



COTTON AND TEXTILE REGIONAL TRADE POLICY PAPER

Proposals for a regional policy
platform in support of
regional value chain



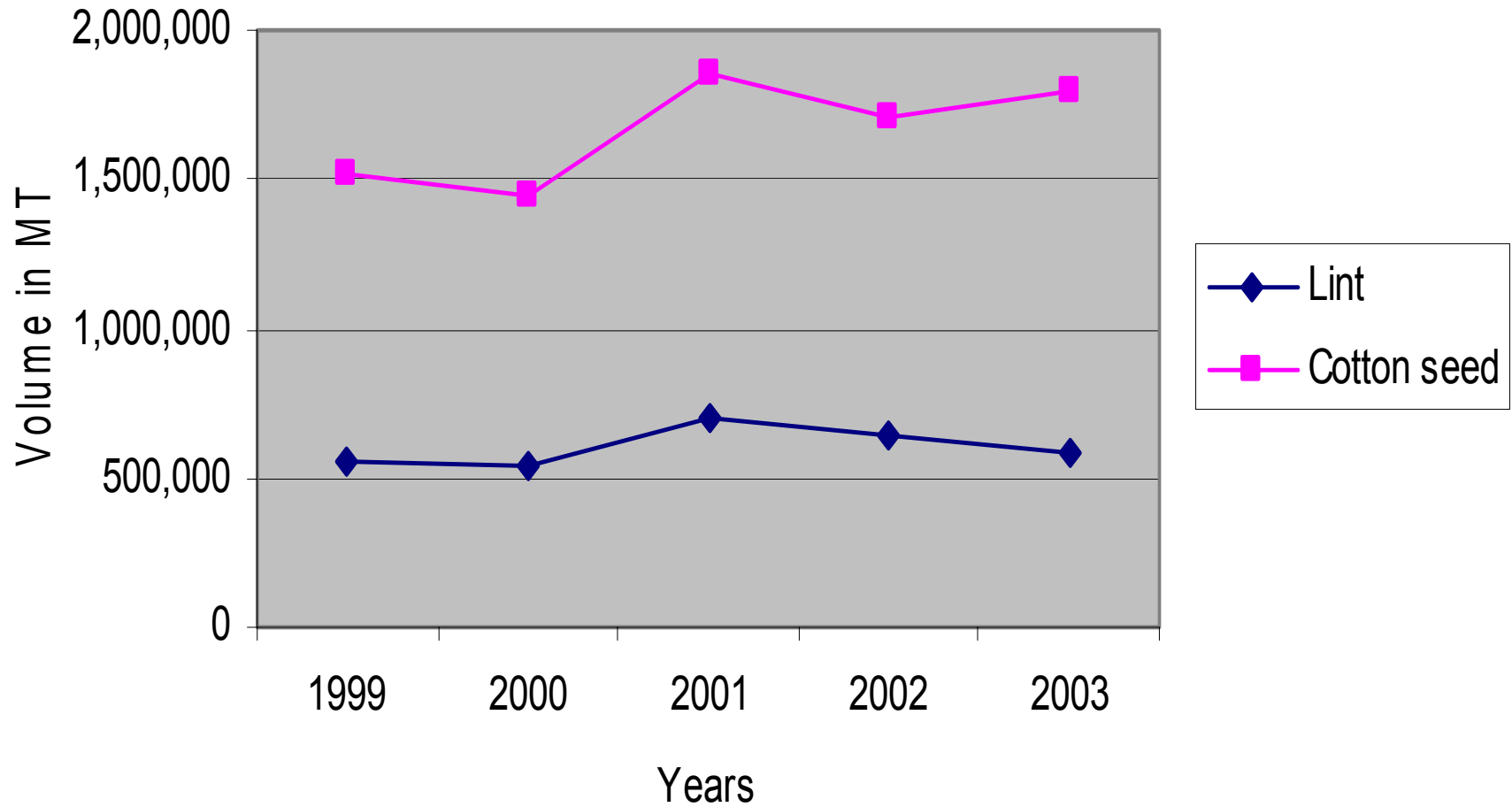
Introduction

- ◆ The study is a collaborative effort of COMESA, EAC and RATES
- ◆ It is stimulated by the challenges facing the cotton and textile sector, key among them being: -
 - Disconnect in the regional value chain as revealed by the paradox of intra regional imports verses extra regional imports
 - Global developments on the cotton and textile trade which compel the search for a regional strategy to keep the sector afloat
- ◆ The study covered 11 countries – Egypt, Ethiopia, Kenya, Malawi, Madagascar, South Africa, Tanzania, Uganda, Zambia and Zimbabwe. These countries account for about 90% of ESA region's trade in cotton and textiles

