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Cotton and Products

Annual

2004

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Report Highlights:
Higher international prices have resulted in lower raw cotton imports and a reduction in profitability for the local processing industry. In contrast, expanding disposable income is increasing fabric consumption, which will by supplied mostly through imports.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Moscow [RS1]
[RS]

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Executive Summary

Cotton consumption in Russia decreased in MY 2003 to 332,970 metric tons due to higher world market prices for the raw cotton imports on which the Russian industry depends. Consumer demand for cotton fabric is increasing, stimulated by growing incomes; but imports, not locally produced goods, are filling this demand, as a strong exchange rate makes imports of cotton fabric from developing countries and China more competitive than domestically produced fabric.

Production

Official data on domestic cotton production does not exist, and in any case, only a miniscule amount of low quality cotton (post estimates about 1,000 metric tons) is produced in southern Russia (Astrakhan oblast) on a few farms managed by cotton specialists from Central Asia. Production depends entirely on agreements between these cotton growers and regional cotton processing plants. Greater domestic cotton production will depend on better world prices, and some farmers would like to boost output as a result of the current market situation mentioned above.

Table 1. Cotton Supply and Demand, Metric Tons and Hectares

PSD Table						
Country	**Russian Federation**					
Commodity	**Cotton**				(HECTARES)(MT)	
	2002	Revised	2003	Estimate	2004	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	0	0	0	0	0	0
Beginning Stocks	48335	48335	48335	48335	48335	48335
Production	0	0	0	1000	0	800
Imports	359249	359249	315704	332370	0	320150
TOTAL SUPPLY	407584	407584	364039	381705	48335	369285
Exports	0	0	0	400	0	0
USE Dom. Consumption	359249	359249	315704	332970	0	320950
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	359249	359249	315704	332970	0	320950
Ending Stocks	48335	48335	48335	48335	0	48335
TOTAL DISTRIBUTION	407584	407584	364039	381705	0	369285

Consumption

According to Russian experts, cotton demand on the Russian market is now stable at approximately 320,000 – 330,000 metric tons per year, or enough to keep the Russian textile industry working smoothly. Over the last ten years, the domestic textile industry has contracted, and the survival of the remaining factories will depend on their ability to compete with imported cotton fabrics, reverse the steady deterioration of processing equipment (the Russian textile industry lags behind most other domestic industries in the quality of its machinery and infrastructure), rectify legal and tax law shortcomings, develop better long-term credit sources, and slow transfer to production of cotton-linen fabrics.

Post estimates cotton consumption in MY 2003 at 332,970 metric tons, seven percent lower than the previous year. Cotton stocks remain unchanged at less than two month's consumption.

Trends in Textile Production

Cotton fabrics still constitute the main portion of fabric production in Russia. However, the relative high cost of imported raw cotton has led to changes in fabric production technology, and to increased output of thinner and lighter fabrics, and mixed fabrics that contain over 50 percent cotton.

Table 2. Structure of Fabrics Production in the Russian Federation in CY 1994-2003

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
	In million M2									
All fabrics	2,169	1,757	1,401	1,559	1,395	1,653	2,323	2,614	2,847	2,889
Including										
- Cotton	1,525	1,291	1,052	1,150	1,085	1,261	1,820	2,085	2,326	2,358
- Linen and hempen	162	131	112	103	68	90	115	124	138	157
- Woolen	91	72	50	47	40	48	54	56	50	44
- Silk	246	197	136	134	111	148	177	171	148	144
- other	145	66	51	125	90	106	158	177	185	186
	As a percent of all fabrics									
All fabrics	100	100	100	100	100	100	100	100	100	100
Including										
- Cotton	70.3	73.5	75.1	73.8	77.8	76.3	78.3	79.8	81.7	81.6
- Linen and hempen	7.5	7.5	8.0	6.6	4.9	5.4	4.9	4.7	4.8	5.4
- Woolen	4.2	4.1	3.6	3.0	2.9	2.9	2.3	2.2	1.8	1.5
- Silk	11.4	11.2	9.7	8.6	8.0	9.0	7.6	6.5	5.2	5.0
- Other	6.7	3.8	3.6	8.0	6.5	6.4	6.8	6.8	6.5	6.4

Source: State Statistical Committee of the Russian Federation
Numbers may not add due to rounding.

