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The Philippines

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Report Highlights:

The Philippine cotton industry continues to experience problems. Production in this marketing year will drop to a record low 760 MT. While the newly formed Cotton Development Administration has an ambitious revitalization program proposed, funding has not been secured. The lull in consumption continues to be hampered by comparatively high production costs in the milling industry. With the closure of three mills in 1998, the marketing of some brands has been discontinued while others have been consolidated by the remaining millers.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
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Section I. Situation and Outlook

Since beginning in the 1970's, the Philippines cotton industry has never produced more than 25 percent of its cotton requirements and in more recent years it has provided no more than 5 to 10 percent of its domestic spinning needs. Mills that were the least efficient operations have closed. In the past 2 years the number of spinning mills have declined from 50 plants to 35.

Production for 1998 reached a record low of 760 MT. The Cotton Development Administration has plans for increasing production under the Agrikulturang MakaMASA program for cotton. However, funding for the program has not yet materialized. With planting normally taking place as early as July and continuing through September, prospects do not appear good for implementing this program.

The lull for domestic consumption is no longer due only to inefficient mills but also high labor and energy costs relative to other countries. With more than 80 percent of mill consumption depending on domestic demand, a recovery in the cotton industry may not materialize until 2000.

Section II. Statistical Tables

PSD Table						
Country	Philippines					
Commodity	Cotton				(HECTARES)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		08/98		08/99		08/00
Area Planted	0	2000	0	3000	0	3000
Area Harvested	7000	2000	0	3000	0	3000
Beginning Stocks	18942	18942	17854	17972	0	17172
Production	2177	760	0	1000	0	1500
Imports	56609	32885	0	35000	0	37000
TOTAL SUPPLY	77728	52587	17854	53972	0	55672
Exports	0	0	0	0	0	0
USE Dom. Consumption	59875	34615	0	36800	0	40000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	59875	34615	0	36800	0	40000
Ending Stocks	17854	17972	0	17172	0	15672
TOTAL DISTRIBUTION	77729	52587	0	53972	0	55672

Import Trade Matrix			
Country	Philippines		
Commodity	Cotton		
Time period	Jan-Dec	Units:	Jan-Feb
Imports for:	1998		1999
U.S.	14400	U.S.	3115
Others		Others	
Australia	4923	Australia	
Argentina	3190	Argentina	405
Cameroon	1577	Cameroon	100
France	1394	France	39
Mexico	863	Mexico	869
Pakistan	1007	Pakistan	16
South Africa	1487	South Africa	
Syria	1085	Syria	
Russia	614	Russia	
Cote d' Ivoire	2794	Cote d' Ivoire	
Total for Others	18934		1429
Others not Listed	6790		1637
Grand Total	40124		6181

Section III. Narrative on Supply and Demand, Policy & Marketing

Production

The Philippines has never produced more than 25 percent of its domestic consumption needs. In more recent years this has declined to below five percent and in 1998/99 Philippine cotton production will reach an historical low of 760 MT or less than two percent of domestic needs.

Planting takes place during July-September while harvest takes place in January-February. For the 1998/99 crop, in both southern Mindanao and the other growing regions, rains in January had a negative impact on the prospects of the 2,000 hectares planted. Southern Mindanao usually comprises 65 percent of total cotton area on fields of up to 10 hectares and depends on rain. The balance of the cotton produced is in Luzon and the Visayan and is characterized by small fields of 1 hectare or less but which are irrigated. Overall yields for the Philippines are generally 1:1 with slightly better results in the irrigated farms. The Cotton Development Authority (CDA) has determined that cotton production in the Philippines has a per hectare cost of 17,535 pesos for irrigated land and 12,140 pesos for rain-fed (pesos per U.S. dollars approx. 37.5).

In 1999/2000, the Philippines hopes to initiate its Agrikulturang MakaMASA Cotton Program. Based on the 1998 Cotton Industry Development Law (R.A. 8486), this revitalization program is to provide certified seeds and other inputs, an integrated pest management program, technical assistance, financing, additional research, expanded extension efforts and an increase in irrigated areas. Based on this program the Cotton Development Administration is projecting a rapid expansion in area and production beginning with the 1999/2000 season. Their forecast for 1999/2000 is to increase area to 7,000 hectares and production to 3,300 MT with continued increases in subsequent years with a goal of 20 percent self sufficiency. CDA also hopes to double yields over the next five years.

