# PROMOTING SUSTAINABLE COTTON PRODUCTION IN WEST AFRICA

## POTENTIAL SUPPLY CHAIN STRATEGIES

REINIER DE MAN

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**Report to UNEP and FAO in the framework of 'Expanding the Environmental Benefits and Volume of Sustainable Cotton Production in West Africa: a Market-Based Approach, Activity 2: Study on the Effective Enhancement of Demand for Sustainable Cotton along the Supply-Chain in Mali and Burkina Faso.'**

**Note**
**Please note that the designations employed and the views expressed in this draft study are those of the author and do not necessarily reflect the views of UNEP or FAO.**

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# 1. INTRODUCTION

UNEP and FAO have started an initiative for expanding the environmental benefits and volume of sustainable cotton from West Africa supplied to international markets. Partnerships with private players in the cotton and textile chain are a key element in this market-based approach. These partnerships will only work when there is a clear business case: efforts for sustainability should be rewarded in terms of cost reductions, market advantages and brand protection.

## 1.1 TERMS OF REFERENCE FOR THIS STUDY

### *1.1.1 The UNEP-FAO Initiative*

This is the report of one of two scoping studies carried out in the framework of the UNEP-FAO Initiative 'Expanding the environmental benefits and volume of sustainable cotton production in West Africa: a market-based approach'. This initiative has the following overarching objectives:

- "reversing the environmental degradation generated by current extensive and intensive cotton based agricultural practices in West Africa - by supporting the implementation of agricultural solutions that are environmentally sound, productive and profitable; and
- contributing to poverty reduction by fostering dynamic and productive supply chains for a competitive sector: improving local producers' in-

> come by reducing vulnerability of West African cotton farmers and communities' and establishing reliable and contractual trade flows at prices which enable farmers to improve their living standards and meet their basic needs."

### 1.1.2 *Activity 1 and Activity 2*

The scoping phase of the initiative will result in a 3-5 years project proposal for building public-private partnerships involving private players from the cotton and textile sector (both in Africa and in the cotton supply chain). The scoping study was divided into two activities. Activity 1 consisted of a study on existing initiatives with farmers in West Africa (focussed on Mali and Burkina Faso). The study[1] was performed by Peter Ton, a Dutch cotton consultant.

This is the report of Activity 2, which the Terms of Reference summarised as follows:

> "Activity 2 will consist of a study assessing the feasibility and outlining scenarios to develop dynamic and productive supply chains for sustainable cotton, contributing to enhanced demand for sustainably-grown cotton and creating new markets for the West African cotton sector. Activity 2 will identify factors that contribute to a demand for sustainable cotton from West Africa and at the same time it will identify the players who can be motivated to actively engage in building up the required supply chains during the main phase of the project. The consultations during the project serve a twofold purpose: gathering information for the supply chain analysis and gaining support for participating in implementing the main project."

### 1.1.3 *Activity 2 and the 'Business Case'*

Business Case

The main objective of this study is to find out what could motivate business players in the supply chain (from consumer and retailer until the cotton companies located in Africa) to demand West African cotton and to actively promote its sustainability.

The combined results of Activity 1 and Activity 2 are the basis for the 'business case report', which is an annexe to this report. Expectations on the business case were expressed in the Terms of Reference, as follows:

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[1] Promouvoir la production plus durable du coton: des possibilités au Burkina Faso et au Mali (February 2006)

> "The Business Case will highlight potential cost savings, reduced reputational risk, and marketing advantages and other gains that can be generated from sustainable production practices, for presentation to public and private sector actors potentially willing to invest in a shift to sustainable cotton production in West Africa."

This study lays the foundation for formulating this business case. It tries to find out whether there is a business case at all, and, if positive, a business case for whom? What players in the supply chain can be motivated to do what? Also: what players are not likely to be motivated? As the concept of a 'business case' is central to this report, we will go into its theoretical foundations before we discuss the options for contributions to sustainability (Chapter 2) and the realities in the supply chain (Chapter 3). Chapter 4 brings together the sustainability options and the motivations in the supply chain, which is the basis for our recommendations to UNEP and FAO in Chapter5.

<u>The Global Context</u>

The present problems of the West African cotton producing sectors are linked to development in the world market and to market distortions such as the financial support given by the US and other countries to their cotton farmers (see Baffes, 2004; Goreux 2003; Lima-Campos 2002). The injury caused by the low cotton prices amounted to 1.3 billion dollars for India alone for the period 2001-2002.[2] For West Africa, one of the main problems today is the poor US$/FCFA exchange rate, caused by the fixed FCFA/EUR rate. Another global threat to the competitiveness of West African cotton is the rapid expansion of highly competitive Brazilian cotton. Private sector and market initiatives as discussed in this report can certainly contribute to solutions but they cannot be expected to change the dynamics of the global context.

**"Subsidies this season are ranging from an estimated $7 million provided by Argentina to $2,3 billion provided by the USA. Assistance per pound of lint in 2001/02 is estimated to range from 75.9 cents per pound in Spain to 2 U.S. cents per pounds in Côte d'Ivoire."**

**"Direct income and price support provided to the cotton industry in 2004/2005 is estimated at US$4.7 billion, up from $3.4 billion in the previous season. Increases in direct government support were the result of a decline in market prices and increased production."**

**In ICAC Cotton World Reviews, May-June 2002 and May-June 2005.**

[2] The subsidy issue, very important in 2001-2002, is less important today, however.

## 1.2 SUSTAINABLE COTTON FROM WEST AFRICA: CONDITIONS FOR A BUSINESS CASE

### *1.2.1 The Business Case Defined*

CSM Terminology

It is fashionable to speak about the 'business case' for ecological improvements or sustainability, but what does that mean? The expression usually means something like 'attractive from a business point of view', 'contributing to business value' or 'economically profitable'. In this report, we use the terminology as defined at the 'Forum for Corporate Sustainability Management' (CSM) of the international business school IMD in a project which was carried out in close co-operation with WWF (Steger ed., 2004) For details, we refer to the professional publications. Here we only summarise what is essential for understanding the approach chosen in this study.

The notion of a 'business case for sustainability' is linked to the concept of 'external effects'. Companies create external effects through their operations or actions. These may be positive or negative. Companies may decide to reduce their negative external effects (e.g. by stricter pollution controls, use of other materials, re-designing products) beyond what is required by law or regulations.

This may involve the use of resources and eventually lead to higher production costs. In a market economy, companies cannot afford to have higher production costs than a competitor who does not reduce its external effects, unless the market is willing to pay for their additional efforts. Efforts into enhancing 'sustainability' are only justified as long as they produce tangible business advantages. Companies cannot contribute to sustainability (beyond some symbolic level of donations of a charitable nature) just for the sake of sustainability.

**WWF and the Business Case**

**Claude Martin, Director General of WWF International, in his foreword to *The Business of Sustainability*:**

**The WWF's involvement built on prior work that aimed to encourage wider adoption of sustainability principles into business practice by focussing on potential business benefits as key drivers of improved company performance in ethical, environmental and social areas. (… )**

**The result is a constructive step forward in the discussion on the business case for sustainability. It attempts to grasp company-specific perspectives and suggests tools to assist companies to develop their own business case, to maintain or to create value in areas of strategic business concern.**

**in: Steger (ed.) 2004, p. xv**

The Smart Zone

The relationship between environmental/social performance ('sustainability') and the absolute economic performance of a company can be conceptualised as an inverse U-shape, see picture on the right. If a company increases its environmental/social performance beyond the legally required minimum, its economic performance may at first increase (for many different reasons: more efficient production technologies, better product designs, more favourable costs of capital, availability of qualified personnel, etc.). At a certain level, however, the economic performance will decrease until a point where the company will spend real cash for sustainability. The area above legal compliance level where the economic performance is increasing is called the 'smart zone'. This is where companies should position themselves in their best economic self-interest.

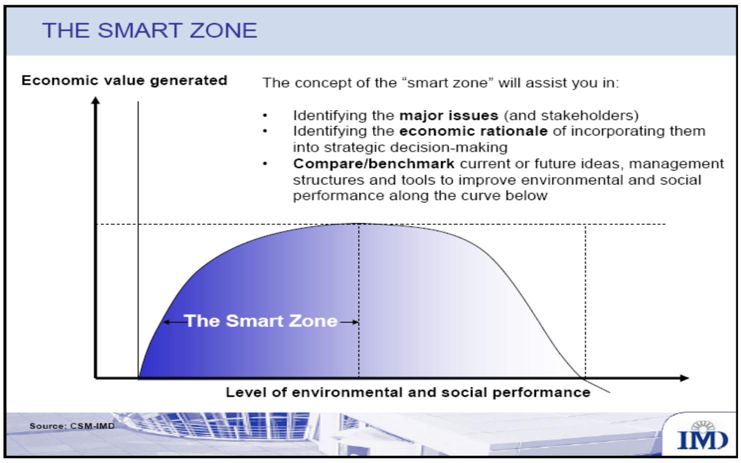

Figure 1: The Smart Zone according to IMD

Going far beyond the smart zone is not profitable and cannot be a viable strategy towards sustainability. A company that sacrifices its profitability for sustainability will itself not be sustainable, as it will lose markets and run into cash and finance problems.

Business Drivers for Sustainability

In many cases, however, there is a 'smart zone' that enables companies to go beyond legal compliance. Enhancing environmental and social performance produces economic value at the same time. There are many potential value drivers. We only mention some broad categories and will go into specific drivers in the cotton and textile supply chain later.

- Cost savings in the production process or in waste management by more intelligent use of materials, etc.
- Quality improvements, better design leading to a better market price and or higher demand.
- Interest of consumer market in sustainability characteristics (e.g. organic or fair trade food, green electricity), creating new, expanding markets.

**Profits, Stakeholders, Business Case and Ethics: some thoughts**

**The idea of the 'business case for sustainability' is closely linked to the questions relating to the obligation of a company to its stakeholders.**

**In a neo-classical definition of the firm, "the social responsibility of business is to increase its profits" (Friedman 1970, quoted in Walsh 2005). Respecting the needs of different stakeholders, such as groups fighting for social rights or the protection of the environment, can, in this sense, only be motivated by the positive contribution to profits ('value') it creates or the negative contribution it helps to avoid.**

**Therefore not all actors being affected by the business of a company are also 'stakeholders', only those who have or may acquire a real influence on the profitability of the company. Whether poor farmers in Africa are relevant 'stakeholders' to a global textile company, depends on the degree that poverty problems in Africa may create business risks or that their solution may create business opportunities.**

**Apart from this 'business case', there is the issue of ethical responsibility of the company, which should not be confused with the business case issue, although companies tend to convey confusing messages by selling their self-interest driven business case wrapped in ethical arguments.**

- Contribution to brand and company reputation, protection against reputation risks, less vulnerable to NGO attacks
- Positive influence on investors (better scores on investor ratings, etc.), easing access to capital.
- Better chance of attracting well-educated critical employees.

What the drivers for a specific company are entirely depends on the character of the company and its operations, the position in the supply chain and the wider market and institutional context. A major driver for sustainability in companies is brand and company reputation, but only for companies with strong brands and high visibility, which is a minority. The position of retailers with globally known brand (e.g. Ikea, Nike, and Gap) is completely different from the position of an almost anonymous cotton trader who moves huge quantities of cotton around the world.

<u>Business Ethics and the Business Case</u>

Some companies want us to believe that their position towards sustainability is dictated by ethical principles rather than by cool economic calculus: "We do what is needed, because we believe in it." This may sound attractive, but reality is not that simple. It may be true that the driving force is business ethics, but still such policies will not have any chance of effective implementation unless a business case can be created. It is true that without vision and commitment, results are difficult to achieve (see text box on the right), but no company can afford to spend money on projects that do not have a tangible return on investment. See also the text in the right margin of page 5.

