



# Pakistan Cotton Weekly Report

W/E July 23, 2010

## AGRICULTURAL CROP

### Agricultural Outlook

Federal Minister for Food and Agriculture, categorically denied reports that 80% cotton crop was affected by leaf curl virus (CLCV) and pest attacks, Pakistan would produce 14 million bales of cotton this season, which were sufficient to meet requirements of the textile industry.

We have introduced nine virus resistant varieties in the country which would help in increasing cotton production. Pakistan has tremendous potential to excel in agriculture sector and become a role model, said by Minister.

He emphasized on research for development of agriculture sector, saying it was imperative for country's prosperity; Pakistan's has an agro-based economy and would not make progress unless special focus is given to agriculture sector. Government was giving priority to the agriculture sector to ensure sustainable economic development.

He termed uplift of small farmers as imperative to boost agriculture sector on which economy of the country is heavily dependent.

Government had formally introduced BT cotton in Pakistan, which should have been introduced a decade ago.

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# Pakistan Cotton Weekly Report

## COTTON / SEED-COTTON PRICES

Prices fell marginally on cotton market as picking operations accelerated despite rains in cotton growing areas. KCA spot rate was unchanged at Rs 6,000. In ready business, over 3500 bales of cotton changed hands between Rs 5700-6150.

Seedcotton (Kapas/Phutti) prices were lower in range of Rs 2,550 to Rs 2,600 per 40 Kgs in Sindh and between Rs 2,600 to Rs 2,650 per 40 Kgs in Punjab (Rates were also lower by Rs 50). Lint prices also suffered so that they ranged between Rs 5,700 to Rs 5,800 per maund in Sindh and in Punjab they were said to have ranged between Rs 5,800 to Rs 5,900 per maund, according to the quality.

Ginning factories in Punjab were closed due to rains but picking operations are continued.

Date	Ex Gin Price Rs.	Up Country Expense Rs.	Total Price	
			PKR Rs.	US c/lb
17-July-10	6000	100	6100	86.71
19-July-10	5800	100	5900	83.86
20-July-10	6000	100	6100	86.71
21-July-10	6000	100	6100	86.71
22-July-10	6000	100	6100	86.71
23-July-10	5850	100	5950	84.67

\* 37.324 Kg

## Seedcotton/Lint Prices

### Highlights

- **KCA spot rate was unchanged at Rs 6,000**
- **Seedcotton prices were lower in range of Rs 2,600 to Rs 2,650 per 40 Kgs in both provinces**

Next >> Market Outlook



# Pakistan Cotton Weekly Report

## Logical Views

- **The lifeblood of our business is that R&D spend. There's nothing that flows through a pipe or down a wire or anything else. We have to continuously create new innovation that lets people do something they didn't think they could do the day before.**

[Continue >> Market Watch](#)

## MARKET OUTLOOK

### MARKET WATCH

With early and increasing arrivals of new crop cotton (2010-2011), fiber prices continue to face more pressure. Wholesome monsoon showers over the past week or ten days, particularly in Punjab, are being deemed positive for the growth and development of new crop. Thus lint prices kept declining this week.

Moreover, quite a large new crop expected in US, India Pakistan and elsewhere is also deemed to be a factor to depress domestic lint prices. Furthermore, the uncertainty regarding continuation or otherwise of Regulatory Duty (RD) on yarn exports is also bearish factor on cotton market.

This month witnessed high volatility in domestic prices. In the beginning of this month, higher class of cottons were being offered around Rs 6,700 to Rs 6,800 per maund (37.32 Kgs), which later rose to record prices ranging between Rs 7,400 to Rs 7,500 per maund. Thereafter, the lint prices kept fluctuating during the second week of this month, but since then the prices have been sliding continuously so that today they range between Rs 5,700 to Rs 5,900 per maund, according to the quality.

This issue of Regulatory duty (RD) on yarn exports has bred uncertainty in the entire cotton trade and industry and needs to be clarified immediately to save the cotton economy of Pakistan from growers to the manufactured textile goods and value added sector from further losses. Clarity on the issue of RD on yarn exports will assist the entire cotton economy to plan for many months ahead regarding their investments, sales and marketing. Therefore, the issue of Regulatory Duty (RD) on yarn exports needs to be resolved immediately.



