

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

Voluntary - Public

Clearance Office: Office of Global Analysis (OGA)

Date: 5/7/2009

GAIN Report Number:

Pakistan

Post: Islamabad

Pakistan Annual Cotton Report

Report Categories:

Cotton and Products

Approved By:

schatz

Prepared By:

Islamabad Staff/Joe Carroll

Report Highlights:

Pakistan's MY 2009/10 cotton production is forecast at 9.84 million (480 lb) bales, 5 percent higher than the estimated 9.37 million bales harvested in MY 2008/09. While the Government of Pakistan has only recently approved field trials for six BT cotton cases, an estimated 70 percent of the 2009/10 crop is believed to be planted in Bt. My 2009/10 cotton consumption is forecast at 11.365 million bales, down marginally from last year due to lower imports, which are forecast at 2.0 million bales. The US Chamber of Commerce and US-Pakistan Business Council have urged a review of US tariff policy on Pakistan and backed a proposal to make certain textile products made in the Afghan-Pakistan border regions duty-free.

Executive Summary:

Pakistan's MY 2009/10 cotton crop is forecast at 9.84 million (480 lb) bales. The increase in production is largely attributed to greater area planted, good prices, the introduction of new technology, and good management practices adopted by cotton growers. The early sowing of cotton is becoming more common and comes at the expense of wheat area harvested. The production of organic cotton has been introduced Baluchistan. The Government of Pakistan (GOP) has recently approved field trials for six cases of BT cotton, which are expected to available commercially in time for the 2010/11 planting season.

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 dwindling local supplies, 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. The European Union (EU) recently removed anti dumping duties on Pakistani textiles. The US Chamber of Commerce and US-Pakistan Business Council have urged a review of US tariff policy on imports of Pakistan textiles and have backed a proposal to make certain products made in the Afghan-Pakistan border regions duty-free.

General Information:

Production:

Cotton accounts for about 10 percent of Pakistan's agriculture GDP, and textiles account for about 55 percent of Pakistan's foreign exchange earnings. Cotton production supports Pakistan's largest industrial sector, comprised of over 400 textile mills, 1,000 ginneries and 300 oil expellers, thus providing an economic livelihood for millions of farmers and those employed along the entire cotton value chain.

Pakistan's MY 2009/10 cotton lint production is forecast at 9.84 million (480 lb) bales (2.1 million metric tons) compared to an estimated 9.37 million bales harvested in 2008/09. The production increase is attributed to higher prices received by producers in MY 2008/09, which remained significantly above the indicative price fixed by the government. This year, acreage under cotton is projected to increase slightly over the preceding year due to area substituted from other Kharif crops.

MY 2009/10 cotton area harvested is forecast at 2.96 million hectares; 4.2 percent higher than the last year. The larger area forecast is based as enhanced competitiveness of the cotton crop relative to competing crops (e.g., rice and sugarcane). In spite of last year's low returns compared with the MY 2007/08, the increase in MY 2009/10 area harvested is largely due to even lower returns realized in rice and sugarcane production. Pakistan is facing an increasing shortage of irrigation water. Cotton is less water intensive than rice and sugar cane thus making it an attractive choice for the farmers.

In most of the core and non-core cotton areas, early sowing of cotton is on the rise. Field reports indicate that growers have started planting cotton as early as February, more than two months earlier than the normal planting season (end April through June). The trend is evident in the bale arrival count at mid season. On October 1, 2006, total arrival was 1.0 million bales; on the same date in 2007 it was 1.8 million bales, an increase of 64.6 percent. On October 1, 2008, registered arrivals totaled 2.8 million bales, 52.3 percent higher than last season. Based on this trend it is likely that the cotton crop (2009/10 season) may start reaching the ginning factories in June with ginning operation starting by the end of that month. Farmers are planting their cotton earlier because early sown cotton has a better chance of resisting pest attack and heavy rains, thereby resulting in better yields and returns. But, this changing cropping pattern does have serious repercussions as it is likely to impact the wheat production by the same degree.

