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Cotton and Products

Annual

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Report Highlights:
MY 2004/05 raw cotton import demand will likely recover from the previous year's contraction, following anticipated favorable domestic and export demand for high quality Thai textile products, as intense competition increases in the U.S. market among low-cost textile producers.

Includes PSD Changes: Yes
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Executive Summary

MY 2004/05 cotton production will likely increase slightly due mainly to an improvement in yield, as planted area is expected to continue to decline in response to the shift towards more profitable crops, in particular corn. MY 2004/05 cotton consumption is forecast to continue its upward trend in line with sustained economic growth and continued favorable export demand for Thai textile products, particularly in the European countries. Also, the exports of high-end products to the U.S., which is the largest importer of Thai textile products, will likely be firm, despite anticipated intense competition from low-cost textile suppliers due to the global textile trade liberalization among WTO member countries by the beginning of 2005. With limited domestic supplies of raw cotton, Thailand still relies heavily on imports, which are forecast to continue on an upward trend, in line with the growing domestic and external textile demand.

Section 1: Situation and Outlook

1. Upland Cotton

1.1 Production

MY 2004/05 cotton production will likely increase slightly to 13,500 metric tons in response to anticipated improvements in average yield, as prices remain attractive. However, planted area is forecast to continue to decline, as farmers are expected to shift their land to other competing crops, in particular corn due to its current favorable prices. The critical price for the cultivation of cotton is reported at 12 baht/kg (roughly US 13 cents/pound).

MY 2003/04 cotton production has been revised downward to 13,200 metric tons, down slightly from the previous year, due to a aphid infestation in the crop. The Office of Agricultural Economics estimate of the MY 2003/04 cotton production cost increased slightly to US$ 478/hectare, mainly in line with an increase in labor cost, which accounts for about half of total production cost. The average cost of harvested seed cotton before ginning was 16.7 baht/kg. (roughly US 18 cents/pound), up slightly from the previous year, in response to a drop in average yields.

1.2 Consumption

MY 2004/05 raw cotton consumption is forecast to grow further to 451,500 metric tons in response to anticipated favorable domestic and export demand for cotton-related products, in particular cotton yarn, cotton fabric and other cotton-content textile products. Domestic demand for cotton-related products, which is reported to account for about 60 percent of total cotton-related production, is expected to continue its upward growth trend, following the sustained economic growth in Thailand. Also, external demand will likely be firm, as Thai textile products are reportedly expected to maintain their competitiveness with low-cost products from major competitors like China in some markets. Thai textiles are expected to do well in the European market which is the second largest market for Thai textile products, covering about 30 percent of total Thai textile exports, due to the advantage provided by the EU's GSP for Thai garments since 2003. As for the U.S. market, which accounts for about half of the total exports of Thai textile products, the export potential will be challenged by fierce competition from low-cost suppliers, in particular China and India, after the removal of textile quotas among WTO-member countries at the beginning of 2005. The market opportunity for Thai textile products is reported to be in niche markets for which most existing Thai garment factories are reportedly well prepared. However, the concerns among Thai officials are the re-exports of Chinese-origin products through Thailand, as China's textile exports to the U.S. are still restricted by quota for an additional 3-4 years.

In MY 2003/04 raw cotton consumption is estimated at 435,000 metric tons, up slightly from the previous year. The increase mainly reflects strong Thai garment exports to the European market, following more competitive prices that resulted from the renewal of the EU's GSP for Thailand, which resulted in a 20 percent tariff reduction from the normal tariff rate. Also, exports of cotton yarn and fabrics are estimated to increase significantly, following the recovery in the Chinese textile business in the first half of MY 2003/04 from the outbreak of Severe Acute Respiratory Syndrome (SARS) in the second half of MY 2002/03. In addition, the domestic demand for textile products also reportedly recovered. The Department of Industrial Promotion estimate for number of spindles continued to increase in CY 2003.

The structure of cotton demand in Thailand in CY 2003 remains unchanged from the previous year. Total cotton utilization is classified into: 1) medium-count-yarn staple cotton with staple lengths of 1 3/32" to 1 1/8", accounting for about 65 percent of total cotton utilization;

2) coarse-count-yarn staple cotton accounting for around 30 percent; and 3) fine-count-yarn staple cotton and extra long staple cotton together accounting for 5 percent.

