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China, Peoples Republic of

Cotton and Products

Cotton Update

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U.S. Embassy

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Report Highlights:
Cotton production has been increased to match the National Statistical Bureau's estimate of 5.32 MMT. Most of the increase in production is going into yarn production, though much of the yarn remains unsold. There has also been considerable difficulty in marketing Xinjiang cotton this year.

Includes PSD changes: Yes
Includes Trade Matrix: No
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Cotton Update

Production and Distribution

Although the National Statistical Bureau (NSB) has refused to make an official announcement, a 5.32 MMT estimate of MY 01 cotton production is now being treated as official by all sources. The increase is consistent with last year's pattern, wherein NSB's final estimate is considerably larger than estimates from other sources. This most likely reflects improvements in NSB's metholodogy over the past two years, with NSB surveys capturing a larger amount of small-scale production. Government sources report that cotton quality has improved, with Grade 1 and Grade 2 cotton accounting for about 1/3 of the crop in major production areas. Xinjiang recorded the highest quality, with roughly 60% of the cotton falling into Grade 1 or 2. Xinjiang continued to rank as China's number one cotton producer, despite severe insect problems during the summer.

Improved yields over the past two years likely reflect the growing use of genetically modified BT cotton. The use of GMO cotton has allowed large-scale cotton production to resume in the Yellow and Yangtze River valleys, where severe problems with cotton bollworm had kept production low. Farmers cite lower production costs, improved yields and lower pesticide use as the key benefits. Chinese government sources believe that GMO cotton acreage tripled from 0.5 million hectares in 2000 to 1.5 million hectares in 2000. Anecdotal evidence indicates that the use of GMO cotton could be even higher than this. Many farmers have borrowed and replanted seed used by their neighbors, while others have travelled to neighboring provinces to buy GMO seed that is not certified for use in their home province.

Although no longer a monopoly buyer, the state-owned Cotton and Jute Corporation (CJC) continues to dominate the marketing of domestic cotton. CJC reports an increase of over 20% in procurement in MY 01, of which roughly 45% was accounted for by CJC's branch in Xinjiang. By contrast, the Military Construction Corps (MCC), a major producer and marketer of cotton in Xinjiang, reduced procurement slightly. This most likely represents the gradual movement of the MCC into other products such as processed tomato products.

Driven by increases in domestic production, cotton procurement prices hit record lows in early MY 01. Prices were lowest in Henan, which procured cotton at 6,200 RMB/MT ($750/MT), and highest in Xinjiang, where the procurement price was 7,300 RMB/MT ($883/MT). High prices relative to the rest of China have made it difficult for CJC to sell the cotton it has procured, and as of January, only 10% of the cotton procured had been sold to mills. Paradoxically, low prices are reported to have caused stocks to accumulate in other parts of China as farmers withhold cotton from the market in the hope that prices will improve. Poor sales of Xinjiang cotton also reflects growing dissatisfaction on the part of domestic buyers. In recent years Xinjiang suppliers, who have independent marketing authority from CJC, have gained a reputation for unreliability, with some suppliers on time or to honor the terms of their contracts. As a result, some mills in eastern China are turning to local suppliers for cotton.

Establishment of a cotton futures market is still in discussion. Earlier rumors had given the Zhengzhou Commodities Futures Market the edge over CJC's China National Cotton Exchange

(CNCE) to establish such a market, despite CJC's greater experince with cotton marketing. Now the State Council has established guiding principles for establishing a cotton futures market, and put together a research task force including representatives from both the CNCE and the Zhengzhou market, to conduct a feasibility study. Industry experts believe that a cotton futures market probably won't be established for two or three years.

Consumption

Most of the increase in domestic cotton production is likely to be absorbed by the spinning industry. To characterize this as consumption, however, is somewhat deceptive, as industry reports indicate that much of this yarn is going into storage. Cotton prices continue to fall, making the sale of yarn manufactured from high-priced cotton purchased earlier increasingly difficult. Instead, textile manufacturers are turning increasingly to yarn imported from Pakistan and India. Yarn imports for CY 2001 increased by 16% over the previous year, to reach a total of 533,880 MT. Adding to the difficulty, China's textile industry is suffering from the effects of the world economic slowdown, with exports continuing to shrink.

Trade

Cotton imports have remained minimal over the past year, as a combination of low domestic prices and quota restrictions have kept imports out of the market. Total imports for CY 2001 were only 46.5 TMT, compared to 52 TMT in CY 2000. As part of its WTO accession agreement, China agreed to open a CY 02 tariff-rate quota (TRQ) for 819 TMT of cotton at a tariff of 1%. However, most trade sources do not expect a large amount of trade under the TRQ during MY 01. China only recently published the commodity-specific regulations for the TRQ, and is only scheduled to award quota allocations March 5. However, domestic cotton prices are now close enough to world prices to discourage large-scale imports. Poor export demand for Chinese textiles will also blunt demand for imported cotton, as imports are typically used to manufacture textiles for export.

