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Cotton and Products

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Report Highlights:

The ongoing liberalization of the EU textile market is hurting the Portuguese textile industry, especially spinners. As a consequence, cotton imports are forecast to come down to 90,000 tons in 2004/05, as spinners lose market share to imported yarns. Spinners are holding on to one portion of the market, however, that for thin yarns made from long-staple cottons. This will favor imports of U.S. PIMA and longer-staple Orleans-Texas cottons, which are expected to reach 1,500 tons in MY 2004. 1 USD = € 0.84.

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

Portuguese 2004 raw cotton production is forecast to remain at roughly 590 tons, basically unchanged from the previous year level. During the recent revision of the EU cotton policy, Portugal was assigned a maximum guaranteed area of 360 hectares, derived from the 2001 and 2002 average planted areas. The new regime, which will enter into force in 2006, is expected to lead to a reduction in activity levels, due to the approval of partial de-coupling and integration of 65 % of subsidy payments in the Single Farm Payment.

Portuguese total cotton use is estimated to be down by 6% during 2003/04, to some 102,000 tons, due to a slowdown in garment manufacturing, as well as a strong industry trend to displace cotton spinning with imported yarn and raw fabrics. According to industry sources, Portuguese textile manufacturing experienced a 1.5% reduction during CY-2003, due to a 2.9% drop in garment production and a 9.9% decline in manufacturing of all other textiles. The gradual dismantling of EU import quotas for textiles set in the Multi-Fibers Agreement has produced visible effects, increasing the share of third-country yarn and raw fabric in local finished textile products. Other factors inducing a reduction in total cotton use include a new trend for the larger textile manufacturers to transfer cotton mills into new EU-member countries to profit from attractive investment conditions. These trends are pushing Portuguese textiles into the development of higher-quality products, in home-textiles as well as in specific segments in which the industry is more competitive. These trends are expected to lead to another reduction in cotton use in 2004/05, down to around 91,800 tons. Further reductions in raw cotton use are anticipated for the medium-term. The termination of the Multi-Fibers Agreement at the end of 2004, with full elimination of import quotas for third country textile products as of January 2005, is expected to affect activity levels in most textile segments. Cotton spinning will tend increasingly to be directed to the production of specific high-quality yarn and thread types difficult to source in third-country markets, in addition to those produced in very modernized, low-labor units.

Total cotton imports are estimated to be down roughly 9.7% in 2003/04, to 95,000 tons, due to the slowdown in local textile manufacturing. Local cotton imports continue to be primarily sourced from Africa, due to traditional commercial ties, adequate quality-price ratios and great flexibility of product delivery from nearby West Africa. Current spinning trends are expected to further depress 2004/05 raw cotton imports to around 90,000 tons. Cotton imports from the U.S. recovered during the first half of MY 2003/04 due to improved dollar rates, tending to remain around 1,416 tons. In 2004/05, total cotton imports from the U.S. could expand moderately -- up to 1,500 tons -- due to the supply of a new, longer-fiber Texas cotton type, which is raising some interest with the millers. Raw cotton imports from the U.S. in 2004/05 will consist primarily in PIMA cotton, which profits from a relative price-inelastic demand, in addition to some Orleans-Texas cotton.

1 USD = 0.84 €

Commodity Name: Raw Cotton

Production, Supply & Distribution Table

PSD Table

Country:

Portugal
Cotton

Commodity:

(HECTARES)(TONS)

Market Year Begin	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New] 08/2002	USDA Official [Old]	Post Estimate [New] 08/2003	USDA Official [Old]	Post Estimate [New] 08/2004
Area Planted	0	497	0	373	0	365
Area Harvested	0	497	0	373	0	365
Beginning Stocks	26,780	26,380	22,861	23,609	0	17,149
Production	0	843	0	600	0	590
Imports	104,944	105,157	92,534	95,000	0	90,000
TOTAL SUPPLY	131,724	132,380	115,395	119,209	0	107,739
Exports	0	141	218	60	0	50
USE Dom. Consumption	108,863	106,500	94,711	100,000	0	90,000
Loss Dom. Consumption	0	2,130	0	2,000	0	1,800
TOTAL Dom. Consumption	108,863	108,630	94,711	102,000	0	91,800
Ending Stocks	22,861	23,609	20,466	17,149	0	15,889
TOTAL DISTRIBUTION	131,724	132,380	115,395	119,209	0	107,739

Production

Portuguese 2004 raw cotton production is expected to remain roughly unchanged from previous-year levels. Cotton is cultivated in the southern *Alentejo* province by only a few farmers, who sell their production into Spain for lack of a local ginning facility. Cotton production is likely to trend downwards over the next three to five years, under the influence of the partial subsidy de-coupling adopted in the recent Reform of the EU cotton policy. Under this new regime, which will be implemented in 2006, some 65% of farmers' subsidies will be integrated in the Single Farm Payment. As of 2006, Portuguese guaranteed cotton area will be limited to 360 hectares, the average of the 2001 and 2002 cotton planted areas.

