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Cotton and Products

Annual

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Report Highlights:

Bangladesh cotton imports are forecast to increase by 6.7 percent to 640,000 tons in MY (August/July) 2008/09, with robust growth in the spinning sub-sector contributing to continued strong demand for raw cotton. There is a room for greater U.S. cotton exports to Bangladesh with several new modern spinning mills coming into operation. In order to improve market share from the current 14 percent, U.S. cotton prices will have to remain competitive to offset the freight advantage and shorter delivery periods enjoyed by neighboring suppliers.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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SECTION I: SITUATION AND OUTLOOK

Table 1: Commodity, Cotton, 480 lb bales, PSD

Cotton Bangladesh	2006			2007			2008		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Aug 2006			Market Year Begin: Aug 2007			Market Year Begin: Aug 2008		
	Annual Data Displayed			Annual Data Displayed			Annual Data Displayed		
	USDA Official	Post Estimate	New Post Data	USDA Official	Post Estimate	New Post Data	USDA Official	Post Estimate	New Post Data
Area Planted	0	45	45	0	44	32			42
Area Harvested	50.0	42.0	42.0	50.0	44.0	29.0			42.0
Beginning Stocks	460	454	460	520	508	509			538
Production	70	60	59	70	62	39			60
Imports	2400	2480	2480	2450	2572	2756			2939
MY Imports from U.S.	0	0	0	0	0	0			0
Total Supply	2930	2994	2999	3040	3142	3304			3537
Exports	0	0	0	0	0	0			0
Use	2400	2480	2480	2500	2572	2756			2985
Loss	10	6	10	5	7	10			11
Total Dom. Cons.	2410	2486	2490	2505	2579	2766			2996
Ending Stocks	520	508	509	535	563	538			541
Total Distribution	2930	2994	2999	3040	3142	3304			3537

Table 2: Commodity, Cotton, Metric Tons, PSD

PSD Table									
Country:	Bangladesh								
Commodity:	Cotton						(HECTARES) (METRIC TONS)		
		2006	Revised		2007	Estimate		2008	Forecast
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		Aug-06			Aug-07			Aug-08	
Area Planted	50	45	45	50	44	32	0	0	42
Area Harvested	50	42	42	50	44	29	0	0	42
Beginning Stocks	100154	98850	100154	113218	110615	110878	0	0	117178
Production	15241	13065	12824	15241	13500	8500	0	0	13000
Imports	522544	540000	540000	533430	560000	600000	0	0	640000
MY Import from U.S.	0	0	0	0	0	0	0	0	0
TOTAL SUPPLY	637939	651915	652978	661889	684115	719378	0	0	770178
Exports	0	0	0	0		0	0	0	0
USE Dom. Consumption	522544	540000	540000	544316	560000	600000	0	0	650000
Loss Dom. Consumption	2177	1300	2100	1089	1500	2200	0	0	2400
TOTAL Dom. Consumption	524721	541300	542100	545405	561500	602200	0	0	652400
Ending Stocks	113218	110615	110878	116484	122615	117178	0	0	117778
TOTAL DISTRIBUTION	637939	651915	652978	661889	684115	719378	0	0	770178

Production

Assuming a normal monsoon and minimum pest infestation, MY 2008/09 cotton production in Bangladesh is forecast at 14,000 tons from 42,000 hectares. Cotton cultivation in MY 2007/08 was affected heavily by floods which reduced planted area down to 32,000 hectares from 44,000 hectares in MY2006/07. Later in November of 2007, a devastating cyclone damaged around 3,000 hectares of the cotton crop. As a result, MY 2007/08 cotton production, harvested from a total of 29,000 hectares, is estimated at 8,500 tons comprising 7,468 tons of medium staple American variety and 1,032 tons of short staple highland cotton (locally called "Comilla" cotton). In Bangladesh, cotton is a relative less desirable crop in terms of profitability vis-à-vis competing crops. Cotton cultivation is vulnerable to excessive rainfalls/floods and pest infestations which are common in Bangladesh. Lack of high-yielding varieties also limit annual cotton production to between 70,000 to 80,000 bales in a normal year against the country's current demand of about 3 million bales.