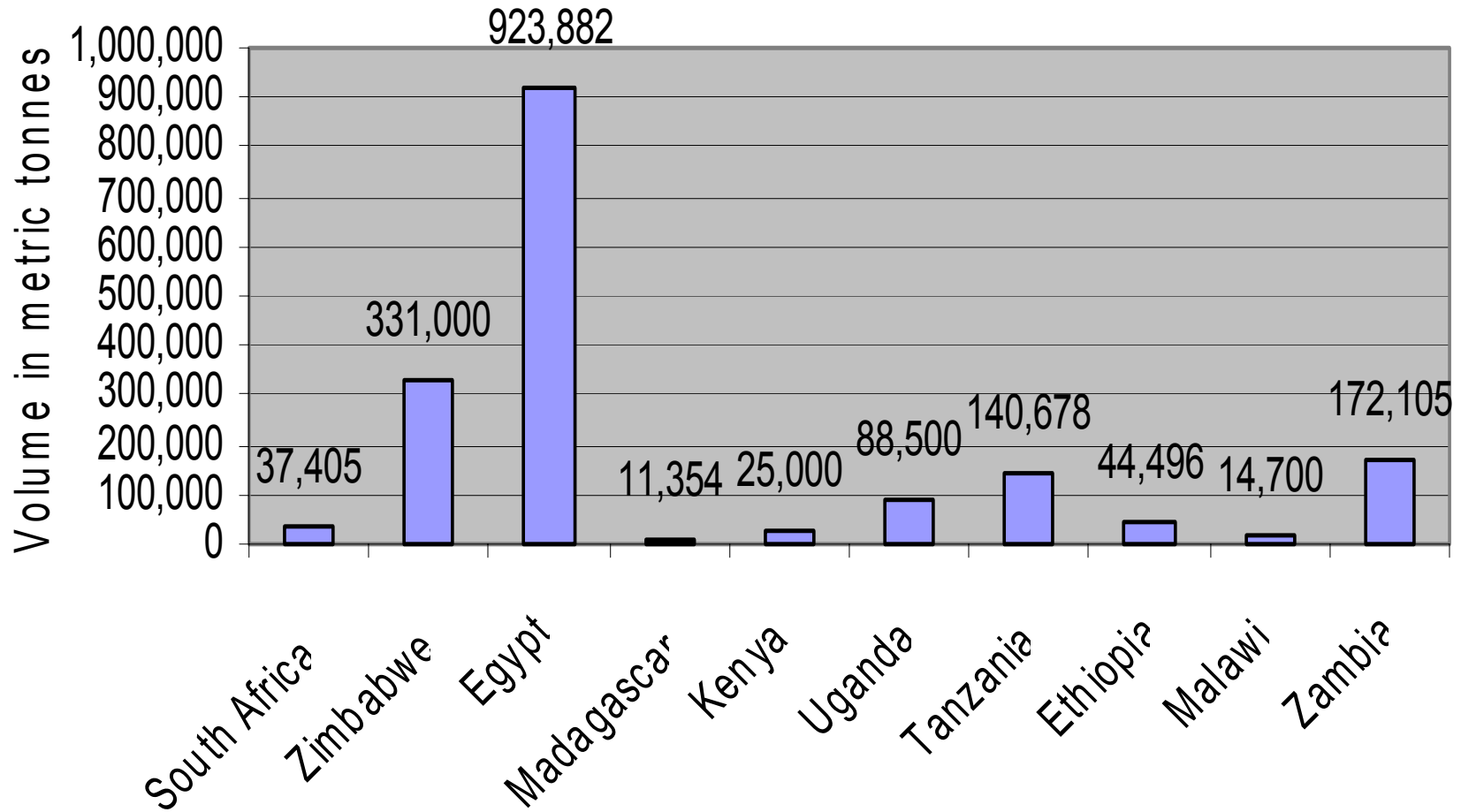
Study objectives

- ◆ Establish the region's capacity to supply seed cotton, lint, yarn, fabric, and garments
- ◆ Evaluate trade performance and demand/supply situation of cotton lint, yarn, fabric, and garments by undertaking the following analysis:
 - ◆ 3. Document cotton and textile trade policies and regulations, and their effect on the export and import trade.
 - ◆ 4. Propose policy recommendations in support of increased intra and extra regional trade in cotton and textile products

