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Report Highlights:

China's cotton imports for MY06/07 are forecast to surge to 4.1 MMT (18.8 million bales) and production is forecast at 6.05 MMT (27.8 million bales). The United States is expected to remain the main source of cotton imports, although market share is expected to decline for MY05/06. The high imports are driven by both increased exports of and domestic demand for textile and apparel products. Stocks continue to be very tight.

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

Total imports for MY06/07 are forecast to reach a record of 4.1 MMT. This forecast is based on strong demand from China's burgeoning textile industry, which is expected to consume 10.2 MMT of cotton in MY06/07, although domestic production is expected to increase to 6.05 MMT. The gap will be filled by imports, primarily from the United States. Production for MY06/07 is forecast to increase to 6.05 MMT from the decreased production of 5.7 MMT for MY05/06 due to a 7 percent increase of planted area and the same expected high yields as the year before. The increased cotton prices since the harvest of the 2005 crop and better profits received by cotton farmers attributed to the area expansion for 2006. China's expanding textile industry is driven both by exports and increased domestic consumption. Textile and apparel exports for MY06/07 are expected to continue growing due in part to the removal of textile quotas on January 1, 2005. Strong domestic demand for textiles and apparel, which is driven by Chinese consumers' increased disposable incomes, also is increasing demand for cotton. Consignment trade provides between 200,000 to 400,000 MT of cotton in China's bonded warehouses. The stocks-to-use ratio remains below 20 percent. The newly published China Cotton Association Cotton Trade Rules (CCA Cotton Trade Rules) are to replace the "China Textile Trade Rules", and are expected to facilitate cotton trade.

Production

Overview - China's cotton production for MY06/07 is forecast at 6.05 MMT, up by 6.1 percent from the estimated 5.7 MMT for MY05/06. This is in response to relatively high cotton prices since the harvest of the 2005 crop, and better profits received by cotton farmers. As a result, cotton planted area is forecast to rise to 5.4 MHA or 6.7 percent higher than the 5.06 MHA for MY05/06. Yields for MY06/07 are forecast at an identical level of 1.12 MT per hectare in MY05/06, which is higher than the recent historical average.

Planted area – On March 8, 2006, the State Cotton Marketing Monitoring Network (SCMN) released the results of its cotton planting intention survey conducted in February. The survey covered 3519 households/farms located in 84 counties/cities in 16 cotton-producing provinces. The results showed farmers intended to plant 4.68 percent more area to cotton than previous year. Total intended planting area is to reach 5.3 million hectares (MHA) for MY06/07.

Table 1: SCMN 2006 Cotton planting Intention Survey Results (by percentage over MY05/06)

Yellow River						Yangtze River				Northwest		
AVG	HN	SD	HeB	SX	ShX	AVG	JS	HuB	AH	AVG	XJ	GS
+7.39	+0.32	+10.1	+10.09	+11.26	+16.04	+3.11	-0.86	+7.32	+1.77	+1.28	+1.05	+4.59

Note: AVG-average; HN-Henan; SD-Shandong; HeB-Hebei; SX-Shann'xi; ShX- Shan Xi; AH-Anhui; JS-Jiangsu; HuB- Hubei; XJ- Xinjiang; GS- Gansu;

As Table 1 shows, the highest growth is expected in the Yellow River region, particularly in Shandong and Henan provinces. It is also worth noting that cotton area is also expected to increase in the small producing provinces such as Shann'xi and Shanxi, although the combined production for the two provinces was 200,000 MT for MY04/05.

In February 2006, the Cotton Farmers Branch of China Cotton Association (CCA) released its cotton planting intention survey results. They forecast a 9.4 percent area increase (5.6 MHA) for MY06/07. An earlier survey conducted in December 2005 by MOA's Survey Office

on Fixed Rural Households concluded that MY06/07's cotton area is expected to increase by 14.9 percent.

On March 27, 2006, China's Ministry of Agriculture (MOA) noted the growing supply/demand gap for MY05/06 and MY06/07, and issued an administrative circular that encouraged farmers to "increase cotton area, adopt new technology to achieve high yield and better fiber quality, and improve productivity and efficiency". The circular also stressed the importance of "cotton industry safety" for China. However, cotton farmers in general, particularly those in the Yellow River and the Yangtze River regions, make their planting decision based on the returns received from the previous crop. A MOA official estimated cotton area for MY06/07 would exceed 80 million Mu (5.33 MHA).

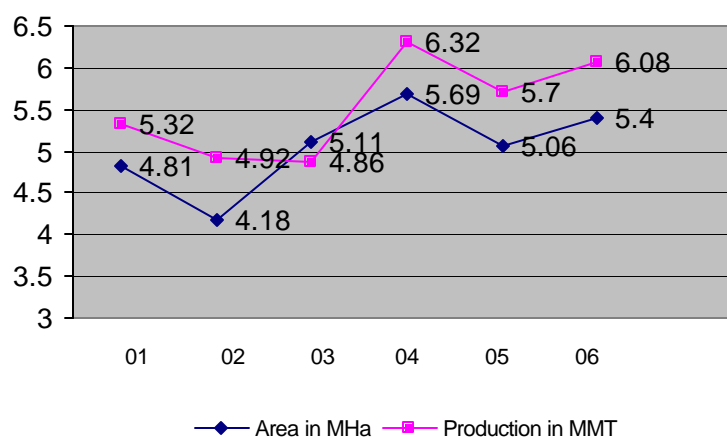
The forecast increase of cotton area is mainly driven by the increased cotton price and profit received for the 2005 crop. According to the China Cotton Research Institute (CRI), price for seed cotton and output value per unit in 2005 increased by 28.4 percent and 23 percent, respectively, over 2004. Despite increased production costs and decreased yield in some regions, the nationwide average per unit returns for 2005 increased by 33.8 percent over the year before. The highest growth recorded was in the Yellow River region, up by 130.9 percent, followed by the Northwest region up by 32.9 percent, and the lowest in the Yangtze River region up by 3.2 percent.

Additionally, the CRI report showed that the price ratio between cotton and grain increased in favor of cotton in both the Yellow River and the Yangtze River regions. The cotton to grain price ratio for 2005 increased to 9.3 to 1 for wheat from the 6.5 to 1 in the previous year, and 12.6 to 1 for corn from 9.1 to 1 the year before.

The CCA survey also showed 80 percent of the interviewed farmers decide cotton area for the next season based on the price for the current crop, while only 5 percent replied that they would pay attention to the market demands.

China's cotton area fluctuated dramatically in past years as a result of price swings both in the domestic and global markets. As compared to the price in the last months of 2005, the current cotton price remains steady to declining in the domestic market. This may reduce the final planting area of some farmers to some extent. Based on information of various sources, however, Post forecasts that China's cotton area is likely to reach 5.4 MHA in 2006.

