Please answer the following questions within (1.5 to 2 pages) on Microsoft Word. All the questions do not need to be fully answered and the answer can be a bit more than 2 pages if need be.

Topics: Exclusion - Poverty - Revenue Sharing - Supply - Marketing - Sales

Questions to answer:

Identify the key success factors of this example of local entrepreneurship for wealth creation in its particular context.

What are the innovative aspects of this approach?

What challenges do you identify for the future of this initiative?

Case No. 34: The fair cotton industry

THE FAIR COTTON INDUSTRY

The example of Mali

CONTEXT

The cultivation of cotton finds its origins in the Nile Valley and is practiced in Africa for more than 5000 years, which makes of cotton one of the oldest agricultural products traded in the world. More than 70 countries produce and export cotton. The five largest producers are China, which produces 6.3 million tonnes (Mt) of raw cotton, or 24% of world production, the United States (5.1 Mt, 19%), India (4.1 Mt, 16%), Pakistan (2.5 Mt, 10%) and Brazil (1.2 Mt, 5%). Three of the major producers (China, India and Pakistan) do not export significant quantities of cotton since only a third of their production is sold on the world market, for a value of eight billion U.S. dollars. The three largest exporters, the United States, Uzbekistan, and Australia are, in themselves, 50% of world exports. Countries of Western and Central Africa account for about 15% of world cotton exports, Mali being in lead.

The cotton production in this region has experienced strong growth in the 1980s, encouraged by the structural adjustment policies of the International Monetary Fund and the World Bank. Between 1980 and 1990, the volume has tripled and doubled again in 2001.

In Mali, as in other African country producers, the rapid increase in cotton production has been correlated with a decline in the price of this resource, gone from U.S. $ 3 to U.S. $ 0.80 for a kilo between 1980 and 2001. Subsidies to European, U.S. and China producers have contributed to the fall in prices to the point that many Mali farmers now sell their cotton at a price below the cost of production. In Mali, in Burkina Faso and in Benin, cotton production represents over 30% of national export revenues and between 4 and 7% of the gross national product (GNP). In Western and Central Africa, cotton production is the main source of income for 20 million people who often do not have access to other jobs. That is why the decline in cotton prices has a significant impact on small producers and the national economies of countries of the region.

GRANTS

Although the structural decline of cotton prices may be partly attributed to factors such as reduced production costs due to technological advances, the slow growth of demand or competition of synthetic fibers, this degradation is mainly due to subsidies of European, American and Chinese governments to their cotton producers. In the United States, they receive annual grants of $ 4.2 billion; $ 1 billion in Europe and China $1.2 billion. These governments (like others) often use these grants to protect their domestic producers. In the United States and Europe, subsidies are highly politicized and supported by powerful lobbies.

THE CHALLENGES OF THE WORLD TRADE ORGANIZATION (WTO)

In September 2002, Brazil became the first country to file, within the dispute settlement mechanism of the WTO, a formal complaint against U.S. subsidies, denouncing their depressing effect on world prices and the direct impact on producers in other countries. In September 2003, Mali, Burkina Faso, Benin and Chad joined Brazil's complaint. In March 2005, the Dispute Settlement Body of the International Organization concluded that U.S. cotton subsidies violate the WTO rules. The main conclusions are as follows:

-The U.S. subsidies have an effect of compression of international prices by about 4%, which seriously diminishes the value of cotton for all other producers.

-The United States has used disguised export subsidies to circumvent their obligations vis-à-vis the WTO in reducing their subsidies.

-Other U.S. subsidies were falsely presented as not causing any distortion of competition according to criteria's of the WTO.

Even though they were clearly pointed out, the United States conducted since very few changes in their practices and policies.

PRESENTATION OF MALI

Mali is a country located in the heart of West Africa. In 2006, he finished, according to the UN, at 175th out of 177 countries in the world for its Human Development Index. Life expectancy is 48 years. More than 80% of the population is illiterate. The country has however shown great dynamism and Malians are known for their business sense and the quality of their crafts. In addition, after several devaluations of their currency in the early 1990s, macroeconomic and financial performances seem promising.

