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Iberia

Cotton and Products

Annual

2005

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Report Highlights:

U.S. cotton exports into the Iberian Peninsula (Spain and Portugal) will likely remain under pressure during marketing year (MY) 2005/06 (August/July), even though the local production will fall short of last year's output. The upside potential for U.S. exports will likely be eroded by a number of converging factors, which when combined, will substantively reduce cotton demand in the Iberian market. (LR35SH10)

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

FAS/Iberia forecasts a continuing decrease in Iberian raw cotton imports. The forecast Portuguese and Spanish MY 2005/06 raw cotton imports will be at 55,000 tons and 10,000 tons, respectively, down slightly from 60,000 tons and 14,000 tons in MY 2004/05. Iberian imports of U.S. cotton will be down in MY 2004/05 from previous years, due to a reduction in total cotton use in Spain and Portugal, but will remain at around 500 and 900 tons, respectively, during MY 2005/06.

MY 2005/06 raw cotton exports from the Iberian Peninsula will be less than during MY 2004/05, because of reduced planted acreage and drought reduced production. We forecast Spanish raw cotton exports in MY 2005/06 at 50,000 tons, down from 90,000 tons in MY 2004/05.

We expect to see a further reduction in Iberian raw cotton exportable supplies in the medium-to-long term, as a result of the Common Agriculture Policy (CAP) reform, which will be initiated during MY 2006/07. Under the reform, farmers will have 65 percent of their production subsidy de-coupled from production. CAP reform will likely lead to a reduction in the number of Iberian farmers that view cotton production as the most profitable use of their fixed and variable inputs.

Iberian Peninsula raw cotton production will be down in MY 2005/06, as a result of a severe drought currently affecting crop development on the Peninsula (please see SP5004 and 5013). We forecast Iberian raw cotton production at about 100,000 tons in MY 2005/06, down from about 130,000 tons in MY 2004/05. Roughly 95 percent of Iberian Peninsula production comes from the Spanish Autonomous Region of Andalusia.

The Multi-Fibers Agreement (in force as of January 2005) and the relative strength of the Euro will further reduce the competitiveness of local textiles manufacturers in traditional EU and third-country markets. Over the long term, Iberian raw cotton use will continue downward as local textiles manufacturing loses ground to Asian textile producers. Cotton use in Spain and Portugal will be down in MY 2004/05 relative to previous year levels, due to the closing and relocation of several major mills, but will remain stable in MY 2005/06 at about 60,000 and 55,000 tons, respectively, before declining again in out years.

Production, Supply & Distribution Tables

PSD Table

Country

Spain

Commodity

Cotton

(HECTARES)(MT)

Market Year Begin	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
	08-2003		08-2004		08-2005	
Area Planted	0	94,700	0	90,200	0	85,000
Area Harvested	92,000	94,700	90,000	90,200	0	85,000
Beginning Stocks	39,844	39,844	26,563	31,154	0	21,747
Production	93,622	112,433	108,863	132,893	0	99,060
Imports	16,983	16,907	14,152	14,000	0	10,000
MY Imp, from U.S.	0	841	0	500	0	500
TOTAL SUPPLY	150,449	169,184	149,578	178,047	0	130,807
Exports	56,391	56,330	51,166	90,000	0	50,000
USE Dom, Consumption	67,495	80,000	60,963	65,000	0	60,000
Loss Dom, Consumption	0	1,700	0	1,300	0	1,200
TOTAL Dom, Consumption	67,495	81,700	60,963	66,300	0	61,200
Ending Stocks	26,563	31,154	37,449	21,747	0	19,607
TOTAL DISTRIBUTION	150,449	169,184	149,578	178,047	0	130,807

PSD Table

Country

Spain

Commodity

Cotton

(HECTARES)(480-pound bales)

