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Report Highlights:

As of mid-June 2003, the U.S. had 40 percent of the Taiwan cotton market. However, Taiwan's total MY02/03 and MY 03/04 cotton imports are expected to remain depressed because of the SARS outbreak, high stocks and the continuing decline in Taiwan's textile industry. By late 2004, imports should recover slightly as Taiwan's stocks fall and demand for Taiwan exports increases.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Taipei [TW], TW

Cotton Annual Report
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I. SITUATION AND OUTLOOK

Executive Summary

Total cotton imports in MY02/03 and MY03/04 are forecast to remain low because of the effects of the Winter-Spring outbreak of Severe Atypical Respiratory Syndrome (SARS), high cotton stocks, and the ongoing declining in the Taiwan textile industry that is facing increasing competition in its traditional domestic and export markets. The U.S. market share for imported cotton is expected to stay around 40 percent.

Consumption

Taiwan cotton consumption in MY 03/04 is expected to total 1.21 million bales (264,000 mt.), up from 1.08 million bales (234,000 mt.) in MY02/03. Taiwan's MY02/03 consumption was depressed by the effects of the Severe Atypical Respiratory Syndrome (SARS) outbreak in early 2003. To avoid infection, consumers avoided most public places, which cut clothing sales and cotton consumption by an estimated 20 percent in from April to June 2003. In addition, low 2002 cotton prices encouraged large purchases of cotton and most firms currently hold 1-2 months of yarn inventories, twice normal levels. As a result of these factors, most Taiwan spinners are currently idle two days a week on average. Although demand is expected to recover later in 2003, total CY cotton consumption and clothing sales are still expected to remain 15 percent below 2002 levels. Even if clothing consumption recovers, any production increase will lag behind it by two months.

Taiwan's spinning and textile industry is in a process of long-term decline, although the rate shrinkage is slowing. In the last 10 years, the number of textile companies in Taiwan has fallen from 130 to 87 while the total number of active spindles declined to 1.9 million in 2002. This is down sharply compared with 2.4 million in 2001, 2.6 million in mid 2000 and 2.8 million in mid 1999 (see *Table 4*). In the next few years, another 200,000 spindles will likely be idled, with the total expected to settle at 1.5 million by 2010. Taiwan's export-oriented textile industry continues to lose competitiveness because of high wages, expensive land, a lack of branding expertise, and increasing competition from other Asian countries.

The Taiwan Textile Sector: An Industry Moving Offshore

To enhance their competitiveness, Taiwan textile firms are investing elsewhere in Asia, especially in Mainland China, Vietnam, Indonesia and the Philippines. In the last few years, more than 200,000 spindles were moved to Vietnam alone. Despite this internationalization of production, Taiwan textile firms still make their buying decisions in Taiwan, especially for factories located outside Mainland China that export to third countries. Taipei's importance is magnified in target countries for Taiwan investment because target country firms tend to follow the example set by foreign investors. However in the PRC, Taiwan-owned factories make decisions in China, especially for products designed for the domestic Chinese market. Chinese-based factories also make decisions locally because of the complexity of local import and trade regulations, especially the quota system for imported agricultural products.

Of all the changes affecting the Taiwan textile sector, none are more significant than the growth in the PRC's textile sector, which has grown by 25 percent in the last 10 years. Although China reported having around 35 million spindles in 2002, Taiwan sources believe the total is between 50 and 60 million spindles. In comparison, Taiwan has older and smaller equipment -- in addition to other higher labor and land costs. As a result, some major Taiwan textile producers are planning on further increasing their investments in China.

The Future of the Taiwan Textile Industry

The fate of firms remaining in Taiwan will depend on their ability to adapt to increasing competition. Although the rate of adjustment is slowing as the number of weaker firms falls, companies with capacity remaining in Taiwan must diversify their markets and move up the value chain to high-end garments, performance fabrics, or branded products to survive. Taiwan is especially competitive in the manufacture of high-quality and specialized textile products such as blended acrylic & yarn products requiring high quality weaving along with technical fabrics. In fact, production capacity for industrial or technical fabrics, the most promising market niche, actually increased in 2002.