The table below shows cotton production in local marketing and in calendar years. Post provides this data in order to correlate cotton marketing year imports and consumption with the available official calendar year data on trade in yarn and fabrics. Production of cotton fabrics in MY 2003 is forecast to decrease by seven percent to 2,145 million square meters.

Post estimates are based on assumption that during February-July 2004 the Russian textile industry's cotton fabric output will match at least the monthly average for the last five years. However, a shortage of cotton and intense competition with imported fabrics may lead to a further decrease in cotton fabric production.

Table 3. Cotton Fabrics Production, Marketing Years, Million Square Meters

	08/92	08/93	08/94	08/95	08/96	08/97	08/98	08/99	08/00	08/01	08/02	08/03
Aug.	214	187	96	123	90	90	76	113	147	186	187	202
Sept.	171	213	102	121	85	95	61	123	152	181	195	212
Oct.	166	209	90	125	100	105	47	123	166	207	213	217
Nov.	182	238	112	120	95	110	43	138	168	207	197	199
Dec.	161	238	131	109	95	110	64	155	171	201	202	212
Jan.	127	169	120	88	85	107	59	139	160	190	183	176
Feb.	174	193	127	100	100	145	83	165	163	199	193	160*
Mar.	190	184	100	78	115	142	109	171	155	211	210	171*
Apr.	199	161	74	81	100	139	105	155	150	223	211	169*
May	181	114	75	75	85	85	77	122	152	167	166	137*
Jun.	229	110	110	85	85	98	101	140	168	169	188	153*
Jul.	150	62	87	80	70	79	75	124	155	173	169	139*
Total MY	2,144	2,078	1,223	1,185	1,105	1,305	899	1,668	1,907	2,314	2,312	2,145
Calendar Years, Million Square Meters												
Yr/Month	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Jan.	127	169	120	88	85	107	59	139	160	190	183	176
Feb.	174	193	127	100	100	145	83	165	163	199	193	NA
Mar.	190	184	100	78	115	142	109	171	155	211	210	NA
Apr.	199	161	74	81	100	139	105	155	150	223	211	NA
May	181	114	75	75	85	85	77	122	152	167	166	NA
Jun.	229	110	110	85	85	98	101	140	168	169	188	NA
Jul.	150	62	87	80	70	79	75	124	155	173	169	NA
Aug.	187	96	123	90	90	76	113	147	186	187	202	NA
Sep.	213	102	121	85	95	61	123	152	181	195	212	NA
Oct.	209	90	125	100	105	47	123	166	207	213	217	NA
Nov.	238	112	120	95	110	43	138	168	207	197	199	NA
Dec.	238	131	109	95	110	64	155	171	201	202	212	NA
Total CY	2,335	1,523	1,291	1,052	1,150	1,085	1,261	1,820	2,085	2,326	2,358	NA

Source: State Statistical Committee of the Russian Federation
* Post Estimate

Trade in Cotton

Imports

Post estimates cotton imports in MY 2003 at 332,370 metric tons, more than seven percent lower from the previous year, and forecasts a further decrease in cotton imports to 320,000 metric tons in MY 2004. According to industry sources, at least 10-15 percent of cotton is shipped to Russia without being declared at customs as cotton (either border trade or shipments under different HS codes). Post estimates include this portion of cotton, and these adjusted import volumes more closely correlate with officially reported production of cotton fabrics. Thus, in the PSD table cotton imports are listed at 359,249 metric tons, while according to official customs data in MY 2002/03 Russia imported 313,943 metric tons of cotton, including 304,977 metric tons of cotton, not carded or combed (HS number 5201), and 8,966 metric tons of cotton waste, including yarn waste and garneted stock (HS number 5202).

Imports of cotton in MY 2003 are estimated to decrease, mostly due to high international prices. Thus, during August – November 2003 official statistical data showed cotton imports of only 75,434 metric tons, the lowest quantity in that period for the last four years, and 763 metric tons of cotton waste. In the trade matrix, post includes non-reported cotton imports in the “Others, not listed” category.

Several former republics of the Soviet Union provide over 75 percent of Russia’s cotton imports. This dominant share, or dependency, is due in part to Russia’s cotton processing equipment being set to the specific characteristics of Asian cotton, and also to the preponderance of Russian-Central Asian joint venture cotton processing operations in Russia.

Uzbekistan remains the main cotton supplier to Russia, although their market share is decreasing as they continue their policy of adding value to their own cotton. Quantity shipped and market share held by Kazakhstan are increasing because as a member of a Customs Union with Russia imports are free of VAT. Post notes that some imports from Kazakhstan may have other Central Asian origins.

