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# GAIN Report

Global Agricultural Information Network

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## **Pakistan**

### **Cotton and Products Annual**

#### **Cotton and Products**

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**Report Highlights:**

Pakistan's MY 2011/12 cotton production is forecast at 10.9 million (480 lb) bales, 25 percent higher than last year's production level and the second largest harvest on record. MY 2010/11 cotton production is estimated at 8.7 million bales, down 12 percent from the preceding year. In 2010, the Government of Pakistan (GOP) formally approved nine biotech cotton varieties (8 open pollinated and one hybrid) for cultivation. The GOP is in the process of increasing the cotton cess by 150 percent to enhance R&D activities for increasing cotton productivity in the country. MY 2011/12 cotton consumption is forecast at 11.5 million bales, 8 percent higher than Post's revised estimate for MY 2010/11. Pakistan MY 2011/12 imports are projected at 1.6 million bales, exceeding the 2010/11 import estimates by 29 percent. Ending stocks in MY 2011/12 are expected to remain relatively tight and are forecast at 2.7 million bales.

## **Executive Summary:**

Pakistan's MY 2011/12 cotton crop is forecast at 10.9 million (480 lb) bales. Cotton area harvested in MY 2011/12 is forecast at 3.3 million hectares; 25 percent higher than last year. The robust increase in acreage is attributed to harvested acreage lost due to last year's floods and record world cotton prices which encouraged farmers to plant more cotton. The early sowing of cotton is becoming more widespread in Pakistan and comes at the expense of area planted to wheat. The production of organic cotton is also gaining ground in the Baluchistan province. Last year, Baluchistan farmers planted an estimated 200 to 300 hectares.

In 2009 the Government of Pakistan (GOP) approved nine varieties of biotech cotton; 8 open pollinated and one hybrid variety. These varieties are available for commercial cultivation during the 2011/12 planting season.

The GOP, through the Pakistan Central Cotton Committee (PCCC), is in the process of increasing the cotton cess by 150 percent from Rs.20 to Rs.50 per bale (\$0.23 to \$0.58). An estimated \$8.14 million is expected to be generated from the tax increase in MY 2011/12. The monies are intended to help strengthen research and development activities for enhancing cotton productivity in the country.

Pakistan's cotton bale weight is unstandardized ranging from 155 Kg to 170 Kg. The GOP maintains 170 Kg bales weight in official transactions. To ensure consistency, Post has based bale calculations on an average weight of 163 Kg.

Pakistan's cotton consumption for MY 2011/12 is forecast at 11.5 million (480 lb) bales, 8 percent higher than Post's revised estimate for MY 2010/11. Cotton consumption in MY 2010/11 decreased 9 percent compared to the previous year due to tight supplies and higher domestic and international cotton prices. Pakistan is a net importer of cotton due to strong domestic demand for better grades of cotton. Pakistan imports are projected at 1.6 million bales in MY 2011/12, exceeding the 2010/11 import estimates by 29 percent.

The Government of Pakistan follows a free trade policy for cotton with no quantitative restrictions or duties on either imports or exports. In MY 2011/12, an anticipated recovery in local production and imports is expected to help build inventory stocks. Though ending stocks are forecast to increase by 8 percent to 2.7 million bales, Pakistan's cotton stocks will remain relatively tight.

Progressive textile mills are shifting their focus to the production of higher quality products, particularly for the export market. In the face of rising prices and continued contamination problems, the import of Upland cotton is increasingly attractive. Consequently, Pakistan has become a significant cotton importer, especially for U.S. Upland and Pima cotton.

## **Commodities:**

Cotton

## **Production:**

Pakistan is the world's 4<sup>th</sup> largest producer and 3<sup>rd</sup> largest consumer of cotton. It is the country's most important non food cash crop and the lifeline of Pakistan's textile industry. It accounts for 8.6 percent of the value added in agriculture and 1.8 percent of Pakistan's GDP. Textiles account for about 55 percent of Pakistan's foreign exchange earnings. The textile and clothing industry remains the main driver of the economy in terms of foreign currency earnings and job creation. Millions of farmers are directly associated with the cultivation, harvest, and the sale of cotton. Cotton production supports Pakistan's largest industrial sector, comprised of over 400 textile mills, 1,000 ginneries, and 300 oil expellers.