To avoid direct price competition with PRC or Southeast Asian textile products, Taiwan-based mills will likely further deepen their specializations in functional products while cutting production of lower-value commoditized products. At the same time, Taiwan will remain the regional center for the textile industry's head office functions. Most of the procurement, finance, logistics/supply chain and sales will be based in Taipei, especially for mills located outside Mainland China.

Most industry leaders in Taiwan believe that local production will level off in the long-run and will decline more slowly in the immediate future. They believe that the Taiwan industry is now quality driven and has already made the adjustments necessary when the 1974 Multifibre Agreement expires on January 1, 2005, ending most kinds of textile quotas.

Trade

Since Taiwan's cotton consumption is supplied entirely by imports, demand and imports move together. Taiwan's MY 02/03 imports are estimated to be 1.01 million bales (220,000), which is sharply down from 1.52 million bales (333,000 mt) in MY01/02. High stocks accumulated during a period of very low prices in 2002, averaging 44 cents per pound CIF, high inventories of finished products and cotton, and low demand resulting from SARS will likely keep total import levels modest through MY03/04. Some textile firms reported having four months cotton inventory on hand in May-June, 2003.

Composition of Cotton Imports

The U.S. market share is expected to remain at or above 40 percent through MY03/04 because the U.S.'s price competitiveness, consistent quality and reliable delivery. These qualities have made U.S. cotton the foundation of Taiwan's textile formulations. Other origins tend to compete with each other more than with U.S. cotton. In 2002, low prices gave the U.S. an unprecedented 54 percent of the cotton market with total exports exceeding 830,000 bales. In MY 00/01, the U.S. had a market share of 32 percent, which is close the pre-2000 historical average.

In 2002, China passed Ivory Coast to become Taiwan's second largest supplier after the U.S. The PRC's market share is forecast at 11.8 percent in 2003, which is a sharp increase from 6.6 percent in 2002 and 3.8 percent in 2001. Although PRC cotton quality is high, suppliers are unreliable and Taiwan buyers also must use an agent and ship indirectly -- all of which add costs. Barring weather, water or cross-straits political problems, the PRC is expected to remain Taiwan's second largest cotton supplier for the next few years. Uzbekistan is also expected to more than double its market share from 3.8 to 7.7 percent. In contrast, Ivory Coast's market share collapsed from 16 percent in 2001 to 6.6 percent in 2002 and a forecast 5 percent in 2003.

Yarn & Fabrics Trade

Taiwan generally imports lower valued cotton yarns and exports higher value cotton yarns. In 2003, the SARS epidemic will likely cut Taiwan exports for yarn and fabrics to China, which imports from Taiwan to make final products. At the same time, the industry continues to labor under the effects of overproduction, deflation and weak markets, especially in Japan and the U.S.

In 2002, Taiwan's textile sector experienced a second year of both intensifying competition and a global downturn. *Tables 6 & 7* show substantial 2002 export and production declines for cotton fabric, yarn and the value of textile products. Textile exports fell by 4 percent by value (but increased by volume) while cotton yarn and fabric production fell by 2 and 5 percent, respectively. Improving economic conditions in 2002 kept declines more modest than in 2001. However, the impact of SARS on Hong Kong and China will likely cut exports deeply in 2003.

Post expects Hong Kong to remain Taiwan's most important yarn export market. In 2002, Hong Kong, which imports for the PRC, accounted for 68 percent of total cotton yarn exports. This was up from 65 percent in 2001 and 53 percent in 2000. Exports to the U.S. fell to almost zero.

Policy

The tariff on cotton is zero. After joining the WTO, Taiwan reduced its tariffs for cotton yarn and man-made spun yarn to 4 percent. The tariff for man-made fiber fell to 1.5 percent while the tariffs for cotton grey cloth and man-made grey cloth remained at 7.5 percent. Clothing is charged 12.5 percent. All temporary tariffs on yarns, grey cloth and man-made fibers were withdrawn upon accession.