Cotton imports from the United States are price dependent. For example, before the 1998 economic crises, Russia imported 2,523 metric tons of U.S. cotton. In contrast, current high prices have cut trade in MY 2003 (through November 2003) to only 200 metric tons. Despite this price sensitivity, even small imports play are important for upgrading Russia’s cotton processing technology and in moving Russian standards towards world norms and grades, and pave the way to future imports from the United States.

Table 4. Trade Matrix, Cotton Imports, 1,000 Metric Tons

Import Trade Matrix			
Country	Russian Federation		
Commodity	Cotton		
Time Period	Aug/Jul	Units:	Metric Tons
Imports for:	2002		**2003**
U.S.	355	U.S.	360
Others		Others	
Uzbekistan	152554	Uzbekistan	145000
Kazakhstan	64314	Kazakhstan	65300
Kyrgyzstan	33882	Tajikistan	33100
Tajikistan	32314	Kyrgyzstan	32500
Azerbaijan	17966	Azerbaijan	12000
Turkey	1548	Turkey	1500
Country Unknown	938	Turkmenistan	600
Turkmenistan	652		
Iran	446		
Pakistan	7		
Total for Others	304621		290000
Others not Listed	54628		42370
Grand Total	359249		332370

Source: State Customs Committee of the Russian Federation

Barter

Barter and tolling are widespread practices in the Russian cotton industry. Barter is often used when Russian importers are connected with regional administrations. However, Central Asian exporters offer prices for barter trade at a disadvantageous 50-70 percent higher than the Russian textile producers are willing to pay. Barter agreements are fruitful if they are supported at the regional level, and the administrations are involved in the transaction. The negotiations involve usually many local producers of products suitable for barter, and administrative resources of the local authorities, making the process more expensive.

According to media reports, 85-90 percent of cotton for factories located in Vladimir, Orenburg and Omsk oblast is imported on barter terms, and the cotton producing oblasts in Uzbekistan and Kazakhstan receive in return vehicles and agricultural machinery, wood and chemistry products, pharmaceuticals, and wheat and corn flour. This system has reportedly boosted production of cotton and cotton-linen mixture fabrics by almost 50 percent in 2002-2003.

Tolling

During the last ten years, 90 percent of Russian textile factories were working on a tolling basis, with profits transferred to the foreign owners of the cotton. Some portion of cotton imported for processing only is not registered at customs, confusing trade statistics. Relations between barter agreements, which involve local administrations and tolling are not transparent. However, these practices are widespread and make it difficult for other cotton suppliers and importers to compete in the Russian market.

Exports

Russia does not regularly export cotton, and Post does not forecast exports for 2004. However, private companies that import cotton into Russia can re-export some cotton from their warehouses when they cannot find a domestic customer. In MY 2003 these companies re-exported over 400 metric tons of cotton due to favorable international prices.

Tariffs

There have been no changes in tariffs on cotton and cotton products imports. All raw cotton (HS numbers 5201, 5202 and 5203 00 000 0) is imported duty free. The import tariff for sewing thread and cotton yarn (HS numbers 5204, 5205, 5206, 5207) is five percent of customs value. The import tariff for cotton fabrics is 20 percent of the customs value. Imports from Kazakhstan (a member of the Customs Union with Russia) are duty free. Agreed price of cotton is the most important factor because most Russian companies that import cotton use tolling or barter schemes in trade with the major cotton exporter to Russia, namely Uzbekistan. However, along with increasing exports of Uzbek cotton to other countries, this agreed price tends to more often reflect international market prices. An 18 percent value added tax is in place on imported cotton, but this tax does not affect cotton imported on tolling schemes.

Prices

The increase in international cotton prices in 2003/04 affected Russia’s textile production and stimulated fabric imports. According to cotton importers, in 2003/2004 the average world market price for raw cotton reached 1,390 U.S. dollars per metric ton, the highest level in six years, and in October 2003 the price of cotton was 2,100 U.S. dollars per metric ton. However, according to industry sources, more than 70 percent of domestic cotton textile factories can afford to purchase cotton at only 750 U.S. dollars per metric ton, and the remaining 30 percent do not purchase cotton, but rather get it from Central Asia on barter terms. Thus, the average price of imported cotton increased only slightly in MY 2003, while volume of imported cotton shrank.

