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Impending cotton disaster

Availability of high-quality cotton is fundamental to the textile value chain which for Pakistan, is responsible for the influx of billions of dollars in the form of exports. In this respect, it earns the befitting title of "White Gold". Cotton makes market, shape industries and causes revolution and brings prosperity to economies. The cotton crop on its own contributes over 1 percent share in the national GDP of Pakistan. It would, therefore, be a natural assumption to state that the economy of Pakistan revolves around it since 70 percent of its exports are cotton based.

Pakistan was once recognized as a global leader in cotton and its cotton products were met with great admiration, however, as of recent, there has been a downturn in the cultivation of cotton in favour of other crops, which in the farmers' perspective yield higher profit margins relative to cotton, rendering it less desirable for cultivation. The rate of return on investment for cotton is marginally lower. In Punjab and Sindh, sugarcane has a price comparative advantage of Rs 28 and Rs 32 per kg respectively over cotton . In this scenario, it is increasingly difficult to induce the farmers into increasing the acreage under cotton production.

Ideally, Pakistan being an agricultural land has been blessed with an environment that is meant to refine the growth of cotton but imprudent policies of previous governments, lack of incentives and farmer support has continued to erode the farmer's confidence in the cultivation of cotton. The current government did very well to reject the summary of the intervention price for cotton. The summary proposed a Rs 10,200 per bale price against an international price of Rs 8,840 per bale for a higher quality cotton. The uncompetitive pricing would have had a disastrous impact on Pakistani exports. Despite political pressures the governments' responsible approach to the issue is appreciated.

The Ministry of National Food Security had recently asked the government to allocate Rs 83 billion to procure cotton at the proposed intervention price. This would not have benefited farmers and buying lint cotton from ginners is not a mechanism which could have translated into an increase in cotton production. Giving production and input subsidy/incentive directly to farmers for increasing cotton productivity is the only practical way through which farmers can be motivated. Under the current circumstances, procurement of cotton by the government for reselling at international prices would have resulted into a 40 percent loss to the exchequer. Furthermore, there is always a margin of overpayment in government procedures while procuring or selling. For better governance, the government should strictly abide by the free market principle if Pakistani exports are to compete internationally.

Cotton also can't be stored for long due to its high oil content, unlike wheat. Any mechanism for procurement of cotton would have been challenging, either through the government itself or by ginners. Due to Covid-19 scenario, cut-throat competition is expected among textile producing countries to retain share in international market and if the prices of domestic cotton would be higher than international cotton, then our textile sector would not be able to compete globally and the demand for cotton would collapse.

Comparison of Cotlook Index-A with local prices and saying that the farmers have been cheated is illogical and far from reality. The Cotlook index-A is well defined and is quoting far superior cotton with higher yield, lower contamination and lower moisture content.

Lower annual yields, high costs of cultivation, water shortage, outdated technology, poor seed quality, susceptibility to pest attacks, changes in climate, the encroachment of land and lower returns have further entrenched the deep-rooted fears of the farmers against cultivating cotton. According to a PCGA report, cotton production has witnessed a decrease of 43 percent for the year 2019-20 as compared to initially set target of 15 million bales which has caused a loss of more than 2 percent of the GDP to the economy for this year alone.

One major reason for the decline in the cotton production area is sugarcane which has cropped in the best sowing areas of cotton. From FY 10 to FY 18, the area of sugarcane has increased by 43 percent. This huge encroachment of area is due to the protection given by the previous governments for sugarcane. If we revert this area to cotton crop then it will add an additional 0.25 percent to GDP with additional 1.27 percent of the additional wheat contribution to GDP resulting in a 1.5 percent increase in overall GDP per annum.