1.3 Trade

Thailand relies heavily on imported cotton due to small domestic supplies. MY 2004/05 raw cotton imports are estimated to continue to increase slightly to 410,000 metric tons, in anticipation of volatile global cotton prices. Most spinners are reportedly cautious to be able to cover their import demand two years out. Trade sources reported that imports of U.S. cotton still dominate the market. In MY 2003/04 raw cotton imports is forecasted at 395,000 metric tons, down slightly for the second consecutive year, in response to the surge in global cotton prices which mainly resulted from strong import demand from China that accounted for about 30 percent of global import demand. Trade sources reported that some large-scale spinners ran down their stocks which had accumulated in MY 2002/03.

According to trade sources, the C&F price quotation for SJV growth cotton (SM1 1/8"), which is the most popular U.S. cotton imported into Thailand, are currently at about 70-80 US cents/pound, up further from the previous year's level of 57 US cents/pound. However, the similar quality Australian Andy cotton is not quoted due to tight supply situation. Meanwhile, m/o/t growth cotton is now quoted at 68 US cents/pound for West African cotton.

As for Thai cotton exports, MY 2004/05 cotton exports will likely continue to decline due to the smaller domestic crop.

1.4 Policy/Marketing

The Thai government has not subsidized cotton prices or production. Also, import duties for raw cotton have been zero for several years.

The USDA's GSM-102 Export credit Guarantee Program in Thailand, which covers cotton and cotton products, remains inactive as domestic interest rates are still lower than the lending rates obtained from the GSM program.

2. Value-added Cotton

CY 2003 export earnings from the textile industry continued to grow by 6.4 percent to US$ 5.5 million, accounting for about 6.8 percent of total export earnings. Textile factories totaled approximately 4,500 factories, of which approximately 58 percent are clothing mills, followed by weaving (15 percent), spinning (3 percent), knitting (15 percent), and the balance is in man-made fiber, and dyeing and printing mills. About three-quarters of textile workers are in the clothing industry, with the balance working in the spinning, weaving, knitting, and dyeing and printing operations.

In CY 2003 the number of spinning mills increased slightly to 150 mills, operating about 3.7 million spindles. Products from the mills included cotton yarn (mostly 100 percent cotton), T/C yarn (blended yarn containing about 65 percent polyester and 35 percent cotton), and CVC yarn (cheap value cotton yarn). Spun yarn, both weaving and knitting yarn, is sold domestically for fabric weaving or knitting, and is also exported. There are 673 weaving mills and 675 knitting mills manufacturing cotton fabrics and other fabrics, selling products both domestically and internationally.

Thailand's textile industry will face intense competition by January 2005 from low-cost textile suppliers from South Asian countries like India, and from China in the next few years, following the global textile trade liberalization among WTO-member countries. At the same time, the Thai textile industry is expected to gain more market share at the expense of China in the Australian market, due to tariff reductions reaching zero percent within 10 years, as a result of a new Free Trade agreement between Thailand and Australia. These reductions will start with a 50 percent reduction in the tariff rate of 12.5 percent in January 2005, and this will fall to a 5 percent tariff rate in 2010. The Thai Garment Manufacturers Association estimates a 100 percent increase in Thai garment exports to Australia in CY 2005 and a 300 percent increase in CY 2015, given the current annual export value of Thai garments to Australia of around US$ 35 million. Also, the coming FTA with the U.S. is seen by the trade as bringing a likely 25-35 percent increase in Thai garment exports to the US, assuming a reduction of tariff to zero rate, against the current tariff rate of around 20-30 percent. The Thai textile industry holds the hope that the FTA with the U.S. will alleviate the negative impact of the global textile trade liberalization for Thai textile manufacturers.

2.1 Cotton Yarn

2.1.1 Production

CY 2004 cotton yarn production (excluding T/C and CVC) is forecast to continue to increase slightly from the previous year, as most spinners reportedly faced with some difficulties in securing raw cotton due to the volatility of global cotton prices. Trade sources reported that most large-scale spinners are running down stocks.

