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## **Pakistan**

### **Cotton and Products Annual**

### **Cotton and Products Annual 2014**

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**Report Highlights:**

Pakistan's (MY) 2014/15 (August/July) cotton production is forecast at 10.3 million (480 lbs.) bales, up 12 percent from last year's production. MY 2013/14 cotton production is estimated at 9.2 million bales, marginally down from the MY 2012/13 crop. Pakistan is expected to import 2.6 million bales in MY 2014/15, while MY 2013/14 imports are revised at 3.37 million bales. In MY 2014/15, cotton consumption is expected at 12 million bales, marginally higher than MY 2013/14 estimates. During MY 2014/15 post projects a significant import of Pima and Upland cotton to meet higher demand resulting from the EU's GSP plus trade concessions. Ending stocks in MY 2014/15 are projected to increase to 3.5 million bales.

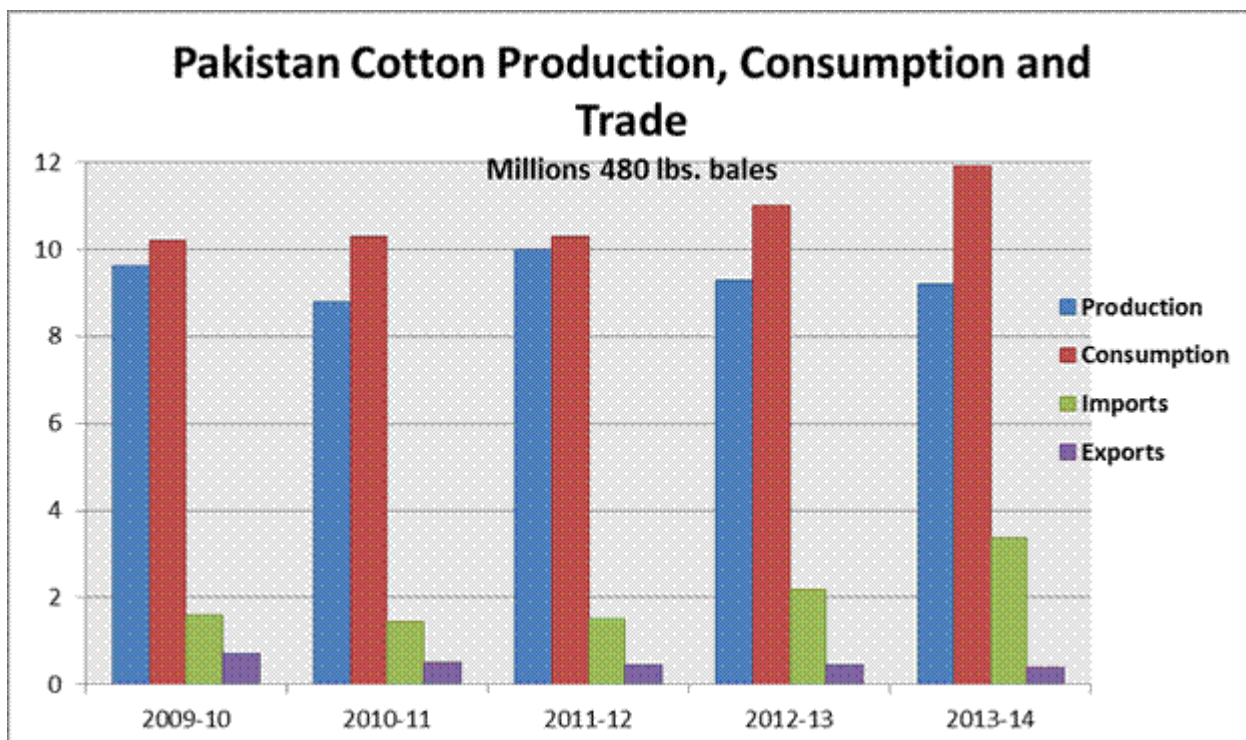
**Executive Summary:**

For the current market year (2013/14), cotton production is estimated to be 9.2 million bales, marginally down than last year due to a five percent decrease in cotton area. Cotton sowing was affected by wet spell during sowing season coupled with less availability of quality seed.

