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Pakistan

Cotton and Products Annual

Cotton and Products Annual 2013

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Report Highlights:
Pakistan's cotton production in marketing year (MY) 2013/14 (August/July) is projected at 10.2 million (480 lbs) bales, up 9 percent from last year's production. MY 2012/13 cotton production is estimated at 9.35 million bales, down 6.5 percent from the MY 2011/12 crop. Pakistan is expected to import 2.2 million bales in MY 2013/14, while MY 2012/13 imports are revised up to 2.9 million bales. In MY 2013/14, cotton consumption is expected at 11.63 bales, virtually unchanged from MY 2012/13. During MY 2013/14, Post expects a significant increase in imports of Pima cotton to 25,000 bales from 5,000 bales in MY 2012/13.

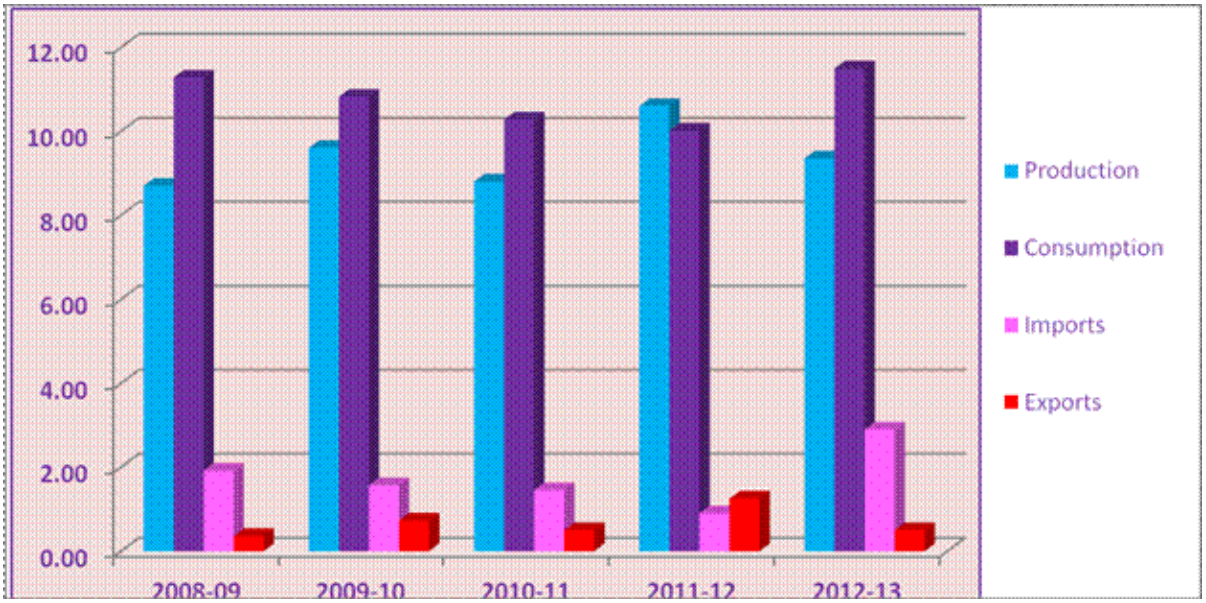
Executive Summary:

Pakistan's MY 2013/14 cotton crop is forecast at 10.2 million (480 lb) bales, nine percent higher than the MY 2012/13 production level of 9.35 million bales, due to favorable weather conditions that helped reduce the incidence of cotton leaf curl virus (CLCV) disease. In MY 2012/13, cotton production, affected by a widespread prevalence of CLCV disease, is estimated at 9.35 million bales, down 12 percent from the flood impacted MY 2011/12 crop. Cotton area harvested in MY 2013/14 is forecast at 2.94 million hectares (ha), marginally lower than current year's harvested acreage, as farmers are eschewing flood prone areas. Domestic Bt cotton varieties now account for nearly 90 percent of total cotton area cultivated (2.6 million ha).

Pakistan is a net importer of cotton due to strong domestic demand for better grades of cotton. Pakistan's MY 2013/14 imports are projected at 2.2 million bales, down 24 percent over MY 2012/13 estimates of 2.9 million bales due to increased production, and a buildup in stocks in MY2012/13. MY 2013/14 consumption is forecast at 11.6 million bales, marginally higher than the current year's estimate of 11.5 million bales and 16 percent higher than the consumption level of MY 2011/12.

