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Philippines

Cotton and Products

Annual

2000

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Report Highlights:
The Philippine cotton industry continues to experience problems. Production in this marketing year will be a record low 650 MT and is predicted to decline to 500 MT next year. The Cotton Development Administration has yet to receive funding for its ambitious revitalization programs. Consumption is picking up, more as a result of a turn-around in the economy. Meanwhile, the milling industry's trade prospects continues to be hampered by comparatively high production costs, cheap yarn and clothing imports and smuggling.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Manila [RP1], RP

Executive Summary

Since beginning in the 1970's, the Philippines cotton industry has never produced more than 25 percent of its cotton requirements and in more recent years it has provided no more than 5 to 10 percent of its domestic spinning needs. Mills that were the least efficient operations have closed. In the past two years the number of spinning mills have declined from 50 plants to 35.

Production figures are revised from a data series provided by the Cotton Development Administration (CDA). Production of lint for 1998 is set at 974 MT and for 1999 at 650 MT, a 33 percent decrease over the previous year. Without any real prospects for improvement, production in 2000 is forecast to be 500 MT. The CDA has yet to receive any funds for its Agrikulturang MakaMASA (Agriculture for the Masses) development projects. While prospects for domestic consumption continue to be hampered by smuggling and imports of cheap fabric, the situation is further compounded by recent competition of cheap garments from China. For the near term, although the export market may become for important, it is clear from industry data that the domestic market plays a large role in demand for cotton. In fact local mills are petitioning the government for a zero tariff on cotton imports, now set at 3 percent.

PSD Table						
Country	Philippines					
Commodity	Cotton				(HECTARES)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		08/1998		08/1999		08/2000
Area Planted	0	0	0	0	0	0
Area Harvested	3,000	3,665	3,000	2,170	0	1,700
Beginning Stocks	17,854	0	16,765	1,529	15,676	12,575
Production	1,089	974	1,089	650	0	500
Imports	32,659	40,124	34,836	55,931	0	57,000
TOTAL SUPPLY	51,602	41,098	52,690	58,110	15,676	70,075
Exports	0	0	0	0	0	0
USE Dom. Consumption	34,836	39,569	37,014	45,535	0	50,000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	34,836	39,569	37,014	45,535	0	50,000
Ending Stocks	16,765	1,529	15,676	12,575	0	20,075
TOTAL DISTRIBUTION	51,601	41,098	52,690	58,110	0	70,075

Import Trade Matrix			
Country	Philippines		
Commodity	Cotton		
Time period	Jan-Dec	Units:	Jan-Dec
Imports for:	1998		1999
U.S.	14400	U.S.	15335
Others		Others	
Australia	4923	Australia	12840
Argentina	3190	Argentina	4775
Cameroon	1577	Cameroon	450
France	1394	France	454
Mexico	863	Mexico	2681
Pakistan	1007	Pakistan	137
South Africa	1487	South Africa	120
Cote d' Ivoire	2794	Cote d' Ivoire	2126
Syria	1085	Mali	3066
Russia	614	China, PR	1841
Total for Others	18934		28490
Others not Listed	6790		12106
Grand Total	40124		55931

Production

In 1999, production fell dramatically to 650 MT from 974 MT in 1998. The forecast for 2000 is set at 500 MT. Hectares planted are declining during this period with 3,665 hectares planted in 1998, 2,170 hectares planted in 1999 and 1,700 hectares projected for 2000. Without assistance from CDA for fertilizer or pesticide inputs, yields are expected to remain well below 1 MT of lint cotton per hectare. While both the 1998/99 and 1999/00 crops, were damaged by rains, the latter was even more impacted by traders and millers not agreeing to offer premiums for domestic cotton as they have in the past to encourage production. While assurances for an agreement to pay premiums for the next crop, may encourage increased planting, this may be offset by the current armed unrest in Mindanao where 65 percent of the crop originates.

Planting takes place during July-September while harvest takes place in January-February. Southern Mindanao usually comprises field sizes of up to 10 hectares and depends on rain. The rest of the cotton produced is in Luzon and the Visayan and is characterized by small fields of 1 hectare or less but which are irrigated. In previous years, overall yields for the Philippines were generally 1:1 with slightly better results in the irrigated farms. However, in the last 5 years yields are recorded below this level. The Cotton Development Authority (CDA) has determined that cotton production in the Philippines has a per hectare cost of 19,639 pesos for irrigated land and 13,597 pesos for rain-fed (pesos per U.S. dollars approx. 42.0).

