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Pakistan

Cotton and Products Annual

Cotton and Products Annual 2012

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Report Highlights:

Pakistan's MY 2012/13 cotton production is forecast at 11 million (480 lb) bales, 10 percent higher than last year's production and the second largest harvest on record. In MY 2011/12 cotton production is estimated at 10 million bales, up 15 percent from the flood impacted MY 2010/11 crop. A reduction in wheat acres planted last winter has led to greater early sowing of cotton and could cover as much as 15 percent of total projected planted crop area in 2012.

Pakistan is forecast to import 1.3 million bales in MY 2012/13, 13 percent lower than estimated imports for MY 2011/12. During MY 2012/13 post projects 50,000 bales of ELS/Pima cotton imports, 11 percent higher than current year's import estimate. Ending stocks in MY 2012/13 are projected to remain at 2.8 million bales.

Executive Summary:

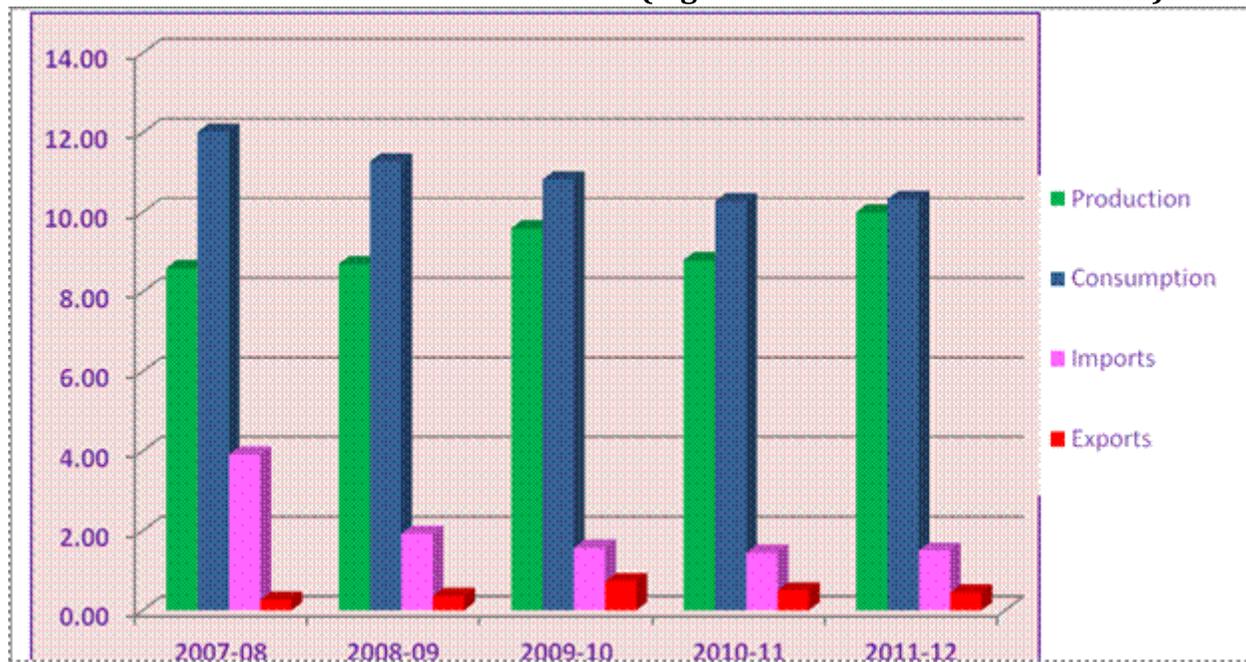
Pakistan’s MY 2012/13 cotton crop is forecast at 11 million (480 lb) bales, 10 percent higher than the adjusted current marketing year production level and the second largest harvest on record. Pending no major flooding problems, cotton area harvested in MY 2012/13 is forecast at 3.3 million hectares, 10 percent higher than this year. The early sowing of cotton is projected to be higher this year as many farmers opted to not grow wheat or sunflowers as a rotational crop. In 2012, the Government of Pakistan (GOP) approved 11 biotech and 3 conventional varieties of cotton, which will be available for commercial cultivation during the 2012/13 planting season.