The Government of Pakistan follows a free trade policy for cotton with no quantitative restrictions or duties on either imports or exports. The proposed EU grant of GSP-Plus status to Pakistani textiles is currently under consideration. The EU has finally granted a 15-month tariff concession for select textile products as part of a humanitarian deal to help Pakistan recover from its 2010 devastating flood. While the special flood-relief grant is temporary, expectations of increased trade under a GSP-Plus regime are high. GSP-Plus would increase textile exports by 15 to 20 percent to the EU to over $5 billion, which in turn would spur demand for U.S. Pima and upland cotton, according to textile manufacturers.

Pakistan Cotton Production, Consumption and Trade
Millions 480 lb. bales



Source: Federal Bureau of Statistics, Government of Pakistan

Commodities:
Cotton

Production:
Cotton Overview

Cotton is Pakistan's main industrial crop grown on 15 percent of the country's arable land. Production is concentrated mainly in two provinces, Punjab and Sindh, and cultivated by 1.6 million farmers mostly with small holdings of less than five hectares of land.

Pakistan is the fourth largest producer and third largest consumer of cotton, in addition to being the largest exporter of cotton yarn in the world. Cotton is the country's foremost non-food cash crop and is considered the backbone of the national economy. The cotton sector, along with the textile and apparel industry, accounts for 11 percent of GDP, and 60 percent of the country's export value, while employing 35 percent of the industrial labor force. Consequently, cotton production supports Pakistan's largest industrial sector comprised of over 400 textile mills, 1,000 ginneries, and 300 cotton seed oil crushers and refiners.

Pakistan's cotton production faces major phytosanitary threats, such as the widely prevalent and lethal Cotton Leaf Curl Virus (CLCV), propagated by the increasingly pesticide-resistant white fly. At present, no biotech resistant variety is available against CLCV and cotton sucking pests. In 2011, to help Pakistan sustain its cotton industry, a USG funded project "Cotton Productivity Enhancement Program" was launched to address the issue of CLCV in Pakistan. The project is a collaborative effort by U.S. and Pakistani agricultural scientists and researchers to find disease resistant cotton varieties using an integrated approach.

Pakistan's cotton crop is traditionally planted from late April through June and is harvested in the fall. Pakistan mainly produces medium grade cotton as a result of the cultivated seed varieties and production methods used. The quality of cotton seed is a recurrent problem with purity and germination issues due to unsuitable picking methods, adulteration of seed cotton with water and foreign matter, mixed seed, and grades.

Cotton Production

Pakistan's MY 2013/14 raw cotton production is forecast at 10.2 million (480 lbs) bales, equivalent to 2.2 million metric tons (MMT), up 9 percent from the MY 2012/13 estimated crop. The increase in expected MY 2013/2014 production assumes normal favorable weather conditions that help reduce stress-inducing factors related to CLCV susceptibility. Although MY 2013/14 harvested cotton area is projected at 2.94 million ha, a 2 percent decrease from the previous year, the rise in production is due to an expected rebound in yield anticipated to 755 kg/ha, 11 percent higher than the previous year. The reduced area is a consequence of the recurring incidence of torrential rains and flooding, and by relatively lower cotton prices as

farmers shift cropping patterns in flood prone areas to more profitable alternatives that yield better returns under those conditions.

MY 2012/13 estimated production of 9.35 million bales is down 12 percent from the previous year's flood-affected crop. The decrease in production is the result of a nine percent decrease in planted area, late water availability at sowing, shortages of electricity, wet weather during crop maturity, and widespread prevalence of CLCV disease. Tight water supplies were a consequence of reduced water flow due to slow glacier melt, exacerbated as severe power shortages limited the ability of electric pumps to draw sufficient well water. The issue was further compounded as high temperatures prevailed in June 2012 – the peak cotton sowing/germination period– reducing the seeds' viability, and stressing the plants to the point where they were more-susceptible-than-usual to attacks of CLCV. Finally, torrential rains and floods during September affected the cotton growing areas of Punjab, damaging a significant area of standing cotton crop.

