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Portugal

Cotton and Products

Annual

2000

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Report Highlights:

Only recently reintroduced in Portugal, cotton area is forecast to be only 50 ha during 2000. Depressed by the high carry-over of yarn stocks, total 1999/00 raw cotton imports will tend to remain at an estimated 145,000 Mt, of which estimated 475 Mt will be sourced from the U.S. Affected by the strength of the dollar and freight charges, the only U.S. cotton competitive is PIMA. 1 USD = 220 PTE.

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

Abandoned for many years, cotton production has recently resumed in Portugal due to CAP incentives. A total of 50 ha are forecast to be seeded in 2000. No major expansion is anticipated for the medium-term future.

Portuguese textiles will consume an estimated 146,060 Mt of cotton during the 1999/00 marketing year, below the 156,500 Mt consumed the previous year. Industry cotton use rates remained depressed during the last months of CY-1999, as the sector gradually absorbed the vast yarn stocks carried over from the previous marketing year. The situation has improved as of the beginning of 2000, with yarn stocks reportedly reduced, while sectors like home textiles are in a period of moderate expansion. With the sector reaching a period of stability, total 2000/01 cotton consumption is forecast to increase to 151,300 Mt. The EU import liberalization schedule set under the GATT Accords, and the China WTO-Accession rank among the most important factors affecting medium-term future. In particular, the total liberalization of trade scheduled for January 1st of 2005 will tend to displace Portuguese textiles in certain more sensitive areas, including cotton spinning.

Due to large carry-over of yarn stocks, 1999/00 cotton imports are expected to drop around 7% relative to the previous year to an estimated 145,000 Mt. The bulk of the imports will be sourced from Equatorial Africa, which profits from geographic proximity, low freight costs, and well-established industry ties. Affected by the high dollar rate, U.S. cotton exports to Portugal will tend to remain at a relatively reduced 475 Mt level, consisting only of Pima cotton, the only cotton type currently competitive in the market. A moderate recovery in total trade is forecast for 2000/01 due to improved textile activity. With a stable market share, total 2000/01 cotton imports from the U.S. are expected to remain at a forecast 490 Mt. Given the incipient level of domestic production, Portuguese medium-term cotton imports will tend to decline moderately, reflecting the current outlook in consumption. The U.S. share in total will depend on U.S. prices relative to other suppliers. U.S. Pima will maintain a position in the ELS market niche due to lack of alternative ELS cotton suppliers. All other cotton types, including the popular SJV and Orleans-Texas will only be exported during the periods when market conditions justify the higher costs.

Globalization trends, and the intense competition from textile producers with lower labor costs and other production advantages, make industry reformation and trade policy issues crucial for Portugal. As an EU member, Portugal has access to EU co-financed investment incentive programs, which are expected to play an important part in the national textile sector's modernization and adjustment to new conditions. Further, the GOP, which occupies the EU Presidency during the first Semester of 2000, hopes to play an important role in the definition of the list of textile products to be liberalized on January 1st of 2002, as well as in the WTO negotiations, under which it hopes to contribute to establishing fair business and competition practices between Europe and Asia.

1 USD = 220 Pte

Commodity Name: Cotton

Production, Supply & Distribution Tables

PSD Table						
Country	Portugal					
Commodity	Cotton				(HECTARES)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		08/1998		08/1999		08/2000
Area Planted	0	40	0	45	0	50
Area Harvested	0	0	0	0	0	0
Beginning Stocks	59439	58904	62052	57934	58786	56955
Production	0	152	0	171	0	190
Imports	155021	155460	160029	145000	0	150000
TOTAL SUPPLY	214460	214516	222081	203105	58786	207145
Exports	0	82	0	90	0	95
USE Dom. Consumption	152409	150000	163295	140000	0	145000
Loss Dom. Consumption	0	6500	0	6060	0	6300
TOTAL Dom. Consumption	152409	156500	163295	146060	0	151300
Ending Stocks	62052	57934	58786	56955	0	55750
TOTAL DISTRIBUTION	214461	214516	222081	203105	0	207145

