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Taiwan
Cotton and Products
Annual
2006

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Report Highlights:
Taiwan cotton imports are forecast at 240 thousand metric tons in 2006/07, and estimated at 250 thousand tons in 2005/06. This is a reduction from 291 thousand tons in 2004/05 when low prices inspired stock building. U.S. market share exceeded 50% in 2004/05 and will do so again if early marketing trends continue. Taiwan cotton consumption, and the number of cotton spindles, seems to be declining more slowly than the overall textile industry. While our forecast is for a continued slow decline in Taiwan cotton consumption, some observers feel the decline has ended.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
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[TW]

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Executive Summary

Larger than expected cotton yarn exports to China, an increase in cotton yarn spindle numbers, and low cotton prices drove cotton imports in 2004/05 up by 33% to 291 thousand metric tons. Higher cotton prices are expected to reduce imports to 250 thousand tons in 2005/06. Imports are projected at 240 thousand metric tons in 2006/07 as ending stocks are reduced from approximately 100 thousand tons in 2005 to 65 thousand tons in 2007. Unlike other types of textiles, Taiwan cotton consumption is expected to remain relatively constant. Industry contacts maintain that the price of cotton does not affect the quantity of cotton clothing consumed in Taiwan, and that demand is consumer driven. The key variables in our forecasts are the ability of Taiwan cotton consumption to continue to decline more slowly than the rest of the Taiwan textile industry and cotton prices. Taiwan has sometimes been opportunistic in its cotton purchases, and often builds stocks when prices are low.

Production

Taiwan is not a cotton producer, and imports all cotton consumed.

Consumption

Cotton consumption on Taiwan in 2006/07 is forecast at 260 thousand metric tons, a decrease of five thousand tons from estimated 2005/06 cotton consumption. This is a continuation of a long-term decline in the Taiwan textile industry. Unlike other types of textiles, Taiwan cotton consumption is expected to remain relatively constant. Industry contacts maintain that the price of cotton does not affect the quantity of cotton clothing consumed in Taiwan, and that demand is consumer driven. A key component of cotton demand in Taiwan is the number of cotton spindles, which increased in 2005. While cotton spindle numbers have been holding up better than overall spindle numbers over the last several years, they have been declining, and a one-year increase followed by further declines is not unprecedented.

Taiwan Textile Investment Patterns

To enhance their competitiveness, Taiwan textile firms are continuing to invest elsewhere in Asia, especially in Mainland China, Thailand, Vietnam, Cambodia and Myanmar (Burma). Political instability and unattractive business climates have reduced investment in both Indonesia and the Philippines. In the future, investment is likely to shift to India, Bangladesh, Pakistan or even Russia. Despite this internationalization of production, Taiwan textile firms still make many of their buying decisions in Taiwan, especially for factories located outside Mainland China that export to third countries. Taipei's importance is magnified in target countries for Taiwan investment because local firms tend to follow the example set by foreign investors. Chinese-based factories function more autonomously because of the complexity of China's local import and trade regulations, especially the quota system for imported agricultural products.

Prospects for the Taiwan Textile Sector

The fate of firms remaining in Taiwan will depend on their ability to adapt to increasing competition. Although the rate of adjustment is slowing as the number of weaker firms falls, companies with capacity remaining in Taiwan must diversify their markets and move up the value chain to high-end textiles and garments, performance fabrics, or branded products. Taiwan's strengths in information technology (IT) research and development could help it become competitive in the manufacture of technical fabrics along with high-quality and specialized textile products such as blended acrylic and yarn products that require high quality weaving. Taiwan's IT strength could also allow it to produce smaller lots more efficiently, allowing the mass customization of products and to meet changing consumer tastes. While functional products may be the future, last year's cotton success stories were a little more basic: high value yarn being shipped to China and higher priced denim production for export.

To avoid direct price competition with PRC or Southeast Asian textile products, Taiwan-based mills need to deepen their specializations in functional products while cutting production of lower-value and less profitable commoditized products. A few spinners have built up a streamlined supply chain through strategic alliances that runs from yarn to fabric to final garments. Through these alliances, Taiwan firms may remain competitive in the world textile market. As they move up the value-added chain, Taiwan firms also reduce costs by importing labor, mostly from Southeast Asia. In some plants, workers from the Philippines, Vietnam, and Thailand make up between 25 to 30 percent of the total workforce. Taiwan's prospects for the production of technical textiles will also be boosted if local firms play a role in standards setting.

