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## Vietnam

### Cotton and Products

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**Report Highlights:**The Government of Vietnam wants to boost domestic cotton production in the worst way, so it is imposing cotton import quotas. The tariff-rate quota (TRQ) details are yet to be announced, but this action is designed as an import-substitution / protect the local industry measure. Despite the soon-to-be implemented TRQ and a cotton price support system, Vietnam will not come close to achieving their 2005 goal of 80,000 metric tons of cotton lint produced from 115,000 hectares. In fact they are unlikely to achieve even half of that goal. Vietnam will continue to annually import about 90,000 (or more) metric tons of cotton in the foreseeable future. New 2003/2004 production, supply and distribution estimates are provided in this report.

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Includes PSD changes: Yes  
Includes Trade Matrix: No

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## PRODUCTION

### Vietnam 2002/03 Cotton Crop

Vietnam's 2002/03 (August 2002 - July 2003) cotton crop is estimated at 12,600 metric tons (mt) of fiber (equivalent to 44,000 mt of cottonseed), a significant, roughly 25 %, increase compared with the 2001/02 crop. In 2002/2003 both the area and yield increased above previous levels (see table 1).

In 2002/03, the Vietnam Cotton Corporation (VCC) signed contracts with more than 35,500 cotton-growing households. The contracted farmers were advanced production inputs, such as seed and fertilizer, with a value of about VND (Vietnam Dong) 950,000 per hectare (ha) -- roughly equal to \$61/hectare (VND 15,500 = \$1.00). As part of the cotton promotion system, VCC agreed to buy the cotton at VND 5,200/kg (\$0.34/kg or \$0.15/pound) of cottonseed.

Crop yields were up significantly in 2002/2003 due to several new cotton hybrid varieties. The Institute of Cotton and Fibrous Industrial Crops (which is under the Vietnam Textile and Garment Corporation - Vinatex) developed several well-received hybrid cotton varieties such as L-18; VN-20; AN-35; AN-36. The L-18 and AN-20 hybrid cotton varieties are suitable for growing throughout Vietnam. These new (locally developed) varieties have yields as high as 2.4-3.0 mt/ha of cottonseed, well above the traditional Vietnamese varieties.

Cotton is grown in five broad regions including: (1) Tay Nguyen - Central Highlands, (2) South-East provinces, (3) South-Central Coast provinces, (4) North Mountainous provinces, and the (5) Mekong River Delta (the provinces south of Ho Chi Minh City).

(1) The Tay Nguyen (Central Highlands region, key cotton areas in Dac Lak and Gia Lai provinces) is the largest cotton-producing region. In the 2002/03 cotton crop, that region had a planted area of 17,300 ha with a production of 17,330 mt of cottonseed (equal to 5,000 mt of fiber cotton), accounting for roughly 40% of Vietnam's total cotton production. Post expects the cotton area in the Central Highlands to expand as farmers look at cotton (in flatter areas) as a good alternative to coffee and pepper (which are suffering from low international prices).

(2) In the South-East region, cotton is cultivated in Binh Phuoc, Dong Nai, and Binh Thuan provinces with planted area estimated at 3,000 ha and production of 12,000 mt of cottonseed (or 3,420 mt of fiber cotton) in the 2002/03 crop.

(3) In the South-Central coast provinces of Khanh Hoa, Binh Dinh, Phu Yen, Quang Ngai, and Quang Nam, the planted area was estimated at 2,576 ha with production around 3,000 mt of cottonseed (or 857 mt of cotton lint) in the 2002/03 crop. In Quang Nam and Quang Ngai provinces, farmers found

the cropping pattern of cotton/green bean or cotton/peanut less profitable than cassava/beans or peanuts.

(4) In the North Mountainous regions (provinces of Son La and Lai Chau) the area and production are very small.

(5) Mekong River Delta (MRD) – Over the last 4 years, the VCC has been spending about VND 1.5-2.5 billion (or \$100,000-160,000) per year on a cotton development program focused on six MRD provinces including Long An, An Giang, Can Tho, Dong Thap and Tra Vinh. As a result of that special program, the MRD cotton area increased from 600 ha in 2000 to 800 ha in the 2001/02 crop. However in 2002/03, the MRD planted area dropped to only 100 ha. That incredible drop (despite the special support program) was caused by the low profitability of cotton compared with other crops such as rice, sesame seed, and corn. In the MRD, farmers had high production costs (especially high chemical expenditures) and fairly low yields. Moreover, relatively good rice prices are causing farmers to focus on rice production, especially where rice yields are more than 4 mt/ha/crop (with two or three rice crops per year).

**Table 1: Vietnam cotton production**

	2001/02	2002/03	2003/04
Crop area (ha)	30,000	31,500	35,000
Crop yield (cotton seed) (mt/ha)	1.00	1.20	1.22
Cotton seed production (mt)	30,000	37,800	42,700
Cotton production (cotton fiber) (mt)	10,000	12,600	14,233

Source: Post estimates based on government and trade sources.