Consumption

General

Total Portuguese raw cotton use is expected to fall some 6% in 2003/04 relative to previous year levels. This results from an overall reduction in textile activity, in addition to an increasing incorporation in finished-products of cheap imported yarn and raw fabric from Pakistan, India or Indonesia. Textiles and garments production are industry-estimated to have come down 1.5% in CY-2003, due to 2.9% reduction in garments manufacturing, and a

9.9% drop in all other textiles. During the same period, industry sales value is reported to have come down 5.8% to € 7.7 Billion, of which garments suffered a 9.2% loss, and all other textiles 3%. One of the larger, vertically-integrated textile manufacturers with monthly cotton consumption rates of 650 to 700 Tons, has recently closed its cotton spinning mill and presently buys yarn abroad. A new trend has also emerged recently for the larger textile manufacturers to displace cotton spinning from Portugal to new Eastern European EU members, to profit from more attractive investment conditions. These factors tend to limit local cotton spinning to (a) factories producing thinner yarns and threads which are more difficult to source in low-cost countries; (b) very modern, low-labor mills; (c) factories that have had poor experiences buying abroad; (d) mills in financial difficulties that find it more viable to buy and spin raw cotton than yarn.

Local raw cotton use will suffer another reduction in 2004/05 – perhaps by as much as 10% - due to increasing textile product imports, as well as increased competition of Asian products in non-EU export markets, which tend to affect Portuguese textile sales. The end of the transition period of the Multi-Fiber Agreement at the end of 2004 is expected to accelerate the replacement of locally produced yarns with imported ones, while imports of other textile products will also tend to go up. This trend is to be enhanced by continuation of the high Euro rate against the Dollar, which hampers the competitiveness of Portuguese garments and home textiles not only in the EU, but also in the U.S., an important export market for Portuguese textiles. Garments manufacturing is considered to be a particularly sensitive industry segment, having suffered a 9.2% sales value reduction in CY-2003. This industry segment is expected to suffer further losses in the future due to the competition of cheaper garments imported from India or China. Most other textile segments were also affected by the increasing EU market liberalization and by the strength of the Euro against the Dollar: industry sources report a 3% drop in sales during CY-2003. Home textiles remain one of the most competitive textile activities, though changes in the tourism business are reported to have led to a reduction in hotel orders for bed-sheets and towels. Affected by the strong Euro and by the aggressiveness of Chinese textile industry, the Portuguese home-textiles business reported a 10% sales value reduction in the U.S. over the 2003 calendar year. For more details on the textile industry, please see the Industry Structure section below.

Consumption Patterns

Local cotton demand continues to be dominated by SM cotton (1.3/32 and 1.1/16) for ring-spinning. Due to current industry trends, SM cotton presently accounts for some 70% of total cotton use, up from 60% in the recent past. The other 30% of total cotton consumption consists in SLM cotton (1.1/16 and 1.1/8) for open-end use. ELS cotton represents a market niche of some 1,500 to 2,000 tons annually. This niche is constrained by high thread imports. SM cotton is primarily sourced from Equatorial Africa, and SLM cotton, from Central Africa and the FSU. ELS cotton is primarily sourced from the U.S., Egypt and Israel.

Industry Structure

The national statistics office (INE) reports a total number of 159 cotton spinners (2001 data, latest available information), from a universe of 13,069 textile manufacturers (garments included). The industry reports that it employed a total of 87,903 workers in 2003 (down from 94,129 workers in 2002). Textile production is estimated at € 4.3 Billion in 2003, and represents 2.1% of GDP. Textiles represent 18% of the total value of Portugal's exports,

16.5% of industrial production, 22% of employment, and 15% of value-added of the processing industry.

In spite of considerable renovation over the previous decade, the Portuguese textile industry continues in general terms to show poor financial indicators, excessive labor costs and high debt levels. The Portuguese Textile Association (ATP) estimates that some 57 cotton mills are equipped with autonomous spinners and 62 are vertically-integrated with finished-textiles manufacturing. Installed production capacity includes 42,000 O-E Rotors (of which only some 35,000 are estimated to be operational), some 900,000 spindles and 12,000 looms. ATP also estimates that the number of mills in good operational and financial condition is limited to roughly 10, while some 15 to 20 are in a "medium" condition. All others are considered to be in poor financial shape. The industry leaders are fully integrated with fabric or household production units, accounting for some 80 percent of total cotton use. Two mills consume 1,000 tons per month, seven mills between 650 and 700 a month (including the one that has recently closed its cotton spinning operation), and two mills, some 400 tons/month. No investment intentions in new cotton spinning mills are reported. New investments tend to be directed to fabrics dying and acquisition of new looms or product finishing equipment, in accordance with the new industry focus on product quality and innovation.

