

Potential Impacts of COVID-19 on the Cotton Sector

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Since the beginning of the COVID-19 pandemic, governments globally have been trying to create a balance between economic growth and public health. Several measures have been undertaken by national governments to protect their citizens from COVID-19 including social distancing, lockdowns, curfews, etc. Major global economies like China, Europe and United States have been put under severe pressure and strain due to the pandemic.

The ICAC Recorder on “Potential Impacts of COVID-19 on the Cotton sector” by International Cotton Advisory Committee (ICAC) has 23 articles which document the impact of COVID-19 on the global cotton sector. Even before the COVID-19 pandemic the global cotton sector was under stress due to low international prices. Under the pandemic, the textile industry is amongst the worst hit industries. Prices of raw cotton and yarn have crashed, upstream supply chains and value chains have been badly hit and stocks have piled up.

The following paragraphs discuss the various articles of the ICAC Recorder, bringing out the analytical issues covered. Articles 1 to 4 discuss the impact of the pandemic on commodity prices, textile and apparel trade, retails sales, global textile industry and the supply chain. Financial markets and commodity prices have become highly volatile. The crude oil market price faced a sharp contraction in the first five months of 2020. Most metal prices have also declined. Retailers have postponed or cancelled purchase orders, adversely affecting factory employment and liquidity. As a result, there have been rising layoffs and unemployment rates in the cotton industry.

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Article 5 highlights the impact of the pandemic on the cotton sector of major cotton producing countries like China, India, Brazil, Turkey, Egypt, etc. This is further discussed in many subsequent articles. According to *Article 6*, textile manufacturing activity has decreased considerably in Latin America and the Caribbean (LAC), due to COVID-19 outbreak in the United States and China, which are the main partners and export destinations of the LAC region.

Articles 7 and 9 discuss the potential impacts of COVID-19 on African cotton sectors. For various African economies, cotton serves as an important source of foreign currency. Therefore, the reduced cotton demand and prices would adversely impact the national reserves of African countries in the coming years. Mainly the smallholder farmers produce cotton in Africa and due to the disruptions in market access caused by the pandemic, there will be negative impacts on both farmer incomes and food security within communities and also at a national scale. In countries like Benin, Mali, Burkina Faso, etc., in the northern hemisphere, the purchase price of seed cotton negotiated for 2020-21 season will be revised downwards. For example, in Mali it will fall by 30 per cent, while in Cameroon it will fall by 12 per cent.

Article 8 discusses the global impact of the pandemic on the cotton sector. Cotton would be more affected than competing crops, like food crops, as cotton and textiles are more sensitive to economic fluctuations. According to ITMF survey (April, 2020), mill orders have been cut down by more than 40 per cent in April due to the reduction in

textile demand and annual decrease in the turnover of mills is expected to be more than 30 per cent for 2020. ICAC has projected a 12 per cent decrease in cotton consumption for 2020-21. The article highlights the need for subsidy support to be provided by government to compensate for lost income.

Articles 10, 11 and 12 do an impact analysis and discuss revival strategies for the Indian cotton industry. Indian textile sector has a market size of USD 150 billion and contributes 7 per cent to the industrial output. Cotton is a highly traded commodity in India and has a stake of 59 per cent in the total textile segment. Cotton prices began to decline in the Indian market after the outbreak of the pandemic in China. The seed cotton prices fell to Rs. 4966 per quintal by February 20 and further fell to Rs. 4779 per quintal towards the end of March 2020. Like in all other countries, the domestic consumption has declined with stocks piling up. Some of the interim relief measures announced by the Indian government to safeguard the industry include cash transfers and additional supply of food grains free of cost for three months, providing Rs. 2000 as advance instalment per account holder under PM Kisan Yojna, provision of relief camps for migrant workers, exempting the production, transport and marketing of seeds, fertilisers and pesticides from lockdown, etc.

Article 13 discusses the impact of the pandemic on the cotton sector of Pakistan. Agriculture including the cotton sowing operations in Pakistan have been severely affected. Closure of businesses and lockdowns have

reduced the food demand and led to a fall in the prices of perishable produce. *Article 14* points out that Bangladesh cotton sector has been affected in 3 different areas that include raw materials procurement, buyer late payment and buyer cancellation of in-process orders. Closing of stores in Europe, United States and other main importing countries has had adverse consequences for the Bangladesh garment sector.

