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Pakistan

Cotton and Products Annual

Cotton and Products Annual 2017

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Report Highlights:

Pakistan's marketing year 2017/18 cotton production is forecast at 8.5 million 480 lb bales, up 10 percent from a year ago due to an expected increase in area. Still, area remains low compared to historical levels as farmers shift to sugarcane and increasingly popular corn. Pakistan is likely to continue as a significant importer to augment domestic production, though imports are expected to decline somewhat in response to improved production. Annual cotton consumption has been largely unchanged for over a decade and that trend is expected to continue into 2017/18. Pakistan has announced a funding package aimed at expanding the textile sector which includes a reduction in the cotton import tariff to zero.

Production:

Pakistan's MY (Aug/Jul) 2017/18 cotton production is forecast at 8.5 million 480 lb bales (10.9 million 170 kg bales or 1.85 million metric tons (MMT). The forecast assumes a modest expansion in area and forecasts yields based on a five-year olympic average. Production is rebounding from the disastrous 2015/16 crop that saw farmers respond to low cotton prices by limiting the use of inputs for insect control and minimize pickings to save on labor costs. Yields improved in 2016/17, but planted area was limited by low prices and farmer concerns over the remuneration from cotton based on their experience a year earlier. As prices improved during the 2016/17 season, farmers put more resources into insect control and harvesting (Pakistani farmers pick cotton multiple times). Area is expected to increase again in 2017/18, but the expansion will be limited as some farmers have shifted to long-duration sugarcane and increasingly popular corn for Pakistan's growing livestock and poultry sectors -- shifting well-irrigated productive land out of cotton.

There are a number of factors that could affect yields, some positive and some negative, thereby leading to the supposition that a 5-year olympic average is a relatively reasonable basis for a yield projection. Factors weighing against improved yields include:

- Pakistan's continued reliance on a back-crossed 15-year-old biotechnology event means that crops are susceptible to bollworms.

- "Sucking insects" such as white fly continue to spread cotton leaf curl virus and other plant diseases that affect yields and require farmer vigilance.

- Cotton seed quality is a perpetual issue with low germination rates and weak certification.

Factors that are supportive of yields include:

- The major cotton-producing provinces of Punjab and Sindh have approved or are expected to soon approve 12 new seed varieties that seem to be liked by farmers and supplies of certified seed are up to 45 percent of all cottonseeds from 30 percent a year ago.

- Farmers are increasingly aware of the risks associated with the weak expression of the Bt gene in local cotton plants and the need to monitor for bollworms. They are also increasingly attuned to the damage of "sucking" insects.

- The government continues to heavily subsidize the supply of fertilizer, water, and power for farmers.

Pakistan mainly produces medium staple cottons. Lint quality continues to be an issue within the industry -- the quality of the picking and ginning results in varying bales sizes and high levels of foreign matter continue to affect quality. Additionally, farmers often plant multiple varieties as a hedge against poor germination rates. Hence, identifying specific grades or properties from a particular variety is not done.

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 to find disease resistant cotton traits that can be incorporated into breeding programs.

Status of Bacillus Thuringiensis (Bt) Cotton:

The first Bt cotton was informally introduced in Pakistan about 15 years ago and quickly spread before a regulatory or intellectual property system was in place to regulate it. That older event, which now covers an estimated 95 percent of cotton area, continues to dominate the biotech cotton sector a factor that continues to present a challenge to farmers due to backcrossing, weak gene expression, and growing ineffectiveness against pink bollworms.

Pakistan's federal biotechnology regulatory system has faced challenges since the passage of the 18th Amendment to the Constitution in 2010 which "devolved" many federal roles and responsibilities to the provinces. At the time, it was not clear if oversight of the seed and biotechnology sector would fall to the federal or provincial governments and the federal system continued to operate until 2012. Between 2012 and early 2016, Pakistan's federal biosafety regulatory structure ceased to function as the courts reviewed the lines authority between provincial and federal governments. Consequently, the regulatory system stopped approving new events for both commercial and research use. However, in February 2016, in an effort to ensure that there was a sufficient supply of approved biotech cottonseeds (licenses for number of varieties had lapsed) in the market, the Ministry of Climate Change conducted meetings of Technical Advisory Committee (TAC) and National Biosafety Committee (NBC). In these meetings 35 cases of commercialization of Bt cotton varieties were decided; out of which thirty two (32) varieties of Bt cotton having the single gene i.e. Cry1Ac (MON531 event) and three varieties having double genes i.e. Cry1Ac + Cry2Ab (CEMB-2 event) were approved.

In February 2017, the Punjab Seed Council (Punjab is the main cotton-producing province in Pakistan) approved seven new cotton varieties (five Bt and two conventional) subject to commercial approval of Bt varieties from the NBC. The Province of Sindh is expected to approve additional varieties.

Pakistan continues to make progress towards approving and implementing the regulations that will modernize its seed and biotechnology regulatory systems. The Seed Amendment Act 2015 has been promulgated and recently the seed rules have been approved for implementation. Simultaneously, the Plant Breeders' Rights (PBR) Act (which will provide intellectual property protection) has received final legislative approval and the Ministry of Food Security and Research is preparing implementing rules. Similarly, the long-suspended biotech regulatory system continues to function.

