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## Pakistan

### Cotton and Products

### Cotton Annual: 2004

### 2004

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**Report Highlights:**

The MY 2004/05 crop is forecast at 1.96 Million Metric Tons (MMT), to be the second largest ever. Progressive textile mills are focusing on producing better-quality products, particularly for the export market, in the process making Pakistan a leading market for U.S. Pima cotton. Consumption continues to expand in response to resurgence in export markets and strong domestic demand. With domestic prices increasing, mills are finding importing upland cotton increasingly attractive.

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Annual Report  
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[PK]

**Table of Contents**

**Executive Summary**..... 3

**Table 1: Cotton Production, Supply and Demand** ..... 3

**Production**..... 3

    Production Policy ..... 4

**Consumption** ..... 4

    Table 2: Cotton and Synthetic Fiber Consumption..... 4

**Table 3: Yarn and Fabric Production** ..... 5

**Year 1/**..... 5

**Trade**..... 5

**Stocks** ..... 5

## Executive Summary

The MY 2004/05 crop is forecast to be the second largest ever at 1.96 Million Metric Tons (MMT) as farmers covet the higher return witnessed with the MY 2003/04 crop and seek to avert repeat of problems encountered with the alternative crop (sugarcane) for the past two years. Progressive textile mills are focusing on producing better-quality products, particularly for the export market, in the process making Pakistan a leading market for U.S. Pima cotton. Total consumption continues to expand in response to export and strong domestic demand. Domestic prices are increasing, rising to world rates for comparable grade local lint. Mills are finding importing upland cotton increasingly attractive.

**Table 1: Cotton Production, Supply and Demand**

Commodity	Cotton				(HECTARES)(MT)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		08/2002		08/2003		08/2004
Area Planted	0	0	0	0	0	0
Area Harvested	2796000	2796000	3000000	3092400	0	3200000
Beginning Stocks	710006	710006	490973	490973	463758	475676
Production	1698267	1698267	1687381	1699300	0	1956000
Imports	185068	185068	413680	413680	0	152409
<b>TOTAL SUPPLY</b>	<b>2593341</b>	<b>2593341</b>	<b>2592034</b>	<b>2603953</b>	<b>463758</b>	<b>2584085</b>
Exports	50295	50295	32659	32659	0	43550
USE Dom. Consumption	2046630	2046630	2090175	2090175	0	2109770
Loss Dom. Consumption	5443	5443	5443	5443	0	5443
<b>TOTAL Dom. Consumption</b>	<b>2052073</b>	<b>2052073</b>	<b>2095618</b>	<b>2095618</b>	<b>0</b>	<b>2115213</b>
Ending Stocks	490973	490973	463758	475676	0	425322
<b>TOTAL DISTRIBUTION</b>	<b>2593341</b>	<b>2593341</b>	<b>2592035</b>	<b>2603953</b>	<b>0</b>	<b>2584085</b>

## Production

Pakistan's MY 2004/05 is off to a good start, due in part, to near normal snowfall and close to normal winter rains that collectively have enhanced surface and ground water supply availability for agriculture. Cooler and cloudy weather in the higher elevations, however, has slowed the snowmelt process, thus far delaying water availability for irrigation in some areas. As a consequence, cotton planting in Punjab province faces a delay of 10-15 days, especially in areas where ground water supplies are not sufficient for irrigation. Cotton yields, however, are forecast to be higher as the farmers are geared to use quality pesticides and other inputs spurred on by record returns for the MY 2003/04 crop (seed cotton prices are around 50 percent higher than received a year ago). The monsoon season, which usually arrives in early July, is expected to provide sufficient moisture to get the crop started. Resowing, like last year, has not been a problem in Sindh province thru April 26, 2004. MY 2004/05 production is forecast at 1.96 MMT, assuming 3 percent increase in area and other production conditions hold steady the remainder of the season.

Pakistan's Ministry of Food, Agriculture and Livestock (MinFAL) estimates the MY 2003/04 cotton harvest at 1.7 MMT.