MY 2008/09 production of yarn is forecast at 535,000 tons and fabric production is forecast at 1.92 billion meters. The spinning sub-sector of the primary textile sector (PTS) has been witnessing robust growth over the last 8 years due to growing demand for yarn from both the domestic textile market and the export-oriented ready-made garment (RMG) sector. Yarn production in MY 2007/08 is estimated at 494,000 tons and fabric production is estimated at 1.82 billion meters, up by 11.3 percent and 10.3 percent respectively from the previous year. In addition, about 650 million metres of fabric are estimated to be produced by the small-scale handloom industry in MY 2007/08, which meets about 32 percent of the total domestic fabric requirement and a major part of local textile export demand.

The Bangladesh textile industry, the largest manufacturing sub-sector of the industrial sector, provides employment to about 5 million people (including over 2 million in RMG units), contributes 13 percent of the country's GDP, 40 percent of manufacturing value addition, and 78 percent of export earnings. Domestic yarn production is sufficient to supply the primary textile sector but fills only 85 percent of yarn demand for export oriented knit fabrics. Additionally, a portion of domestic yarn production is supplied to home-textile, terry towel, and denim producers. The growth of the Bangladesh primary textile sector (PTS) is shown in Table 9.

The country currently has 322 spinning mills, 400 weaving mills, 293 dyeing and finishing mills, 800 knitting and knit dyeing mills and 4,500 garment factories. Despite remarkable growth in backward linkages, the country's current demand-supply gap of fabric is about 50 percent in terms of cotton-based uses and around 25 percent in terms of non-cotton based uses in RMG sector. To meet this gap, according to government estimates, 65 spinning mills, 77 weaving mills, 97 knit mills, and 50 woven fabrics processing mills will need to be set up with US\$2 billion in additional investment.

Consumption

Raw cotton consumption in MY 2008/09 is forecast at 652,400 tons, with consumption benefiting from new spinning mills coming into operation. Consumption in MY 2007/08 is estimated to reach 602,200 tons up by 11 percent from MY 2006/07. Increasing demand from the rapidly growing private sector spinning mills and large imports are contributing to the high growth in consumption of raw cotton.

MY 2008/09 yarn consumption is forecast at 780,000 tons and fabric consumption is forecast at 4.2 billion meters. Yarn consumption in MY 2007/08 is estimated at 740,000 tons up by about 9 percent from MY 2006/07. Fabric consumption in MY 2007/08 is estimated at 4.16

billion meters, which includes 1.3 billion meters for the domestic sector and 2.86 billion meters for the RMG export sector.

Spinning and weaving mills installed in recent years are capable of supplying high quality yarns and fabrics required for the export oriented RMG sector but usually at a 10-15 percent price premium compared to those sourced from China, India and Pakistan. Moreover, in the domestic market, locally produced fabrics are facing competition from large scale leakage of fabrics imported under a drawback for production of export oriented RMG.

Trade

Raw cotton imports in MY 2008/09 are forecast at 640,000 tons. Cotton imports in MY 2007/08 are estimated at 600,000 tons up by 11 percent from MY 2006/07 imports due to strong growth of demand from the growing spinning sub-sector. The Commonwealth of Independent States (CIS) continues to be the principal supplier of raw cotton, enjoying over 56 percent market share due to competitive prices and a short delivery period. India has also emerged as a major supplier of raw cotton due to its price competitiveness and geographical proximity. The share of U.S. raw cotton in the Bangladesh import market had improved from less than 10 percent in MY 2004/05 to around 16 percent in MY 2005/06 but has fallen to 14 percent in MY 2006/07 due to high prices of raw product and freight costs. In order to improve market share, U.S. cotton prices will have to remain competitive to offset the freight advantage and shorter delivery periods enjoyed by neighboring suppliers like CIS, India, West Africa, and Pakistan.