PSD Table						
Country	Portugal		Conversion:	0.0045929		
Commodity	Cotton		(HECTARES)	(1,000 480 Bales)		
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	0	40	0	45	0	50
Area Harvested	0	0	0	0	0	0
Beginning Stocks	273	271	285	266	0	262
Production	0	1	0	1	0	1
Imports	712	714	735	666	0	689
TOTAL SUPPLY	985	985	1020	933	0	951
Exports	0	0	0	0	0	0
USE Dom. Consumption	700	689	750	643	0	666
Loss Dom. Consumption	0	30	0	28	0	29
TOTAL Dom. Consumption	700	719	750	671	0	695
Ending Stocks	285	266	270	262	0	256
TOTAL DISTRIBUTION	985	985	1020	933	0	951

Production

After being abandoned for many years, cotton production has resumed recently under the incentives conveyed by the Common Agricultural Policy. With a very low significance, cotton is cultivated by a few farmers in the large farmland *Alentejo* region. Cotton is currently sold into Spain. No major expansion is anticipated for cotton production.

Consumption

National 1999/00 cotton consumption is estimated to have declined relative to 1998/99 as a consequence of the large stocks of finished yarn which were carried over from the 1998/99 marketing year. The effects of the high yarn stocks depressing spinning rates continued to be felt during the second 1999 semester, in addition to increased competition from textile imports from third countries. Nevertheless, an improvement in spinning activity during the first months of 2000 are reported to have enabled cotton consumption levels to recover and total marketing year consumption to exceed earlier estimates.

Given current levels of spinning, national raw cotton consumption will tend to be up in 2000/01. In particular, the Textiles Association APT reports that current demand is fairly strong for conventional carded and combed yarn, while good prospects are considered to exist for open-end yarn in association with a forecast increase in yarn demand for denim production. Home textiles manufacturers remain among the most competitive textile areas. Favored by existing technologically advanced and fully integrated textile units, home textiles have been successfully developing market niches in third country markets, including the U.S., where the industry has been capitalizing on the advantages conveyed by the high dollar rates. However, there are sub-sectors which are not faring as well, being particularly affected by the trade globalization trends. In particular, knitters, major cotton users, are currently stagnated, while many spinners continue to operate at reduced levels, some reportedly working four shifts instead of five as before the 1998/99 Turkish crisis (see PO9019).

Cotton consumption is likely to decline over the medium-term future under the effects of the EU import liberalization (see Policy) and the growing competitiveness of Middle and Far Eastern textile manufacturers. The EU liberalization will tend to affect all textile sub-sectors, as the products to be liberalized under the GATT Accords are very sensitive to Portugal. While it is already a major competitor, China is seen as a threat to certain textile sectors after its WTO-Accession, especially in the garments area. Ultimately, rising imports of yarn and intermediate, largely undifferentiated materials will tend to depress total domestic medium-term consumption levels.

Consumption Patterns

The bulk of the local cotton consumption continues to be accounted for by SM cotton (1.3/32 and 1.1/16) for ring-spinning. Dropping cotton prices during CY-1999 encouraged purchase of higher quantities of SM cotton instead of SLM cotton, as SM cotton prices, even with the price premium, remained still very low. Trade sources report that currently SM cotton use remains at some 60% of the total, unchanged from a year ago. Equatorial cotton accounted for the larger share of SM as well as for the larger portion of the total 1999/00 cotton use, unchanged from before. SLM cotton (1.1/16 and 1.1/8) for open-end use accounts for almost all of the remaining 40% cotton consumption, mostly sourced from the FSU and Central Africa. ELS cotton use

remains depressed by the importation of large quantities of thread by the Portuguese textiles. Local trade estimates ELS consumption at about 1,500 to 2,000 Mt.

U.S. cotton use continues to be only PIMA cotton. Local industry interest in Orleans-Texas cotton and California - SJV cotton remains high, but demand remains depressed by the high freight charges (see *Trade*). No significant changes are anticipated for 2000/01.

