

# The Role of the Trading Corporation of Pakistan in Stabilising Cotton Prices

By

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Pakistan today enjoys a unique position in the cotton world, ranking fourth in production after the People's Republic of China (PRC), USA and India and third in consumption after the PRC and India. It is also one of the biggest exporters of cotton yarn. It has achieved this distinction firstly, due to the government's efforts in providing massive support to the grower and, secondly, due to the government's guaranteed support price policy, which has been successfully implemented by the Trading Corporation of Pakistan (TCP).

The government's price support policy has protected cotton growers from the adverse effects of wide fluctuations in international prices. More production, therefore, no longer means a lower return to the grower. Instead, it ensures more farm income. The grower is now assured of guaranteed prices even in depressed market conditions and falling international prices. Pakistan harvested a cotton crop of 14.6 million bales in the 2004/05 season, the highest on record. Despite the massive increase in production, farmers still received a fair return for their produce, owing to the government intervention price ("support price") of Rs. 925 per 40 kgs, which helped create a stable domestic cotton market.

Pakistan is an agrarian economy. Agriculture contributes about 23% to its GDP. The domestic cotton crop provides raw material to 1,200 ginning factories, 453 textile mills, 800 oil units, as well as being a source of cattle feed. The price insurance provided to the farming community has led to a favourable shift in the production pattern. This protected and risk-free environment has encouraged farmers, not only to bring more area under cultivation, and adopt innovative techniques to increase production, but also to improve quality. Accordingly, output of medium and longer staple cottons has increased.

Consumption has increased to over 14 million bales of local size due to Balancing, Modernization and Restructuring (BMR) of the textile industry in Pakistan. The rapid expansion of the textile sector has resulted in a need for quantitative and qualitative improvements in local cotton production. The TCP, besides its price stabilization role,

also exercises a check on quality and has made tremendous efforts to improve standards in ginning and production, with the aim of increasing output of contamination-free, clean cotton. Increasing farm production is not enough, as bad and inefficient ginning can cause heavy losses in marketing operations. Technological advances in the textile industry and greater emphasis on quality has increased the importance of good ginning. With this awareness, TCP has worked to

increase standards by providing financial motivation to ginners and growers through payment of premia and by undertaking various ginning programmes in coordination with the Small & Medium Enterprises Development Authority (SMEDA) and provincial governments. These have had a positive impact, leading to quality consciousness among growers and ginners.

Pakistan cotton occupies a special place in short to medium staple groups. It is known the world over for its superiority in strength, uniformity, fibre fineness and regularity and is free from microdust and honeydew. It suitably blends with other cotton and is also ideal for open-end spinning. Due to technological advancement and changing trade patterns, new varieties are replacing the old ones and Pakistan can now offer a wide range of cotton, from short to long staples, in order to meet the requirements of foreign and local buyers.

The evolution of new cotton varieties is a continuous process. Technological developments and mechanical innovations in the textile industry have substantially increased demand for better grades with longer staple for producing blended yarns, as well as for non-spinning purposes. Cotton research in Pakistan is therefore directed towards achieving the above objectives. The emphasis is on developing high-yielding, short-stature, medium and long staple varieties, which are climate adaptive, and resistant to insect infestations and disease. Several promising strains have been developed with higher commercial/spinning values.

The official production target for 2005/06 season is 12,700,000 bales (170 kilos) from an area of 3,250,000 hec-



tares, suggesting a yield of 664 kgs per hectare. This is by no means an ambitious target, as that level has already been exceeded in 2004/2005. The strength of prices in the wake of increased production is ample proof of the pragmatism of the existing cotton policy. The credit for successful implementation goes to the TCP and government functionaries.

The prime need of cotton-producing countries is to achieve stable conditions in cotton trade by avoiding excessive price fluctuations and assuring price levels which are remunerative and just to the producer, equitable to the consumer, and sustain the real income of individual developing countries through increased export earnings. With these objectives in mind, the government has increased its minimum seed cotton support price for 2005/06 to Rs. 975 per 40 kgs. This has been done to enable growers to meet the increasing cost of cotton production. The main features of Pakistan's cotton policy include:

- Free trade in cotton.
- Fixation of cotton area and production targets.
- Promotion of cotton cultivation in new areas.
- Arrangements for adequate availability of inputs.
- Cotton research focusing on increasing yields and producing longer staple varieties with pest/virus resistance.
- Support to cotton growers for their continued interest in cotton cultivation.
- Intervention of Trading Corporation of Pakistan (TCP) for price stabilisation.
- Qualitative improvement in cotton through standardisation and grading at grass root level.
- Cotton pricing and marketing based on grade and staple.
- Campaigns for producing contamination-free cotton.

The increasing cost of production in developing countries like Pakistan is attributable mainly to rising import prices for farm inputs. The result has been a stagnation of yields. The average yield in Pakistan is 706 kilos, while in

other major cotton producing countries it is much higher, as is evident from the accompanying table:

There is, therefore, immense scope for increasing cotton production in Pakistan.

Unfortunately, international trade in cotton does not ensure a level playing field for all cotton producers or textile exporters. Developing countries are hit particularly hard by sudden fluctuations in international cotton prices or unanticipated shifts in demand.

These shocks are so severe that developed countries cannot remain isolated from their adverse effects. A case in point is the US, which was hit hard last year by declining cotton prices in spite of the system of government loans and target prices etc. designed to protect growers and the hedging facilities provided by New York futures. Such insulating economic measures are neither available to developing countries nor are they capable of instituting such programmes.

Pakistan feels that there is a need to form an Association of "International Cotton Producers" to seek ways and means that contribute to the dynamic stabilization of international prices of cotton. The basic objective would be "to promote the orderly and rational development of production, processing and trade of cotton by the members through economic and technical cooperation".

Cooperation among cotton producing countries would also help improve the organisation of the international cotton economy and promote international trade. The Association would provide a forum for putting into action some important ideas and initiatives that would not otherwise be possible.

SR. NO.	Country	Yield (kgs/ha)
1	Australia	1,806
2	Israel	1,748
3	Spain	1,665
4	Syria	1,344
5	Turkey	1,268
6	Brazil	1,144
7	China	1,141
8	Mexico	1,099
9	Greece	1,047
10	Egypt	839