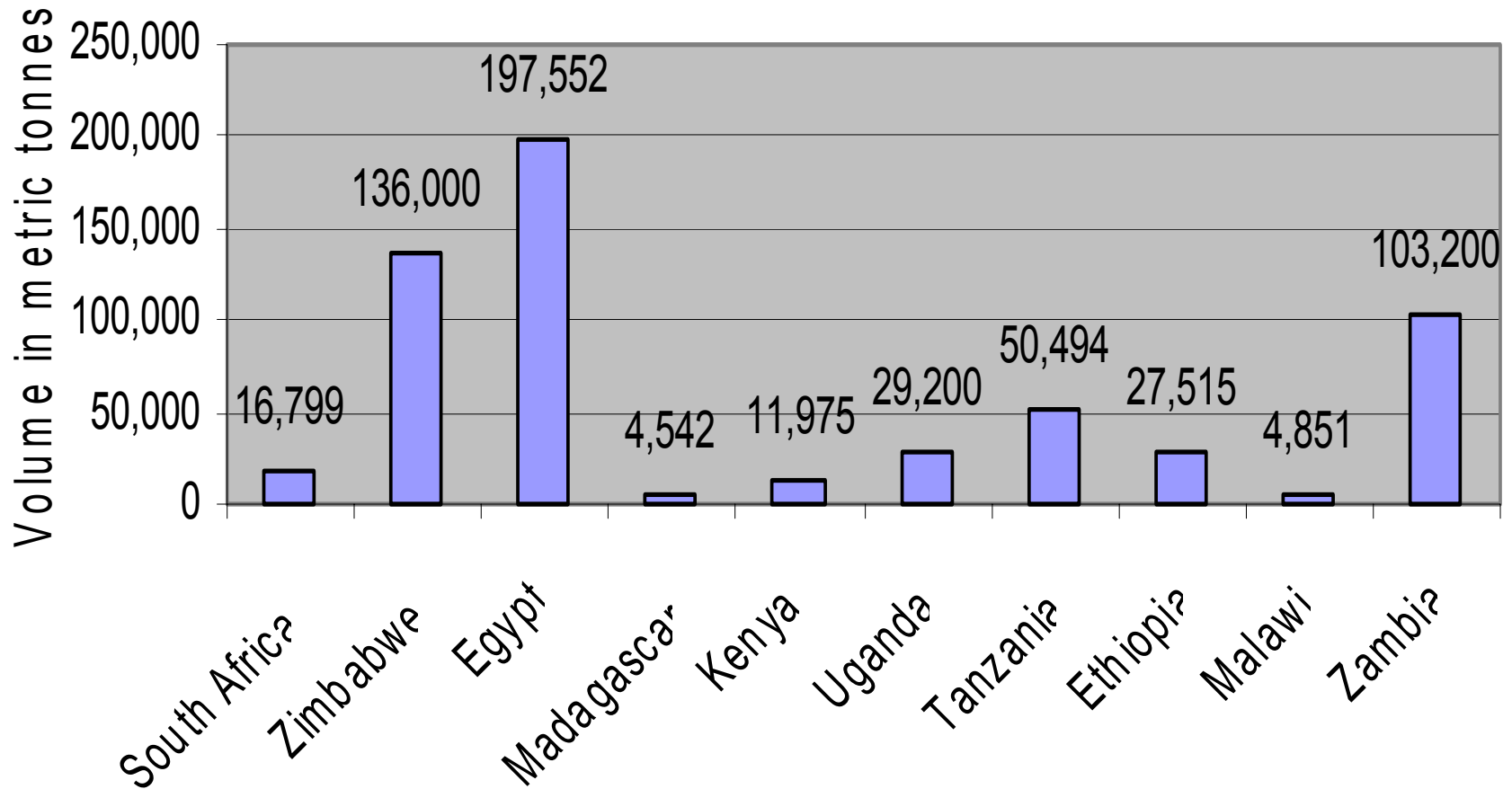
Cotton seed and lint production in lead EAC, COMESA and SADC Countries (1999-2003)



Cotton production by sample countries in year 2003



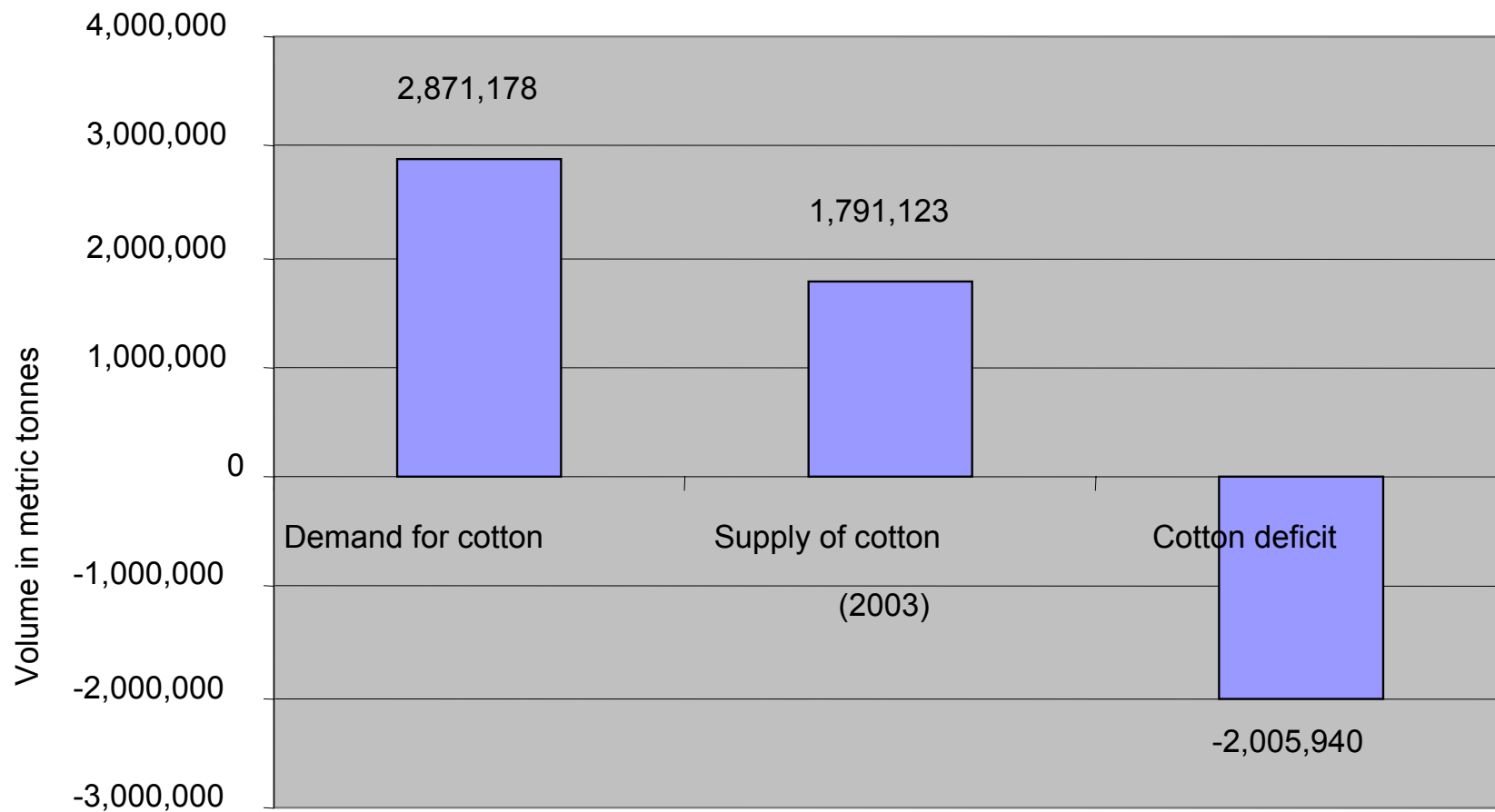
Cotton Lint production by lead producing countries in COMESA, EAC and SADC in year 2003