According to a report of IFPRI, the cost of cotton cultivation has risen by more than three hundred percent since 2001.Farmers' decisions are subject to the relative cost of production from the competing crops, government support and input availability. The area under cotton cultivation has declined drastically in the past few years in Punjab whereas cotton consumption grew tremendously. Indicative price of sugarcane, fall in cotton prices globally has also adversely impacted the cotton area. Any intervention by the government in sugarcane has affected the cotton cultivation and vice-versa. It is easy to achieve target of 15 million bales by restricting sugarcane crop cultivation in cotton-growing areas for which zoning has to be implemented and regulated in true letter and spirit.

International cotton prices have reduced substantially, while sugarcane indicative price has recently been increased, this coupled with the rising cost of production is likely to adversely affect cotton cultivation in the coming season. The coming cotton season outlook is very shaky because of low profitability of farmers in last season, high domestic cotton prices as compared to international prices (which could lead to fall in exports or increase in imported cotton), indicative price of sugarcane and impact of COVID-19. Due to uncompetitive prices of domestic cotton, it will not only cause loss to cotton exporters but severely restrict the farmers and industry would have a further incentive to import high-quality cotton at lower prices. In such a scenario, the imposition of import duty on cotton will further negatively impact the textile sector of Pakistan and a consequential loss of exports leading to a bleak balance of payments outlook.

Furthermore, imposition of duties/Non-tariff barriers distort the market and act as a tax on the smaller industry as the larger industries have the facility of DTRE & Bonds which allows duty & sales tax free imports. The imposition of import duty, therefore, kills initiatives to revive the medium and small industry. As has been repeatedly committed by the government there should be no duty on raw materials of industry especially export-based. Otherwise, this will lead to mass closure of SME-based textile sector of Pakistan.

Another fact is that the cotton available in Pakistan is of low quality and short staple which cannot be used for producing high-quality products. Introduction and cultivation of longer staple cotton should therefore be a priority of any government policy. The 4 million bales which are imported majorly from the US, Spain, Afghanistan, Brazil and Australia, etc., are of high quality with less contamination and long fibre. The demand-supply of long staple cotton forces the textile sector to rely on imported cotton to meet the shortage substantially increasing the import bill and adversely impacting the competitiveness of our exports. In the last 8 years, Pakistan has imported a sum of 23 million bales of cotton worth approximately Rs 600 billion. Billions of dollars on import of cotton have been spent which had made a very serious drain on foreign exchange reserves.

Another concerning matter is the low productivity and inferior quality of the cotton seed. As of the current situation, 750 seed companies are operating within Pakistan as opposed to a total of 100 companies that operate in India. This makes seed supply dicey and this inconsistency trickles down to individual batches. The output is non-uniform and seeds with a low germination rate are less resilient against diseases like bollworm and whitefly. Unavailability of quality seeds and old gene technology are such recurring issues that impair the seed's ability to survive changes in the weather. The world has shifted to genetically modified seeds and improved their cotton yield but Pakistan still has the poor quality seed. It is imperative to launch GMO transformation (against pink bollworm, whitefly, CLCV and other diseases) which is available with the private sector.

One of the most pressing issues is contaminated cotton which deteriorates the cotton quality and value. High trash increases the processing losses and stains in cotton adversely affect the dyeing process. In case of plastic material, the damage becomes visible when fabric leaves the finishing process. Plastic material is most hazardous contaminant which lowers the price yield of cotton. Mostly cotton is picked by hand and untrained cotton pickers along with poor ginning quality standards add to cotton fetching low market value. To cater this issue, training and comprehensive capacity building programs shall be introduced. Labelling the cotton bales with trash, moisture content and weight shall also be made mandatory.

Under the given circumstances, it is vital that the cost of production at the farmer's end be minimized through support programmes. The government can give production subsidy by redirecting support allocated to sugarcane to cotton. A win-win formula should incorporate improvements in cotton seed production, selling of Intellectual Property Rights, strategic allocation of resources, import facilitation & commercialization of double and triple gene technology, promotion of private sector involvement, and implementation of Pakistan Cotton Standardization act 2009, strengthening seed certification institutions, Joint Ventures with international seed companies and providing direct incentives to farmers.

To conclude, promotion of cotton would directly induce industrialization and provide an imputes to exports.