INTERNATIONAL COTTON ADVISORY COMMITTEE
1629 K Street NW, Suite 702, Washington, DC 20006 USA
Telephone (202) 463-6660• Fax (202) 463-6950 • email secretariat@icac.org

The Competitiveness of African Cotton in the World Market

Gérald Estur ; Statistician, ICAC, January 2005

(The views expressed are the sole responsibility of the author)

Cotton is of considerable social and economic importance to Africa, which enjoys a comparative advantage in producing the crop. Thirty-five of the 53 African countries produce cotton, and 32 of them are exporters. Cotton occupies third place in terms of the value of agricultural exports from the continent, after cocoa and coffee.

In half a century, African cotton production has risen from 700,000 to 2,000,000 tons. During the same period, world production has more than tripled, to reach about 25 million tons during the current, 2004/ 05 season. Africa's share of world production has thus been reduced from 10 to 8 percent. However, a contrasting pattern is evident amongst different groups of countries. Although Egypt remains the continent's largest producer, its output has fallen, and the country has fallen back from 5th to 11th in the world ranking. Conversely, production in sub-Saharan Africa has risen by a factor of 8.5, rising from 200,000 to 1,700,000 tons.

Africa represents 14 percent of world cotton area, approximately 5,000,000 hectares, but average yields have stagnated, and since 1994/95 have failed to rise above 400 kilos of lint per hectare, little more than half of the average achieved by other countries, which has steadily improved, and should increase to the unprecedented level of 755 kg/ha in 2004/05. However, less than 10 percent of cotton area in Africa is irrigated, mainly in Egypt and Sudan, against 55 percent in the rest of the world. Be that as it may, the gap is widening, and is causing African cotton's competitiveness to diminish. The advance of world average yields, linked to the increased use of new technologies, notably the expansion of biotech varieties, tends to reduce! Costs of production and to exert downward pressure on world prices.

The African continent remains a marginal player in terms of industrial transformation of cotton, which falls short of 600,000 tons, or less than 3 percent of world consumption, which should reach a record 22.5 million tons in 2004/05. More than half of consumption is located in North Africa. At first glance, Africa would appear to have a vocation to develop a textile industry based on the transformation of locally available, good quality cotton. However, the comparative advantage enjoyed in cotton production is overwhelmed by numerous competitive disadvantages affecting the textile industry: lack of qualified personnel and capital to finance investment, high cost of energy and transport, landlocked countries, weakness of the internal market and competition from imports, notably those, often illicit, of second-hand clothing. The example of Pakistan, which in 1988/89 was still the world's second largest exporter of cotton, became a net importer since the mid-1990's and rose to be the world's fore- most exporter of cotton yarn (recently overtaken by neighboring India) can certainly not be emulated. In addition, the world textiles market in general, and that for yarn in particular, are subject to at least as much distortion as the cotton market. The world yarn market is a jungle in which buyers are all-powerful, prices are sometimes lower than those of the raw material, and the already fierce competition will be exacerbated by the elimination of textile quotas from January 1, 2005. That being the case, raw cotton exports will remain for a long time of prime importance for Africa.

African raw cotton exports have more than doubled, to reach 1.3 million tons, or two thirds of production. Africa has retained its position as second largest world exporter, behind the United States, and maintained its share of world exports at around 20 percent. However, Egypt, the world's second exporter in 1950, is no longer above 5th place in Africa, in 2004/05. The very heavy dependence of the continent's cotton on the international market renders its cotton section and, in consequence, the economies of several African countries, particularly sensitive to market fluctuations. African countries offer little protection to their producers in the event that prices fall

The growth in African cotton production has taken place above all in the counties of the Franc Zone, which has supplanted Uzbekistan as the second world exporter. The aggregate output of the zone's eleven producers (in decreasing order Mali, Burkina Faso, Côte d'Ivoire. Benin, Cameroon, Togo, Chad, Senegal, Central African Republic, Niger and Guinea Bissau) rose from 30,000 tons in 1950/51 to 200,00 tons in 1980/81, then to one million tons in 2001/02, whereas production elsewhere in sub-Saharan Africa has tripled since 1950 and should for the first time exceed the 600,000 mark in 2004/05. The production from the whole of the Franc Zone is relatively homogeneous, owing to similar natural conditions and a certain degree of varietal uniformity. The Franc Zone produces quality cotton, with characteristics equal or superior to those envisaged for she calculation of the Cotlook A Index, and which are suitable for the calculation of the Cotlook A Index, and which are suitable for the production of combed ring-spun yarns. The Franc Zone's share of this medium/higher segment of the market is of the order of one third.