**"The most important success factor for Coop Naturaline is that Coop and its partners believe in it. If projects like these are conducted merely as marketing devices or in a half-hearted manner, they are doomed to fail. The personal commitment of many employees at all levels at both Coop and our partners is the key success factor. As a result, we can achieve an outstanding performance and have mastered difficulties successfully. Coop Naturaline started out as a courageous vision, and implementing it has required intensive work and considerable stamina over the past years."**

**From the Coop presentation at the November 2005 Organic cotton symposium in Lucerne.**

### *1.2.2 Sustainable Cotton from West Africa: the Two Sides of the Equation*

In this project, our task is twofold:

- to find options for a more sustainable development of the West African cotton sector;
- to find private sector partners, who show an interest in promoting one or more of these options, by demanding sustainable cotton or by any other involvement that contributes to sustainable development of the cotton regions.

The two tasks have to be combined. It does not make sense to define sustainable development options that are not supported by the players in the supply chain. It does not make sense either to start partnerships with private players that do not really contribute to sustainable development.

After discussing sustainability options in Chapter 2, we will ask the question whether there is a business case for private players to play a role in actively supporting those options in one role or another (Chapter 3).

# 2. SUSTAINABLE COTTON FROM WEST AFRICA

The envisaged project will promote sustainable development of cotton regions in West Africa. There are different approaches possible. Moreover, there exist already many different attempts at introducing more sustainable cotton growth methods. The question here is: what paths should be pursued and how should they take advantage of current initiatives?

The answer depends both on UNEP's and FAO's goals and on the viability and potential outcomes of the ongoing activities.

## 2.1 SUSTAINABLE DEVELOPMENT AND SUSTAINABLE COTTON

As has been documented in Peter Ton's study[3] (Activity 1), cotton is a very important commodity for West African countries such as Mali and Burkina Faso. For many people, it is virtually the only source of cash. For the majority of the population, there is no alternative to agriculture and there are no other cash crops than cotton. Production areas that are too far from towns and

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[3] Promouvoir la production plus durable du coton : des possibilités au Burkina Faso et au Mali (February 2006)

transport facilities cannot economically produce more profitable but perishable cash crops.

Cotton growth has been heavily stimulated by governments and agricultural organisations. As Peter Ton points out, the population of the agricultural areas in Burkina Faso and Mali is extremely poor. Cotton has brought some improvement in their living conditions but it has not made the people rich. They are a bit less poor than they would have been without their cotton.

Cotton, from a global perspective, is not a particularly sustainable crop. In many cotton growing areas, it is associated with irreversible damage to freshwater systems, soil pollution, erosion and negative impacts on human health. The situation in (West) Africa, however, is qualitatively different from the large irrigated cotton areas in central Asia, for example. As to the problems associated with irrigation and use of chemicals, the situation in Africa is far better, for the simple reason that most African cotton is rain-fed and that farmers are generally too poor to buy the quantities of chemicals used in the rest of the world.

Still there are sustainability problems associated with African cotton, but they are different. As Peter Ton shows for Burkina Faso and Mali, main sustainability problems are:

- Decreasing soil fertility, erosion (leading to decreasing yields)[4]
- Health problems by inappropriate use of chemicals and the use of hazardous chemicals
- Socio-economic problems, caused by low productivity / low market prices / low income.

Details can be found in the report of Activity 1.

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[4] Still West African cotton has good to high productivity (seed cotton kg/ha) when compared to rain-fed cotton elsewhere (e.g. East/South-East Africa).

## 2.2 PATHS TO MORE SUSTAINABLE COTTON

### *2.2.1 The Question*

The sustainability agenda for West African cotton is dominated by the poverty problem. The central question is: how can the income situation of the population in the cotton regions be improved sustainably whilst the negative effects on the environment are being reduced to an acceptable minimum?

The answer to the above question could be the development and application of alternative cotton growth methods (including demonstration and training projects) that give better yields without endangering the farmers' own food production and without creating too much pressure on the environment. This approach, however, is too narrow. There are more options to be considered, including options that lead (to some extent) away from a too high dependency on cotton and options that create value in Africa by developing industrial activities (see the next two sections). We understand, however, that the scope of the UNEP-FAO initiative is more limited. It focuses on more sustainable cotton cultivation only.

### *2.2.2 Away from Cotton*

Today large numbers of farmers are cultivating cotton, even at world market prices that, with the African labour intensive cultivation systems, lead to incomes of about US$ 0,75 per day. Nobody would even think of working up to 10 hours in the burning sun for less than one dollar, if there would be a sensible alternative. Cotton in West Africa is linked to underdevelopment, poverty and the lack of infrastructure.

In the long run, sustainable development will necessarily mean a (partial) move away from cotton towards more profitable agricultural products and, in the more distant future, even partly away from agriculture. This, however, will require sophisticated logistics, good roads, reliable harbours and airports. The option will not be further explored in this study, but it will become important in the longer term.

### 2.2.3 *Added Value in Africa*

Sustainable regional development without the development of value-added activities will not be possible. Generating more income from cotton growth is possible to a certain extent, but in the end, it will necessarily imply less labour-intensive cultivation methods.

In the longer term, income can only be generated by building up industry and trade, not only by developing agriculture. However, the future of the African textile industry looks bleak. Trends of liberalisation and globalisation have led to a situation in which the last dilapidated textile factories in West Africa are being closed down. In the near future, it will be difficult, if not impossible, for the African textile industry to compete with China.

In the framework of this study, we will not give much weight to this option, because we do not see short term possibilities to invest in a profitable textile industry.

In the longer term, it is one of the most important options that should be kept open. Sustainable development based only on the expansion of labour intensive agriculture, even based on improved and 'more sustainable' cultivation methods, may prove to be an illusion.

### 2.2.4 *Sustainable Farmer Income*

The only option that has short term feasibility is to improve and stabilise farmer income, whilst guaranteeing a high degree of environmental protection (maintaining soil fertility, fighting erosion, minimising water pollution, protecting biodiversity) and safety.

In principle, there are different paths to better farmer income and combinations of them. They have to do with both the generation of value and the share the farmer gets.

Maintain and sell the value of West African cotton

West African cotton has a good quality. According to many authoritative publications, West African cotton, because of hand-picked nature is of superior quality, often better than machine harvested US American cotton. The problem, often reported, is

**Increasing ginning efficiency is not an option for West Africa:**

**"The commercial ginning outturn of 42% is the highest in the world, because cotton breeding has been focused on that parameter. All production is saw-ginned in U.S. made modern high capacity equipment. Average production is about 12,000 tons per ginner season."**

that between harvesting the cotton and its arrival at the spinning mill (e.g. in Eastern Asia), sometimes the quality is being lost, for a couple of reasons: (see for example different World Bank publications; Estur, 2005)

- Quality problems during the ginning process
- Inadequate transport in country of origin (gin to harbour), especially contamination from packing material,
- Inadequate storing in country of origin
- Mixing of high quality African cotton with low quality cotton, reducing its potential value
- Problems in grading and quality control
- Disadvantages related to packaging, labelling, etc.
- Bad marketing (which makes that a same quality from US sells simply better)[5]

**"Cotton from the AFZ [African Franc Zone] is very competitive with U.S. cotton, price-wise and quality-wise. However, as Cotton Council International promotes it, U.S. cotton is 'more than just fiber'. The export performance of U.S. cotton is due to several factors, including efficiency of the marketing system and of export promotion programs. …"**

**"The way cotton is harvested, manual in the AFZ … , is critical for productivity, production costs and fibre quality. However AFZ cotton price is discounted on the world market because of its contamination".**

**Estur 2005: p. 13, 14, 15.**

Better farmer share in total value

A second step could be to improve the share of the farm gate price in the total FOB. Measures could be to simplify procedures, reduce bureaucracy, etc. In the framework of this study, we have not been able to gather detailed data to support this argument.

Measures to increase productivity and/or decrease inputs

Farmer income can best be improved by increasing productivity per ha. An alternative is to decrease inputs (thereby input costs), which can lead to higher income even if productivity slightly decreases. We will discuss the different options in the next sections. Enhancing productivity and reducing inputs is also important for ecological sustainability: high productivity reduces the need for clearing land (and the pressure on ecologically valuable areas) and reducing inputs can obviously contribute to reduce a range of environmental problems.

[5] In some cases, marketing includes (hidden) subsidies, with which African cotton cannot compete.

Measures to increase the cotton market price

The present low market price for cotton is partly the result of market distortions as a result of heavy subsidies on cotton, notable by the USA. If these subsidies would be abolished, the market price would most probably be 20% or more higher than today. This is an issue that goes beyond the framework of this study.

**ICAC in 2002:**

**"Cotton prices averaged US 42 cents per pound in 2001/02, the lowest level in 30 years. The Secretariat estimates that the elimination of subsidies could have a positive impact of US 31 cents per pound on average prices."**

**The World Bank in 2002:**

**"According to estimates made using the ICAC world textile demand model, the removal of U.S. subsidies would produce a fall in U.S. production that would lead to a rise in the international price in the short run by as much as 12 cents per pound." (World Bank 2002)**

Private players in the market may, however, decide to pay a price premium on top of the market price. Two of the production options surveyed by Peter Ton imply a 'price premium': organic cotton and fair trade cotton. We will discuss these in the next sections.

## 2.3 PREFERRED OPTIONS FOR SUSTAINABLE COTTON FROM MALI AND BURKINA FASO

### *2.3.1 Options Identified by Peter Ton*

Options that contribute to enhanced productivity and/or lower costs

Peter Ton has identified the different practices available in Burkina Faso and Mali (see Activity 1 report, tables 7 and 8). As we are only interested in methods that combine income increase, environmental benefits and health benefits and want to concentrate on options that have a certain expansion potential, the most attractive options (according to his table) are:

- GIPD (= IPPM)
- Lutte sur Seuil
- Lutte Étagée Ciblée (Mali)
- Biologique (organic)

We included 'organic', because it has proven potentials of reducing inputs drastically and has positive scores for environment and health. Peter Ton may be right in his assessment that the short term perspective on income improvement is not yet very positive, however. Lutte Étagé Ciblée and Lutte sur Seuil may not fulfil minimum ecological sustainability requirements. Therefore the only real options are GIPD (and potentially BPA = Good Agricultural Practices, GAP) and Biologique (organic). In this report, we will not go into a detailed discussion of these systems. [6]

Options that increase the market price

Peter Ton identified the following options:

- Organic cotton:
  the price premium on seed-cotton paid to farmers is about 15-20%. This premium is paid for the efforts of the farmer who guarantees that production is according to the rules of organic cotton production.
- Fair trade cotton (Coton Équitable)
  as Peter Ton explains in his report (Activity 1 report, section 5.2), the Fair Trade Labelling Organisation (FLO) guarantees a seed-cotton price of FCFA 238/kg, well above the conventional price (FCFA 175 and 160/kg in Burkina Faso and Mali in 2005/06).

The question comes up, to what extent payments above world market cotton price can be sustainable. Some would argue that sustainable agriculture should mean that farmers can sell their products at market prices, have a reasonable and stable income (also in the long term) and that environmental damage is within acceptable limits. In this view, solutions that make farmers dependent on subsidies, premiums and other artificial prices cannot be sustainable in the long run.

Organic cotton premiums

The premiums for organic cotton can be justified, however: farmers have to conform to certain standards and they are rewarded for producing this higher ecological quality. They get a higher market price for a different product. Moreover, if, for whatever reason, the market for organic cotton and the associated premiums would disappear, the farmer has still a sustainable

[6] We need to stress here that the real contributions of these different systems to sustainability are still largely unknown. We even do not know how sustainable 'organic cotton' is. At best, we have plausible hypotheses. Therefore it would be premature to make a final choice for one of those systems. There is a need for baseline studies on the basis of clearl performance criteria for sustainability. The work now being done by Wageningen University in the framework of 'Cotton Made in Africa' can be an appropriate starting point.

production method that enables him to stay less dependent on chemical inputs and to keep saving costs.