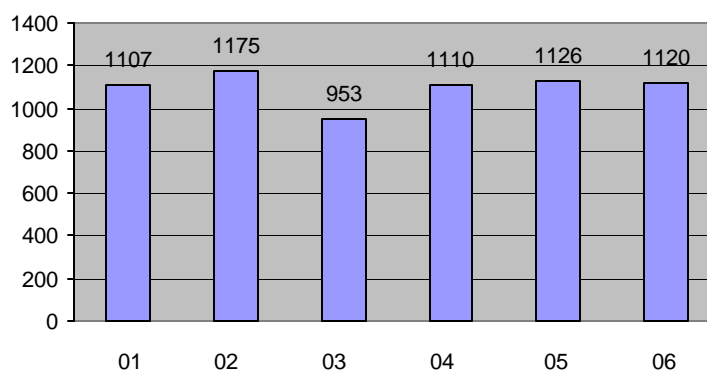
Chart 1: China's Cotton Area and production from 2001 to 2006*



Note: 2006 data forecast by Post

Yields – Post used a yield of 1120 Kg/HA to calculate its MY06/07 production forecast. This yield is lower than the 1126 Kg/HA recorded in 2005, but higher than the recent five-year average yield of 1094 Kg/HA. Chart 2 shows the yield trend in past five years.

Chart 2: China Average Cotton Yields from 2001 to 2006* (Kg/Ha)



Note: 2006 data forecast by Post

Some industry insiders said the relatively high and stable yields in the past two years were chiefly attributable to ideal growing conditions. The contribution of improved varieties plus advanced agronomy practice, however, should not be underestimated.

An important yield booster is the planting of transgenic Bt cotton varieties. Farmers are expected to continue planting more area to transgenic Bt cotton varieties in 2006. The area planted to Bt cotton in 2005 is estimated at 3 MHA, and is forecast to reach 3.3 MHA in 2006. According to a CRI expert, the coverage of Bt cotton varieties is almost 100 percent in Shandong, Henan, Hebei and Anhui provinces. Domestic Bt cotton varieties are said to have taken about 70 percent of the market share. In Xinjiang, industry sources reported that Bt cotton varieties are not widely planted because bollworms are less of a problem there than in other areas, so farmers prefer seeds of the cheaper conventional varieties.

CRI is using transgenic technology to breed new varieties with disease resistance and better fiber quality, but no detailed results are available yet and no varieties have been commercialized. In September 2005, several official media sources reported that a major cotton-breeding breakthrough had made China the first country in the world to commercialize a cotton strain that can resist bollworms and increase output by 25 per cent. Although the impact of this technology advancement remains unknown, the widely adopted Bt varieties will continue to contribute to a stable yield.

Agronomy practices continued to improve in 2005 and are expected to continue improving in the coming year. The practice of transplanting seedlings and the use of plastic sheeting increased last year and are expected to increase in the coming year too. Cotton harvesting in Xinjiang is expected to improve gradually. In 2005, Xinjing faced a serious shortage of labors in the harvesting season, which pushed up the labor cost accordingly. Industry source reported Xinjiang bought over 200 cotton harvesters in 2005, mainly from the United States. This will help facilitate harvesting in a timely manner and improve cotton quality.

In addition to the above factor, farmers are likely to increase inputs on crops that generated higher profits in the previous season.

MOA experts have predicted that cotton bollworm and aphids are likely to be worse than average in 2006. Also, April's shortfall of rain in North China is likely to keep yields in check in that area. These exceptions notwithstanding, all other major factors are expected to contribute to good yields in 2006.

Consumption

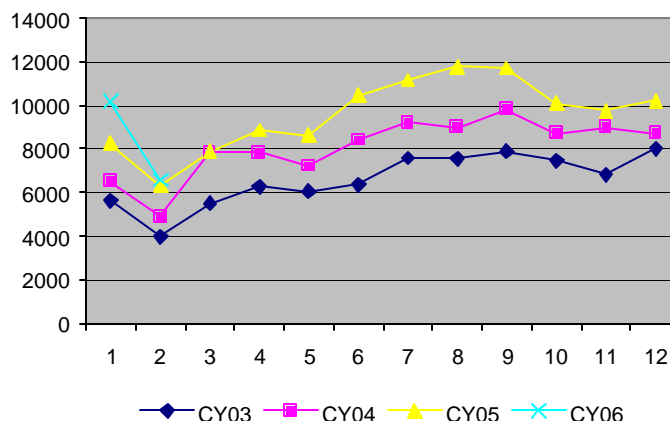
China's cotton consumption for MY06/07 is forecast at 10.2 MMT, 8 percent more than the revised estimate of 9.45 MMT for MY05/06. This increase is driven by the high growth of domestic textile consumption as a result of consumers' greater disposable income and the high export growth of textile products resulting from the removal of quotas since the beginning of 2005.

China's textile industry has developed rapidly over the past decade and most industry insiders expect it to continue growing in the first few years of the post-quota era. According to China's National Development and Reform Commission (NDRC), following the 30 percent growth of fixed asset investment in the textile industry in 2004, the net investment in 2005 reached US\$19.4 billion, up by 35.5 percent over 2004. Industry sources reported that the planned investment was estimated at US\$46 billion, up by 38.8 percent over 2004. There were 6738 textile projects under construction in 2005, up by 1436 over the previous year. There were 4775 textile projects, which started construction in 2005 -- 1202 more than in 2004. According to NDRC, the majority of the investment (73 percent) continued to concentrate in the east coastal provinces. The industry also started to shift towards the central regions. Investment in three northeastern provinces reached US\$923 million, up by 68.8 percent, and US\$3.1 billion in the central six provinces, up by 44.9 percent. Private investment increased by 45.7 percent and accounted for 70.7 percent of the total investment. Foreign investment growth declined to 25.5 percent, as compared to domestic growth of 39.3 percent. Industry sources estimated that total spindles amounted to 80 million as of the end of 2005.

The increased investment has paid dividends in the form of a 26 percent increase in output value and a 36 percent increase in profits over 2004. Approximately 20 million people, of which 70 percent came from rural regions, are directly involved in the textile sector, up by 1 million over that in 2004. In addition, another 100 million are indirectly involved. The consolidation of small mills is expected to continue in the post-quota era.

Based on NDRC, China's textile and apparel exports for 2005 were US\$117.5 billion, up by 20.7 percent over 2004. Industry sources said the trade surplus for the textile sector in 2005 stood at US\$100.4 billion, accounting for 98.5 percent of the nation's total trade surplus. Exports for the first two months of 2006 continued growing. (See chart 3). The impact of the elimination of quotas on January 1, 2005, was readily apparent, although it was offset partly by the safeguards imposed by EU and the United States. Industry sources indicated the strong export growth in 2005 are still driven by increased exports to the United States and EU, which grew by 66.1 percent and 55.3 percent, respectively, over 2004, and contributed 72 percent of the total growth. NDRC forecast China's textile and apparel exports to grow by 15 percent, and the sector output value to grow by 20 percent for 2006. Industry sources expect exports to other regions (outside the United States and EU) will also grow steadily in 2006, although export growth to the United States and EU may be constrained by new trade frictions.