Some Thai spinners are moving towards producing more medium count yarn cotton (#30's - 40's), in order to maximize the utilization of the limited supply of raw cotton. Also, export potential is better for this product than coarse count yarn (#20's and lower), in which the Chinese competition is reportedly very strong. Moreover, some spinners are producing high-quality fine cotton yarn in such categories as #80's – 100's. However, this shift is constrained by limited number of skill workers and thin market demand. As for the T/C yarn, some spinners are reportedly blending more polyester at 80 percent with cotton at 20 percent, against 65:35 in the past, so as to balance the impact of high cotton prices.

2.1.2 Consumption

Most cotton yarn is usually used domestically for weaving and knitting. The CY 2004 domestic demand for cotton yarn is forecast to recover from the slowdown of the previous year, following the recovery in domestic consumption and anticipated favorable export demand for garments.

2.1.3 Trade

CY 2004 cotton yarn exports will likely continue the increase begun in the previous year, in anticipation of the rebound in textile production of the major importing countries. China is still Thailand's largest importer of cotton yarn, amounting to 10,440 metric tons, up significantly from the previous year, mainly in response to the recovery in the textile industry in the second half of the year.

Cotton yarn imports are forecast to increase further in CY 2004, in particular the coarse count yarn due to the limited domestic supply. In CY 2003 cotton yarn imports declined slightly to 10,726 metric tons, about half of which are imports from China.

2.2 Cotton Fabrics

2.2.1 Production

CY 2004 fabric production is forecast to rebound from the previous year's contraction level, following the recovery in garment production. Trade sources reported that about 60 percent of cotton fabrics are woven fabrics. In CY 2003 fabric production declined slightly due to the slowdown in garment exports and sluggish domestic demand.

2.2.2 Consumption

CY 2004 cotton fabric consumption is estimated to recover in response to the favorable domestic garment production, following favorable domestic and export demand for garments. In CY 2003 cotton fabric consumption declined slightly due mainly to the sluggish domestic and export demand for garments.

2.2.3 Trade

CY 2004 cotton fabric will likely continue to increase in line with the favorable economic conditions in the major importing countries. Exports to the EU are estimated to increase further. Meanwhile, exports to the U.S. are reportedly facing strong price competition. In CY 2003 cotton fabric exports increase significantly despite a contraction in the U.S. market. The increase was mainly result from strong demand among European countries. Also, cotton fabric exports to China increased significantly.

Thailand's CY 2004 imports of cotton fabric are forecast to continue the upward trend. Most imported cotton fabric from China, accounting for about half of total cotton fabric imports is reportedly used for domestic-oriented garment production. Meanwhile, higher quality imported cotton fabric from Japan and Hong Kong is mainly used in exported-oriented garment production.

Section 2: Statistical Tables

Table 1: Thailand Production, Supply and Demand for Raw Cotton

PSD Table

Country Thailand

Commodity Cotton

(HECTARES)(MT)

	2002		2003		2004	
	Revised		Estimate		Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		08/2002		08/2003		08/2004
Area Planted	0	0	0	0	0	0
Area Harvested	35000	11260	33000	11100	0	11000
Beginning Stocks	133031	156814	129547	158482	94058	122082
Production	14152	14100	14588	13200	0	13500
Imports	423478	427112	381021	395000	0	410000
TOTAL SUPPLY	570661	598026	525156	566682	94058	545582
Exports	218	3244	1089	3000	0	2800
USE Dom. Consumption	435453	430000	424567	435000	0	451500
Loss Dom. Consumption	5443	6300	5443	6600	0	6950
TOTAL Dom. Consumption	440896	436300	430010	441600	0	458450
Ending Stocks	129547	158482	94058	122082	0	84332
TOTAL DISTRIBUTION	570661	598026	525157	566682	0	545582

Table 2: Farm Gate Prices for Seed Cotton

Prices Table

Country Thailand
Commodity Cotton

Prices in Baht per uom Kilogram

Year	2003	2004	% Change
Jan	20.98	22.5	7%
Feb	21.5	n.a.	
Mar	0	n.a.	
Apr	0	n.a.	
May	0	n.a.	
Jun	0	n.a.	
Jul	0	n.a.	
Aug	0	n.a.	
Sep	0	n.a.	
Oct	0	n.a.	
Nov	23.47	n.a.	
Dec	22.82	n.a.	

