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## **Report Name:** Cotton and Products Update

**Country:** Pakistan

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**Prepared By:** Shafiq Rehman

**Approved By:** Lisa Anderson

### **Report Highlights:**

Despite lower cotton production, Pakistan's textile sector is back at full capacity and appears to be on track to achieve higher exports in the long run. In order to realize export-led growth in this sector, the Government of Pakistan is finalizing Textile Policy 2020/25, which aims to make Pakistan more competitive globally. Pakistan's cotton production for the 2020/21 marketing year (MY) (August/July) is estimated at 4.7 million 480 lb bales, down 24 percent from the last year mainly due to a 10 percent decrease in area planted, crop damage from heavy monsoon rains, and severe pest infestation. The shortfall in domestic supplies will be bridged through imports, with cotton imports forecast at a record 4.9 million 480 lb bales – an import level surpassing the estimate for MY 2020/21 cotton production. The Pakistan government's better management of COVID-19 generally allowed businesses to operate. MY 2020/21 cotton consumption is expected to increase 13 percent over the last year due to ongoing brisk pace.

## **Sharp Decline in Cotton Production:**

MY 2020/21 cotton production is now expected at 4.7 million 480 lb bales, down 24 percent from the last year's production level. This production level matches MY 1984/85 production, which Pakistan achieved 35 years ago with old production technology. The MY 2020/21 production estimate is derived from the 75 percent of the cotton crop that has already been harvested and delivered to ginneries. The shortfall in cotton production is mainly due to a 10 percent decrease in area planted compared to the preceding year. Farmers turned to planting other crops, like sugarcane, rice and corn, because of better prices and government support. Sugarcane farmers receive a support price which guarantees them a fixed price with the mills; rice is Pakistan's major export commodity that fetches a good price in the international and local markets; and corn being a major ingredient for poultry feed, also commands a good price in the domestic market. These alternate crops give good returns to farmers and are also much less prone to insect attack and diseases as compared to cotton. In contrast, cotton growers do not receive a support price and prices in the local market are affected by a variety of factors like the size of the crop, prices in the international market, government and industry policy, and the demand for cotton and textile products in the domestic and international market.

During the early stages of crop growth, some cotton acreage was initially damaged by locusts, but most of this was replanted, putting further demand pressure on the low supply of good quality cotton seed. Severe rains during the monsoon season (July-September) affected the crop in the main growing areas of Punjab and Sindh provinces. Sources indicate that around one million bales of cotton were damaged due to these rains. Heavy rains also resulted in severe pest infestations of whitefly and pink boll worms that went uncontrolled throughout the growing season, due to the ineffectiveness of existing pesticides. The MY 2020/21 cotton crop was on target until August, when pressure from pests began to take effect, resulting in lower yields.

On October 2, 2020, the Cotton Crop Assessment Committee (CCAC) assessed cotton production at 8.6 million 170 kg bales (6.7 million 480 lb bales), but there is strong industry consensus that the final production estimate will be much lower given the pace of arrivals recorded by the Pakistan Cotton Ginners Association (PCGA). In its November 15<sup>th</sup> report, the PCGA showed arrivals at 4.03 million bales of 155 kg (equivalent to 2.9 million bales of 480 lb), down 41 percent from the same period last year.

## **Significant Quantity of Cotton Imports Will Continue:**

The shortfall in MY 2020/21 domestic production will be offset through an increase in imports, which is expected at a record 4.9 million 480 lb bales. Pakistan will continue to import better grades of cotton from the United States and other reliable sources to produce quality products for its textile export markets. Pakistan typically imports upland and long staple cotton, as well as medium staple cotton, to augment domestic supplies. MY 2019/20 imports are estimated at 4.0 million 480 lb bales based on official export data from major suppliers.

