



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

Date: 12/2/2008

GAIN Report Number: SG8020

Senegal

Cotton and Products

C-4 Cotton Reform and Production Update

2008

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Report Highlights:

--- This is a resubmission of the original report with minor corrections and updates. --- Cotton production and reform is mixed across the region for the 2008/09 campaign despite good rains and relatively higher producer prices. Cotton production in Mali continues to decline in the midst of financial troubles of CMDT, the state-owned cotton company. Meanwhile, Benin has further privatized ownership of SONAPRA. Burkina Faso remains the largest producer in the region, increasing area and yields despite strong competition from cereal crops. Despite recent investments in research and extension in Chad, the sector remains state owned with farmers achieving low yields and low returns.

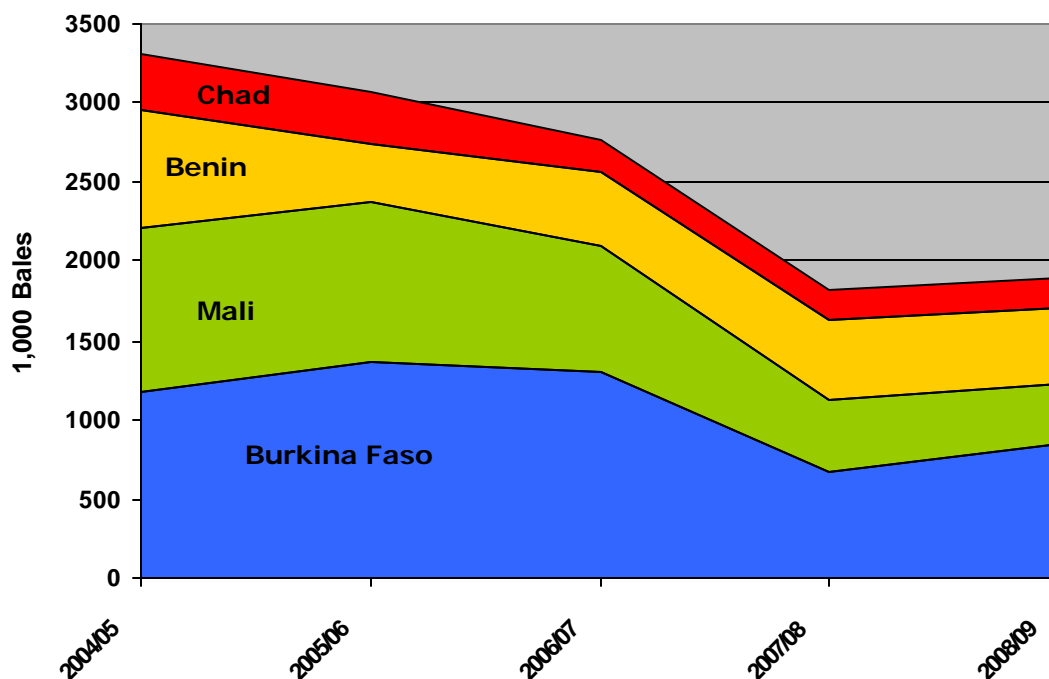
Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
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Executive Summary

Cotton production and reform is mixed across the region for the 2008/09 campaign despite relatively good rains and relatively higher prices. Some countries experienced a late onset of rains and most countries experienced the annual delay in the distribution of fertilizers and pesticides. While input prices increased again significantly, there was also increased competition for inputs from food crops which don't benefit from the same credit and distribution system afforded to many cotton producers. High cereal prices also encouraged many farmers to increase cereal cultivated area ([See SG8019 West Africa Regional Agricultural Production Update](#)). Burkina Faso is the only country that will definitely increase production year-to-year, and by just enough to offset declines in other countries. Cotton production in Mali remains at historic lows in the midst financial difficulties of CMDT, the State cotton company. Meanwhile, Benin has further privatized ownership of SONAPRA and is expected to harvest a relatively normal crop. Burkina Faso remains the largest producer in the region, increasing area and yields despite strong competition from cereal crops. In Chad the government has reinitiated funding to agricultural research and extension in support of the cotton sector, however farmers continue to record low yields and returns.