Taiwan permits the import of PRC cotton and there are no duties or outstanding phytosanitary issues, unlike most PRC agricultural products. Since the entry of Taiwan and the PRC into the WTO, Mainland cotton imports have increased sharply. As of May 2003, Xinjiang (PRC) 129 cotton was quoted in Taiwan at 64-65 cents per pound C&F, compared to U.S. GC 21236 at 66 cents. The PRC's ability to undercut U.S. suppliers despite may indicate the use of export subsidies.

Marketing

Major Taiwan importers base their cotton buying decisions on price, quality and the availability of technical support. Importers are also sensitive to price differences between suppliers and the presence of pests such honeydew, which leaves sticky deposits or naps. Importers also pay particular attention to damaged fibers caused by mechanical picking or overly aggressive ginning. According to local spinners, Xinjiang (PRC) and African cotton have inferior quality to U.S. products, despite their long fiber length. The quality gap between U.S. and other cotton means that U.S. cotton will likely remain the most important component of Taiwan textile products.

The Cotton Council International (CCI) and Cotton Incorporated are very active in the Taiwan market. Cotton Inc. provides technical support to Taiwan textile mills, which encourages the use of U.S. cotton. CCI promotes the use of U.S. cotton through the Cotton USA Mark, which it supports through an extensive media campaign. As a result, recognition of the Cotton USA mark is very high in Taiwan, which encourages Taiwan textile producers to use U.S. cotton.

II. STATISTICAL TABLES

Table 1. Cotton Production, Supply and Demand in MT

PSD Table						
Country	Taiwan					
Commodity	Cotton				(HECTARES)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		08/2001		08/2002		08/2003
Area Planted	0	0	0	0	0	0
Area Harvested	0	0	0	0	0	0
Beginning Stocks	51383	51383	100807	101578	100807	87178
Production	0	0	0	0	0	0
Imports	333339	333240	304817	220000	0	220000
TOTAL SUPPLY	384722	384623	405624	321578	100807	307178
Exports	871	0	0	0	0	0
USE Dom. Consumption	283045	283045	304817	234400	0	263700
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	283045	283045	304817	234400	0	263700
Ending Stocks	100807	101578	100807	87178	0	43478
TOTAL DISTRIBUTION	384723	384623	405624	321578	0	307178

Source: Taiwan Customs

Table 2. Import Trade Matrix for Raw Cotton in MT

Import Trade Matrix			
Country	Taiwan		
Commodity	Cotton		
Time period	08/2001	Units:	metric ton
Imports for:	2001		2002
U.S.	180849	U.S.	86250
Others		Others	
China	31143	China	26000
Cote D'Ivoire	22005	Togo	22600
Australia	20435	Uzbekistan	17000
Uzbekistan	12843	Australia	16300
Togo	11689	Cote D'Ivoire	11260
Zimbabwe	8440	Mali	8300
Uganda	7638	Burkina Faso	4200
Mali	5844	Tanzania	4100
Pakistan	5432	Uganda	4000
Burkina Faso	5297		
Total for Others	130766		113760
Others not Listed	21625		19990
Grand Total	333240		220000

Source: Taiwan Customs
Note: Forecast Data for 2002

Table 3. Cotton Import Price CIF, Cents per Pound

Prices Table			
Country	Taiwan		
Commodity	Cotton		
Prices in	cent	per uom	pound
Year	2001	2002	% Change
Jan	63	37	-41.27%
Feb	63	42	-33.33%
Mar	62	41	-33.87%
Apr	60	42	-30.00%
May	59	43	-27.12%
Jun	57	44	-22.81%
Jul	56	43	-23.21%
Aug	55	45	-18.18%
Sep	55	47	-14.55%
Oct	54	46	-14.81%
Nov	53	49	-7.55%
Dec	52	51	-1.92%
Exchange Rate	34.47	Local currency/US $	