A gulf-based company, the Kings' Cotton Group (pvt) has recently undertaken the production of organic cotton in Baluchistan, with production estimated at about 2,000 bales. The company is seeking organic certification from the competent Pakistan authority. Future prospects for organic cotton appear promising due to potential demand and limited supply in the world market. The Pakistan Ministry of Food and Agriculture (MINFA) is also engaged in preparing a regional project to produce organic cotton as part of a project funded by the Common Fund for Commodity (CFC) under the advice of International Cotton Advisory Committee (ICAC), Washington D.C.

Pakistan cotton yields have been stagnant for the last several years. Factors responsible for the stagnant cotton production include: excessive rains at the time of sowing, high temperatures at the flowering stage, late wheat

harvesting resulting in a decline of area planted to cotton, incidence of Cotton Leaf Curl Virus, pest attack and improper production technology 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, and government policy. This year's severe energy and electricity crises is likely to impact cotton production as operating costs have increased significantly.

The production forecast assumes normal weather conditions and low pest infestation. This year, the cotton yield is forecasted to be higher due to improved management practices, greater experience with cultivating BT cotton varieties, availability of better quality inputs and the launching of a special media campaign. Pakistani farmers, inspired by increased cotton production in India and China, are keen to cultivate transgenic cotton varieties, especially in the core cotton-producing areas of Punjab and Sindh.

The major threat to Pakistani cotton is the prevalence of two equally disastrous diseases-- mealy bugs and cotton leaf curl virus (CLCV). At present, no resistant variety is available against these diseases. Even the BT cotton is vulnerable to these diseases. The menace has badly afflicted the crop in the last couple of years.

Status of BT Cotton

The National Biosafety Committee (NBC) of Environmental Pollution Agency (EPA) under the Ministry of Environment, Government of Pakistan (GOP) has recently approved field trials for six cases of BT cotton (Cry 1Ac - event MON 531) based on previous history of its safe usage in other parts of the world. The MON 531 events is not patented in Pakistan and the GOP is using flexibility in the TRIPS regulation of Data Exclusivity by allowing parties to use Biosafety data from other countries. At least six national seed companies have been given permission to conduct field trials. It will take another year for commercial approval and official approval of BT cotton, so the authentic GM seed will not be available till the 2010/11 season. Meanwhile, unapproved planting of BT cotton will likely surpass 70 percent of the planted area during MY 2009/10.

The GOP has also approved the import of BT cotton hybrid seed by Monsanto and the National Seed Company (Guard) from India. A separate approval was given to import BT cotton from China for evaluation.

Another positive development is the approval of plan proposed by Monsanto to introduce advanced GM crop technology into Pakistan. The approval was granted by the Economic Coordination Committee of the Cabinet (ECC). Under this land mark Monsanto will bring the advanced GM and hybrid seed technology to Pakistan. While the GOP decision on its part has promised to enact the required laws e.g. (Plant Breeders Rights & Seed Act) and their forceful enforcement. It is expected that this decision will pave the way for the establishment of a viable seed industry in Pakistan.

Production Policy

Pakistan's economy is heavily dependent on the cotton and textile sectors – which account for 8.2 percent of the value-added in agriculture and about 2 percent of GDP. Cotton and Textile products dominate exports, accounting for over 55 percent of the export value. Hence, growth in the national economy is strongly linked to the volume and value of cotton and by-products. Major components of the strategy to increase cotton production include increased area, enhanced tonnage of certified seed of approved varieties, use of a higher seed rate, discouragement of late cotton sowing, increased plantings, subsidizing fertilizers, assured availability of quality and insect-specific pesticides - particularly for sucking and chewing insects - and a focused media campaign.

The GOP announces a Minimum Support Price (MSP) for cotton at the start of each marketing season. The support price policy is a notional one and the Trading Corporation of Pakistan (TCP) acts as a third buyer in order to avoid price crashes and manipulation of the market by powerful lobbies, especially during the peak of harvest. The TCP intervenes in the market if prices fall below the MSP. During the past two years, prices generally remained above the MSP - thus, the TCP did not intervene in a big way. For MY 2008/09, the previous year's support price of Rs. 1025 per 40 Kg (\$1 = Rs. 80) was left unchanged. During the past two years, good returns on cotton production have encouraged farmers to use their resources efficiently and adopt better management practices.

