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Pakistan

Cotton and Products Annual

Cotton and Products

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Report Highlights:

Pakistan's MY 2010/11 cotton production is forecast at 10.55 million (480 lb) bales, 6 percent higher than the estimated 9.92 million bales harvested in MY 2009/10. The GOP has approved nine biotech cotton varieties marking the first legal introduction of agricultural biotechnology into Pakistan. The approval provides legal cover for farmers using pirated cotton seeds cultivated with unknown parentage. MY 2010/11 cotton consumption is forecast at 11.95 million bales, up slightly from the last year due to enhanced business activity. Due to the tightening supply of yarn, the GOP slapped a 15 percent duty to curb the export of all types of yarn.

Executive Summary:

Pakistan's MY 2010/11 cotton crop is forecast at 10.55 million (480 lb) bales. The availability of quality seed and higher prices are contributing to higher production. The early sowing of cotton is also becoming more common and comes at the expense of wheat. The production of organic cotton is gaining ground in the Baluchistan province.

The Government of Pakistan (GOP) has recently approved nine varieties of biotech cotton, which will be available for commercial cultivation during 2010/11 planting season. In CY 2009, Monsanto received approval for the introduction of biotech and hybrid technology in Pakistan.

There is a growing concern regarding how Pakistan calculates the weight of cotton bales. Official figures can be misleading and potentially distort the reported size of Pakistan's cotton crop as well as imports and exports. Higher market prices and tighter supplies resulted in increased yarn exports and shortage of yarn in the domestic market. The GOP initially imposed quota restrictions to slow down exports, but was subsequently replaced with a 15 percent duty on all yarn exports.

Reduced availability of irrigation water, high fuel prices, and power shortages are taking a toll on this year's cotton production and trade. More 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, local mills are finding the importation of Upland cotton increasingly attractive. Consequently, Pakistan has become a significant cotton importer, especially for U.S. Upland and Pima cotton.

Commodities:

Cotton

Production:

Cotton is an important cash crop and a lifeline of Pakistan's textile industry. It accounts for 7.3 percent of the value added in agriculture and 1.6 percent of Pakistan's GDP. Textiles account for about 55 percent of Pakistan's foreign exchange earnings. Millions of farmers are directly associated with the cultivation, harvest, and 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 2010/11 cotton lint production is forecast at 10.55 million (480 lb) bales equivalent to 2.3 million metric tons (MMT). The MY 2009/10 estimate is revised up to 9.92 million bales. The production increase is attributed mainly to higher prices received by producers over the last several years. Cotton area harvested in MY 2010/11 is forecast at 3.1 million hectares; 4 percent higher than last year due to enhanced competitiveness of the cotton crop relative to competing crops (e.g. rice and sunflower). The increase in cotton area is mainly the direct result of higher domestic and international prices. Statistics show that domestic cotton prices have increased over 60 percent between July 2009 and March 2010.

In most of Pakistan's cotton growing areas, early sowing of cotton, especially with biotech seeds, is on the rise. It is estimated that half a million acres will be planted earlier this year due to last year's success of early sowing. Field reports indicate that growers have already started cotton planting in February, two months earlier than the normal planting season (April - June). Farmers are following this trend because cotton sown earlier has a better chance of resisting pest attacks and

enduring heavy monsoon rains, which result in better yields. This change in cropping pattern, however, does have repercussions as it is likely to impact wheat and sunflower production.

There is a growing concern of how Pakistan calculates the weight of its cotton bales. Internationally, two standards of bale weights are maintained- 480 lbs (217.7Kg) and 375 lbs (170Kg). The GOP maintains 170 Kg bales weight in official/business transactions. The trade reports that Pakistan's bales are less in weight than the established standard. In this regard Post's discussions with major cotton stakeholders (the Textile Ministry, Ministry of Food and Agriculture (MINFA), Pakistan Cotton Ginners Association (PCGA), the Textile Mills, the Karachi Cotton Association (KCA), the Trading Corporations of Pakistan (TCP) etc) revealed that bale weights range from 155 Kg to 170 Kg, with an average weight of 163 Kg. The GOP has, thus far, not employed any effective mechanism to deal with this problem. The main reason for this discrepancy is believed to be related to how business loans are procured. For example, Pakistan's financial institutions facilitate loans based on quantity (number of bales) rather than weight. Consequently, inflated bale numbers enable traders to receive higher loans. Another reason cited is frequent price fluctuations, whereby, higher prices lead to lower weight bales, and vice versa. Such misleading data is distorting Pakistan's cotton crop size and undermining the competitiveness and reliability of Pakistan's cotton and textile sectors.

