



ZAMBIAN COTTON SECTOR: HOW CAN IT BE SUSTAINED AMIDST BOOMS AND SLUMPS?

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Presentation at the Cotton Stakeholders' Meeting

Golden Peacock Hotel Lusaka

12th May, 2014

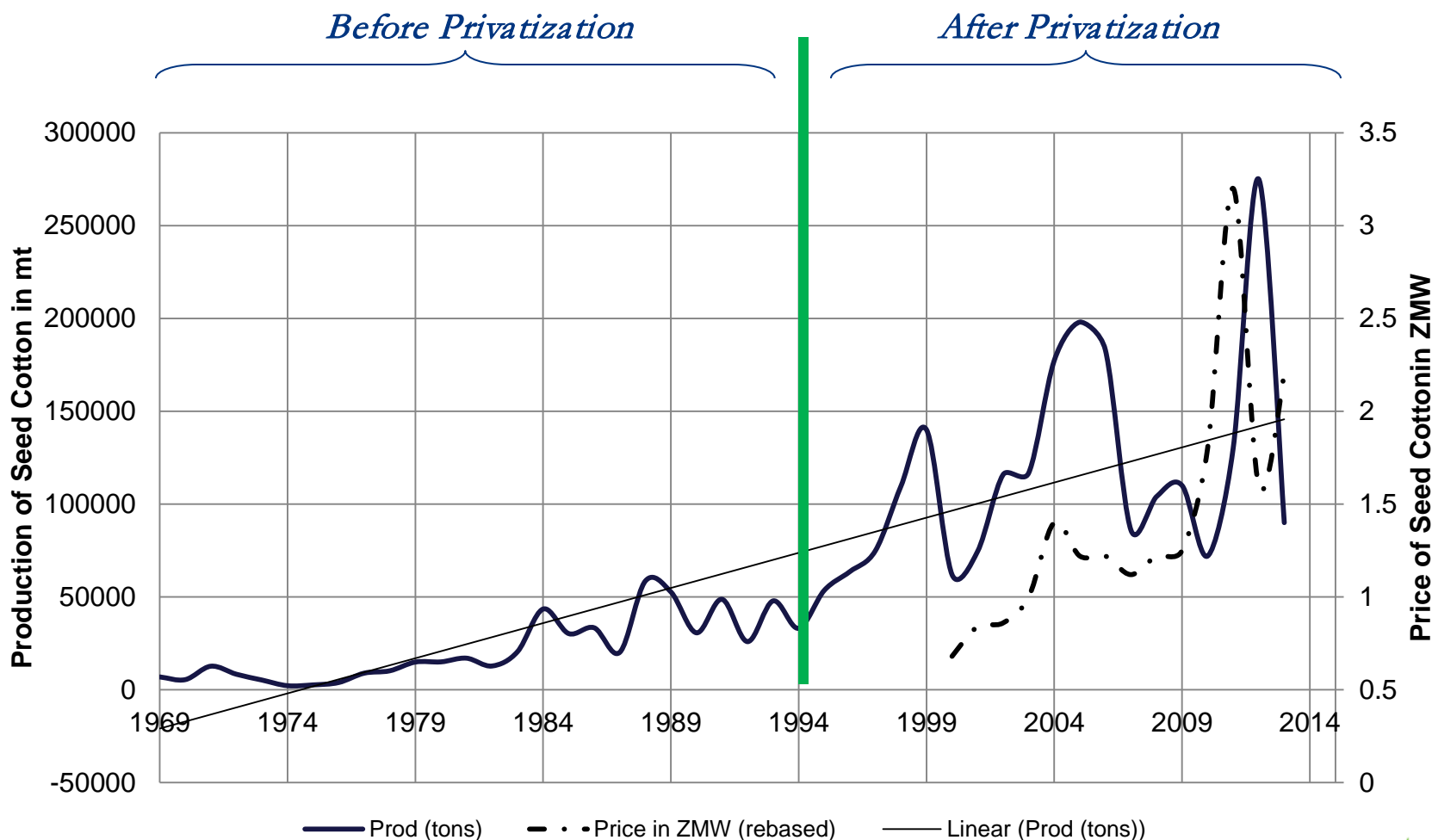
Outline

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- Overview of Zambia's Cotton Sector
 - Boom followed by crisis
- Linking cotton sector performance to sector type
 - Competition – coordination trade off
- Linking regulatory approaches to sector type
 - Cotton Act
 - CCP
- Way forward