Summary of Cotton Production in C-4 Countries



C-4 Cotton Production (1,000 480 lb bales)	2004/05	2005/06	2006/07	2007/08	2008/09*	2008/09 change compared to 2004/05
Burkina Faso	1,180	1,367	1,300	675	850	(28%)
Mali	1,026	1,003	792	450	395	(62%)
Benin	750	367	475	500	460	(39%)
Chad	350	335	200	190	190	(46%)
Total	3,306	3,072	2,767	1,815	1,895	(43%)

Note: The 2008/09 figures are Post estimates and not official USDA numbers.

Burkina Faso

Production

Cotton production in Burkina Faso fell by nearly 50 percent in 2007/08 due to a number of factors. World cotton prices were low, requiring the inter-professional cotton association to announce producer prices at 145 CFA/kg – the lowest level in recent history across the region. Isolated dry areas as well as areas affected by flooding also contributed to the smallest cotton crop in recent memory for Burkina Faso. After an extremely disappointing year in 2007/08, cotton production in Burkina Faso is expected to rebound to approximately 850,000 bales in 2008/09. Despite the late onset of rains in Burkina Faso, they were generally adequate and well distributed. Strong competition from cereal crops, which offered relatively high returns, limited Burkina from achieving its target area for cotton production. While the objective was to plant over 600,000 ha, it appears as if area will be closer to 440,000 ha. For the 2008 production season the producer price was increased to 165 CFA/kg and the producers benefited from a subsidy on seed and fertilizer of about \$15 million. Yields are expected to be higher this year due to the combination of better rains and the availability of subsidized fertilizer. Burkina Faso planted 8,000 ha of Bt cotton in 2008/09.

Reform

Cotton production in Burkina Faso is semi-privatized, and is often cited as a model of reform away from the old vertically integrated state-owned cotton companies. Privatization of the cotton sector in Burkina Faso began in 1998 when the Government sold some of its shares to the producers' organization (UNPCB). The subsequent partial privatization of the cotton sector in Burkina Faso created three regional cotton companies. SOFITEX, the core of the former parastatal, owns 13 gins making up approximately 80 percent of the ginning capacity. Faso Coton was formed in 2004 and operates in the central region with its single gin located in Ouagadougou. SOCOMA, which operates 3 gins in the eastern region, is the second private company created in 2004. After three consecutive years of significant losses from 2005 to 2007, the three cotton companies initiated a recapitalization process. DAGRIS – which is a French Parastatal and former shareholder in many African cotton and oilseed companies that was privatized in January of 2008 (becoming Geo Coton in January of 2008) - did not participate in the recapitalization of its shares in SOFITEX. The government of Burkina Faso assumed those shares and subsequently created a financial institution called "*Fonds Burkinabe de Développement Economique*" to broker the sale of the shares to the private sector. Geo Coton is also the largest shareholder of SOCOMA. Currently the government has resumed control over 65 percent ownership of SOFITEX.

Burkina Faso has one of the better organized farmer producer organizations, which have national, departmental and provisional representation. At the village level farmers are organized into producer groups, and it is the group which receives input credit from the cotton companies. The Inter-Professional Cotton Association, which directs many key policy decisions such as setting the cotton and input prices, has established a smoothing fund which is intended to protect producers and ginners from large price fluctuations. The fund is financed by assistance from the EU, the French Development Agency, and is sustained by payments made by the cotton companies.

