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Poland

Cotton

Annual Report

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Report Highlights: Poland's cotton utilization is declining in the face of strong competition from imported textiles. Cotton imports are expected to include a larger proportion of higher quality cotton as the industry shifts to production of higher quality textiles for the domestic and EU markets.

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

At 76,000 tons in 1998, Polish cotton imports were 11 percent lower than 1997 levels. The continued decrease in international prices has not prompted any increases in Polish cotton purchases. This is primarily the result of poor conditions in the Polish textile industry which may become even worse as foreign investors' interest in providing financial and managerial assistance declines. Textile manufacturers also blame the government for not limiting extremely cheap textile imports from Asia, which lower the demand for locally-made cotton products. There is some hope, among importers, that lower prices may yet result in slightly higher imports in MY 1999/2000.

Central Asian cotton still dominates the Polish import market. This is due to slightly lower commodity as well as transportation costs. Deliveries of Asian cotton arrive through Baltic ports which decreases the costs of delivery. According to U.S. export statistics, U.S. cotton exports to Poland increased 10 percent in 1998 amounting in value terms to \$213,000 vs. \$194,000 in 1997.

Textiles from Asian suppliers offer strong competition in pricing but not quality. Polish manufacturers are beginning to voice the opinion that it is not profitable to produce cheap but low quality articles and that their future lies in the production of high quality products for the domestic and EU markets. Industry observers suggest manufacturers would be wise to focus on production of protective materials and clothing.

PSD Table						
Country	Poland					
Commodity	Cotton				(HECTARES)(MT)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	0	0	0	0	0	0
Area Harvested	0	0	0	0	0	0
Beginning Stocks	4355	4430	8274	5023	8274	4988
Production	0	0	0	0	0	0
Imports	87091	84554	76204	75673	0	76000
TOTAL SUPPLY	91446	88984	84478	80696	8274	80988
Exports	2613	548	0	1445	0	1500
USE Dom. Consumption	80559	83413	76204	74263	0	75000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	80559	83413	76204	74263	0	75000
Ending Stocks	8274	5023	8274	4988	0	4488
TOTAL DISTRIBUTION	91446	88984	84478	80696	0	80988

Production

Poland does not produce cotton.

Consumption

According to the Gdynia Cotton Association, consumption decreased in 1998/99 by approximately 10 percent from 1997/98. Total consumption is estimated at 74,263 tons for MY 98/99. Ninety percent of the cotton processed by the Polish industry falls within the first and second quality (Birinch, Ikinchi) according to Uzbek standards. In US terms, cotton processed by Poland would be graded as SM to SM Lsp - with staple length from 1-1.16" up to 1-1/8". The remaining 10 percent would be classified within the lower Uzbek grades of III and IV (Uchinch, Turtinch) or, in US terms, SLM to LM Sp.

Yarn production decreased by 14.2 percent in 1998. CY 1998 production of cotton and cotton-blend fabrics amounted to 206.5 million meters versus 218 million meters in 1997.

The overall situation in the textile industry is not optimistic. However, the quality of pure cotton and cotton-blend fabrics continues to improve thanks to the modernization of processing facilities and equipment. The value of investments in the textile industry increased by around 10 percent in 1998 and totaled US\$ 152 million. Stiff competition from textiles imported from the Far East poses a threat to the industry. Many manufacturers are making clothing from imported fabrics delivered by Western buyers. In 1998, the industry

complained that they were facing increased competition from Turkey and the Far East, which offer similar services at lower cost. This trend was also reflected in production and trade data.

Polish manufacturers are starting to focus on production of more expensive, higher quality clothing for the domestic market and the European Union. Experts believe that the Polish textile industry can be competitive if they switch to production of technical fabrics for protective clothing and other purposes. Demand for such technical fabrics is growing steadily on the world market. Polish manufacturers believe that the future of their industry lies in specialization. However specialization requires advanced technology which is very costly for individual enterprises. One possible solution would be to create joint investment ventures by groups of textile enterprises. For the time being, no such venture agreements have been consummated. According to forecasts, only a few segments of the textile industry have good prospects for development. Among the industry segments which are expected to have good prospects are producers of decorative fabrics for the furniture industry and waterproof fabrics used for bags, umbrellas and awnings.