In the mid-2000s, the government launched a ''government strategy to accelerate growth by 2010'', with one of the four main priorities being ''the promotion of agricultural sectors of competitive export'', including cotton. This strategy is coupled with a ''national strategy for poverty reduction'', with one of its eight priorities being the promotion of ''income-generating activities and employment for the poor''.

'The production of cotton in Mali': West and Central Africa is the fifth largest exporter of cotton in the world. In Mali, as in other countries in the region producing cotton, farmers have farms of 2 to 5 hectares on average generating an average annual income of about U.S. $ 400. Farmers generally cultivate cotton on small family farms and harvest by hand, at low-cost labor. However, with successive falling of prices, Malian farmers have no more guarantees that the sale prices ensure a return on their investment.

'Impact of subsidies on Mali ': The countries of West and Central Africa such as Mali do not have the necessary resources to subsidize their cotton producers. Several research studies have attempted to quantify the financial impact of subsidies on prices and production in the world. For example, a study by the International Cotton Advisory Comittee considers that the abolition of subsidies would allow a 15% increase in world prices. Another study by the Overseas Development Institute has shown that such suppression would significantly increase income in poor countries and their producers.

INTERVENTION AND PARTNERSHIP OF FAIR TRADE

Higher income from the production of cotton in Mali would contribute to the fight against poverty especially in situations where economic choices are relatively rare. In this context, the International Federation FLO (Fairtrade Labelling Organization), its French member Max Havelaar France, several producers and distributors of French, Belgian, Swiss and British clothing (like French Armor Lux), and other partners committed to establishing a fair trade partnership designed to improve the incomes of Malian farmers and to develop better production practices in Mali and in other countries of the region. The key players in this partnership are:

-FLO, an organization of international certification and labeling of fair trade. It establishes independently fair trade standards for food and non-food products from developing countries. FLO is an umbrella organization, and has about twenty initiatives and national agencies of fair trade labeling in Europe, North America and in Asia;

-Max Havelaar, a non-governmental organization responsible for fair trade labeling in France. It aims to raise consumer awareness and to support industries and distributors to increase their offering of fair trade certified products. Like FLO which it belongs, Max Havelaar does not sell fair trade products but makes sure that products bearing the fair trade label are indeed elaborated by the social, environmental and economic principles of the organization;

-Dagris (Agro-Industries Development of the South), former French Company for Textile Development. This public company created in 1949 to help overseas development and to ensure access of France to natural resources, became, after colonial independence, an organism of co operations of the French government which mission's is to help the national industries of cotton of the region;

-The Malian Company for Textile Development and other cotton producing companies;

-The French Ministry of Foreign Affairs, which has created a solidarity fund with its former colonies to finance fair trade initiatives and reduce poverty;

-The Business Development Center, a joint entity formed by the Africa-Caribbean-Pacific (ACP) and the European Union, whose aim is to find solutions to the crisis of the cotton sector in Africa;

-Producers and distributors of French, Belgian, Swiss and British clothing such as Armor-Lux, Kindy, Celio, La Redoute, Cora, Hacot, Colombier, Eider Duck, Hydra and TDV Industries.

THE SYSTEM OF FAIR TRADE

The approach of fair trade is conceived as an alternative solution to conventional international trade. It is a partnership which aims at sustainable development of small producers in developing countries by offering better trading conditions and guaranteed prices above production costs.

In the context of fair trade, cotton producers receive a guaranteed minimum price, based on the cost of production of each country. In Mali, for example, the price of fair raw cotton is 0.41 euro / kg.

This price is broken down as follows: minimum price guaranteed to producers of 0.36 euro / kg plus development premium paid to the cooperative or association of producers of 0.05 euro / kg. In the context of high volatility in cotton prices, if international prices on the cotton market exceed the fair trade prices, these are then revised upward.