Industry Structure

The Portuguese spinning industry is comprised of 50 to 60 mills, of which some 10 are considered to be in optimal financial conditions, 15-20 below-optimal and the remaining in a clearly bad financial state. Out of the most competitive 10 mills, two are in the 1,000 Mt/month consumption range, six in the 650 to 700 Mt/month and two in the 400 Mt/month ones. Most of the units employ ring-spinning technology, which can be found in both the more advanced and the more obsolete plants. Renovation efforts continue to be poured into the sector, sustained by national and EU funds (see *Policy*). The industry leaders - fully integrated with fabric or household production units - account for about 80 percent of total cotton consumed. The industry has become more concentrated with the gradual elimination of the more obsolete units. No investment has been directed to additional spinning capacity. Total operating spindles are estimated at about 1.1 million.

Produced yarn is mostly n.e. 30, 24 & 20 in the case of ring-spinning units, and 16,12 & 10 in that of open-end ones. Carded and "open-end" yarn share in total is estimated at 80%. In association with the need to produce higher-quality yarn and fabrics, combed yarn share in total is increasing. The Portuguese spinning industry is associated under the Portuguese Association of Textiles and Garments (APT), which represents the sector in EU textile organizations.

The textiles industry remains one of Portugal's leading industries in economic, social and labor terms. Key industry indicators in 1999, published by the textile studies center CENESTAP are given in Table below. Among other things, the Table shows the deterioration in the financial situation of Portuguese textiles during 1999 compared to 1998 as reflected by most indicators.

PORTUGAL: Textile Industry in Figures

	1998	1999
Units: Numbers		
Number of Companies	N.A.	N.A.
Employment	270,073	259,072
Units: Million Pte (1 USD = 220 Pte)		
Volume of Sales	1,977,396	1,782,372
Exports	965,314	951,336
Imports	643,429	614,463
Sales Volume in Internal Market	1,012,082	831,036
Apparent Consumption	1,655,512	1,445,499
Units: Percentage (%)		
Coverage Rate	150%	154.8%
Internal Market Share	61.1%	57.5%
Exports/Sales Volumes	48.8%	53.4%
% Sales In the Internal Market	51.2%	46.6%
Units: 1,000 PTE		
Sales Volume/Worker	7,320	6,880

SOURCE: TEXTILE STUDIES CENTER CENESTAP.

Considerable challenges face the Portuguese textile industry, namely the 2005 EU trade liberalization and the China WTO Accession. Current sector strategies point toward the development of high quality textiles in specific areas, including household linen, fashion and so-called technical textiles, i.e., car seats and others. Further, in critical textile sub-sectors like fabrics production for garments, the trend will be for the local producers to diversify portfolios of clients in order to reduce risks by avoiding excessive concentration of users which have been identified as especially vulnerable to the competition of non-EU textile exporters, especially China. Industry re-structure is another important pillar of the sector's defense strategies, for which important financial supports have been made available to Portuguese textiles (see *Policy*).

Trade

General

Affected by the high Turkish yarn imports, 1998/99 Portuguese cotton imports were down by 7% relative to the previous year. Continuing depressing effects of high stocks of finished yarn in spinning levels are expected to lead to another reduction in total cotton imports during the 1999/00 marketing year. Full-year reduction will not be as significant as the August/December 1999 trade numbers suggest, with rising spinning activity levels as of the beginning of 2000 enabling a recovery of past losses. Further, trade sources report that many orders were placed at the end of CY-1999 as the millers tried to capitalize on low raw cotton prices which are not yet reflected in available trade data.

Due to anticipated higher import prices and the continuation of current conditions in the textiles market, total cotton imports are likely to decline again in 2000/01.

Trade Trends

The 1999 crisis translated into a reduction in 1998/99 and 1999/00 cotton imports from most regions, namely from Equatorial Africa, Middle/ Far Eastern origins and from the FSU. As tends to happen in periods of crisis, total August/December 1999 cotton imports from the EU were up, favored by the possibility of buying cotton in small quantities and bringing it in by rail.

