

Required Report: Required - Public Distribution

Date: March 09, 2022

Report Number: PK2022-0002

Report Name: Cotton and Products Annual

Country: Pakistan

Post: Islamabad

Report Category: Cotton and Products

Prepared By: FAS Islamabad

Approved By: Christopher Rittgers

Report Highlights:

With expectations for a slight increase in area, but stagnant yields, 2022/23 production is forecast to reach 6.22 million bales, a 3.7 percent increase over 2021/22. Driven by Pakistan's value-added cotton textile exports, cotton use is forecast to grow in 2022/23, albeit at a modest 2 percent. To keep pace with demand from the export-focused textile sector, cotton imports are forecast to rebound to 5.2 million bales in 2022/23. Taxation and energy policy continues to support the textile sector. Prospects for Pakistan's export-oriented textile sector remain bright.

Executive Summary

With expectations for a slight increase in area, but stagnant yields, marketing year (August/July) 2022/23 production is forecast to reach 6.22 million bales, a 3.7 percent increase over 2021/22. Domestic cotton use continues to be driven by the strong performance of value-added textile exports; however, Pakistan's products are expected to face renewed competition in international markets in 2022/23. As a result, cotton use in 2022/23 is forecast to reach 11.4 million bales, which would be a modest two percent growth over the estimated use this current year. While demand has remained firm, the pace of cotton imports slowed during the first 6 months of 2021/22; consequently, estimates for both imports and stocks in 2021/22 are lowered. The ending stocks and stock-to-use ratio for 2021/22 are now estimated to be the lowest on record. With moderate expectations for growth in cotton use in 2022/23, cotton imports are forecast to grow only 4 percent, reaching 5.2 million bales (1.135 million tons). The textile industry continues to be Pakistan's most important manufacturing sector, with textile products accounting for 60 percent of total exports. The government recently passed the third "Textiles and Apparel Policy," which includes financing programs, tax rebates, energy subsidies, and an emphasis on increasing domestic cotton production. Returns in the sector have been good over the past 18 months, many companies have plans to expand, and the export performance over the previous 18 months places the textile sector in a good position entering 2022/23.

Table 1: Production, Supply, and Demand (1,000 480 lb. Bales) (1,000 ha) (Aug/July)						
	2020/2021		2021/2022		2022/2023	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,200	2,200	2,000	2,000	0	2,100
Beginning Stocks	3,190	3,190	2,265	2,265	0	2,020
Production	4,500	4,500	5,800	6,000	0	6,220
Imports	5,325	5,325	5,500	5,000	0	5,200
Total Supply	13,015	13,015	13,565	13,265	0	13,440
Exports	25	25	50	20	0	20
Use	10,700	10,700	11,200	11,200	0	11,400
Loss	25	25	25	25	0	25
Total Dom. Cons.	10,725	10,725	11,225	11,225	0	11,425
Ending Stocks	2,265	2,265	2,290	2,020	0	1,995
Total Distribution	13,015	13,015	13,565	13,265	0	13,440
Stock to Use %	21.1	21.1	20.4	18.0	0	17.7
Yield (kg/ha)	445	445	631	653	0	645

Table 2: Production, Supply, and Demand (1,000 tons) (1,000 ha) (Aug/July)						
	2020/2021		2021/2022		2022/2023	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,200	2,200	2,000	2,000	0	2,100
Beginning Stocks	696	696	494	494	0	441
Production	982	982	1,266	1,309	0	1,357
Imports	1,162	1,162	1,200	1,091	0	1,135
Total Supply	2,840	2,840	2,960	2,894	0	2,933
Exports	5	5	11	4	0	4
Use	2,335	2,335	2,444	2,444	0	2,487
Loss	5	5	5	5	0	5
Total Dom. Cons.	2,340	2,340	2,449	2,449	0	2,493
Ending Stocks	494	494	500	441	0	435
Total Distribution	2,840	2,840	2,960	2,894	0	2,933

Production

Based on relatively good returns last year, expectations for continued good prices this year, and profitability vis-à-vis other summer crops (sugar, rice), 2022/23 cotton area is forecast to rebound about 5 percent and reach 2.1 million hectares. With farmers obtaining good returns on corn, spring planting intentions indicate growth in planted corn area, which is hindering further growth in cotton planted area. While adequate irrigation water reserves leading into the planting season exist and the government continues to provide support to farmers for inputs, no significant yield increase is forecast. Continued lack of advances in cotton seed development thwarts yield growth. The 5-year average yield (645kg/ha) is assumed for the 2022/23 production forecast. With that yield forecast and area at 2.1 million hectares, production in 2022/23 is forecast to reach 6.22 million bales (1.4 million tons), a 3.7 percent increase over 2021/22.

The production estimate for 2021/22 is increased slightly to reflect deliveries to ginneries as of early March, which is essentially the end of the collection season for the crop. The ginneries' intake was 32.3 percent above the previous year.