Despite larger domestic production, yarn imports in CY 2007 are estimated to increase to 240,000 tons from 230,000 tons in CY 2006 due to high growth in demand from the growing export oriented RMG sector. Yarn imports in CY 2008 are forecast to slow to 225,000 tons. India continues to be the principal supplier occupying about 63 percent of the market share. Fabric imports in CY 2008 are forecast at 2.34 billion meters, slightly down from the estimated 2.38 billion meters in CY 2007 due to greater domestic production. China continues to be the principal supplier of imported fabrics, with a share of around 71 percent due to its price advantage in quality categories.

Yarn and fabric imports for export product production enjoy a duty draw back provided by the government. There is no quantitative restriction on imports of textile raw materials including fabrics. The National budget for FY 2007-08 imposed a 10 percent import duty on polyester, viscose, acrylic, synthetic and modacrylic staple fibre, a 15 percent VAT, and increased the import duty on textile chemical dyes from 5 percent to 15 percent. The provision of an alternative cash incentive for the export oriented textile sector at the rate of 5 percent of the export value is continued for the current fiscal year. Industry leaders are exhorting the government to continue to increase the cash incentive to least at a 10 percent rate and also to provide other export subsidies and a liberal tax policy in order to weather competition posed by neighbouring countries in the post-Multi Fibre Agreement era. The public sector and private sector banks are charging 9 percent and 11-12 percent interest respectively on credit to the textile industry, which is 2-3 percent cheaper than the normal market rate. The duty structure on raw cotton, yarn and fabric imports are shown in Table-8.

Marketing

Bangladesh is almost entirely dependent on imports to meet rapidly growing demand for raw cotton. More than 40 percent of raw cotton imports are meant for the export oriented RMG sector. Bangladesh spinning mills appreciate U.S. cotton, both Pima and Upland, for their superior quality, consistency and better ginning output compared to those from other sources. Mills are ready to pay a reasonable premium for U.S. raw cotton. However, along

with high freight costs and longer delivery periods, U.S. cotton prices preclude some Bangladeshi buyers from purchasing. However, there is a greater scope for U.S. cotton exports to Bangladesh due to rapid growth and modernisation of the spinning sub-sector and thus greater demand.

Apparel exports from Bangladesh have continued to register strong growth during the post-Multi-Fiber Agreement (MFA) era. In the previous fiscal year, knit garment exports achieved over 19 percent growth while woven garment exports grew by 15 percent. Overall exports of readymade garments are estimated to reach \$9.2 billion in FY 2006/07 up by 17 percent from FY 2005/06 exports (Table 10). Buyers in the United States alone imported more than 33 percent of Bangladesh's RMG exports (about \$3 billion in FY2006/07) while the European Union as a group absorbs nearly 55 percent. Bangladesh is currently finalizing an agreement on the duty-free import of RMG products (8 million pieces) with India through a tariff rate quota (TRQ) system under the purview of South Asian Free Trade Agreement. Industry leaders are not anticipating any immediate impact on RMG exports from Bangladesh due to the withdrawal of a growth restriction on apparel imports by China to the European Union effective December 2007.

Table 3: Commodity, Cotton, Import Trade Matrix

Import Trade Matrix			
Country:	Bangladesh	Units:	Metric tons
Commodity:	Cotton		
Time period:	Aug-Jul		
Imports for	2006		2007
U.S.	76,000	U.S.	80,000
Others		Others	
Uzbekistan	264,000	Uzbekistan	320,000
Africa	48,000	Africa	35,000
India	54,000	India	60,000
Pakistan	26,000	Pakistan	13,000
Other CIS	40,000	Other CIS	62,000
South America	2,000		0
Total for Others	434,000		490,000
Others not listed	30,000		30,000
Grand Total	540,000		600,000

