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Pakistan

Cotton and Products Annual

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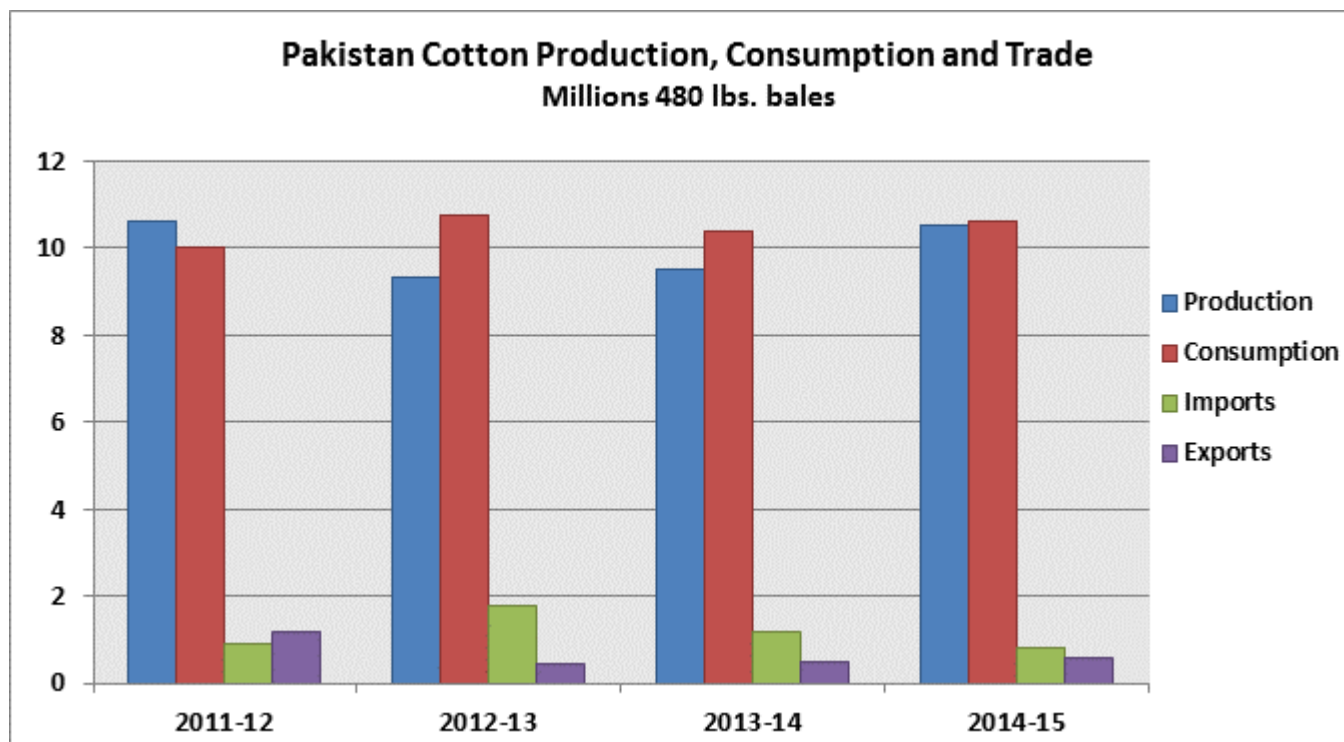
Report Highlights:

Pakistan's 2015/16 cotton production is forecast at 10 million 480 lb bales, down slightly from the current year as yields are forecast lower than the near record level achieved in 2014. 2015/16 cotton consumption is forecast higher as Pakistan is benefiting from expanded textile exports to the European Union under the Generalized System of Preferences "Plus" program. Imports of cotton are expected to surge to 2.0 million 480 lb bales to meet higher demand and offset the decline in production. Pakistan has announced its 2014 – 2019 export policy and its intention to double the value of textile exports over the next five years, principally by shifting more value addition to Pakistan.

Cotton Overview

Cotton is Pakistan’s main industrial crop and is planted on 15 percent of arable land during the “Kharif” or monsoon season from May to August. There is a small spring crop from February to April. Production is concentrated in two provinces with Punjab accounting for nearly 75 percent and Sindh nearly 25 percent of area. For the most part, cotton is produced by small farmers cultivating less than five hectares of land. An estimated 1.6 million farmers grow cotton.

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. The sector also generates eight percent of Gross Domestic Product and over 50 percent of foreign exchange earnings. The integrated cotton and textile sector includes 1,000 ginneries, 425 textile mills, and 300 cottonseed crushers and oil refiners.