Burkina Faso Cotton PSD

Burkina Faso Cotton (1,000 480 lb bales)	2006		2007		2008	
	2006/2007		2007/2008		2008/2009	
	Market Year Begin: Aug 2006		Market Year Begin: Aug 2007		Market Year Begin: Jun 2008	
	Annual Data Displayed	New Post	Annual Data Displayed	New Post	Annual Data Displayed	Jan
		Data		Data		Data
Area Harvested	700	700	400	400	500	440
Beginning Stocks	360	360	306	306	202	102
Production	1300	1300	675	675	950	850
Total Supply	1660	1660	981	981	1152	952
Exports	1350	1350	775	875	900	900
Use	4	4	4	4	4	4
Ending Stocks	306	306	202	102	248	48

Mali

Production

Cotton Production in Mali has fallen dramatically over the past three campaigns after topping 1 million bales in both 2004/05 and 2005/06. The rapid decline can be characterized as a crisis as it puts the future of the cotton sector in Mali into question. The decline can be attributed to low prices, lack of producer payments, anxiety over the imminent privatization of the *Compagnie Malien Pour le Développement des Textiles* (CMDT) as well as the fact that Malian farmers have alternatives – as demonstrated by their excellent level of cereal production in recent years. For the 2008/09 campaign, rains developed relatively late and were below expectations through July in many cotton growing areas. Rains in August and Sept were normal to excellent. Despite the pre-season announcement of the seed cotton price to 200 CFA/kg from 165 CFA/kg, planted area declined to approximately 210,000 ha - more than 50 percent below the target of 450,000 ha. This is the lowest cotton acreage planted in Mali in 25 years. Cotton production is forecast to fall to 395,000 bales in 2008/09, although it could fall below 350,000 bales. The significant decline in area planted can be largely attributed to a loss in confidence in CMDT. CMDT still owes many producers for the 2007/08 crop.

Reform

With encouragement from the World Bank, African Development Bank and other interested donor governments, such as the EU (primarily France and the Netherlands) and the United States, the *Mission de Restructuration du Secteur Coton* (MRSC) has been overseeing the privatization process for several years. While the time-line for the ultimate privatization of CMDT continues to slip, a major step was made on August 1, 2008 when the National Assembly adopted the law governing the privatization. Currently the state holds 92.4 percent of the total value of CMDT capital while Geo Coton (formerly DAGRIS) holds the remaining 7.6 percent. The privatization (now targeted for 2009) will create four new companies and reduce the share of the state to 17 percent. The remaining shares will be held by the private sector (61%), the cotton producers (20%) and the workers (2%). The privatization law also creates an Office of Cotton Classing and an Inter-professional Cotton Association. Originally producers were intended to be organized into Producer Cooperatives

and receive regular communication and training on the privatization – this process seems to have lagged with the rest of privatization. It is not clear to what extent this has taken place. As the privatization nears its completion, the financial health of CMDT and that of its assets continues to deteriorate. Many farmers and rural leaders remain adamantly opposed to the privatization, despite the deterioration of management and services (and payments) provided by CMDT to producers. In addition to the funds needed to pay producers and procure inputs, (and collect and gin the 2008 crop) additional funding is needed to establish the structures needed to continue the privatization – such as the establishment of the Cotton Classing Office, the Inter-Professional Cotton Association and the severance and/or benefits for the cotton workers. Meanwhile, international banks that were part of the banking pool to finance the payments to producers and the procurement of inputs have ceased to participate. This means that national banks, the government, and/or international donors will need to provide the capital needed to keep the sector afloat. If this financing is not available in time to finance 2008 farmer payments and inputs for the 2009 crop, it is difficult to envision how the sector will recover.

Mali Cotton PSD

Mali Cotton (1,000 480 lb bales)	2006			2007			2008		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Aug 2006			Market Year Begin: Aug 2007			Market Year Begin: Jun 2008		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Harvested	460		460	284		284	250		207
Beginning Stocks	271		271	190		190	117		67
Production	792		792	450		450	460		395
Total Supply	1063		1063	640		640	577		462
Exports	850		850	500		550	435		400
Use	23		23	23		23	25		23
Total Dom. Cons.	23		23	23		23	25		23
Ending Stocks	190		190	117		67	117		39

Benin

Production

Benin is also well below its target cotton cultivated area for 2008/09 due to perpetual delays in the procurement and distribution of fertilizers and pesticides. Down from a target of 300,000 ha, Benin is forecast to have planted approximately 205,000 ha. Production for 2008/09 is forecast at 460,000 bales, down slightly from production of approximately 500,000 bales in 2007/08. Due to the food inflation crisis that swept across the globe in late 2007, the price of corn – a key staple in Benin – rose dramatically. Thus, during the 2008 campaign, cotton competed with cereal and food crops for inputs and land. Rains were good, and yields are expected to be slightly above average.

