Market Entry Constraints for African Cotton

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Structure

1) Market developments requiring African stakeholder reaction

2) Internal constraints to be overcome

3) Policies to increase cotton value addition (fibre & cottonseed & plant)
1. Market developments requiring African reaction

a) Identity cotton are here to stay but penalize 2/3 of SSA cotton

- 1/3 of SSA cotton is certified sustainable (BCI, CmiA, Organic, Fairtrade)
- SSA has a better environmental footprint that conventional cotton from machine-harvesting origins (source CmiA)
  - 1.92 kg CO2 eqv vs 4.64 kg CO2 eqv
  - No blue water resources are used as all rain-fed
- Thus large mechanized cotton-harvesting origins can use “better” as a marketing tool while 2/3 of Africa cannot
- All SSA cotton to follow an identity cotton
- Promote the fact that SSA cotton has a better environmental footprint than most other origins
b) Wide scale instrument-testing of bales required

- Instrument testing has become the commercial standard
- Non instrument-tested cotton is penalized by a de-facto price discount
- That needs an enhanced quality assurance system

c) Bale marking required for market price function to work

- Feedback from market on what is in demand is distorted if a bale is sold as one grade but received by spinner as another grade
- WCA cotton conservatively classed; knowing this some merchants sell the cotton as higher grade cotton to spinners
- CMDT, SODECOTON, SOFITEX changed their bale marking policy
d) Hand-picked cotton needs brandings efforts

• Hand-picked cotton has higher intrinsic quality than machine-picked cotton
• Nevertheless, hand-picked cotton is traded as a discount
• Marketing efforts of machine-picked cotton origins gained strong reputation as a cotton of better quality (less contamination)
• Counterbalancing branding efforts required, and
• Continued efforts to reduce contamination levels
2. Internal constraints for market entry

1. Very few links with spinners
2. Marketing approaches of WCA cotton vs trade practices
   1. French vs English
   2. Sales in CFA francs vs US$ trade
   3. Sales using the European Cotton Rules vs ICA rules
   4. FOB offer vs C&F demand

3. Business model of small ESA ginners
   1. Problem of trade finance
3. Increasing value addition

a) Attracting investments into fibre value addition by mobilizing existing customers

- Necessary condition: economic & political stability and low input costs (electricity, water, labour, land, etc.)
- Sufficient condition: develop trust and loyalty with a potential investor
  - Likely investors come from the T&C sector & possibly consume African cotton
  - Thus, existing potential investors are reachable
  - Only, no direct relationship with these potential investors
  - Promotional efforts and closer linkages needed
  - Knowing each other leads to better understanding and trust
  - Trust and loyalty will be the sufficient condition
b) Stimulating artisanal consumption while increasing farmer resilience

1. Few countries have a handloom tradition: Ethiopia and some WCA countries
2. Developing a handloom sector does not only add value to cotton but could provide new income earning opportunities
3. New income earning opportunities enables farmers to build resilience against shocks (price and weather)
4. Might also help in boosting yield as cotton farmers will not switch easily to now crops if expectations were not fulfilled
c) Investing into cotton by-products

1. By-products: Cottonseed oil, hulls, cake, linters, stalks
2. Relative value of by-product to the price of lint increase with an upward trend (edible oils and livestock and poultry feeds)
3. A growing market and potentially an important complementary source of income

There is a need for:
- Upgrading existing technology
- Policy guidance on the development of both the edible oil and meal production industry with a conducive tax regime
- Policy incentives to encourage investment in or adoption of technologies to add value to linters and cotton stalks (potential for south-south cooperation).
Summary

1) Policy responses to respond to market developments
   1) Africa-wide adoption of voluntary standards (“identity cottons”) and branding efforts
   2) Introducing wide scale instrument-testing of bales
   3) Ensure bale marking for market price function to work
   4) Brandings efforts for hand-picked cotton

2) Overcoming internal constraints

3) Increasing fibre value addition
   1) Attracting investments into fibre value addition by mobilizing existing customers
   2) Stimulating artisanal consumption while increasing farmer resilience
   3) Investing into cotton by-products
THANK YOU

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