Taiwan is expected to retain most of the textile industry's head office functions because of Taiwan's relatively well-developed legal system, abundant capital and a fairly transparent trading system. As a result, most of the procurement, finance, logistics/supply chain and sales will be based in Taipei, especially for mills located outside Mainland China. Taiwan offices are expected to continue purchasing more than 1.3 million bales a year of cotton, even if the product is shipped to offshore factories.

Most industry leaders in Taiwan believe that local production will decline more slowly in the immediate future than in the last ten years and will level off by 2010. Competitive pressures and the expiration of the 1974 Multifiber Agreement on January 1, 2005 that ended most textile quotas has forced the Taiwan textile industry be more quality driven. On the other hand, although Taiwan is a WTO member, its producers need to prepare for a trading environment where competing countries are signing preferential trade agreements that could reduce Taiwan's competitiveness in lucrative export markets. Most significant would be moves by the U.S. or China to develop trade agreements with textile suppliers in Latin America, South Asia or Southeast Asia.

Trade and Stocks

Higher cotton prices in 2006/07 are forecast to reduce cotton imports and stocks. Cotton imports are forecast at 240 thousand tons, a reduction from estimated 2005/06 imports of 250 thousand tons. This is a fall of more than 51,000 tons from 2004/05 imports when Taiwan buyers built up stocks in response to low cotton prices. Cotton ending stocks are forecast to fall to 65,000 tons in 2006/07 from an estimated 100,000 tons in 2004/05. The two-year reduction in ending stocks, and the cotton import forecast, is highly sensitive to assumptions about prices, which were assumed to be slightly higher than current prices over the period.

U.S. market share in 2004/05 reached 50.8 percent as a result of the U.S.'s price competitiveness, low foreign matter, long staple, consistent quality and reliable delivery. These characteristics continue to make U.S. cotton the foundation of Taiwan's textile formulations. Other origins tend to compete with each other more than with U.S. cotton. In MY03/04, the United States had a market share of 48 percent, up from 44 percent in MY02/03. These levels are markedly higher than pre-2000 historical average of 35 percent of Taiwan's total cotton imports. In MY01/02, low prices gave the U.S. an unprecedented 54 percent of the cotton market with total exports exceeding 830,000 bales. As Taiwan moves up the value chain, U.S. exports may claim a larger share of the market in the future. Taiwan imports cotton based on both price and quality.

Policy

The tariff on cotton is zero. The applied rates for textile products are listed in the table below. There are no current non-tariff barriers that affect the cotton trade.

HS Code	Products	Tariff Rates (applied and bonded rates)
5202	Cotton Fiber	0%
5204, 5205, and 5207	Cotton Yarn	4%
5208	Cotton Fabric (gray)	7.5%
5209	Cotton Fabric (finished)	10%

Tariffs for Man-made versus Cotton Products:
After joining the WTO, Taiwan reduced its tariffs for cotton yarn and man-made spun yarn to 4 percent. The tariff for man-made fiber fell to 1.5 percent while the tariffs for cotton gray cloth and man-made gray cloth remained at 7.5 percent. Clothing is charged 12.5 percent. All temporary tariffs on yarns, gray cloth and man-made fibers were withdrawn upon WTO accession.

PRC Cotton Imports
Taiwan permits the import of cotton from the mainland and there are no duties or outstanding phytosanitary issues, unlike for most PRC agricultural products. However, since PRC cotton supplies are subject to significant fluctuations, they are not expected to compete with U.S. cotton every year. For example, in 2001/02 and 2002/03, PRC cotton imports increased sharply, which resulted in the PRC becoming Taiwan's second largest supplier. However, in 2005/06, the PRC was not one of Taiwan's top ten suppliers.

Marketing
Given Taiwan's strength in petrochemical production, cotton's most formidable competitors are synthetic fibers, especially polyester. Although Taiwan's consumption of cotton versus man-made fibers will depend heavily on relative cotton and petroleum prices, opportunities for U.S. cotton exports to Taiwan exist in several sectors:

- High end textiles and yarns, including higher count fabrics that could compete with high cost producers such as Italy. Other more expensive fabrics include those that are finished to have special crinkle, softening, draping, 3D or other characteristics.

- Technical/Performance fabrics where cotton can play a role in formulations. The relocation of garment manufacturers out of Taiwan has spurred interest in raising the production of textiles for home or industrial use. The China Textile Institute has set a goal of increasing non-garment textile production to 40 percent of the total by 2010. Some technical fabrics include products that are anti-bacterial, water resistant, multi-function, sun protective, anti-static, oil repellent and have electro-magnetic shielding where cotton is blended with metal or fibers into yarn. Taiwan continues to invest in these and other new technologies to manufacture textiles for sports wear and active wear. Starting 1 ½ years ago, Taiwan Ministry of Economic Affairs began to certify performance of these products under the "Taiwan Functional Textiles" label.