Total 1998/99 cotton imports from the U.S. were reduced to roughly a third of their previous year level, affected by the textile industry crisis, as well as by the higher dollar rate. Market conditions only allowed for the importation of PIMA cotton, which is favored by the existence of limited competing origins. As for all other cotton types, namely Orleans-Texas and SJ Valley cotton, high CIF import prices made importation from the US prohibitive. A moderate recovery in cotton imports took place during August/December 1999, which resulted from improved competitiveness of U.S. PIMA against Israeli and Egyptian ELS cotton. No major change in total cotton imports from the U.S. is anticipated for 2000/01, given continuing high dollars and high freight charges, among other restrictive factors (see below).

Factors Affecting the U.S.

Several affect US sales performance. Export prices, aggravated by the high dollar rates and high freight costs for cotton shipments into Portugal, are higher in comparison with the costs of cotton sourced from other origins. This cost disadvantage is further aggravated by quality restrictions associated with a reported high incidence of neps. Finally, a reported lack of flexibility on the part of US exporters have led to the idea that U.S. exporters are too large for the Portuguese scale. Among others, it has been quoted that the practice of paying monetary compensation to the buyers rather than replace shipments that fail to meet agreed standards does not satisfy the Portuguese users who are used to more flexibility on the part of African suppliers.

Trade Matrixes

Portugal: 1998 & 1999 August-to-December Cotton Imports

Import Trade Matrix			
Country	Portugal		
Commodity	Cotton		
Time period	Aug/Dec.	Units:	Metric Tons
Imports for:	1998		1999
U.S.	154	U.S.	164
Others		Others	
EU	3319	EU	3661
Tchad	10888	Tchad	5614
Cameroon	6893	Zimbabwe	5249
Mozambique	5054	Cameroon	4822
Zimbabwe	4691	Mozambique	4786
Mali	3961	Syria	4010
Syria	3582	Mali	3860
Burkina Faso	3568	Burkina Faso	2609
Senegal	2738	Uzbekistan	2235
Uzbekistan	2293	Benin	1783
Total for Others	46987		38629
Others not Listed	18241		11175
Grand Total	65382		49968

Export Trade Matrix			
Country	Portugal		
Commodity	Cotton		
Time period	Aug/Dec.	Units:	Metric Tons
Exports for:	1998		1999
U.S.	0	U.S.	0
Others		Others	
Hungary	35	Hungary	35
Total for Others	35		35
Others not Listed	0		0
Grand Total	35		35

SOURCE: NATIONAL STATISTICS INSTITUTE, INE.

Portugal: 1999/00 Estimated & 2000/01 Forecast Cotton Imports

Import Trade Matrix			
Country	Portugal		
Commodity	Cotton		
Time period	August/July	Units:	Metric Tons
Imports for:	1999		2000
U.S.	475	U.S.	490
Others		Others	
EU	10620	EU	10990
Tchad	16290	Tchad	16850
Zimbabwe	15230	Zimbabwe	15750
Cameroon	13990	Cameroon	14470
Mozambique	13880	Mozambique	14370
Syria	11640	Syria	12040
Mali	11200	Mali	11590
Burkina Faso	7570	Burkina Faso	7830
Uzbekistan	6480	Uzbekistan	6710
Benin	5170	Benin	5350
Total for Others	112070		115950
Others not Listed	32455		33560
Grand Total	145000		150000

Export Trade Matrix			
Country	Portugal		
Commodity	Cotton		
Time period	August/July	Units:	Metric Tons
Exports for:	1999		2000
U.S.	0	U.S.	0
Others		Others	
Hungary	90	Hungary	95
Total for Others	90		95
Others not Listed	0		0
Grand Total	90		95

Policy

The problems in the textile industry rank at the top of the GOP's political agenda owing to the sector's significance in labor, social and economic terms.

Due to the importance of the textile sector, considerable EU and national financial resources have been conveyed to the sector through specific development programs. In the past, investment efforts concentrated primarily in the production area i.e. modernization and improved efficiency, and less in other areas like product design and marketing. This will tend to change under the effects of the gradual EU trade liberalization, which will force the local textile industry to reposition itself in the market and invest in areas that will enable it to offer differentiated products in identified target markets, especially in the EU.