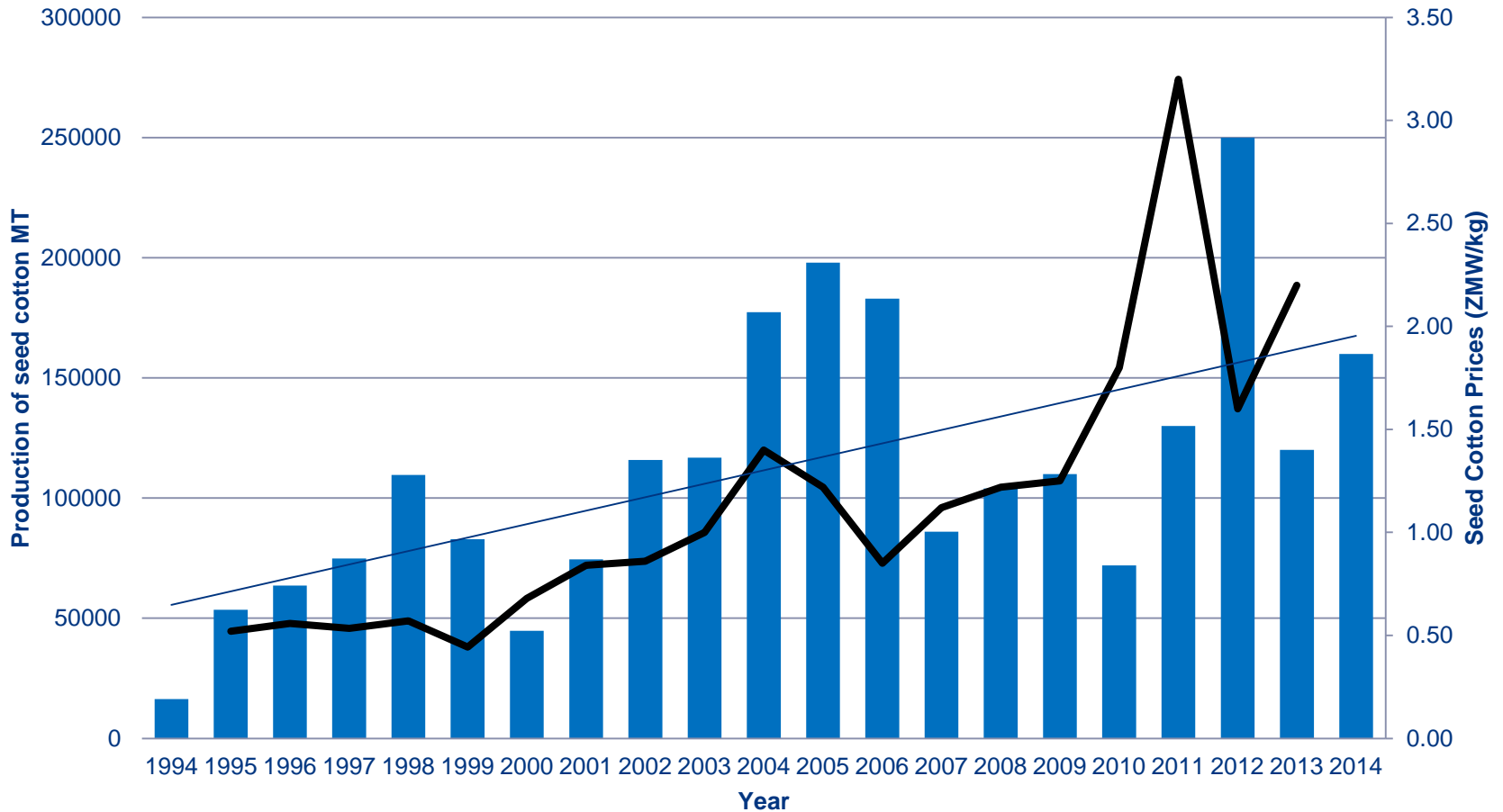
Overview

Trends in production (MT) 1970 – 2013 and Seed Cotton prices (ZMW/kg) 1996-2014



Booms and busts after Privatization

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Seed Cotton Production (MT)

Seed cotton price (Zmk/kg)

