The cotton sector: A myriad of challenges, a world of opportunities

By Cobus de Bruyn

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Eight months into the Covid-19 pandemic, we're well aware of the devastating impact it has had on the global economy and millions of livelihoods. What's still emerging is the impact the pandemic and associated lockdowns have had on many sectors - possibly for years to come.

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One of these sectors is cotton, which, until March 2020, was considered a success story in South African agriculture. Established in June 2014, the Sustainable Cotton Cluster (SCC) was funded by an initial grant of R200m from the Department of Trade and Industry (dti).

The SCC connects the entire cotton value chain under one umbrella: farmers, gins, yarn manufacturers, weavers and knitters, dyers, finishing plants and retailers. In the six years it's been in operation, cotton production and processing has increased 800% and almost 50,000 jobs have been created or maintained in the cotton sector.

Challenges

Then came the lockdown and harvesting and processing could continue, but exports were suspended, striking the first blow to the sector. Since then, export restrictions have been lifted, but global demand for cotton is decreasing and so are global prices. With around 80% of locally produced cotton being exported, this has significant implications for the sector.

At the same time, severe financial strain on retailers is adding pressure. One of the main purposes of the SCC is to increase consumption of cotton by local retailers, aiming to increase local procurement from the pre-Covid average of 45% to 63% by 2030.

Edcon, the Mr Price Group and Woolworths have committed to significantly increased orders. Of these retailers Edcon is the largest, with an annual order of 2,200 tonnes for locally produced cotton lint. With Edcon having gone into business rescue in June, sizable orders have been cancelled. Fortunately, bids by Foschini Group and Retailability for 450 Edgars and Jet stores have been accepted, but orders will now need to be renegotiated with the new owners, with no guarantee that they will continue or remain at the same volume.

Years ago there were 23 spinners in South Africa. However, due to cheap imports most spinners closed down and cotton is now ginned in South Africa, then exported for spinning and weaving. This means we have lost the capacity to create fabric and clothes locally.

The impact of this is that the cotton takes longer to move through the value chain, farmers must wait longer to be paid and prices are determined by the export market. While our current exchange rate does benefit the export of cotton, the concern is that the cotton cluster is not functioning adequately, so retailers are being forced to import more, which is harming the local sector. In addition, the Covid-19 lockdown export restrictions affected fibre exports, and international contracts may be jeopardised because of the decline in global economic activity and growth – a further setback for the sector.

What’s at stake?

According to Cotton SA, the potential of the cotton value chain is substantial: If South Africa can increase its local beneficiation of cotton to a level where it can substitute imports by 50% on four basic retail items – T-shirts, towels, chinos and underwear – it could create more than 75,000 jobs in the industry, and inject nearly R10 billion into the economy. Cotton is grown in some of South Africa’s most impoverished provinces – Limpopo, the Northern Cape, the North West, KwaZulu-Natal and Mpumalanga.

Supporting and growing the sector therefore makes sense from a job creation and poverty eradication perspective, especially considering that small-scale farmers harvest by hand. And as pressure on water supply intensifies, cotton is being considered as a high-yield alternative crop to maize, particularly in the North West.

In addition to the initial dti grant of R200m, private investment of more than R500m has been made to beef up harvesting and processing capacity. Further indirect investment of more than R200m was made by the rest of the role players in the value chain to upgrade business management systems and hire more people. Some of these investments were used for new infrastructure and technologies, such as the upgrade of the Loskop Cotton Gin in Marble Hall and the new gin in Koedoeskop, close to Thabazimbi.

The Mr Price Group became involved in financing the development of smallholder farmers, and farmers have invested millions in equipment and harvesters. The stakes are high for the more than 1,000 emerging cotton farmers too, who account for 3,365 hectares under harvest and employ between 4,500 and 7,500 people.

What needs to be done?

In the spirit of the cluster, working together is key and all stakeholders need to rise to the challenge. Much still needs to happen before the Foschini Group and Retailability deals with the Edcon Group’s business rescue practitioners cross the line, but they are moving in the right direction. New owners must now be encouraged to join the cotton cluster and more of the major South African retail groups, as well as other role players, need to come on board and support the sector.

In our opinion, a major boost would come from government and the private sector, driving a 'Buy Local' campaign. Currently local production falls short of South Africa's cotton lint consumption of around 315,000 tonnes per year, and we still import 95% of our cotton, mostly from Zambia and Zimbabwe. Yet we export 80% of our own cotton. However, local consumption cannot increase until there is new fixed investment in the textile sector and growth in local raw materials increases. It is now more appropriate than ever to create a 'buying local' culture.

It's no longer cheaper to import cotton because of the rand losing its value against the dollar, so it makes more business sense for retailers to support the local sector. And globally there's a Covid-induced move towards favouring local, and countries are looking inwards to meet their needs.

It's a virtuous circle: improving the infrastructure and capacity of spinners and weavers will keep the entire value chain within our borders, keeping costs and delivery times down, while supporting the local sector and creating jobs. A buying local culture will boost demand for locally produced cotton and having more retail groups placing orders for local cotton lint will serve as security for financing, enabling easier financing for smaller and emerging role players.

In the short term, Nedbank supports the value chain during Covid-19 through relevant government support packages. We understand the value chain of the cotton sector very well and offer tailormade solutions to the sector. And because we take a bigger-picture view, we're able to provide the right funding solutions, taking the value of the cotton into account as security. Nedbank, for example, supports Cotton SA in partnership with International Social and Environmental Accreditation and Labelling (ISEAL), which is the global membership organisation for credible sustainability standards, to set Better Cotton Initiative (BCI) sustainability standards in the sector.

BCI exists to make global cotton production better for the people who produce it, better for the environment in which it grows, and better for the future of these sectors. In addition, Nedbank also supports transformation in the agricultural sector and participates in several transformational projects, for example with the Taung cotton, wheat and maize project in the North West.

Ultimately, the lesson here is that income and market diversification is key to mitigating risks. While considerable effort has already been made, massive growth in the local market is needed to diversify South African cotton into new markets. With potential in both local and global markets, it's certainly worth joining hands to overcome the challenges the Covid-19 pandemic has imposed on the sector.

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