Consumption

Facing more global competition as other countries' industries return to full operation, Pakistan's valued-added cotton textile exports are expected to slow in 2022/23, leading to concomitant slower growth in fiber use. As a result, cotton use in 2022/23 is forecast to grow only about two percent over the estimated use this current year, reaching 11.4 million bales (2.5 million tons).

Even though growth in cotton use is expected to be more modest next year, Pakistan's textile sector will remain the country's leading export-oriented industry. While fiber imports have slowed (see below), the textile industry's performance has continued to be strong in 2021/22. The sector's fiber use is driven by export demand, with many categories of value added textiles experiencing double digit growth in sales to the European Union (EU) and to the United States. Whereas the erosion in Pakistan's Rupee has negatively affected cotton imports over the past year, the currency's weakness has simultaneously enhanced Pakistan's textiles' competitiveness vis-à-vis textiles from other countries. Furthermore, Pakistan's textile industry maintained operations throughout 2021, which enhanced its reputation as a reliable supplier and ensured continuous demand for fiber from the spinning industry. Cotton fabric exports nearly doubled in 2021 compared to 2020 (see Trade section below), and overseas sales of other value-added textiles also experienced strong growth. The sector's uninterrupted operation over the past 18 months has positioned the industry well going forward and provides a strong foundation for future growth potential.

Currently, Pakistan has an estimated 13.5 million spindles and many firms are planning expansion. Another 3.5 million are expected to be added in the next two to four years. An accommodating Government policy (See Policy Section) supports and incentivizes continued investment in the sector, and also underpins expectations for continued growth in domestic fiber use. As a result of these positive fundamental growth factors, prospects for Pakistan's textile sector and demand for cotton fiber, the key raw material for its downstream value-added products, continues to be optimistic.

Trade

With the aforementioned expectations for more moderate growth in cotton use in 2022/23, cotton imports are forecast to grow 4 percent, reaching 5.2 million bales (1.135 million tons). This import forecast assumes relatively good export performance of the value-added textile categories, a limited rebound in domestic cotton production, and the need for some spinning companies to rebuild inventories.

Due to logistical problems and erosion of the value of the Pakistan Rup, the pace of cotton and synthetic fiber imports declined significantly in the first part of 2021/22. Reported shipments are down nearly 20 percent over the first five months of the marketing year (see Partial Year Trade Matrix below). Through the first six months of the marketing year, Pakistan's Bureau of Statistics report (BPS) reports 9 and 20 percent declines in raw cotton and synthetic fiber imports, respectively. Through the first seven months of the marketing year, total U.S. commitments (sales plus exports) were running slightly above the previous year, but actual shipments were down. Traders report that difficulty in booking freight is causing the backlog in pending shipments. As the domestically-produced cotton becomes less available, imports do tend to increase during the final two quarters of the year. The logistical challenges will need to be resolved for that pattern to repeat this year. Based on the slow pace of imports to date, the 2021/22 import forecast is reduced to 5 million bales (1.09 million tons).

Cotton import demand continues to be driven by exports of cotton yarn, fabric, and other value-added cotton textile products. In 2021, cotton yarn exports increased 6.4 percent, while cotton fabric exports nearly doubled. While the textile export pace slowed somewhat in the first two months of 2022, overseas demand for Pakistan's textiles will continue drive import demand for cotton fiber in 2022/23.

Table 3: Cotton Import Trade Matrix (1,000 MT) (Aug/Jul)			
2019/20		2020/21	
Origin:		Origin:	
United States	441	United States	439
Brazil	220	Brazil	282
Tanzania	41	Cote d'Ivoire	92
Mexico	38	Afghanistan	77
Argentina	32	Argentina	58
Afghanistan	24	Turkey	39
Cote d'Ivoire	20	EU	35
Turkey	15	Tanzania	27
Subtotal	831	Mexico	25
Others	47	Subtotal	1073
		Others	90
Total	879	Total	1163

Source: FAS Islamabad, Trade Data Monitor (TDM), and Pakistan Bureau of Statistics (BPS)

Table 4: Partial Year Cotton Import Trade Matrices (1,000 MT)				
2020 Aug-Dec			2021 Aug-Dec	
Origin:			Origin:	
Brazil	168		United States	86
United States	124		Brazil	78
Afghanistan	50		Cote d'Ivoire	56
Cote d'Ivoire	37		Afghanistan	42
Argentina	36		Tanzania	23
Tanzania	16		Australia	21
Turkey	13		Argentina	19
Subtotal	444		Subtotal	324
Others	49		Others	73
TOTAL	493		TOTAL	398

Source: FAS Islamabad, TDM, and BPS

Table 5: Cotton Yarn Exports from Pakistan (1,000 MT)						
Exports to:	2016	2017	2018	2019	2020	2021
China	265	298	309	313	273	266
Bangladesh	25	27	30	26	20	37
EU	23	29	31	27	20	27
Japan	9	10	13	9	7	9
Turkey	12	23	15	16	12	8
United States	4	3	4	6	6	7
Subtotal	339	390	402	398	338	354
Others	49	48	56	34	19	26
Total	388	438	458	433	357	380

