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Romania

Cotton and Products

Annual

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Report Highlights:

Following the trend of the textile and garment sectors, Romania's cotton spinning industry is edging towards putting a stop to the decline of the last few years. Most of the raw cotton is imported from Uzbekistan, Greece, Kyrgyzstan, and Turkey, but industry representatives assess that there are opportunities for 5-10 thousand MT of US cotton annually. As Romania is approaching the EU accession, the sector will radically change, confronted with major challenges like customs duty regime liberalization, wage increases, the elimination of fiscal incentives that currently benefit the SMEs, increased environmental costs, etc.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Sofia [BU1]
[RO]

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Consumption

Cotton consumption in Romania increased slightly in the MY2003/04, being estimated by industry representatives at 25,500 MT, from just 23,000 MT in the previous year. This was triggered by a general push in the textile and apparel industry. National statistics indicate that in CY2003, this industry contributed to 34 percent to Romania's exports, or, in absolute terms, 6 billion euros, that is, 26.2 percent up from CY2002. Nonetheless, these figures can be misleading without showing that raw material imports totaled 4.5 billion euros (21 percent up from CY2002), due to the fact that *lohn*-type operations are prevailing in the sector (currently making up for over 65 percent of the total, from 75 percent in 1999). This system became very popular in Romania in the '90s, whereby the foreign partner, while themselves providing just labor and equipment, supplies the local companies with everything, from design to buttons.

As Romania is approaching the EU accession, the sector will radically change, confronted with major challenges like customs duty regime liberalization, wage increase, the elimination of fiscal incentives that currently benefit the SMEs, increased environmental costs, etc. Consolidation is already on-going, while it is likely that large international players that currently produce in *lohn* in Romania will reposition their operations, once they will not be able anymore to take advantage of local low labor costs.

Production in *lohn* has started already to slightly shrink and the Romanian officials assess that its share in the textile and apparel industry will be less than 50 percent by 2010. Despite the fact that this production system has been for many years one of Romania's export engines, its drawback has been that the indigenous manufacturers could not build their own brand name and image.

For the current marketing year, total cotton consumption is forecast to reach almost 27,000 MT, which represents 5 percent growth. Unlike the situation worldwide, where the use of other fibers (synthetics) is over 40 percent, in Romania about 90 percent of the total fibers used are natural.

The cotton industry in Romania was restructured and fully privatized, shrinking dramatically, after many spinning mills were liquidated. The prevalent privatization method was MEBO (management-employee buyout organizations), but these organizations had low investment potential and the operations continue to be burdened by inefficient plant configurations and are only marginally profitable. Other investors were Italian, German, Austrian, Turkish companies, who acquired a number of spinning mills or integrated operations. Some of these are technologically advanced and efficient. The annual processing capacity of local cotton mills stands at roughly 30,000 MTs (of which only 35% is estimated to be cost efficient by international standards), compared to nearly 73,000 MTs in 1989.

Several international agreements relevant to the textile industry regulate Romania's trade regime, as follows:

- the Textile and Garment Agreements with the United States and Canada within the Multi-Fiber Agreement of the WTO;
- the EU Association agreement, which sets out certain maximum rates and schedule for customs legislation, providing for complete customs duty elimination by 2002 on all goods into Romanian territory (and of course into that of EU);
- bilateral Agreement with Turkey, the Republic of Moldova, the Russian Federation, Kazakhstan, Uzbekistan, Vietnam, China, Peru – that provide low or no duty for some imported goods (including agricultural commodities);

An increasing trend in this international trade context arising for small producers like Romania is that the WTO Textile and Garment Agreement provides the elimination of all import quotas by January 2005. This will automatically fuel pressure from large competitors like China, India, and Pakistan. One year after China joined the WTO in 2001, its textile industry exports increased by almost 200 percent in physical terms, while prices sharply depressed (for some products, reportedly even with 75 percent).

Though disposable incomes and private consumption increased in 2003, sales of low-priced imported products and second hand clothing continued to hold a significant share in total.

Production, Supply and Demand Table

Romania							
Cotton							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	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	MM/YYYY
Area Planted	0	0	0	0	0	0	(HECTARES)
Area Harvested	0	0	0	0	0	0	(HECTARES)
Beginning Stocks	10233	6700	8709	6500	7620	2800	(MT)
Production	0	0	0	0	0	0	(MT)
Imports	22861	22891	20684	21800	0	26000	(MT)
TOTAL SUPPLY	33094	29591	29393	28300	7620	28800	(MT)
Exports	435	0	0	0	0	0	(MT)
USE Dom. Consumption	23950	23091	21773	25500	0	26800	(MT)
Loss Dom. Consumption	0	0	0	0	0	0	(MT)
TOTAL Dom. Consumption	23950	23091	21773	25500	0	26800	(MT)
Ending Stocks	8709	6500	7620	2800	0	2000	(MT)
TOTAL DISTRIBUTION	33094	29591	29393	28300	0	28800	(MT)

Trade

Cotton imports constantly declined in the '90s, following the trend of the operated spinning capacity. Applied import duty rates for cotton into Romania stand at zero.

The practice of procuring raw material on a "hand-to-mouth" basis, holding minimal cotton stocks prevails in the industry, as spinners lack liquidity. Very few mills get directly involved in importing operations, the majority buying from intermediaries, often foreign firms (Greek, Austrian, German). This pattern reportedly pushes domestic prices with 10-30 percent above the international reference price. Stocks have been going down for the last couple of years and are expected to total less than 3,000 MTs that at the end of the MY 2003/2004.

Official statistics released by National Customs show that in the calendar year 2003, Romania imported around 21,500 MTs of raw cotton (HS 5201 and HS 5202), the main suppliers being Uzbekistan, Greece, Kyrgyzstan, Turkey, and Kazakhstan, at CIF price varying as follows (See Prices Table).

Import Trade Matrix

Country	Romania	
Commodity	Cotton	
Time Period	CY	Units: MT
Imports for:	2003	
U.S.	0	
Others		
Uzbekistan	8202	
Greece	5105	
Kyrgyzstan	3629	
Turkey	2167	
Kazakhstan	680	
Tajikistan	388	
Syria	367	
Total for Others	20538	
Others not Listed	887	
Grand Total	21425	

During the first three months of the CY 2004, imports totaled 5,700 MT, while CIF price averaged \$1650/MT, from an average of \$1255/MT in January-March 2003.

Prices Table

Country	Romania		
Commodity	Cotton		
Prices in	US\$	per uom	MT
Year	2003	2004	% Change
Jan	1166	1571	35%
Feb	1293	1717	33%
Mar	1326	1670	26%
Apr	1304		
May	1312		
Jun	1334		
Jul	1341		
Aug	1271		
Sep	1337		
Oct	1410		
Nov	1563		
Dec	1630		

Exchange Rate month ave
CIF prices

Romania also imports significant amounts of cotton yarns from Turkey and India. The United States has not exported any cotton since 1997 to Romania. An important reason for this situation is that local demand by spinners is highly fragmented. Nonetheless, industry representatives assess that there are real opportunities for about 5-10 thousand MT of US cotton to be shipped annually to Romania.