Exchange Rate	40.01	Local Currency/ US $
Date of Quote	4/30/2004	MM/DD/YYYY

Table 3: Thailand's Raw Cotton Imports

	Marketing Year (Aug./Jul.)						
	1998	1999	2000	2001	2002	Aug. - Feb.	
						2002	2003
United States	20,328	59,544	49,030	191,693	130,835	57,103	57,872
Argentina	5,797	3,892	6,475	4,534	232	232	0
Australia	71,528	90,041	118,568	90,530	85,448	60,632	32,332
Benin	10,011	9,900	9,443	10,886	16,004	8,976	9,101
Brazil	427	443	1,405	8,609	5,141	4,554	6,907
Chad	4,745	1,783	259	658	300	0	0
China	14,871	39,893	4,405	2,499	40,632	23,896	19,669
Cameroon	N/A	N/A	10,605	11,041	12,942	10,343	6,425
Egypt	2,204	4,183	4,377	3,280	4,816	2,303	3,335
Ivory Coast	9,854	10,330	11,943	8,692	8,410	4,697	9,854
India	420	278	24	81	70	70	5,100
Mali	27,722	33,377	31,169	16,143	33,486	23,667	11,886
Mexico	4,395	4,982	1,541	2,971	1,095	632	2,029
Pakistan	161	13,087	16,347	10,002	6,288	4,585	4,936
Sudan	7,784	7,466	5,118	5,637	15,111	8,085	5,107
Syria	4,060	8,556	10,517	25,822	15,019	12,644	1,911
Russia	499	1,021	43	4,216	0	0	0
Tanzania	2,789	2,192	3,410	4,085	4,260	2,635	1,131
Togo	1,609	2,442	3,374	171	7,714	4,997	987
Turkey	5,605	582	512	4,812	1,271	277	1,169
Uzbekistan	11,508	11,259	5,074	32,602	1,223	1,223	235
Zimbabwe	12,246	25,031	32,497	0	10,155	8,285	13,595
Others	45,142	41,439	18,825	12,824	26,660	14,270	18,691
TOTAL	263,705	371,721	344,961	451,789	427,112	254,106	212,272

Source: Thai Custom Department

Table 4: Thailand's Key Economic Indicators

	Calendar Year						
	1997	1998	1999	2000	2001	2002	2003
1. Population	60.5	61.2	61.8	61.9	62.3	63.0	63.3
2. GDP at constant 1998 price							
(% change)	-1.4	-10.5	4.4	4.8	2.1	5.4	6.7
3. CPI (% change)	5.6	8.1	0.3	1.6	1.6	0.7	1.8
4. External Account (billion US$)							
4.1 Export	56.7	52.9	56.8	67.9	63.1	66.1	78.4
(% change)	(3.8)	-(6.8)	(7.4)	(19.5)	(-7.1)	(4.8)	(18.6)
4.2 Import	61.3	40.6	47.8	62.4	60.6	63.4	74.2
(% change)	-(13.4)	-(33.8)	(17.7)	(31.3)	(-3.0)	(4.6)	(17.1)
4.3 Trade Balance	-14.6	12.2	8.9	5.5	2.5	2.7	4.2
4.4 Current account balance	-3.1	14.3	11.2	9.3	6.2	7.0	8.0
4.5 Balance of payments	-10.6	1.7	4.6	-1.6	1.3	4.2	0.1
5. Government Finance (bil. baht)							
5.1 Cash balance	-31.1	-115.0	-134.3	-116.1	-107.9	-118.7	34.3
5.2 Total public debt	936.2	1,242.3	1,956.7	2,180.8	2316.0	2,601.6	2508.2
6. Monetary Statistics							
6.1 Domestic Credit (% change)	34.5	-1.2	-4.2	-7.4	-6.1	7.8	1.0
6.2 Deposit (% change)	16.0	8.8	-0.5	5.3	4.0	2.5	4.4
6.3 Interest rate							
Prime rate	15.3	11.50-12.00	8.25-8.75	7.50-8.25	7.00-7.50	6.5-7.0	5.5-5.75
Fixed deposit	10.00-13.00	6.00-6.25	4.00-4.25	3.5	2.75-3.00	2.0	1.0
7. Exchange rate							
Baht: US$ average	31.4	41.4	37.8	43.09	44.43	42.96	41.48