### **GOV plans a huge production increase by 2005/2006**

The Government of Vietnam (GOV) issues many annual, 5 year and 10 year plans -- which usually function as desired targets, more than hard, fast plans of action. The GOV 2005 cotton target is to grow 115,000 ha of cotton to produce 80,000 mt of fiber cotton (see our report from last year VM2009). Even the Vietnam Cotton Company (VCC) agrees it is unlikely to achieve that target. VCC notes that the annual growth rate of cotton production (in the 5-year plan) is set too high and is not a suitable 'guide' for the actual capacities of the cotton sector at both local and central levels. The VCC now hopes Vietnam's cotton production will be 30,000 mt of fiber cotton by 2005/2006.

Despite the Government's big (for Vietnam the support price and contract system represent a significant allocation of scarce resources) push to promote cotton production, cotton is still considered a "risky" crop. Farmers consider cotton to be risky because diseases easily infect it, and the lack of irrigation facilities (and timely application of water) further restrains crop expansion.

In Vietnam, about 80% cotton is cultivated in the rainy season where cotton is planted in late July-August and harvested in December. Only about 20% of cotton area is irrigated. The irrigated cotton is

planted in dry season, in the late November-December and harvested in April/May. The irrigated cotton has higher crop yields than rainfed cotton.

### Estimates for the 2003/04 crop

Post estimates Vietnam's 2003/2004 cotton planted area will be about 35,000 ha, an increase of 11% compared with the 2002/03 crop level. The expansion will take place mainly in the Tay Nguyen - Central Highlands, South-East and South-Central Coastal regions. Production is estimated at 14,233 mt (see cotton PS&D table).

## PRICE

### Domestic price

The guarantee/minimum price set by VCC is VND 5,200/kg of cottonseed.

### Import price

Table 2 presents current import prices of cotton from key supplying countries. Prices of U.S. cotton (CIF HCMC) are rather competitive compared with West African cotton. The price of Vietnam's cotton is between \$1.20-1.25/kg (door to door service) (see table 2)

**Table 2: Prices of Vietnam's import cotton (Unit: USD/kg)**

	Cotton class		
Countries	1 & 1/8 inch length	1 & 3/32 inch	1 & 1/32 inch length
United States	\$1.48-\$1.50	\$1.46-\$1.48	\$1.26-\$1.27
West African	\$1.35-\$1.36		
Vietnam	\$1.20-\$1.25		

Source: Trade Contacts

## TRADE

### Vietnam's CY-2002 cotton import

According to statistical data from Vietnam's Customs Department, Vietnam imported about 94,000 metric tons of fiber cotton worth \$93 million in calendar-year 2002 (CY-2002). The United States was the leading supplier, with U.S. exports of 32,000 mt and an export value of \$29 million. Other

important cotton suppliers included Australia, Uzbekistan, Mali, Togo, and Burkina Faso. From (fairly reliable) trade sources, Post developed a trade matrix for CY-2002 and the first six months of 2003 (see table 3).

**Table 3: Vietnam's 2000/01-first six months of 2003 cotton imports (Unit: mt)**

Countries	2000	2001	2002	Jan-Jun./03
CIS	21,748	19,995	20,000	4,000
African	18,929	17,600	33,000	21,000
USA	12,540	26,180	31,000	15,000
Australia	6,023	13,200	2,200	n/a
Syria	1,060	1,070	1,370	n/a
China	1,577	1,310	1,991	n/a
Unknown	10,955	9,470	4,439	3,000
<b>TOTAL</b>	<b>72,832</b>	<b>88,825</b>	<b>94,000</b>	<b>43,000</b>

Source: Trade Contacts, Vietnam's Customs Dept. and FAS/Vietnam

### U.S. CY-2002 cotton exports to Vietnam increased in volume but decreased in value

Trade data for U.S. cotton (HS code: 5201) exported to Vietnam (1999- 2003) are presented in table 4. In CY-2002, U.S. cotton exports to Vietnam increased to 30,068 mt (according to U.S. trade date, which is slightly different from Vietnamese trade data), an increase of 15% compared with 2001's level. However, the export value declined by 6% to \$27,154,000 due to lower prices. A trader noted that the low U.S. prices encouraged Vietnam's cotton buyers to increase their imports to build a small stockpile for 2003 production.

In the January-May, 2003 period, Vietnam imported 15,396 mt of U.S. cotton valued at \$16,819,000. Compared to the same period of 2002, the U.S. cotton exports dropped by 13% in volume but increased by 6.8% in value (based on U.S. trade data).

**Table 4: U.S cotton (code: 5201) exports to Vietnam 1999-Jan/May 2003**

	1999	2000	2001	2002	Jan.-May/03

Quantity (mt)	3,787	12,876	25,971	30,068	15,396
Value (\$1,000)	4,232	13,852	28,670	27,154	16,819

Source: Department of Commerce, U.S. Census Bureau and Foreign Trade Statistics

### **Vietnam imports more U.S. cotton**

According to the Vietnam Textile and Garment Association (Vinatex), although U.S. prices are higher than those of other suppliers, Vietnam's importers are buying more U.S. cotton due to its higher quality. Vietnam's CY-2003 imports of U.S. cotton in 2003 are expected to increase by 10-15% compared with last year's level.