Home textile manufacturing remains the strongest industry segment. Although the linen segment is presently affected by the stronger euro, the felts sector remains strong, since its output is primarily shipped within the EU, profiting from high quality levels and a good reputation in the market. Certain specialized products, such as technical textiles -- car seats and others -- have been expanding due to the good reputation and quality of local products. Garments and fashion-related articles continue to be hurt by the limited impact of the Portuguese fashion industry, both domestically and abroad.

Yarn production is mostly n.e. 30, 24 and 20 (for ring-spinning units), and 16, 12 and 10 (for open-end ones). Carded and open-end yarn account for some 80 percent of total yarn production. Finer yarns, numbers 40 and over are tending to increase in share, to the detriment of yarns numbers 8 and under, due to the current industry trend to specialize in high-quality thin yarns. Share of combed yarn in total is also tending to increase due to the industry need to improve yarn and fabric quality standards.

The textiles industry is federated under the Portuguese Textiles Association (*Associação Portuguesa de Textéis* – ATP), formed in 2003 through the merger of the two leading sector organizations: The Portuguese Textiles and Garments Association (APT), and the Knitwear and Apparel Manufacturers Association (APIM). ATP lobbies local authorities for industry interests. It also represents the industry at the EU Commission level through its European Confederation, EURATEX. Garments and Home Textiles also have specific organizations – ANIVEC and ANITLAR – that cater to specific sector needs.

Trade

General

Local raw cotton imports are expected to be down in 2003/04 due to a slowdown in domestic cotton spinning levels. Another reduction is forecast for 2004/05, in association with the current outlook of Portuguese textiles manufacturing. For a country breakdown of Portuguese raw cotton imports and exports in 2003/04 and 2004/05, please see the cotton trade matrices at the end of this section.

Raw cotton origins in 2003/04 remain essentially unchanged from past years. West Africa, Central Asia and Mozambique remain the key cotton sources for Portugal. African countries remain a favored origin due to long-standing commercial ties, favorable quality-price ratios, and short shipping distances, which enable cotton deliveries to be flexible. Hand-picked African cotton is viewed as a high-quality, nep-free cotton type, even if non-standardized, unlike U.S. cottons. Spanish cotton was imported in 2003/04 in larger quantities than before, due to very attractive prices and transport convenience. Brazil has lost market share during 2003/04 relative to the previous two years due to increased prices. Turkish cotton has regained some market with cheap, low-grade types. Portuguese official trade data shows a significant increase in cotton imports from the U.S. during the first half of the 2003/04 marketing year, which are said to result from the lower dollar rate. Note that Portuguese trade data differ from that which is released by the US census, due to the fact that cotton is usually shipped to a major harbor in another EU country and then transshipped into Portugal, which originates discrepancies in different trade registers. According to trade sources, cotton imported from the U.S. consists of PIMA, in addition to some Orleans-Texas Cotton. Countries of origin of 2004/05 cotton imports are expected to remain mostly unchanged. Total imports from the U.S. are considered likely to expand somewhat due to a new Texas cotton type that is presently being offered, which has longer fibers than usual, and is considered competitively priced.

Factors Affecting the U.S.

U.S. cotton is affected by several factors. High export prices and shipping costs tend to make some types of U.S. cotton uncompetitive relative to other suppliers; some importers mention problems with the incidence of neps, high micronaire, and low grades with coloring problems. In addition, some say that many U.S. cotton exporters pay little attention to the Portuguese market and lack flexibility in trade practices, which is needed by most spinners.

PIMA has emerged in recent years as the most competitive U.S. cotton type, profiting from the fact that threads and materials production from ELS cotton have a comparatively high margin against that produced from other cotton types. U.S. PIMA cotton competes with Egyptian and Israeli ELS cotton, which benefit from closer geographic proximity. According to the local trade, due to the relatively small quantities involved, PIMA cotton for Portugal is shipped into one of the larger EU harbors, usually Rotterdam, where it is transferred to smaller vessels that travel to *Leixões* harbor, just outside Oporto.