Market Year Begin	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
	08-2003		08-2004		08-2005	
Area Planted	0	94,700	0	90,200	0	85,000
Area Harvested	92,000	94,700	90,000	90,200	0	85,000
Beginning Stocks	183,002	183,002	122,003	143,089	0	99,883
Production	430,002	516,401	500,004	610,373	0	454,979
Imports	78,002	77,653	65,000	64,301	0	45,930
MY Imp, from U.S.	0	3,863	0	2,296	0	2,296
TOTAL SUPPLY	691,007	777,056	687,006	817,763	0	600,792
Exports	259,002	258,722	235,004	413,367	0	229,648
USE Dom, Consumption	310,002	367,437	280,001	298,543	0	275,578
Loss Dom, Consumption	0	7,808	0	5,971	0	5,512
TOTAL Dom, Consumption	310,002	375,245	280,001	304,513	0	281,089
Ending Stocks	122,003	143,089	172,002	99,883	0	90,054
TOTAL DISTRIBUTION	691,007	777,056	687,006	817,763	0	600,792

PSD Table**Country****Commodity****Portugal****Cotton**

(HECTARES)(MT)

	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	08-2003		08-2004		08-2005	
Area Planted	0	210	0	265	0	200
Area Harvested	1,000	210	1,000	265	0	200
Beginning Stocks	23,079	23,079	19,378	18,844	0	17,497
Production	218	241	218	353	0	229
Imports	83,607	84,739	76,204	60,000	0	55,000
MY Imp, from U.S.	0	928	0	900	0	900
TOTAL SUPPLY	106,904	108,059	95,800	79,197	0	72,726
Exports	435	415	435	450	0	450
USE Dom, Consumption	87,091	87,000	76,205	60,000	0	55,000
Loss Dom, Consumption	0	1,800	0	1,250	0	1,150
TOTAL Dom, Consumption	87,091	88,800	76,205	61,250	0	56,150
Ending Stocks	19,378	18,844	19,160	17,497	0	16,126
TOTAL DISTRIBUTION	106,904	108,059	95,800	79,197	0	72,726

PSD Table**Country****Commodity****Portugal****Cotton**

(HECTARES)(480-pound bales)

	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	08-2003		08-2004		08-2005	
Area Planted	0	498	0	500	0	500
Area Harvested	1,000	498	1,000	500	0	500
Beginning Stocks	106,001	106,001	89,002	86,550	0	80,363
Production	1,001	1,107	1,001	1,621	0	1,052
Imports	384,004	389,203	350,002	275,578	0	252,613
MY Imp, from U.S.	0	4,262	0	4,134	0	4,134
TOTAL SUPPLY	491,006	496,311	440,006	363,749	0	334,028
Exports	1,998	1,906	1,998	2,067	0	2,067
USE Dom, Consumption	400,006	399,588	350,007	275,578	0	252,613
Loss Dom, Consumption	0	8,267	0	5,741	0	5,282
TOTAL Dom, Consumption	400,006	407,855	350,007	281,319	0	257,895
Ending Stocks	89,002	86,550	88,001	80,363	0	74,066
TOTAL DISTRIBUTION	491,006	496,311	440,006	363,749	0	334,028

Production

General

Iberia: Production of Un-ginned Cotton in Metric Tons

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Spain	409,518	300,657	336,984	321,589	295,100	348,800	260,000
Portugal	73	0	612	843	632	926	600

Source: Official data up till 2004/05. FAS/Iberia forecast for 2005/06.

Iberia: Cotton Lint Production in Metric Tons (*)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Spain	156,026	114,550	128,391	122,525	112,433	132,893	99,060
Portugal	28	0	233	321	241	353	229

(*) FAS/Iberia estimates using un-ginned production from the table above.

Raw cotton production will decline in Spain and Portugal during MY 2005/06, because of a drought. The continuing drought has affected available water resources for spring crop irrigation, which has made cotton planting less attractive and less productive. For more on the Iberian drought, please check FAS GAIN Reports SP5004 and 5013.

