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Pakistan

Cotton and Products

Cotton Annual Report

2008

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Report Highlights:

The MY 2008/09 cotton production forecast is 9.375 million (480 lb) bales, 6 percent above the current year's arrivals registered as of May 1, 2008. The GOP and Monsanto have signed a Letter of Intent for mutual collaboration in biotechnology. The initial focus is to expand cotton production in Pakistan. Severe power shortages and reduced water for irrigation are likely to impact cotton production and trade.

Pakistan is a major cotton importer, especially for U.S. upland and Pima cotton. Consumption is forecast at 12.175 million (480 lb) bales, marginally lower than last year. Pakistani farmers are expected to plant about 50 percent of this year's cotton crop in illegal Bt varieties.

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Executive Summary

Pakistan's MY 2008/09 cotton crop is forecast at 9.375 million (480 lb) bales - based on increased production, improved technology, and good management practices adopted by cotton growers. Strong demand from Pakistan's textile industry is expected to consume 12.175 million (480 lb) bales of cotton. The Government of Pakistan (GOP) and Monsanto have signed a "Letter of Intent" to initiate collaboration in biotechnology – an extremely favorable development for future commercialization of transgenic technology in Pakistan. Reduced availability of irrigation water, high fuel prices and daily power shortages are taking a toll on this year's cotton production and trade. Progressive textile mills are focused on producing better-quality products, particularly for the export market. Consequently, Pakistan is a major cotton importer -- especially for U.S. upland and Pima cotton. In the face of dwindling local supplies, rising prices and continued contamination problems, local mills are finding the importation of upland cotton increasingly attractive.

Table 1: Cotton Production, Supply and Demand

PS&D Table		UOM							
Country Pakistan		Area (000 Hectares), Cotton Lint (000 480 lb. Bales)							
Commodity Cotton		Yield (KG/HA)							
	2006 Revised			2007 Estimate			2008 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		08/2006	08/2006		08/2007	08/2007		08/2008	08/2008
Area Planted	0	0	0	0	0	0	0	0	0
Area Harvested	3250	3250	3250	3250	3000	3000	0	0	3050
Beginning Stocks	4912	2872	4912	4327	2260	2260	0	0	2050
Production	9900	9916	9900	9000	10405	8750	0	0	9375
Imports	2298	2343	2298	3600	2485	3515	0	0	3000
MY Imports from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	17110	15131	17110	16927	15150	14525	0	0	14425
Exports	258	290	258	150	300	140	0	0	150
Use	12500	15556	12500	12500	12545	12310	0	0	12150
Loss	25	25	25	25	25	25	0	0	25
Total Dom. Cons.	15525	12581	15525	12525	12570	12335	0	0	12175
Ending Stocks	4327	2260	4327	4252	2280	2050	0	0	2100
Total Distribution	17110	15131	17110	16927	15150	14525	0	0	14425
Stock to Use %	33.9159	17.5930	33.9159	33.6126	17.7501	16.6531	0	0	17.031
Yield	663	664	663	603	755	635	0	0	669

Production

Pakistan's MY 2008/09 cotton lint production is forecast at 9.375 million (480 lb) bales compared to the GOP's final figure of 8.87 million bales registered with the ginning industry as of May 1, 2008. (See Table 1 for FAS Islamabad's revised 2007 estimate of 8.75 million.) This production increase is mainly in response to better prices received by producers in MY 2007/08; average prices received were \$ 600 per MT compared with last year's average price of \$ 480 per MT. Prices remained significantly above the indicative price fixed by the government. This year, acreage under cotton is projected to increase slightly over the preceding year as some sugarcane area was planted to cotton. Despite a bumper sugarcane crop, farmers are expected to divert acreage to cotton as sugarcane was purchased by millers at below the support price. MY 2008/09 cotton area is forecast at 3.05 million hectares, an increase of 2 percent over the previous year.