Pakistan’s cotton consumption for MY 2012/13 is forecast at 11.5 million (480 lb) bales, 10 percent higher than Post’s revised estimate for MY 2011/12. Cotton consumption in MY 2011/12 remained unchanged against last year’s consumption of 10.5 million bales.

Pakistan is a net importer of cotton due to strong domestic demand for better grades of cotton. Pakistan’s MY 2012/13 imports are projected at 1.3 million bales, 13 percent lower than 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 waiver on custom duties is expected to enhance cotton consumption and trade. The grant of GSP status to Pakistani Textiles is also being considered by EU. Ending stocks are forecast to remain tight at 2.8 million bales.

Graph Showing Cotton Production, Consumption and Trade

(Figures in millions of 480 lb. bales)



Source: Federal Bureau of Statistics, Government of Pakistan

Commodities:

Cotton

Production:

Global positioning indicates that Pakistan is the 4th largest producer and 3rd largest consumer of cotton and also the largest exporter of cotton yarn in the world. Cotton is the country's most important non food cash crop and is considered the backbone of the national economy. It contributes 1.4 percent to GDP and 6.9 percent to the total value addition in agriculture (Economic Survey, Federal Bureau of Statistics, 2010-11). The textile and clothing industry remains the main driver of the economy in terms of revenue generation and job creation. 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 MY 2012/13 cotton lint production is forecast to be the second largest harvest on record at 11 million (480 lb) bales, equivalent to 2.4 million metric tons (MMT), 10 percent higher than the last year's crop. The projected forecast is 19 percent higher than the annual average production level over the last ten years. MY 2011/12 cotton production is estimated at 10 million bales, up 15 percent from the previous years' flood-affected crop. The increase in production is attributed mainly to enhanced productivity in Punjab province (51 percent increase in production over the last year). Punjab contributes 80 percent to total cotton produced in the country. The MY 2011/12 cotton crop in Sindh province, the second most important producer of cotton (20 percent), was badly affected by excessive rains/floods that destroyed around 1.5 million bales.

Production of cotton in Baluchistan is growing due to high relative prices and interest in growing organic cotton. Last year, Baloch farmers planted an estimated 40,000 hectares to cotton, which is expected to increase further again this year. Some foreign textile firms are conducting trials to grow organic cotton in the province and while initial results are encouraging, but an agreement to produce organic cotton on a commercial scale will depend on the security situation.

Cotton area harvested in MY 2012/13 is forecast at 3.3 million hectares, 10 percent more than last year and 9 percent higher than the annual average over the last ten years. Despite lower market prices that prevailed throughout the FY 2010/11 season and expected higher global international surpluses, farmers are increasing planted acreage in cotton. In Pakistan cotton is still more profitable to produce than competing crops (rice and sugarcane). Market data depicts that monthly average prices of raw cotton witnessed a 28 percent decrease during August – January 2011/12 compared with the same period the year before. Farmers opted for Bt cotton crop due to low input cost. Low incidence of cotton leaf curl virus on the early sown Bt cotton crop last year (MY 2011/12) also encouraged cotton growers to expand the area.

The Indus River System Authority (IRSA) projected that water availability for 2012/13 early Kharif (April-September) will be 15 percent below the normal level. This shortfall in water availability is expected to impose a constraint for the choice of crop to be grown. During the

Kharif season, water for irrigation mainly depends on river inflows sourced from snow and glacier melts. Lower water availability is likely to encourage greater cotton planted acreage, in the long run, compared to water intensive crops like rice and sugarcane.

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, inputs availability, weather forecast, and government policy.

Based on the last two years' successful results, early sowing of cotton, especially with biotech seeds, are steadily increasing. It is expected that during MY 2012/13 early sowing will cover 15 percent of the total area under cotton. Almost all of this early sowing will be planted with Bt Varieties. Farmers have adopted this technology because early- sown cotton has a better chance of resisting Cotton Leaf Curl Virus (CLCV) and other pest attacks. Moreover, plants attain enough strength to endure heavy monsoon rains and heat stress. This change in cropping pattern, however, does have repercussions as it is likely to impact wheat and sunflower planted area.