- Taiwan firms with investments in other markets such as the PRC, Vietnam, Indonesia and Thailand but have their head office functions in Taiwan. Industry sources estimate that Taiwan firms buy between 30 to 40 percent more cotton in Taiwan than is reflected in bilateral import statistics. The extra 300,000 to 400,000 bales of cotton mainly go to Taiwan-owned sites in Southeast Asia and China.

- Textile formulations that can boost the weak brand equity of Taiwan textile and garment manufacturers.

- Cotton for use in textiles exported to the PRC and Southeast Asia.

When choosing between cotton suppliers, major Taiwan importers base their buying decisions on reliability of supply, price, quality and the availability of technical support. Importers are also sensitive to price differences between suppliers and the presence of pests such honeydew, which leaves sticky deposits or naps. Importers also pay particular attention to damaged fibers caused by mechanical picking or overly aggressive ginning. According to local spinners, Xinjiang (PRC) and African cotton have inferior quality to U.S. products, despite their long fiber length. The quality gap between U.S. and other cotton origins means that U.S. cotton will likely remain the most important component of Taiwan textile products.

The Cotton Council International (CCI) and Cotton Incorporated are very active in the Taiwan market. Cotton Inc. provides technical support to Taiwan textile mills, which encourages the use of U.S. cotton. CCI promotes the use of U.S. cotton through the Cotton USA Mark, which it supports through an extensive media campaign. As a result, recognition of the Cotton USA mark is very high in Taiwan, which encourages Taiwan textile producers to use U.S. cotton. As Taiwan textile manufacturers move into more blended fabrics, there will be increasing interest in promotion programs that emphasize their non "100 percent cotton" products.

Statistical Tables

Table 1. Cotton Production, Supply and Demand, Metric Tons

PSD Table

Country Taiwan

Commodity Cotton

	2004 USDA Official [Old]	Revised Post Estimate [New]	2005 USDA Official [Old]	Estimate Post Estimate [New]	2006 USDA Official [Old]	Forecast Post Estimate [New]	UOM
Market Year Begin		08/2004		08/2005		08/2006	MM/YYYY
Area Planted	0	0	0	0	0	0	(HECTARES)
Area Harvested	0	0	0	0	0	0	(HECTARES)
Beginning Stocks	76422	76422	106251	100000	89921	85000	(MT)
Production	0	0	0	0	0	0	(MT)
Imports	291100	291180	244942	250000	0	240000	(MT)
MY Imp. from U.S.	0	148013	0	129000	0	128000	(MT)
TOTAL SUPPLY	367522	367602	351193	350000	89921	325000	(MT)
Exports	0	0	0	0	0	0	(MT)
USE Dom. Consumption	261272	267602	261272	265000	0	260000	(MT)
Loss Dom. Consumption	0	0	0	0	0	0	(MT)
TOTAL Dom. Consumption	261272	267602	261272	265000	0	260000	(MT)

Ending Stocks	106251	100000	89921	85000	0	65000	(MT)
TOTAL DISTRIBUTION	367523	367602	351193	350000	0	325000	(MT)

Source: Taiwan Customs

Table 2. Import Trade Matrix for Raw Cotton, Metric Tones

Import Trade Matrix

Country	Taiwan		
Commodity	Cotton		
Time Period	08/2004	Units:	Metric ton
Imports for:	2004		**2005**
U.S.	148013	U.S.	80000
Others		Others	
India	19296		25200
Brazil	18004		33000
Mali	16675		13000
Pakistan	14122		4800
Burkina Faso	13031		9300
Zimbabwe	7768		8400
Uzbekistan	7202		1000
Togo	5625		2400
Tanzania	5602		4400
Total for Others	107325		89800
Others not Listed	35780		50200
Grand Total	291118		220000

Source: Taiwan Customs

Table 3. Cotton Import Price CIF, Cents per Pound

Prices Table

Country Taiwan

Commodity Cotton

Prices in	US$	per uom	Pound	
Year	2004	2005	% Change	
Jan	66	55	-17%	
Feb	68	51	-25%	
Mar	70	48	-31%	
Apr	68	47	-31%	
May	67	49	-27%	
Jun	65	48	-26%	
Jul	66	49	-26%	
Aug	60	50	-17%	
Sep	60	52	-13%	
Oct	57	52	-9%	
Nov	58	51	-12%	
Dec	57	52	-9%	
Exchange Rate	NT$32.17	Local Currency/US $		
Date of Quote	2005 Ave.			