About 95 percent of Iberian Peninsula cotton production is cultivated in the Guadalquivir river basin of Andalucia, in the Spanish provinces of Seville, Cordoba, Cadiz and Jaen. Smaller areas are located in Cartagena in eastern Spain (about 3,000 ha), and in the Portuguese Lower Alentejo region. About 7,600 Spanish, and 20 Portuguese farmers cultivate Cotton.

Production Policy

In MY 2006/07, a new cotton regime will be in place, instituted by EU Reg. 864/2004, dated of April 29, 2004. CAP reform will change farmer domestic support regulated through EU-set minimum purchase prices paid by the cotton ginners, up to production ceilings (Maximum Guaranteed Quantity, MGQ). From MY 2006/07 onwards, cotton producers will be eligible to receive direct EU subsidy payments determined on the basis of historic cultivated areas and yields and EU support to the sector. Under CAP reform, 65 percent of previous cotton production subsidies will be de-coupled and included in the Single Farm Payment (SFP). The remaining support will be integrated in the country's "financial envelope," and paid to the farmers on a cultivated-area basis. The CAP reform converted the MGQ system into an area-based system, and instituted Maximum Guaranteed Areas (MGAs). For currently effective MGQs, and MGAs and subsidies to be implemented in 2006, please check table below.

We expect cotton CAP reform to reduce production, as many farmers whose margins are below area-linked subsidy levels switch to other crops. According to local sources, once the new regime is implemented, only farmers who can achieve production of 2,000 tons/ha will choose to continue cotton production. This could lead very quickly to a reduction in production to some 140,000 tons, un-ginned, in the early stages of implementation.

Iberian MGAs and MGQs

	2005	From 2006 Onwards		
	MGQ (Tons)	Base Area	Amount de-coupled	Aid per eligible hectare
Spain	249,000	70,000 ha	1,509 €/ha	1,039 €/ha
Portugal	1,500	360 ha	1,202 €/ha	556 €/ha
EU	1,031,000	425,360 ha	-	-

Consumption

Iberian cotton use will continue to decline with little hope of a rebound. We expect the largest drop to take place in Portugal, as some large millers have already shut down in August 2004, and more are likely do so till the end of the current marketing year, for reasons of both a financial and strategic nature. One large miller in Guimarães, Fiarel closed in August 2004, after selling the factory to a Vietnamese miller. Two other large mills, Lameirinho and Coelima closed early this year. These mills belonged to large fully vertically integrated groups that decided to re-locate spinning operations to India and Pakistan.

Surviving millers tend to be part of vertically integrated groups that produce high-quality, thin yarns and threads. Ring-spinning mills import most of their cotton (strict middling cotton 1.3/32 and 1.1/16) from Equatorial Africa to produce ne 30, 24 and 20 yarns. Open-end mills import strict low middling 1.1/16 and 1.1/8 cotton from Central Africa and the Former Soviet Union to produce ne 16, 12 and 10 yarns. The abovementioned types and sizes account for about 80 percent of yarn production. However, we are seeing a trend to produce finer yarns (ne 40 and over) at the detriment of yarns ne 8 and under. ELS cotton sourced from the U.S., Egypt and Israel has niche market status.

The strength of the Euro vis-à-vis the Dollar, and the implementation of the Multi-Fiber Agreement (MFA) will likely further reduce demand for locally produced textiles. Industry sources report that orders for finished textile products are weak, and imports from India and China are up. This is affecting all textile product categories, but especially garments in the case of Portuguese textiles, and clothing and home furnishings in the case of the Spanish industry.

Even though Iberian Peninsula textile production is being hurt by the strength of the Euro, the MFA and relatively high production costs, some segments appear to have retained a competitive advantage. These include the Portuguese home-textiles and furnishings, which profit from tradition and good marketing practices, and the Spanish garment industry, which benefits from some recognition attained by Spanish fashion in international markets.