How fair is Fair Trade?

The case for Fair Trade cotton looks different. There is a lively discussion about the fairness of Fair Trade (see also text in the margin). Many emphasise that the farmer is actually getting a premium for producing almost the same cotton. There are not many additional efforts that are being rewarded. The farmer is only lucky enough to be selected to get paid a better price, a price that would be more 'fair'. Other argue that one should not underestimate the amount of efforts required by Fair Trade.

Whether it is fair, is debatable from two angles: on the one hand, the price is still too low to be called 'fair'; on the other hand, the fact that his neighbours get 35% less for (almost) the same cotton, will not be perceived as 'fair' at all. In our discussions with retailers, traders and cotton companies, a critical attitude towards 'Fair Trade' cotton is dominating.

More positive statements about 'Fair Trade' cotton emphasise the market interest in the issue and the opportunity to find an alternative to 'organic cotton'. Some companies report to have problems organising the organic cotton supply chain and see 'Fair Trade' as an alternative, also because more consumers appear to be interested in social than in environmental issues.

**Fair Trade: Critical Voices**

**We registered the following main critical comments about Fair Trade Cotton:**

- **"Fair Trade cotton in West Africa is undermining the market for organic cotton: fair trade farmers do not have to do any-thing, why make all the efforts to get organic certification?"**
- **"The Fair Trade system is too rigid, too inflexible and does not fit into the realities of the cotton market."**
- **"Fair Trade is good at marketing (they are superb!), but they do not care about the realities in Africa."**

**From one of our Interviews:**

**"The fair trade issue is really coming up in the UK. People are much more interested in social stories than in the environment. This creates an opportunity for us to sell fair trade items rather than organic, which also solves a lot of problems, because organic is so difficult to organise …"**

Preferred Options

In the framework of this study (Activity 2), we cannot make a choice between the different systems proposed for Mali and Burkina Faso. From the foregoing argumentation and the information provided by Peter Ton, two different feasible strategies towards promoting sustainable cotton in West Africa appear to make sense.

A. A strategy linked to applying and developing GIPD and, in the middle term, Good Agricultural Practices (or equivalent systems) at a relatively large scale, in some form or another. As to the supply chain (we will discuss more in the coming chapters), we do not see that this cotton will be sold at a higher price, nor do we see a special label or brand in consumer markets. The main objective will be to enhance productivity, reduce inputs (and as a result improve farmer income), improve safety and protect the environment.

B. A strategy linked to developing the organic cotton market further. There is an established and growing market for organic cotton. The practices in this part of Africa should, however, be professionalised. In addition to being 'organic', Fair Trade certification could make this cotton even more attractive to the consumer market. We do not recommend non-organic Fair Trade cotton.

The extent to which the different strategies really contribute to sustainability should be tested in practical field studies.

## 2.4 SUMMARISING CHAPTER 2

Sustainable development in West African cotton regions requires a lot more than only changing cotton cultivation methods. Even the most 'sustainable' cotton cultivation methods will not guarantee sustainable development.

Apart from options that lead (partially) away from cotton and develop other more profitable (agricultural) markets, an important option, at least in the longer run, is to create added value in Africa: to develop a high quality added-value textile industry.

In the shorter run, the only option is to improve the productivity of cotton cultivation and/or reduce the input costs of cotton cultivation. Two options are relevant here: one option is to develop 'more sustainable' cotton on a large scale, on the basis of one or more of the presently practised methods (GIPD or equivalent) and another option is to further develop and optimise the growth of organic cotton.

The second option can best be linked to supply chains for organic products, including organic Fair Trade products. The first option will most probably not be linked to any consumer marketing strategy.

# 3. WEST AFRICAN COTTON AND THE SUPPLY CHAIN

In the preceding chapter, we have identified a number of options for stimulating the sustainable development of the cotton sector in West African countries: options that lead to higher and sustainable farmer income whilst protecting the environment.

Now we address the question: What are the interests of different players in the textile and cotton supply chain to actively promote the implementation of these options, through demand for sustainable cotton or otherwise?

## 3.1 INTRODUCTION

In Chapter 2, we have identified a number of options for contributing to a more sustainable development of the West African cotton sector. In this report, we will not go into the options for a switch away from cotton and the development of other sectors, even if these may be the most relevant options in the long run. We focus on options for improving the cotton sector itself.

The available options can roughly be divided into two categories:

1. options for improving the farmers' revenue by better quality control and better marketing of the existing 'conventional' cotton and to make sure that the farmer gets a

fair share of its market value. Selling the existing relatively high ecological quality of West African cotton (as compared to cotton from central Asia, for example) can be part of this strategy.
2. options that are based on better methods for cotton cultivation, such as GIPD and organic cotton.

The question here is what interests players in the supply chain have (today or in the near future) to actively stimulate the implementations of these options in one way or another. One way to do this is to demand certain cotton qualities, but other mechanisms should not be excluded on beforehand.

In the following sections, we will first give a general description of the 'supply chain' and characterise the most important players and their roles (section 3.2). We will then describe the local supply chains in West Africa, based on the outcomes of the study for Activity 1 and focussing on Mali and Burkina Faso.

We then go into more detail for players who have a special role to play in future partnerships for West African cotton. In section 3.4, we discuss the potential engagement of retailers. In section 3.5, we discuss the position of cotton merchants, whereas the focus in section 0 is on cotton companies (ginners) in the producing countries. We approach these questions from two perspectives: first we ask ourselves what we expect from a general business case perspective and then we confront these data with the results of our interviews and literature study.

Finally, in section 3.7, we will summarise the most important opportunities for engaging private sector players from the supply chain in promoting sustainable development in West African cotton regions.

## 3.2 THE COTTON AND TEXTILE SUPPLY CHAIN

### *3.2.1 The Global Cotton and Textile Supply Chain*

In the year 2005, total input of cotton was about 25 million tons[7]. More than 50% ends up in clothing, more than 25% as home textiles. Industrial products are a minority. Cotton mainly flows from the cotton field to private consumers and clothing represents the major segment.[8]

A technically simple chain

Technically, the cotton and textile chain is relatively simple. After harvesting the seed-cotton, the seeds are being removed in the ginning process yielding raw cotton (cotton lint). Raw cotton is converted to yarn in the spinning process. Yarn is either woven (major part) or knitted (some 20%). The resulting fabrics are mainly used in the manufacturing of clothing and household products. The process is rather resource-efficient with only a minor fraction of non-usable waste.

An extremely complex and non-transparent chain

Organisationally, however, the cotton and textile chain is rather complex and far from transparent. It consists of many different types of business enterprises from big brands and retailers at the end of the chain to a multitude of medium-sized and small clothing manufacturers, both big and small companies that produce woven and knitted fabrics, medium-sized and large spinning companies to cotton traders who individually are responsible for up to a million tons (5 %) of global cotton trade. To a great extent, the first parts of the textile chain, spinning and fabric production, are localised in the main cotton producing countries (such as China, USA, India, Pakistan and Turkey, but hardly in Africa), whereas major parts of clothing manufacturing take place in low-wage countries that are dependent on imported yarn and cloth. Optimisation of labour costs in the textile chain has the result that (parts of) one single clothing item travels one ore more times around the world. Changing economic circumstances lead to continual changes in the textile chain. As a result, transpar-

[7] Text taken from earlier study (De Man, 2001) shortened and with minor corrections.
[8] More detailed (but somewhat outdated) information in De Man, 2001.

ency with regard to the production history of the end products is extremely low.

The chain: main parts and connection points

In Diagram 1, we have indicated the main actors in the cotton and textile chain and their relationships with the technical process. Cotton farmers or their organisations (collectives etc.) are responsible for cotton growing. In many cases, they also own the ginning installations. In other cases, gins are owned by others, such as traders or even spinners. Traders are responsible for cotton trade. After ginning, cotton has become a commodity with a number of standard parameters and grades. During cotton trade, the information link between specific cotton supplies and the fields they come from are being cut. More than often, the cotton that reaches the spinner does not have a clearly documented origin anymore, only a technically defined grade[9]. Spinning, weaving/knitting and clothing production may be done by different business actors or they may be vertically integrated. Many combinations occur: spinners who are also fabric producers, clothing producers who have their own knitting, etc.

[9] In many cases, it still has. The spinner is the last player who knows where the cotton comes from.

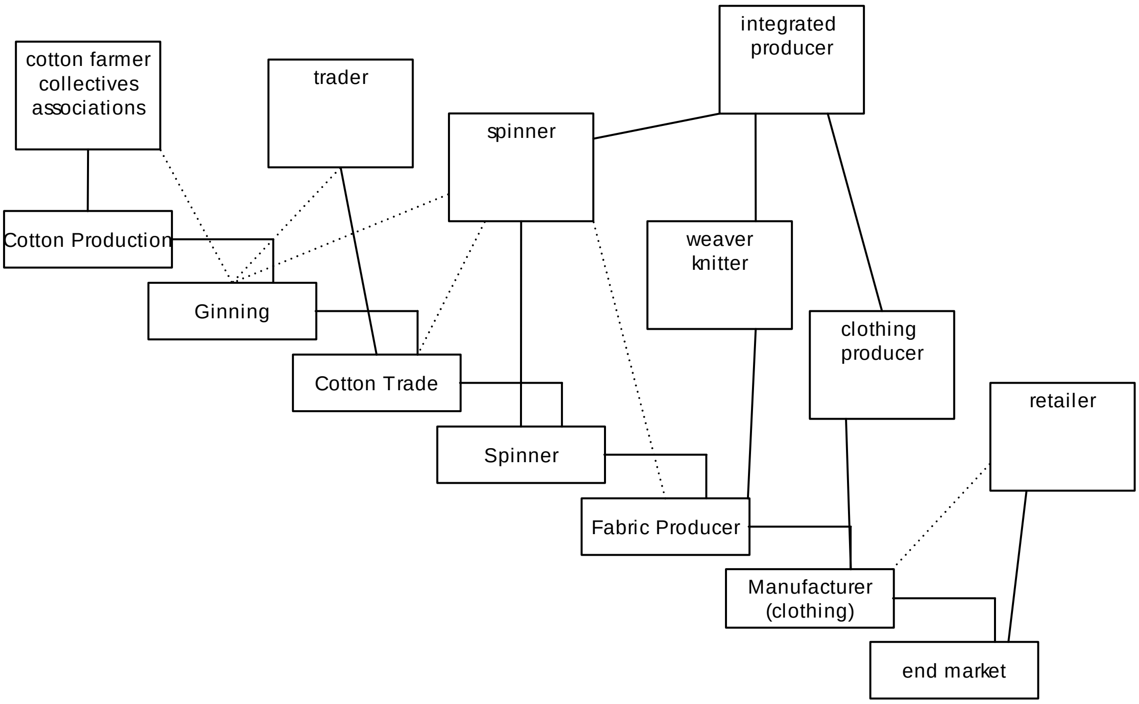


Diagram 1: The Cotton and Textile Chain

Clothing brands and retailers at the end of the chain often minimise their involvement in production to design and outsource all or most production steps.

<u>Three Worlds</u>

The cotton and textile chain connects three entirely different worlds: agriculture, industry and consumer markets. These worlds have each their own logic, culture and rhythm:

- agricultural products have a varying quality, due to variations in soil, climate, etc. Agriculture is linked to local economies and communities. Changes in agriculture often have long lead times;

- In contrast to agriculture, the textile industry works with standardised, fixed qualities. The art of textile production is to make standardised products from variable cotton inputs. This is done by selecting qualities and mixing. Here cotton trade, the actor between the two worlds, plays an important role. The textile industry allows for much faster change than agriculture: companies are closed, moved and entire industries change geographical regions. The industry is increasingly globalised.