Serious energy and electricity crises in the country are taking their toll on cotton production. Growers in remote areas have limited access to reliable sources of energy. The high cost of inputs combined with escalating operating costs will impact cotton productivity. A growing concern at present is the reduced availability of canal water during the peak sowing season for cotton. This is further compounded by electricity load shedding for 12 to 15 hours a day in rural areas which has considerably reduced supplemental irrigation through tube wells.

Consumption:

Pakistan's cotton consumption for MY 2009/10 is forecast at 11.365 million (480 lb) bales, marginally less than Post's estimate for MY 2008/09. The recent power crisis will adversely effect cotton consumption, especially for small operators with limited back-up power generation capacity. They may encounter serious problems in meeting their prior commitments. Sensing this critical situation, the large textile houses have invested in back-up power generation. The severe electricity shortfall expected from March to September 2009 will slow down industrial production while raising the cost of production and likely result in product quality issues. The bearish trend in world yarn and textile prices is also negatively affecting consumption.

Cheaper offerings for imported cotton from India and U.S. origins have kept a lid on an escalation of domestic lint prices.

During the first 6 months of FY 2008/09 (July-December), the following trends (in value/rupee terms) for Pakistan's cotton and textile trade were noticed. Gross exports of raw cotton surged by 321 percent; cotton yarn exports increased by 7.7 percent; bed wear exports rose by 14.7 percent; towels posted gains of 50.02 percent; and cotton cloth showed growth of 42.6 percent. Synthetic fiber exports registered an increase of 20.83 percent; knitwear increased by 28.16 percent, ready-made garments showed an increase of 11.32 percent. Raw cotton and synthetic fiber imports also increased by 1.51 percent and 51.11 percent respectively compared with the corresponding period of the previous year. Import of textile machinery recorded a decline of 20.41 percent during the first half of the financial year 2008/09.

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 their relative prices. The 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.

Table 2: Cotton and Synthetic Fiber Consumption

Year *	Cotton (MT)	Synthetics (MT)
2000/01	1,673,280	405,038
2001/02	1,755,669	409,557
2002/03	1,780,963	406,515
2003/04	1,933,679	468,982
2004/05	2,124,408	498,416
2005/06	2,407,560	525,000
2006/07	2,563,510	580,000

Source: Ministry of Industries and Ministry of Finance, Government of Pakistan

* July-June Marketing Year data based on reporting mills information; Textile Commissioners Organization

Table 3: Yarn and Fabric Production

Year *	Yarn (MT)	Cotton Cloth (Million Square Meters)
2000/01	1,721,000	490.2
2001/02	1,808,600	568.4
2002/03	1,915,160	576.6
2003/04	1,473,240	581.706
2004/05	1,770,340	842.292
2005/06	2,006,299	862.983
2006/07	2,727,555	1012.983

Source: Ministry of Industries and Ministry of Finance, Government of Pakistan

* July-June Marketing Year

Trade:

In MY 2008/09, Pakistan is projected to be a net importer of cotton due to strong domestic demand for better grades of cotton. During the first ten months of MY 2008/09, Pakistan imported 698,127 MT and exported 73,553 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 and better quality fabrics for the export market and specialized products demanded by the domestic market, Pakistan's textile industry is expected to rely increasingly on U.S. Pima cotton and contamination-free upland cotton.

Firms often import upland cotton for their export programs due to contamination problems with local cotton, 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 with different yarn strengths and dye uptake. Estimates suggest that contamination raises costs by 10 percent. Some mills have standardized their blend for export markets, with a predefined origin and percentage of imported cotton in the product.

