

## PUBLIC POLICY FOR COTTON IN PAKISTAN: AN OVERVIEW

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## Outline

- 2 **Cotton and economy of Pakistan**
  - Agriculture
  - Trade
  - Industry
- **Public policy for cotton**
  - Governance/Institutional set up
  - Investment
  - Policy
    - Production
    - Procurement
    - Trade
- **Conclusion and way forward**

## COTTON IN ECONOMY OF PAKISTAN 2015-16

- 3 **GDP of Pakistan US \$ 284 Billion**
  - cotton contribution 1% to 1.7%
- **Share of agriculture in GDP: 19.8%**
  - Cotton in value added agriculture: 5.1%
- **Share of manufacturing in GDP: 13.6%**
  - Large Scale Manufacturing: 80.1%
    - Textile: 29.7%
      - Cotton: 96%
- **Employment: 22% of Agricultural labor force**

## COTTON IN ECONOMY OF PAKISTAN

Year	Cotton Production (Million Bales)	Agricultural Growth (%)	Manufacturing Growth (%)	GDP Growth (%)
2004-05	14.265	6.5	15.5	9.0
2005-06	13.019	6.3	8.7	5.8
2006-07	12.856	3.4	9.0	5.5
2007-08	11.655	1.8	6.1	5.0
2008-09	11.819	3.5	-4.2	0.4
2009-10	12.914	0.2	1.4	2.6
2010-11	11.460	2.0	2.5	3.6
2011-12	13.595	3.6	2.1	3.8
2012-13	13.031	2.7	4.9	3.7
2013-14	12.769	2.5	5.7	4.1
2014-15	13.960	2.5	3.9	4.0
2015-16	10.074	-0.2	5.0	4.7

## COTTON IN ECONOMY OF PAKISTAN Agriculture

- 5 **Area: 3.0 mill ha**
    - 15% of cropped area
  - **Production: 12.7 mill bales**
    - 4<sup>th</sup> largest producer
  - **26% of 8.26 million farms grow cotton**
  - **Smallholder crop:** 81% small with less than 5 ha of farm size
    - 50% of cultivated area
    - 75% of total production
  - **Location: Sindh and Punjab provinces**
    - Punjab 73%, Sindh 26.2%
  - **Value addition in agriculture: 5.1%**
- During last decade cotton production shrunk @ 0.1% per annum due to decline in area (1%) and yield (1.1%)

## COTTON IN ECONOMY OF PAKISTAN Trade

Year	Exports (Rs. Billion)			Imports (Rs. Billion)		
	Total	Cotton	% Share	Total	Cotton	% Share
2013-14	2584	1243	48	4631	55	1.2
2014-15	2398	1201	50	4644	46	0.9
2015-16	2167	1140	53	4659	117	2.5

Source: Economic Survey of Pakistan 2014-15

## COTTON IN ECONOMY OF PAKISTAN Industry

Items	Share in LSM (%)
<b>Textiles</b>	<b>29.74</b>
Cotton Yarn	18.43
Cotton Cloth	10.22
Jute Goods	0.47
Woollen & Carpet yarn	0.47
Woollen & worsted cloth	0.12
Knitting Wool	0.02
Woollen Blankets	0.01

Source: Economic Survey of Pakistan 2014-15

## PUBLIC POLICY FOR COTTON

- Governance/Institutional Set Up
- Investment
- Policy
  - Production:
  - Procurement
  - Trade

## PUBLIC POLICY FOR COTTON Governance/Institutional Set Up

- **Federal Government**
  - **Ministry of Textile Industry:** Policy, Research, Regulation, Coord.
    - Pakistan Central Cotton Committee (Value chain)
    - Pakistan Cotton Standard Institute (Quality)
  - **Ministry of National Food Security and Research**
    - Pakistan Agriculture Research Council (Research)
    - Plant Protection Department (Regulation)
    - Federal Seed Certification and Registration Dept. (Regulation)
    - Agriculture Policy Institute (Policy analysis)

Cont....