Pakistan's MY 2014/15 cotton crop is forecast at 10.3 million (480 lbs.) bales, twelve percent higher than the MY 2013/14 production level of 9.2 million bales. The increase is due to a higher cotton area (forecast at 3.04 million hectares (ha), or 6 percent higher than the last year) and an increase of the use of Bt cotton varieties to 95 percent of the total 2014 crop area to 2.9 million ha. The increased acreage is due to area substitution from other Kharif (crops sown in the rainy (monsoon) season for autumn harvest) such as sugarcane and corn. Pakistan's cotton consumption for MY 2014/15 is expected to reach 12 million bales, marginally higher than the current year's estimate and 9 percent higher than the consumption level of MY 2012/13 due to stronger textile industry demand resulting from the GSP plus status given by the EU.

Pakistan imports generally account for about one third of its demand for cotton and depend on the size of the domestic crop and the export forecasts of the growing textile and yarn sector. Much of the imports are of cotton that is of higher quality in order to meet the textile industry's needs. Pakistan's MY 2013/14 imports are revised at 3.37 million bales, up 53 percent over MY 2012/13 estimates of 2.2 million bales due to last year's decrease in production and to meet the increased demand for textiles to be exported duty free under the GSP Plus (Generalized System of Preference) status granted to Pakistan by EU. MY 2014/15 consumption is forecast at 12 million bales, marginally higher than the current year's estimates of 11.9 million bales and 9 percent higher than the consumption level of MY 2012/13

The Government of Pakistan follows a free trade policy for cotton with no quantitative restrictions or duties on either imports or exports. Beginning in January, 2014 Pakistan became eligible for GP plus trade status with the EU which is anticipated to increase cotton imports and textile exports. During MY 2014/15 post projects a significant import of ELS/Pima cotton in order to fulfill high end export commitments. Ending stocks are forecast to remain at 3.5 million bales.



Source: Federal Bureau of Statistics, Government of Pakistan

## Commodities:

Cotton

## Production:

Cotton is Pakistan's main industrial crop grown on 15 percent of country's arable land. Production is concentrated mainly in two provinces: Punjab and Sindh. Cotton is mainly produced by small farmers cultivating less than five hectares of land, and there are around 1.6 million farms dependent on cotton.

Cotton production plays a significant role in Pakistan's agriculture and economic growth. It contributes about 8 percent to the Gross Domestic Product (GDP) of the country, accounts for 17 percent of total employment and about 54 percent in foreign exchange earnings. Pakistan is the 4th largest producer and 3rd largest consumer of cotton and also the largest exporter of cotton yarn in the world. Cotton is the country's most important nonfood cash crop and is considered the backbone of the national economy. The textile and clothing industry remains the main driver of the economy in terms of exports, revenue generation and job creation. Cotton production supports Pakistan's largest industrial sector, comprised of over 400 textile mills, 1,000 ginneries, and 300 cotton seed oil crushers and refiners.

Pakistan's MY 2014/15 cotton lint production is forecast at 10.3 million (480 lbs.) bales, equivalent to 2.24 million metric tons (MMT), up 12 percent from the current year's crop. The projected forecast is 10 percent higher than the annual average production level achieved for the last ten years. Over the time, average has grown but year wise comparison shows cyclical trend.

In MY 2013/14, cotton production is estimated at 9.2 million bales, marginally down from the previous years' crop. The decrease in production is a result of a combination of adverse factors. The factors include five percent decrease in planted area (cotton area this season was at its lowest since 2003, mainly due to lower cotton prices) and wet weather conditions during planting. A number of farmers had to re-plant due to the wet weather conditions that prevailed during planting season and seed germination posed a serious problem mainly due to less availability of certified seed. Low quality seed from local distributors not only affected the plant population but also the plant vigor and fiber quality. Tight water supplies at critical stages of crop sowing and an unusually hot spell in October 2013 resulted in increased demand for irrigation water. Power shortages also limited the ability of electric pumps to draw sufficient well water. This year, early onset of Monsoon rains followed by high temperatures created humid conditions, resulting in shedding of fruiting bodies thus adversely impacting cotton production.