Pakistan cotton yields have been largely stagnant for the last several years. Factors responsible for this include: lack of availability of certified/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 cotton leaf curl virus, pest attacks, and the improper use of biotech seeds and pesticides by farmers in the major cotton growing areas of Punjab and Sindh.

Status of BT Cotton

In Pakistan, significant investments have been made to support the research and development of indigenous genetically engineered (GE) plants, as Bt cotton seed availability has been a catalyst in transforming cotton production. The Government of Pakistan promulgated a biosafety regulatory system in 2005 and since then has achieved some success in regulating the commercialization of GE plants, particularly approving two cotton biotech events for commercial use. Cotton farmers have benefited with the introduction of Bt cotton varieties, as 90 percent of the crop is GE.

Bt cotton was developed locally using Monsanto's transformation event MON531 (Cry 1A), subsequently other varieties were developed using a domestic isolated gene. In 2010, Pakistan formally approved ten cotton varieties and one cotton hybrid for commercial use, resulting in the first officially commercial cotton crop cultivated in 2010-11, although non-officially it has been cultivated since 2002. In February 2012, the Punjab Seed Council (PSC), a provincial seed approval authority, formally approved 11 biotech and 3 conventional cotton varieties for cultivation in the Punjab region. At the federal level, no new varieties have been approved since 2010; the process has been stalled due to political reasons. This has hindered production as over 15 promising cotton varieties have completed field trials and are awaiting for the completion of their risk assessment, some of them have been waiting as long as 2 years, clearly exceeding the stipulated timeframe of 90 days applicants should expect a response outlined in the regulations.

More information on developments in cotton biotechnology can be accessed by visiting post's biotech report:

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Agricultural%20Biotechnology%20Annual_Islamabad_Pakistan_7-24-2012.pdf

Consumption:

MY 2013/14 consumption is forecast at 11.6 million (480 lbs) bales, marginally higher than MY 2012/13 revised estimate of 10.5 million bales, and up 16 percent over MY 2011/12. The increase in consumption in the last two years is due to lower cotton prices from record MY 2011/12 prices, a strong regional economy (i.e. China and the Middle East), and the textile and apparel industries' ability to overcome the widespread energy shortages affecting the country. The key driver of the increase in consumption is an anticipated record export of cotton yarn to China, up 63 percent over the last year.

EU Parliament's approval for concessions on customs duties for textile items, effective October 2012 to December 2013, to help Pakistan's economy recover from the devastating 2010 floods, will result, according to trade source estimates, in increased textile exports of $150 million during the aforementioned period.

The concession of generalized system of preferences (GSP) – Plus status to the Pakistani textile sector is under consideration by the European Union. Textile Ministry sources revealed, if approved, GSP-Plus could increase textile exports by 15- 20 percent leading to exports valued at $5 billion per year to the EU. The decision is likely to enhance cotton consumption by textile mills and the spinning sector by 1.5 million bales which in turn would spur increased import demand for U.S. Pima and upland cotton. The European Union is Pakistan's largest trading partner, receiving almost 30 percent of total textile exports – valued at $4 billion.

Trade:

Pakistan imports a significant quantity of better grades of cotton to produce quality fabrics for export markets. It also requires imported cotton to blend with its domestic cotton to produce textiles and apparel for export to countries that do not require high-valued products.

In MY 2013/14, imports are projected at 2.2 million bales, 25 percent lower than MY 2012/13 estimates of 2.9 million bales, as Pakistan increases its supplies of cotton due to the expected higher domestic production in MY 2013/14. However, in MY 2013/14, the textile industry expects a significant increase in imports of Pima cotton to 25,000 bales from 5,000 bales in MY 2012/13, due to lower Pima prices and increased demand for high-end textiles and fabrics.

Pakistani cotton exports are expected at 800,000 bales in MY 2013/14, up 60 percent from the previous year based on higher local output.