The Portuguese Ministry of Economy reports that 2.7 billion USD will be made available for structuring investment in the Portuguese textiles sector under the new EU co-financed 5-year Economy Operational Program which comes into force in May of 2000. The Ministry of Economy also reports that 747 textile factories received financial support during the 1995-99 period under different EU co-financed Programs, through which 1,765 projects totaling 1.5 billion USD of investment (about 0.5 billion USD subsidy) have been approved. Below please find Table indicating projects approved under the most important investment program in the textiles area, the Initiative for the Modernization of the Textiles Industry IMIT, as of March 31, 2000.

**Portugal: Projects Approved under the 1995-99 Program
Initiative for the Modernization of the Textiles Industry IMIT**

Measure	Amounts Approved		Subsidy Paid
	Investment	Subsidy	
<u>Modernization</u>			
• Diagnosis and Auditing	1,434	829	564
• Corporate Modernization Plans	245,797	99,971	53,988
• Promotion of Factors of Competitiveness	5,709	2,214	349
• Supports to Certification & Calibration	2,163	1,281	455
• Demonstration Actions	3,682	2,171	898
• Fashion & Design Centers	404	204	58
Sub-Total	259,189	106,670	56,312
Financial Engineering	10,500	9,000	5,500
Other	7,406	2,214	1,577
Sub-Total	17,906	11,214	7,077
TOTAL	277,095	117,884	63,389

SOURCE: MINISTRY OF ECONOMY (Updated by March/31/2000). 1 USD = 220 Pte.

International trade policy issues are of utmost importance to this sector, drawing considerable efforts from the GOP. At the EU presidency during the first Semester of 2000, the GOP defends the implementation of the EU import liberalization schedule agreed under the Gatt Accords, under which the third stage of liberalization comes into effect on January of 2002, and full liberalization on January 1st of 2005. Until now, APT considers that the products which have been liberalized under GATT are of no major consequences to the industry, but that from now on, all remaining ones to be liberalized are very sensitive. Under the WTO negotiations, the most important point for the local textile industry, and the one which is defended by the GOP is the issue of market access and reciprocity, especially between Europe and Asia. The fact that most countries have higher import tariffs than the EU is considered to create unfair conditions of competition for European textile manufacturers, which must compete domestically with textiles imported at low tariffs, but are faced with high import tariffs in foreign export markets. Import tariff regimes, but also dumping, environmental, social and labor practices will come under fire in the WTO negotiations, as fundamental in the re-establishment of competitiveness relative to Turkish, Pakistanis, Indian, and now also Chinese textiles.

Marketing

PIMA is the most valued U.S. cotton type due to limited ELS cotton suppliers, restricted to Israel and Egypt. Also facing a high demand, SJV and Texas-Orleans cotton cannot be competitively sold here given the current prices and transportation costs.

The Portuguese market is a difficult one for the U.S. given the local habit of using African cotton, and the fact that the parameters in which U.S. cotton is superior to cotton of different origins are not considered justifiable by the local industry in view of the additional costs. Nevertheless, minimum marketing efforts need to be channeled into Portugal. These include trade servicing and Seminars/Conferences on crop quality as well as on any technological development to the advantage of U.S. cotton use. An estimated share of 80 percent of total cotton imports is made directly by the larger millers, the remaining 20 percent being handled through independent traders. Traditional importers (actually buying the cotton to re-sell locally) are limited to 4 or 5.

Third country exporters rely basically on price advantage and face-to-face contacts. Other than the US, only Chad, Mali and Zimbabwe have in-country representatives. A few others, mostly European exporters which also represent FSU cotton, send occasional trade missions to visit Portuguese importers. Some exporters - namely from Zimbabwe, Israel, Argentina and FSU - occasionally bring a group of importers into their countries. No third country competitor is engaged in the same type of sector-wide promotional activities which have been carried out by the U.S. in the past.