- The emotional world of the consumer market is again completely different from the industrial world. Here the time dimension becomes very short: fashion is extremely volatile. Retailer companies and brand owners are the link between the industrial world and the consumer: they translate the emotionally defined wishes of the consumer into technical concepts for materials and their use in fashion. These actors are often very big and increasingly globalised.

**<u>Are the consumer and the retailer interested in cotton?</u>**

**In this project, we want to raise the interest of retailers for cotton and sustainability? One could ask the provocative question: are retailers interested in cotton at all?**

**The answer is that it is certainly not his first interest. Retailers are as much selling cotton as a publisher is selling paper. Cotton and paper are the media for expression and they represent only a minor part of both the cost and the value of the end product. The real value is in the quality of the fashion or the genius of the best-seller author.**

**Publishers become interested in paper when paper becomes a problem when NGOs show that the fibre is coming from valuable forests. This is, *mutatis mutandis*, true for cotton as well.**

### 3.2.2 *Key Players for Transparency in the Supply Chain*

Today's cotton and textile chain is not transparent at all. As a rule, retailers and brands do not have any possibility to know where the cotton in their products comes from and under what ecological or social conditions it was produced. Transparent chains only exist for organic and fair trade cotton. For the bulk of their products, retailers do not have any instruments to control the production end of the cotton chain.

<u>Transparency from Cotton Field to T-Shirt</u>

If retailers would be interested to have more control of the cotton supply chain, the first step would be to create more transparency 'from cotton field to T-shirt'. How could this be done? Here we summarise the argumentation given in an earlier study on behalf of WWF (De Man, 2001).

- The only player in the chain motivated to create more transparency is the retailer or brand owner. His brand is vulnerable to pressure of the consumers and the public. This is the only player who can create the required pressure on the supply chain.

- The only player who is in a position to create transparency about what is happening in the cotton fields is the cotton trader. He is in direct contact with both farmers and spinners. He knows (or is in a position to know) from what gins his cotton comes from, under what conditions it was produced, what the quality is, etc.

- Transparency is only possible if the retailer/brand makes it a hard condition in purchasing and if there is a business case for the trader to deliver the required information alongside with the product. A mechanism for transporting this information through the supply chain (or directly from the spinner to the retailer) should be established, but this is not a major technical problem.

- The main problem is that creating transparency is opposite to the interests of a (traditional) trader. The trader can make a return on his investments because he has more information than his customers. Generally, he is not willing to share this information.

- As a result, transparency in the supply chain will only be created if there is a strong pressure from players at the end of the chain who are willing to pay for the additional 'transparency services' of the cotton trader.

- The complexity of the textile chain is not an important issue anymore, as long as there are spinners who have a transparent supply chain until the cotton field through their suppliers (traders). Spinners can then produce yarns with the required sustainability guarantees and brands/retailers can prescribe to their suppliers to source their yarns from selected spinners.

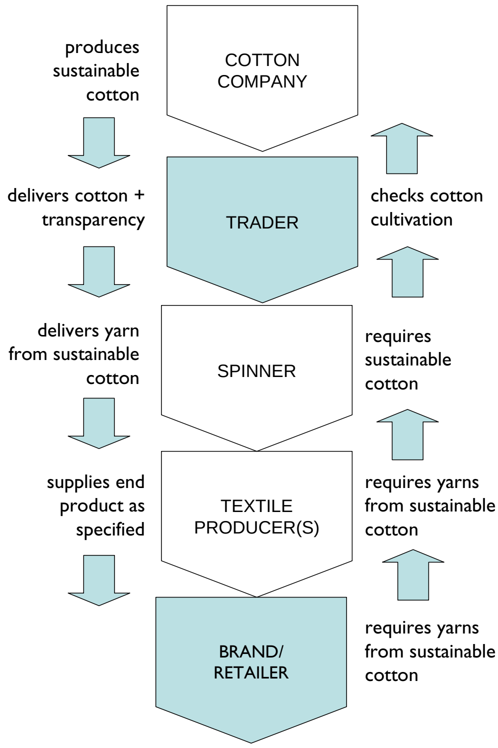


Diagram 2: The Cotton and Textile Chain

Four Players[10]

As a result, in the supply chain, there are only four players that are important for stimulating sustainable cotton growth:

- the textile brand / retailer who prescribes his suppliers to use certain yarns that conform to certain sustainability requirement;

[10] Here we describe the chain after the farmer. The most important players before this chain are the farmers and the farmer organisations, essential players for implementing whatever change one wants to accomplish.

- the spinner who produces these yarns in large quantities and keeps them separate from yarns that have not been produced from 'sustainable cotton';

- the trader who guarantees that the cotton delivered to selected spinners conforms to certain sustainability requirements;

- the cotton company that sells the cotton to the trader and implements the sustainability requirements. If the cotton company is owned by the trader (which is often the case), it is even less complicated to create transparency in the supply chain.

The main bottleneck in this mechanism is the willingness of the trader to create transparency. This willingness very much depends on the pressure coming from the downstream textile chain and to a certain extent on the nature of his relationship with farmer organisations, sector organisations and governments in cotton producing areas. We will discuss this in more detail in section 3.5.

## 3.3 THE SUPPLY CHAIN AND COTTON FROM (WEST) AFRICA

### *3.3.1 General Overview*

Production

According to ICAC, French speaking Western African countries[11] produced 1,076 000 tons of raw cotton in the season 2005/2006. Exports in the same period exceeded production: 1,100 000 tons. Inland consumption in the same period was only 30 000 tons, a negligible figure. For the remaining sub-Saharan African countries (East, South and Central Africa and Nigeria), production was 491 000 tons, consumption 277 000 tons and exports 300 000 tons.

[11] Benin, Burkina Faso, Cameroun, Centr. Afr. Rep., Chad, Côte d'Ivoire, Guinea, Madagascar, Mali, Niger, Senegal.

Textile Industry in Africa

In West Africa, there is no textile industry of any significance. In East and South African countries, there is still some textile industry present (most important: South Africa, some industry in countries like Zambia), but generally declining and not internationally competitive. First and foremost, African cotton is an export commodity.

Export destinations

The West African Cotton sector is almost entirely dependent on exports. There is no reliable public information available about the destination of (West) African cotton exports. In a study for the 'Cotton Made in Africa' projects, the Otto Group owned consultancy Systain makes some rough estimates, based on the UN Comtrade database (Arretz 2005). For 2003, they claim that India may have imported as much as 116 000 tons of African cotton (half of their total imports: 242 000 tons; from Mali 24 000 tons = 10% of Mali production), almost equal to Thailand with 120 000 tons (30% of their imports: 408 000 tons; 29 000 tons from Mali = more than 10% of Mali production). These figures are not entirely consistent with our ICAC data, but may still give a first impression of the orders of magnitude. If, for example, the figure for Thailand is about right, up to 30% of all cotton used in the Thailand industry (Thailand imports all its cotton) would come from Africa. The Systain report does not give any figures for China, but China is certainly a main importer and will become more important in the near future. According to ICAC, China is consuming (2005/6) 9 million tons of cotton, of which it imports 3,2 million tons. We may safely assume that at least some 400 000 tons are coming from Africa (25% of African production).

Share of African Cotton in Yarns, Quality Issues

Sub-Saharan African cotton represents only 6,4% of world cotton production (1,6 million tons of 25 million tons in 2005/6). Of total exports, sub-Saharan cotton represents 16% (1,4 of 8,7 million tons). It is a safe assumption that in many textile producing countries that are strongly dependent on imports, the share of African cotton is about 16% (West African cotton about 12,5%). In countries with own cotton supplies, this figure will be lower.

Generally, (West) African cotton has a good or even excellent quality. One of the advantages of African cotton is that it is hand-picked. As a result, the fibre is less damaged than in the case of mechanical harvesting. Nevertheless, African cotton has some reputation problems, which are mainly related with stickiness, colour and contaminations of different kinds. One of the most serious contaminations is the occurrence of polypropylene packaging material in the seed-cotton. This leads to a situation in which the competitive advantage of hand-picking turns into a competitive disadvantage.

**"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 hand-picked cotton, since they judge that the risks associated with contamination are too great, bearing in mind the qualitative demands of their downstream clients." (Estur 2005) [in reference list: Gerard Estur, 'The Competitiveness of African Cotton in the World Market', ICAC, Washington, January2005.**

The reality for African cotton quality can be summarised as follows: its quality is better than its reputation but worse than its full potential. The bad reputation of African cotton with spinners was confirmed by a recent survey by Systain in the context of the CmiA project (Arretz/Schäpers 2006).

Invisible Cotton from Africa

Partly as a result of this reputation problem, spinners tend to prefer to use African cotton as a minority component in blends. African cotton is blended with Turkish, Indian, US American or Asian cotton and does not represent more than some 10 or 15 percent of the total cotton input. This has one important consequence: African cotton is not highly visible in cotton and textile supply chains. It is well known that virtually all West African cotton is being exported and that 16% of all cotton imports come from Africa, but it is very difficult to find out where this cotton ends up in yarns and end products. Through 'commoditisation', African cotton completely loses its identity. There is no feasible way in which consumers, retailers and brand owners can trace back African cotton from the end product to the cotton company or the cotton farmer.

### *3.3.2 Mali*

The Cotton System

In Mali, there is still a cotton system with one central player (CMDT) who has a monopsony in buying cotton from the farmers and a monopoly in selling Malian cotton to traders. Privatisation is in the planning process but is likely to take considerable time (See the Activity 1 report).

Time schedule of the liberalisation and privatisation plans has been adapted several times. In 2003, a first bidding round was started to privatise the cotton production and ginneries in the OHVN zone (about 10% of total production). That process was interrupted in early 2004, because of a lack of candidates meeting the criteria. In May 2004, the aim was for privatisation of CMDT (90%) of production) by late-2005. Privatisation has been postponed since, first to 2007, and now to 2008. Presidential elections are to be held in 2006.

The Supply Chain

In 2005/6, Mali has a raw cotton production of 250 000 tons, which is almost completely exported. Details about the situation in Mali can be found in the Activity 1 report. Here we summarise the supply chain in Mali.

CMDT is the single supplier of cotton fibre from Mali. Most cotton fibre was formerly traded through COPACO, a subsidiary of Dagris. COPACO appears to be no longer the privileged trade partner for CMDT. The following traders are amongst the buyers of Malian cotton fibre today: COPACO, Dunavant, Cargill, Louis Dreyfuss, Reinhart, Plexus, Devcot, CDI, COENCA, Mambo and Weill Brothers.

There is no distinction between traders as to where their Malian cotton comes from. Cotton bales can be traced back to ginneries, and theoretically most can from ginneries to trucks and sometimes to villages. However, there is no such system in use, except for organic and fair trade cotton which is bought, transported, ginned and stored separately.

Fair Trade and organic cotton

Fair trade cotton comes from villages in the Kita region, and is traded through COPACO. Volumes from Mali were 300 tons in 2004/05 and an estimated 800 tons in 2005/06 (harvest underway). Cotton fibre quality from Kita is higher than average, due to natural soil fertility and to selection at harvest. Involved parties further up the chain include at the least the French retailers and brands: La Redoute, Kindy, Hydra/Bo Coton, Armor Lux, Célio, Cora/Influx, Eider, Hacot & Colombier, and TDV Industries. Certification is done by FLO (Germany). Fair trade cotton products are for sale in France, Belgium, Switzerland, Austria and the United Kingdom. Sale in the USA and in the Netherlands is expected to start in 2006 or 2007.

Organic cotton comes from villages in the Bougouni, Yanfolila and Kolondiéba regions, and is traded through Reinhart. All organic cotton is also fair trade. Volumes from Mali were 40 tons in 2004/05 and an estimated 150 tons in 2005/06 (harvest underway). Cotton fibre quality from organic production is a bit lower than average due to a lesser control of pest pressure. Involved parties further up the chain include PREM (India), Switcher and Migros (Switzerland). Certification is done by Eco-Cert (organic; France/Germany) and FLO (fair trade; Germany).