# Pakistan Cotton Weekly Report

## Simple Business Strategy

- A country's strategy is always based on a fundamental philosophical outlook.
- Innovation is not the product of logical thought, although the result is tied to logical structure

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Market Share

## MARKET OUTLOOK

### MARKET WATCH

In this connection, value added sector is promoting government restrictions and regulation of textile trade and industry which in the past has resulted in serious setbacks to the entire economy of Pakistan. On the other hand, Pakistan Cotton Forum (PCF), a grouping of growers, ginners, cotton traders, exporters and textile manufacturers have cautioned the government not to allow extension of Regulatory Duty (RD) on yarn exports beyond the 26th of July 2010.

According to Chairman of Pakistan Cotton Forum (PCF), no extension of Regulatory Duty (RD) or any other form of intervention in the free market mechanism of cotton trade and industry will be acceptable beyond July 26, 2010 by growers, ginners, spinners and the organized value added textile manufacturers.

As the tug of war continues between the growers, ginners, exporters and spinners on the one hand and the value added textile sector on the other hand, cotton trade and industry is suffering immensely due to the volatility and uncertainty it has introduced into the business of cotton, yarn and also exports of sundry textile products.



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## Supply & Demand

### Dynamic Key

- "Demand is not that good. Prices are high, but supply is what's driving that, not necessarily demand."
- "Clearly, there was going to be a day of reckoning. That's part of what's happening here. But the overarching issue is that supply hasn't kept up with demand."

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### SUPPLY & DEMAND

It is expected that the prices may slip from the current levels due to strong arrivals and declining trend in international markets. Next price line will depend on supply position because there were reports about the pest attack on the crop, if pest attack is massive, it will hit production.

Meanwhile it is expected the agriculture department may control the virus attack because they have already started working on Cotton protection and the country will be able to achieve the target.

A notable feature in the ready cotton market is that exporters have started buying and probably current cotton prices are coming close to their parities for shipments abroad.

### Market Share

Pakistan			
(000) 480-pound bales			
Year (Aug. 1 - July 31)	Imports	U.S. Exports	U.S. Market Share
2008	1,950	749	38.43%
2007	3,907	530	13.55%
2006	2,305	641	27.80%
2005	1,615	373	23.07%
2004	1,756	655	37.27%
2003	1,805	598	33.11%
2002	872	461	52.82%
2001	865	428	49.50%
2000	470	156	33.24%



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## Country Statistics

Pakistan								
(000) 480-pound bales								
Year (Aug. 1 - July 31)	Beg. Stocks	Produc tion	Imports	Total Supply	Mill Use	Exports	Ending Stocks	SUR*
2010	2,913	10,200	2,300	15,413	11,600	400	3,388	28.23%
2009	4,088	9,600	1,500	15,188	11,500	750	2,913	23.78%
2008	5,088	8,700	1,950	15,738	11,250	375	4,088	35.17%
2007	4,875	8,600	3,907	17,382	12,000	269	5,088	41.47%
2006	4,912	9,900	2,305	17,117	12,000	217	4,875	39.90%
2005	4,945	10,165	1,615	16,725	11,500	288	4,912	41.67%
2004	3,134	11,138	1,756	16,028	10,500	558	4,945	44.72%
2003	3,279	7,845	1,805	12,929	9,600	170	3,134	32.08%
2002	4,091	7,972	872	12,935	9,400	231	3,279	34.05%
2001	3,645	8,286	865	12,796	8,500	180	4,091	47.13%
2000	3,503	8,379	470	12,352	8,100	582	3,645	41.98%

### Market Hike

- “Changes in certain crops can affect Imports and Exports.”