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

Pakistan's cotton crop is typically 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 crop prospects in the international market, relative prices of competing crops, input availability, weather forecast, and government policy. The impact of severe energy and electricity shortages on farmers' income would be partially offset by anticipated higher cotton prices.

This year, cotton yield is forecasted to be higher due to enhanced farmers' confidence for cultivating 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. The production forecast assumes normal weather conditions, low pest infestation, and good 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 pests. Even the Bt cotton is vulnerable to the CLCV. The virus has badly afflicted Pakistan's cotton crop in the last couple of years. The development of local biotech varieties is expected to control Lepidopteron (chewing) insects.

Status of BT Cotton

In March 2010, the Punjab Seed Council (PSC), a provincial/state seed approval authority formally approved nine biotech cotton varieties for cultivation in Punjab, which is a key cotton producer in Pakistan. Out of Pakistan's total cotton acreage of over eight million acres, Punjab accounts for 80 percent of the cotton growing area. Cotton production and per acre yield over the decade remained stagnant due to a severe epidemic of the CLCV.

The introduction of biotech cotton in Pakistan first took place in Sindh with the spread of pirated Australian cotton (Bollgard I - MON 531 event) in 1998. The variety was backcrossed with local varieties and multiplied. The attempt to grow pirated Bt cotton varieties in Punjab has not been as successful due to their high vulnerability to CLCV attacks.

In Punjab, researchers started a backcrossing program, which mixed MON 531 with local seed varieties. Several trials even attempted to backcross biotech cotton with local varieties and obtain tolerance to CLCV. These biotech events were not patented in Pakistan, but the GOP has utilized loopholes in the WTO's TRIPS regulations, to allow Pakistan farmers to use the patented materials. With the passage of time these unapproved materials spread in cotton growing areas of the Punjab, and in 2009, covered more than 60% of the cotton area. In effect, biotech cotton arrived in Pakistani fields before the government made them legal in 2010.

Despite mediocre results with unapproved biotech cotton varieties, the Government of Punjab requested the federal government to approve nine biotech CLCV tolerant cotton seed varieties. Among the nine approved varieties, eight are open pollinated varieties (OPVs) while one is a hybrid. These varieties are: IR-1524, IR- 3701, FH-113, Ali Akbar 703, Ali Akbar 802, MG -6, Sitara -008, Neelam 121 and a hybrid GM-2085. These 9 varieties were thoroughly tested for their performance by the Pakistan Central Cotton Committee (PCCC) for a period of 1-2 years at ten different locations (five each in Sindh and Punjab). Moreover, standard operating procedures were established to measure the toxin levels and purity of these new biotech varieties.

Unlike in Punjab, the Sindh province does not have a problem with the CLCV. As a result, biotech cotton varieties cover nearly 100% of its planting area. Sindh accounts for approximately one third of Pakistan's total cotton production. The Sindh Seed Council (SSC) is expected to follow the Punjab government in granting approval to same local biotech varieties mentioned earlier.

Although the genes of the approved eight varieties are unknown, it is expected that their approval will bring some sanity in the seed business as owners will be held liable for any illegal activities. Moreover, the GOP could start Resistance Monitoring Programs after official approval of Bt varieties.

The Bollgard II (stacked gene technology) seed is patented in Pakistan and as a result, seed companies who want to use the technology will now have to enter into a licensing arrangement with Monsanto. The licensing process is expected to minimize pilfering. The GOP agreed to provide compensation to third parties negatively impacted by any unapproved biotech planted acreage.

During the next two years, Pakistan is expected to grow only the recently approved Bt/hybrid varieties, as Bollgard II will only be available starting in the 2012 season. Pioneer and Bayer crop sciences have also applied for Bt/Roundup Ready corn and cotton approval.

Two proposed pieces of legislation, the "Seed Act" Amendment and the "Plant Breeders' Rights" Bill, are making their way through the parliamentary approval process. Adoption of the two pieces of legislation will significantly improve the investment climate for the introduction of new seed technology, leading to enhanced agricultural productivity with better seeds and planting material. These would also help regulate the development of transgenic varieties by establishing infrastructure for maintaining standards and quality control.

Consumption:

Pakistan's cotton consumption for MY 2010/11 is forecast at 11.95 million (480 lb) bales, slightly higher than Post's revised estimate of 11.92 for MY 2009/10. Total domestic consumption during MY 2009/10 was 6 percent higher compared with the previous year. The raw cotton consumption has significantly increased as a result of a reduced crop in China and increasing demand for yarn in the Far East. The revival of global economy and increased demand for textile products are also positively impacting the local industry. This has resulted in significant increase in domestic and international prices.