There are 30 textile mills in Poland of which three are solely spinners. About 45 percent of the industry is concentrated near Lodz. Mills use both ring and rotor spinning. At the end of CY 1997, the number of spindles totaled 759,000 (816,200 in 1996) in cotton mills, while the number of looms decreased from 9,400 in 1996 to 8,600 in 1997, of which 7,300 (7,800 in 1996) were shuttle-less weaving looms. There is no significant government support or involvement in textile trade or for marketing; the industry operates on free market prices for both raw materials and final products.

The largest manufacturers of cotton fabrics in Poland are: BIELBAW (whose market share is approximately 10 percent); FASTY SA (with 5-6 percent); ZAMTEX (whose market share for raw fabrics is 20 percent and 5 percent for finished fabrics); ANDROPOL; BIELTEX; POLONTEX S.A.; PAMOTEX S.A. and BAWELNA SILESIA SA.

A rough estimate of utilization patterns can be made on the basis of production data:

Production	CY 94	CY 95	CY 96	CY 97	CY 98
Yarn, Cotton & cotton blend,					
- total, 1000 MT	102.8	96.2	98.5	94.6	81.5
- of total yarn:					
carded, 1000 MT	87.3	85.0	86.7	81.5	72.3
Fabrics, cotton & cotton blend, excluding unfinished (cord, transporter)					
- total, 1000 MT	42.5	39.5	43.5	41.5	38.7
- total, million meters	256.0	205.0	236.0	229.0	206.5
Threads, cotton & cotton blend,					
- total, 1000 MT	0.4	0.6	0.7	0.5	0.5
Knitted products, excl fabrics,					
- total, 1000 MT	15.2	21.9	24.2	31.1	29.0
- - clothes, 1000 MT	9.7	14.0	15.3	21.5	n.a.
- - underwear, 1000 MT	5.0	6.4	7.5	7.8	n.a.

Source: Polish Industry Yearbook 1998, Statistical Bulletin - January 1999

Trade

Based on the decrease in cotton utilization in 1998, the forecast for MY 1999/2000 cotton imports remains 76,000, similar to 1997 levels. However, imports are expected to include a larger proportion of higher quality cotton.

According to official data received from the Main Statistical Office, CY 1998 imports were 75,673 tons or 10.5 percent less than in 1997. Imports consisted of medium and long staple cotton. In addition, 2,424 tons of cotton waste were also imported. Cotton was mainly imported from Central Asian countries (Uzbekistan, Turkmenistan, Tajikistan, Kazakhstan, Kirgystan). Imports from other countries accounted for only 5,661 tons, of which 302 tons were imported from the United States. The remaining 5,359 tons were from Chad, Greece, Argentina and Benin. Long staple cotton was imported from Central Asia, Egypt, Israel and the United States.

According to the Main Statistical Office data, cotton re-exports in CY 1998 represented 1445 tons (548 tons in CY 1997). The re-exported cotton was shipped mainly to Lithuania, Germany, Italy, Switzerland and UK.

Importing companies operate independently in Poland and usually pay in cash for cotton imports without benefit of bank financing. Polish imports from Central Asia are also made through Austrian and Swiss trading companies. Cotton from Central Asia accounts for 92.5 percent of total imports, while the share of cotton from other countries decreased to 7.5 percent of the total imports (in 1997 - 9 percent). Polish companies have reported problems in obtaining high-quality cotton on a consistent basis from Central Asia. Although the quality overall level of cotton imported from Central Asia appears to be increasing, consistency of quality remains a problem. To address the consistency concerns, the Gdynia Cotton Association conducted training programs on cotton classification in 1998 for representatives from Uzbekistan. An additional training session on classification was organized in February 1999 for representatives from Uzbekistan, Belarus, Lithuania, Tajikistan, Turkmenistan and Azerbaijan.

