

Once full value chain understanding and market transparency, on both the market side and the input side, are achieved, stakeholders will also be better equipped to guide support providers such as technical assistance agencies, NGOs, and private sector bodies into areas where support is needed. In addition, their negotiation position with regard to trading companies will be improved, leading to mutual benefits in a position of strength. Coordinated strategy implementation will result in synergy development among all players and will provide Africa with a more global cotton prominence. It will also ensure that benefits will be passed on to cotton farmers.

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Table 1: Key indicators of cotton sector Performance, and expected performance by sector type²⁵

Type of indicator	Measured by	Expected performance		
		National & local monopolies	Concentrated	Competitive
Process indicators				
Export marketing	Pro-active initiative and follow-up activities undertaken after ITC training and marketing activities	Low–medium (depending on initiatives of individuals)	Low–medium (depending on initiatives of individuals)	High
Quality	Estimated average realized premium over Index A on world markets (US\$/lb lint)	Medium - strong control of supply but incentives depend on mgmt. culture & regulatory effectiveness	High	Low
Pricing	Mean % of FOT price paid to farmers	Low (if left to companies alone)	Low	High
Input provision	a) % of cotton farmers receiving input credit,	High	Medium	Low
	b) Adequacy/quality of input credit package, if provided			
	c) Repayment rate	High	Medium	Low
Extension	a) % of companies providing assistance	High	Medium	Low
	b) Qualitative assessment			
Valorization of by - products	Price of cotton seeds		No clear prediction	
Research	No. of varieties released and taken up, past 10 years	High	Medium	Low
	No. of technical packages adopted by farmers			
Intermediate Outcome Indicators				
Yield	Kg of seed cotton produced per hectare	High	High	Low
Company cost efficiency	Adjusted farm gate price to FOT cost (US\$/kg lint)	Low	Medium	High
Final Outcome Indicators				
Farmer welfare	Returns per day of family labour (US\$/day)		No clear prediction	
Overall competitiveness	Ratio, total FOT cost to total FOT value		No clear prediction	
Macro impact	a) Total value added per capita (including value of seed sales)		No clear prediction	
	b) Net budgetary contribution per capita (taxes paid minus transfers received)		No clear prediction	

²⁵ A more detailed table can be found in David Tschirley et al, op cit, p. 155.