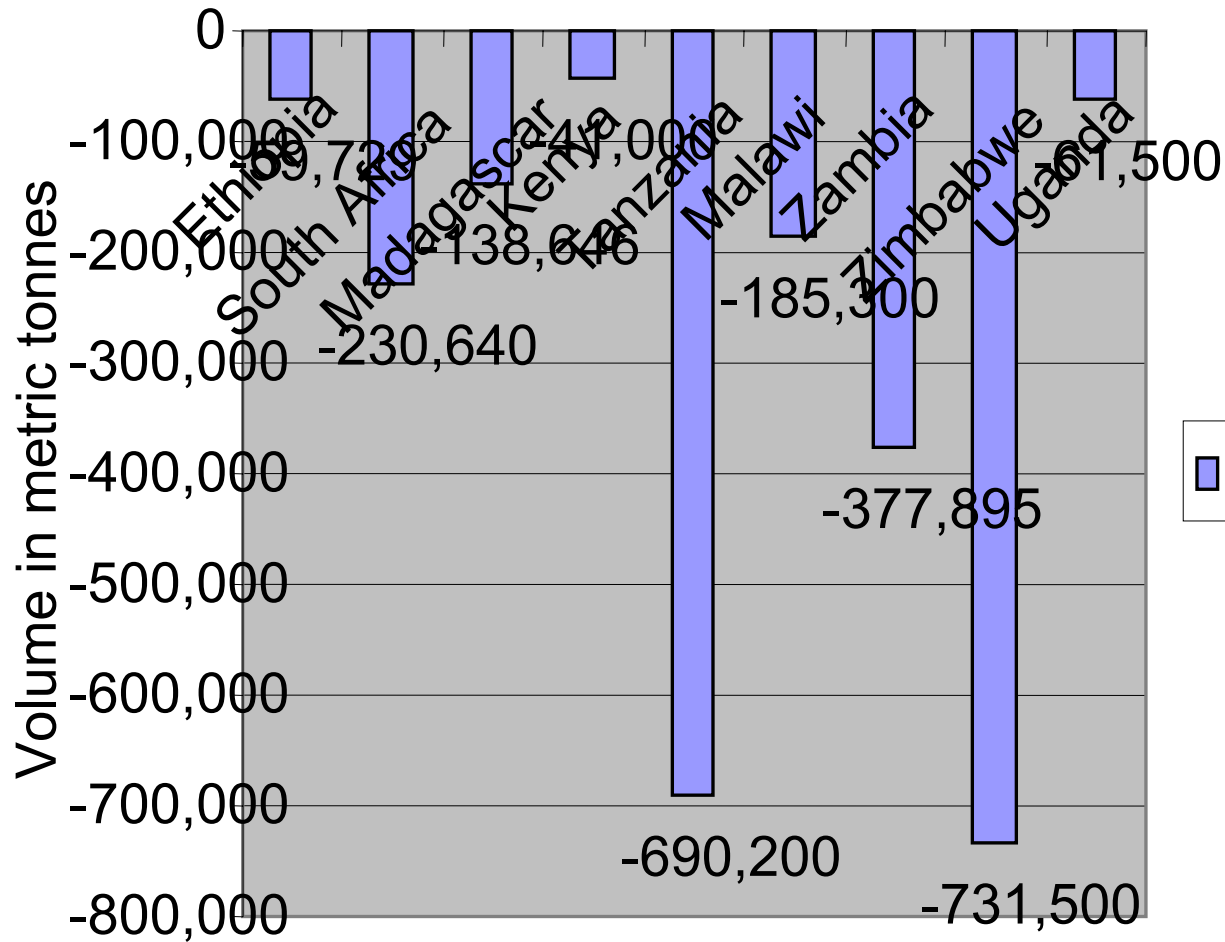
Capacity Utilization in Ginning Sector (2003)