Chart 3: China's Textile & Apparel Monthly Exports from 2003-2006(in million US dollars)

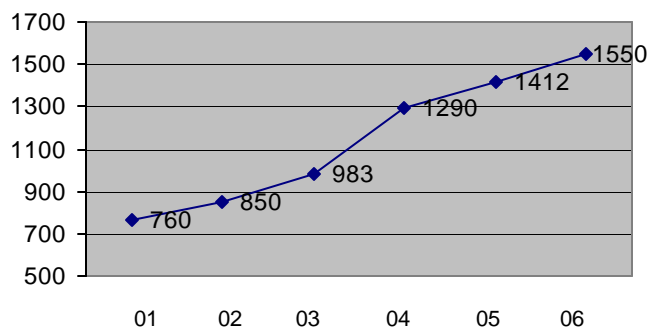


Domestic consumption of textiles and apparel continues to be driven by increased disposal income and population growth. According to industry sources, the per capita consumption of fiber reached 14 Kg in 2005. NDRC forecast this would reach 18 Kg in 2010. Based on international experience, China's fiber consumption is expected to continue growing as it has since China's per capita GDP surpassed US\$1,000. The 26 percent growth of output value for the sector as compared to the 20.6 percent for the export value in 2005 showed the domestic consumption continued to be the major driving force for development of the industry.

High growth in yarn production is expected in MY06/07 because of the growing textile industry. According to China's National Statistics Bureau (NSB), yarn production for 2005 stood at 14.4 MMT, up by 11.6 percent over the adjusted 12.9 MMT for 2004. The 2004 yarn production was adjusted upward significantly (up by 1.7 MMT) as compared to the 11.2 MMT published in the 2005 Statistics Yearbook) by NSB based on the National Economic Census conducted in 2005. The reason reportedly was a lack of reporting by some small mills and some new mills that recently began operating. Based on industry sources, Post opines that the yarn production might have been understated in past years due to the complexity of the statistics, and the adjusted data for 2004 and 2005 may represent the real yarn production situation. According to NDRC's forecast of 10 percent growth, total yarn production for 2006 will exceed 15.5 MMT.

It is worth mentioning that to convert the yarn production to cotton use remains challenging for all relevant agencies. The numerous mills keep changing cotton share in yarn production according to market demands. A one-percentage change of cotton share will change cotton consumption by thousands of metric tons. As for the net waste (trash not suitable for spinning), some mills told Post this ranges from 3 to 5 percent, instead of the usual 6 percent used by many industry sources.

Chart 4: China's Yarn Production in 2001-2006 (in 10,000 MT)



Note: 2006 data forecast by Post; 2004 data is NSB's adjusted

Cotton is likely to gain more share in yarn production because of the surge in crude oil prices. According to NDRC, 2005 man-made fiber production growth declined to 14.8 percent, as compared to the 20.6 percent growth in 2004. The sector's profit dropped by 20.6 percent over the previous year. Historically, the cotton price is approximately 20 percent higher than the price of polyester fibers. In 2005, however, the price of polyester was close to that of cotton. As the international crude oil price keeps rising, the price gap between polyester and cotton is unlikely to return to 20 percent in 2006. Industry experts expect that the share of man-made fiber in yarn production will decline slightly in 2006.

Industry insiders said that one factor that might reduce China's cotton consumption is the appreciation of China's currency because China's textile exports earn only a 3 percent margin. Any further appreciation of China's currency will put much pressure on textile exports. Post, however, expects that the impact on the total cotton consumption will be limited.

Trade

Imports for MY06/07 are forecast at 4.1 MMT. This is only 2.5 percent higher than the estimated 4 MMT imports for MY05/06, which grew significantly over the previous year. This huge increase for MY05/06 has been driven by the combination of high consumption growth as a result of China's rapidly expanding textile industry and reduced domestic production due to 11 percent less area planted to cotton. Imports for MY06/07 are forecast to remain high at 4.1 MMT, chiefly due to the continued growth of yarn production.

As reported in GAIN CH5032, the 1.4 MMT imports for MY04/05 were much lower than what the industry sources expected. This is partly due to the large domestic crop and the resultant low cotton price. Also, traders and mills took a "hand-to-mouth" approach to managing stocks to avoid the losses they experienced the previous season when they overbought at high prices. Industry sources discovered that the total cotton supply simply did not match the increased yarn production for 2004 and 2005 (see chart 4), and opined that either China had more stocks than experts think or the NSB production number for 2004 was understated. The under estimation could be the result of the complexity of statistics on unprecedented area expansion plus a good harvest, and the central government's priority was grain production. Based on all sources and analysis, Post added 300,000 MT to 2004's production. Despite this, the ending stocks for MY04/05 were still very low. Based on a low carry-in stocks and a lower domestic production for MY05/06, together with the strong growth of yarn production, it is not surprising that imports for MY05/06 will increase to an estimated 4 MMT, up 186 percent over the previous year. The high imports, however, are unlikely to increase the ending stocks for MY05/06. Despite an anticipated high domestic

production for MY06/07, Post forecasts MY06/07 imports to reach 4.1 MMT based on the expected strong consumption growth (as mentioned above) together with low carry-in stocks.

Increased consignment trade since 2004 alleviated the impact of low stocks on China's cotton situation. To cater to the "hand to month" purchasing pattern adopted by many medium and small-scale mills, many international merchants began to ship cotton to China's Bonded Warehouses. Interviewed mills showed great interest in buying cotton from the bonded warehouse due to its shortened delivery time, flexibility and convenient quality check. Industry sources estimated the normal stocks in bonded warehouse ranges from 200,000 MT to 400,000 MT. This might partly explain why the estimated China's cotton stocks remained low in the past two years, while the industry kept operating smoothly. Although the current consignment trade boom is partly due to the scheduled elimination of the US "Step-2" program as some industry sources believe, Post expects it is likely to continue because it fits the demand of numerous Chinese mills. Imports for "Processing with Input Material" also increased in MY05/06, and imports for "Processing with Given Material" remained small.

Origins of imports for 2005 are similar to those in 2004, with the United States as the largest supplier (46 percent), followed by Uzbekistan a distant second (11.8 percent). Although the net imports from the United States for 2005 increased by 149,800 MT over the 1.05 MMT for 2004, its market share dropped to 46 percent from previous year's 55 percent. Along with the larger total imports in 2005, origins of imports are more diversified. They come from 40 countries. Australia became the third largest supplier, with over 200,000 MT in 2005. Imports from India also surged to 124,000 MT in 2005, from less than 10,000 MT in 2004. Industry insiders reported that Indian cotton is competitively priced.

Industry sources indicated that along with the rapid import growth in 2005, the overall downgrade rate declined slightly to 15.9 percent as compared to the 16.9 percent for 2004.

Exports continued to fall in 2005 -- to about 5,000 MT from 9,283 MT in 2003. They are expected to remain insignificant in 2006.

Cotton yarn and thread trade for 2005 increased, up by 10 percent for imports, 8 percent for exports, respectively. Exports of cotton fabric for 2005 increased by 14 percent, while imports decreased by 2 percent.

The CCA Cotton Trade Rules (applied to cotton imports only) were published in April 2006. These new rules will replace "China Textile Trade Rules" and be adopted gradually. According to CCA, the new rules, based on the 1989-revised version of "China Textile Trade Rules", are finalized through more than one-year of detailed consultations and negotiations with the U.S. industry leaders. The new rules highlight contract and quality fulfillment and liability. The CCA Rules are aimed to regulate the trade order, establish a credibility system and protect the interests of all parties. A series of training programs will be held to educate the Chinese industry leaders about the new rules. A "black-list" system is to be established to encourage self-regulation and strengthen the principle of contract sanctity.