A rough value chain analysis

Producer seed cotton price for 2005/6 has been fixed at 160 FCFA, considerably lower than for 2004/5 (210 FCFA). With present exchange rates, this is about 0,14 US$ per lbs. Ginning efficiency was about 41%: 2,44 lbs of seed cotton are needed for 1 lbs of cotton lint, so for each lbs of lint, the farmer is paid US$ 0,35. With world market prices of about US$ 0,55/lbs, there is a margin of US$ 0,20 to cover the costs of ginning and transport. With the higher 2004/5 producer prices, this margin was considerably lower, most probably incurring a loss for CMDT.

For a farmer who owns 1 hectare of cotton, the gross income is EUR 244 per year, from which his costs are still to be subtracted. If cotton is his only source of cash, his gross income is less than EUR 1 per working day.

For Fair Trade cotton, the 2005/6 producer price has been fixed at FCFA 238, 49% higher than the regular price. Farmer income will go up to some EUR 363 (per hectare), a considerable increase, but not leading to anything comparable with incomes in developed economies.

**"With a world average yield of 644 kg/ha, the net costs per kilogram of lint … in the world was $1.14/kg. … The data from 30 countries showed that on average, a farmer spends $0,33 to produce one kg of seed cotton, indicating that ginning, economic and fixed costs are expensive."**

**"The average cost of producing a hectare of cotton in Africa is 50% less than the cost in North America, but due to lower yields, the cost per kilogram of lint is more than all other regions except Europe. "**

**Chaudhry 2005, p. 10.**

### 3.3.3 *Burkina Faso*

<u>The cotton system</u>

The cotton system in Burkina Faso has proceeded further on the road towards privatisation and liberalisation than the system in Mali. For detailed information, see the Activity1 report.

<u>The supply chain</u>

At this moment, there are three cotton companies in Burkina Faso.

- SOFITEX, by far the largest cotton company in Burkina Faso, is a joint venture of the French group Dagris (34%), the Burkinabe state (34%), the UNPCB (30%) and local banks (1%). The SOFITEX cotton fibre is sold to a range of major cotton traders including: Reinhart, Dunavant, Cargill, COPACO, CDI, etc...

- SOCOMA, in the East, is owned by the French group Dagris (51%), UNPCB (20%), transporter SOBA (20%), investor SYA (4%) and Agryta (5%). Finance comes from the Dagris subsidiary COPACO who also trades all cotton fibre. The Dagris group itself is held for 60% by the French state, but in the process of privatisation by decision of March 2005. Privatisation is to be finalised by 2006.

- Faso Coton, in the Centre region, is the smallest of the three companies. Faso Coton is owned by a consortium including Reinhart (31%), Ivoire Coton/IPS (29%), input provider AMEFERT (20%), transporter SOBA (20%), and UNPCB (10%). Most if not all of cotton fibre is traded by Reinhart. The German development bank DEG Invest, already a partner of Ivoire Coton/IPS in Côte d'Ivoire, plans to contribute to financing.

Cotton fibre quality is believed to be similar all over Burkina Faso, with no major distinction between production areas. FASO COTON claims to have superior quality. SOCOMA has started awareness-raising this year about contamination at picking due to polypropylene from picking bags. Cotton cloth bags will be used for harvest as of 2006/07.

A rough value chain analysis

The value chain analysis for Burkina Faso is quite similar to the analysis for Mali. The only difference is a slightly higher producer price for 2005/6: FCFA 175 per kg seed cotton.

## 3.4 BRANDS, RETAILERS, SUSTAINABILITY AND AFRICAN COTTON

### *3.4.1 Business Drivers*

The Question

In this section, we address the position of textile brand owners and retailers (who sell under their own brand and/or existing brands). We summarise this group of players as 'retailers'.

What drives retailers or what may potentially drive retailers to source sustainable cotton or to source sustainable cotton from West Africa? The question is not completely correct, as there is hardly any retailer who sources his own cotton. Ikea has been involved in some cotton trade and Otto Versand has been organising organic cotton supplies for its suppliers, but these are exceptions to the rule: retailers are not involved in cotton sourcing. The question should be formulated somewhat differently:

*What are the business drivers that motivate retailers to require that their suppliers (or the suppliers of their suppliers) source sustainable cotton or sustainable cotton from Africa?*

Main Drivers

Retailers may have a variety of reasons to control the cotton supply chain or to make sure that their suppliers do. We may distinguish four different drivers for cotton supply chain management:

- Driver A = Quality
  Quality, or more precisely the price/quality ratio, is a main driver of any business. Especially retailers who sell higher quality clothing and household textiles have an interest in guaranteeing that high quality cloth and yarn are being used, produced from high quality cotton. However, the retailer will usually not formulate any specific cotton requirements. It is up to the textile chain to produce the quality that he requires and to choose the appropriate materials and processes.

**The supply chain as a lever?**

**In an earlier presentation (De Man 2002), we were rather pessimistic about the possibilities of a supply chain driven approach.**

**"Retailers**

- **should be the motor for demand of sustainable cotton**
- **but there is no motivation ..., apart from some small ... niche projects**
- **they say that they would become more active in case of a clear NGO campaign**

**Cotton traders**

- **can play a crucial role**
- **they are not willing to play this role unless there is a clear added value for the information services they provide**

**Consumers**

- **do not see the problem**
- **are not willing to pay a higher price"**

**The present study largely confirms this picture, but differentiates between different retailer types (with different business drivers and different business cases) and identifies important roles for other players than retailers or cotton traders. This study confirms our earlier conclusion that brands and retailers should be involved in promoting sustainable cotton cultivation but not necessarily only through building supply chains from seed to T-shirt.**

- Driver B = Supply Security
  Cotton is an important raw material, very often the most important raw material, for many textile brands. Brand owners and retailers have a long term interest in securing the supply of cotton. Supply security can be threatened by the use of non-sustainable cotton growth practices that lead to erosion and declining soil fertility and other problems that may cause a decline in cotton production or an increase in production costs in the future.[12]

- Driver C = Reputation Risk
  Closely linked to Driver B, but of a more acute nature, is the danger of reputation risks linked to the use of non-sustainable cotton. In many parts of the world, (irrigated) cotton is causing irreversible damage to ecosystems, especially freshwater systems. The use of hazardous chemicals is responsible for creating severe health problems. The link between cotton and poverty, especially in Africa, opens up an additional social dimension that may cause company and brand reputation risks. There are real risks of damage to well-known brands, if, for example, an NGO will communicate that children in Africa have been picking the cotton under conditions of slavery.

- Driver D: Consumer Markets
  An additional driver, today only effective in relatively small consumer market segments, is the demand for cotton of a special social and/or environmental quality.
  - Organic cotton is the best defined and best established market. The market is growing, but it is still a very small niche market, however. According to figures presented at the Organic Exchange conference in 2005 (Calahan Klein 2005), 60 000 ha, out of a total of 35 million ha, are organic, less than 0,2%.
  - Also the emerging Fair Trade cotton market is a very small niche.

[12] Supply chain security is more an industry than an individual company problem. We cannot expect individual companies to develop actions here, but they are motivated to engage in (global) industry-wide activities.

- A recent initiative of a German retailer, the Cotton Made in Africa project (CmiA), aims at creating a market for (textiles from) sub-Saharan African cotton. If CmiA will manage to create sufficient demand, the project will take off with a demand of some 10.000 tons of cotton lint, less than 1% of sub-Saharan cotton production. CMIA has the ambition to grow beyond this niche character.[13]

### 3.4.2 *Different Retailer Types*

Empirical Evidence

Our discussions with representatives of textile brand owners and retailers, supplemented by some literature study and discussions with consultants and NGOs, unambiguously show that (West) Africa is not yet an issue today, with a handful of exceptions.

- The German based Otto Group is promoting Cotton Made in Africa (CmiA). Initiatives are being developed in Benin, most probably Burkina Faso, Zambia and potentially in other Eastern African countries (Uganda, Tanzania).
- Migros (Switzerland) is working with the NGO Helvetas and the Cotton trader Reinhart on organic cotton from Mali. Only small quantities are involved.
- French retailers selling products from Fair Trade cotton (Coton Équitable), supplied by DAGRIS from West Africa. Also Reinhart is involved.
- Coop Switzerland works with the innovative cotton company Remei on organic cotton projects in Tanzania.

The bulk of the retailers appear to be very much in a beginning phase, although the issue is slowly emerging. They are not ready yet to start any projects or to commit themselves to any standard for sustainable cotton. Some companies are now mapping their cotton use and trying to understand their cotton supply chain better. Most companies do not have any idea of the quantity and quality of (West) African cotton in their consumer products.

**Supply Chain Analysis for Sustainable Sourcing**

**Sustainability issues are often linked to risks in the supply chain. Not many companies use systematic tools for identifying the risks of 'non-sustainable' and the opportunities of 'sustainable' sourcing of raw materials. We have developed a method in cooperation with Unilever and IMD Lausanne to systematically identify the business case for sustainable sourcing (see Mauser & de Man 2002). The outcomes of the application of the method in a two-day workshop were surprisingly positive: There were many opportunities to create business value by going for more sustainable sourcing. Efficiency improvements could be combined with sourcing more sustainable raw materials (tomatoes, peas, palm oil, tea, etc.).**

**It would be interesting to use this methodology with managers in major textile retail chains. The problem, however, is that these managers, unlike their Unilever colleagues, would have huge problems with even defining and describing their cotton supply chains.**

[13] It is still unclear what mix of driver C and driver D plays a role in this initiative.

For the majority of the companies that feel that they have to address the cotton issue in their supply chains, the business driver is reputation risk ('Driver C') and to a lesser extent supply security ('Driver B'). Only a small minority is driven by consumer demand as well ('Driver D'). From our empirical evidence, we see three company types.

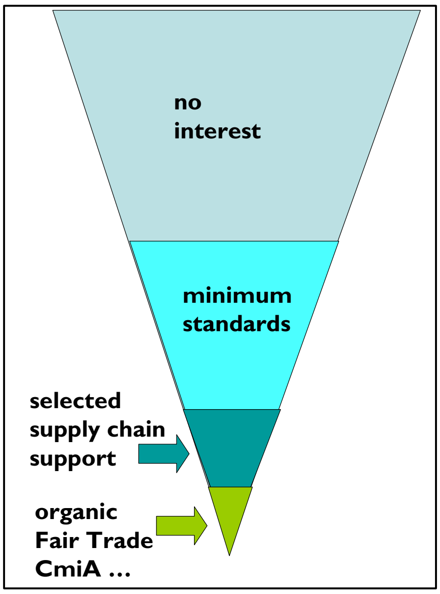


Diagram 3: Retailers and Sustainability

I. Risk management driven companies with limited knowledge of the cotton supply chain. Some of them have tried to market organic cotton products, both 100% organic and blends, but appear to be disappointed because of the complexities and costs involved. These companies would welcome the existence of some global minimum standard for cotton sustainability, such as being developed in the Better Cotton (BC) process, which they could prescribe to their suppliers. They are not ready to engage themselves in supply chain projects or partnerships. Africa is not a separate issue for them and they do not see any role in specific African projects for themselves. They are not in favour of developing any (additional) consumer label for 'sustainable' cotton. They stress the importance of their own brands that they want to protect. There is no readiness for paying any costs for certification. Costs, in the view of those companies, can only be defended on the basis of simultaneous savings, e.g. arising from a more efficient supply chain.

II. <u>Companies who want to (selectively) engage themselves in creating supply chains for more sustainable cotton</u>
Basically, these companies have a motivation similar to the first group: they wish to limit the risks of damage to their brands caused by the use of non-sustainable cotton. However, they are more ready to organise improvements in their supply chains themselves, to set up projects with their suppliers and even with the farmers producing the cotton. They will only do this if they are dealing with strategic suppliers that have strong, stable and relatively integrated supply chain links with cotton producing areas. Projects can be set up with integrated suppliers in countries like Pakistan or Bangladesh that have close relationships with cotton suppliers, for example. It is much less likely that such projects make sense in (West) Africa. West African cotton is (almost) never a major component of an end product and there is no integrated cotton and textile industry present.

