



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 10/7/1998

GAIN Report #RS8064

Russian Federation

Cotton

Cotton Update

1998

Prepared by:

Asif Chaudhry

U.S. Embassy, Moscow

Drafted by:

Yelena Vassilieva and Eric Trachtenberg

Report Highlights:

This report covers changes in the cotton situation since the August 1998 economic crisis. The devalued ruble is expected to decrease cotton consumption and give a decisive advantage to CIS suppliers to Russia such as Uzbekistan which can provide cotton on barter terms.

Includes PSD changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Moscow [RS1], RS

Cotton Imports and Consumption

Overview.

This is the first update on cotton imports and Russian cotton textile production since the August financial and economic crises began. Since the onset of the crisis was roughly coincident with the end of the marketing year (which runs from August 1997 through July 1998), production and consumption figures did not change dramatically compared with the last cotton annual's estimates. However, August imports fell to a very low level of 4,000 tons, which is 1/6 of the monthly average earlier in the marketing year. This is expected to bring the total imports to 250,000 tons instead of the originally estimated 265,000 tons. Falling imports were the result of decreased domestic cotton consumption which decreased slightly to 260,800 tons.

Although there is no textile production data available since the August crisis, post estimates that imports and consumption for 1998 will fall significantly. Reduced spending power will force consumers to spend a higher percentage of their income on food and less on discretionary items like clothing. Early observations indicate that clothing and textile sales are down over 50 percent -- and low prices are unable to stimulate consumption. Moscow stores are full of inexpensive fabrics that cannot move off the shelf and many clothing stores are almost without customers. Slow clothing and fabric sales will reduce demand for textiles and cotton while putting Russia's mills under even more stress. If the crisis does not abate, it is likely that some mills may have to either close or reduce production. The only good news for local firms is that imports will be less competitive with local products which may reduce the adverse effects of reduced consumption.

Because of the devalued ruble, inexpensive products will have a decisive advantage in Russia -- which will make Russia a difficult market for U.S. cotton exporters. In addition, the suspension of GSM-102 (under which all 1998 U.S. cotton exports entered) will reduce trade even further because of credit constraints. CIS producers like Uzbekistan have the advantages of proximity, low prices and a willingness to use barter to trade, which spares Russia the difficulties of using hard currency. In an unstable currency environment this will give Uzbek and other Central Asia products a decisive advantage over U.S. exporters.

Imports.

Post forecasts a decrease in cotton imports in 1999 to 225,000 tons but the level may change dramatically. This forecast is optimistic, and is based on the strength of the barter trade with CIS countries like Uzbekistan which is immune to currency fluctuations. Falling demand for clothing and textiles could cut imports back substantially below estimated levels. Cotton imports from other sources that require payments in hard currency are expected to be either small or non-existent.

Cotton domestic consumption.

Domestic cotton fabrics will be more price competitive than imported fabrics and clothing, but total consumption of textiles will decline along with a decrease in consumption of non-food commodities. Post forecasts decrease in domestic consumption of cotton to 240,500 tons in 1999.

PSD for Cotton, Hectares and Tons

PSD Table						
Country:	Russian Federation					
Commodity:	Cotton					
		1996		1997		1998
	Old	New	Old	New	Old	New
Market Year Begin		08/1996		08/1997		08/1998
Area Planted	0	0	100	100	1000	1500
Area Harvested	0	0	100	100	1000	1500
Beginning Stocks	50000	50000	20000	20000	20000	20000
Production	0	0	50	50	540	800
Imports	210000	220000	260000	260000	265000	250000
TOTAL SUPPLY	260000	270000	280050	280050	285540	270800
Exports	0	0	0	0	0	0
USE Dom. Consumption	240000	250000	260050	260050	265540	260800
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	240000	250000	260050	260050	265540	260800
Ending Stocks	20000	20000	20000	20000	20000	10000
TOTAL DISTRIBUTION	260000	270000	280050	280050	285540	270800

PSD for Cotton, 1,000 480 Bales

PSD Table						
Country:	Russian Federation				Conversion	0.004593
Commodity:	Cotton					
		1996		1997		1998
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	0	0	100	100	1000	1500
Area Harvested	0	0	100	100	1000	1500
Beginning Stocks	230	230	92	92	92	92
Production	0	0	0	0	2	4
Imports	965	1010	1194	1194	1217	1148
TOTAL SUPPLY	1194	1240	1286	1286	1311	1244
Exports	0	0	0	0	0	0
USE Dom. Consumption	1102	1148	1194	1194	1220	1198
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	1102	1148	1194	1194	1220	1198
Ending Stocks	92	92	92	92	92	46
TOTAL DISTRIBUTION	1194	1240	1286	1286	1311	1244

Cotton Tariffs Cut

On July 17, 1998, Russia introduced a 3 percent duty increase for all imported products. This duty was rescinded on September 15 for selected cotton products. Given the combined impact of the current ruble devaluation, collapse of the banking sector, and a 10-20 percent increase in the VAT, the reduction of the import tariffs is not expected to have a significant effect on trade.

Resolution of the Government of the Russian Federation #1030 of September 5, 1998: “On partial changes to the Resolution of the Government of the Russian Federation of July 17, 1998 #791: “On Introduction of Additional Import Duty” lifts the additional 3 percent import duty for the following agricultural goods:

Customs Code	Name of commodity
5201 00	Raw Cotton, not combed
5202	Cotton wastes
5203 00 000	Raw cotton, combed

The Resolution was published in official “Rossiyskaya Gazeta” on September 15, 1998, and was effective immediately.