### Production Policy

Cotton is the backbone of Pakistan's economy. The government has not intervened in the cotton market to support the seed cotton prices. Seed cotton prices presently hold at Rs. 750 per maund (1 maund = 37.324 kilograms, Rs. 57.50=\$1). The season average open market prices had been around 50 percent higher than the set government intervention price. Despite what turned out to be an average crop in MY 2003/04, initial uncertainty over the size of the crop proved sufficient to spur market speculation early in the year which, in turn, pushed farm-gate prices up, to the benefit of the farmer.

The government current policy of not restricting cotton exports was maintained the entire of last season. In prior years the government restricted exports at the beginning of the season until the size of the crop could be determined.

### Consumption

Pakistan's cotton consumption increased sharply, for a third year in a row, in response to export-driven demand. Thru the first 9 months of MY 2003/04, yarn and textile exports are running 15 percent (value basis) above the corresponding year earlier period despite around one percent appreciation in the Pakistani Rupee value since the start of the year. The spinning and weaving industries continue to invest heavily into new equipment as well as to renovate existing equipment due to improved profitability over the last five years. Strong domestic demand, with a marginal increase over last year, and stronger export demand underpin the current market surge. Looking toward 2005 the textile industry knows it must aggressively pursue quality improvements and production diversification to include more value-added products, rather than to rely mainly on low-value yarn-based exports, if it wants to remain competitive in the global market.

Synthetic fiber continues to gain acceptance among consumers who increasingly seek less expensive blended products to compensate for their shrinking buying power. The longer term trend is for synthetics to comprise an increasing share of domestic consumption.

**Table 2: Cotton and Synthetic Fiber Consumption**

Year 1/	Cotton (MT)	Synthetics (MT)
1999/00	1,566,348	404,008
2000/01	1,673,280	405,038
2001/02	1,755,669	409,557
2002/03	1,780,963	406,515
2003/04 2/	807,286	199,819

1/ July/June Marketing Year

2/ July-November Data Only

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

**Table 3: Yarn and Fabric Production**

Year 1/	Cotton Yarn (MT)	Blended Yarn (MT)	Cotton Cloth (Mil. Square meter)
1999/00	1,276,095	402,441	437.2
2000/01	1,335,629	393,501	490.2
2001/02	1,384,903	433,442	568.4
2002/03	1,346,424	412,120	576.0
2002/03 2/	1,269,252	N.A.	364.1
2003/04 2/	1,294,678	N.A.	385.5

**1/ July/June Marketing Year**

**2/ July-February Data Only**

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

### Trade

In MY 2003/04 Pakistan is projected to be a net importer of cotton as a result of strong domestic demand for better grades of cotton. During first 6 months of the MY 2003/04, Pakistan imported 119,000 MT of cotton (about 27 percent higher than the corresponding period a year earlier) and exported 21,622 MT of cotton (about 35 percent less than the corresponding period a year earlier). Firms often import upland cotton for their export programs due to contamination problems in local cotton, particularly with alien fibers (polypropylene, jute). The problem occurs during the harvest and handling and wreaks havoc in the industry by creating yarn with differential yarn strength and differential dye uptake. Estimates are that contamination increases a mills' cost by 10 percent or more. Some mills have standardized their blend for export markets, with a predefined origin and percentage of imported cotton in the product. In MY 2002/03 Pakistan was the largest buyer of U.S. Pima/ELS cotton. Progressive firms are focused on producing higher-count yarns and better quality fabrics for the export market and for specialized products demanded in the domestic market thus will continue to turn to quality inputs such as the U.S. Pima cotton.

In MY 2004/05 Pakistan's import of US Pima/ELS and a variety of other medium to long staple cotton is expected to be strong. The demand for imported strict middling grade cotton may decline if the forecast of a large domestic crop materializes.

### Stocks

MY 2004/05 carry out stocks is forecast to decline substantially as a consequence of higher domestic disappearance and lower imports of medium staple cotton during the year. Some mills will not be covered through November and December, when the bulk of domestic crop will come onto the market.