According to the Main Statistical Office (GUS), the average price for imported cotton in 1998 was zlotys 5,475 (USD 1,566) while in 1997 the average price was zlotys 5,730 (USD 1,750) per metric ton.

In June and July 1997, prices for cotton of similar quality from Uzbekistan, Syria, the African "Franc Zone" and USA have been comparable (at Liverpool and Bremen markets). The Uzbek cotton was considerably cheaper than similar cotton from other countries. During the second half of 1997, the price of Uzbek Middling 1-3/32" cotton was higher than the price of U.S., Syrian or African cotton. An increased interest in cotton from other origins other than Uzbekistan was observed among Polish merchants and spinners in CY 1997. If these price relationships continue, it is possible that a certain portion of Central Asian cotton may be replaced by cotton from other regions.

Import Trade Matrix			
Country	Poland		
Commodity	Cotton		
Time period	Jan-Dec	Units:	MT
Imports for:	1997		1998
U.S.	3112	U.S.	302
Others		Others	
Uzbekistan	60194	Uzbekistan	58295
Tadjikistan	3242	Turkmenistan	5072
Kazakhstan	3215	Tadjikistan	3912
Turkmenistan	3090	Kazakhstan	2136
Greece	1867	Chad	1230
Kyrgyzstan	1276	Greece	623
Uruguay	750	Kyrgyzstan	597
Sudan	488	Argentina	488
Argentina	317	Benin	341
Total for Others	74439		72694
Others not Listed	2508		2677
Grand Total	80059		75673

Export Trade Matrix			
Country	Poland		
Commodity	Cotton		
Time period	Jan-Dec	Units:	MT
Exports for:	1997		1998
U.S.		U.S.	
Others		Others	
France	24	Latvia	355
Lithuania	24	Germany	250
Belgium	5	Italy	215
Czech Rep.	2	Switzerland	65
		UK	50
		Bosnia	40
		Cyprus	5
		Czech Rep.	5
Total for Others	55		985
Others not Listed	493		460
Grand Total	548		1445

Note: the Trade Matrix tables are for CY. These data are based on information from the Main Statistical Office. There is no statistical information which could be used to develop MY Trade Matrixes.

Besides cotton, Poland also imports significant amounts of semi-cotton products. In CY 1998 Poland imported 13,867 tons of cotton yarn (7,812 tons in 1997), as well as 40,256 tons of cotton and cotton-blend fabrics, i.e. 6 percent less than in 1997 (44,882 tons). The following table presents changes in trade of cotton products within the last four years.

CN Code	Product	Import tax* applicable to US prods		1995		1996		1997		1998
				MT		MT		MT		MT
			Import	Export	Import	Export	Import	Export	Import	Export
5204	Cotton thread	6 %	340	8	296	6	253	15	371	13
5205-5207	Cotton yarn	9 %	3916	740	8196	495	7812	599	13867	265
5208-5212	Cotton fabrics	14.3 %	38550	2253	41864	2674	42882	3324	40256	3125

* According to bilateral agreements, there is a 0 percent import tax on cotton thread and yarn imported from the EU and EFTA countries, CEFTA members, Baltic States, Israel and Farrow Islands. On cotton fabrics imported from the aforementioned countries, the import tax is also 0 percent with the exception of Hungary, Lithuania and Israel which are subject to import tariffs of 4.3, 5.7 and 7.1 percent respectively.

Stocks

Polish cotton stocks fell sharply in 1990 when Poland made the transition to a market economy and eliminated price controls, subsidies, and import allocations. Although the economic situation in Poland has been improving every year, interest rates remain relatively high which discourages mills from maintaining larger cotton stocks.

Beginning stocks for CY 1998 were reported at only 5,023 tons. CY 1998 ending stocks were reported at 4,988 tons. Considering similar levels of imports and consumption in MY 98/2000, stock levels in MY 99/2000 are not expected to increase.