Stocks

Stocks remain very difficult to estimate. China still regards data on cotton stocks as state secrets that are not released to the public. Additionally, based on various sources, Post believes there were no reliable stocks data since the liberalization of cotton marketing in 1999, particularly in recent years, when the whole cotton industry expanded rapidly. The

numerous players of diversified ownership in the industry chain, including gins, merchants and mills makes collecting reliable production statistics extremely difficult. As mentioned above, Post estimated very low stocks for MY04/05 and MY05/06. Stocks for MY06/07 are forecast to be similar as MY05/06. It is worth noting that the regular inventory in China's bonded warehouses by the consignment trade may be regarded as China's stocks. As estimated by industry insiders, the normal quantity in the bonded warehouses ranges from 200,000 to 400,000 MT. Even so, the stock to use ratio is below 20 percent.

Policy

Reform of China's cotton classification system continued in 2005 but faced new challenges. In general, the objective of proposed reform is to integrate China's classification regime with international standards. (For detailed information on the reform program, see GAIN reports CH4013, CH4039 and CH5032). According to NDRC, the fourteen gins that participated in the trial implementation phase of the reform processed 130,000 bales and the new equipment worked smoothly; the eight classifying institutes conducted laboratory tests on all 130,000 bales, and the HVI equipment operated well. Another 322 gins completed equipment renovation, and additionally 59 more HVI laboratories were built in 2005. The GOC appropriated about US\$9.76 million to subsidize the cost of low-interest loans for gins upgraded their equipment in 2005 to meet the new standards. The classified bales are approved to enter in the futures market in Zhengzhou Commodity Exchange (ZCE) and National Cotton Exchange's (CNCE) electronically trade market.

According to NDRC, in 2006, the reform priority will focus on tracking on the implemented policy/regulations, and restructuring the cotton processing industry through expanding the reform coverage. Based on industry sources, the on-going reform faced new challenges. Many gins cannot afford the cost of new equipment, and some industry insiders are worried that the small-scale new gins would use equipment abandoned by larger mills that upgraded their equipment to meet the new standards, thus the number of gins would not fall. Some industry experts even questioned the need for the expensive reform. They stated that domestic merchants and mills accept the current classification regime, so why should they change? Moreover, China is and will be a net importer of cotton in the foreseeable future. Based on all sources, Post believes that the reform will continue and facilitate the development of China's cotton industry. However, it may take longer time than scheduled to complete.

As for the delayed enforcement of an amendment to China's upland cotton standard, GB-1103-1999 (See GAIN CH4013 for details), CCA reported that the State Cotton Standard Drafting Group had its third and fourth meetings on February 27, and April 18, 2006, respectively. The final version, which was formulated in the fourth meeting, incorporated technical specifications for HVI testing and some suggestions received after the third meeting. It will be submitted to the relevant agency and then be notified to World Trade Organization (WTO), and is expected to take effect on September 01, 2007. According to industry sources, the proposed two additional indicators, namely "neps and short fiber content," are not included in the revised draft. Many industry sources are of the opinion that these standards are unlikely to affect trade in the foreseeable future because China needs increasing quantities of cotton in the post-quota era. Also, devising a reliable method to measure these two parameters would need to be resolved before China could effectively implement the standard. Most Western technical experts opined that that would be very difficult. It should be noted, however, that some textile industry insiders have complained that the high short fiber content reduced the quality of their products.

Production policy remains unchanged. MOA encourages steady cotton production based on its Regional Plan for Agricultural Products announced in February 2003. MOA's ability to really affect farmers' planting decisions, however, is limited because farmers "plant their pocketbook;" they pay little heed to MOA's pronouncements and policy objectives unless they are compensated. On March 27, 2006, MOA issued an administrative circular, which encouraged adequate expansion of cotton planting area and increase of yield and productivity to attain high cotton production to meet the growing textile demand. In the long term, MOA opines that China is able to increase cotton area to about 5.6 MHA. MOA expects it is likely to add 200,000 Ha in the Northwest, if the irrigation system improves. In the Yellow River and the Yangtze River regions, cotton area is often affected by cotton price and returns, but is likely to exceed 4 MHA as recorded in 2004. MOA also forecast yield increase to 1200Kg/HA by 2010 through technology advancement. In the 11th Five-year Plan period (2006-2010), the GOC will provide assistance to Xinjiang cotton production through establishment of production bases and seed projects. No details, however, were released in this regard.

Additional TRQ for raw cotton imports is subject to a tariff rate ranging from 5 percent to 40 percent and the WTO committed TRQ remains. China's WTO commitment did NOT mandate elimination of cotton TRQ in January 2005. The 2006 quantity remains the same -- 894,000 MT, which was distributed before the end of 2005. The allocation policy remains unchanged. In order to meet the increased cotton demand, in February 2006, NDRC added 1.5 MMT of cotton TRQ over and above its WTO mandated TRQ of 894,000 MT. Although NDRC did not publish the names of the enterprises that received TRQ, industry sources reported that more than 1000 enterprises received TRQ in 2006, as compared to the 700 in 2005. Anecdotal news said another 200,000 MT of TRQ was allocated to the members of the April 2006 China's trade mission to the United States. Industry sources reported that, as the domestic cotton price is higher than cotton in international market, TRQ is increasingly traded at about US\$200/MT (WTO committed TRQ) to US\$100/MT (additional TRQ).

In an industry conference held in April 2006, NDRC forecast China's per capita fiber consumption to increase to 18 Kg by 2010 from the current 14 Kg. Despite this increased demand for cotton, NDRC stressed that the TRQ regime will remain in place into the foreseeable future. The allocation of TRQ will have to take into account the interests of both the farmers and the textile industry. TRQ management will be strengthened and continues to favor efficient and medium to large-scale mills. Based on various sources, Post expects that more TRQ for 2006, if any, is unlikely to be distributed before the harvest of 2006 crop. China's current willingness to expand the TRQ beyond its WTO commitments should continue into the near future because the textile industry needs the cotton and it cannot all be produced domestically.

The variable tariff rate imposed May 1, 2005, on imports under added TRQ is to set a floor price for domestic cotton to protect farmers' interest. According to industry sources, if the imported cotton price equals to or exceeds the target price of RMB10,029/MT (US\$1213.4/MT), the tariff rate is five percent. If the imported price is below this, the rate increases anywhere from 5 to 40 percent based on a complex formula. This target price was adjusted upward to RMB10,746/MT (US\$1335/MT) in 2006. The variable tariff regime is quite controversial among different sectors. Basically, the agriculture sector supports it and the textile sector has reservations. In response to these arguments, in April 2006, NDRC promised further study on the issue, but stated that the tariff rate should be stable. In general, Post expects that the variable tariff regime will remain in place in the foreseeable future.