As a result of tighter world cotton supplies, demand for Pakistani yarn has increased dramatically. In the first six months of this fiscal year (July/June) yarn exports increased by 50 percent relative to the same period last year. The large textile houses, which have back up power support, exploited the situation and exported raw cotton and yarn, creating yarn shortages in the country. This crisis divided the spinning and value-added sectors as the former demanded a ban on yarn exports, while the latter favored maintaining the status quo. Due to the smaller supplies of yarn, the value-added sector suffered badly giving rise to unemployment problems in major industrial cities. To address the situation, the GOP imposed quota restrictions on the export of yarn. In January 2010, the Cabinet Committee on Textiles imposed a monthly export quota of 50 million Kg, which was later reduced to 35 million kg. The All Pakistan Textile Mills Association (APTMA) opposed the move as they believed the policy was unrealistic and went against free market principles. APTMA representatives threatened to go on strike if a ban was imposed on the export of yarn. On the other hand, workers in the value-added sector started country wide protests against textile mills for creating shortages of yarn in the local market. Taking stock of the situation, in May 2010, the Cabinet Committee on Textiles withdrew the earlier decision of imposing quota restrictions and slapped a 15 percent regulatory duty on the export of all types of yarn. Trade sources believed the decision would help stabilize the situation.

During the first 6 months of FY 2009/10 (July-December), the following trends (in value/rupee terms) for Pakistan's cotton and textile trade were noted:

Gross exports of raw cotton surged by 109 percent; cotton yarn exports increased by 47 percent; bed wear exports rose by 1.6 percent; towels exports posted gains of 6.9 percent; and cotton cloth exports decreased 33 percent. Synthetic fiber exports registered an increase of 81 percent; knitwear down by 2.6 percent, ready-made garments decreased by 13 percent. Raw cotton import registered a decrease of 43 percent, whereas, synthetic fiber imports surged by 28 percent compared with the corresponding period of the previous year.

Synthetic fiber 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 in the domestic consumption. Cotton-synthetic blends are popular due to their durability and ease in washing and maintenance under tropical conditions.

Trade:

Pakistan is a net importer of cotton due to strong domestic demand for better grades of cotton. During the first seven months of FY 2009/10, Pakistan imported 238,759 MT and exported 142,401 MT of cotton.

Pakistan is one of the largest importers of U.S. Pima/ELS cotton for its specialized export industry. Given the need for higher-count yarns, better quality fabrics for the export market, and specialized products for the domestic market, 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. During CY 2009, Pakistan imported 153,079 MT of cotton valued at \$187 million compared with imports of 92,185 MT valued at \$160 million in CY 2008. This marked an increase of 66 percent in quantity and 17 percent in value.

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, mainly polypropylene and jute. The problem occurs during harvesting and handling. These alien fibers wreak havoc in the industry by creating yarn 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.

Stocks:

Based on enhanced consumption and reduced imports, post estimates a 13 percent reduction of stocks for MY 2009/10. In MY 2010/11, carryover stocks are forecast to increase based on increased production and higher imports of all grades of cotton from diverse origins. Most mills will be covered through October - December 2010, 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.

Serious water, electricity, 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 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	2008/2009			2009/2010			2010/2011		
		Market Year Begin: Aug 2008			Market Year Begin: Aug 2009			Market Year Begin: Aug 2010		
		USD A Official	Old Post	New Post	USD A Official	Old Post	New Post	USD A Official	Old Post	New Post
Area Planted		0	0	0	0	0	0		0	
Area Harvested		2,900	2,900	2,900	3,000	2,960	2,980	3,200	3,100	
Beginning Stocks		5,388	5,388	5,388	4,688	4,688	4,688	4,163	4,288	
Production		9,000	9,000	9,000	9,800	9,840	9,920	10,500	10,550	
Imports		1,950	1,950	1,950	1,700	2,000	2,000	1,900	2,100	
MY Imports from U.S.		0	0	0	0	0	0	0	0	
Total Supply		16,338	16,338	16,338	16,188	16,528	16,608	16,563	16,938	
Exports		375	375	375	750	250	400	700	500	
Use		11,250	11,250	11,250	11,250	11,340	11,895	11,400	11,925	
Loss		25	25	25	25	25	25	25	25	
Total Dom. Cons.		11,275	11,275	11,275	11,275	11,365	11,920	11,425	11,950	
Ending Stocks		4,688	4,688	4,688	4,163	4,913	4,288	4,438	4,488	
Total Distribution		16,338	16,338	16,338	16,188	16,528	16,608	16,563	16,938	
Stock to Use %		40	40	40	35	43	35	37	37	
Yield		676.	676.	676.	711.	724.	725.	714.	741.	
TS=TD		0	0	0	0		0		0	