Policy

The price paid by the industry for raw cotton reflects the import price (based on the exchange rate of the dollar) plus transport costs, import tax and importer's profit. There are no import or export subsidies for cotton or cotton products. The basic tariff for raw (excluding combed and carded) cotton is zero, and the effective tariff for combed and carded cotton is 0.3 percent. However, for developing countries the tariff for combed and carded cotton is 0.2 percent, and it is duty-free for imports from the least developed countries, the EU, EFTA,

Czech and Slovak Republics, Lithuania, Latvia, Slovenia, Hungary, Bulgaria, Rumania and Israel. The tariff for cotton and cotton blend threads is still 6 percent, for cotton and cotton blend yarns 9 percent, and for cotton and cotton blend fabrics 14.3 percent (15.4 percent in 1998). All the above cotton products qualify for preferential tariffs when imported from EU, EFTA, Czech and Slovak Republics, Hungary, Slovenia, Bulgaria, Rumania, Estonia, Lithuania, Latvia and Israel.

The textile manufacturers claim that half of all textiles imported into Poland are not registered or their value is declared lower than it should be in order to reduce import tax payments. In response, the Polish government adopted a new law to prevent excessive imports of some textiles and clothing into Poland (in force since January 1, 1998). The law provides a mechanism for introducing a quantitative quota on goods in the event they are injuring the domestic industry. These measures can be introduced for a period of up to three years. However, if they are longer than one year, the quota is supposed to be increased by at least 6 percent during the second year. The measures can be requested by a person or corporate body acting on behalf and in the interest of domestic industry. The requests must contain sufficient evidence of a significant growth of imports and proof of serious injury suffered by the domestic manufacturers as a result. The Ministry of Economy reviews all requests.

EU membership and the opportunities it may provide to Polish textile producers and traders have been the main topics of conferences and meetings organized by chambers of commerce in 1998/1999 in Poland. Polish importers are worried that after Poland joins the EU, Asian textiles on Polish market will increase considerably. As part of its accession agreement with the EU, Poland is committed to adopt EU standards and regulations. The Polish Parliament is considering new anti-dumping taxes on textiles imported from Asian countries which could be introduced as early as July 1999.

Textiles produced in Poland are still subject to strict import quotas in the United States and Canada. Quotas for the EU, Turkish and Norwegian markets were withdrawn as of January 1, 1998. Absence of quotas may be a key to maintaining or increasing cotton utilization and textile exports in 1999.

Marketing

Cotton import decisions are the responsibility of private independent importers. Attractive prices allow imports from countries of the former Soviet Union to dominate the Polish cotton market. Specific quantities of high-quality or special types of cotton are imported from other sources. Polish traders believe some imports would be possible from the United States if prices were more competitive. However, one factor working against imports from the United States is that Polish importers prefer to buy in smaller lots because of their lack of financial resources and cheap credits. In addition, most of the large number of new importers have no experience on the U.S. market. The GSM-102 credit guarantee program for Poland could help to develop market for U.S. cotton in Poland, so long as Polish banks use the program aggressively and world prices are at acceptable levels.

In addition to credit, U.S. investment and/or technology transfer would improve the U.S. position in this market. The Polish trade continues to promote the idea of developing consignment warehouses in a free trade zone within Poland, which would permit cash sales of smaller quantities of cotton to Polish users. Cotton imports from the former Soviet Union arrive by rail or by sea, imports from other origins are delivered by sea through the port of Gdynia.

The Gdynia Cotton Association (GCA) is composed of 116 members: 82 domestic and 34 foreign. The Association actively sponsors cotton trade, research on cotton processing, and arbitration. The GCA is a member of the Committee for International Co-operation between Cotton Associations - CICC, cooperates with the International Cotton Advisory Council - ICAC and is a signatory member of the Universal Cotton Standards Agreement. The GCA is the only organization of this kind in Eastern and Central Europe.