The Agriculture Development Bank of China (ADBC) continued to provide targeted loans with favorable terms for purchasing cotton in 2005. ADBC had earmarked a record US\$5.15

billion for this program, up by 43 percent over the year before. The increased loans are partly because the merchants rushed to purchase cotton as production declined. Industry insiders, however, expressed concerns about the merchant's ability to repay the loans because the purchased high-priced cotton was not all sold yet.

Marketing

Overview: The marketing of domestic cotton continues to be difficult in China and it shows little sign of improving in the foreseeable future. There are approximately 12,000 gins with a total ginning capacity estimated of 40 MMT per year, which is equivalent to 5 to 7 times of domestic production. This lack of consolidation in the industry leads to inefficiencies and uneven cotton quality. As usual, in October 2005, NDRC issued a circular in an effort to maintain orderly cotton marketing. The circular ordered a crack down on those small operations that have outdated equipment to make it more difficult for them to purchase cotton. It also warned that the high prices merchants were paying for cotton were causing market instability. Industry sources reported that the impact of the circular on the market has been very limited. In early months of 2005 some merchants repeated the mistakes they made in 2003 – they rushed to purchase high priced cotton, only to watch the international price and their profits fall by the end of the year. According to CCA, as of the end of February 2006, total cotton purchased was 5.25 MMT, accounting for 92 percent of the total.

Transporting cotton out of Xinjiang continues to be a problem that shows little sign of improving. Xinjiang officials complained again that the shortage of railcars constrained the marketing of Xinjiang cotton during the current marketing year. According to the Xinjiang Development and Reform Commission, as of mid December 2005, about 360,000 MT cotton was shipped out of Xinjiang, 8.5 percent higher than the corresponding time in the previous year. Another media source reported, as of April 2006, about 700,000 MT of cotton were yet to be shipped out.

Market liberalization – Since January 1, 2005, marketing of cotton within China was opened up to international traders and investors. This is based on China's WTO commitments, which specified that foreign traders can import and market cotton directly in China, and can be involved in the marketing of domestic cotton. According to industry sources, the GOC already approved some international traders to engage in domestic cotton trade. The traders, however, are taking a very cautious approach to entering domestic cotton marketing; many are taking a "wait and see" approach.

Marketing Assistance - U.S. cotton exporters interested in exporting cotton to China and want marketing advice and assistance may contact USDA/FAS's Agricultural Trade Offices (ATO) in Beijing, Shanghai, and Guangzhou. They can be contacted via email at ATOShanghai@usda.gov, ATOBeijing@usda.gov, and ATOGuangzhou@usda.gov respectively. Also, Cotton Council International (CCI) is actively involved in promoting U.S. cotton in China and throughout Asia. CCI serves China from its office in Hong Kong. They can be reached via email at cci-hongkong@cotton.org. Both CCI and the ATO's organize events designed to bring U.S. cotton exporters together with Chinese buyers.

Tables

Production, Supply and Demand (PSD)

Table 1. PSD in Metric Tons

PSD Table						
Country	China, Peoples Republic of					
Commodity	Cotton				(HECTARES) (MT)	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		08/2004		08/2005		08/2006
Area Planted	0	5964000	0	5060000	0	5364000
Area Harvested	5690000	5964000	5060000	5060000	0	5364000
Beginning Stocks	3256754	1504758	2844162	1261624	2893150	1506624
Production	6314070	6620000	5704436	5700000	6422933	6050000
Imports	1390184	1393551	3973510	4000000	4027941	4100000
MY Imp. from U.S.	0	0	0	0	0	0
TOTAL SUPPLY	10961008	9518309	12522108	10961624	13344024	11656624
Exports	6532	6685	5443	5000	5443	3000
USE Dom. Consumption	8382472	8250000	9906558	9450000	10777465	10200000
Loss Dom. Consumption	-272158	0	-283045	0	-326590	0
TOTAL Dom. Consumption	8110314	8250000	9623513	9450000	10450875	10200000
Ending Stocks	2844162	1261624	2893150	1506624	2887707	1453624
TOTAL DISTRIBUTION	10961008	9518309	12522106	10961624	13344025	11656624

Table 2. PSD in Bales

PSD Table						
Country	China, Peoples Republic of					
Commodity	Cotton				(HECTARE S)(MT)	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		08/2004		08/2005		08/2006
Area Planted	0	5964000	0	5060000	0	5364000
Area Harvested	5690000	5964000	5060000	5060000	0	5364000
Beginning Stocks	3256754	1504758	2844162	1261624	2893150	1506624
Beginning Stocks	14958271	6911353	13063236	5794639	13288238	6919924
Production	29000524	30405660	26200475	26180100	29500531	27787650
Imports	6385115	6400580	18250331	18372000	18500333	18831300
MY Imp. from U.S.	0	0	0	0	0	0
TOTAL SUPPLY	50343910	43717593	57514042	50346739	61289102	53538874
Exports	30001	30704	25000	22965	25000	13779
USE Dom. Consumption	38500694	37892250	45500821	43403850	49500897	46848600
Loss Dom. Consumption	-1250022	0	-1300026	0	-1500028	0
TOTAL Dom. Consumption	37250672	37892250	44200795	43403850	48000869	46848600
Ending Stocks	13063236	5794639	13288238	6919924	13263238	6676495
TOTAL DISTRIBUTION	50343910	43717593	57514033	50346739	61289107	53538874

Trade Tables

Table 3. China's Monthly Cotton Imports

Unit: Metric Tons

Month	2003	2004	2005	2006
January	81,308	177,400	113,076	301,372
February	35,793	291,481	70,599	321,280
March	35,323	269,209	101,487	
April	101,866	290,953	169,815	
May	121,475	227,075	160,891	
June	113,453	201,312	206,024	
July	83,161	170,478	294,416	
August	51,059	107,566	373,295	
September	20,867	58,710	313,304	
October	13,059	29,148	198,167	
November	52,906	22,844	224,991	
December	163,330	59,975	347,517	
TOTAL	875,603	1,906,153	2,573,582	622,652
Marketing Year	Aug/03-Jul/04	Aug/04-Jul/05	Aug/05-Jul/06	Aug/06-Jul/07
TOTAL	1,929,125	1,393,551		

Unit: 480-lb Bales

Month	2003	2004	2005	2006
January	373,448	814,800	519,358	1,384,200
February	164,397	1,338,773	324,263	1,475,641
March	162,239	1,236,479	466,128	
April	467,871	1,336,348	779,959	
May	557,934	1,042,954	738,972	
June	521,089	924,626	946,269	
July	381,958	783,005	1,352,252	
August	234,513	494,052	1,714,546	
September	95,842	269,655	1,439,007	
October	59,980	133,878	910,179	
November	242,997	104,925	1,033,385	
December	750,175	275,465	1,596,146	
TOTAL	4,012,443	8,754,960	11,820,464	2,859,841
Marketing Year	Aug/03-Jul/04	Aug/04-Jul/05	Aug/05-Jul/06	Aug/06-Jul/07
TOTAL	8,860,474	6,400,580		