Reform

On September 18, 2008 the government of Benin (GOB) announced the successful partial-privatization of the former state-run cotton gin the National Society for Agricultural Promotion (SONAPRA). The *Société Commune de Participation* (SCP) was provisionally declared the successful bidder. As a result, a public-private joint venture called the *Société Pour le Développement du Coton* (SODECO) will be created which will retain 33.5 percent ownership. The remaining shares will be held by the GOB (33.5%) and private sector (33%). In November of 2007 the GOB cancelled a privatization that had selected the same company on the grounds that the process was plagued with irregularities.

Benin Cotton PSD Table

Benin Cotton (1,000 480 lb bales)	2006			2007			2008		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Aug 2006			Market Year Begin: Aug 2007			Market Year Begin: Aug 2008		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Harvested	231		231	234		234	260		205
Beginning Stocks	183		183	148		148	138		88
Production	475		475	500		500	575		460
Total Supply	658		658	648		648	713		548
Exports	500		500	500		550	550		500
Use	10		10	10		10	10		10
Total Dom. Cons.	10		10	10		10	10		10
Ending Stocks	148		148	138		88	153		38

Chad

Production

Cotton area in Chad is officially between 210,000 and 225,000 ha. Our forecasts for the past three years are based on a smaller area – between 165,000 and 175,000 ha as much of the cotton grown is not collected, and some fields are abandoned due to drought, floods, poor quality seeds and/or lack of inputs. As a result yields in Chad are also very poor. In 2007/08 approximately 100,000 tons of cotton was ginned resulting in production of about 190,000 bales. For 2008/09, many growers were discouraged from planting cotton as they remain to be paid for the 2007/08 crop. While some producers have opted out of cotton, others remain encouraged by the increase in the farm gate price of cotton from 160 CFA/kg in 2007/08 to 190 CFA/kg in 2008/09. The Post forecast for 2008/09 is for acreage to decrease slightly, which will be offset by a slight improvement in yields.

Reform

Cotton is grown in southern Chad, and while it is a major export earner for the country, the sector lacks the organization and financing needed to maintain its place in the economy. The government of Chad remains the largest shareholder of the cotton company, Coton Tchad. Presumably Geo Coton assumed the 19 percent share previously owned by DAGRIS before its privatization in January of 2008.

With the assistance of the World Bank and other donors, Chad developed a privatization roadmap in 2005. In 2007 Chad took a number of concrete steps to improve the financial health of Coton Tchad ([see GAIN Report SG7022](#)). Despite the rebel attack on the capital of Ndjamena in February of 2008, the state has reinitiated financial support to agriculture research and extension for the cotton sector.

Chad Cotton PSD Table

Cotton Chad (1,000 480 lb bales)	2006		2007		2008	
	2006/2007		2007/2008		2008/2009	
	Market Year Begin: Aug 2006		Market Year Begin: Aug 2006		Market Year Begin: Jun 2008	
	Annual Data Displayed	New Post	Annual Data Displayed	New Post	Annual Data Displayed	New Post
		Data		Data		Data
Area Harvested	250	175	200	180	180	175
Beginning Stocks	93	93	63	63	43	23
Production	200	200	130	190	175	190
Total Supply	293	293	193	253	218	223
Exports	215	215	135	215	155	165
Use	15	15	15	15	15	15
Ending Stocks	63	63	43	23	48	33