Trade

General

Iberia: Raw Cotton Imports in Metric Tons

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Portugal	141,409	135,614	121,283	105,297	84,739	60,000	55,000
Spain	35,406	31,501	29,313	25,785	16,907	14,000	10,000

Source: Official statistics up till 2003/04. FAS Office estimates for 2004/05 and 2005/06.

Iberia: Raw Cotton Exports in Metric Tons

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Spain	54,954	29,339	31,664	17,392	56,330	90,000	50,000
Portugal	166	80	531	360	415	450	450

Source: Official statistics up till 2003/04. FAS Office estimates for 2004/05 and 2005/06.

We are reducing our MY 2004/05 and 2005/06 raw cotton import forecasts from previous years' imports to reflect the continuing demise of the spinning and textile industries on the Iberian Peninsula. According to the official statistics, Portuguese raw cotton imports dropped 16 percent during the first half of MY 2004/05 relative to the same period the previous year, and Spanish by 15 percent. We forecast another import reduction for MY 2005/06, due to a further reduction in spinning. Portuguese imports of U.S. cotton during the first half of MY 2004/05 were at 757 tons (612 tons in first half 2003/04), but Spanish imports during the same period were below the previous year's level.

In Portugal, during the first half of MY 2004/05, Central and Equatorial African countries remained the leading raw cotton import origins, favored by long-standing commercial relations, and favorable quality/price ratios. African cotton accounted for 52 percent of MY 2004/05 MY imports, down from 68 percent the previous year. However, they lost relative importance in the second half of MY 2004/05 to Spanish imports due to the favorable shipping conditions, which include small quantities by truck or rail. Brazilian cotton also regained market share during the first half of MY 2004/05, favored by a larger supply and improved prices.

Franc-Zone African (FZA) countries accounted for 21 percent of Spain's cotton imports during the first half of MY 2004/05, down from 43 percent in the same period the previous year. The EU market share was up as a result of transshipments through Belgium.

We forecast a reduction in Iberian Peninsula cotton exports during MY 2005/06 from MY 2004/05 levels as a consequence of the reduced Spanish crop. Domestic contract commitments and a reduced supply will mean fewer exportable supplies.

Factors Affecting U.S. Cotton

U.S. cotton competitiveness in the Iberian Peninsula market is negatively affected by shipping costs and some quality factors. Some importers mention problems with the incidence of neps, high micronaire, and coloring problems. In addition, some say that many U.S. cotton exporters lack flexibility in trade practices, which are needed by most spinners today to survive in this highly competitive market.

PIMA has emerged in recent years as the most competitive U.S. cotton type. Although a niche market, the threads and materials production from extra long staple (ELS) cotton have a comparatively high margin vis-à-vis other cotton types. U.S. PIMA cotton competes with Egyptian and Israeli ELS cotton.

Trade Matrices

Import Trade Matrix

Country Spain

Commodity Cotton

Time Period	Aug/July	Units:	Metric Tons	Aug/Jan
Imports for:	2002		2003	2004
U.S.	858	U.S.	841	0
Others		Others		
EU	4,881	EU	4,155	2,929
Tchad	3,622	Australia	2,816	1,715
Australia	3,067	Tchad	1,988	1,159
Zimbabwe	2,688	Zimbabwe	1,515	860
Burkina Faso	1,450	Burkina Faso	1,480	499
Cameroon	1,180	Cameroon	1,079	438
Benin	1,114	Benin	597	266
Syria	1,100	Egypt	562	106
Cote d'Ivoire	1,005	Brazil	258	80
Pakistan	892	Pakistan	207	50
Total for Others	20,999		14,657	8,102
Others not Listed	3,928			87
Grand Total	25,785		15,498	8,189