Source: PRC Customs Statistics

Table 4. China's Quarterly Cotton Imports by Country of Origin

Marketing Year: 2003/2004

Unit: Metric Tons

Country	Jul-Sep /03	Oct-Dec /03	Jan- Mar/04	Apr- Jun/04	TOTAL
United States	71,209	119,019	455,151	419,467	1,064,845
Uzbekistan	35,807	7,167	72,779	69,744	185,497
Benin	18,700	6,492	14,472	37,991	77,656
Burkina Faso	5,022	9,098	21,005	31,924	67,049
Australia	2,600	13,163	25,855	22,008	63,626
Mali	5,978	6,409	7,621	33,461	53,470
Cameroon	3,467	6,855	7,771	16,176	34,269
Brazil	320	7,588	11,141	590	19,639
Paraguay	0	3,950	6,500	1,925	12,375
Greece	1,148	5,476	5,163	500	12,288
Others	10,837	44,077	110,632	85,553	251,099
TOTAL	155,087	229,294	738,091	719,340	1,841,812

Marketing Year: 2004/2005

Unit: Metric Tons

Country	Jul-Sep /04	Oct-Dec /04	Jan- Mar/05	Apr- Jun/05	TOTAL
United States	131,556	50,361	150,658	285,650	618,225
Uzbekistan	49,499	4,763	62,296	102,700	219,258
Australia	45,340	9,550	1,948	7,909	64,747
Burkina Faso	16,827	4,547	3,971	21,488	46,833
India	3,443	400	3,374	27,882	35,099
Mali	17,102	5,330	1,674	5,170	29,276
Paraguay	15,342	6,674	399	6,848	29,263
Benin	11,984	1,332	2,600	9,794	25,710
Cote d'Ivoire	7,714	132	700	12,557	21,103
Mexico	774	3,186	6,775	8,647	19,382
Others	37,171	25,694	50,768	48,085	161,717
TOTAL	336,754	111,968	285,162	536,730	1,270,613

Marketing Year: 2005/2006

Unit: Metric Tons

Country	Jul-Sep /05	Oct-Dec /05	Jan- Mar/06	Apr- Jun/06	TOTAL
United States	496,237	272,891			769,128
Australia	100,184	91,690			191,874
Uzbekistan	87,251	50,961			138,212
Burkina Faso	57,483	49,077			106,560
India	39,120	54,221			93,341
Benin	52,113	36,636			88,749
Mali	32,633	24,341			56,974
Brazil	4,507	43,742			48,249
Cote d'Ivoire	17,845	19,242			37,086
Cameroon	7,898	18,673			26,571
Tanzania	6,073	18,621			24,694
Others	79,672	90,579			170,252
TOTAL	981,016	770,675			1,751,691

Source: PRC Customs Statistics

Table 5. China's Monthly Cotton Exports

Unit: Metric Tons				
Month	2003	2004	2005	2006
January	13,901	1,150	204	1,450
February	17,995	1,323	59	581
March	17,786	1,151	359	
April	12,091	399	711	
May	7,134	205	509	
June	5,906	77	861	
July	5,881	1,806	810	
August	5,063	1,023	250	
September	1,970	1,044	52	
October	9,791	790	208	
November	10,173	172	382	
December	4,756	143	719	
TOTAL	112,447	9,283	5,124	2,031
Marketing Year	Aug/03-Jul/04	Aug/04-Jul/05	Aug/05-Jul/06	Aug/06-Jul/07
TOTAL	37,864	6,685		

Unit: 480-lb Bales				
Month	2003	2004	2005	2006
January	63,847	5,281	939	6,662
February	82,651	6,075	269	2,668
March	81,691	5,285	1,650	
April	55,534	1,834	3,266	
May	32,766	940	2,337	
June	27,126	355	3,955	
July	27,011	8,295	3,722	
August	23,254	4,700	1,148	
September	9,048	4,796	241	
October	44,970	3,627	954	
November	46,725	790	1,753	
December	21,844	656	3,302	
TOTAL	516,467	42,636	23,535	9,330
Marketing Year	Aug/03-Jul/04	Aug/04-Jul/05	Aug/05-Jul/06	Aug/06-Jul/07
TOTAL	173,909	30,704		

Source: PRC Customs Statistics

Table 6. China's Quarterly Cotton Exports by Destination

Marketing Year: 2003/2004

Unit: Metric Tons

Country	Jul-Sep /03	Oct-Dec /03	Jan-Mar /04	Apr-Jun /04	TOTAL
Thailand	2,777	16,648	224	79	19,729
Indonesia	3,094	4,919	954	79	9,046
Korea, South	4,662	1,983	969	41	7,654
Japan	494	40	826	41	1,402
Taiwan	563	376	81	115	1,135
India	39	0	93	0	132
Peru	0	0	124	0	124
Other	1,286	755	351	326	2,718
TOTAL	12,915	24,721	3,623	681	41,940

Marketing Year: 2004/2005

Unit: Metric Tons

Country	Jul-Sep /04	Oct-Dec /04	Jan-Mar /05	Apr-Jun /05	TOTAL
Japan	1,674	284	111	705	2,775
Indonesia	636	102	236	220	1,194
Thailand	159	100	0	681	940
Korea, South	709	12	42	71	833
Taiwan	461	114	0	176	750
Korea, North	6	32	217	229	485
India	0	258	0	0	258
Italy	228	0	0	0	228
Other	0	203	16	0	219
TOTAL	3,874	1,105	622	2,081	7,681

Marketing Year: 2005/2006

Unit: Metric Tons

Country	Jul-Sep /05	Oct-Dec /05	Jan-Mar /06	Apr-Jun /06	TOTAL
Indonesia	296	314			610
Japan	504	31			534
Hong Kong	0	416			416
Taiwan	0	360			360
Thailand	286	0			286
Korea, South	27	181			208
Other	0	7			7
TOTAL	1,113	1,308			2,421

Source: PRC Customs Statistics

Table 7. China's Monthly Cotton Yarn and Thread Imports

Unit: Metric Tons

Month	2002	2003	2004	2005	2006
January	39,953	49,962	57,570	51,642	62,896
February	27,254	37,295	62,846	33,919	61,535
March	54,675	60,884	65,562	68,635	
April	58,569	64,663	61,596	73,086	
May	60,154	63,609	54,009	67,277	
June	56,615	49,654	54,389	64,463	
July	51,374	46,655	53,176	62,159	
August	46,028	49,351	50,786	66,628	
September	50,846	58,487	58,653	65,194	
October	53,324	64,332	54,461	62,357	
November	48,734	64,071	57,615	64,206	
December	49,710	78,893	56,285	70,759	
TOTAL	597,236	687,857	686,948	750,327	124,431
Marketing Year	Aug/02-Jul/03	Aug/03-Jul/04	Aug/04-Jul/05	Aug/05-Jul/06	Aug/06-Jul/07
TOTAL	621,364	724,282	686,948		