III. <u>Companies who sell 'sustainable' cotton products:</u>
Only a small number of retailers concentrate on producing products from special grades of 'sustainable' cotton, such as organic and Fair Trade. Apart from niche retailers specialised in organic products, most retailers who sell organic or Fair Trade have a second product line in addition to their conventional assortment. We have already mentioned some retailers who are active in the organic or other cotton from Africa. It is interesting to observe that the retailers who are most prominent in promoting 'sustainable' cotton are not conventional companies with stock market quotations. [14] They are rather family owned (Otto Group) or owned by cooperatives (Migros, Coop). These

**About the Prem – Switcher Bio-Cotton Project, from a presentation in November 2005 (India and Mali)**

**ADVANTAGES & LESSONS LEARNED**

- **New mile stone & improved brand image**
- **Credit of reduction in bad environmental impact**
- **Opportunity to link the supply chain from SEED to T-SHIRT**
- **value addition to the products**
- **increase in the brand social value**
- **recognizing by the Swiss Government to Switcher Chairman Mr. Robin as a Social Entrepreneur of the year 2005**
- **further strengthened Switcher-Prem partnership and CSR values**
- **Opportunity for backward integration in the supply chain**
- **To Experience the difficulties at the different levels of the supply chain from farming to confection**
- **To Establish the sustainability in the business with a bigger challenge to encounter the competition**

**Helvetas/FiBL Symposium, Luzern, November 2005**

[14] Moreover, two companies are located in Switzerland. The Swiss situation is very different from that in the EU countries. Not only are the two major retail companies competing on environmental and social issues (which creates a dynamic that is absent in other countries), but also Swiss industry, because of its protected character, is characterised by a lack of competition and efficiency. This makes Switzerland a good laboratory for experiments with sustainable products, which are not always easy to reproduce in other countries. It is also remarkable that Switzerland has an official policy on the use of organic cotton: to increase the current 0,2% to 0,5% in 2007.

companies appear to avoid the problems of only optimising short term shareholder value.

Traceability, Certification, Costs

There is unanimity among retailers that sustainable cotton should not cost (much) more than conventional cotton. Any additional costs should be earned back by optimising the supply chain, creating efficiencies through better logistics, getting higher qualities, etc. As a result, the willingness to pay for (costly) certification is limited. Although limited verification costs for checking the cotton fields may be acceptable, there is no support for extensive chain-of-custody certification or for separating sustainable from non-sustainable cotton.

This discussion is similar to the discussion that is taking place in other commodity areas. The Roundtable on Sustainable Palm Oil recently agreed on a number of principles and criteria (RSPO 2005). The discussion today is how to deal with separating the sustainable from the non-sustainable palm oil. There are several options in discussion between total separation ("Identity Preserved" (IP)) and classic commodity. The main models that get support are IP (a proven method, but incurring some substantial costs) and the creation of a sustainable bulk commodity as a sustainable grade available in the market without the need for full transparency (only feasible with a high level of sustainable palm oil supply). A third option, based on certificates, not unlike the green electricity model, has been discussed but appears to lack support (more complicated and costly and less attractive than expected, see ProForest 2005)

**"In order to establish recognition in the market for a commodity grown according to BMPs, certification and segregated chains for sustainable commodities may be necessary. A future BMP initiative should consider the pros and cons of working with existing markets rather than investing in alternative supply chain structures or ensuring full chain of custody traceability. Several models exist, ranging from**

- **certification and segregation of sustainably-produced commodities …**
- **[add text here]"**

**ProForest/IIED 2004, p. 5-6**

Similar discussions can be expected about 'sustainable' cotton. Whatever solution will be chosen, only solutions with minimum costs for separation and certification will be acceptable to mainstream companies. Only for organic and Fair Trade cotton, such costs are likely to earned back in the consumer market.

Conventional supply chains and supply chain partnerships

Some companies who develop and market organic cotton products are in favour of setting up highly integrated supply chains in which the companies cooperate, not in conventional supplier relationships, but as partners. The production chains built by

Remei for Coop are based on a partnership philosophy that is very different from the dominating trend. Patrick Hohmann of Remei claims that this partnership philosophy is a condition for producing high quality products with high sustainability standards, based on a given supply of raw materials (Hohmann 2005). Building up partnerships of the kind Hohmann has done in India and Tanzania could be very interesting. The problem, however, is to find partners who are as determined to reach their goals as the partners in the Remei projects.

Conclusions

There are three groups of retailers who have a relevance to building supply chains for sustainable cotton from West Africa: the above mentioned categories I, II and III:

- The risk management driven retailers (I) will eventually demand cotton that conforms to minimum sustainability criteria, not necessarily but also from Africa. We may not expect many of those companies to become active in Africa or to become partners in public-private-partnerships. They will rather support the African implementation of standard-setting activities (the most relevant being the Better Cotton Initiative) in Africa.
- There is a potential role for companies of Type II (companies who selectively engage themselves in creating supply chains for sustainable cotton). However, as Africa does not have an integrated cotton and textile industry, African countries are not an obvious choice today.
- The companies active in the organic and fair trade market (and potentially the companies who will be active in the Cotton Made in Africa project) (III) will be motivated to demand cotton from specific African projects. They will be potential partners in African projects.

## 3.5 COTTON TRADERS, SUSTAINABILITY AND AFRICAN COTTON

### *3.5.1 Cotton Traders*

The Trader's Activities

Cotton traders are typical commodity traders: they source cotton from various locations with varying qualities and they make sure that the spinner has the right mix of cotton qualities and quantities available at the right time. As we have discussed the trader’s role in an earlier report to WWF (De Man 2001), we contend with a summary of the most important elements.

| **cotton trader as a bridge between cotton producer and spinner[15]** | | |
|---|---|---|
| **Service to cotton producer** | **bridging** | **service to spinner** |
| up-to-date market information | languages | up-to-date market information |
| competitive prices | space | competitive prices |
| buy when producer wants to sell | time | sell when spinner wants to buy |
| buy all qualities produced | finance | supply those qualities that are needed |
| buy against local conditions | currency risks | sell against local conditions |
| contract guarantees buying | market price risks | guaranteed contract |
| minimum price guarantee | exchange operations, hedging | maximum price guarantee |
| non-fixed buying with option for seller | quality requirements | non-fixed selling with option for buyer |
| quick payment | counter trade | logistics and timely delivery |
| pre-financing | | broker service |
| broker service | | training and technical support |

Table 1: Cotton Trader as a Bridge between Cotton Producer and Spinner

[15] based on Trachsel 1990.

The cotton trader is the bridge between two worlds: the world of agriculture (the cotton producing farmer and the cotton company) and the first element of the textile chain (the spinner). The trader provides services to both sides: he creates certainties and minimises risks for both producers and spinners. His activities go far beyond shipping the commodity from A to B. He is involved in financing, quality control and risk management, for example. The trader earns his money by the value he creates for his customers. This value is based on (superior) knowledge of the market, sophisticated forecasting models and ingenious financing and risk management constructions. The trader is therefore reluctant to share this knowledge, his main production factor, with others.

Commodity traders, as a consequence, belong to the least transparent companies in the world. Many of them are family owned companies without any reporting obligations to shareholders and although they move billions of dollars around the globe, it is even difficult to find their addresses, phone numbers and e-mail addresses on the internet. In the ICAC statistics, we do not find any precise figures about volumes traded, only a classification in the categories 'largest' (more than 200 000 tons), large (50 000 to 200 000 tons) and medium (20 000 to 50 000 tons). It is exceptional to find any data published, such as COPACO who state in the DAGRIS annual report 2004 that they traded 250 000 tons and had a turnover of €314 million.

Large Cotton Traders

The cotton trading sector is characterised by a relatively low level of concentration, although more concentrated than 10 years ago.

On the right of this page, we have listed the traders in the 'very large' category. All European players (including Dunavant, listed under USA) are active in Africa, although Dunavant and Plexus have more relevance to East than to West Africa.

The largest trading companies are responsible for 8,9 million tons of cotton, 43% of world production (ICAC data 2005),

**Largest Cotton Traders, according to ICAC 2005: trading more than 200.000 tons**

**Europe**

**Paul Reinhart**
**Louis Dreyfus**
**Plexus Cotton**
**Aiglon Dublin**
**COPACO**

**USA**

**Allenberg Cotton Co.**
**Cargill Cotton (also Liverpool)**
**Dunavant (also Geneva)**
**Staple Cotton Cooperative Association**
**Plains Cotton Cooperative Association**
**Weil Brothers & Rountree**
**Ecom USA**
**Calcot**

**Other**

**Chinatex (China)**
**Namoi Cotton (Australia)**
**Olam International (Singapore)**
**JSC Innovatsia (Uzbekistan)**
**JSC Uzmarkazimpex (Uzbekistan)**
**Uzprommaksimpex (Uzbekistan)**
**Queensland Cotton (Australia)**
**Toyo Cotton (Japan)**

### 3.5.2 *Cotton Traders and the Business Case for Sustainability*

Commodity traders (including cotton traders) are much less susceptible to public pressure than retailers, for example. They are not directly exposed to consumers and citizens and in most cases not highly dependent on external finance. For classical cotton traders, the sustainability issue does not play any role, unless the textile supply chain makes it an issue. Public pressure on cotton traders only works through the supply chain, if at all.

If there is a demand for sustainable cotton, the trader's position is very important. He may be the linking pin in the supply chain or the main barrier towards transparency. De facto, the trader is the only player who can link the textile supply chain and the world of cotton production. He is the only player who can make cotton growth information available to the supply chain. He is the last player who knows, or is able to know, where the cotton comes from and under what social and environmental conditions it was cultivated.

Is there a business case for the cotton trader to play the role of 'linking pin' in the supply chain? This leads to two questions:

- Is there a business case for the cotton trader to share his commercially valuable information with others?
- Is there a business case for extending his existing service role (see Table) to collecting and providing sustainability information, setting up and managing the required systems for management and administration?

Under present conditions, most traders tend to answer the two questions negatively: It does not make sense to share commercially valuable information. The demand side of the supply chain (apart from some organic or Fair Trade chains) is generally not paying anything for the additional services it requires. In interviews with cotton traders, we observe an irritation about the increasing demand for sustainability services from the supplier in combination with a lack of willingness to pay for these services.

### 3.5.3 *Cotton Traders with Production Assets*

Many cotton traders have (recently) invested in cotton production facilities (ginneries). One cause is that classical trade as a middleman between supply and demand is becoming less attractive, not only for cotton but for many other commodities as well. Another cause is the liberalisation of (African) cotton systems. Traders who want to secure their cotton supply and to have continued access to good cotton quality have a business interest to buy the privatised facilities and invest in modernisation.

**"The trend to freer markets and privatization has created opportunities to invest in gins. Reinhart has built a gin in Tanzania and participates in gins in Ivory Coast and Uganda"**

**(from the 2003 Reinhart brochure, not yet mentioned their participation in Burkina Faso)**

Traders who have invested in cotton companies have long term interests in the production countries and they are not pure traders anymore. They have interests as a cotton company. A trader can rapidly withdraw from a market when this is financially attractive. A cotton company cannot. Traders with production facilities are often obliged, by the regulations in the countries where they operate, to gin and sell the cotton that is available, even at times when this is less profitable. These traders have different interest and therefore their 'business case for sustainability' is different. We will discuss this in section 0.

### 3.5.4 *Cotton Traders in West Africa*

In 2004, there were 23 ginning companies active in the eight countries (Benin, Burkina Faso, Cameroon, Chad, Côte d'Ivoire, Mali, Senegal, Togo) with a total of 83 gins. The average gin capacity is reported to be 30,000 tons of seed cotton per season, producing some 12,500 tons of lint (Estur 2004). In contrast to the fully liberalised cotton sector in East African countries, there are no middlemen active: the seed cotton is directly sold by the farmers or their associations to the ginning company.