The continued lack of funding for CDA's Agrikulturang MakaMASA Cotton Program will place any possible resurgence of domestic cotton production in doubt. Under the 1998 Cotton Industry Development Law (R.A. 8486), this revitalization program would provide certified seeds and other inputs, an integrated pest management program, technical assistance, financing, additional research, expanded extension efforts and an increase in irrigated areas. Based on this program and with funding, the CDA projects that in the first year they could encourage farmers to plant up to 7,000 hectares and lint cotton production at 3,300 MT and with continued increases in subsequent years with a goal of 20 percent self sufficiency.

Post does not see any potential for CDA to obtain funding for the development projects. Other impediments to reaching these goals include failure to focus the program on one or two areas with the best potential; lack of access to credit facilities; the high cost and scarcity of inputs; recurring infestations of bollworm which lead to withdrawal of land from cotton production; and the competition from corn. With this scenario, textile smuggling continues.

Consumption

Consumption in 1999 is adjusted upwards to 45,535 MT based on information from the Textile Mill Association of the Philippines (TMAP) showing increased domestic use and increased textiles placed for the domestic market. It is difficult to track consumption because of the substantial impact from smuggled goods which TMAP estimates to be as much as 100,000 MT per year. While an increase in textile product for the local market is certainly partly accounted for by smuggling, imported cotton is still most likely destined for the domestic market. The movements in cotton imports appear to more closely be followed by the movement of the textiles produced for the local market rather than for export. Consumption for 2000 is projected to increase to 50,000 MT. Local mills will be competing with cheap yarns primarily coming from Indonesia and China along with garments imported from China.

Since many of the less efficient mill operations have closed, the remaining problem in the Philippines is the cost of production relative to its competitors. To improve their ability to compete in the ASEAN region, the TMAP is inquiring about the possibility of getting import duties for raw cotton to be lowered to zero from 3%.

The Philippines has the highest labor and energy costs in the region (see table). The TMAP does not see much improvement without any changes in its costs of production. Data provided by TMAP, show the Philippines costs per yard of fabric at $0.98, more than $0.50 higher than other countries. Although the export market is still promising, the milling industry still depends on the demand from the domestic market for more than 80 percent of its output. Profitability of the milling industry and erosion of profits from domestic textile sales activity is also impacted by smuggling.

In an agreement with the CDA, the TMAP had been paying farmers for domestic cotton at a 10 percent premium above import prices as an incentive to produce more cotton. However, in 1999, this was not done and consequently any uncertainty about farmer prices for 2000 will be an impediment to increasing cotton production. In addition to the lack of domestic raw cotton supplies, many farmers get their seeds from traders, rather than certified seed from CDA. Although Philippine cotton quality is generally quite good, spinners can't depend on consistent spinning characteristics from what they receive.

Trade

For 1999, imports increased by 39 percent over 1998 to 55,931 MT with 14,400 MT coming from the United States. The U.S. trade share fell to 27 percent compared to 38 percent a year ago. The single most significant increase from other sources in 1999 was Australia registering 12,840 MT up from 4,923 MT in 1998. Imports for 2000 are projected at 50,000 MT. The tariff on cotton is 3 percent and the TMAP is seeking to have it lowered to zero under the AFMA. However, the VAT at 10 percent is more formidable for importers. The VAT is required to be paid on imports of cotton upon entry into the country as opposed to when the finished product is presented for sale. The Philippines does not export cotton.

Stocks

After declining to a low level for 1998/99, imports picked up significantly in order to bring levels up again. With continued prospects for the export market for finished goods, it is expected that imports will be maintained at a level to prevent a repeated decline in stock levels.

Policy

Cotton Development Administration (CDA) was formed in 1998 by combining the Philippine Cotton Corporation (PhilCotton) and the Cotton Research and Development Institute (CRDI). While it has drafted an ambitious cotton development plan (outlined above), it has not yet been fully funded. More recently, continued existence of some quasi- government authorities for agriculture like CDA are in jeopardy. The Secretary of Agriculture has been carrying out a review process for restructuring the entire Department of Agriculture including organizations such as the CDA. Generally, the Office of the Secretary looks to abolish most of them as separate entities and fold them into the Department Bureaus. Final approval by GOP is still pending acknowledgment by the Office of the President.

Marketing

The Philippine milling industry imports primarily medium staple length cotton. The strong denim industry relies on shorter staple cotton. So the major problem facing the milling industry continues to be cheap yarn and fabric imports along with high costs of production compared to that in neighboring countries in the region. The table on Input Costs of Woven Open-End Yarn Fabric, shows the Philippines having the highest costs of production outside of Italy.

Despite the problems with production and consumption, COTTON USA Mark promotions in the Philippines continues to be rated the higher for unaided recognition than any other country in the world. Despite mill closures, there is still growth in the number of licensees and activity for new local product brands.