### **Vietnam's CY-2003 cotton import will probably decline (a little)**

According to traders, Vietnam's CY-2003 total cotton imports will probably drop by 15% compared with 2002's level. The import decline is mainly due to high carry-over stocks from last year, plus higher cotton prices, in the first months of 2003, also restrained imports.

Cotton imports to Vietnam in the first six months of 2003 are estimated at 43,000 mt. The United States, CIS and West African countries remained the key suppliers (see table 3). Post estimates Vietnam's 2003 cotton import at 80,000 mt (see PS&D table, below).

### **Vietnam Cotton Company (VCC) is keen to expand cotton processing capacity.**

The VCC is planning to build three new cotton mills in key producing areas. The planned capacity per each mill is 10,000 mt/year.

Currently, there are five cotton mills operating in Dak Lak (Tay Nguyen Central Highland); Dong Nai (South-East region); Khanh Hoa and Binh Thuan (South-Central Coastal region). The total capacity of the five mills is 40,000 mt per year.

## **CONSUMPTION**

Vietnam's domestic cotton consumption is estimated at 90,000-100,000 mt of cotton lint per year.

**Table 4: Vietnam's cotton PS&D table (revised July-2003)**

PSD Table						
Country	Vietnam					
Commodity	Cotton				(HECTARES)(MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New

Market Year Begin		08/2001		08/2002		08/2003
Area Planted	30,000	30,000	35,000	31,500	35,000	35,000
Area Harvested	30,000	30,000	35,000	31,500	35,000	35,000
Beginning Stocks	19,160	12,092	16,446	16,446	26,046	26,046
Production	10,886	10,526	12,280	12,600	14,233	14,233
Imports	103,420	88,828	89,000	94,000	80,000	80,000
<b>TOTAL SUPPLY</b>	<b>133,466</b>	<b>111,446</b>	<b>117,726</b>	<b>123,046</b>	<b>120,279</b>	<b>120,279</b>
Exports	0	0	0	0		0
USE Dom. Consumption	108,863	95,000	100,000	97,000	100,000	100,000
Loss Dom. Consumption	0	0	0	0	0	0
<b>TOTAL Dom. Consumption</b>	<b>108,863</b>	<b>95,000</b>	<b>100,000</b>	<b>97,000</b>	<b>100,000</b>	<b>100,000</b>
Ending Stocks	24,603	16,446	17,726	26,046	20,279	20,279
<b>TOTAL DISTRIBUTION</b>	<b>133,466</b>	<b>111,446</b>	<b>117,726</b>	<b>123,046</b>	<b>120,279</b>	<b>120,279</b>

### **POLICY -- Import TRQ on cotton**

On May 9, 2003, Deputy Prime Minister Vu Khoan signed Decree 91/2003/QD-TTg setting-up import tariff-rate quotas (TRQs) on a few selected products. Many of the implementing details are still to be defined. According to the general Decree, import quotas or TRQs will be applied on imported milk products (HS code: 0401 and 0402); poultry eggs (HS code: 0407), corn (HS code: 1005), tobacco materials (HS code: 2401); salt (HS code: 2501) and cotton (HS code: 5201, 5202 and 5203).

The import quotas on tobacco materials, salt and cotton were supposed to have been applied from July 1, but it now appears they will be effective August 1 according to the Trade Ministry's circular No. 4/2003/TT-BTM, which was signed by Deputy Trade Minister Mai Van Dau on July 10, 2003. This circular provides guidance on the implementation of the general provisions announced in Decree No.91/2003/QD-TTg. Quotas or TRQs for the other selected products (egg, milk, corn) will be set in 2004.

Under Decree 91, the Ministry of Trade was appointed to manage the import quotas and/or TRQs in coordination with all relevant ministries. The Ministry of Finance (MOF) was assigned to set import tariff rates imposed on in/over quota products.

As indicated in circular No. 4, the Ministry of Trade is responsible for granting import quantities to importers in accordance with import levels (in-quota and over-quota quantities). The MOT will set import levels applied to each item for a specific period based on the import requirements. In the case of cotton, Vinatex will probably provide an estimate of local requirements and Vinatex or VCC will

estimate local production. Every year, importers will have to submit their import requirements to the MOT before September 1 to receive an in-quota allocation.

For cotton, the import quota will be imposed on cotton products having HS codes: 5201, 5202 and 5203. The current preferential import tariffs charged on cotton in HS categories 5201 and 5203 is 0% while the rate for cotton in HS category 5202 is 10%. Additionally, the value-added tax (VAT) imposed on all three cotton categories is 10%.

For the time being, the MOT has still not quantified the cotton import quota on cotton for the last months of 2003 (presumably August to December 2003). According to traders and analysts, the MOT probably will grant import in-quota allocations to cotton importers based on their self-defined requirements as Vietnam's Textile and Garment Industries rely heavily on imported cotton. Vietnam's domestic cotton production only meets about 10-12% of the industry's cotton demand.