Source: Bank of Thailand

Table 5: Status of Textile Industry in Thailand

	Calendar Year						
	1997	1998	1999	2000	2001	2002	2003
Number of Employment							
-- Man-made fiber	17,070	17,000	15,900	15,400	15,340	15,600	15,500
-- Spinning	65,890	63,450	61,800	60,310	60,470	60,580	61,750
-- Weaving	64,250	60,730	59,540	58,870	58,730	58,980	57,880
-- Knitting	60,670	58,870	58,480	58,740	59,790	59,930	60,280
-- Dyeing and Printing	47,840	47,280	47,050	47,180	46,750	46,930	47,200
-- Clothing	857,830	849,570	843,030	843,200	840,460	840,850	841,520
TOTAL	1,113,550	1,096,900	1,085,800	1,083,700	1,081,540	1,082,870	1,084,130
Number of Textile Machinery							
- Spinning (No. of spindles)	4,170,254	3,763,438	3,611,918	3,581,866	3,586,834	3,597,114	3,670,334
- Weaving (No. of looms)	133,861	131,479	130,991	130,502	130,231	130,513	130,225
- Knitting (No. of machines)	111,977	111,291	111,120	111,372	112,019	112,315	113,082
- Clothing (No. of machines)	772,128	764,618	759,012	759,438	757,307	757,751	758,460

Source: Department of Industrial Promotion, Ministry of Industry

Table 6: Thailand's Production and Consumption of Yarn

	Calendar Year								
	1996	1997	1998	1999	2000	2001	2002	2003	2004 (fore.)
Production(TMT)									
Cotton yarn	317.0	297.4	267.2	268.5	299.2	337.7	381.8	387.4	395.0
Man-made yarn	452.9	472.2	509.9	494.3	539.6	550.5	594.6	590.5	595.0
Total production	769.9	769.6	771.1	762.8	838.8	888.2	976.4	977.9	990.0
Consumption(TMT)									
Cotton yarn	289.3	261.9	242.5	245.6	291.3	323.7	356.9	352.7	360.0
Man-made yarn	349.1	362.1	342.2	352.7	420.8	402.3	416.5	401.2	410.0
Total consumption	638.4	624.0	584.7	598.3	712.1	726.0	773.4	753.9	770.0

Note: From 1996-2003, data are from Department of Industrial Promotion, Ministry of Industry
The data for 2004 are estimated by FAS/Bangkok

Source: Department of Industrial Promotion, Ministry of Commerce

Table 7: Thailand's Exports of Cotton Yarn

	Calendar Year				
	1999	2000	2001	2002	2003
U.S.A.	1,736	866	1,502	1,790	1,885
Australia	468	473	497	230	489
Belgium	1,496	351	262	95	177
China	8,103	6,906	6,073	8,243	10,440
Germany	1,358	619	622	991	685
Hong Kong	4,435	2,405	2,844	3,273	1,085
Spain	817	265	592	724	1,243
Japan	2,378	2,499	2,644	3,038	5,622
S. Korea	855	1,610	995	3,522	2,951
Malaysia	1,500	2,162	2,471	2,606	3,278
Indonesia	0	998	527	61	89
Italy	466	523	296	845	2,408
Singapore	937	134	638	1,592	1,635
North Korea	0	0	2,429	4,835	818
Others	2,982	1,058	1,477	2,666	7,522
TOTAL	27,531	20,869	23,869	34,511	40,327