Source: Taiwan Customs

Table 4. Number of Operating Spindles in 2000-2002, by Yarn Types

Type of Yarn Produced	Year	Ring Spindles	Open-end Spindles	Jet Spinning Spindles	Spindles Used for Producing Yarn	% of total Spindles in Use
Cotton Yarn	2000	638,112	26,919		665,031	25%
	2001	538,112	28,323			
	2002	572,477	29,225			30%
CVC Blended Yarn	2000	437,291	10,420		447,711	17%
	2001	426,447	9,908			
	2002	374,321	9,569			19%
T/C Blended	2000	424,828	19,288	2,160	446,276	17%
	2001	306,236	19,644	2,160		
	2002	232,898	19,960			12%
Spun Polyester Yarn	2000	414,549	9,016	816	424,381	16%
	2001	400,476	6,048	996		
	2002	317,942	5,224			16%
100% Rayon & T/R, T/W Blended Yarn	2000	514,584	6,306	1,260	522,150	20%
	2001	409,759	7,983	1,140		
	2002	339,898	5,228			18%
Acrylic & Acrylic/ Blended Yarn	2000	117,921	1,959		119,880	5%
	2001	79,509	2,308			
	2002	93,082	1,533			5%
Total Operating Spindles	2000	2,547,285	73,908	4,236	2,625,429	(-5.7%)
	2001	2,160,539	74,286	4,296		
	2002	1,930,709	78,659	2,880		

Source: Annual surveys conducted by the Taiwan Cotton Spinners' Association and Taiwan Man-made Fiber Spinners Association (TCSA & TMFSA), http://www.tcsa.org.tw/

Table 5. Taiwan Imports of Textile Products, 2001-2

Textile Imports	Volume in 1,000 mt			Value in $1,000,000		
Item	2002	2001	% Change	2002	2001	% Change
Fiber	487	399	+22	587	524	+11
Yarn	230	163	+41	549	427	+29
Fabric	94	87	+8	472	455	+4
Apparel	89	82	+9	711	800	-11
Accessories	28	21	+38	156	153	+2
Total	929	752	+24	2,471	2,359	+5

Source: The Taiwan Textile Federation (TTF)

Table 6. Taiwan Exports of Textile Products, 2001-2

Textile Exports	Volume in 1,000 mt			Value in $1,000,000		
Item	2002	2001	% Change	2002	2001	% Change
Fiber	932	789	+19	933	797	+17
Yarn	1,022	892	+14	1,720	1,606	+7
Fabric	1,742	1,807	-4	7,340	7,781	-6
Apparel	96	104	-8	1,538	1,775	-13
Accessories	123	135	-9	610	674	-9
Total	3,923	3,729	+5	12,143	12,633	-4

Source: The Taiwan Textile Federation (TTF)

Table 7. Cotton Yarn in MT & Cotton Fabric Production, 1998-2003, Square Meters

Cotton Yarn and Cotton Blended Yarn in mt			Cotton Fabric & Cotton Blended Fabric in 1,000 square meter		
Year	Production	% Change	Year	Production	% Change
1998	363,947	-0.31%	1998	983,979	1.38%
1999	353,590	-2.85%	1999	1,061,736	7.90%
2000	337,566	-4.54%	2000	1,059,629	-0.20%
2001	313,601	-7.10%	2001	831,566	-21.53%
2002	306,360	-2.30%	2002	793,071	-4.63%
Jan-Mar 2003	72,212	0.54%	Jan-Mar 2003	172,220	-5.65%

Source: Industrial Production Statistics by the Department of Statistics, Ministry of Economic Affairs (MOEA)

Table 8. Cotton Yarn Imports in MT for 2001-3, Metric Tons

Imports of Cotton Yarns in CY 2001, CY 2002, and First Quarter of CY2003			
HS5204	CY2001	CY2002	CY2003 (Jan-Mar)
Hongkong	1	5	0
France	4	4	1
Japan	4	4	0
Turkey	0	2	0
Others	0	2	0
Total	**9**	**17**	**1**
HS5205	CY2001	CY2002	CY2003 (Jan-Mar)
India	13,070	25,861	7,379
Pakistan	23,614	25,452	5,466
Indonesia	2,113	4,388	1,329
Vietnam	1,015	3,175	568
Korea	359	649	97
Malaysia	627	612	29
Peru	44	491	166
Thailand	88	390	104
Hongkong	0	108	4
Egypt	94	76	35
Others	239	82	35
Total	**41,263**	**61,284**	**15,212**
HS5207	CY2001	CY2002	CY2003 (Jan-Mar)
Korea	193	166	0
Pakistan	128	157	35
Hongkong	0	39	1
Vietnam	0	39	0
India	98	38	1
China	0	20	0
Others	31	22	0
Total	**450**	**481**	**37**
Total Yarn	**41,722**	**61,782**	**15,250**