FLO, Max Havelaar France and other members of the FLO use a certification system of their supply chain and a labeling of products to ensure what consumers buy in developed countries has been developed in accordance with fair trade standards. FLO details standards that guarantee its label:

-A fair and stable price received by producers for their products;

-The opportunity for producers to improve their living conditions;

-Greater respect for the environment;

-A closer link between consumers in developed countries and producers in developing countries;

-A stronger position of small producers in the international trade arena.

FLO, Max Havelaar and their partners use a fair trade label on a variety of food and non-food products. Cotton has been added to the list of these certified products in 2004.

Fair trade cotton aims to provide cotton farmers in Mali better revenues as well as creates positive impact on there community on the social and environmental fronts:

'An equitable business relationship to promote economic development ': Fair trade guarantees a minimum price and more favorable sale conditions. With the prices of fair trade, cotton producers are able to overcome market fluctuations and low prices. The fair trade price of cotton is guaranteed in the long term and enables disadvantaged producers to sell at a price that always covers at least their production costs.

'Organized structures to increase competitiveness on the market': Fair trade helps producers' organizations to come together in dynamic, transparent and democratic structures (eg, producer cooperatives).

'Economic and Social Development': In addition to a guaranteed price for their products, producers' associations receive a development grant to fund social projects, investment in equipment and training projects. Producers decide in transparent and democratic ways allocation of this development premium in the general interest of the organization and the community. In some cooperatives, women occupy management positions.

'Environmental Protection': According to fair trade standards of FLO, chemicals are gradually replaced by biological methods. Genetically modified seeds are excluded and actions are taken to improve the quality of the environment. Producers involved in fair trade cotton undertake to respect and not to use any of the 118 pesticides identified as dangerous. The enrichment of dirt and crop protection are made with natural fertilizers and pesticides.

The ultimate goal of the fair trade label and FLO's certification system is '' to assist disadvantaged producers in developing countries to improve their socio-economic situation through better market access, to new sources of information and to more favorable trade terms.'' The fair trade label also helps educate consumers in developed countries and helps them make informed purchasing choices. Finally, the label is also a way to influence companies in developed countries to build more respectful trade relations with their suppliers from developing countries. In the case of fair trade cotton, a number of manufacturers and distributors of European clothing have responded enthusiastically to the new initiative of fair trade cotton.

EVOLUTION OF THE COTTON SUPPLY CHAIN

One of the first steps of the creation process in Europe for a supply chain of fair trade cotton in Mali and other countries in Africa was the initial collaboration between Max Havelaar France (which, at the beginning, led the project on behalf of FLO) and Dagris, a French agency for the development of textile and agriculture. In the late 1990s and early 2000s, the two organizations have worked together to identify the potential of cotton farmers in Mali and other countries in the region. In collaboration with the Malian Company for Textile Development, these actors have provided technical assistance to African producers, in particular to improve the quality of the cotton fiber.

All players of this cotton supply chain, producer to distributor, had to be identified. National federations of cotton farmers in Mali and other countries had the task of defining the selection criteria of eligible fair trade farmers. These criteria's include: the democratic functioning of producer organizations, their sound management and good governance as well as respect of environment.

Experts in research and development of Max Havelaar and representatives of Dagris have meanwhile studied, in collaboration with the cotton producers and their industry federations, the cost of production and living conditions of African farmers. From this information, they determined a purchase price for fair trade cotton permitting cotton producers to cover their production costs and to have a decent income. This price aims to provide them sustainable support in minimizing the risk of unfair competition.

In 2002, FLO and Max Havelaar France conducted an inspection mission in Mali, Senegal and Cameroon, to certify local producer groups. In April 2004, the Fair Trade standards have been formally approved by FLO. In April 2005, four groups of producers have been certified (these groups were 16 in number at the end of 2006). Meanwhile, the FLO and Max Havellar France informed the European clothing manufacturers that fair trade cotton products would soon be available on the market.