Table 5. Prices Table

Prices Table			
Country	Russian Federation		
Commodity	Cotton		
Prices in	US Dollars	Per	Metric Ton
Year	2002	2003	% Change
Jan	750	760	1%
Feb	780	810	4%
Mar	740	820	11%
Apr	745	760	2%
May	720	730	1%
Jun	730	760	4%
Jul	755	800	6%
Aug	770	810	5%
Sep	730	800	10%
Oct	730	730	0%
Nov	810	810	0%
Dec	790	810	3%

Trade in Yarn and Fabrics

In contrast to decreasing imports of raw cotton, Russia increased imports of yarn, threads and cotton fabrics. Experts estimate that over 45,000 metric tons of cotton was imported in CY 2003 in form of yarn, threads and cotton fabrics, or 35 percent more than in 2002/03. Table below shows actual official imports of cotton and cotton products.

Table 6. Imports of Cotton and Products, Market Years, 1,000 U.S. Dollars

HS	Description	Aug 98-Jul 99	Aug 99-Jul 00	Aug 00-Jul 01	Aug 01-Jul 02	Aug 02-Jul 03	Aug-Nov 2003
	52 COTTON, YARN, FABRIC	249,900	449,639	508,482	286,375	316,976	88,951
5201	Cotton, not carded, not combed	183,218	378,688	410,521	215,497	236,025	59,156
5202	Cotton waste and yarn waste	0,520	0,477	1,717	1,258	2,620	0,905
5203	Cotton carded or combed	0,161	0,288	0,266	0,010	0,180	0,000
5204	Cotton sewing thread	8,019	14,832	16,012	12,967	6,443	1,366
5205	Cotton yarn (other than sewing thread), 85 percent or more of weight of cotton	13,829	12,248	21,029	8,234	14,283	9,063
5206	Cotton yarn (other than sewing thread), less than 85 percent of weight of cotton	0,181	0,625	0,360	1,386	2,181	0,785
5207	Cotton yarn (other than sewing thread), for retail sale	1,732	1,358	2,798	3,974	3,444	1,773
5208	Woven fabrics of cotton, containing 85 percent or more by weight of cotton, weighing not more than 200g/m2	14,489	12,708	20,786	15,123	18,493	5,355
5209	Woven fabrics of cotton, containing 85 percent or more by weight of cotton, weighing more than 200g/m2	17,340	20,984	24,596	18,371	19,283	7,093
5210	Woven fabrics of cotton, containing less than 85 percent by weight of cotton, weighing not more than 200g/m2	1,708	3,604	5,801	4,032	3,868	1,199
5211	Woven fabrics of cotton, containing less than 85 percent by weight of cotton, weighing more than 200g/m2	8,411	3,109	3,999	5,038	8,738	2,044
5212	Other woven fabrics of cotton	0,292	0,716	0,599	0,484	1,417	0,212

Source: State Customs Committee of the Russian Federation

Table 7. Imports of Cotton and Products, Market Years, Metric Tons and 1,000 Square Meters

			1998/99	1999/00	2000/01	2001/02	2002/03	Aug-Nov 2003
5201	Cotton, not carded, not combed	Tons	127,014	299,898	343,666	287,584	304,977	75,434
5202	Cotton waste and yarn waste	Tons	1,753	1,429	4,699	4,749	8,966	2,350
5203	Cotton carded or combed	Tons	0,170	0,207	0,240	0,000	0,241	0,000
5204	Cotton sewing thread	Tons	6,655	20,191	24,929	9,136	2,734	0,763
5205	Cotton yarn (other than sewing thread), 85 percent or more of weight of cotton	Tons	7,336	11,284	17,769	6,678	12,489	7,436
5206	Cotton yarn (other than sewing thread), less than 85 percent of weight of cotton	Tons	0,096	0,907	0,193	1,479	1,657	0,608
5207	Cotton yarn (other than sewing thread), for retail sale	Tons	1,045	0,848	2,505	1,908	3,584	1,832
5208	Woven fabrics of cotton, containing 85 percent or more by weight of cotton, weighing not more than 200g/m2	1000 SQM	24,423	26,692	60,379	35,229	53,704	16,950
5209	Woven fabrics of cotton, containing 85 percent or more by weight of cotton, weighing more than 200g/m2	1000 SQM	13,159	18,087	24,175	23,891	22,294	7,763
5210	Woven fabrics of cotton, containing less than 85 percent by weight of cotton, weighing not more than 200g/m2	1000 SQM	1,095	4,220	5,711	5,741	10,009	6,362
5211	Woven fabrics of cotton, containing less than 85 percent by weight of cotton, weighing more than 200g/m2	1000 SQM	11,351	0,000	0,000	0,000	0,000	3,396
5212	Other woven fabrics of cotton		0,000	2,553	1,096	0,000	0,000	0,000

