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Pakistan

Cotton and Products Annual

Cotton and Products Annual 2018

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Report Highlights:

Pakistan's marketing year 2018/19 cotton production is forecast at 8.8 million 480 lb bales, up 500,000 bales from the revised 2017/18 estimate. The increase reflects a modest increase in area as prospects for higher prices and frustration with delays in sugarcane payments are expected to encourage some farmers to plant more cotton. Cotton consumption is up slightly, but largely unchanged from levels observed over the past decade. Textile exports have declined over the past three years. Pakistan is likely to continue as a significant importer to augment domestic production, though imports are expected to decline to 2.4 million 480 lb bales in response to improved production.

Production:

Pakistan's MY (Aug/Jul) 2018/19 cotton production is forecast at 8.8 million 480 lb bales (10.3 million 170 kg bales or 1.92 million metric tons (MMT). Area devoted to cotton is projected to increase to 2.8 million hectares (mha) as forecasts of firmer global cotton prices and frustration with delays in sugarcane payments from sugar mills are expected to encourage some farmers to shift to cotton. Area has not yet reached the previous 2012/13 high of 3.0 mha, but it is inching in that direction following the low-price-induced drop in areas to 2.4 mha in 2016/17.

Cotton planting is expected to begin on April 1, 2018, in the main producing province of Punjab where provincial officials prohibit planting prior to that date. The policy is aimed at countering the timing of peak bollworm activity. A temporary water shortage at one of Pakistan's key reservoirs delayed the start of planting in the second-largest cotton producing province of Sindh by a few days, but water has been diverted from another dam, enabling cotton planting to proceed apace since mid-March.

The yield forecast is based largely on a five-year Olympic average. There are a number of factors that affect yields, some positive and some negative, thereby leading to the supposition that a 5-year olympic average is a relatively reasonable basis for a yield projection. Factors weighing against improved yields include:

- The narrow genetic base of cotton germplasm is prone to insect and diseases and is one of the major factors influencing crop productivity in the country.
- Pakistan's continued reliance on a back-crossed 15-year-old biotechnology event that means that crops are susceptible to bollworms.
- "Sucking insects" such as white fly continue to spread cotton leaf curl virus (CLCV) and other plant diseases that affect yields and require farmer vigilance.
- Cotton seed quality is a perpetual issue with low germination rates and weak certification.

Factors that are supportive of yields include:

- The major cotton-producing provinces of Punjab and Sindh have approved or are expected to soon approve 8-10 new seed varieties that seem to be liked by farmers and supplies of certified seed are up to 55 percent of all cottonseeds from 45 percent a year ago.
- Farmers are increasingly aware of the risks associated with the weak expression of the Bt gene in local cotton plants and the need to monitor for bollworms. They are also increasingly attuned to the damage of "sucking" insects.

- The government continues to heavily subsidize the supply of seed, fertilizer, water, and power for farmers.

- Firmer prices encourage more pickings and input usage.

MY 2017/18 production is estimated at 8.3 million 480 lb bales based on near-final arrival data from the Pakistan Cotton Ginners Association. Differences of opinion remain over area and yield. There were strong indications of good yields heading into harvest, but arrivals pointed to lower production. One possibility is that area was overstated. While the official area estimate remains at 2.8 mha, it is still under review and could be reduced. For now, OAA Islamabad is adopting a lower estimate of 2.6 mha pending a final official figure. Lower area is in keeping with the higher yields observed during harvest.

Pakistan mainly produces medium staple cotton. Lint quality continues to be an issue within the industry -- the quality of the picking and ginning results in varying bales sizes and high levels of foreign matter. Additionally, farmers often plant multiple varieties as a hedge against poor germination rates. Hence, identifying specific grades or properties from a particular variety is not done.

Status of Bacillus Thuringiensis (Bt) Cotton:

Pakistan continues to make progress towards approving and implementing the regulations that will modernize its seed and biotechnology regulatory systems. The Seed Amendment Act 2015 has been promulgated and the seed rules approved for implementation. Simultaneously, the Plant Breeders' Rights (PBR) Act (which will provide intellectual property protection) is also approved and implementing rules are currently in the review process. Similarly, the previously-suspended biotech review system is functioning. It is possible that all three of these regulations will be operational in 2018, opening Pakistan to the official introduction of modern biotechnology, whether from the private or public sector, for the first time in its history. Note that the prior introduction of now-dated cotton events was the result of the informal adoption and spread of those technologies. While those events were eventually recognized officially, the regulatory structure that is currently moving towards final approval will allow the official introduction of new technologies.

In Pakistan, the first Bt cotton was informally introduced about 15 years ago and quickly spread before a regulatory or intellectual property system was in place to regulate it. That older event, which now covers an estimated 95 percent of cotton area, continues to dominate the biotech cotton sector - presenting a challenge to farmers due to backcrossing, weak gene expression, and growing ineffectiveness against bollworms especially pink bollworms. At present more than 80 Bt. Cotton varieties having the single gene i.e. Cry1Ac (MON531 event) are available to farmers and a couple of varieties having double genes i.e. Cry1Ac + Cry2Ab (CEMB-2 event) are in the pipeline.