Many international traders are active in trading West African cotton and shipping it to the spinning mills. Table 2 (from Estur 2004) lists the traders in three categories with decreasing traded volumes (2003/04). COPACO is by far the largest trader (with some 250,000 tons), followed by Louis Dreyfus and Paul Reinhart. Other major traders are Aiglon and Dunavant. Cotton trade from Africa is dominated by Europe based trading companies.

Local traders are involved in the trade of cotton lint from the ginning companies to the international traders.

| major traders<br>more than 100,000 tons | large traders<br>50,000 to 100,000 tons | other |
|---|---|---|
| COPACO (Paris)<br>Louis Dreyfus (Antwerp)<br>Paul Reinhart (Winterthur)<br>Aiglon (Geneva)<br>Dunavant (Geneva) | Plexus (Liverpool<br>CDI (Lausanne)<br>Mambo (Paris) | Cargill (Liverpool)<br>Weil Brothers and Stern (Mersey-side)<br>Devcot (Lille)<br>Olam (Singapore)<br>Baumann Hinde (Southport UK)<br>Goenka-Impex (Geneva)<br>OCTC Switzerland<br>Ecom (Pully CH)<br>Cogecot (Geneva) |

Table 2: International Companies Trading African Cotton

## 3.6 COTTON COMPANIES WITH GINNING OPERATIONS

### *3.6.1 The Role of the Cotton Company*

Cotton companies are responsible for buying seed cotton from farmers, take care of ginning and sell the cotton to cotton traders or, if they are traders themselves, to the world market. In addition they have various tasks and responsibilities in relation to the farmers, many of which are defined by the legal and institutional framework in the cotton production country:

- Pre-financing
- Providing cotton seed and other inputs
- Providing extension services, training

Depending on the country and the region, there may be more or less strong and fixed links between the farmer and the cotton company. In some cases, farmers have a strong link with one gin, to which they always sell their cotton. The cotton company who owns the gin is responsible for the above mentioned services to the farmer. Especially in some East African countries with more liberalised cotton sectors, there are local middlemen involved or farmers have the freedom to sell to one company or another. When cotton companies pre-finance inputs, they require the farmers to deliver the cotton to them so that they can recover their loans when paying the farmers. Sometimes, however, merchants do buy cotton that has been pre-financed by other companies, so-called 'pirate buying'.

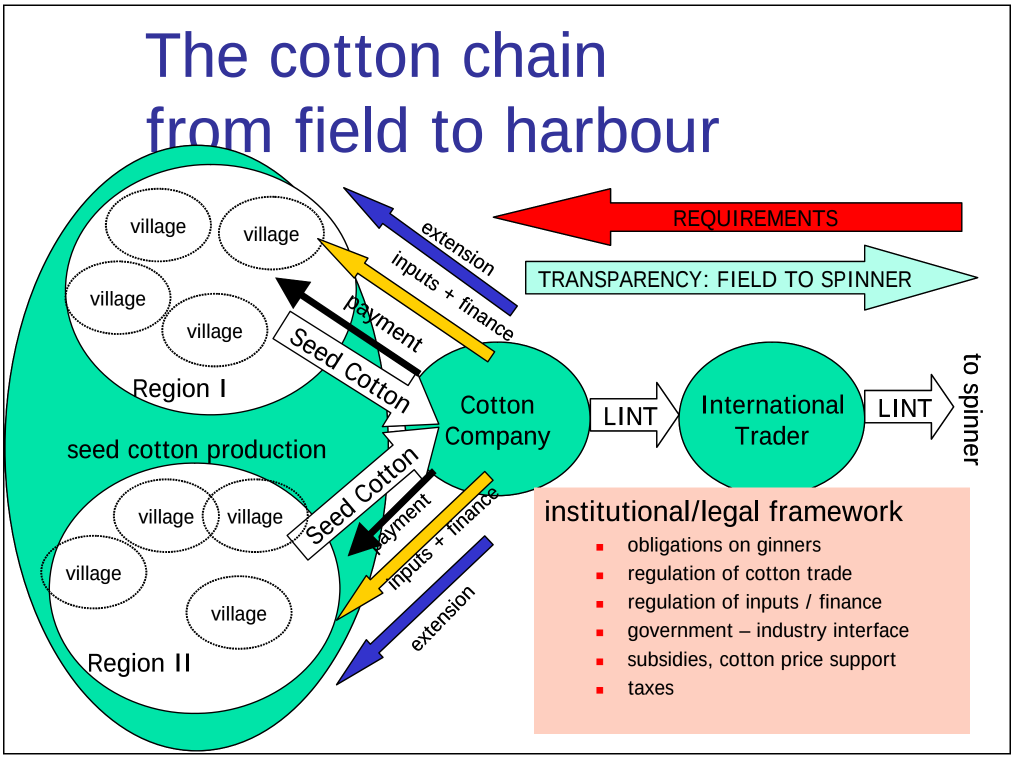


Diagram 4: The Cotton Chain from Field to Harbour

In the poor West African cotton regions (the same is true for East African regions), cotton companies bear an important responsibility for farmers who, as a rule, do not have any other access to finance and capital than through the cotton company.

### 3.6.2 *Cotton Companies in Mali and Burkina Faso*

We refer to the report of Activity I for any details.

- In Mali, CMDT is still the only cotton company that runs all the gins in the country.

- In Burkina Faso, the privatisation process has proceeded further, resulting in a system with one big player and two smaller players at this moment:
  - SOFITEX
  - SOCOMA
  - Faso Coton

### 3.6.3 *Cotton Companies and the Business Case for Sustainability*

Cotton Companies in Africa bear huge responsibilities for the local population that is heavily dependent on them. The Cotton Company is often their only source of cash.

Cotton Companies, in contrast to opportunistic merchants who only sell and buy when the market is profitable enough, have an interest in long term stable relationships with the cotton farmers, farmer organisations, cotton sector organisations and the government. Otherwise they will lose their 'licence to operate'.[16]

Apart from ethical reasons for behaving responsibly, cotton companies have strong business interests in promoting favourable social conditions and maintaining long term soil fertility. There are examples of cotton companies who were involved in supplying maize to the farmers after a severe drought period. Others are strongly promoting anti-AIDS measures, for example. AIDS-programs are partly motivated by immediate self-interest, as the company does not wish to lose the human capital they have invested in, and partly because the national and regional stakeholders expect the companies to do so.

Of course, there is always an open question on how far the cotton companies should go in privately providing 'public' services, such as health care or road infrastructure. The 'licence to operate' aspect may even be stronger for foreign investors such as cotton companies who have acquired ginning operations in Af-

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[16] We are not saying that the cotton companies always act in the interest of the farmers or that they always have an interest in sustainability.

rica. For them there is a strong need to continuously show that they are working in the interest of the country.[17]

In sum, there is a strong business case for sustainability, especially:

- for foreign companies who have invested in fixed cotton processing assets (gins)
- with respect to social responsibility.

Our discussions with international cotton companies who own ginning operations in West and East Africa (such as Reinhart, Dunavant and Plexus) confirm that they are motivated to contribute to sustainable development in their ‘guest countries’. It is clear that their main motivation is not a result of consumer demand and supply chain pressure. Their main motivation is to keep their licence to operate and to develop a stable business environment for their operations. In some cases, cotton companies are the only players with an infrastructure that is capable of reaching every single farmer in a region. Cotton companies are sometimes better equipped than NGOs or government organisations in this respect.

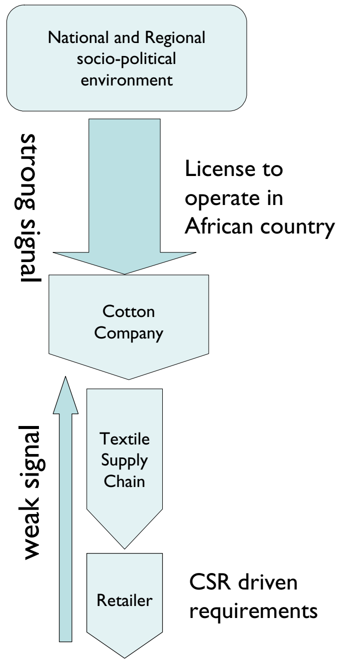


Diagram 5: The Cotton Company's motivation for sustainability

## 3.7 SUMMARISING CHAPTER 3

We have identified the players in the supply chain who potentially play a role in promoting sustainable cotton from West Africa: the retailer or brand owner who may create demand for (more) sustainable cotton (from Africa), the trader who delivers the cotton to the first player in the textile chain (the spinner) and the cotton company who buys the cotton from the farmers. In this context, players in the textile chain are hardly relevant: they will produce what the retailer is asking for according to given requirements.

For most retailers, sustainability of cotton is not a real issue yet. For well-known and vulnerable brands, there is a business case for sustainability: sustainability is primarily linked with risk man-

[17] Taking the colonial history of Africa into account and the sensitivities involved, foreign companies appear to have an even stronger interest in presenting a case for their ‘license to operate’ than indigenous companies.

agement and brand protection. Such companies have an interest that their suppliers implement minimum sustainability standards, such as the (future) Better Cotton standard. Only a small group of retailers is interested in selling products from 'sustainable' cotton to specific consumer market segments, such as organic cotton or Fair Trade cotton.

For cotton traders who merely work as middlemen between supply and demand, there is no strong business case for engaging themselves in sustainability activities as long as there is no strong pressure from the retailers. They are not willing to produce a degree of transparency in the supply chain that may run counter to their commercial interests.

Cotton companies with ginneries in African producing countries do have a strong business interest in promoting sustainability. This is even more the case for foreign cotton companies, mostly international cotton traders, who own ginning operations in Africa. They can only keep their licence to operate and create a stable environment for their business operations if they take their social responsibilities seriously. Their motivation is not created by demands from their customers in the supply chain but by the national and local socio-political environment.

If UNEP and FAO want to seek cooperation with the private sector in order to promote sustainable cotton from (West) Africa, there are three groups of candidates:

1. <u>Cotton companies</u>, especially the companies owned by foreign cotton traders: the cooperation should be related to the implementation of more sustainable cotton growing practices at the regional level.
2. <u>Retailers</u> who are interested in selling sustainable cotton products: the cooperation should be related to further developing organic and Fair Trade cotton in West African countries.
3. <u>Retailers</u> who are interested in minimising their business risks by adhering to a minimum sustainability standard. The cooperation should be related to the implementation of the standard (most probably the future Better Cotton standard) in the West African context.

In Chapter 4, we will combine the results of this chapter with the results of Chapter 2, in which we described the different options for (more) sustainable cotton in Africa.

# 4. PROMOTING SUSTAINABLE COTTON FROM WEST AFRICA

On the one hand, there are several options for promoting sustainable development in production areas, partly through better organising the production and marketing of 'conventional' cotton, partly through switching to more sustainable cotton cultivation methods.

On the other hand, there are different players in the cotton supply chain, with different interests in sustainability, who are motivated to make different contributions to 'sustainability'.

Sustainable development of cotton production areas can be promoted by appropriately linking sustainability options to interested players.

## 4.1 OPTIONS AND PLAYERS

In Table 3, we have listed the sustainability options discussed in Chapter 1 (vertical dimension) and the value chain players who have an interest in contributing to sustainable development of cotton growing regions (the horizontal dimension).[18]

| | Large Retailers / Vulnerable Brands | Special Retailers | Cotton Company | Remarks |
|---|---|---|---|---|
| **more sustainable cotton** | demand for BC sponsoring implementation projects | | organising implementation | in cooperation with Better Cotton and CMIA. |
| **organic cotton[19]** | continuing blend strategy | professionalisation of organic cotton sector | organising implementation | avoid multiple labels and standards |
| **Keeping the quality + Marketing** | no direct role | no direct role | participation in sector projects | In cooperation with UNIDO |
| **Added Value in Africa** | | | | not discussed in this report |
| **Away from Cotton** | | | | not discussed in this report |

Table 3: Sustainability Options and Value Chain Players

## 4.2 MORE SUSTAINABLE COTTON

### *4.2.1 The Cotton*

What Cotton do we Mean?