Exports have dropped sharply due in large part to a reduction in export subsidies for Chinese cotton. China primarily exports cotton from Xinjiang, as this is the highest quality cotton. However, for political reasons, the government maintains a high price for Xinjiang cotton relative to other provinces (over $100/MT difference in 2001), and much higher than world prices. As a result, to export, China has needed to provide substantial export subsidies. In 2000 these subsidies amounted to 1,760 RMB/MT ($213/MT). In 2001, however, the government reduced export subsidies to 980 RMB/MT ($118.5/MT). As a result, exports of cotton fell from over 51,000 MT in 2000 down to 26,400 MT in 2001. Export value suffered even more, with the total value of cotton exports falling by 81% down to $44 million. Quality problems (i.e., foreign fiber) have also hindered exports, along with low world cotton prices and generally poor economic conditions. In response to poor export performance, government officials have floated a number of suggestions. Some have suggested subsidizing through local provinces, on the assumption that such local subsidies are not covered by WTO. Others have suggested efforts to reduce the cost of exporting cotton.

Policy

The Chinese government plans to continue using cotton reserves to 'regulate' the market, according to the head of the State Reserve Center. On the surface, this appears to outline a shift in the government's role in cotton markets. Instead of serving as the sole buyer and distributor of cotton, it will now become the buyer of last resort. Under this 'flexible procurement' program the government will only buy cotton when prices fall below the procurement price. If carried out in this manner, such a program could represent a step backward for China's cotton production and procurement reforms by effectively restoring a floor price for cotton. Much will depend on how the procurement price is set: at present there is a floor price in Xinjiang, while throughout the rest of China the procurement price is adjusted regularly to match market conditions. Even in the areas where the price is adjusted, however, the adjustments typically run behind market movements and procurement prices are frequently higher than market prices.

Production, Supply and Distribution

(Metric Tons)

PSD Table						
Country:	China, Peoples Republic of					
Commodity:	Cotton					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		08/1999		08/2000		08/2001
Area Planted	3726000	3726000	4026000	4026000	4800000	4786000
Area Harvested	3726000	3726000	4026000	4026000	4800000	4786000
Beginning Stocks	4603500	4603000	3259000	3257000	2514000	2681922
Production	3834000	3829000	4422600	4420000	5315900	5320000
Imports	26100	29879	50100	52401	87000	100000
TOTAL SUPPLY	8463600	8461879	7731700	7729401	7916900	8101922
Exports	368000	369428	98000	97479	87000	70000
USE Dom. Consumption	4836600	4835451	5119700	4950000	5228900	5000000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	4836600	4835451	5119700	4950000	5228900	5000000
Ending Stocks	3259000	3257000	2514000	2681922	2601000	3031922
TOTAL DISTRIBUTION	8463600	8461879	7731700	7729401	7916900	8101922

Trade Tables

Cotton

CHINA'S COTTON EXPORTS BYDESTINATION JULY-JUNE 01/02 (MT)					
COUNTRY NAME	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Grand Total
South Korea	4,411	705			5,116
Indonesia	382	903			1,285
Italy	616	644			1,260
Japan	1,148	109			1,257
Myanmar(Burma)	145	658			803
India	61	140			200
Others	49	131			180
Grand Total	6,811	3,290			10,101

CHINA'S COTTON IMPORTS BY COUNTRY OF ORIGIN JULY-JUNE 01/02 (MT)					
COUNTRY NAME	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Grand Total
United States	9565	13634			23199
Australia	11019	6023			17042
Egypt	925	993			1918
Tanzania	0	270			270
Uganda	224	0			224
Other	58	188			246
Grand Total	21791	21108			42899

Yarn

CHINA'S COTTON YARN & THREAD IMPORTS BY COUNTRY OF ORIGIN JAN-DEC 2001 (MT)					
COUNTRYNAME	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Grand Total
Pakistan	44,472	54,830	50,382	42,548	192,232
China	27,001	34,917	32,575	33,636	128,129
India	22,156	22,687	17,841	14,704	77,387
Hong Kong	9,753	13,216	13,104	11,610	47,683
Indonesia	8,095	7,258	7,094	7,339	29,786
Taiwan	6,005	5,267	5,998	4,081	21,351
South Korea	3,011	3,970	3,482	3,407	13,871
Thailand	2,010	1,605	2,293	2,003	7,912
Others	4,862	3,498	3,297	3,869	15,527
Grand Total	127,367	147,248	136,066	123,197	533,878

CHINA'S COTTONYARN & THREAD EXPORTS BY DESTINATION JAN-DEC 2001 (MT)					
COUNTRYNAME	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Grand Total
Hong Kong	42,963	55,178	51,482	51,608	201,231
South Korea	2,487	3,808	3,866	3,218	13,378
Japan	3,291	3,371	2,802	2,954	12,418
Myanmar(Burma)	1,200	1,433	1,984	1,852	6,470
Others	2,864	4,089	3,243	2,447	12,643
Grand Total	52,805	67,880	63,378	62,078	246,141