Source: Thai Custom Department

Table 8: Thailand's Imports of Cotton Yarn

Unit: ton

	Calendar Year				
	1999	2000	2001	2002	2003
U.S.A.	17	11	0	70	15
China	2,515	4,068	4,044	4,787	4,691
France	8	13	5	10	7
Hong Kong	779	1,157	767	744	960
Indonesia	295	399	141	62	189
India	2,826	4,583	1,947	912	991
Japan	183	293	453	185	120
S. Korea	2,113	642	936	1,152	879
Pakistan	1,825	5,072	5,621	3,995	2,255
Taiwan	207	375	395	372	156
Italy	0	118	319	88	138
Others	232	403	233	840	325
TOTAL	11,000	17,134	14,861	13,218	10,726

Source: Thai Custom Department

Table 9: Thailand's Production and Consumption of Fabrics

	Calendar Year								
	1996	1997	1998	1999	2000	2001	2002	2003	2004 (fore.)
Production (TMT)									
Cotton fabric	189.7	172.6	159.2	161.2	190.7	211.4	233.0	229.6	234
Man-made fabric	228.9	238.7	224.7	231.4	275.5	262.7	271.9	261.1	270
Total production	418.6	411.3	383.9	392.6	466.2	474.1	504.9	490.7	504
Consumption (TMT)									
Cotton fabric	168.0	142.0	127.1	134.2	168.5	188.0	211.5	195.9	205
Man-made fabric	202.1	202.8	183.0	192.2	237.9	238.2	243.5	231.2	243
Total consumption	370.1	344.8	310.1	326.4	406.4	426.2	455.0	427.1	448

Note: From 1996-2003, data are from Department of Industrial Promotion, Ministry of Industry
The data for 2004 are estimated by FAS/Bangkok

Source: Department of Industrial Promotion, Ministry of Industry

Table 10: Thailand's Exports of Cotton Fabrics

Unit: Ton

	Calendar Year				
	1999	2000	2001	2002	2003
U.S.A.	9,034	8,638	8,017	9,407	6,927
Bangladesh	1,068	791	635	749	618
Belgium	2,546	2,346	1,619	2,175	1,846
Benin	1,482	3,752	1,106	410	266
China	591	678	630	707	2,722
Germany	2,835	3,500	3,588	3,740	4,333
Singapore	0	843	1,574	272	584
Hong Kong	2,263	2,294	2,220	2,573	2,610
Italy	1,580	2,403	1,756	2,136	2,658
Laos	1,186	1,378	2,045	1,964	2,529
Myanmar	2,661	2,392	1,747	1,385	2,328
Congo	0	41	1,232	914	2,452
Netherlands	1,257	1,139	956	1,109	1,990
Others	10,022	10,514	9,248	10,850	24,544
TOTAL	36,525	40,709	36,373	38,389	56,407

Source: Thai Custom Department

Table 11: Thailand's Imports of Cotton Fabrics

Unit: Ton

	Calendar Year				
	1999	2000	2001	2002	2003
U.S.A.	388	271	218	183	136
China	7,105	15,824	13,792	15,422	18,742
Hong Kong	2,700	1,980	2,753	3,463	3,402
Indonesia	1,591	1,087	767	1,590	1,935
India	3,287	3,570	1,582	571	805
Japan	1,146	1,337	1,242	2,035	2,284
South Korea	306	373	338	651	846
Malaysia	332	103	199	152	93
Pakistan	1,000	1,525	590	435	288
Taiwan	1,468	1,076	891	795	903
Others	729	996	823	1,257	1,247
TOTAL	20,052	28,142	23,195	26,556	30,681

Source: Thai Custom Department

Table 12: Tariffs for Cotton and Textile Products

	Current calculated tariff for non-AFTA countries (% Ad Valorem)	Current tariff applied for AFTA countries under CFPT scheme1/ (% Ad Valorem)	Tariff Schedule Commitment with WTO (% Ad Valorem)
Raw cotton	0	3.75	4.5
Cotton yarn	10	5	15.0
Cotton fabric	20	5	30.0
Chemical used in textile	5	5	30.0
Textile machanery	5	2.5	20.0

1/ CFPT = Common Effective Preferential Tariff, an agreed effective tariff, preferential to ASEAN countries, to be applied to goods originating from ASEAN Member States and which have been identified for inclusion in the CFPT Scheme.

Source: Thai Custom Department

End of Report.