It is in this context that in 2005, Armor-Lux entered the scene as one of the European distributors having pledged to have more equitable trade practices vis-à-vis some producers in the South. Armor-Lux had launched a plan to make clothing from fair trade cotton and sell them with the fair trade label.

ARMOR-LUX

Armor Lux is a French clothing company founded in 1938. This is one of four companies owned by the Armor Development society (fig. 1).

Armor-Lux manufactures ready-to-wear and work clothes (for institutional clients). The company is recognized for the quality of its textiles and social leadership. In 2006, 640 people work for the company in three industrial sites in Quimper (Finistère) and Troyes (Aube), France. The group sold 3.5 million items for a total turnover of 65 million euros. Eighty-five percent of its products are sold in France.

Figure 1: Armor Lux and other businesses of Armor Development society. :

> Armor Development Company <

Companies> Guy de Bérac: 163 Employees: Troyes

Hosiery of Armor: 420 Employees: Quimper

Bermudes: 13 Employees: Quimpler

Chairman: 30 Employees: Troyes

Brands> Berac

Armor-Lux; terre & mer

Bermudes

Tricomer; Chairman 'men's authentic'; Lepoutre

THE SUSTAINABLE DEVELOPMENT STRATEGY OF ARMOR-LUX

The range of clothing collections made from fair trade certified cotton reflects the culture of social responsibility and sustainable development practices of Armor-Lux. Its recent strategy on the matter, besides the implication for its involvement in fair trade cotton, is based on the following actions:

'Social and ethic responsibility': Armor Lux signed in January 2004 the United Nations Global Pact, which asks companies to adopt, support and enact, within their sphere of influence, a set of values ​​and principles in the areas of human rights, labor standards and the environment. It conducts social audits based on the SA8000 standard. Armor-Lux joined in 2005 the program 'Fibre citizen' defined by the NGO Yamana for more balanced economic, social and environmental development. The company has developed a chart of social responsibility in which it is committed in particular to follow the existence of standards of the International Labour Organization (ILO), the European Social Charter and the Convention of Human Rights, and required its suppliers and partners to respect these principles, it being understood that local law cannot in any way deprive the employees of these rights.

'Environmental Protection': The desire to provide consumers a high level of protection for their health prompted Armor Lux to certify the Quimper dye workshop according to the Oeko-Tex Standard 100 since December 2005.

'Employee Development': Armor-Lux has always been committed to develop a relationship of trust with its employees based on transparency and dialogue. The company promotes the strengthening capacity of its employees, especially with continuous training and job mobility.

'Community Involvement': Armor-Lux led for 10 years a dynamic policy of partnership and of sponsorship. The company actively participates in events and demonstrations of its settlement area and to several national platforms on sustainable development.

FAIR TRADE AND DIFFERENTIATION

By buying fair trade cotton and providing the fair trade label to consumers and to large institutional buyers, Armor-Lux meets its own social values ​​while acting strategically in a highly competitive market. This offer of fair trade products is financially viable for the following reasons:

The fair trade label helps the company to differentiate and strengthens its reputation for innovation and quality;

-Through monitoring and certification of its supply chain, Armor-Lux maintains a tighter control over the entire manufacturing process;

-The garment industry has often been criticized for its lack of accountability in relation to its suppliers (issue of sweatshops). In this context, certification and the fair trade label helps the company to demonstrate its commitment to manage its supply chain responsibly and ethically.

Less than two years after the signing of the license agreement with the Max Havelaar France association, Armor-Lux has seen a significant and constant increase in sales of fair trade labeled products in both volume and quality, particularly in concern to large institutional clients. For example, the company signed a contract in 2006 with the group La Poste to dress 140 000 of its employees. In 2006, 90 000 Tank Tops made of fair trade cotton were ordered for 41 000 letter carriers. To the positive reaction of the public and its employees, La Poste decided to expand its purchases of fair trade cotton clothing in all of its 100% cotton uniforms. In all, 350 000 fair trade cotton tank tops, polo shirts and T-shirts will be manufactured by Armor Lux.