The first option in the above table is "More Sustainable Cotton". In this option, the production of cotton with a higher sustainabil-

[18] We do not define the issue in terms of 'sustainable cotton', but rather as 'sustainable development'. The reason is that scenarios that make countries less dependent on cotton should not be excluded. In the long run, increasing cotton production may not be the most sustainable option.
[19] Organic cotton: if needed also Fair Trade certified. We do not recommend going for only Fair Trade.

ity than 'conventional' cotton is promoted. It can be based on GIPD or equivalent methods. It is not important to choose between different methods as long as they plausibly promise to reduce chemical inputs and their associated costs, help increase productivity and help maintain soil productivity without compromising ecology. Moreover, the choice cannot be final. Field tests should be carried out to measure their contribution towards a number of performance indicators for sustainability.

Linkage with Better Cotton and CMIA

It does not make sense to create a special market with a special name or special certificates for this cotton. The costs for certification will not be earned back on the consumer market. At the moment, the market for 'sustainable cotton' is already confused by different standards and projects: organic cotton, Fair Trade Cotton, Cotton Made in Africa and there may be more to come. UNEP and FAO should not contribute to the proliferation of standards and labels.

It does make sense to make a link with the Better Cotton Initiative. Better Cotton will most probably need regional standards for implementing the Better Cotton principles. An African or a West African implementation of a future Better Cotton standard could be based on different attempts at promoting more sustainable cultivation methods (notably GIPD and GAP) and measuring their performance.

In addition, a link with CMIA (Cotton Made in Africa) could be useful. For CMIA, Wageningen Agriculture University has defined a number of simplified indicators for measuring sustainability of cotton cultivation. In addition, a system for minimum criteria, based on a traffic light system for these indicators (red = unacceptable, orange = need for improvement, green = OK) was proposed. Monitoring projects, based on the Wageningen criteria could be a first step in better understanding the real sustainability performance of the different cultivation systems as defined in the study by Peter Ton. FAO and UNEP should not express a strong preference for any of these systems until more is known about their real impacts.

**"It is certainly a good thing to try to inform consumers about organic cotton and its context. It is good to market organic textiles in a positive way and to conform to fashion trends. However, considering that the consumer hardly receives any direct benefit from organic or fair trade textiles, it would not be realistic to expect any relevant consumer demand in the future. Driving forces will have to be the trade, brand marketing and sales channels."**

**Clavadetscher 2005, p. 4.**

### 4.2.2 *The Players*

Retailers

The main driver here comes from the large retailers who want to defend their brands against reputation risks. The consumer market is not the business driver. As this is not needed for minimally required risk management, we do not expect that these retailers will set up specific supply chains from Africa. They will just ask for 'better cotton', not only but also from Africa. The mechanism is not the specific company to company supply chain but the Better Cotton industry initiative. Through this initiative individual retailers can (and hopefully will) make resources available for the West African implementation of Better Cotton.

Some retailers, however, might see a Corporate Social Responsibility opportunity in operating somewhat more in the public spot lights. An idea could be to organise sponsorships for local BC implementation projects in Africa. A big US American sportswear company, for example, could sponsor the implementation of BC (possibly in the form of GIPD or GAP) at a specific gin in Burkina Faso and claim that it helps 10 000 farmers in their development towards sustainable cotton. For such a sponsorship, it is not required that the retailer buys the cotton for his own products.

Cotton Companies

Cotton Companies play the central role in implementing the agreed standards. They have to make sure that all 'their' farmers (or a well defined group of farmers) produce according to the agreed methods and standards and that the cotton produced is traded separately (as Better Cotton and/or CMIA) from 'conventional' cotton. Only cotton companies who have transparent one-to-one relationships with their farmers can do this.

The most practical level for such projects is the gin. If the cotton company can make sure that all farmers delivering to one gin switch to more sustainable growth methods, the administrative costs caused by introducing a new cotton commodity grade (BC) and keeping it separate from the main stream can be kept very low. Still these are real costs that should be discussed.

## 4.3 ORGANIC COTTON FROM WEST AFRICA

### *4.3.1 The Cotton*

Cotton with increased sustainability ('More Sustainable Cotton') should not be marketed to the end consumer as a special cotton grade. It would be very difficult to create a new market segment and it would only contribute to confusion about labels and standards. The only two cotton types for which consumer demand is present are organic cotton and Fair Trade cotton.

We have our doubts about the contribution of fair trade cotton to environmental improvement (although it certainly has a positive influence on insecticide use) and about the sustainability and fairness of the income improvements by Fair Trade. Therefore we do not consider Fair Trade as a stand-alone option in our recommendations. Nevertheless, Fair Trade has a market potential that can be exploited in promoting sustainable cotton.

There is a (small) market for organic cotton and this market is growing. Peter Ton (Report of Activity 1) puts forward that organic cotton still has some problems with regard to yield and as a farmer income. Nevertheless, there are valid reasons to consider organic cotton as an interesting option for West Africa: there is a well defined market and it has the potential of decreasing the farmers' dependency on expensive inputs (see for example Clavadetscher 2005), whilst there is a convincing reduction of environmental impacts.

There could be good reasons to promote organic cotton that is also Fair Trade certified (see Activity 1 report).

### *4.3.2 The Players*

<u>Retailers</u>

The driving force here is created by retailers with a special motivation to promote sustainability and who serve sensitised markets for environmentally and socially responsible products. These are players such as Migros (Switzerland) that is already active in Mali. In the future, the size of organic projects could grow and additional partners could be interested.

The large retailers and owners of vulnerable brands will most probably not play a main role but they could profit from being associated with organic (or organic fair trade) cotton projects in West Africa which could provide organic cotton for blending with conventional cotton, for example.

Cotton Companies

The cotton companies should continue their role in project implementation and trading the organic cotton as they are doing already.

## 4.4 QUALITY CONTROL AND MARKETING

### *4.4.1 The Cotton*

The basis for sustainable development is the generation of income by added value. Because of poor quality control and inadequate marketing, (conventional) African cotton creates less value than its full potential. We have not studied the issue in detail and cannot make any detailed proposals. This does not mean that this issue is less important than introducing more sustainable cultivation methods. On the contrary: improving quality control systems and marketing could the most urgent and most important step towards a more sustainable cotton sector.

### *4.4.2 The Players*

Projects in this area will most probably not involve any downstream supply chain players. Main players are cotton sector organisations, farmer organisations, cotton companies, government and technical institutes. Close cooperation with UNIDO initiatives can be useful.

# 5. RECOMMENDATIONS

For the majority of players in the cotton and textile chain, cotton is an emerging issue. The awareness of the opportunities for sustainable cotton from West Africa is still low.

Nevertheless, we have identified a number of concrete opportunities for retailers and cotton companies. We recommend to start on the basis of a good mix of optimism and realism.

The following recommendations summarise the most important results of this study. They are made more concrete in the 'business case report', an Appendix to this study.

1. Distinguish two 'sustainability qualities' at the West African supply side: (I) GIPD and other systems that promise to conform to a future West African or global sustainability standard such as 'Better Cotton', (II) organic cotton. Do not confuse the market by distinguishing many different grades of 'sustainability'. The FAO-UNEP initiative should promote both possibilities, but with an emphasis on promoting GIPD and equivalent systems.

2. Distinguish four categories of retailers: (1) retailers who cannot be expected to become active in the short term, (2) retailers who mainly follow a policy of supply chain and brand risk limitation, (3) retailers who are motivated to build up integrated supply chains and continuous improvement for their bulk cotton items, (4) retailers who

focus on markets for 'sustainable' cotton such as organic and/or Fair Trade.

3. Distinguish two basic supply chain approaches: (A) integrated supply chains at a company to company level, (B) industry-wide (and possibly) global approaches.

4. For the retailers of category 2 (driven by risk minimisation), the most attractive option is to participate in an industry-wide (approach B) initiative. The most obvious initiative is the ongoing initiative 'Better Cotton Initiative' (BC). These companies have an interest of implementing BC globally, most probably through regional standards/criteria. There is a need for an African BC implementation. GIPD or an equivalent cultivation methods could be the basis.

5. We do not see a business case for chain-of-custody certification and/or labelling for the category 2 retailers (risk minimisers). The relatively high costs will not be justified by the relatively low consumer value it will create. We do see a possibility for public relations and branding activities on the basis of sponsoring West African sustainable cotton projects (such as GIPD and GAP) by well-known brands.

6. For the retailers of category 3 (integrated supply chains), we do not see clear possibilities in West Africa before a more integrated textile sector has been set up.

7. The retailers of category 4 should continue to expand their volumes of organic and organic-Fair Trade cotton from Africa, help the farmers improve their methods and promote project that monitor sustainability improvements. The supply chain is company to company (approach A).

8. We see an important role for cotton companies and traders who have established joint ventures with cotton companies. They should play a central role in implementing the West African projects. There is a clear business

case for them: it contributes to their prolonged 'licence to operate' and it helps them develop new markets.

9. Complementary to the projects aiming at improving the sustainability of cotton cultivation, there is a need for improving quality assurance of African cotton, most probably in the framework of existing UNIDO initiatives.

10. For promoting GIPD, GAP or 'better' cotton, a project for defining and implementing West African better cotton standards should start as soon as possible. Private partners will be large retailers, cotton traders and cotton companies. Cooperation with CMIA is an interesting option, especially with regard to base-line studies and monitoring improvement.

11. More details have been worked out in the Business Case report, see Annexe.

# LIST OF INTERVIEWS

Here we only list a number of long interviews. A number of shorter phone calls and occasional meetings have not been included.

| Company /Organisation | Interview Partner | Date | M = meeting P = phone interview |
|---|---|---|---|
| Cotton Companies / Traders | | | |
| Reinhart AG Winterthur | Reinhart<br>Curt Arbenz<br>Ulrich Siegrist<br>Raymond Neuschwander | 21 Dec 2005 | M |
| Dunavant<br>Geneva | David Cavalleri<br>Rickard Laurin | 22 Dec 2005 | M |
| Plexus Ltd<br>Liverpool | Peter Salcedo | 26 Jan 2006 | P |
| DAGRIS<br>Paris | add names here | 14 Dec 2005 | M |
| Brands / Retailers | | | |
| Walmart Stores<br>Bentonville USA | Tyler Elm | 6 Jan 2006 | P |
| GAP<br>San Francisco | Liz Muller | 20 Dec 2005 | P |
| Ikea<br>Sweden + Gelterkinden CH | Anna Nilsson | 4 Jan 2005 | P |
| H&M<br>Stockholm | Ingrid Schullström | 9 Jan 2005 | P |
| Otto Group<br>Hamburg | Gerd Billen<br>Tina Stridde | 19 Jan 2006 | P |
| Marks & Spencer<br>London | Graham Burden | 5 Jan 2006 | P |
| Migros<br>Zürich | Roland Wöhr | 20 Jan 2006 | P |
| | | | |

| Other Organisations | | | |
|---|---|---|---|
| WWF – Better Cotton Initiative<br>Zeist NL | Richard Holland | 9 Nov 2005<br>(in Leiden NL) | M |
| FSAF – Cotton Made in Africa<br>Hamburg | Johannes Merck | 7 Dec 2005 | M |
| Helvetas<br>Zürich | Jens Soth | 10 Nov 2005<br>31 Jan 2006 | M<br>P |
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## Annexe I: Questions to Cotton Traders

## Annexe II: Questions to Retailers

→ separate documents