There continues to be no effective institutional control to follow the national standard for bale weight at 170 kg /bale. In My 2011/12 Pakistani Cotton Ginneries further reduced the bale weight to 145 kg to 155 kg. The GOP maintains 170 kg (375 lbs.) bales weight in official record and trade transactions. To ensure consistency in this report, Post has based local bale calculations at an average weight of 150 kg (last year factor used was 163 kg); whereas, the PSD table maintains the International standard of 480 lbs. bale.

The MY 2012/13 cotton crop yield is forecast to be higher due to the higher use of approved Bt and conventional cotton varieties, improved management practices, and availability of better quality inputs. Pakistani farmers, inspired by increased cotton production in neighboring countries like 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 normal weather conditions, low pest infestation, and fair market prices.

The major threats to Pakistan's cotton are the prevalence of lethal Cotton Leaf Curl Virus (CLCV) and the sucking pests like mealy bugs, white fly, aphids, etc. At present, no biotech resistant variety is available against CLCV and cotton sucking pests. Even Bt cotton is vulnerable to the CLCV. The virus has adversely affected Pakistan's cotton crop and has so far restricted the overall cotton production in Pakistan. The development of local biotech varieties is expected to control lepidopteron (chewing) insects. In 2011, a USG funded project "Cotton Productivity Enhancement Program" was launched to address the issue of CLCV in Pakistan. The project is aimed at initiating a collaborative effort by U.S. and Pakistani agricultural researchers to find a disease resistant cotton seed using an integrated approach.

Status of BT Cotton

The availability of Biotech cotton seed has acted as a catalyst in transforming agriculture in Pakistan. Since 2007, farmers have been benefitting from this technology. With the introduction

of Bt varieties, Pakistan's cotton sector has performed well despite the prevalence of harsh weather conditions and floods.

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.

Scientific sources reveal that in all of the Biotech varieties developed, material from the Bollgard I (MON 531) event was used by backcrossing 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.

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 pilferage. The GOP through Ministry of Food and Agriculture (MINFA) had earlier agreed to provide compensation to third parties affected by the planting of unapproved biotech varieties. After the passage of 18th constitutional amendment the Federal Ministry of Food and Agriculture was devolved and the provincial governments were authorized to make policy decisions in agriculture. The Punjab Government and Monsanto developed a protocol to share the latest technology, but the agreement was never signed and will likely not be signed due to difference over how Monsanto seeds would be distributed from farmer to farmer.

Over the next two years, Pakistan is expected to grow only the recently approved Bt/conventional varieties, as Bollgard II will not be available until Pakistan has an agreement with a multinational company possessing this technology. Pioneer and Bayer Crop Sciences have also applied for Bt/Roundup Ready corn and cotton approval respectively. Lab and field trials are currently ongoing. The National Biosafety Center (NBC) the government entity that approves GM varieties has already allowed double gene (Cry 1Ac & Cry 2Ab) Bt cotton for field testing. It is claimed that the seed is to be developed internally by the Center of Excellence in Molecular Biology (CEMB), Punjab University Lahore. If this event will be deregulated, the test material will be exploited for commercial cultivation by the local seed companies during MY 2013/14 cotton season. Similarly, National Institute for Biotechnology and Genetic Engineering (NIBGE) Faisalabad is also working on placing three genes (Cry1 Ac, Cry 2Ab and EPSPS) in local cotton varieties. These genes are also claimed to be developed in Pakistan and are expected to be available in MY 2015/16 provided approval is granted in a timely manner.

Pakistan's continued 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 stuck in committee in the parliament. Approval of this legislation 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. After devolution, Punjab and Sindh governments have started pursuing Seed Act and Plant Breeders Rights bill with their own amendments.

Consumption:

Pakistan's cotton consumption for MY 2012/13 is forecast at 11.5 million (480 lb) bales, 10 percent higher than MY 2011/12 revised estimate, and 6.6 percent more compared with the last

ten years average of 10.8 million bales. Cotton consumption in MY 2011/12 remained at the previous year's level of 10.5 million bales. During crop years 2010 and 2011, Pakistan experienced ravaging floods impacting cotton production by more than 1.5 million bales each year. In anticipation of tight supplies, Pakistan's cotton industry intended to import cotton from India but the Indian government's abrupt ban during both the years created trust issues among Pakistani and international cotton traders.

