

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

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Pakistan

Post: Islamabad

Pakistan Announces Cotton Support Price

Report Categories:

Cotton and Products

Agriculture in the News

Trade Policy Monitoring

Approved By:

David Williams

Prepared By:

M. Shafiq Ur Rehman

Report Highlights:

The Government of Pakistan has announced a seed cotton support price of 34 cents per pound for the upcoming harvest, a significant increase over the prevailing farm price of 26 cents per pound. The state run Trading Corporation of Pakistan (TCP) will purchase up to one million 170 kg bales at the established rate in an effort to support market prices. According to farmers, farm prices had recently dropped below the cost of production and could have prompted farmers to reduce the number of pickings over the next few months, thereby lowering production. With competitively-priced cotton available from foreign suppliers including nearby India, the increase could squeeze ginning margins and limit private sector purchasing of cotton, possibly resulting in an increase in imports.

Pakistan's cabinet-level Economic Coordinating Committee (ECC) has announced that the Government of Pakistan will establish a support price for seed cotton of 34 cents per pound. The new price is significantly higher than the 26 cents per pound that farmers are currently receiving for their seed cotton. TCP will intervene in the cotton market to purchase up to one million 170 kg bales (about 6 percent of the crop) in an effort to create a price floor. With an estimated cost of production of 29 cents per pound, farmers are concerned about their bottom lines and have been pressing the government for some kind of action to support prices.

After procuring cotton, the TCP will likely store the cotton for eventual sale in the domestic market. TCP has some storage of its own, but could also pay ginners to store the cotton.

With relatively weak global prices, the decision to hike farm prices for cotton comes at an interesting time. Lint cotton is currently trading at 75 cents per pound in Karachi, while the Cotlook A index is at 70 cents per pound, and prices in India are at 73 cents per pound. It is not clear if TCP will succeed in raising farm prices given the downward pressure on ex-gin cotton prices and the relatively small volume that has been authorized for procurement. However, if TCP is able to push farm prices higher, ginning margins will likely be squeezed creating a disincentive for ginners to purchase raw cotton, a development that could lead to pressure for even more government procurement and/or an increase in imports from nearby India.