Source: USDA-Foreign Agriculture Service

\*Stocks-to-Use Ratio: Calculated by dividing Ending Stocks by Total Use(Use & Exports)

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# Pakistan Cotton Weekly Report

## Highlights

- **“I’m to provide the public with beneficial Shocks - Government”**
- **Aptma demands that reliable data should be collected by MINTEX regarding consumption requirements of all sectors of the value added chain and not just cotton yarn**

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## TEXTILE

### APTMA

All Pakistan Textile Mills Association (Aptma) sources have expressed shock and joy at the accusation from the Value Added Textile Forum (VATF) published in a section of press dated 21 July 2010 whereby VATF has accused the spinners of being able to manipulate cotton prices and urged the government to forbid the spinners to keep more than 2 months of cotton requirements in their mills.

The joy expressed is for the reason that it is presumed that the prices of cotton which can be easily imported free of duty from any where in the world can be manipulated by Pakistan Spinning Industry and the shock expressed that in the same news item the VATF expressed its desire to give the rightful price to the cotton growers as per international parity.

Whereas on the other hand, it is their demand that the spinners should be denied international parity price by imposition of Regulatory Duty/Quota on yarn exports. The news item also mentions, government should guarantee to buy the cotton from the growers and store it in order to prevent the spinning industry to buy larger quantities of cotton. The article further mentions the need to collect reliable data of production of the spinning industry to determine consumption of the cotton.

Aptma demands that reliable data should be collected by MINTEX regarding consumption requirements of all sectors of the value added chain and not just cotton yarn. Aptma has also appreciated the idea of a national policy initiative to ensure supply of raw material to all segments of the textile sector and not just a value added textile chain.



# Pakistan Cotton Weekly Report

## Highlights

- **Ministry of Commerce has sought opinion from the stakeholders so as enable to evaluate the impact of proposed levy of 50% export duty or a complete ban on exports of wet blue.**

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## TEXTILE

### APTMA

It is pertinent to mention here that yarn production exceeds yarn consumption, whereas the spinning industry is required to import 3.5 million bales of cotton every year as the cotton production of the country falls short of requirement of spinning industry in Pakistan.

Aptma also pointed out that there has been a 7% increase in value of exports of textile sector during the past year which has exceeded \$10 billion whereas it is claimed by VATF that during the past year yarn was not available. Aptma demanded that government should fulfill its commitment to return to the free market mechanism by 26<sup>th</sup> July 2010 as has been clearly mentioned in the SRO.

Any further extension in regulatory duty will result in collapse of cotton prices as spinners are already burdened with yarn stocks and will be unable to buy cotton at international prices and therefore the burden of regulatory duty on yarn will pass on to the growers.

### Duty on Wet Blue Export

Ministry of Commerce has sought opinion from the stakeholders so as enable to evaluate the impact of proposed levy of 50% export duty or a complete ban on exports of wet blue.

TDAP official proposed some steps to resolve the wet blue export and smuggling issue. According to him, temporarily ban should be imposed on export of wet blue for the time being.



# Pakistan Cotton Weekly Report

## Highlights

- **Wet blue is a semi-processed form of leather produced when tanneries used to preserve raw hides/skins by converting them into wet blue.**

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## TEXTILE

### Duty on Wet Blue Export

Temporary ban on export of this item is also allowed under WTO. "If we consider Article XI of GATT, which deals with "General Elimination of Quantitative Restrictions" and which is "no prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licenses or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for territory of any other contracting party."

However, this provision of the Article shall not extend to the export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party.

If temporary ban on export of wet blue is not feasible then some other steps could be taken; firstly to adopt Minimum Export Price (MEP) for wet blue, secondly to increase the regulatory duty from 20% to 50% on export of raw and wet blue hides, and thirdly, invoices should be in sq. ft. only and no invoices showing rate per kilogram or per piece may be accepted.

PTA members briefed the TDAP authorities about the historical development of leather industry in Pakistan. The industry gradually developed from the stages of export of raw hides/skins to the present when Pakistani leather can compete and even exceeds in quality from the world class leathers.

Wet blue is a semi-processed form of leather produced when tanneries used to preserve raw hides/skins by converting them into wet blue. Due to high demand of Pakistani raw stocks in the international markets, some unscrupulous elements, not relevant to leather trade, sells out huge stocks of wet blue.