The declining trend in international prices during the last and current year not only affected area under cultivation but also the farmer's ability to apply proper inputs. A heavy pest infestation of whitefly and jassids stressed the plants to the point where they were more-susceptible to the attacks of Cotton Leaf Curl Virus (CLCV). Finally, torrential rains and floods during monsoon affected the cotton growing areas of Punjab, damaging close to 40,000 hectares of standing cotton. Punjab contributes 80 percent to total cotton produced followed by Sindh 18 percent in the country.

MY 2014/15 harvested cotton area is projected at 3.04 million hectares, up 6 percent over the previous year. The projected 12 percent increase in production is mainly due to increase in area and yield anticipated at 738 Kg. per hectare, 4 percent higher from the previous year. Increase in yield is anticipated due to 35 percent more availability of certified seed over the last year and the approval of 20 new cotton varieties (15 biotech and 5 conventional) by the Punjab Seed Council. In general, the new varieties approved by Punjab are well adopted by farmers all over the country. Pakistani farmers, inspired by increased cotton production in neighboring countries like India and China are keen to cultivate biotech cotton varieties, especially in the core cotton-producing areas of Punjab and Sindh. With 95 percent of the total 2014 crop area is expected to be grown with Bt cotton varieties (2.9 million ha). The increased acreage is a result of an enhanced domestic cotton demand and a forecast of competitive prices are expected to cause a shift in cultivated area of cotton from alternative crops. Planting area and production strategy is influenced by a number of factors including international and domestic market trends, relative prices of competing crops, inputs availability, and government policy. The main variables are the ratios of cotton to other Kharif crops (corn and sugarcane) prices. According to field sources during last year the alternative crops have lost economic margins and farmers are more prone to opt for cotton. In addition, cotton plantings are being favored because of good weather forecasts for April-June (normal cotton planting season in Pakistan).

The Federal Committee on Cotton (FCC), Government of Pakistan has fixed the targets for cotton crop 2014/15 at 11.8 million bales from an area of 3.1 million hectares (2 percent and 14.6 percent above Post estimates, respectively). Cotton analysts consider these targets as ambitious because of limited resources and slow adoption of technology by a large number of small farmers. While yields have been increasing, Pakistan is not in a position to meet its potential for cotton production because of many factors, including rising input costs and ambiguity between federal and provincial responsibilities and programs due to the 18th constitutional amendment in areas of seed act which devolved most responsibilities to the Provinces. As a result, progress on improving regulations and controls on

International Property Rights, pesticide regulation, extension programs, etc. are impacting cotton crop production in the country.

Pakistan's bale weights continue to fluctuate significantly as there remains no effective institutional control on using the national standard for bale weight at 170 kg /bale. During My 2013/14 the weight of the bales produced by Pakistan Cotton Ginneries was ranged between 145 to 165 kg. The GOP maintains 170 kg (375 lbs.) bales weight in official record and trade transactions. To ensure consistency in this report, Post has based local bale calculations at an average weight of 155 kg (341.7 lbs); whereas, the PSD table maintains the International standard of 480 lbs. bale. Bale weights fluctuate mainly because of the payment method used by mills. Under Pakistani trade norms, cotton mills must pay the gins 80 percent of the market price (based on a 170 kg bale) at time of purchase. The remaining 20 percent is paid after processing. However, the mills usually delay payment for up to a year. To compensate for the delay in payments, the gins often reduce the size of the bale.

The major threats to Pakistan's cotton are the prevalence of lethal Cotton Leaf Curl Virus (CLCV) and the sucking and chewing pests like mealy bugs, white fly, aphids, pink boll worm etc. At present, no biotech resistant variety is available to counter CLCV and cotton sucking pests. Even Bt cotton is vulnerable to the CLCV. The virus has adversely affected Pakistan's cotton crop and has so far restricted the overall cotton production in Pakistan. The development of local biotech varieties is expected to control lepidopteron (chewing) insects. In 2011, a USG funded project "Cotton Productivity Enhancement Program" was launched to address the issue of CLCV in Pakistan. The project is aimed at initiating a collaborative effort by U.S. and Pakistani agricultural scientists/researchers to find a disease resistant cotton seed using an integrated approach.