Table 4. Number of Operating Spindles in 2003 - 2005 by Yarn Type

Type of Yarn Produced	Year	Ring Spindles	Open-end Spindles	Jet Spinning Spindles
Cotton Yarn	2003	546,652	25,885	
	2004	541,256	28,261	
	2005	588,965 (+9%)	33,324 (+17%)	
CVC Blended Yarn	2003	389,476	9,116	360
	2004	346,040	11,600	
	2005	320,081 (-8%)	9,826 (-15%)	
T/C Blended	2003	256,908	16,953	1,800
	2004	254,600	15,996	600
	2005	201,785 (-21%)	12,447 (-22%)	1,800 (+200%)
Spun Polyester Yarn	2003	261,201	5,952	996
	2004	222,819	5,868	1,440
	2005	175,558 (-21%)	6,698 (+14%)	0 (-100%)
100% Rayon & T/R, T/W Blended Yarn	2003	348,709	8,248	360
	2004	322,934	8,491	1,116
	2005	265,594 (-18%)	5,101 (-40%)	0 (-100%)
Acrylic & Acrylic/ Blended Yarn	2003	44,356	714	
	2004	43,666	481	
	2005	50,604 (+16%)	1,096 (+128%)	
Total Operating Spindles	2003	1,847,302	66,868	3,156
	2004	1,731,315	70,697	3,156
	2005	1,602,587 (-7%)	68,422 (-3%)	1,800 (-43%)
Source: Annual surveys conducted by the Taiwan Spinners' Association (TSA), http://www:tsa.org.tw/				

Table 5. Taiwan Imports of Textile Products for 2004 & 2005

Textile Imports	Volume in 1,000 mt			Value in $1,000,000		
Item	2005	2004	% of Change	2005	2004	% of Change
Fiber	393	364	+7	532	584	-8
Yarn	119	144	-17	394	471	-16
Fabric	75	107	-14	481	588	-10
Apparel	101	86	+5	1,028	818	+9
Accessories	53	41	+5	170	227	+8
Total	744	745	0	2,608	2,688	-3

Source: The Taiwan Textile Federation (TTF)

Table 6. Taiwan Exports of Textile Products for 2004 & 2005

Textile Exports	Volume in 1,000 mt			Value in $1,000,000		
Item	2005	2004	% of Change	2005	2004	% of Change
Fiber	799	923	-13	1,141	1,216	-6
Yarn	1,018	1,104	-7	2,265	1,229	+1
Fabric	1,251	1,503	-15	6,760	7,204	-4
Apparel	81	74	-24	1,307	1,302	-21
Accessories	102	126	-15	336	588	-3
Total	3,253	3,731	-12	11,811	12,539	-6

Source: The Taiwan Textile Federation (TTF)

Table 7. Cotton Yarn & Cotton Fabric Production, 1998-2005

Cotton Yarn and Cotton Blended Yarn in mt			Cotton Fabric & Cotton Blended Fabric in 1,000 square meter		
Year	Production	% of Change	Year	Production	% of Change
1998	363,947	-0.31%	1998	983,979	1.38%
1999	353,590	-2.85%	1999	1,061,736	7.90%
2000	337,566	-4.54%	2000	1,059,629	-0.20%
2001	313,601	-7.10%	2001	831,566	-21.53%
2002	306,360	-2.31%	2002	793,071	-4.52%
2003	285,339	-6.84%	2003	704,750	-11.14%
2004	279,885	-1.91%	2004	650,749	-7.67%
2005	261,438	-6.60%	2005	508,877	-21.80%

Source: Industrial Production Statistics by the Department of Statistics, Ministry of Economic affairs (MOEA)