## PUBLIC POLICY FOR COTTON Governance/Institutional Set Up

- **Federal Government (cont.....)**
  - Ministry of Climate Change (Biosafety committee)
  - Pakistan Atomic Energy Commission (Research)
  - State Bank of Pakistan (Credit)
  - Ministry of Commerce (Trade policy)
  - Federal Board of Revenue (customs)
- **Provincial Governments**
  - Research, Extension, Marketing and Inputs Regulation
- **Public Universities**
  - Education and Research

## PUBLIC POLICY FOR COTTON Investment 2016-17

- **Federal Government: PSDP**
  - National Food Security & Research: Rs. 1.5 billion
  - Irrigation water: Rs. 32 billion
  - Others Federal Ministries: Rs. 5.4 Billion
- **Provincial Governments: Agriculture ADPs**
  - **Punjab:**
    - Agriculture: Rs. 20 billion (gene import, pest management etc.)
    - Irrigation: Rs.41 Billion
  - **Sindh:**
    - Agriculture: Rs. 11 billion (Cotton Research, Machinery etc.)
    - Irrigation : Rs 21 billion

Source: PSDP 2016-17, ADPs 2016-17 of Punjab and Sindh

## PUBLIC POLICY FOR COTTON Production Policy

- **Production Support**
  - **Fertilizer- subsidy on DAP and Urea:** Rs. 46 billion (25% on cotton)
  - **Canal Irrigation Water:** nominal prices (1 US\$ per acre)
  - **Electricity:** Concessional tariff for tube wells (Rs. 8.85 to Rs. 5.85 (Rs. 24 billion)
  - **Farm Machinery:** reduce import duty (from 43 % to 9%)
  - **Pesticides:** Zero General Sales Tax
  - **Agri. Credit:** Reduced mark up by 2% and credit guarantee
- **Direct Cash Transfers**
  - Rs. 12,500 per ha in 2015-16

## PUBLIC POLICY FOR COTTON Procurement Policy

- **Bullish: Market mechanism**
  - In view of trade liberalization and active role of private sector, incentives to cotton growers should come through the market forces
  - Price linked to international market (supply & demand)
  - Ginners buy from farmers and sell to textile industry

## PUBLIC POLICY FOR COTTON Procurement Policy

- **Bearish: Market Intervention**
  - API works out intervention price
  - Public sector intervenes if market prices plummet below intervention price
  - ECC decides procurement target
  - TCP procures and later dispose of the stocks on market rates

## PUBLIC POLICY FOR COTTON Procurement Policy

- **Warehouse receipt system**
  - Under test by SBP

## PUBLIC POLICY FOR COTTON Procurement Policy/Market Intervention

Year	International Price (US\$ per Kg)	Domestic Price (US \$ per kg)	Public Procurement (Bales)
2001-02	0.9	0.9	10,600
2004-05	1.2	1.2	1,615,392
2008-09	1.4	1.6	162,698
2015-16	1.5	1.5	95,699

Source: Economic Advisor Wing, Finance Division and Trading Corporation of Pakistan

## PUBLIC POLICY FOR COTTON Cotton Regulation

- **Federal**
  - **Cotton Cess Act 1923**
    - Unique research funding mechanism
  - **Cotton Standardization Ordinance 2002**
    - Establishing cotton standards
  - **Seed Act 1976**
    - Regulate seed business
  - **Plant Breeders Right Act 2016**
    - Enhance innovation
- **Provincial**
  - **Cotton Control Act/Ordinance 1966**
    - Quality of cotton ginning, pressing and oil extraction

## PUBLIC POLICY FOR COTTON Trade Policy

- **Strategic Trade Policy Framework 2015-18**
  - Export target: US \$ 35 billion
  - diversification & sophistication, market access, institutional support, facilitation
  - **Import duty to support growers: 2016-17**
    - 4% (3% Custom Duty + 1% Regulatory Duty)
  - **Sales Tax on imported cotton**
    - Textile miller: 5%
    - Commercial Importer: 8%
  - **0.5 million bales permitted through land route**

**PUBLIC POLICY FOR COTTON**  
**Trade Policy**

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- **Textile Policy 2014-19**
  - Increase value addition in cotton from 1 to 2 US\$ Billion
  - Double textile exports from 13 to 26 US \$ Billion
  - Enhance investment, diversification, tariff rationalization, efficiency

**CONCLUSION AND WAY FORWARD**

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- Cotton will continue as an important contributor to the national economy
- Government will further strengthen its cotton governance
- Investment in cotton will focus on improving productivity and efficiency
- Private sector will be encouraged to lead innovation, bring knowledge and investment in cotton technology (value chain and varietal development)
- Free market policy will continue and government will pull completely out of the cotton business and focus mainly on regulation

**THANK YOU**

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