Pakistan mainly produces medium grade cotton in relation to varieties cultivated and production methods used. Farmers generally use several varieties at their farm and apply standard production technology for all these varieties. Marinating varietal characteristics and proper grading is a rare practice adopted for seed cotton and cottonseed. The quality of seed cotton is affected mainly by unsuitably picking methods, adulteration of seed cotton with water and foreign matter to increase the weight when sold, mixed seed, and mixed grades. The matter is likely to persist due to the absence of any incentives to the farmers by the ginneries and textile millers.

#### **Status of BT Cotton:**

In Pakistan, a significant investment has been made in technologies and research to support the development of indigenous genetically engineered plants. The Government of Pakistan developed a biosafety regulatory system in 2005, but success has been spotty in regulating the introduction of GE plants. Field trials under controlled conditions generally proceed without problem but final approvals are slow. Cotton farmers are the major beneficiary of this technology as with the introduction of Bt cotton varieties, this enterprise has performed well despite the prevalence of harsh weather conditions and floods.

Delays in approvals under the regulatory process result in the cultivation of unapproved and unregulated varieties of Bt cotton, developed locally based on Monsanto's biotech seed MON531. Previously, most local varieties were not submitted to the National Biosafety Committee (NBC) for approval fearing they will be rejected over infringement of the Monsanto varieties. However, a decision that this event did not have patent protection in Pakistan resulted in the MON 531 materials being widely cross bred with

Pakistani varieties by public as well as local private seed companies with the resulting varieties being submitted for approval to NBC. In March 2009, The NBC approved eight domestically developed Bt varieties for field testing. In 2010, Pakistan formally approved ten cotton varieties and one cotton hybrid and the first commercial cotton crop was cultivated in 2010-11. As a result of the devolution of control from the federal to provincial governments of almost all ag issues, the authority of the NBC was questioned and it failed to take action on other pending applications until recently.

As a result of the lack of action by the NBC, the Punjab Seed Council (PSC), a provincial seed approval authority, formally approved 11 biotech and 3 conventional cotton varieties for cultivation in the Punjab region in February 2012. Again, in February 2014, the PSC approved an additional 20 cotton varieties (15 Biotech and 5 Conventional) for general cultivation subject to approval of Bt varieties from National Biosafety Committee (NBC), Ministry of Climate Change (MCC). Despite the lack of federal approval, the seeds were put into commercial production highlighting the fact that the issue needs to be sorted out by the provincial and federal governments.

During late February, 2014, the MCC convened the first Technical Advisory Committee (TAC) meeting in more than a year. This is to be followed by a NBC meeting to consider the approval of biotech varieties before the start of cotton sowing season April to June 2014. (Note: the lack of a patent for MON531, as well as poor IPR regulations in the current seed law, is discouraging international seed companies from selling improved seed varieties in Pakistan. A revised seed law that provides better IPR protection was drafted more than 10 years ago but is still pending review by Parliament. End note).