This year, Pakistan has purchased significant quantities of short to medium staple cotton from India. Trade through land routes, more cost-effective than sea, has helped the domestic industry stay competitive despite the reduced crop. Buyers are focused on non-U.S. suppliers for medium grade cotton due to the significant price differential; however despite high freight charges importers of long staple cotton prefer U.S. origin due to high quality standards.

The European Union (EU) recently abolished its anti dumping duty on imports of bed linen from Pakistan which was imposed in March 2004. Initially, it was imposed at 13.1 percent; later gradually reduced to 9.9 %, 7.6 % and 5.8 %. The anti dumping duty rendered Pakistani exports uncompetitive against supplies from other countries. It is expected that removal of the duty will make Pakistani exports of bed linen more competitive and the country is likely to register an increase in its exports revenue from EU markets.

Cotton Tariffs

The Government of Pakistan follows a free trade policy for cotton with no quantitative restrictions or duties on either imports or exports of cotton.

Stocks:

My 2009/10 carryover stocks are forecast to increase based on imports of all grades of cotton from diverse origins.

Most mills will be covered through October - December 2009 when the bulk of Pakistan's domestic crop comes in the market.

Table 4: Monthly Imports and Exports of Cotton

MONTH/YEAR	IMPORTS		EXPORTS	
	Bales (480lbs)	Metric Tons	Bales (480lbs)	Metric Tons
2007				
January	294,453	64,151	13,577	2,958
February	301,039	65,586	19,094	4,160
March	234,521	51,094	29,591	6,447
April	144,649	31,514	26,539	5,782
May	185,349	40,381	11,819	2,575
June	266,826	58,132	10,530	2,295
July	293,310	63,902	10,194	2,221
August	242,848	52,908	7,574	1,650
September	226,347	49,313	12,228	2,664
October	183,068	39,884	13,398	2,919
November	164,542	35,848	30,386	6,620
December	350,047	76,263	9,116	1,997
2008				
January	961,646	209,509	12,145	2,646
February	581,994	126,796	27,150	5,915
March	443,642	96,654	54,515	11,877
April	296,707	64,642	39,625	8,633
May	216,634	47,197	25,975	5,659
June	109,774	23,916	14,371	3,131
July	126,739	27,612	22,133	4,822
August	127,969	27,880	36,812	8,020
September	163,133	35,541	68,478	14,919
October	176,164	38,380	36,403	7,931
November	NA	NA	NA	NA
December	NA	NA	NA	NA

Source: Federal Bureau of Statistics, Government of Pakistan

Note: One bale = 480 lbs (217.73 kg)

Production, Supply and Demand Data Statistics :

Cotton Pakistan	2007		2008		2009	
	2007/2008		2008/2009		2009/2010	
	Market Year Begin: Aug 2007		Market Year Begin: Aug 2008		Market Year Begin: Aug 2009	
	Annual Data Displayed	New Post	Annual Data Displayed	New Post	Annual Data Displayed	Jan

			Data			Data			Data
Area Planted	0	0	0	0	0	0			0
Area Harvested	3,000	3,000	3,000	2,900	2,800	2,800			2,960
Beginning Stocks	4,375	4,375	4,375	4,388	4,350	4,350			4,200
Production	8,900	8,900	8,900	9,000	9,375	9,375			9,840
Imports	3,907	3,900	3,900	2,300	2,200	2,200			2,000
MY Imports from U.S.	0	0	0	0	0	0			0
Total Supply	17,182	17,175	17,175	15,688	15,925	15,925			16,040
Exports	269	270	270	275	200	200			250
Use	12,500	12,530	12,530	11,500	11,500	11,500			11,340
Loss	25	25	25	25	25	25			25
Total Dom. Cons.	12,525	12,555	12,555	11,525	11,525	11,525			11,365
Ending Stocks	4,388	4,350	4,350	3,888	4,200	4,200			4,425
Total Distribution	17,182	17,175	17,175	15,688	15,925	15,925			16,040
Stock to Use %	34	34	34	33	36	36			38
Yield	646.	646.	646.	676.	729.	729.			724.
TS=TD	0	0	0	0	0	0			0