	Installed Capacity (per annum)	Utilized Capacity (per annum)	Capacity Utilization
Ethiopia	41,690	20,845	50%
South Africa	107,218	77,198	72%
Madagascar	60,000	12000	20%
Kenya	26,400	3,400	13%
Tanzania	332,351	85,436	26%
Malawi	80,000	44,000	55%
Zambia	220,000	172,105	78%
Zimbabwe	425,000	178,000	42%
Uganda	60,000	12,000	20%
Total	1,148,471	698,661	38% (Average)

Cotton demand-supply situation in selected COMESA, EAC, SADC Region in 2003



Cotton deficit in selected COMESA, EAC and SADC countries



Capacity Utilization in Spinning and Weaving Sub-sectors (2003)

	Installed Capacity (per annum)	Utilized Capacity (per annum)	Capacity Utilization
Yarn			
South Africa (Spindles)	638,000	280,000-550,000	78-84%
Egypt (MT/yr)	197,809	146,680	74.2%
Madagascar (Spindle)	18,702	15,149	81%
Kenya (million sq. m)	30	20	67%
Tanzania (MT/yr)	64,355	26,841	41.7%
Malawi (square metres)	70,000,000	3,000,000	4.3%
Zambia (MT)	18,440	10,200	55.3%
Zimbabwe (MT)	39,000	27,000	69%
Mauritius (MT)	8,400	6,720	75-80%
Fabric			
South Africa (Looms)	2,780 Looms (weaving); 1860 machines (knitting); finishing	1,779 Looms (weaving); 1,190 machines (knitting); finishing	Average: 64%
Egypt (US\$)	106,472	96,793	91 %
Kenya (sq. m)	115,000,000	83,000,000	72%
Tanzania (Linear m.)	234,069,600	143,560,971	61%
Malawi (sq m)	60,000,000	0	0%

Highlights of constraints at production level

Cotton

- ◆ High production costs, lack of institutional mechanism to support cotton development, capital