Import Trade Matrix

Country Portugal
Commodity Cotton

Time period	Aug/July	Units:	Metric Tons
Imports for:	2003		2004
U.S.	1,416	U.S.	1,500
Others		Others	
Spain	4,745	Spain	4,495
Other EU-25	1,000	Other EU-25	948
Chad	11,574	Chad	10,965
Mozambique	10,480	Mozambique	9,928
Zimbabwe	9,570	Zimbabwe	9,067
Brazil	8,642	Brazil	8,188
Cameroon	6,420	Cameroon	6,080
Turkey	6,266	Turkey	5,935
Egypt	4,408	Egypt	4,175
Uganda	4,380	Uganda	4,150
Total for Others	67,485		63,931
Others not Listed	26,099		24,569
Grand Total	95,000		90,000

Export Trade Matrix

Country

Portugal

Commodity

Cotton

Time period

Aug/July

Units:

Metric Tons

Exports for:

2003

2004

U.S.

U.S.

Others

Others

EU	60	EU	50

Total for Others

60

50

Others not Listed

0

0

Grand Total

60

50

Stocks

The level of raw cotton stocks is declining, as domestic consumption trends downward. Most cotton spinners keep cotton stocks equivalent to two months of consumption in containers in the *Leixões* harbor. Some larger mills tend to keep larger stocks, up to as much as three months of consumption needs.

Policy

Given the importance of the textiles industry in national trade and employment (see Consumption section above), the sector's problems have been addressed by several programs developed by the Government of Portugal (GOP). The most important of these are EU-backed investment programs to support the restructure and modernization of the industry. On-going modernization programs are part of so-called Community Structural Framework III (CSF III), in effect for the 2000 to 2006 period. In 2004 the GOP has launched new trade-related initiatives to support exports of Portuguese textiles, based on marketing programs carried out by the trade offices abroad of ICEP, the trade-promotion arm of the Portuguese Economy Ministry.

Trade policies are at the core of the textile industry's concerns. The implementation of the Marrakech Accords on January 1, 2005, will eliminate all import quotas on textiles in the EU. Portuguese manufacturers see this as a major challenge that will squeeze their output of yarn, fabrics and garments. The competitiveness of Chinese textiles is particularly feared if the Euro continues to appreciate against the dollar, since China's currency is linked to the dollar. Other issues of concern include the import quota regime in the U.S. for certain Chinese textile products, which tends to divert them into the EU. The different environmental, social and labor legislations enforced in Europe and in China are also perceived to be important unfair competition factors that favor Asian textiles. Finally, alleged non-tariff barriers and unfair trade practices adopted in China are considered to affect market access for EU suppliers in that country, in violation of the principle of reciprocity.

In its capacity as a lobbyist with the GOP, the Portuguese textiles association (ATP) has defended the principle of the re-introduction of EU quotas to third-country textiles under a special safeguard clause regime. ATP further opposes any EU tariff concessions in the WTO negotiations, as well as the institution of special treatment to developing countries. Dumping practices, environmental, social and labor laws in Asian countries are other problem areas identified by the local textile industry as critical intervention areas for the authorities within the WTO negotiations.

Marketing

In spite of its considerable size, the Portuguese cotton market is somewhat difficult to access due to the purchasing pattern of most spinners, and to their well-established trade ties with suppliers in a few favored suppliers. PIMA cotton remains the only U.S. cotton type that enjoys a mostly constant demand, relatively independent from prices, even if still in direct competition with Egyptian and Israeli ELS cotton. MEMPHIS cotton continues to be considered uncompetitive by the local trade against African-sourced cotton. San Joaquin Valley cotton competes with cotton shipped from a series of cheaper-price origins, including Australia. Orleans-Texas cotton is generally considered uncompetitive relative to other origins of similar-type cottons.

In order to recapture market here, U.S. exporters need to work with the local trade to adjust cotton types, prices and shipping conditions to local industry needs. U.S. cooperators can play an important role in maintaining the local trade by keeping millers informed of new products and of the quality of the U.S. crop. Regular seminars and other promotional activities should continue to be carried out in Portugal.

Portuguese cotton spinners and importers are mostly affiliated with the Oporto-based Portuguese textiles association (ATP). Some 80 % of total cotton imports are made directly by the larger millers, with only some 20 % being handled by independent dealers. Third-country exporters rely basically on price advantages and face-to-face contacts. Other than the U.S., only Chad, Mali and Zimbabwe have in-country representatives. A few others, mostly European, send occasional trade missions to visit Portuguese importers. Some exporters, including Zimbabwe, Israel, Argentina and the FSU, occasionally invite a group of importers to their countries. No third country competitor is engaged in the same type of sector-wide promotional activities that have been carried out by the U.S. in the past.