While MON531 is not patented, the Bollgard II (stacked gene technology) seed is patented in Pakistan. Consequently, the federal/ provincial governments and seed companies intending to use the technology will now have to enter into a licensing arrangement with multinationals (MNCs) processing this technology. The licensing process is expected to minimize pilferage. Though financial risks are high, leading MNCs and a few major seed companies are proceeding with research and development because the Pakistan seed sector is large and offers huge potential for business. So far, no agreement has been made by any MNCs (Monsanto, Bayer Crop sciences, Syngenta and Dupont- Pioneer) with any public or private organization in Pakistan. As a result, Pakistan is expected to grow only the recently approved Bt/conventional varieties, as Bollgard II will not be available until agreements have been reached. Monsanto, Bayer Crop Sciences Germany and Heibei Seed Company China have applied to NBC for Bt cotton approval whereas, lab and field trials by some other companies are in progress. The National Biosafety Center that facilitates the NBC to approve GM varieties has already allowed Pakistani institutes to use double gene (Cry 1Ac & Cry 2Ab) Bt cotton for field testing. It is claimed that the seed is to be developed internally by the Center of Excellence in Molecular Biology (CEMB), Punjab University Lahore. If this event will be deregulated, the test material will be exploited for commercial cultivation by the local seed companies during next cotton season. Similarly, the National Institute for Biotechnology and Genetic Engineering (NIBGE) Faisalabad is also working on placing three genes (Cry1 Ac, Cry 2Ab and EPSPS) in local cotton varieties. These genes are also claimed to be developed in Pakistan and are expected to be available in MY 2015/16 provided approval is granted in a timely manner.

Pakistan's continued failure to approve seed legislation has hampered the development of a viable seed sector. Since 2008, the Seed Act Amendment and the Plant Breeder's Right Bill have been stuck in parliamentary committee. Approval of this legislation is vital to improve the investment climate for the

introduction of new seed technology. The proposed legislation is also expected to help regulate the development of transgenic varieties by establishing infrastructure for maintaining standards and quality control. After devolution of federal agriculture ministry MINFA in 2010, Punjab and Sindh governments have started pursuing Seed Act and Plant Breeders Rights bill with their own amendments. So far, debate is going on among federal and provincial stakeholders that after the passage of 18<sup>th</sup> Constitutional Amendment who has the jurisdiction to deal with these laws.

### **Consumption:**

Pakistan's domestic production is generally of mediocre quality and is not very clean. As a result, Pakistan imports a significant quantity of better grade, cleaner cotton for producing quality fabrics for export market. Post expects a significant increase in imports of U.S. ELS/Pima and upland cotton in MY 2014/15 in response to the growing exports. Pakistan's cotton consumption for MY 2014/15 is forecast at 12 million (480 lbs.) bales, one of the highest in the past six years and is marginally higher than MY 2013/14 revised estimate of 11.88 million bales, up 7 percent compared with the last ten years average of 11.2 million bales. Pakistan's cotton mill production in MY 2013/14 accelerated by 8 percent over the previous year's level of 11 million bales due to stronger textile demand resulting from the GSP plus status given by the EU. Strong cotton consumption growth is also fueled as a result of record exports of cotton products to EU and China. Reduced domestic cotton supplies followed by competitive international prices of cotton this year and increased demand during MY 2013/14 is likely to raise imports by Pakistan. Since MY 2014/15 the consumption pattern is forecast to stabilize at around 12 million bales.

The grant of Generalized System of Preferences (GSP Plus) status to Pakistan by the EU, effective January 2014 through 2017 is expected to have a major impact on Pakistan's cotton consumption and export of Pakistani products, especially textile and garments to European markets. This agreement allows 20 percent of Pakistani exports to enter EU market at zero tariff and 70 percent at preferential rates. These concessions are granted to allow Pakistan's economy to recover from the devastating 2010 floods. The EU is Pakistan's largest trading partner, receiving almost 30 percent of its textile exports - worth 3 billion Euros (\$3.9 billion) – which account for more than 70 percent of its total exports to the EU. According to trade sources, the concessions would increase textile exports by a billion U.S. dollars every year. Based on this development, Post expects a 25 percent increase of U.S. Pima and Upland cotton exports in MY 2014/15 and more afterwards. However, seeking access to GSP Plus status will require fully implementing conventions on human rights, labor standards, environment and good governance that Pakistan has signed at international forums.

The GOP has identified textiles as a key priority sector, and is taking necessary steps to introduce appropriate policies and incentives that can spur expansion and draw more private sector investment in this value added sector. In order to prepare the country's textile industry to the end of trade quotas set by the WTO, a large Balancing, Modernizing Restructuring (BMR) and expansion plan was launched to face the world's competition. Since 1999, the industry invested a total of approximately US\$ 6.8 billion for establishing latest infrastructure. To remain competitive textile industry faces new challenges to diversify and upgrade its production using better materials and technologies in the production value chain and R&D facilities.