The 2010/11 cotton crop was hit hard by devastating floods affecting millions of people who needed urgent assistance. In order to seek international support Pakistan approached the European Union (EU) through WTO requesting a three-year waiver on trade tariffs. The WTO's Council for Trade in Goods approved an EU waiver on customs duties for 75 items, mostly textile related to help Pakistan's economy recover from flood damages. These concessions are likely to be effective from early 2012 after ratification by the EU parliament and will apply for two years. The grant of GSP status to Pakistani Textiles is also being considered by the EU.

The European Union is Pakistan's largest trading partner, receiving almost 30 percent of its exports - worth 3 billion Euros (\$3.9 billion). Pakistan's trade with the EU consists mainly of textiles, which account for more than 70 percent of its exports to European countries. According to industry estimates, the proposed waiver could increase textile exports by \$150 to \$200 million per annum. The decision is likely to enhance cotton consumption by textile mills and spinning sector by 1.5 million bales.

Excess cotton supplies followed by lower international prices of cotton this year and increased demand during MY 2012/13 is likely to raise the consumption in Pakistan. Pakistan imports a significant quantity of better grade/contamination free cotton for producing quality fabrics for export. Post expects a 10 percent increase in imports of U.S. ELS/Pima and upland cotton in MY 2012/13. Increased local production augmented with significant imports are expected to support a 10 percent increase in Pakistan's consumption in MY 2012/13.

The GOP has identified textiles as a key priority sector, and is taking necessary steps to introduce appropriate policies and incentives that can spur expansion and draw more private sector investment in this value added sector. Simultaneously, during 1999 onwards, Pakistan's textile industry has invested US\$ 6 billion in a Balancing, Modernization and Replacement (BMR) program. With the present expected gains in textile production, the industry is supposed to keep pace with its competitors.

Pakistan's cotton and textile sector is performing well in spite of prevailing energy shortages and increased violence in recent months. In order to cope with the energy shortage, the large textile factories are building alternative energy sources.

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. MY 2012/13 imports are projected at 1.3 million bales, 13 percent lower than MY 2011/12 estimates. Post's estimate of MY 2011/12 cotton imports was reduced to 1.5 million bales due to enhanced local supplies.

Table Showing Raw Cotton Trade Statistics

(Quantity in Metric Tons)

MONTH/YEAR	IMPORT		EXPORT	
	MY 2010/11	MY 2011/12	MY 2010/11	MY 2011/12
August	29,921	6,342	1,271	10,797
September	17,511	6,592	1,702	10,291
October	14,719	15,550	27,880	12,532
November	17,614	14,242	35,253	21,433
December	29,975	7,216	16,093	20,829
January	29,051	18,598	5,733	28,517
February	61,135	-	14,228	-
March	45,451	-	14,021	-
April	19,513	-	14,595	-
May	19,714	-	7,694	-
June	13,249	-	5,249	-
July	16,378	-	4,414	-
TOTAL	314,231	68,540	198,133	104,399

Source: Federal Bureau of Statistics, Government of Pakistan

During the first six months of MY 2011/12 (Aug- Jan), Pakistan imported 68,540 MT (315,000 bales of 480 lbs) of cotton, 127,836 MT of synthetic fiber and 123,088 MT of synthetic and artificial silk yarn. During the same period Pakistan exported 104,399 MT (479,775 bales) of cotton to different destinations.

Imports and Exports of Textile Group Commodities

(Value in Million U.S Dollars)

Commodities	IMPORTS			EXPORTS		
	July –Jan 2011/12	July –Jan 2010/11	% Change	July –Jan 2011/12	July –Jan 2010/11	% Change
Raw Cotton	257	427	-39.9	208	179	+16
Cotton yarn	-	-	-	933	1,167	-20
Bed Wear	-	-	-	1,049	1,131	-7
Towels	-	-	-	378	396	-4.6
Cotton Cloth	-	-	-	1,328	1,296	+2.5
Synthetic Fiber	318	290	+9.6	306	326	-6
Synthetic & Artificial Silk Yarn	362	287	+26	-	-	-
Knit wear	-	-	-	1,186	1,273	-6.8
Readymade Garments	-	-	-	942	912	+3.3
Worn Clothing	84	70	+16.6	-	-	-
Other Textile Items	405	378	+7	-	-	-