Lint

- ◆ Obsolete technology
- ◆ Insufficient supply of seed cotton

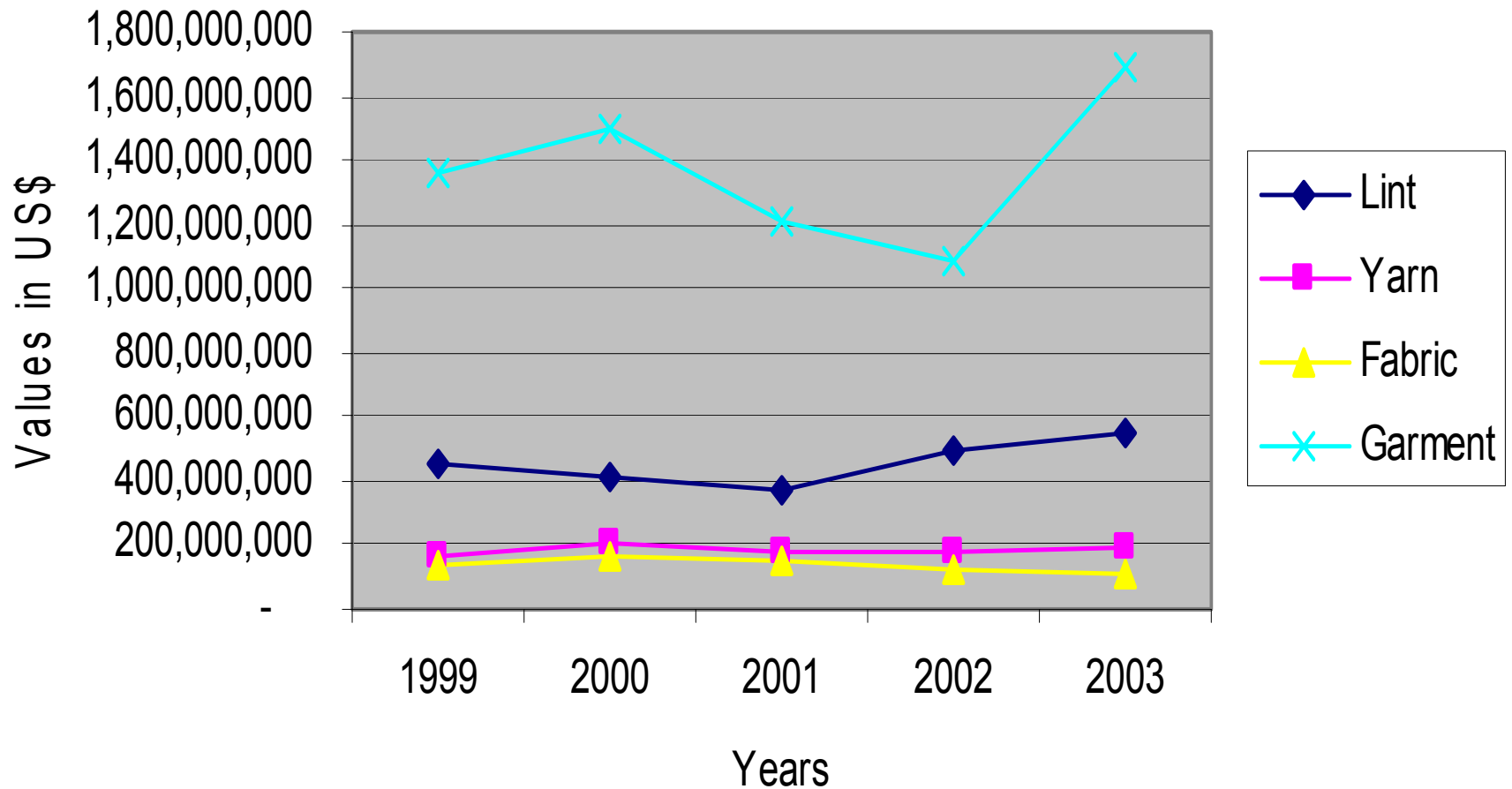
Yarn

- ◆ High cost of production
- ◆ Competition from imported products
- ◆ Obsolete technology
- ◆ Inadequate supply of skilled labour

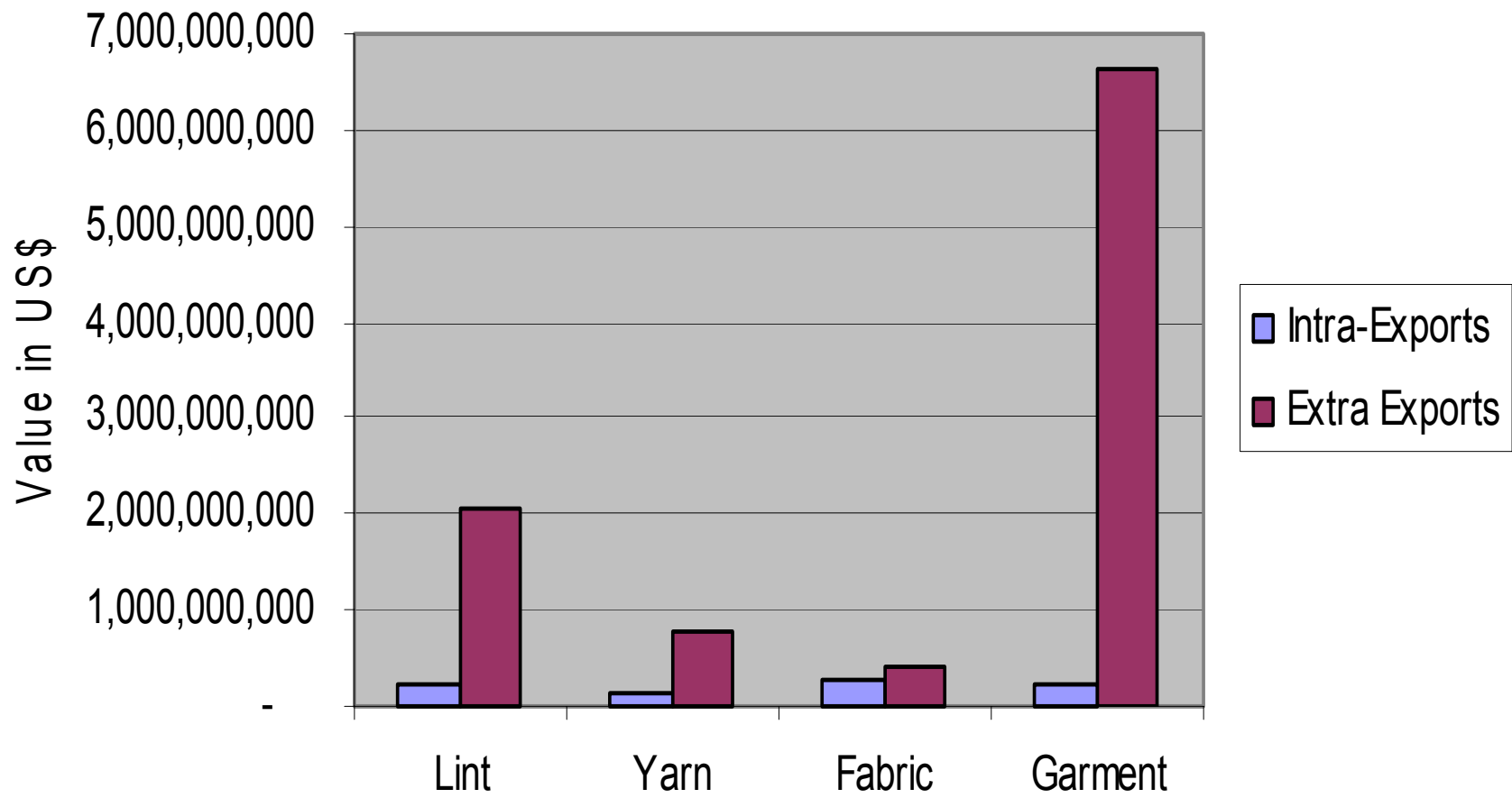
Fabric

- ◆ High cost of production
- ◆ Competition from imported fabric

Export performance (for selected COMESA, EAC and SADC countries) for the period 1999-2003