Pakistan's cotton and textile sector is performing well in spite of prevailing energy shortages and continued violence in recent years. Industry has invested in establishing its own energy infrastructure for the mills in order to meet export demand.

**Trade:**

Pakistan is a net importer of cotton, primarily because of strong demand for better grades of cotton for blending and for producing export oriented quality textile products. MY 2014/15 imports are projected at 2.6 million bales, 23 percent lower than MY 2013/14 estimates. With offtake outstripping local production, Post's estimate of MY 2013/14 cotton imports were increased 25 percent to 3.37 million bales, up 53 percent over the previous year. Significant increase in imports estimate is also the result of enhanced demand by the industrial sector after the grant of GSP plus by the EU. So far, exporters from India have taken maximum advantage from Pakistani market by arranging export of more than two million bales of raw cotton and the yarn through land route. Pakistani importers are benefiting from this opportunity from India due to lower transaction cost( less than 2 percent) compared with more than 5 percent cost on cotton imports from the North.

With the onset of the new democratic government in Pakistan trade between Pakistan and India is progressing day by day. India granted Pakistan the Most Favored Nation (MFN) status in 1996, and Pakistan's present regime is trying to reciprocate this status to India. Currently, Pakistan's exports to India are around \$350 million, while Indian exports are at \$1.6 billion. Overall trade volume between the two countries is US\$4 billion. Most of the trade between the two states is conducted through Dubai. Diplomatic sources reveal that Pakistan will extend MFN status to India by the end of March and in return India has agreed to reduce tariffs for Pakistani exporters on 300 items as well as eliminate non-tariff barriers. Pakistan is likely to get maximum tariff concessions for its export-oriented industry and in return will extend non-discriminatory market access (NDMA) to India when this agreement is announced.

The trade officials are of the view that after the trade deal gets done, both the countries are likely to trade 8,000 items in total. Pakistan is strong in textiles and textile product exports. India has indicated to bring down the existing tariff on textile product to 5 percent. This agreement is likely to benefit Pakistan enhancing its access to the second biggest South Asian market of over one billion people, simultaneously; India will have access to 200 million people.

Pakistan cotton exports are expected at 500,000 bales in MY 2014/15, up 25 percent from the previous year based on higher local output. Month wise cotton trade statistics from MY 2011/12 to 2013/14 are given below in table format.

**Table 1: Cotton Trade Statistics**

(Quantity in Metric Tons)

MONTH/YEAR	IMPORTS			EXPORTS		
	MY 2011/12	MY 2012/13	MY 2013/14	MY 2011/12	MY 2012/13	MY 2013/14
August	6,342	20,023	9,076	10,797	2,365	14,031
September	4,592	9,662	8,733	10,291	11,095	17,635
October	15,550	13,027	9,336	12,532	18,781	8,522
November	10,471	13,393	9,618	21,866	7,304	16,789
December	7,219	40,444	24,991	20,958	5,645	15,948
January	18,606	78,690	62,639	28,831	7,282	8,933



<b>February</b>	16,268	62,602	-	47,827	10,879	-
<b>March</b>	12,520	59,574	-	39,320	11,522	-
<b>April</b>	10,446	39,850	-	41,745	7,227	-
<b>May</b>	17,692	36,372	-	15,529	5,009	-
<b>June</b>	36,436	21,938	-	2,431	4,361	-
<b>July</b>	34,180	15,389	-	1,068	5,246	-
<b>TOTAL</b>	<b>190,322</b>	<b>410,964</b>	<b>124,393</b>	<b>253,195</b>	<b>96,716</b>	<b>81,858</b>

Source: Federal Bureau of Statistics, Government of Pakistan

Demand for better quality fabrics for the export market and specialized products for the domestic market are growing. Thus, Pakistan's textile industry is expected to increasingly rely on imported U.S. ELS/Pima cotton and contamination-free upland cotton for producing higher quality textile products. Already, Pakistan is one of the largest importers of U.S. Pima/ELS cotton and Post expects to see a significant increase in imports of extra-long staple cotton in MY 2013/14.