Source: PRC Customs Statistics

Table 8. China's Quarterly Cotton Yarn and Thread Imports by Country of Origin

Calendar Year: 2004

Unit: Metric Tons

Country	Jan – Mar	Apr –Jun	Jul – Sep	Oct – Dec	TOTAL
China	73,684	69,189	66,899	73,155	282,926
Pakistan	53,643	45,494	40,511	46,986	186,634
India	23,948	18,610	19,197	14,448	76,204
Indonesia	8,867	8,672	7,699	8,666	33,904
Taiwan	6,774	7,922	9,062	7,348	31,106
Hong Kong	6,682	7,962	7,301	6,022	27,967
Korea, South	3,682	4,156	3,190	3,519	14,548
Thailand	4,069	3,140	3,623	2,793	13,625
Other	4,628	4,849	5,133	5,424	20,034
TOTAL	185,978	169,995	162,615	168,361	686,948

Calendar Year: 2005

Unit: Metric Tons

Country	Jan – Mar	Apr –Jun	Jul – Sep	Oct – Dec	TOTAL
China	58,120	93,967	77,611	68,794	298,493
Pakistan	51,499	62,147	63,735	68,125	245,506
Taiwan	8,773	11,439	13,167	20,059	53,438
India	11,703	11,453	12,850	16,053	52,059
Indonesia	6,859	8,395	8,943	6,769	30,966
Hong Kong	6,725	7,191	7,090	6,106	27,111
Thailand	2,936	3,167	3,600	4,318	14,022
Korea, South	3,549	3,333	2,856	1,965	11,703
Other	4,033	3,733	4,129	5,133	17,028
TOTAL	154,196	204,826	193,982	197,323	750,327

Calendar Year: 2006

Unit: Metric Tons

Country	Jan - Mar	Apr -Jun	Jul - Sep	Oct - Dec	TOTAL
	NA*				

Source: PRC Customs Statistics

Note: As of this writing, the 1st quarter of CY05 is not available

Table 9. China's Monthly Cotton Yarn & Thread Exports

Unit: Metric Tons					
Month	2002	2003	2004	2005	2006
January	17,864	22,778	24,906	23,490	26,322
February	15,882	22,279	32,647	19,406	33,121
March	34,106	38,966	40,241	44,378	
April	36,191	43,278	34,155	45,339	
May	36,431	40,906	33,594	43,642	
June	32,693	32,011	34,402	38,775	
July	32,486	33,424	31,143	34,481	
August	29,240	34,522	30,152	36,940	
September	29,765	41,239	34,799	37,634	
October	29,228	41,267	31,469	32,429	
November	27,329	43,512	33,372	34,724	
December	26,682	56,561	30,811	32,096	
TOTAL	347,898	452,747	391,691	423,334	59,443
Marketing Year	Aug/02- Jul/03	Aug/03- Jul/04	Aug/04- Jul/05	Aug/05- Jul/06	Aug/06- Jul/07
TOTAL	375,886	448,162	391,691		

Source: PRC Customs Statistics

Table 10. China's Quarterly Cotton Yarn and Threads Exports by Destination**Calendar Year: 2004****Unit: Metric Tons**

Country	Jan-Mar	Apr- Jun	Jul-Sep	Oct-Dec	TOTAL
Hong Kong	84,546	84,958	80,471	82,157	332,132
Japan	2,071	3,326	3,351	3,553	12,300
Korea, South	3,830	4,050	3,699	3,173	14,752
Myanmar	1,622	1,861	2,089	2,458	8,029
Bangladesh	269	738	378	493	1,877
Macau	557	1,171	1,290	490	3,507
Vietnam	700	391	436	380	1,906
Italy	311	277	172	308	1,069
Other	3,889	5,380	4,209	2,640	16,118
TOTAL	97,794	102,151	96,095	95,652	391,691

Calendar Year: 2005**Unit: Metric Tons**

Country	Jan-Mar	Apr- Jun	Jul-Sep	Oct-Dec	TOTAL
Hong Kong	70,537	107,945	89,351	75,033	342,865
Korea, South	4,414	5,215	5,369	5,702	20,700
Japan	3,465	3,387	2,443	2,916	12,211
Bangladesh	795	1,148	1,436	1,953	5,332
Myanmar	2,028	2,087	2,028	1,666	7,809
Italy	462	619	947	1,429	3,457
United States	741	1,096	399	1,137	3,373
Indonesia	426	1,320	995	772	3,513
Other	4,406	4,939	6,087	8,642	24,073
TOTAL	87,274	127,756	109,055	99,249	423,334

Calendar Year: 2006**Unit: Metric Tons**

Country	Jan-Mar	Apr- Jun	Jul-Sep	Oct-Dec	TOTAL
	NA*				NA*

Source: PRC Customs Statistics

Note: As of this writing, data for 1st quarter of CY06 is not available

Table 11. China's Monthly Cotton Fabric Imports

Unit: 1,000 Square Meters

Month	2002	2003	2004	2005	2006
January	104,339	112,343	73,589	90,434	78,984
February	73,270	79,579	88,617	69,559	76,877
March	99,602	112,626	110,499	116,262	
April	121,099	116,254	120,592	130,929	
May	111,637	114,310	112,212	110,630	
June	113,295	102,886	114,908	110,427	
July	117,215	103,818	111,746	105,540	
August	107,758	92,108	105,428	105,485	
September	109,480	110,663	110,110	108,576	
October	110,241	115,600	120,197	119,587	
November	124,746	120,834	143,780	130,908	
December	125,801	141,968	158,767	142,123	
TOTAL	1,318,484	1,322,989	1,370,445	1,340,459	155,861
Marketing Year	Aug/02- Jul/03	Aug/03- Jul/04	Aug/04- Jul/05	Aug/05- Jul/06	Aug/06- Jul/07
TOTAL	1,319,841	1,313,337	1,370,445		

Source: PRC Customs Statistics

Table 12. China's Quarterly Cotton Fabric Imports by Country of Origin

Calendar Year: 2004

Unit: 1,000 Square Meters

Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
China	95,002	119,063	119,127	154,706	487,898
Hong Kong	70,542	103,634	88,662	128,010	390,848
Pakistan	25,766	23,725	29,383	37,210	116,084
Taiwan	19,215	27,615	25,040	36,698	108,569
Japan	37,596	35,404	31,950	34,984	139,934
Korea, South	9,070	10,827	11,392	12,861	44,150
Indonesia	3,389	2,357	3,303	4,531	13,580
India	2,568	8,120	5,577	1,272	17,537
Other	9,556	16,967	12,851	12,471	51,844
TOTAL	272,705	347,711	327,285	422,744	1,370,445

Calendar Year: 2005

Unit: 1,000 Square Meters

Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
China	98,378	136,876	128,064	167,823	531,141
Hong Kong	73,437	103,383	92,251	108,525	377,596
Pakistan	26,954	24,150	32,734	34,210	118,048
Japan	34,725	32,645	26,536	34,022	127,928
Taiwan	18,330	25,667	17,209	20,577	81,784
Korea, South	10,022	13,010	11,422	11,374	45,828
Indonesia	2,504	3,190	2,787	3,932	12,413
Thailand	3,048	2,660	1,329	2,158	9,195
Other	8,856	10,404	7,269	9,997	36,526
TOTAL	276,255	351,986	319,601	392,618	1,340,459