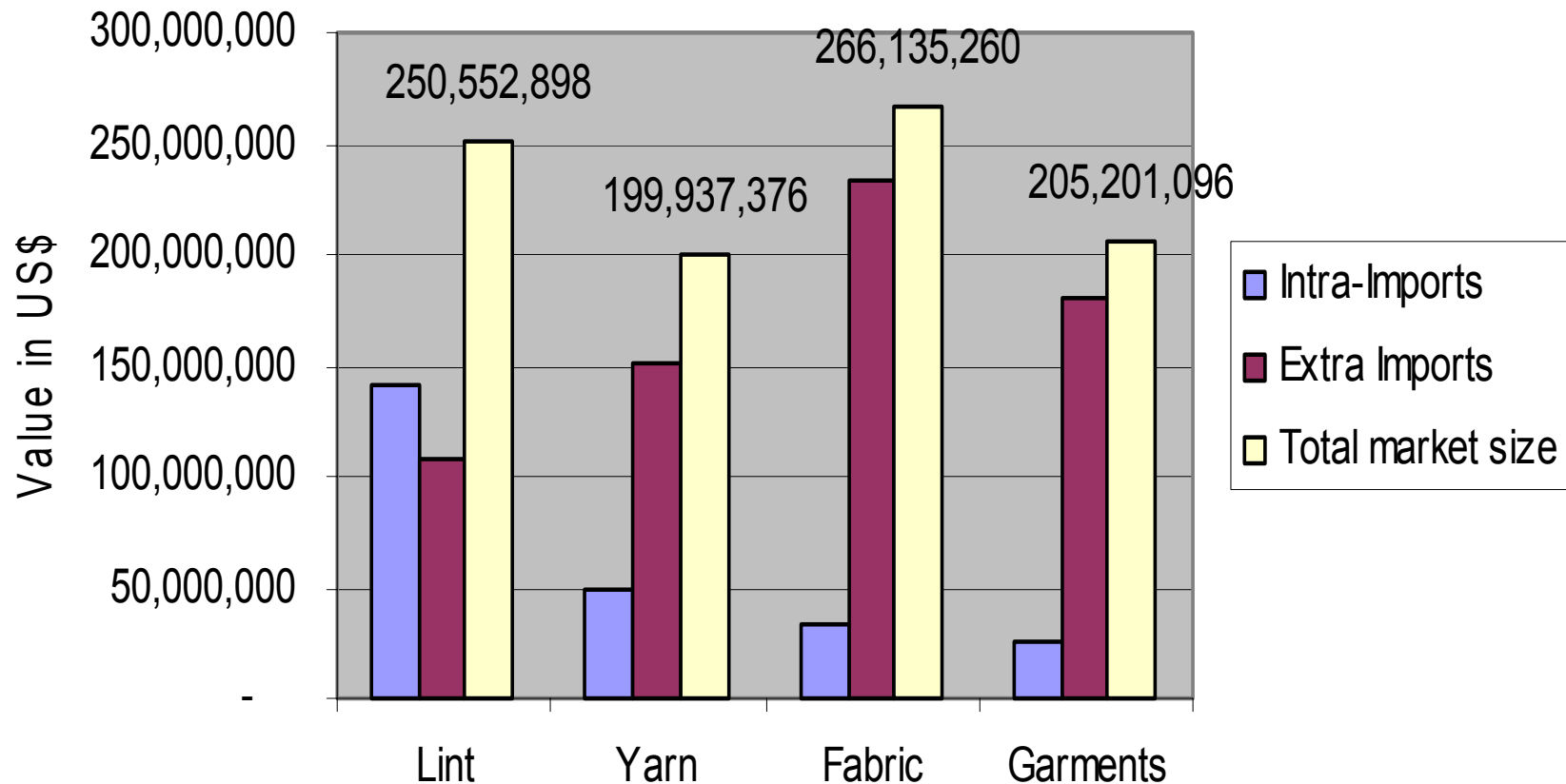


Intra Versus Extra Exports of cotton lint, yarn, fabric and garments for select COMESA, EAC and SADC countries (1999-2003 cumulative total)