Franc Zone cotton faces competition on three fronts in the international market. Firstly, there is competition between the Zone's cottons, whose marketing is carried out in a disparate manner. Then, competition is felt from other cottons, foremost amongst which is American cotton, which benefits from a particularly effective government program of support for production and exports. Finally African cotton, like that from other origins, comes up against competition from synthetic fibers, which is bringing about an inexorable loss of cotton's share of total fiber consumption.

Faced with this competition, the principal competitive advantage of Franc Zone cotton is derived from manual harvesting. It is a fact that seed cotton picked by hand is cleaner, and that the fiber obtained fewer neps and a lower short fiber content than machine-picked cotton, which must be cleaned more vigorously, since it has a higher residue of vegetal matter. Unfortunately, one must conclude that a certain erosion of the brand image of Franc Zone cotton has taken place, whereas at the same time spinners ever more exacting in terms of the qualities they require. In fact, the advantage conferred by hand picking has been lost because of the presence of foreign maker in the fiber. In practice, therefore, handpicked cotton trades at a discount to its competitors, whereas it should enjoy a premium. Certain spinners even refuse on principle to purchase handpicked cotton, since they judge that the risks associated with contamination are too great, bearing in mind the qualitative demands of their downstream clients. The elimination of contamination is therefore of vital importance for the future of the Franc Zone's cotton sectors, following the example of Zimbabwe and Zambia, where the systematic pursuit of quality is reflected in a premium of at least percent over the selling prices achieved by other African origins.

Since cotton is sold in dollars on the international market, the exchange rate is a fundamental element in its competitiveness. The CFA franc is pegged to the euro at a fixed parity of CFA 656, and the competitiveness of the Franc Zone has deteriorated seriously since the beginning of2002. The fall of the US dollar against the euro impacts heavily on production costs expressed in CFA francs. All other things being equal, the average production cost of cotton in the Franc Zone, placed at importing ports, has risen from the equivalent of less than 50 cent per lb in 2001/ 02, to more than 70 cents per lb in 2004/05. The Franc Zone thus longer has production costs amongst the lowest in the world, as the currencies of its competitors, with the exception of Australian dollar, have not experienced as strong an appreciation vis-à-vis the US dollar.

In consequence, the 2004/05 season will be disastrous for the Franc Zone producing countries. Indeed, the fall of the international market, a reversal of the strong bullish trend of late 2003, accentuated by near-ideal climatic conditions in the main producing countries as well as subsidies offered to relatively uncompetitive producers, has coincided with the fall of the US currency. Attached to a euro that has appreciated by 58 percent since February 2002, the CFA franc is today completely overvalued against the US dollar, in terms of purchasing power. This fundamental handicap for all exports from the Franc Zone is today insurmountable for the cotton sector. With an A Index equivalent to about 500 CFA per kilo – the lowest since 1993, on the eve of the devaluation of the CFA franc in January 1994 – the Franc Zone's cotton industries find themselves in a worse situation than in 2001/ 02, although prices in dollars are higher by 15 percent. The situation is less serious in other African countries, whose national currencies have scarcely appreciated against the dollar. The margin on variable costs is negative in all the Franc Zone countries, which means that " the more we produce the more we lose", at a time when production forecasts are above the million tons recorded in 2001/02. The scope for reducing production costs is very limited, unless one were to reduce their principal element producer price, which would exacerbate poverty amongst the rural population. Moreover, gains in productivity often militate against achievement of the quality requirements imposed by the market. In the context of oversupply, it is clear that quality cottons with a good reputation fare better than those that have become commonplace or suspect. It is no longer a question of producing more and at lower cost, but of producing better, even if that means producing less, and selling better. Whatever the case may be, it would be unreasonable to think that prices will recover to their average level over the past three decades, around 70 cents per lb, since costs of production around the world are falling, under the influence of technological progress. Moreover, subsidies to production in (Mainland) China, the United States, and the European Union contribute to lower prices. According to ICAC, the elimination of all subsidies would have led to an increase in average international prices of 5 cents per lb over the 2002/03 and 2003/04 campaigns. In conclusion, the Franc Zone's cotton sectors will have difficulty in surviving without a devaluation of the CFA franc against the euro, since the foreign exchange markets do not foresee an early recovery of the dollar.