Source: State Customs Committee of the Russian Federation

While Russia imports cotton thread and yarn from many countries, the main sources remain Uzbekistan, Tajikistan, Azerbaijan and Ukraine. The total import of these products was changing in accord with cotton imports, and in MY 2001/02 – 2003/04 has stabilized at approximately 20,000 metric tons a year. Russian exports of cotton thread and yarn decreased in sync with decreasing imports of cotton. Thus, in 2002 Russia exported slightly over 6,400 metric tons of these products, while in 2001 this exports amounted to 8,700 metric tons. Russian imports of cotton fabrics increased from 64.9 million square meters in MY 2001 to over 86.0 million square meters in MY 2002, and during August-November 2003 already exceeded the level reached in the same period a year ago of 34.5 million square meters. Russian imports most cotton fabric from the Ukraine and EU countries.

The charts below show the link between imports of cotton, cotton thread and yarn and cotton fabrics. The increase in cotton imports in CY 2000 and CY 2001 coincided with decline in imports of cotton thread, flax and cotton fabrics, while lower imports of cotton in 2002 and 2003 led to increased imports of thread and yarn and a dramatic increase in imports of cotton fabrics. Imports of cotton fabric in 2002-2003 were also stimulated by the decline in U.S. dollar/Ruble exchange rate, because fabric is imported from countries that use U.S. dollar in foreign trade: China, India, Turkey, Pakistan.

Chart 1. Imports of Cotton, Cotton Thread, Cotton Yarn and Flax, Calendar Years, Metric Tons

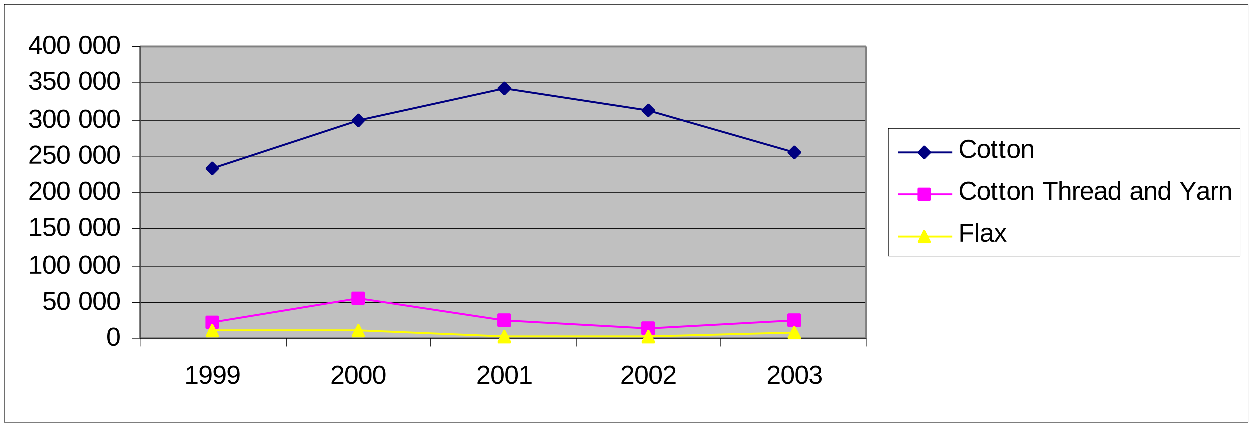
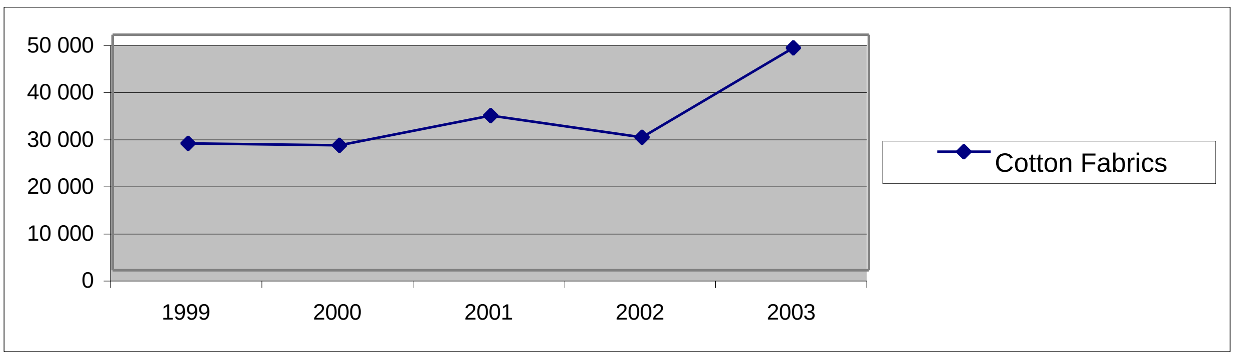


