

# Marketing Pakistan Cotton for Export

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On the one hand, the production of cotton (one of Pakistan's main cash crops) is growing steadily during the last 2 years but, on the other hand, consumption is also outpacing production significantly. Pakistan has been a net importer of cotton for the last four to five years, as the textile spinning industry has grown phenomenally. In the post-quota era, a significant volume of textile business is thought to have been diverted to markets like China, India, Pakistan, Bangladesh, etc.

The export of raw cotton from Pakistan has been going on since 1948. Even though production that year was somewhere in the region of 1,239,000 bales (170kgs), the country still exported 1,076,000 bales. Until the 1990s, international cotton merchants were the main buyers of the crop. However, since the late 1990s, Pakistani exporters have started doing a lot of direct business with buyers in all Far Eastern markets (see chart below) and the numerous international traders that had offices in the country have closed almost all of them. During the 1970s and 1980s, the government was also actively involved in exports, which for some period was nationalized, through the Cotton Export Corporation of Pakistan (Pvt) Ltd. Nonetheless, for the last 10 to 15 years the government has adopted a free import/export policy.

The quantity of exports per year depends mainly on production. If we look at the accompanying chart it shows that in the last 5 years, whenever there is a bumper crop, exports have increased. Having said that, although production is a very important factor, there are other challenges that can also affect the marketing of cotton from Pakistan. Some of these are mentioned below:

- Irregular presence in the foreign markets.
- Higher price due to local consumption.
- Contamination.
- Characteristics of Pakistani cotton.
- Inaccurate statistics.
- Defaults by some of the exporters.

The most important point which a buyer considers when buying cotton is the regular availability and supply of that growth. Pakistani cotton production is not predictable and is very much weather dependant. Therefore, only in those years when the crop is exceptionally good, is there enough exportable surplus. As per experience, this has usually happened every three to four years. This has not encouraged buyers, who would like

to have regular supply every year, rather than buying bulk in one year and not being able to buy again the next year. Even Nigerian raw cotton, which is known for contamination, is regularly available and thus bought every year. Many mills have to plan their requirements six months to a year in advance and, if supply is not assured, they try not to buy this cotton in the first place.

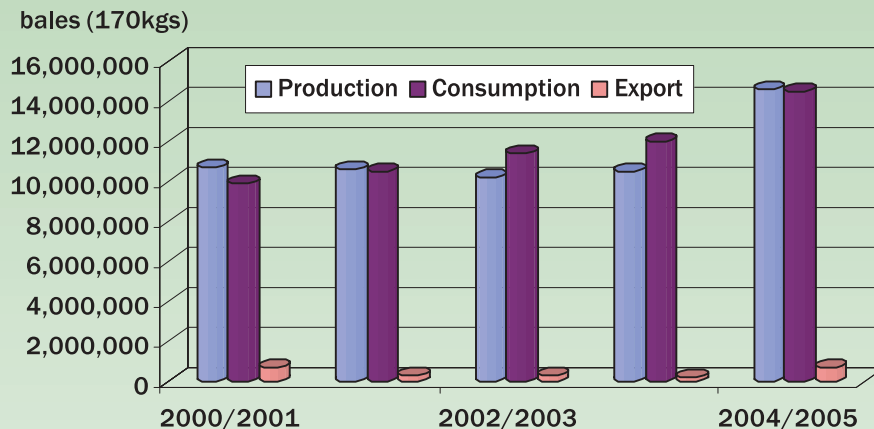
Pakistan itself is one of the major cotton consumers in the world and the main priority is to feed the local spinning industry. During this process, if prices are workable to the mills, prices are generally maintained at levels



which do not allow exports to be feasible. The current season is a very good example of this. Initially, only a very small quantity of new crop cotton (less than 1% of the crop) has been sold into foreign markets, after which prices have been at relatively high levels and thus not workable for export.

Like Indian, Pakistani raw cotton is also hand picked and therefore prone to contamination. Many buyers, who would otherwise have preferred to buy Pakistani cotton, do not do so because of the presence of excessive contamination. Most US buyers impose a condition to buy yarn spun with non-contaminated cotton. Growths like US, Australian and Brazilian are all good examples of contamination-free cotton. This season the government has initiated a program wherein they will pay more to the ginners who produce cotton free of contamination. If this project is successful it may provide opportunities for exporters to sell in new markets and at better prices

### Production/Consumption/Export



Seed varieties in Pakistan have evolved much since the 1980s and now instead of 1.1/32" average staple is higher than 1.1/16". Strength has also improved in the last few years. Despite these improvements, most buyers consider Pakistani raw cotton just for spinning coarse counts and do not buy it for counts like 30s and above. This puts Pakistani raw cotton in a discounted cotton category. Alternatively,

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varieties of Indian raw cotton, grown in the same type of land, with more or less the same climatic conditions, give much better staple length of 1.1/8" and higher, and therefore have access to more markets like China and Taiwan and fetch good prices. More attention has to be given to this issue by the government as well as private seed producers, so that Pakistani raw cotton may also be sold at premium prices.