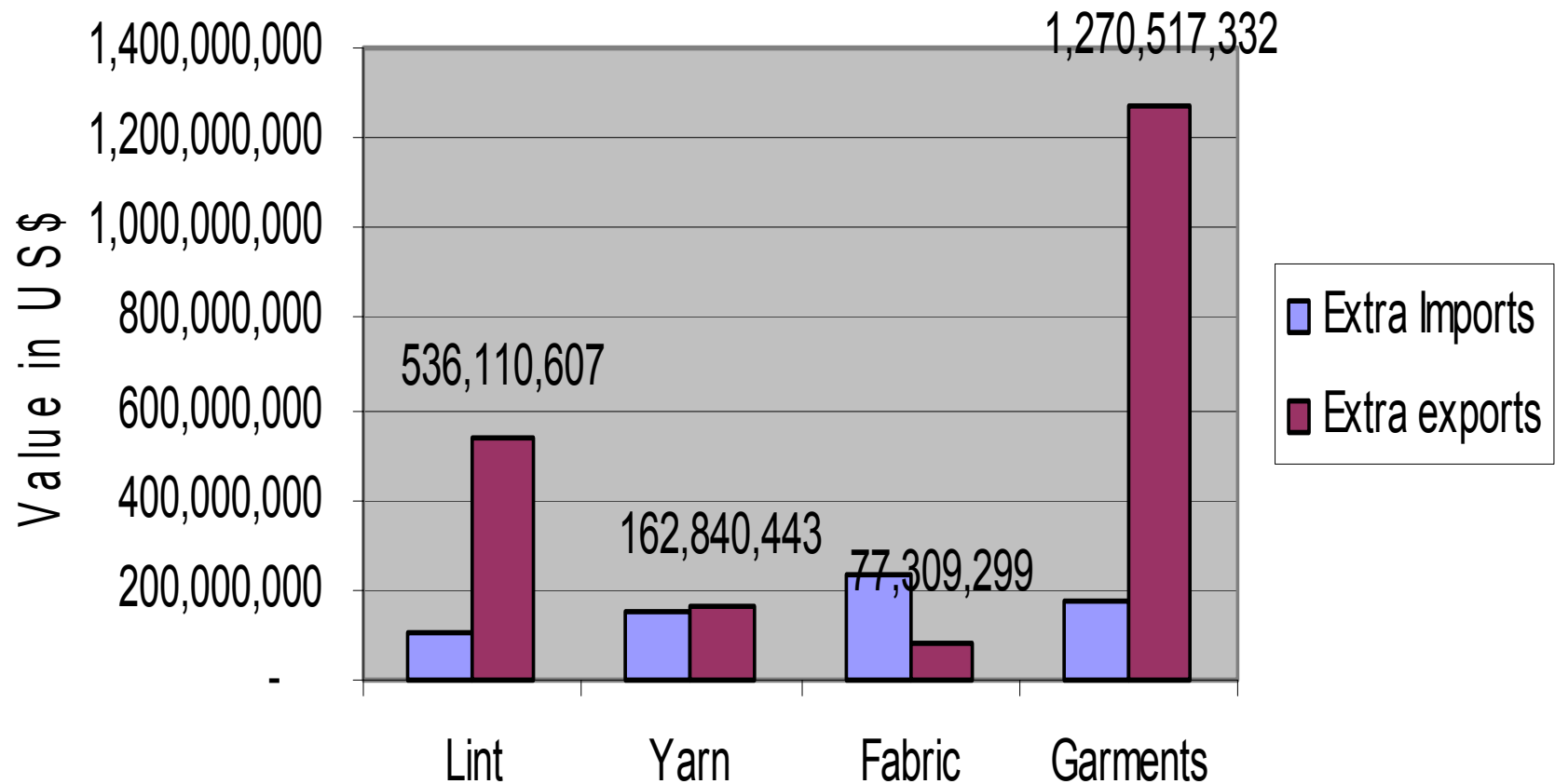


Regional Market Potential

Selected countries (in COMESA, EAC and SADC) market size for lint, yarn, fabric and garment (year 2003)



Regional capacity (for selected COMESA, EAC and SADC countries) to meet regional demand for lint, yarn, fabric and apparel (2003)



Trade Policy and Regulatory Concerns

- ✦ Tariff and non-tariff charges
- ✦ (SPS) requirements - especially on genetically modified organism (GMO) restrictions on lint and cotton
- ✦ Non-admissibility of exports from trade and investment promotion schemes, and from export processing zones (EPZs), into the regional market on preferential terms (Applicable to EAC).
- ✦ Customs documentation requirements and procedures

Cotton, textiles and garments	HS Code	CET	CET on sensitive products
Cotton not carded or combed.	5201	0%	None
Cotton carded or combed.	5203	0%	None
Cotton Yarn	5205,5206, 5207	10%	None
Woven Fabric of Cotton	5208,5209, 5210, 5211 and 5212	25%	50%
Articles of apparel and clothing accessories, not knitted or crocheted	6201, 6202, 6203, 6204, 6205, 6206, 6207, 6208, 6209, 6210, 6211, 6212, 6213, 6214, 6215, 6216, 6217	25%	50%

Policy Recommendations

Tariff and non tariff charges

- Zero rate intra-regional (through out COMESA, EAC & SADC) imports of cotton, lint, fabric and apparel
- Rationalize non tariff charges with view to eliminating trading distorting charges

Rules of Origin

- COMESA, EAC and SADC should review the origin conferring criteria on temporary basis to safeguard apparel companies that are using 3rd country fabrics. Pursue this policy on the basis of a concrete regional program in support of fabric production.

Policy Recommendations (Cont'd)

Trade related investment schemes and regional trade

COMESA, EAC, and SADC need to explore possibilities for: -

- Harmonize their policy on intra-regional trade of products originating from EPZ schemes and other trade-related investment schemes.
- Increase the volume of EPZ products (this could be limited to intermediate products such as lint, yarn, and fabric) allowed into the domestic market. A formula for leveling the playing field for non-EPZ companies producing similar products for the domestic market would be required as an integral part of this policy.

Policy Recommendations (Cont'd)

Sanitary and phytosanitary requirements on GMO

- The SPS Authorities in COMESA, EAC, and SADC need to formulate a regional policy on GMO.



Policy Recommendations (Cont'd)

Customs regulations and procedures for import/export trade

- ◆ Implementation of the COMESA/EAC Council of ministers decision on PSI requirements
- ◆ One stop shop concept in customs clearance

Export-import controls/restrictions

- ◆ An industry driven regional mechanism is needed for containing the incidence of foreign matter contamination in cotton lint (e.g. polypropylene) which has a negative effect on national and regional reputation