Commodities:

Cotton

Production:

Pakistan’s MY (Aug/Jul) 2015/16 cotton production is forecast at 10 million 480 lb bales, equivalent to 2.2 million metric tons (MMT). Farmers are grappling with lower commodity prices across the board and cotton area is forecast at 2.95 million hectares, unchanged from the revised 2014/15 official estimate. Farmers in cotton growing areas have limited alternative planting options. Rice, corn, and sugarcane are all possibilities, but, at this stage, there do not appear to be any crops that would be

significantly more remunerative. In addition, some of the alternatives do not perform well in cotton growing areas. Hence, cotton area is not expected to change significantly. Cotton yields are forecast at 738 kg per hectare, relatively high compared to recent years, but by no means a record. There are several factors that point to strong yields including increased supplies of water for irrigation; a 10 percent increase in the supply of certified seeds (though only 45 percent of cotton seeds are certified); and adequate fertilizer and credit supplies.

MY 2014/15, cotton production is estimated at 10.5 million 480 lb bales from 2.95 million hectares, a record yield of 775 kg per hectare. Both area and production are based on official estimates from the Pakistan Bureau of Statistics (PBS). Heavy late season rains and flooding proved far less damaging to the crop than some had predicted. In September 2014, in an effort to boost farm prices, the Government of Pakistan announced a cotton intervention price, a price much above the prevailing market price to procure up to 1.0 million 170 kg bales through the state-run Trading Corporation of Pakistan (TCP). The program had little effect on the market and the potential losses from the program limited purchases to 95,000 170 kg bales. TCP is likely to auction these bales in the open market.

The Federal Committee on Cotton (FCC), a group of experts from federal and provincial institutes and farmers from Punjab and Sindh, has established a production target for MY 2015/16 at 12.1 million 480 lb bales from an area of 3.1 million hectares which equates to a very aggressive yield of 850 kg, much higher than the FAS Pakistan forecast.

Pakistan primarily produces medium staple cotton. Small quantities of traditional short staple varieties are produced, but volumes are diminishing. Quality continues to be an issue within the industry -- the quality of the picking, the addition of water to seed cotton to boost weight, ginning that results in varying bales sizes, and high levels of foreign matter continue to affect quality. Additionally, farmers often plant multiple varieties as a hedge against poor germination rates. Hence, identifying specific grades or properties from a particular variety is difficult.

Status of Bt Cotton

Pakistan's have farmers rapidly adopted *Bacillus Thuringiensis* (Bt) cotton since it was first introduced informally during 2002 in the province of Sindh. Bt cotton now accounts for about 95 percent of cotton area. The technology first spread informally but the single Bt event was eventually approved by the government and both the private and public sector are producing local varieties with the Bt event. Concerns about the regulatory system have prevented companies from introducing new biotechnology products since then. Pakistan currently has three critical regulatory acts awaiting approval. The Plant Breeders' Rights Act, Amendments to the 1976 Seed Act, and the Biosafety Law have all been pending in various stages of the federal and legislative approval processes for a number of years and, if approved, would address a number issues such as expanding the role of the private sector, establishing a varietal registration procedure, and clarifying the role of the federal and provincial governments in regulating the seed industry and new technologies. While Pakistan first established a biosafety regulatory system in 2005, the passage of the 18th Amendment to the Constitution that "devolved" a number of functions to the provinces has cast uncertainty over which regulators have oversight over the approval of new seed technologies. Until the regulatory environment is more certain, the introduction of new biotech events appears unlikely. Local seed firms have developed few cotton hybrids, preferring

instead to backcross the Bt gene into traditional varieties because hybrids have not performed as well as expected.

Pakistan faces a number of potential yield-reducing challenges. Cotton Leaf Curl Virus continues to pose a threat and farmers face incursions from pests like White Fly, Mealy Bugs, and Aphids. Additionally, the older Bt technology in Pakistan provides limited resistance to Pink Boll Worm which can affect yields, especially if weather conditions are wet and cloudy prior to harvest. Because the Bt gene is backcrossed multiple times into local cotton varieties to create a stable variety, gene expression can be less than ideal resulting in increased susceptibility to boll worms. Similarly, with over half of the seed uncertified, germination rates are low and farmers must use excess amounts of seed to achieve adequate plant populations, but the unpredictability of germination rates tends to result in reduced plant populations.

Consumption:

MY 2015/16 cotton consumption is forecast to increase to 11.3 million 480 lb bales, up seven percent from the current marketing year estimate. The textile sector continues to benefit from the European Union’s (EU) late 2013 decision to grant Generalized System of Preferences “Plus” status to Pakistan. The status provides tariff and quota-free access to Pakistani products entering the EU and textile exports have benefitted significantly, resulting in an expected increase in consumption. Maintaining a consistent energy supply is a persistent concern for the industrial sector, but the government has taken steps of late to prioritize energy supplies for industries like the textile sector, a step that bodes well for cotton consumption.

