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## Philippines

### Cotton and Products

### Annual

### 2004

**Approved by:**

David C. Miller  
FAS Manila

**Prepared by:**

Pia Abuel-Ang

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**Report Highlights:**

With Philippine raw cotton production supplying less than 3 percent of total domestic cotton requirements, the Philippines will continue to rely on imports to meet domestic demand in MY 2004-05 and beyond. The United States is likely to remain the largest supplier of combed cotton, followed by Pakistan, Australia and South Africa. With the end of the quota system for garments starting in 2005, domestic cotton consumption is forecast to decline next year. The garments and textile sector is the single largest buyer of raw cotton and the garments sector is country's second highest export earner.

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Includes PSD Changes: Yes  
Includes Trade Matrix: No  
Annual Report  
Manila [RP1]  
[RP]

## Production

Cotton production in MY 2003-04 is likely to increase slightly to 700 MT mainly due to improved cotton yield. There are currently about 150,000 hectares certified for cotton production, however only about 15 percent is actually planted to cotton. At present, domestic lint supplies only about 3 percent of local requirements.

The Philippine Cotton Development Administration (CODA) believes there is a market for Philippine cotton both domestically and internationally. Domestic cotton prices have been consistently higher than imported cotton lint (by about 20 percent) for the past 10 years. The Philippines only produces medium staple cotton of superior quality while imports are mostly comprised of short-medium and long staple cotton of various fiber qualities.

## Consumption

Domestic consumption of raw cotton has been falling and is forecast to again decline in MY 2004-05 as result of a rise in imports of lower-priced garments from other Asian countries, particularly from China as well as the termination of the quota system which will affect exports. The uncertainty of the quota system for garments in the United States, European Union and Canada, set to expire by the end of the year as mandated by the World Trade Organization, is likely to pull down demand for raw cotton. The garments and textile sector is the single largest buyer of domestic and imported cotton in the country.

The garment sector is the country's second largest foreign exchange earner and has contributed an average of 7 percent to the country's total export earnings for the past three years. At present, the United States remains the largest market for Philippine garments accounting for 74 percent of garment exports. Other important markets include the European Union (13%), non-quota markets (11%) and Canada (3%).

## Trade

With domestic production supplying about 3 percent of domestic demand, the Philippines will continue to rely on cotton imports to meet its raw cotton requirements. In MY 2002-03, the United States supplied nearly half of total Philippine cotton lint requirements and will likely continue to be the main source of cotton for the country in the coming year. Other sources include Pakistan, Australia and South Africa, collectively supplying about 20 percent of cotton demand. Raw cotton imports are forecast to decline in MY 2004-05 and beyond as imports of low-price cotton garments continue to rise and a drop in garments exports is forecast for next year.

## Policy

According to the provisions of the 1994 Agreement on Textiles and Clothing (ATC), garments and textiles will be fully integrated in the World Trade Organization and the quota system is to be phased out by 2005.

In 2002, aware of these challenges, the Garments and Textile Export Board (GTEB) under the Philippine Department of Trade And Industry (DTI) launched the "Garment Export Industry Transformation Plan and Assistance Package." The objective is to enhance the competitiveness of the industry. The assistance package is comprised of the following:

- Development Assistance Programs – designed to improve productivity through investments in technology and skills upgrading, address speed-to-market concerns, develop and promote diversified markets and products, and provide access to financing.
- Lowering of Business Costs – through reduction in quota fees by 30 percent to help exporters compete with other low-cost countries. In 2004, all quota fees are to be eliminated.
- Quota Incentives – to encourage exporters to undertake productivity and growth enhancing activities that are necessary to be competitive.

At present, imported cotton has a Most Favored Nation (MFN) tariff rate of 1 percent and a Common Effective Preferential Tariff (CEPT) rate of 3 percent under the ASEAN Free Trade Agreement (AFTA).

2004 MFN/CEPT Tariff Rates				
Tariff Code	Description	MFN	CEPT	Remarks
5201.00.00	Cotton, not carded or combed	1	3	All ASEAN members

Source: Tariff & Customs Code of the Philippines

Last year, CODA sought the approval of the National Biosafety Committee of the Philippines (NBCP) to propagate Bt Cotton. According to the NBCP, CODA has since withdrawn its application likely due to the perceived limited market potential of Bt cotton in the country.

As of February 2004, the Bureau of Plant Industry (BPI) under the Department of Agriculture (DA) announced that it will now allow the importation of the following cotton products/transformation events for direct food, feed or processing use:

Transformation Event	Introduced Trait & Gene	Date Approved	Safety Assessment		Technology Developer
			Food	Feed	
Cotton 1445	Tolerance to round-up herbicide –CP4EPSPS	12/05/2003	Yes	Yes	Monsanto Company
Cotton 15985	Resistance to lepidopteran pests – Cry2Ab2 gene	12/05/2003	Yes	Yes	Monsanto Company
Cotton 531	Resistance to lepidopteran pests – Cry1Ac	02/05/2004	Yes	Yes	Monsanto Company

Source: Bureau of Plant Industry, Department of Agriculture

## Marketing

On June 1 – July 15, 2004, Cotton Council Incorporated (CCI) will carry out a mall-based promotional activity to promote the Cotton USA label. The two-fold activity will involve a music/band competition where all participating bands will be required to prepare an original composition with the word “FEEL or FEELING” and a raffle drawing. The purchase of any denim brand with the COTTON USA label will entitle a customer to join the promotion. The said promotional activity aims to raise awareness in the Philippine market, particularly among consumers, about the high quality of US cotton.

In July 2003, CCI organized a photo exhibit entitled "Cotton USA's Field to Fashion" at the Shangrila Plaza Mall to educate cotton buyers about the complete process that cotton undergoes before it becomes a pair of jeans or a white knit shirt. Otherwise known as the "Cotton Story," the exhibit is a visual account of how cotton garments are produced.

<b>PSD Table</b>						
<b>Country</b>	<b>Philippines</b>					
<b>Commodity</b>	<b>Cotton</b>					(HECTARES) (MT)
	Revised	2002	Estimate	2003	Forecast	2004
	Old	New	Old	New	Old	New
<b>Market Year Begin</b>		08/2002		08/2003		08/2004
Area Planted	0	0	0	0	0	0
Area Harvested	2000	2000	2000	2000	0	2000
Beginning Stocks	15459	12323	12846	11276	9145	9776
Production	653	653	653	700	0	720
Imports	38102	44500	28304	30500	0	29000
<b>TOTAL SUPPLY</b>	<b>54214</b>	<b>57476</b>	<b>41803</b>	<b>42476</b>	<b>9145</b>	<b>39496</b>
Exports	0	0	0	0	0	0
USE Dom. Consumption	41368	46200	32659	32700	0	31600
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	41368	46200	32659	32700	0	31600
Ending Stocks	12846	11276	9144	9776	0	7896
<b>TOTAL DISTRIBUTION</b>	<b>54214</b>	<b>57476</b>	<b>41803</b>	<b>42476</b>	<b>0</b>	<b>39496</b>