Table 8. Cotton Yarn Imports for 2004 - 2005, Metric Tons

HS5204	CY2004	CY2005	Change
Turkey	0	6	+820%
Japan	1	3	+71%
France	2	1	-9%
China	0	1	-
7 some Others	2	3	+50%
Total	**5**	**14**	**+163%**
HS5205	**CY2004**	**CY2005**	**Change**
India	19,657	14,857	-24%
Pakistan	9,922	12,114	+22%
Indonesia	5,770	4,032	-30%
Vietnam	2,318	1,859	-19%
Thailand	361	630	+74%
Peru	466	451	-3%
Korea	279	426	+56%
14 Others	1,483	247	-84%
Total	**39,256**	**34,616**	**-11%**
HS5207	**CY2004**	**CY2005**	**Change**
India	143	287	+100%
Pakistan	52	86	+63%
Hong Kong	136	44	-67%
China	0	8	++
Thailand	16	5	-66%
Italy	3	5	+64%
9 Others	28	11	-61%
Total	**378**	**446**	**+17%**
Total Yarn	**39,639**	**35,076**	**-12%**

Table 9. Cotton Yarn Exports for 2004 – 2005, Metric Tons

Exports of Cotton Yarns in CY 2004 - CY2005			
HS5204	**CY2004**	**CY2005**	**Change**
Cambodia	152	189	+24%
China	80	114	+42%
Nicaragua	154	110	-28%
Hong Kong	57	42	-26%
Vietnam	75	39	-48%
Indonesia	20	35	+71%
Malawi	17	33	+87%
29 Others	176	130	-27%
Total	**731**	**692**	**-5%**
HS5205	**CY2004**	**CY2005**	**Change**
Hong Kong	20,252	26,422	+30%
China	11,172	25,289	+126%
Indonesia	2,338	1,849	-20%
Vietnam	554	888	+60%
Philippines	1,436	573	-60%
Singapore	301	236	-21%
Malaysia	1	190	+++
Thailand	205	184	-10%
South Africa	33	73	+121%
Australia	90	66	-26%
9 Others	256	96	-63%
Total	**37,139**	**56,479**	**+52%**
HS5207	**CY2004**	**CY2005**	**Change**
China	1,604	3,682	+129%
Hong Kong	7,417	3,517	-51%
Indonesia	221	140	-36%
Malaysia	127	137	+7%
Vietnam	7	84	++
Honduras	70	47	-32%
14 Others	918	163	-83%
Total	**10,364**	**7,824**	**-24%**
Total Yarn	**48,234**	**64,995**	**+34%**

Source: Taiwan Customs

Table 10. Imports of Cotton Fabrics for 2004 – 2005, Metric Tons

HS5208	CY2004	CY2005	Change
China	6,976	5,962	-14%
India	864	347	-59%
Pakistan	486	278	-42%
Japan	323	253	-21%
Thailand	357	188	-47%
Korea	92	179	+94%
Hong Kong	101	135	+33%
Indonesia	62	123	+96%
Singapore	132	96	-27%
23 Others	184	269	+46%
Total	**9,587**	**7,830**	**-18%**
HS5209	**CY2004**	**CY2005**	**Change**
Japan	677	660	-2%
China	996	596	-40%
Korea	220	261	+18%
Pakistan	189	121	-35%
Hong Kong	135	120	-10%
Philippines	14	98	+590%
Malaysia	33	53	+59%
United States	33	42	+25%
Italy	44	30	-30%
Indonesia	234	29	-87%
20 Some Others	263	91	-66%
Total	**2,838**	**2,101**	**-26%**
Total Fabrics	**12,425**	**9,931**	**-20%**

Source: Taiwan Customs

Table 11. Exports of Cotton Fabrics for 2004 – 2005, Metric Tons

HS5208	**CY2004**	**CY2005**	**Change**
Hong Kong	6,940	7,188	+3%
Philippines	2,427	2,277	-6%
China	1,417	1,835	+29%
Indonesia	1,741	1,508	-13%
Sri Lanka	1,610	1,407	-12%
Myanmar	995	1,356	+36%
Cambodia	1,686	1,049	-37%
Viet Nam	655	799	+21%
United States	190	763	+299%
Thailand	1,010	701	-30%
Malaysia	625	610	-2%
49 Others	2,966	2,234	-25%
Total	**22,262**	**21,727**	**-2%**
HS5209	**CY2004**	**CY2005**	**Change**
United States	5,474	5,317	-2%
Nicaragua	2,639	3,343	+26%
Hong Kong	4,376	2,583	-40%
Jordan	488	2,025	+314%
Vietnam	1,794	1,816	+1%
South Africa	2,350	1,757	-15%
Philippines	2,374	1,379	-41%
United Arab Emirate	2,487	1,348	-45%
Cambodia	1,151	1,345	+16%
China	1,013	1,316	+29%
55 Others	13,537	8,570	-37%
Total	**37,683**	**30,799**	**-18%**
Total Fabrics	**59,945**	**52,526**	**-13%**

Source: Taiwan Customs