As a whole, the launch of fair trade cotton in Europe has resulted in a multiplication by twelve for certified cotton demand for the 2005-2006 season.

POSITIVE IMPACT FOR PRODUCERS

When international cotton prices are at their lowest level, producers in countries such as Mali can still have a decent income through guaranteed minimum price. Thus, with their 2005-2006 harvest, Malian producers have gained 70% more than what they could have received subject to the conventional international market.

Producers participating in the fair trade market are incited to produce a high quality cotton conforming to the best standards on the global market, thus allowing them to increase their revenues. Abdoulaye Sagna, African farmer, demonstrates of the need and of high quality cotton of its impact:

'Revenues from high quality cotton enabled us to tackle this year (to linked problems) to health and drinking water problems, priorities which topped the list in our village. Once we have resolved these difficulties, we will be able to see further, starting with improving the education of our children. '

From a strictly financial point of view, sales of fair trade cotton from the 2005-2006 harvest generated a global revenue of 4.2 million euros (sale of fair trade cotton and development prime in the regions of West and Central Africa , of which nearly 520 000 were used to finance collective projects' (table 1).

Table 1: Statistics of production of fair trade cotton in Western and Central African countries

**Table 1** 2004-2005 harvest 2005-2006 harvest (estimates)

Number of beneficiary producers 6100 23 000

Number of producer organizations 61 294

Volume of fair trade cotton fibers 700 tons 5000 tons

Total revenue generated by fair trade 739 932 euros 4 145 280 euros

of which 92,492 of which 626 300

development premium. development premium.

Financial surplus generated by fair trade 190 187 euros 1 853 600 euros

compared to conventional trade.

Financial surplus generated by fair trade Mali: +30% Mali: +70%

compared to conventional trade. Cameroon: +43% Cameroon: +60%

(by percentage of total revenues) Senegal: +39% Senegal: +39%

Burkina Faso: +30% Burkina Faso:+55%

IMPACTS ON THE ENVIROMMENT

The traditional production of cotton generally has significant impacts on the environment and human health. Damage caused by insects are the main factor that may affect on the performance of cotton production. Thus, this sector alone accounts for 25% of total world consumption of insecticides. In developing countries (DCs), this proportion is estimated at 50%. Many old pesticides at low price, toxic and pollutants banned in developed countries are still used in developing countries. Bad practices of use and storage often result in serious consequences for the health of farmers, workers and villagers around the production areas. Furthermore, five million hectares of arable land (4% of global arable land) where used for intensive cultivation of cotton.

Fair Trade certification addresses these potential negative impacts of cotton production by requiring producers to move towards integrated management of crops, adopting a set of practices designed to increase profitability without causing damage to the environment. Fair Trade Certified producers must demonstrate that they use non-harmful chemicals or that they use biological pesticides. They are also encouraged a shift towards organic production. The fair trade standards prohibit the use of genetically modified organisms and require good management practices of water if the crops are irrigated.

FAIR TRADE AND GENDER EQUALITY

In Mali, women are often disadvantaged or marginalized and suffer from a high rate of illiteracy. The legal status of women is characterized by discriminatory provisions and the absence of certain basic rights. Under the system established by Max Havelaar in Mali, women are encouraged to be involved in cooperatives of producers.

POSSIBILITIES FOR REPLICATION AND DISSEMINATION OF THE MODEL

Although in absolute terms, the number of farmers involved in fair trade in 2006 is only about 5% of the total number of producers in West and Central Africa, their market share and their incomes have grown rapidly in terms of the evolution of traditional trade (Table 1). The amount of crude fair trade cotton rose from around 700t to 5 700t between 2004 and 2006, could be multiplied by six in the near future.