Consumption:

MY 2018/19 consumption is forecast at 10.7 million 480 lb bales (13.7 million 170 kg bales or 2.3MMT). Consumption is largely unchanged over the past decade and the modest year-to-year increase reflects a higher domestic crop tempered by higher cotton prices. Industry sources are also hopeful that improving electricity supplies will enhance productivity. The European Union has

extended the Generalized System of Preferences "Plus" treatment for Pakistan through 2019 which could also lend some support to consumption.

Cotton continues to face competition from other man-made fibers and manufacturers in Asia. Still, textiles continue to play an important role in Pakistan's economy. The textile sector is the largest industrial sector in Pakistan and accounts for about 40 percent of the industrial labor force and employs 10 million people according to Pakistan Economic Survey 2016-17. The integrated cotton and textile sector includes 1,200 ginneries, 523 textile units, and 400 cottonseed crushers and oil refiners. China's increased investment in Pakistan's energy and infrastructure sectors could help to spur future growth in the textile sector.

On January 10, 2017 the Government of Pakistan announced an incentive package worth $ 1.7 billion to boost the country's exports of textile products. The package included a number of tax incentives and is scheduled to expire on June 30, 2018, the conclusion of the current fiscal year.

Trade:

Pakistan is a net importer of cotton, primarily due to strong demand for better grades of cotton for blending and for producing export-oriented quality textile products. Typical imports include upland and long staple cotton, as well as medium staple cotton, to augment domestic supplies for processing and re-export. Pakistan's imports during MY 2018/19 are likely to fall as domestic production improves. Despite sizeable imports, Pakistan continues to export small volumes of cotton during harvest and 2018/19 exports are forecast at 400,000 480 lb bales. 2016/17 trade estimates reflect official data.

Table 1: Cotton Trade Statistics:

(Quantity in Metric Tons)

MONTH/YEAR	IMPORTS			EXPORTS		
	MY 2015/16	MY 2016/17	MY 2017/18	MY 2015/16	MY 2016/17	MY 2017/18
August	7,546	16,723	2,122	12,679	4,202	4,531
September	3,429	14,318	2,860	24,618	4,176	12,500

October	7,831	18,597	10,012	9,073	7,033	7,901
November	62,585	10,369	16,099	1,406	2,849	4,648
December	97,050	13,914	15,651	1,858	1,544	1,915
January	65,483	36,654	51,338	1,551	707	1,074
SUB TOTAL	**225,924**	**110,575**	**98,082**	**51,185**	**20,541**	**32,569**
February	66,976	71,636		519	522	
March	52,486	90,250		624	493	
April	52,464	81,821		240	622	
May	33,589	72,896		258	282	
June	22,707	23,865		539	103	
July	15,079	14,745		2,390	731	
TOTAL	**487,225**	**465,788**		**55,755**	**23,264**	

Source: Pakistan Bureau of Statistics (PBS), Government of Pakistan

Policy:

Pakistan maintains minimal tariff restrictions on cotton imports. However, there is a tendency to impose tariffs during harvest and to limit the flow of cotton across the land border with India. During July to December 2017, the Government imposed a tariff of 4% and a sales tax of 5% on imported cotton, but exempts domestic cotton from the sales tax. The tariff and sales tax were dropped to zero for imported cotton starting in January 2018 to facilitate supplies to the textile sector. Pakistan has also discouraged imports along the land border with India by raising phytosanitary concerns over open trucks, preferring instead to have cotton arrive via shipping container at the Port of Karachi. Imports of cotton from India have dropped in recent years and Pakistan has diversified its imports from other origins.

In March 2018, Pakistan's cabinet-level Economic Coordination Committee (ECC) shifted oversight of the cotton sector from Textile Industry Division to the Ministry of National Food Security and Research.

Currently, the Government of Pakistan's Textile Policy 2014 - 2019 is in operation. The Policy aims to double textile exports from $13 billion to $26 billion, through increased value addition, by 2019. Key features of the textile policy include budgetary support, drawback of certain local taxes and levies, duty free import of machinery, fiber diversification, product diversification, small and medium enterprise development, enactment of domestic labor laws, establishment of a world textile center, and revitalization of projects like the Pakistan Textile City. Thus far, textile exports have actually declined from $13.5 billion to $12.4 billion according to State Bank of Pakistan data.

Along with sugarcane, wheat, and rice, cotton is considered one of the key crops in Pakistani agriculture. Farmers benefit from subsidized fertilizer, power, and seeds. Still, yields are below what seems possible given the fact that much of the crop is irrigated. Improved germplasm and seed quality seem key to enhancing productivity, along with improved incentives from ginners and spinners for improved cotton quality along the value chain.

Production, Supply and Demand Data Statistics:

Cotton	2016/2017		2017/2018		2018/2019	
Market Begin Year	Aug 2016		Aug 2017		Aug 2018	
Pakistan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	2400	2400	2800	2600	0	2800
Beginning Stocks	2615	2615	2265	2265	0	2440
Production	7700	7700	8200	8300	0	8800
Imports	2400	2400	2700	2600	0	2400
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	12715	12715	13165	13165	0	13640
Exports	125	125	300	300	0	400
Use	10300	10300	10400	10400	0	10700
Loss	25	25	25	25	0	30
Total Dom. Cons.	10325	10325	10425	10425	0	10730
Ending Stocks	2265	2265	2440	2440	0	2510
Total Distribution	12715	12715	13165	13165	0	13640
Stock to Use %	21.73	21.73	22.8	22.8	0	22.61
Yield	699	699	638	695	0	683
(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)						