## **Cotton Production**

Pakistan's MY 2011/12 cotton lint production is forecast to be the second largest harvest on record at 10.9 million (480 lb) bales, equivalent to 2.37 million metric tons (MMT), a 25 percent increase from the last year's flood reduced crop. MY 2010/11 cotton production is estimated at 8.7 million bales, down 12 percent from the preceding year. The decrease in production is attributed mainly to last year's historic flooding, which resulted in the loss of 330,000 hectares of cotton planted area. Cotton area harvested in MY 2011/12 is forecast at 3.3 million hectares; 25 percent higher than last year. The robust increase in acreage is also in response to this year's record cotton prices. Pakistani farmers view cotton as more profitable than competing crops (rice, sugarcane and sunflower). Statistical data indicates that between July 2009 and March 2010 domestic cotton prices increased by more than 140 percent. Seed cotton prices during this period ranged from Rs. 1750 to Rs. 4200 per 40 kg.

The GOP, through the Pakistan Central Cotton Committee (PCCC), is in the process of increasing the cotton cess (a local tax or levy) in an effort to strengthen research and development activities for enhancing cotton productivity in the country. The assessments will increase existing fees by 150 percent from Rs.20 to Rs.50 per bale (standard bale of 170 Kg). An estimated \$8.14 million is expected to be generated by the increased tax in My 2011/12.

Pakistan's cotton crop is traditionally planted from late April through June and is harvested in the fall. Planting area and production strategy is influenced by a number of factors including international and domestic market trends, relative prices of competing crops, input availability, weather forecast, and government policy.

In most of Pakistan's cotton growing areas, early sowing of cotton, especially with biotech seeds, is steadily increasing. It is estimated that half a million acres will be planted earlier this year due to the success of last year's early sowing. Field reports indicate that growers have started planting cotton as early as January, three months earlier than the normal planting season (April - June). Farmers are following this trend because earlier sown cotton has a better chance of resisting Cotton Leaf Curl Virus (CLCV) and other pest attacks and plants attain enough strength to endure heavy monsoon rains.

This change in cropping pattern, however, does have repercussions as it is likely to impact wheat and sunflower production. Most of the biotech cotton seeds in Pakistan are derived from pirated material.

Pakistan's cotton bale weight is unstandardized ranging from 155 Kg to 170 Kg. The GOP maintains 170 Kg (375 lbs.) bales weight in official transactions. To ensure consistency in this report, Post has based local bale calculations at an average weight of 163 Kg; whereas, the PSD table maintains the International standard of 480 lbs. bale.

Pakistan's cotton yields have been stagnant for a number of years having peaked in MY 2007/08. The main factors for the low yields are: lack of availability of quality seeds, late wheat harvesting resulting in delayed cotton planting, excessive rains at the time of sowing, high temperatures at the flowering stage, incidence of CLCV, pest attacks and use of improper biotech seeds. The production of organic cotton is gaining ground in the Baluchistan province. Last year, Baluchistan farmers planted an estimated 200 to 300 hectares successfully.

The MY 2011/12 cotton crop yield is forecast to be higher due to the higher use of approved Bt cotton varieties, improved management practices, and availability of better quality inputs. Pakistani farmers, inspired by increased cotton production in India and China are keen to cultivate biotech cotton varieties, especially in the core cotton-producing areas of Punjab and Sindh. This year's production forecast is based on the assumption of normal weather conditions, low pest infestation, and good market prices.

The major threat to Pakistan's cotton industry is the prevalence of the cotton leaf curl virus (CLCV) and sucking pests like mealy bugs, white fly, aphid, etc. At present, no biotech resistant variety is available against the CLCV and cotton sucking pests. Even the Bt cotton is vulnerable to the CLCV. The virus has adversely affected Pakistan's cotton crop during the last couple of years. The development of local biotech varieties is expected to control Lepidopteron (chewing) insects. In 2011, U.S. and Pakistan's agricultural researcher initiated a collaboration program to address the CLCV problem.

### **Status of BT Cotton**

Last year, the Punjab Seed Council (PSC), a provincial seed approval authority, formally approved nine biotech cotton

varieties (8 open pollinated and one hybrid) for cultivation in the Punjab region. This was quickly followed by federal approval. Out of Pakistan's total cotton acreage of over eight million acres, the Punjab province accounts for around 80 percent of the cotton growing area.

The planting of biotech cotton in Pakistan began in the Sindh region in 1998, with the introduction of pirated Australian cotton (Bollgard I - MON 531 event). The variety was backcrossed with local varieties and multiplied for seed production. Pirated Bt cotton varieties in Punjab have not been as successful as in Sindh, due to their high vulnerability to CLCV attacks.