Many buyers around the world are interested in entering into forward purchase contracts, sometimes as much as 6 months in advance. The Pakistan Cotton Ginners' Association (PCGA) compiles seed cotton arrivals data and releases the numbers every fortnight, but the Cotton Crop Assessment Committee (CCAC) meets much less frequently. The PCGA reports start coming in once ginning factories start production, and not before. Therefore, forward forecasting is mostly based on guesstimates about the crop size as no more reliable method exists. This results in significant variation in the crop estimates and consequently a shipper is unable to sell on forward basis thus losing business to competitors. This is unlike markets like the US and Australia where not only the quantity is estimated more scientifically, but also the quality is assessed periodically and fairly accurately

Although it is not a major one, there is one more problem faced by local shippers, and that is of one of reputation. In a number of markets, defaults by a couple of shippers have deterred buyers from using Pakistani raw cotton at all. This issue also needs to be addressed.

Looking at the bigger picture, the future of exports of raw cotton from Pakistan does not seem to be very optimistic. The country is making quantum leaps in investment in its textile industry and, although raw cotton may contribute to much-needed foreign exchange reserves, value-addition and employment opportunities created by industry are the main priorities of the time. There may come several instances when the government encourages exports, like this season, when the old crop stocks held by the Trading Corporation of Pakistan are being shipped abroad so as to not affect the domestic market, but this does not happen frequently. In addition, there are some years when lower grades are not consumed by the local industry and therefore need to be exported. In any case, cotton from Pakistan is well worthy of the price, if not better. It just needs more consideration from buyers, as this cotton is one of the cheapest available, especially for spinning 20s and 30s counts of yarn.

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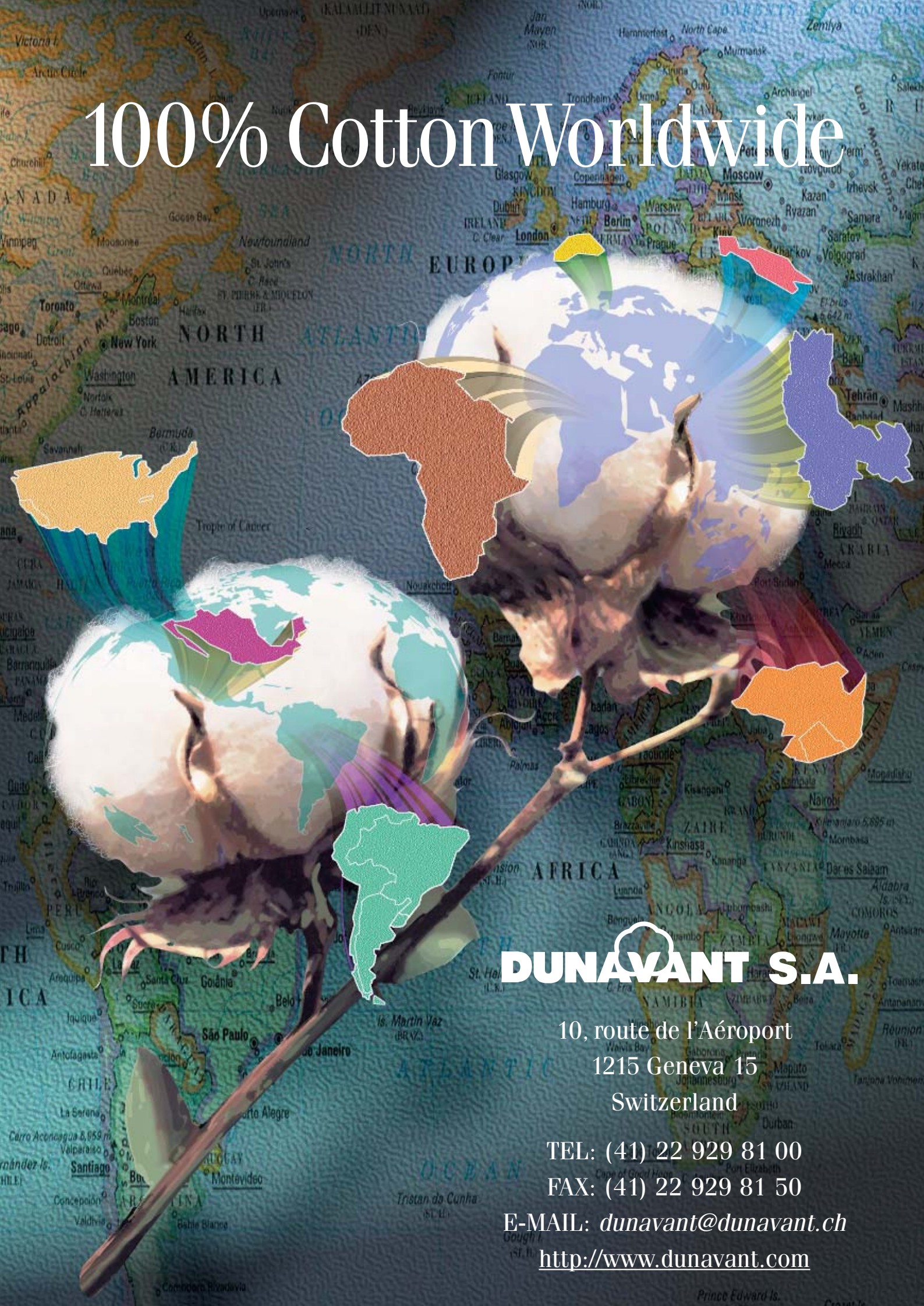


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