Source: Federal Bureau of Statistics, Government of Pakistan

Comparison of raw cotton and textile products imported during the first seven months of FY 2011/12 (July-January) with the corresponding period last year indicate more imports of

processed products compared to raw cotton import. During this period, raw cotton imports decreased by 40 percent, whereas, synthetic fiber, synthetic and artificial silk yarn, worn clothing and other textiles posted gains of 9.6 percent, 26 percent, 16.6 percent and 7 percent respectively. Simultaneously, comparison of raw cotton and textile products exported during the first seven months of FY 2011/12 (July-January) with the corresponding period the year before indicate mixed trend for Pakistan's cotton and textile trade. The trade data shows that gross exports of raw cotton increased by 16 percent; cotton yarn exports decreased by 20 percent; bed wear exports fell by 7 percent, towels export was down by 4.6 percent and cotton cloth was up 2.5 percent. Synthetic fiber and knitwear exports registered a decrease of 6 percent and 6.8 percent respectively. Exports of ready-made garments showed an increase of 3.3 percent.

Synthetic fiber 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 these products. Share of synthetic fiber is gradually increasing. Cotton-synthetic blends are popular due to their durability and ease in washing and maintenance.

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. During MY 2012/13 post expects an import of 50,000 bales of extra long staple cotton compared to 45,000 bales estimated for MY 2011/12. This import forecast is based on expected increased demand. The demand is likely to increase because of Pakistan's focus to produce higher-end consumer products for western markets, especially the EU countries provided the proposed waiver on custom duties goes in to effect as expected.

Pakistani firms often import upland cotton for blending especially for their export programs. This is due to contamination problems with the 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 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 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. Following Pakistan's request, the WTO's Council for Trade in Goods has approved a European Union (EU) waiver on customs duties for 75 items, mostly textile related to help Pakistan's economy recover from the MY 2010/11 devastating floods. The grant of generalized system of preferences (GSP) status to Pakistan's textiles as a mechanism to help the country is also being considered by the EU. According to sources (in the commerce ministry), Pakistan has fulfilled necessary conditions to qualify for GSP

plus status by 2014. The concessions currently granted under the GSP regime would lapse at the end of 2013.

Stocks:

Post’s estimate of MY2011/12 ending stocks was increased to 3 million bales due to more accurate government and industry estimates. During MY 2012/13, despite an anticipated recovery in local production, enhanced consumption is likely to reduce stocks. Ending stocks are forecast to decrease by 7 percent to 2.8 million bales, and is expected to remain at relatively tight position. Most mills will be covered through August - December 2012, when the bulk of Pakistan’s domestic crop is sent to market.

Policy:

Cotton and textile products are Pakistan’s largest exports, accounting for about 60 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. Thus any policy affecting cotton yield, production, consumption, marketing, import and export have serious implications for the national economy.

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, controlling CLCV disease, managing integrated pest management and developing a focused media campaign.

Higher input costs, electricity load shedding, and other energy-related issues in the country are taking their toll on cotton production and its consumption by the textile sector. 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. Another constraint is the reduced availability of canal water during peak sowing season (April-June). This situation is compounded in the rural areas where irrigation via tube wells is powered by electricity. Sindh province is affected more by water shortages as underground water is brackish and is not fit for irrigation purposes.

Production, Supply and Demand Data Statistics:

Cotton Pakistan	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Aug 2010		Market Year Begin: Aug 2011		Market Year Begin: Aug 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	2,800	2,800	3,200	3,000	0	3,300
Beginning Stocks	3,082	3,958	2,707	2,700	0	3,025
Production	8,800	8,700	10,600	10,000	0	11,000
Imports	1,475	1,442	1,000	1,500	0	1,300
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	13,357	14,100	14,307	14,200	0	15,325
Exports	625	900	700	700	0	1,000
Use	10,000	10,475	10,300	10,450	0	11,500
Loss	25	25	25	25	0	25
Total Dom. Cons.	10,025	10,500	10,325	10,475	0	11,525
Ending Stocks	2,707	2,700	3,282	3,025	0	2,800
Total Distribution	13,357	14,100	14,307	14,200	0	15,325
Stock to Use %	25	25	30	28	0	24
Yield	684.	714	721.	725	0	736
TS=TD	0	0		0	0	0