## **Pakistan's Textile Sector is Back at Full Capacity but Problems Remain:**

Despite lower cotton production, Pakistan's textile industry has been able to scale up textile manufacturing to pre-COVID-19 levels fairly easily, due to both the government's proactive and

effective containment of the pandemic as well as significantly ramping up the volume of cotton imports. The pandemic prompted global buyers to partially divert their orders to textile manufacturers in Pakistan and away from manufacturers in China, India and Bangladesh, which were dealing with textile production stoppages due to the worsening of the COVID-19 crisis in their countries. Nevertheless, the country's influential All Pakistan Textile Mills Association (APTMA) has been so concerned about the sharp decline in local cotton production that it has solicited government support. To this end, APTMA is going to establish an independent cotton office in the Ministry of Textile Industry to help revive cotton production in the country. It has already advertised several positions and recruitment is currently underway.

Pakistan's textile industry accounts for 60 percent of the country's annual export earnings. The brisk pace of textile production is underway only through government support and a massive import of basic raw materials of cotton and man-made fiber (MMF). Major suppliers of imported cotton are the United States, Brazil, Egypt, and West African countries; suppliers of MMF are China and Europe. Support from the Pakistan government is in the form of tax relief, lower energy prices, and subsidized financing for the expansion of production and establishment of new textile mills.

Pakistan's textile industry contributes significantly to the country's exports and is comprised of both a large-scale organized sector as well as a highly fragmented small-scale sector. The textile value chain consists of spinning, weaving, processing, printing, and garment manufacturing (e.g., knitwear, clothing and readymade garments) sectors. Pakistan exports raw material, semi-finished and finished cotton and textile products to a number of countries, including the United States, the United Kingdom, Hong Kong, Japan, Korea, Saudi Arabia, the European Union, Canada, and Australia.

### **Government Support: Pakistan's Textile Policy 2020-25 Nears Final Approval:**

The Government of Pakistan is in the process of approving a new five-year textile policy - the Textile Policy 2020/25 -- the aim of which is to achieve product maximization and job creation as well as to fuel growth in exports to \$25.3 billion by 2025. Pakistan's textile exports during Fiscal Year (FY) (July/June) 2018 stood at \$13.53 billion, a figure which is expected to increase significantly during FY 2019. Sources indicate that the government appears to have considered every angle in reviving its textile industry. Key features of the new policy include no or low interest loans that will be available through new funding mechanisms, such as a Brand Development Fund (BDF) to help boost the export of textile products; a Long-Term Financing Facility (LTFF) to fund the purchase of textile and apparel machinery; and an Export Financing Scheme (EFS) to fund the production of textiles and garments for export. This new textile policy is an example of the type of developmental model wherein the government incentivizes a select industry so that it can be -- or remain, in the case of Pakistan's textile industry -- a significant contributor to the overall economic stability of the country. The government's Textile Policy 2020-25 has received the approval of APTMA, which is hopeful that the incentives will prove instrumental in achieving the export target identified and attracting long-term investment in Pakistan's textile value chain.

**Production, Supply and Demand Data Statistics:**

Cotton	2018/2019		2019/2020		2020/2021	
Market Begin Year	Aug 2018		Aug 2019		Aug 2020	
Pakistan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	2300	2300	2450	2450	2200	2200
Beginning Stocks	2830	2830	2495	2495	3390	3390
Production	7600	7600	6200	6200	5000	4700
Imports	2850	2850	3975	3975	4300	4910
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	13280	13280	12670	12670	12690	13000
Exports	60	60	55	55	50	50
Use	10700	10700	9200	9200	9800	10425
Loss	25	25	25	25	25	25
Total Dom. Cons.	10725	10725	9225	9225	9825	10450
Ending Stocks	2495	2495	3390	3390	2815	2500
Total Distribution	13280	13280	12670	12670	12690	13000
Stock to Use %	23.19	23.19	36.63	36.63	28.58	23.92
Yield	719	719	551	551	495	465

(1000 HA) ,1000 480 lb. Bales, (PERCENT) ,(KG/HA)

**Attachments:**

No Attachments