Since 2000, researchers in the Punjab region have been working on a program crossing a pirated variety (MON 531) with local seed varieties. Several trials even attempted to backcross biotech cotton with local varieties to develop tolerance against CLCV. The MON 531 biotech event is not patented in Pakistan and the GOP has utilized flexibilities in the WTO's TRIPS regulations to allow Pakistani farmers to use the patented materials. With the passage of time, these unapproved materials have spread in cotton growing areas of the Punjab. In 2009, these varieties covered more than 60% of the cotton area. Simultaneously, in Sindh, biotech cotton varieties cover nearly 100% of cotton planting which accounts for approximately one third of Pakistan's total cotton production. In effect, biotech cotton arrived in Pakistani fields well in advance of the government decision to declare biotech cotton legal in 2010. The GOP hopes that the approval of these eight open pollinated varieties will hold seed businesses liable for any illegal activities involving Bt toxin level/purity and also help implement a resistance monitoring program for approved Bt varieties.

The Bollgard II (stacked gene technology) seed is patented in Pakistan. Consequently, seed companies intending to use the technology will now have to enter into a licensing arrangement with Monsanto. The licensing process is expected to minimize pilferaging. The GOP has agreed to provide compensation to third parties affected by the planting of unapproved biotech varieties.

During the next two years, Pakistan is expected to grow only the recently approved Bt/hybrid varieties, as Bollgard II will not be available until the 2012/13 cotton planting season. Pioneer and Bayer crop sciences have also applied for Bt/Roundup Ready corn and cotton approval respectively. Lab and field trials are currently ongoing.

Pakistan's failure to approve seed legislation has hampered the development of a viable seed sector. Since 2009, the Seed Act Amendment and the Plant Breeder's Right Bill have been with the parliament and have not received due consideration. Approval of these proposed measures is vital to improve the investment climate for the introduction of new seed technology. The proposed legislation is also expected to help regulate the development of transgenic varieties by establishing infrastructure for maintaining standards and quality control.

### **Consumption:**

Pakistan's cotton consumption for MY 2011/12 is forecast at 11.5 million (480 lb) bales, 8 percent higher than Post's revised estimate for MY 2010/11. Cotton consumption in MY 2010/11 decreased by 9 percent compared to the previous year due to tight supplies and a run up in domestic and international cotton prices. In 2010, Pakistan experienced its worst floods in history, which adversely impacted cotton production by more than 1.5 million bales. In anticipation of tight supplies, the Pakistan cotton industry entered into contracts with Indian exporters. However, India reneged on its agreement, which consequently, exacerbated the Pakistan's already tight supply situation and contributed to even higher cotton prices.

Increased production and higher imports are expected to support an 8 percent increase in Pakistan's consumption in MY 2011/12. The projected consumption level of 11.5 million bales during MY 2011/12 is still below MY2009/10 levels, despite an anticipated 25 percent increase in domestic production and 29 percent increase in imports.

Despite tight supplies and higher international prices of cotton, the Pakistan's textile sector fared well, and was able to meet increased export demand. Comparison of textile products exported during the first seven months of FY 2010/11 (July-January) with the corresponding period last year shows a positive trend for Pakistan's cotton and textile trade. The trade data shows that gross exports of raw cotton increased by about 8 percent; cotton yarn exports increased by 36 percent; bed wear exports rose by 19 percent, towels exports posted a gain of 10 percent and cotton cloth excelled by 36 percent. Synthetic fiber exports registered a surge of 64 percent; knitwear increased by 29 percent and ready-made garments was up by 37 percent.

In order to support the above mentioned exports a number of cotton and textile products were imported during the same period. The statistics reveals that raw cotton import registered an increase of 81 percent, synthetic fiber imports increased by 53 percent, synthetic and artificial silk yarn imports increased by 60 percent, worn clothing import grew by 37 percent, whereas, imports of other textiles posted gains of 94 percent.

Synthetic and artificial silk yarn continues to gain acceptance among consumers seeking less-expensive blended products. The future growth in cotton versus synthetic fiber will be determined by the relative prices of the products. Share of synthetics is gradually increasing. Cotton-synthetic blends are popular due to their durability and ease in washing and maintenance.