Source: TDM, HS Codes: 5204, 5205, 5207

Table 6: Cotton Fabric Exports from Pakistan (MT)				
Exports to:	2018	2019	2020	2021
EU	60,587	56,400	31,637	53,315
Bangladesh	38,387	38,009	17,566	39,570
Turkey	13,931	13,560	7,180	14,192
China	18,943	13,069	6,659	10,367
South Korea	6,027	7,491	6,498	6,988
United States	4,708	5,580	4,907	5,926
Egypt	5,032	5,118	1,870	5,379
Japan	5,744	5,639	3,492	4,744
Subtotal	142,583	134,109	74,447	130,358
Others	31,979	28,942	12,081	25,309
Total	174,562	163,051	86,528	155,667

Source: TDM, HS Codes: 5208, 5209

Stocks

As described in the previous two sections, imports slowed in the beginning 2021/22, but domestic cotton use remained apace. As a result, there has been a continuous draw-down in stocks, with stocks estimated to drop below 2 million bales in 2021/22, resulting in a historically low stocks/use ratio. While many textile firms indicate an informal policy of maintaining at least three month's inventory, the import pace would need to accelerate significantly over the next few months to reach that level (25 percent stocks/use) on a country-wide basis. With imports and use forecast to increase at about the same rate in 2022/23, no stock rebuilding is projected for that year.

Policy

Supporting cotton production, textile manufacturing, and boosting exports are among the government's highest priorities. Government assistance to textile manufacturing includes tax rebates, financing, and subsidized energy, while upstream assistance to cotton production include inputs and price support.

After several months of deliberations and extensive dialogue with the influential textile industry, on February 16, 2022, the Cabinet approved the third "Textile and Apparel" policy, which preserved existing tax rebates, energy subsidies, and credit programs through 2025. Due to Pakistan's need to cut government spending and increase revenues, previous internal drafts of the policy had removed many of the tax provisions and energy subsidies. However, reflecting the importance of the sector to Pakistan's economy and due to pressure from the textile sector's leadership, the government ultimately opted to retain existing tax provisions and to provide "regionally competitive energy rates" through

2025. The government hopes this policy will lead to continued strong growth in value-added textile exports.

Increasing cotton productivity is also a long-standing government priority, and the local textile producer's association persistently advocates for increasing domestic cotton production. Continuing a long history of initiatives to boost cotton production, following an inter-ministerial meeting on February 7, 2022, the Prime Minister announced plans to form a "Cotton Authority," focused on developing and distributing higher yielding cotton seed. However, the lack of a functioning biotechnology regulatory regime, combined with the inability of life science companies to enforce technology use and/or stewardship agreements, continues to hinder development of cotton seed technology using the latest bioengineered traits.

In addition to support for seeds, existing programs provide subsidized fertilizer and loans for implements.

For the 2021/22 crop, the Ministry of National Food Security and Research (MNFSR) announced a Cotton Intervention price on August 4, 2021, at \$0.32/lb (5,000 Rupiahs/40 kg) seed cotton. Below this price, a State-run procurement agency would buy farmers' cotton. This policy is largely symbolic and the State-buying hasn't occurred. As an indicator, in early March 2022, seed cotton prices at main exchanges in Punjab province were quoted at \$0.45/lb (7,000 Rupiahs/40 kg). As of early March 2022, Pakistan's Economic Coordination Committee had not yet set the intervention price for the 2022/23 crop.

Prices

While it is late in the season, with collections nearly complete, during the first week of March, seed cotton prices were quoted at \$0.45/lb. The ex-gin price was reported at \$1.37/lb, about 50 percent above prevailing prices one year ago.

Value-Added Textiles

In the first 7 months of the local fiscal year, BPS reports that the export value of all textile products, including yarn, fabric, garments, and other household textiles, increased 25 percent. Cotton based products were a significant part of that growth. Pakistan's cotton apparel and household textile exports increased significantly in 2021, with the EU and the United States the leading destinations. In 2021, the value of U.S. imports of all categories of cotton products from Pakistan increased 43 percent, with apparel and non-apparel increasing 62 and 27 percent, respectively. Leading apparel categories were casual trousers and knitted shirts, while home textiles comprised the bulk of the non-apparel category.

Overseas demand for Pakistan's valued-added cotton textiles will continue to drive activity in the sector in 2022/23 and beyond. While Pakistan's textile output will face renewed competition in 2022/23, prospects for its products in international markets remain bright.

Table 7: U.S. Cotton Apparel and Textile Imports from Pakistan (\$ million)				
	2019	2020	2021	% Growth
Cotton Apparel	1,315	1,229	1,989	62
Cotton Non-Apparel*	1,426	1,411	1,798	27
Total	2,741	2,640	3,787	43
*mainly home textiles, including sheeting, towels, and bedspreads.				

Source: U.S. Dept. of Commerce, Office of Textiles and Apparel

Attachments:

No Attachments