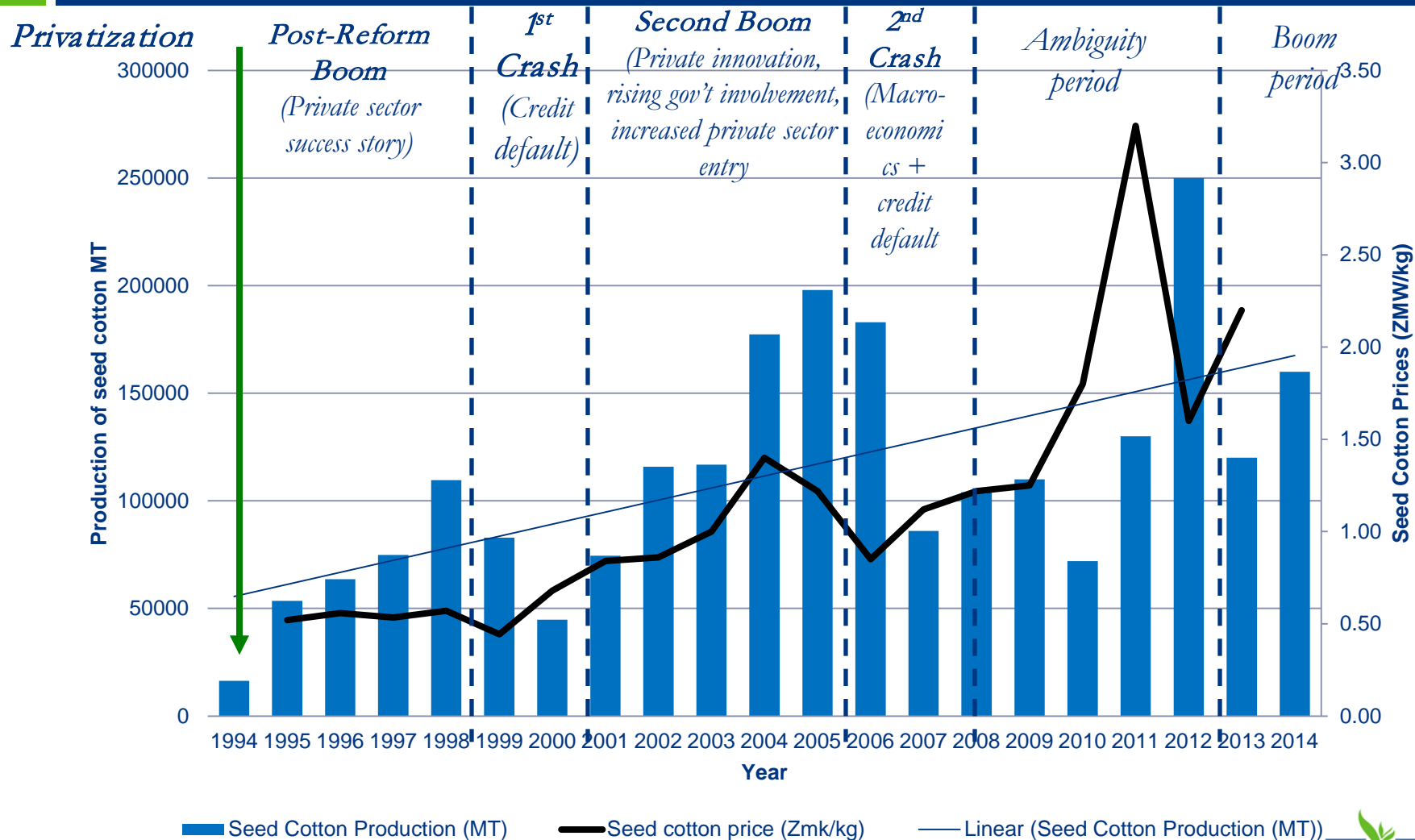
Linear (Seed Cotton Production (MT))

Indaba Agricultural Policy Research Institute



Booms and busts after Privatization

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Highly Concentrated to Less Concentrated

	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14
Dunavant/NWK Agri-Services	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Clark/Cargill	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Olam/Continental			√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Z-C Mulungushi			√	√	√	√	√	√	√	√	√	√	√	√						
Mukuba			√	√	√	√	√	√	√	√	√	√	√	√						
Amaka Holdings			√	√	√	√	√													
Agents and private buyers			√	√	√	√														
CCC/China Africa Cotton											√	√	√	√	√	√	√	√	√	√
Grate Lakes												√	√	√						
Alliance Cotton													√	√	√	√	√	√	√	√
Birchand Oil Mills															√	√				
Yustina														√	√	√	√	√	√	√
Luangwa															√	√				
Africotton																	√	√	√	√
Grafax																		√	√	√
AST																		√		
Africa Global Dvpt Corp																			√	√
Manjeet (Z) Ltd																			√	√
Mumbwa Farmers Ginning & Pressing Co																			√	√
# of Ginning Companies	2	2	7	7	7	7	6	5	5	5	6	7	8	9	8	8	7	8	10	11
Total Ginning Capacity ('000 mt)	116	116	189	189	209	209	209	209	209	232	279	289	319	374	368	368	411	411	436	436