### **Trade:**

Pakistan is a net importer of cotton, primarily because of strong demand for better grades of cotton. MY 2011/12 imports are projected at 1.6 million bales, 29 percent higher than imports during MY 2010/11. Post's estimate of MY 2010/11 cotton imports was reduced to 1.2 million bales. During the first seven months of FY 2010/11, Pakistan imported 185,251 MT of cotton and 149,029 MT of synthetic fiber. During the same period Pakistan exported 77,076 MT of low-quality cotton to different destinations.

Demand for better quality fabrics for the export market and specialized products for the domestic market is growing. Thus, Pakistan's textile industry is expected to increasingly rely on imported U.S. Pima cotton and contamination-free upland cotton for the production of higher quality textile products. Pakistan is one of the largest importers of U.S. Pima/ELS cotton, particularly for its specialized export industry.

Pakistani firms often import Upland cotton for their export programs. This is due to contamination problems with the local cotton supply, particularly with alien fibers such as polypropylene and jute. The problem occurs during harvesting and handling and causes havoc in the industry by creating yarn of different yarn strengths and dye uptake. Estimates suggest that contamination raises costs by 10 percent. To address this problem, some mills have standardized their blend for export markets, with a predefined origin and percentage of imported cotton in the product.

### **Cotton Tariffs:**

The Government of Pakistan follows a free trade policy for cotton with no quantitative restrictions or duties on either imports or exports. The European Union considered granting GSP preference to Pakistan's textiles as a mechanism to help the country cope with the effect of the devastating floods. However, due to the complications of the WTO rules the proposal is still in pendency.

### **Stocks:**

Post's estimate of MY2010/11 ending stocks was reduced to 2.5 million bales. During MY 2011/12, an anticipated recovery in local production and imports is anticipated to help build up stocks. Ending stocks are forecast to increase by 8 percent to 2.7 million bales, but is expected to remain at relatively tight position. Most mills will be covered through August - December 2011, when the bulk of Pakistan's domestic crop comes on to the market.

### **Policy:**

Pakistan's economy is heavily dependent on the cotton and textile sectors, which accounts for 7.3 percent of the value-added in agriculture and about 1.6 percent of GDP. Cotton and textile products are Pakistan's largest exports, accounting for over 55 percent of its global exports. Hence, growth in the national economy is essentially linked to the volume and value of cotton and its by-products. Major components of Pakistan's strategy to increase cotton production include: increasing cotton area, encouraging use of certified seeds, discouraging late cotton sowing, subsidizing fertilizers, and developing a focused media campaign.

Higher input costs, electricity load shedding, and other energy related crises in the country are taking their toll on cotton production. Growers in remote areas have limited access to alternative sources of energy. The high cost of inputs –water,

fertilizer, pesticides etc combined with escalating operating costs will impact cotton cultivation and productivity. A growing concern is the reduced availability of canal water during peak sowing season (April-June) for cotton. This situation is compounded in rural areas where irrigation via tube wells is powered by electricity.

**Production, Supply and Demand Data Statistics:**

Cotton Pakistan	2009/2010			2010/2011			2011/2012		
	Market Year Begin: Aug 2009			Market Year Begin: Aug 2010			Market Year Begin: Aug 2011		
	USD A Offici al	Old Post	New Post	USD A Offici al	Old Post	New Post	USD A Offici al	Old Pos t	New Post
Area Planted	0	0	0	0	0	0	0	0	0
Area Harvested	3,000	2,980	2,980	2,900	2,650	2,650	0		3,300
Beginning Stocks	3,458	4,688	4,688	2,933	3,958	3,958	0		2,500
Production	9,600	9,920	9,920	8,800	8,600	8,700	0		10,900
Imports	1,500	1,800	1,800	1,400	2,042	1,242	0		1,600
MY Imports from U.S.	0	0	0	0	0	0	0		0
Total Supply	14,558	16,408	16,408	1,3133	14,600	13,900	0		15,000
Exports	700	730	730	350	400	700	0		800
Use	10,900	11,695	11,695	10,200	11,175	10,675	0		11,475
Loss	25	25	25	25	25	25	0		25
Total Dom. Cons.	10,925	11,720	11,720	10,225	11,200	10,700	0		11,500
Ending Stocks	2,933	3,958	3,958	2,558	3,000	2,500	0		2,700
Total Distribution	14,558	16,408	16,408	13,133	14,600	13,900	0		15,000
Stock to Use %	25	35	32	24	27	23	0		24
Yield	697	725.	725.	661	706.	714.	0		720
TS=TD	0	0	0	0	0	0	0	0	0

**Author Defined:**