The production forecast assumes normal weather conditions and low pest infestation. This year, the cotton yield is forecast to be higher due to improved management practices, availability of better quality inputs and 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.

Pakistan's cotton crop is planted from end-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. This year's severe energy and electricity crises is likely to impact cotton production as operating costs have increased significantly.

The major threat to Pakistani cotton is the prevalence of mealy bugs and cotton leaf curl virus (CLCV). At present, there are no resistant varieties.

In a recent development, the GOP signed a "Letter of Intent" with Monsanto for collaborative research and development in biotechnology. The initiative will start with cotton, followed by future collaboration on corn, oilseeds and other major crops. Local scientists and researchers have also focused on developing resistant varieties through traditional breeding, hybridization, and biotechnology.

Status of Bt Cotton

On May 13, 2008, the Ministry of Food, Agriculture and Livestock (MINFAL) signed a Letter of Intent (LOI) with Monsanto to initiate collaboration in the field of biotechnology. This landmark agreement provides an opportunity to expand cotton production through the commercialization of Bt technology in Pakistan. The LOI outlines a strategy to extend cooperation in advancing transgenic technology in Pakistan's agricultural sector. Under the agreement, information and education regarding the safety and benefits of the technology will be provided to farmers. Also, assistance will be provided to develop business models and marketing services to meet the Pakistani cotton industry's long-term strategy.

Pakistan's Biosafety Guidelines and Rules were enacted in 2005, followed by the establishment of a National Biosafety Centre within the Ministry of Environment which has the capacity to evaluate any proposal submitted for GMO testing and approval. National institutions like the Center of Excellence in Molecular Biology (CEMB) and the National Institute for Biotechnology and Genetic Engineering (NIBGE) have submitted proposals to the National Biosafety Committee (NBC) for approval which are being evaluated.

This year, farmers are expected to plant about 50 percent of the crop in illegal transgenic varieties. This poses several serious problems. First, the pirated varieties are not developed for Pakistan's agronomic conditions and do not always perform well, especially against mealy bugs and CLCV. Secondly, while farmers have no assurance that they are purchasing quality Bt seeds, they nonetheless reduce spraying - - raising the risk of increased pest damage, particularly later in the season. Raw material from unapproved Bt varieties results in reduced quality cotton which traders are reluctant to export.

Production Policy

Pakistan's economy is heavily dependent on the cotton and textile sector – which accounts for 8.2 % of the value-added in agriculture and about 2 % to GDP. The country's gross exports in 2006-07 were valued at about US\$ 17 billion, of which US\$ 9.978 billion (59%) were accrued through raw cotton and textile products. Hence, growth in the national economy is essentially linked with the volume and value of cotton produced in the country. Major components of the strategy to increase cotton production includes 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 mealy bug and whitefly - and a focused media campaign.

The GOP announces the Minimum Support Price (MSP) for cotton at the start of each marketing season. The Trading Corporation of Pakistan (TCP) is responsible to intervene 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. For MY 2008/09, the previous year's support price of Rs. 1025 per 40 Kg (\$1 = Rs. 65) was left unchanged. Despite what turned out to be a good crop in MY 2007/08, initial uncertainty over the size of the crop proved sufficient to spur market speculation early in the year which, in turn, increased farm-gate prices. 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 bound to take their toll on cotton production. Growers in far-flung areas have limited access to alternative 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 08/09 is forecast at 12.175 million (480 lb) bales, marginally less than the estimate of MY 2007/08. The recent power crisis will hit cotton consumption, especially for smaller operators who have 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 so the overall impact will be limited. The severe electricity shortfall from April to September 2008 will slow down industrial production while raising the cost of production and likely resulting in product quality issues. The bearish trend in world yarn and textile prices is also negatively affecting consumption.