# Pakistan Cotton Weekly Report

## Highlights

- **Hides and skins and by-products of livestock sector, where cattle farming are primarily targeted to collect milk and dairy products and finally meat and allied products.**

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## TEXTILE

### Duty on Wet Blue Export

With a view to discourage the malpractice, government has already imposed 20% duty on wet blue exports, after having consultative opinion from all the associations including Pakistan Tanners Association (PTA), Leather Garments Association (PLGMEA), Footwear Association (PFMA) and Leather Gloves Association (PGMEA).

The Association members while highlighting the issue, differentiate between cotton (a raw material for textile industry) and hides/skins (raw material for leather industry) and contended that it is quite easy for farmer to grow more cotton by acquiring more area under cultivation and by adding better seed, fertilizers and pesticides.

However, the case is entirely different for hides and skins. Hides and skins and by-products of livestock sector, where cattle farming are primarily targeted to collect milk and dairy products and finally meat and allied products.

Not a single cattle farm has been set up to cater the leather sector and it is impossible to raise the production of hides and skins in a short-to-medium time period. Thus despite being signatory of WTO and FTAs, Pakistani could not afford draining out of precious stocks of raw and wet blue from the country to save its second largest export earning industry.

The PTA members argued that foreseeing such limitations, China, India and Egypt has levied duty to discourage export. Iran has completely banned the export of wet blue. All these countries are also signatories of WTO, yet they want to save their leather industry so why can't Pakistan? They further pointed out that the government levied 20% on wet blue exports in 2005 which is being avoided by misdeclaration and/or under-invoicing of goods.



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## Highlights

- **The association was of the view that government should take other strict measures to curb smuggling besides levy of 50% export duty on wet blue**

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TEXTILE

## Duty on Wet Blue Export

PTA (North) has already taken up the case with Customs authorities at Lahore, Multan and Sialkot dry-ports to check wrong declaration and under-invoicing of wet blue export consignments. The Customs authorities at Lahore and Multan have already started screening of consignments of leather and wet blue in this regard.

It was also pointed out in the meeting that installation of an average sized tannery unit needs Rs 600 million. Whereas, few drums and a flashing machine are required for wet blue manufacturing that is only 10% of the cost of a tannery ie around Rs 6.0 million. To substantiate their points, Association members made a comparison that value addition in finished leather could fetch 3-4 times more price than wet blue.

Moreover, production of finished leather in a tannery generates employment and contributes to the manufacturing GDP of the country. The TDAP authorities were also briefed that smuggling of live animals to Iran, Afghanistan and UAE is aggravating the availability of raw material situation in the country. In spite of disagreement by Ministry of Commerce, government has allowed export of live animals last year and started issuing quota permits for animals.

These quota permits are being misused and huge quantities are being smuggled out from Pakistan. The members validated their point by adding that prices of milk and meat are shooting up rapidly. Meat prices have increased from Rs 300 to Rs 450 per kilogram within the last 12 months and quality of meat available has also been deteriorated. The association was of the view that government should take other strict measures to curb smuggling besides levy of 50% export duty on wet blue.



# Pakistan Cotton Weekly Report

## Highlights

- Over 3500 bales of cotton changed hands between Rs 5700-6150

## Weekly Sales

### Weekly Sales (Sindh / Punjab)

#### Crop 2010-11

#### PUNJAB REGION

<i>Punjab Stations</i>	<i>Total Bales</i>	<i>Punjab Stations</i>	<i>Total Bales</i>
Arif Wala	600	Pakpattan	1600
Bahawal Nagar	400	Sahiwal	1200
Burewala	3900	Samandari	200
Chicha Watni	1200	Tandelawala	200
Ghaziabad	200	Vehari	100
Gojra	400		
Haroonabad	800		
Hasilpur	400		
Khanewal	1200		
Mian Chunno	800		

#### SINDH REGION

<i>Sindh Stations</i>	<i>Total Bales</i>
Hyderabad	1400
Kotri	900
Matli	200
Mirpur Batharo	200
Mirpurkhas	400
Nooriabad	200
Sanghar	1400
Shahdadpur	4400
Sultanabad	3200
Tando Adam	1800