Article 15 discusses the effect of COVID-19 on Brazilian cotton sector. Brazil is the 4th largest cotton producer in the world and also the 2nd largest exporter. Since the consumption from main importing countries of Brazilian cotton will reduce, the exports of Brazil are expected to drop leading to an increase in local stocks. Brazil has deployed advanced technological interventions in cotton cultivation, due to which it now produces high quality cotton with environmental sustainability. The greatest worry for Brazilian farmers comes from the crash in market prices, as that will negatively affect the future contracts, thus reducing the profitability of farmers. The demand for clothing has reduced by 90 per cent while several local industries have stopped production during COVID-19. For 2020-21 season, the seed and input supply chains would also be affected due to the disruptions in trade and transport in various countries.

As *Article 16* highlights, for the Argentina cotton sector, the price fluctuations due to market uncertainty is the biggest challenge. The demand for clothing in the local market is non-existent. Due to the lockdown, ginning factories, spinning mills and textile industrial processing have been severely

affected. Some of the steps put forward by cotton organisations to overcome the current crisis include standardisation of quality parameters as per international norms, assessing and addressing export logistics, providing source of financing for producers in the short term, solving input problems for ginning factories, etc.

The area of cotton production is likely to fall by 30 per cent to 1,20,000 hectares in Egypt in 2020. The *Article 17* discusses how a huge majority of the population globally have lost their income, livelihood and also their purchasing power. The textiles demand in Egypt has reduced due to the pandemic. The lockdown has led to the closing of the textile related factories and shipment of raw materials. The business community is facing cash crunch, supply chain disturbance and manpower related difficulties.

In Sudan, as *Article 18* points out all ginning factories and spinning mills are closed although cotton has been harvested, thus negatively affecting the prices of seed cotton. The cotton which trading companies have exported is stuck in target countries, but the payments haven't been made yet. Delays in seed availability, input supply, preparation arrangements and input distribution are likely to affect the cotton sowing in the coming season. Sudanese farmers will be focusing on food crops instead of cotton farming as the situation of cotton markets remain uncertain.

Article 19 discusses COVID-19 impact on Kenya's cotton sector. In Kenya, input transportation costs are expected to increase and interrupted operations may lead to inefficiencies.

In Kenya, cotton is grown in arid and semi-arid lands for food security and the article suggests that it is important to recognize that the pandemic can lead to a food crisis in these areas. There is a need for the government to initiate measures to ensure continuous cotton production, its marketing and trade. Input and information should be made accessible to farmers in a timely manner. Vulnerable groups need to be provided stimulus support in the short term.

South Africa is a net exporter of agricultural products, including cotton. *Article 20* suggests that due to the price pressure of critical inputs, cotton farmers in South Africa may opt for alternative summer crops like Maize, which is the main competitor of cotton. Also, from the perspective of food security, there may be greater demand for maize leading to higher relative prices, which can result in lower cotton hectares.

Cotton is a significant source of livelihood in Mozambique for almost 2,00,000 smallholder farmers. *Article 21* highlights that due to the pandemic, at the level of the farm, there has been a reduction in the minimum price of cotton in Mozambique. As a result, cotton fields

have been abandoned by certain farmers. This will lead to a decline in the area of production in the next season.

Article 22 gives a general perspective of the impact of the pandemic on the cotton sector while highlighting the fact that environment is the natural capital that should be cared for. Lastly, *Article 23* gives a rationale behind using cotton for face masks. While doing so, it discusses the science behind cotton face masks and why cotton is better than synthetics.

In conclusion, the ICAC Recorder serves as a **significant and comprehensive** compilation of analytical reports and articles highlighting the devastating impacts of the current pandemic on the global cotton industry. It covers the challenges being faced by the domestic cotton sectors of several countries in the continents of Africa, Asia and Latin America. It also provides a useful coverage of the various measures undertaken by national governments to safeguard their vulnerable population against the impact of COVID-19 and suggests the next steps that governments globally should take to help their cotton industry recover from the current crisis.