To some degree, Pakistan’s domestic cotton quality suffers from a lack of rigor along the value chain. Additionally, most production is medium staple and Pakistan imports a significant quantity of long staple cotton for producing quality fabrics the for export market. Pakistan also imports medium staple cotton to augment its domestic supplies. 2015/16 imports are forecast at a sizeable 2.0 million 480 lb bales to meet the needs of the textile sector and the expectation that production will be slightly lower.

Trade:

Pakistan is a net importer of cotton, primarily because of 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 as high end textiles. MY 2015/16 imports are projected at 2.0 million bales. Despite sizeable imports, Pakistan continues to export cotton and 2015/16 exports are forecast at 500,000 480 lb bales. 2014/15 exports are on track to reach 600,000 480 lb bales and the 2012/13 estimate reflects official data. Demand for better quality fabrics for the export market and specialized products for the domestic market are growing. Thus, Pakistan’s textile industry is expected to increasingly rely on imported long staple and quality cottons to produce high quality textile products.

Table 1: Cotton Trade Statistics

(Quantity in Metric Tons)

MONTH/YEAR	IMPORTS			EXPORTS		
	MY 2012/13	MY 2013/14	MY 2014/15	MY 2012/13	MY 2013/14	MY 2014/15

August	20,023	9,022	7,757	2,365	14,031	9,461
September	9,662	8,691	8,374	11,095	17,638	19,068
October	13,027	9,306	7,812	18,781	8,506	15,876
November	13,393	9,904	15,539	7,304	16,684	16,016
December	40,444	24,403	8,461	5,645	15,956	12,220
January	78,690	62,615	13,412	7,282	8,933	14,344
February	62,602	47,233	-	10,879	5,406	-
March	59,574	35,762	-	11,522	9,912	-
April	39,850	18,153	-	7,227	7,560	-
May	36,372	10,570	-	5,009	4,080	-
June	21,938	15,197	-	4,361	719	-
July	15,389	6,263	-	5,246	1,851	-
TOTAL	410,964	257,119	61,355	96,716	111,276	86,985

Source: Federal Bureau of Statistics, Government of Pakistan

Cotton Tariffs

The Government of Pakistan follows a free trade policy for cotton with no quantitative restrictions imports and exports.

Stocks:

Trade sources consistently indicate that the industry typically maintains stocks to meet 2-3 months of consumption depending on market prices. Sources indicate that stock levels continue to reflect this general pattern and MY 2015/16 ending stocks are projected at 2.7 million bales.

Policy:

Cotton and textiles are a critical component of Pakistan's economy. Thus any policy affecting cotton yield, production, consumption, marketing, import and export have serious implications for the national economy. In February 2015, the Government of Pakistan announced its 2014-2019 Textile Policy. The Policy aims to double textile exports from \$13 billion to \$26 billion, through increased value addition. The policy also seeks to facilitate investment of an additional \$5 billion in machinery and technology, the increased use of man-made fibers, an increase in the garment sector's share of production from 28 per cent to 45 per cent, expanded use of information and communication technologies, and the development of textile "clusters" that locate textile plants near one another to maximize the use of infrastructure. Other key initiatives under the new policy include the creation of a Technology Up-Gradation Fund (TUF), low interest rate loans, and tax-free imports of machinery for garment makers. Loans under the Export Finance Scheme (EFS) will be provided at 7.5 percent (two to three percentage points below prevailing interest rates in Pakistan) to garment exporters. The policy will also focus on small and medium enterprises by improving the domestic weaving sector; setting up textile industry clusters, industrial cities, garment parks, and a weaving city at Faisalabad; and introducing product development centers in order to widen the product range to children's wear, lingerie, beachwear, leisure wear, technical textiles, geo-textiles, and medical textiles.

Production, Supply and Demand Data Statistics:

Units: Area (1000 HA); Production, Supply, Consumption, Trade and Stocks (1000 480 lb. Bales); Yield (KG/HA)

Cotton Pakistan	2013/2014		2014/2015		2015/2016	
	Market Year Begin: Aug 2013		Market Year Begin: Aug 2014		Market Year Begin: Aug 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	
Area Harvested	3,000	2,900	3,050	2,950	0	2,950
Beginning Stocks	2,710	2,710	2,475	2,475	0	2,550
Production	9,500	9,500	10,400	10,500	0	10,000
Imports	1,200	1,200	800	800	0	2,000
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	13,410	13,410	13,675	13,775	0	14,550
Exports	510	510	600	600	0	500
Use	10,400	10,400	10,500	10,600	0	11,325
Loss	25	25	25	25	0	25
Total Dom. Cons.	10,425	10,425	10,525	10,625	0	11,350
Ending Stocks	2,475	2,475	2,550	2,550	0	2,700
Total Distribution	13,410	13,410	13,675	13,775	0	14,550
Stock to Use %	23	23	25	23	0	23
Yield	689.	713.	728.	775.	0.	738.
TS=TD	0	0	0	0	0	0