Table Showing Cotton Trade Statistics

(Quantity in Metric Tons)

MONTH/YEAR	IMPORTS			EXPORTS		
	MY 2010/11	MY 2011/12	MY 2012/13	MY 2010/11	MY 2011/12	MY 2012/13
August	29,921	6,342	13,545	1,271	10,797	2,365
September	17,511	4,592	10,448	1,702	10,291	11,058

October	14,719	15,550	13,309	27,880	12,532	18,772
November	17,614	14,471	13,386	35,253	21,866	7,301
December	29,975	7,219	41,483	16,093	20,958	5,635
January	29,051	18,606	83,252	5,733	28,831	7,281
February	61,135	16,268	-	14,228	47,827	-
March	45,451	12,520	-	14,021	39,320	-
April	19,513	10,446	-	14,595	41,745	-
May	19,714	17,692	-	7,694	15,529	-
June	13,249	36,436	-	5,249	2,431	-
July	16,378	22,013	-	4,414	1,055	-
TOTAL	**314,231**	**178,155**	**175,423**	**198,133**	**253,182**	**52,412**

Source: Federal Bureau of Statistics, Government of Pakistan

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 U.S. ELS/Pima cotton and contamination-free upland cotton for producing higher quality textile products. Pakistan is one of the largest importers of U.S. Pima/ELS cotton. In MY 2013/14 demand for extra long staple cotton is likely to increase as Pakistan focuses on higher-end consumer products for western markets, especially to the EU, provided the proposed GSP status is granted to Pakistan.

Pakistani firms often import upland cotton for blending for their export programs. This is due to contamination problems with local cotton supplies, 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 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 pre-defined 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.

Stocks:

The estimate of MY 2013/14 ending stocks was increased to 3 million bales due to more accurate government and industry estimates. During MY 2012/13, decreased domestic production has been offset by a significant increase in imports to maintain the level of stocks at 3 million bales. Most mills will be covered through August - December 2013, when the bulk of Pakistan's domestic crop is sent to market.

Policy:

The GOP recognizes the cotton and the textile industries as key sectors for Pakistan's economic development. From the beginning of the WTO, the GOP has implemented the Balancing, Modernizing Restructuring (BMR) plan to ensure it would capitalize on a more liberalized trading environment. From 1999 onwards, the industry invested a total of approximately US$ 6.4 billion to establish appropriate infrastructure and modernize its mills and factories. However, since then it has lagged with its competitors, as its industry has failed to diversify and upgrade its production capabilities by using better materials and technologies in the production value chain. In light of this, the GOP is considering a very ambitious five-year program, setting aside funds for research and development, capacity-building, and infrastructure development. Under the plan, the GOP is targeting production of 22 million bales (70 percent increase in production), increase exports to 3 million bales, a yarn recovery rate of 90 percent, and technological upgrades in facilities. The policy is under consideration, however, Post and other sectors find that the GOP would be hard-pressed in achieving these goals.

Higher input costs, electricity load shedding, and other energy-related issues in the country are taking their toll on cotton production as farms rely on the local grid to irrigate their crops, additionally few farmers can afford to use fuel powered pumps due to the prevailing high oil prices. However, the textile sector has been able to overcome energy shortages by generating its own electricity, complemented with the government's policy of prioritizing electricity for the textile industry, indicative of the textile sector's importance in the economy.

There continues to be no effective institutional control to follow the national standard for bale weight at 170 kg /bale. During My 2012/13 the weight of the bales produced by Pakistan Cotton Ginneries ranged between 145 to 165 kg. The GOP maintains170 kg (375 lbs.) bales weight in official records and trade transactions. To ensure consistency in this report, bale calculations are based on an average weight of 155 kg and then converted to the international standard of 480 lbs/bale.

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	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Aug 2011		Market Year Begin: Aug 2012		Market Year Begin: Aug 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	3,000	3,000	3,000	3,000	0	2,940
Beginning Stocks	2,582	2,582	2,807	2,807	0	3,032
Production	10,600	10,600	9,300	9,350	0	10,200
Imports	900	900	2,750	2,900	0	2,200
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	14,082	14,082	14,857	15,057	0	15,432
Exports	1,250	1,250	400	500	0	800
Use	10,000	10,000	11,500	11,500	0	11,607
Loss	25	25	25	25	0	25
Total Dom. Cons.	10,025	10,025	11,525	11,525	0	11,632
Ending Stocks	2,807	2,807	2,932	3,032	0	3,000
Total Distribution	14,082	14,082	14,857	15,057	0	15,432
Stock to Use %	25	25	25	25	0	24
Yield	769.	769.	675.	679.	0.	755.
TS=TD	0	0	0	0	0	0