Table 4: Commodity, Cotton Yarn, Import Trade Matrix

Import Trade Matrix			
Country:	Bangladesh	Units:	Metric tons
Commodity:	Cotton Yarn		
Time period:	Jan-Dec		
Imports for	2006		2007
U.S.	0	U.S.	0
Others		Others	
India	144,000	India	148,000
Pakistan	24,000	Pakistan	28,000
Indonesia	10,000	Indonesia	6,000
Thailand	8,000	Thailand	8,000
Taiwan	8,000	Taiwan	5,000
China	14,000	China	20,000
Total for Others	208,000		215,000
Others not listed	22,000		25,000
Grand Total	230,000		240,000

Table 5: Commodity, Cotton Fabric, Import Trade Matrix

Import Trade Matrix			
Country:	Bangladesh	Units:	Mil. Meters
Commodity:	Fabric		
Time period:	Jan-Dec		
Imports for	2006		2007
U.S.	0	U.S.	0
Others		Others	
China	1,700	China	1,740
Pakistan	140	Pakistan	124
India	280	India	270
Indonesia	20	Indonesia	16
Thailand	76	Thailand	70
Japan	64	Japan	50
Total for Others	2,280		2,270
Others not listed	120		110
Grand Total	2,400		2,380

Table 6: Area and Production of Raw Cotton in Bangladesh

YEAR	AREA HARVESTED (Hectare)	PRODUCTION	
		Bales*	Tons
2001-02	51,186	83,800	15,234
2002-03	47,640	74,640	14,323
2003-04	49,118	82,140	14,934
2004-05	44,000	73,190	13,310
2005-06	49,770	77,000	14,000
2006-07	42,100	70,530	12,824
2007-08	29,000	46,750	8,500

*1 bale = 400 lbs.

Source: Cotton Development Board (CDB), Government of Bangladesh

Table 7: Production and Consumption estimates of Yarn and Fabric by years

Year	Production		Consumption	
	Yarn (‘000’ tons)	Fabrics (Mill. Meters)	Yarn (‘000’ tons)	Fabrics (Mill. Meters)
2002/03	291	1,280	525	3,740
2003/04	323	1,340	540	3,780
2004/05	344	1,410	565	3,825
2005/06	395	1,540	598	3,980
2006/07	444	1,650	680	4,060

Sources: Bangladesh Textile Mills Association (BTMA), and Ministry of Textiles, Government of Bangladesh

Table 8: Current Duty Structure of Textile Sector (FY 2007-08)

Items	Import Duty	VAT	Advance Income Tax	License Fee	Total
Raw Cotton	-	-	-	-	-
Man-made Fibres	10%	15	3%	2.5%	30.5%
Yarn	10%	15%	3%	2.5%	30.5%
Fabric	25%	15%	3%	2.5%	45.5%
Textile dyes-chemicals	15%	15%	3%	2.5%	35.5%

Source: National Board of Revenue (NBR), Government of Bangladesh

Table 9: Growth in the Primary Textile Sector (Spinning)

Years	No. of Mills	Spindle Capacity	Growth in No. of Mills	Growth in Spindle Capacity
1995	84	1,701,823	10.52%	19.56%
2000	116	2,289,280	38.09%	34.52%
2001	145	2,352,310	25.00%	2.75%
2002	163	3,390,026	12.41%	44.11%
2003	174	3,419,504	6.75%	0.87%
2004	197	3,931,624	13.22%	14.98%
2005	230	4,937,353	16.75 %	25.58%
2006	260	5,500,000	8.7%	11.39%
2007	283	6,000,000	8.85%	9.09%

Source: Bangladesh Textile Mills Association (BTMA),

Table 10: Bangladesh Garments Exports Data by Fiscal Year

YEARS	MILLION US\$			GROWTH
	WOVEN	KNIT	TOTAL	
2001-02	3,125	1,459	4,584	-6%
2002-03	3,258	1,654	4,912	7%
2003-04	3,538	2,148	5,686	16%
2004-05	3,598	2,820	6,418	13%
2005-06	4,084	3,817	7,901	23%
2006-07	4,658	4,554	9,212	17%

Source: Export Promotion Bureau (EPB), Government of Bangladesh