During the first 8 months of MY 2007/08 (July-February), the following trends (in value terms) for Pakistan's cotton and textile trade were noted. Gross exports of raw cotton decreased by 1.3 percent; cotton yarn exports decreased by 6.3 percent; nightwear declined

by 3.9 percent; towels lower by 2.8 percent; and cotton cloth declined by 20.8 percent. Synthetic fiber grew by 32.7 percent; knitwear decrease by 7.7 percent; and ready-made garments grew by 8.4 percent. Raw cotton and synthetic fiber imports increased by 138.9 percent and 24.3 percent, respectively, over the previous year.

To keep up with the competition in international markets, the ginning, spinning and weaving industries must invest heavily in new technology and equipment as well as renovate aging mills. However, investment in the textile sector is on the decline. Imports of textile machinery from July 2007 to February 2008, as compared to the same period a year ago, dropped by 21 percent. Looking to the future, Pakistan's textile industry is determined to remain competitive in the global market by aggressively pursuing quality improvements and product diversification – producing more value-added products rather than relying on low-value yarn-based exports.

Synthetic fiber continues to gain acceptance among consumers who increasingly seek less-expensive blended products. The future growth in cotton versus synthetic fiber will be determined by their relative prices. The long-term trend is for synthetics to comprise an increasing share of domestic consumption. Cotton-synthetic blends are popular due to their durability and ease in washing and maintenance under tropical conditions. Synthetic fiber use is growing despite rising petroleum prices in the international market.

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	2,039,056	871.282

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 2007/08, Pakistan imported 700,560 MT and exported 40,306 MT of cotton.

Firms often import upland cotton for their export programs. This is 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.

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.

This year, Pakistan has commenced significant purchases of short to medium staple cotton from India. Trade through land routes, which is 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, importers of long staple cotton look to the U.S. due to high quality standards -- despite high freight charges.

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

My 2008/00 carryover stocks are forecast to increase based on imports of all grades of cotton from diverse origins. Most mills will be covered through November/December 2008 when the bulk of Pakistan's domestic crop comes on the market.

Table 4: Monthly Imports and Exports of Cotton

MONTH/YEAR	IMPORTS		EXPORTS	
	Bales	Metric Tons	Bales	Metric Tons
2006				
January	193,282	32,858	37,494	6,374
February	161,488	27,453	28,641	4,869
March	478,041	81,267	36,594	6,221
April	111,941	19,030	24,659	4,192
May	100,694	17,118	32,565	5,536
June	139,312	23,683	26,906	4,574
July	136,571	23,217	5,400	918
August	158,600	26,962	11,282	1,918
September	80,524	13,689	18,906	3,214
October	105,712	17,971	30,047	5,108
November	216,788	37,753	39,618	5,252
December	195,206	30,658	38,294	5,285
2007				
January	406,465	64,151	25,459	2,958
February	398,900	65,586	36,029	4,160
March	295,176	51,094	48,235	6,447
April	185,268	31,514	33,992	5,782
May	237,400	40,381	15,138	2,575
June	341,758	58,132	13,492	2,295
July	375,680	63,902	13,057	2,221
August	311,046	52,908	9,700	1,650
September	289,911	49,313	15,662	2,664
October	234,478	39,884	17,161	2,919
November	210,750	35,848	38,919	6,620
December	448,350	76,263	11,740	1,997
2008				
January	1,038,549	176,654	17,702	3,011
February	667,637	113,563	37,520	6,382
March	542,191	92,225	75,498	12,842

Source: Federal Bureau of Statistics, Government of Pakistan

Note: One bale = 375 lbs (170 kg)

OTHER RELEVANT REPORTS

REPORT #	SUBJECT	DATE SUBMITTED
PK:8009	Cotton and Products: Trade Report FY 2004-2006	03/17/2008
PK:8002	MY 2008/09 Cotton Outlook	02/04/2008
PK:8001	Cotton Update: 2007/08 Crop Production Reviewed	01/15/2008
PK:7010	Cotton & Products Annual	05/23/2007

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