Export Trade Matrix

Country Spain

Commodity Cotton

Time Period	Aug/July		Metric Tons		Aug/Jan
Exports for:	2002		2003		2004
U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
France	6,623	France	13,875	France	6,412
U.K.	2,591	U.K.	5,658	Portugal	3,050
Portugal	1,440	Portugal	5,425	Belgium	2,355
Other EU	2,082	Other EU	4,242	Other EU	4,155
Morocco	1,379	China	8,821	China	7,602
Switzerland	1,276	Algeria	7,862	Morocco	3,165
Turkey	929	Morocco	3,838	Algeria	2,241
Ukraine	511	Turkey	1,611	India	718
Indonesia	323	Switzerland	1,366	Colombia	607
		Pakistan	1,319	Thailand	467
Total for Others	17,154		54,017		30,772
Others not Listed	238		2,313		732
Grand Total	17,392		56,330		31,504

Import Trade Matrix

Country Portugal

Commodity Cotton

Time Period	Aug/July	Units:	Metric Tons		Aug/Jan
Imports for:	2002		2003		2004
U.S.	1,726	U.S.	928	U.S.	757
Others		Others		Others	
EU	4,311	EU	9,112	EU	4,453
Chad	13,909	Chad	11,634	Brazil	7,142
Brazil	11,112	Mozambique	8,816	Chad	3,713
Mozambique	9,232	Zimbabwe	6,302	Mozambique	3,463
Zimbabwe	7,979	Egypt	3,752	Zimbabwe	3,300
Mali	6,017	Cameroon	5,397	Cameroon	1,439
Turkey	5,728	Turkey	4,843	Uganda	1,415
Uganda	5,495	Brazil	5,325	Paraguay	1,264
Cameroon	4,608	Uganda	3,999	Tanzania	1,127
Egypt	3,534	Cote d'Ivoire	2,414	Turkey	992
Total for Others	71,925		61,594		28,308
Others not Listed	31,646		22,217		5,843
Grand Total	105,297		84,739		34,908

Export Trade Matrix

Country Portugal

Commodity Cotton

Time Period	Aug/July	Units:	Metric Tons	Aug/Jan	
Exports for:	2002		2003	2004	
U.S.	0	U.S.	0	0	
Others		Others			
EU	332	EU	415	EU	131
Philippines	25			Bangladesh	90
				Hong-Kong	7
Total for Others	357		415	228	
Others not Listed	3		0	0	
Grand Total	360		415	228	

Marketing

Iberia Peninsula cotton importers generally source cotton from a number of countries (please see imports and exports section above). Grades, staple lengths, prices and other specifications are the determining import factors. None of the major cotton exporting countries carries out significant promotional activities in Portugal or Spain.

In Portugal, PIMA cotton from the United States, Egypt and Israel is in fairly constant demand, while other U.S. types are of little interest to importers. Memphis exchange cotton continues to be considered uncompetitive by the local trade when compared to African-sourced cotton. San Joaquin Valley (SJV) cotton competes with cheaper priced origins, including Spain and Australia. Orleans-Texas cotton has not traditionally done well against similar type cotton from other suppliers.

In Spain, U.S. cotton competes for a diminishing market with local, FZA, Brazil, and Australia cotton. Spanish imports of U.S. cotton include upland cotton, SJV and some Pima. The main competition for SJV cotton is domestic cotton (which is less sticky) as well as Australian cotton. Local industry contacts report Spanish cotton has low-contaminant levels and good ginning properties. African FZA cottons are favored by price/quality ratios and cheap freights.

Portuguese cotton spinners and importers are mostly affiliated with the Oporto-based Portuguese textiles association (ATP). Some 80 percent of total cotton imports are made directly by the larger millers, with only about 20 percent being handled by independent dealers. Third-country exporters rely basically on price advantages and face-to-face contacts (Chad, Mali and Zimbabwe have in-country representatives).

Spanish cotton importers, generally, are associated with the Spanish National Cotton Exchange, which is based in Barcelona at the following address: CENTRO ALGODONERO NACIONAL; Via Layetana, 32-34 - 3; 08003 Barcelona; Phone: (34-93) 319- 8950; Fax: (34-93)319-8962; E-mail: can@centroalgodonero.com. Web site: www.centroalgodonero.com