- Blue means the company was/is doing toll ginning
- Olive green: company had/has a gin
- Nu of companies has been increasing after privatization (currently is 11)

Evolution of Zambia's Cotton Sector

- The sector experienced **rapid growth** after privatization:
 - Production of seed cotton **increased** from an average of 30,000mt to over 100,000mt
 - First in 2005 recorded highest production then due to private sector reorganization
 - In 2012 the sector recorded highest production after farmers responded to favorable prices of seed cotton
 - After privatization companies **improved the quality** of Zambia cotton lint
 - The country earned PREMIUM on the international market
 - **Increased in farmers participation** in cotton production

Evolution of Zambia's Cotton Sector

- Structure of the **sector changed** from two companies (highly concentrated) to over 11 companies (less concentrated)
- With only few ginning companies providing full input package while other providing less but buying more
- Resulted in rampant side buying which led to credit default by farmers
- Also coupled with fluctuation of lint price at world mkt
- Three crashes experienced after privatization
- Low productivity

Evolution of Zambia's Cotton Sector

- To protect the remarkable success after privatization:
 - Stakeholder started formulating a regulatory framework in 2000 and cotton Act was enacted in 2005
 - The Cotton Board of Zambia was seated in 2009
 - To **strengthen farmers lobbying Cotton Association of Zambia** was created in 2005
 - We have seen an increase in **collaboration between CAZ and ZCGA** but fluctuation in prices has resulted in disputes
 - Because there is no price setting mechanism in place

Linking cotton sector performance to sector types

Sector types

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- National monopoly
- Regional monopoly
- **Concentrated, market-based**
- **Competitively structured**

Competition-coordination trade-off

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- Sectors with few buyers (“less concentrated”, e.g. Zambia, Zimbabwe) offer:
 - More input credit and ext service → better yields
 - High quality → high price premium on world markets
 - Lower prices than competitive sectors
- Sectors with many buyers (“competitive”, e.g. Tanzania)
 - No input credit and no ext service → low yields
 - Low quality of lint
 - Higher prices to farmers

- Competitively structured cotton sectors are not inherently superior to concentrated sectors

*Linking regulatory
approach to sector type*

What do we mean by regulation?

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- Any formalized set of incentives and sanctions meant to influence behavior of participants in a particular direction “Rules of the game”
- Could be public, private, or a mix of the two
- Regulations could be effected at different stages:
 - registration requirements,
 - information sharing
 - requirements export permits,
 - quality standards,

Regulatory Objectives

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- Achieving **coordination** between sector stakeholders, so as to ensure:
 - the provision of inputs to smallholder producers
 - the maintenance of lint quality
- Ensuring that a win-win results,
 - for example: Price negotiation between ginners and farmers for their seed cotton

Cotton Act in Zambia

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- Enacted because of the challenges faced by the Sector
- Allowed the creation of CBZ
 - Regulate production, processing and marketing of cotton
 - Advise government on regulations and policies related to the sector
 - Monitor and report on implementation of policies and matters related to the sector
 - Carry out such activities as are necessary....
- **Lack of price setting mechanism in the Act**

Competition and Consumer Protection Commission

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- Created by the Act of Parliament of 2010
- Provisions of the Act are likely to affect the operations of the cotton sector
 - For example last's CCPC ruling: Zambia Cotton Ginners Association and Cotton Association of Zambia were not allowed to discuss the prices as that was seen as colluding

Way forward [1]

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- Cotton Sector is a **remarkable success** sector after liberalization;
- However, there have been booms and crisis
 - How can this success be guided?
 - Formation of CBZ, CAZ, ZCGA and then should be **dialogue**
 - Pricing
 - Need a price-setting mechanism that is *more formalized and transparent* that can generate a *win-win indicative price* to reduce the price disputes between farmers and ginners

Way forward [2]

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- Need to consider ways of **improving Quality** of cotton

- Since, some of the provisions of CCPC 2010 Act are likely to affect the operations of the Cotton Sector, there is need to engage CCPC and come up with concrete solutions

- All should point to
 - Enhancing productivity at farm and ginnery levels
 - Key for a sustainable cotton sector



Thank You