Pakistani firms often import upland cotton for blending especially for their export programs. This is due to contamination problems with the local cotton supplies, particularly with alien fibers such as polypropylene and jute. The problem occurs during harvesting and handling and causes havoc in the industry by creating yarn of different yarn strengths and dye uptake. Estimates suggest that contamination raises costs by 10 percent. To address this problem, some mills have standardized their blend for export markets, with a pre-defined origin and percentage of imported cotton in the product. All trade disputes are solved through the International Cotton Association (ICA)

### **Cotton Tariffs:**

The Government of Pakistan follows a free trade policy for cotton with no quantitative restrictions or duties on either imports or exports. The grant of generalized system of preferences (GSP) status to Pakistan's textiles as a mechanism to help the country is effective since January 2014. According to sources the federal textile ministry and cotton producing states have joined hands to get benefit from this opportunity. Recently, the Punjab Government has constituted a special cabinet committee to present its recommendations regarding the benefits Pakistan can achieve by exporting products having access in European market.

### **Stocks:**

Post's estimate of MY 2014/15 ending stocks was increased to 3.5 million bales due to more accurate government and industry estimates. During MY 2013/14, lower local production supported with significant imports is going to maintain ending stocks at 3.1 million bales. Most mills will be covered through August - December 2014, when the bulk of Pakistan's domestic crop is sent to market.

### **Policy:**

Cotton and textile products are Pakistan's largest exports, accounting for about 60 percent of its global exports. Hence, growth in the national economy is essentially linked to the volume and value of cotton and its by-products. Thus any policy affecting cotton yield, production, consumption, marketing,

import and export have serious implications for the national economy. Major components of Pakistan's strategy to increase cotton production include: increasing cotton area, encouraging use of certified seeds, discouraging late cotton sowing, subsidizing fertilizers, controlling CLCV disease, managing integrated pest management and developing a focused media campaign.

Higher input costs, electricity load shedding, and other energy-related issues in the country are taking their toll on cotton production and its consumption by the textile sector. Growers in remote areas have limited access to alternative sources of energy. The high cost of inputs –water, fertilizer, pesticides etc. combined with escalating operating costs will impact cotton cultivation and productivity. Another constraint is the reduced availability of canal water during peak sowing season (April-June). This situation is compounded in the rural areas where irrigation via tube wells is powered by electricity. Sindh province is affected more by water shortages as underground water is brackish and is not fit for irrigation purposes.

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

**Units: Area (1000 HA); Production, Supply, Consumption, Trade and Stocks (1000 480 lb. Bales); Yield (KG/HA)**

<b>Cotton Pakistan</b>	<b>2012/2013</b>		<b>2013/2014</b>		<b>2014/2015</b>	
	<b>Market Year Begin: Aug 2012</b>		<b>Market Year Begin: Aug 2013</b>		<b>Market Year Begin: Aug 2014</b>	
	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
Area Planted	0	0	0	0	0	0
Area Harvested	3,000	3,000	3,000	2,860	0	3,040
Beginning Stocks	2,835	2,835	2,860	2,860	0	3,128
Production	9,300	9,300	9,500	9,200	0	10,300
Imports	2,200	2,200	2,500	3,368	0	2,600
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	14,335	14,335	14,860	15,428	0	16,028
Exports	450	450	500	400	0	500
Use	11,000	11,000	11,500	11,875	0	12,000
Loss	25	25	25	25	0	25
Total Dom. Cons.	11,025	11,025	11,525	11,900	0	12,025

Ending Stocks	2,860	2,860	2,835	3,128	0	3,503
Total Distribution	14,335	14,335	14,860	15,428	0	16,028
Stock to Use %	25	25	24	25	0	28
Yield	675.	675.	689.	700.	0.	738.
TS=TD	0	0	0	0	0	0