Consumption:

On January 10, 2017 the Government of Pakistan announced an incentive package worth $ 1.7 billion to boost the country's exports of textile products. The 18 months package starting from January 1, 2017 to June 30, 2018 covers duty drawback rates of local taxes and abolition of sales tax on import of textile

machinery, customs duty/sales tax on import of raw cotton and duty on man-made fiber. Some in the textile sector have noted that a number of changes were quickly priced in to textile products or the expectations of buyers, thus negating some of the advantages. Time will tell if the new policies increase the consumption of cotton.

Consumption has been flat for over a decade and is only expected to increase modestly in 2017/18. Cotton continues to face competition from other man-made fibers and the textile industry has tended to discount some of the efficacy of the new textile package. Pakistan also faces significant competition from competing manufacturers in Asia. Still, textiles continue to play an important role in Pakistan's economy. The textile sector is the largest industrial sector in Pakistan and accounts for about 40 percent of the industrial labor force and employs 10 million people. The sector also generates eight percent of Gross Domestic Product and over 50 percent of foreign exchange earnings. The integrated cotton and textile sector includes 1,000 ginneries, 425 textile mills, and 300 cottonseed crushers and oil refiners. China's increased investment in Pakistan's energy and infrastructure sectors could help to spur future growth in the textile sector. Pakistan has also emerged as a major importer of cotton, primarily medium staple from India. The United States consistently supplies large quantities of long staple cotton and pima.

Trade:

Pakistan is a net importer of cotton, primarily due to strong demand for better grades of cotton for blending and for producing export-oriented quality textile products. Typical imports include upland and long staple cotton, as well as medium staple cotton, to augment domestic supplies for processing and re-export. Pakistan's imports during MY 2017/18 are likely to fall as domestic production improves. Imports are projected at 2.3 million 480 lb bales. Despite sizeable imports, Pakistan continues to export cotton and 2017/18 exports are forecast at 365,000 480 lb bales. 2015/16 trade estimates reflect official data.

Table 1: Cotton Trade Statistics:

(Quantity in Metric Tons)

MONTH/YEAR	IMPORTS			EXPORTS		
	MY 2014/15	MY 2015/16	MY 2016/17	MY 2014/15	MY 2015/16	MY 2016/17
August	7,314	7,546	16,723	9,461	1,2679	4,202

September	5,661	3,429	14,318	19,070	2,4618	4,176
October	7,133	7,831	18,597	15,838	9,073	7,033
November	13,529	62,585	10,369	16,018	1,406	2,849
December	7,166	97,050	13,914	12,222	1,858	1,544
January	12,537	65,483	36,654	14,346	1,551	707
February	17,540	66,976		5,282	519	
March	30,337	52,486		2,729	624	
April	25,545	52,464		2,261	240	
May	23,212	33,589		1,221	258	
June	21,608	22,707		558	539	
July	20,315	15,079		4,003	2,390	
TOTAL	**19,1897**	**487,225**	**110,575**	**103,009**	**55,755**	**20,511**

Source: Pakistan Bureau of Statistics (PBS), Government of Pakistan

Cotton Tariffs:

As part of the recently announced textile incentive policy, import tariff on cotton was reduced from 9 percent (4 percent custom duty and 5 percent sales tax) to zero. The zero tariff is expected to be in place through at least June 30, 2018, the conclusion of Pakistan's 2017/18 fiscal year.

Policy:

Pakistan, along with a number of Asian countries, believes that textiles are a sector that holds promise for jobs, economic development, value addition, and export earnings. Currently, the Government of Pakistan's Textile Policy 2014 - 2019 is in operation. The Policy aims to double textile exports from $13 billion to $26 billion, through increased value addition, by 2019. Key features of the textile policy include budgetary support, drawback of certain local taxes and levies, duty free import of machinery, fiber diversification, product diversification, small and medium enterprise development, enactment of domestic labor laws, establishment of a world textile center, and revitalization of projects like the Pakistan Textile City. The additional support from the recently announced textile support package is aimed at supporting these objectives.

Along with sugarcane, wheat, and rice, cotton is considered one of the key crops in Pakistani agriculture. Farmers benefit from subsidized fertilizer, power, and seeds. Still, yields are below what seems possible given the fact that much of the crop is irrigated. Improved germ plasm and seed quality seem key to enhancing productivity, along with improved incentives from ginners and spinners for improved cotton quality along the value chain. As the seed regulatory structure improves, seed quality and productivity may improve.

Production, Supply and Demand Data Statistics:

Cotton	2015/2016		2016/2017		2017/2018	
Market Begin Year	Aug 2015		Aug 2016		Aug 2017	
Pakistan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	2800	2800	2400	2400	0	2600
Beginning Stocks	2890	2890	2615	2615	0	2490

Production	7000	7000	7700	7700	0	8500
Imports	3300	3300	2600	2700	0	2300
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	13190	13190	12915	13015	0	13290
Exports	250	250	150	200	0	365
Use	10300	10300	10200	10300	0	10400
Loss	25	25	25	25	0	25
Total Dom. Cons.	10325	10325	10225	10325	0	10425
Ending Stocks	2615	2615	2540	2490	0	2500
Total Distribution	13190	13190	12915	13015	0	13290
(1000 HA) ,1000 480 lb. Bales						