Post doubts these projections will be met because this program has still not been fully funded and the outlook for such funding is not bright. Other impediments to reaching these goals include failure to focus the program on one or two areas with the best potential; lack of access to credit facilities; the high cost and scarcity of inputs; recurring infestations of bollworm which lead to withdrawal of land from cotton production; and the competition from corn.

Consumption

Consumption in 1998/99 is estimated at 34,615 metric tons, 37 percent below 1997/98, reflecting the loss in consumption associated with closure of three mills in 1998. The factors impacting domestic mill consumption continue to be competition from cheap imported yarns and fabric. Since many of the less efficient mill operations have closed, the remaining problem in the Philippines is the cost of production relative to its competitors. The Philippines has the highest labor and energy costs in the region (see table). Projections for consumption in 1999/2000 to reach 36,800 MT and 40,000 MT in 2000/2001 are based more on improvements in the export market for the Philippines, rather than substantial change in domestic demand. The Textile Millers Association of the Philippines (TMAP) does not see much improvement without any changes in its costs of production. Data provided by TMAP, show the Philippines costs per yard of fabric at \$0.98, more than \$0.50 higher than other countries. Although the export market is still promising, the milling industry still depends on

the demand from domestic market for more than 80 percent of its output. Profitability of the milling industry and erosion of profits from domestic textile sales activity is also impacted by smuggled yarns, fabrics and textiles. Smuggling is not quantified but thought to be substantial in the Philippines.

In agreement with the CDA, the TMAP pays farmers for domestic cotton at a 10 percent premium above import prices as an incentive to produce more cotton. In addition to the lack of domestic raw cotton supplies, many farmers get their seeds from traders and rather than certified seed from CDA. Although Philippine cotton quality is generally quite good, spinners can't depend on consistent spinning characteristics from what they receive. TMAP thinks the best prospect for the Philippines is to attract foreign investment to producing greige cotton and cotton blend fabrics and finish them under contract specifications for the export market.

Trade

Imports for the 1998 marketing year were 32,885 MT, 28 percent below that for MY 1997. U.S. share for MY 1998 was 36 percent. The continued weak domestic consumption pattern has been reflected in imports with the 1999 United States weekly export sales showing accumulated exports slightly lower than last year, despite the low availability of domestic supplies. The tariff on cotton is 3 percent and the TMAP is seeking to have it lowered to zero under the AFMA. However, the VAT at 10 percent is more formidable for importers. The VAT is required to be paid on imports of cotton upon entry into the country as opposed to when the finished product is presented for sale.

Stocks

After declining to the lowest levels for 1998/99, stocks are not expected to return to levels of recent years which have exceeded 19,000 MT. With the closing of more than 15 mills in the last two years, the level of stocks are expected to level off around 17,000 MT increase much further until the industry's costs of production are much improved or some significant investment takes place.

Policy

Cotton Development Administration (CDA) was formed in 1998 by combining the Philippine Cotton Corporation (PhilCotton) and the Cotton Research and Development Institute (CRDI). While it has drafted an ambitious cotton development plan (outlined above), it has not yet been fully funded.

Marketing

The Philippine milling industry imports primarily medium staple length cotton. The strong denim industry relies on shorter staple cotton. So the major problem facing the milling industry continues to be cheap yarn and fabric imports along with high costs of production compared to that in neighboring countries in the region. The table on Input Costs of Woven Open-End Yarn Fabric for 1997, shows the Philippines having the highest costs of production outside of Italy.

Despite the problems with production and consumption, COTTON USA Mark promotions in the Philippines is rated the higher for unaided recognition than any other country in the world. Despite mill closures, there is still growth in the number of licensees and activity for new local product brands. Another plus is that while consumer promotions in 1998 were limited to children's wear and inner garments, in 1999 all garment types will be tapped thru the participation of the Philippines' largest retailer.