Chart 2. Imports of Cotton Fabric, Calendar Years, Thousand Square Meters



Flax

Flax is a traditional Russian crop, and considering climate, soil and weather conditions, and agronomic traditions, would be better able to regain its former production levels than cotton. However, the Federal program on restoration and expansion of flax production that officially ended in 2002 did not get proper financing, and therefore the restoration of the domestic linen industry failed. Attempts by private linen producing companies to invest in flax production brought few results, because unresolved land ownership and use issues hamper investment in Russian agriculture. However, production of linen (including on a tolling basis) started to increase, based on imported flax. Flax is also widely used in mixtures with cotton, and to some extent flax imports have replaced cotton imports; when cotton prices go up, Russian textile companies increase imports of flax. Imports of flax increased from 2,214 metric tons in 2002 to 7,380 metric tons in January-November 2003. Belgium and France supplied 2,830 and 1,840 metric tons of flax, processed primarily under tolling agreements. The other major suppliers of flax in CY 2003 were Ukraine (1,260 metric tons), Egypt (603 metric tons), and Netherlands (311 metric tons).

Stocks

The sharp increase of international cotton prices revealed the dramatic dependency of Russian textile production on cotton imports, and even resulted in closure of some textile factories. In major cotton textile producing countries producers are either use domestic cotton and/or have stocks to keep textile factories working year around, while Russian textile factories usually work from hand to mouth and do not have enough money to purchase cotton in advance and store it for a year. According to expert estimates, Russian factories maintain only two months' worth of cotton stocks. Thus, any seasonal or yearly increase in international cotton price is immediately reflected in an increased cotton fabric price. At the end of 2003, Russian producers increased prices of cotton fabric by 20 percent, reflecting an increased price of the cotton that constitutes 50-60 percent of the fabric's cost. Of course, with this price increase, the competitive advantage of domestically produced Russian fabrics versus imports was lost.

Policy

Russia does not officially stimulate imports of cotton, although there are no restrictions for commercial imports. According to regional information, some cotton processing factories are released from paying the 20 percent value added tax at customs. However, this is not a uniform policy, but rather a privilege granted to a textile factory on the regional level in order to prevent it from going bankrupt or to prevent stocks of raw material from spoiling if the processor cannot pay for the cotton that had already been imported.

Domestic cotton production does not get federal support, while the federal program to stimulate flax production faded away without any significant results. Although the production share of mixed cotton-linen fabric is increasing due to the efforts of local textile factories, the total production volume of these fabrics did not increase. In many cases flax is also imported from the European countries.

Representatives of cotton textile industry propose that the re-animation of the cotton textile industry in Russia shall be based on the following: first, the expansion of "geography" of barter (inter-industry/inter-regional) contracts with the Central Asian countries, and restoration of direct railroad transportation between Russia and these countries; second, development of linen-cotton production technologies with simultaneous restoration of domestic flax production (which is technically feasible in almost every region of Russia) and development of cotton production in the south of Russia; and inclusion of Uzbekistan in the free trade zone with Russia. According to information from the Ministry of Industry, Science and Technology, the Russian Federation was planning to purchase 50,000 metric tons of Uzbek cotton on "mutually beneficial terms". These imports were planned to form a state reserve fund, part of which can be sold in the open market, with the remainder used by the government for military and law enforcement agencies.

However, all these measures are not market oriented, and if undertaken will increase dependency on cotton imports and the existence and development of the Russian textile industry on local authorities.