Table 9. Cotton Yarn Exports in MT for 2001 - 2003, Metric Tons

Exports of Cotton Yarns in CY 2001, CY 2002, and First Quarter of CY2003			
HS5204	CY2001	CY2002	CY2003 (Jan-Mar)
Hongkong	182	171	40
Myanmar	98	65	8
Vietnam	74	41	9
Cambodia	54	38	3
Others	193	179	37
Total	**601**	**494**	**97**
HS5205	CY2001	CY2002	CY2003 (Jan-Mar)
Hongkong	20,160	16,545	4,873
Philippines	2,359	2,168	552
Indonesia	1,473	1,290	276
China	20	1,105	1,339
Cambodia	488	631	37
Vietnam	527	569	174
Japan	751	448	210
Isreal	530	290	94
Malaysia	17	236	4
Thailand	427	116	41
Others	1,255	382	242
Total	**28,007**	**23,780**	**7,842**
HS5207	CY2001	CY2002	CY2003 (Jan-Mar)
Hongkong	4,631	9,326	2,465
Philippines	800	4,011	512
Indonesia	352	436	294
China	10	83	17
Malaysia	83	76	37
Vietnam	63	49	4
Others	121	171	29
Total	**6,060**	**14,152**	**3,358**
Total Yarn	**34,668**	**38,426**	**11,297**

Source: Taiwan Customs

Table 10. Imports of Cotton Fabrics, 2001 - 2003, Metric Tons

Imports of Cotton Fabrics in CY 2001, CY 2002, and First Quarter of 2003			
HS5208	CY2001	CY2002	CY2003 (Jan-Mar)
Pakistan	3,302	4,409	123
Indonesia	988	1,426	212
China	770	1,321	645
India	1,004	852	110
Thailand	271	336	81
Japan	298	215	40
Hongkong	156	186	35
Korea	34	154	24
Singapore	121	122	30
Philippines	27	119	17
Others	302	122	53
Total	**7,273**	**9,262**	**1,370**
HS5209	CY2001	CY2002	CY2003 (Jan-Mar)
China	392	1,036	240
Japan	621	568	113
Hongkong	242	521	71
Pakistan	957	513	33
Korea	347	450	37
Indonesia	548	435	80
United States	79	38	13
Turkey	118	30	1
Italy	17	23	4
India	49	18	2
Others	104	55	9
Total	**3,474**	**3,687**	**603**
Total Fabrics	**10,747**	**12,949**	**1,973**

Source: Taiwan Customs

Table 11. Exports of Cotton Fabrics in 2001 - 2003, Metric Tons

Exports of Cotton Fabrics in CY 2001- 2002, and First Quarter of 2003			
HS5208	CY2001	CY2002	CY2003 (Jan-Mar)
Hong Kong	6,517	7,116	1,161
Philippines	2,982	4,116	609
Indonesia	1,784	1,770	436
Sri Lanka	1,545	1,404	385
Vietnam	569	907	117
China	77	473	84
Cambodia	427	456	83
Malaysia	465	403	86
India	668	352	50
Thailand	426	338	56
Bangladesh	509	320	81
Others	4,022	2,485	487
Total	**19,991**	**20,140**	**3,635**
HS5209	CY2001	CY2002	CY2003 (Jan-Mar)
United States	7,871	11,014	1,937
Hongkong	5,025	6,805	1,006
Vietnam	1,250	2,883	633
Philippines	2,542	2,682	770
Nicaragua	5,647	2,661	476
Lesotho	1,955	2,284	76
South Africa	4,276	1,983	770
Venezuela	772	1,414	90
Cambodia	436	892	373
Bangladesh	641	825	224
Others	10,892	12,718	2,934
Total	**41,307**	**46,161**	**9,289**
Total Fabrics	**61,298**	**66,301**	**12,924**

Source: Taiwan Customs