Calendar Year: 2006

Unit: 1,000 Square Meters

Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
	NA*				

Source: PRC Customs Statistics

Note: As of this writing, data for 1st quarter of CY06 is not available

Table 13. China's Monthly Cotton Fabric Exports

Unit: 1,000 Square Meters					
Month	2002	2003	2004	2005	2006
January	243,238	340,945	266,477	367,102	436,041
February	205,387	255,225	215,131	284,965	273,382
March	276,775	361,889	357,430	437,819	
April	324,130	405,110	362,893	417,040	
May	292,785	367,592	335,913	385,868	
June	287,557	339,135	351,726	414,540	
July	309,311	329,240	332,007	398,196	
August	319,404	322,999	347,696	419,847	
September	339,919	390,739	399,186	437,275	
October	345,531	378,620	396,667	424,741	
November	367,091	369,244	443,212	441,006	
December	369,102	480,706	465,363	447,263	
TOTAL	3,680,230	4,341,446	4,273,700	4,875,663	709,423
Marketing Year	Aug/02- Jul/03	Aug/03- Jul/04	Aug/04- Jul/05	Aug/05- Jul/06	Aug/06- Jul/07
TOTAL	4,319,841	4,163,885	4,273,700		

Source: PRC Customs Statistics

Table 14. China's Quarterly Cotton Fabric Exports by Destination

Calendar Year: 2004

Unit: 1,000 Square Meters

Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
Hong Kong	221,978	275,829	271,373	366,697	1,135,876
Japan	56,694	67,386	67,694	82,546	274,320
Korea, South	58,390	69,760	69,594	75,868	273,611
Bangladesh	47,596	69,159	59,267	77,051	253,073
Benin	25,805	42,546	68,751	87,941	225,043
United States	23,986	44,474	42,072	30,920	141,453
Mexico	30,650	33,523	25,498	39,741	129,412
Togo	14,730	21,748	33,126	39,438	109,042
Other	359,210	426,107	441,514	505,039	1,731,869
TOTAL	839,038	1,050,531	1,078,889	1,305,241	4,273,700

Calendar Year: 2005

Unit: 1,000 Square Meters

Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
Hong Kong	235,640	264,690	273,197	340,674	1,114,201
Benin	68,627	88,783	92,610	108,611	358,632
Bangladesh	55,894	78,990	84,226	105,442	324,552
Korea, South	84,171	88,569	83,752	77,478	333,970
Japan	70,321	60,173	71,464	72,056	274,014
United States	58,136	56,875	57,255	48,157	220,424
Togo	27,705	26,372	35,687	41,380	131,143
Indonesia	23,296	29,797	34,532	33,953	121,579
Other	466,094	523,198	522,596	485,259	1,997,147
TOTAL	1,089,886	1,217,448	1,255,319	1,313,010	4,875,663

Calendar Year: 2006

Unit: 1,000 Square Meters

Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
	NA*				

Source: PRC Customs Statistics

Note: As of this writing, data for 1st quarter of CY06 is not available

Table 15. Cotton Planted Area and Production by Province

Planted Area (1,000 hectares)					
	2002	2003	2004	2005	2006 *
State	4,184	5,110	5,690	5,060	5400
Xinjiang	944	1,055	1,137	1,162	1174
Shandong	580	882	1,059	847	930
Henan	773	927	952	782	870
Hebei	407	581	669	573	600
Anhui	244	390	399	376	380
Jiangsu	311	369	409	368	380
Hubei	300	355	408	390	400
Hunan	119	139	167	133	150
Gansu		52	68	64	69
Jiangxi		80	62	81	80
* 2006 area is Post's forecast based on various sources. Total planted area for 2005 is based on NSB's statistics, planted area for individual province, however, is based on reports by industry source. Detailed NSB report will be available in June or July.					
Production (1,000 MT)					
	2002	2003	2004	2005	2006 *
State	4,916	4,860	6,320	5700	6050
Xinjiang	1,477	1600	1783	1957	1950
Shandong	722	877	1098	846	846
Henan	765	377	667	677	757
Hebei	402	522	665	577	600
Jiangsu	363	291	503	323	425
Anhui	337	241	412	311	342
Hubei	323	325	395	375	392
Hunan	153	163	203	185	190
Gansu		87	110	110	110
Jiangxi	67	76	85	90	104
* 2006 Production is Post's forecast. 2005 total production is based on NSB statistics, production for individual province, however, is based on reports by industry source. Detailed NSB report will be available in June or July.					

Source: PRC State Statistical Bureau

Table 16. Cotton Tariffs as of January 1, 2006

Description	HS Code	Import Duty Rate(%)			V. A. T.
		M.F.N.	CP	Gen	
Cotton, not carded or combed	5201-0000	*40		*125	13
Cotton, not carded or combed, including absorbent cotton, in-quota	5201-0000 10	1		125	13
Cotton, not carded or combed, including absorbent cotton, (custom, out-quota, interim)	5201-0000 80	0		125	13
Cotton, not carded or combed, including absorbent cotton, out-quota	5201-0000 90	40		125	13
Cotton, carded or combed	5203-0000	*40		*125	17
Cotton, carded or combed, in-quota	5203-0000 10	1		125	17
Cotton, carded or combed, out-quota	5203-0000 90	40		125	17
Cotton sewing thread, containing 85% or more by weight of cotton	5204-1100	5		40	17
Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not for retail sale	5205-1100 to 5205-4800	5	3.5-4.5	40	17
Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, for retail sale	5207-1000 5207-9000	6 6	5	50	17
Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing not more than 200 g/square meter	5208-1100 to 5208-5900*	10	5	70	17
"	*Except: 5208-2300	12	5	70	17
Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing more than 200 g/square meter	5209-1100 5209-1200 5209-1900 5209-3100 5209-3200 5209-3900 5209-4100 5209-4200 5209-4300 5209-4900 5209-5100 5209-5200 5209-5900	10	5	70	17
"	5209-2100 5209-2200 5209-2900	12	5	70	17

Source: PRC Customs Import & Export Tariff, 2006

Table 17. Cotton Tariff Rate Quotas

Description	HS Code	Initial Quota and Tariff Rate	Final Quota and Tariff Rate	Implementation of Final Quota
Cotton		780,750 mt	894,000 mt	2004
	5201 - 0000	1%	1%	2006
	5203 - 0000	1%	1%	2006
<p>Other terms and conditions:</p> <p>1) STE share = 33% (See Note)</p> <p>2) Staging of TRQ for cotton:</p> <p>Year TRQ quantity:</p> <p>2002 818,500 mt</p> <p>2003 856,250 mt</p> <p>2004 894,000 mt</p> <p>2005 894,000 mt (China's WTO commitment does NOT mandate TRQ for CY05, but China maintained an identical quantity of TRQ as CY04)</p> <p>2006 894,000 mt (China's WTO commitment does NOT mandate TRQ for CY06, but China maintained an identical quantity of TRQ as CY04)</p> <p>Note:</p> <p>Tariff quotas indicated in the third column are volumes for calendar year 2001. Tariff quota Concessions will be implemented according to the date specified in the "Implementation" Column. The implementation column indicates the date (referring to 1 January of the year Indicated) when the final quota quantity will be achieved. The tariff quota concessions are Subject to equal annual adjustments (occurring on 1 January of each year), unless otherwise specified in the "Other terms and conditions".</p>				

