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Bangladesh

COTTON AND PRODUCTS ANNUAL

ANNUAL

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Report Highlights:

Cotton imports by Bangladesh are forecast to increase by 3 percent to 660,000 tons in MY 2009/10 (Aug-Jul), with robust growth in the spinning sub-sector contributing to continued strong demand for raw cotton. There is room for increased U.S. cotton exports to Bangladesh with several new modern spinning mills coming into operation every year. However, to improve the U.S. market share, U.S. cotton prices will have to remain competitive to offset the freight advantage and shorter delivery periods enjoyed by neighboring suppliers, especially the Uzbekistan and India.

Commodities:

Cotton

**Production:
Production**

Assuming a normal monsoon and minimal pest/disease infestation, MY 2009/10 cotton production in Bangladesh is forecast at 9,500 tons from 32,000 hectares. Meanwhile, MY 2008/09 cotton production is estimated at 9,200 tons from 33,000 hectares, comprising 8,091 tons of medium staple American variety and 1,109 tons of short staple highland cotton (locally called "Comilla" cotton). Cotton is steadily losing acreage to other competing cash crops such as potato, maize, flowers, vegetables and rice, which are more profitable. Moreover, cotton cultivation is more vulnerable to excessive rainfall/floods and pest infestations vis-à-vis competing crops. Lack of short duration, high yielding and pest tolerant varieties and low market prices for cotton also have constrained cotton production, which in the past ranged from 50,000 to 60,000 bales against the country's current demand of over 3.6 million bales.

The country's Cotton Development Board's (CDB)'s mission is to motivate farmers to grow more cotton, upgrade technology through research, disseminate technology to farmers through extension services and ensure supply of quality seeds. The government typically buys around 300 tons of seed-cotton for extracting seeds, which is supplied to farmers.

MY 2009/10 production of yarn is forecast at 541,000 tons and fabric at 2.00 billion meters. The spinning sub-sector of the primary textile sector (PTS) has been witnessing robust growth over the past decade due to growing demand for yarn from both the domestic textile market and the export-oriented ready-made garment (RMG) sector. Yarn production in MY 2008/09 is estimated at 525,000 tons and fabric production at 1.92 billion meters, up by 6.5 percent and 5.5 percent respectively from the MY 2007/08 production. In addition, an estimated 650 million meters of fabric will be produced by the small-scale, handloom industry in MY 2008/09, which meets 40 percent of domestic fabric demand.

The Bangladesh textile industry, the largest manufacturing sub-sector of the industrial sector, provides employment to about 5.5 million people (including over 2.5 million in RMG units), contributes around 10 percent of the country's GDP, 40 percent of manufacturing value addition, and 77 percent of export earnings. Domestic yarn production currently meets 90 percent of the yarn demand of the largely export oriented knit fabrics units and 40 percent of the woven fabric units. A portion of the domestic yarn production goes to home-textile, terry towel, and denim producers. The growth of the primary textile sector is shown in Table 8.

Bangladesh currently has 341 spinning mills, 400 weaving mills, 310 dyeing and finishing mills, 800 knitting and knit dyeing mills and 4,500 garment factories. Despite a remarkable growth in backward linkages, the country's current demand-supply gap of fabrics is about 50 percent in terms of cotton-based uses and around 25 percent in terms of non-cotton based uses in the RMG sector. According to government estimates, Bangladesh would require an additional 45 spinning mills, 82 weaving mills, 81 knitting and knit product processing plants, and 51 woven processing plants to bridge supply/demand gap, involving an additional investment of \$3 billion.

Consumption:

Raw cotton consumption in MY 2009/10 is forecast to increase to 663,000 tons from 642,500 tons in MY 2008/09, with several new spinning mills coming into operation. Increasing demand from the rapidly growing private sector spinning mills and large imports are contributing to the high raw cotton consumption growth.

Yarn consumption is forecast at 800,000 tons, up from 760,000 tons in MY 2008/09 as several new spinning mills and knitwear factories have been established. MY 2009/10 fabric consumption is forecast to remain unchanged at 4.2 billion meters from the estimated MY 2008/09 consumption level, comprising 1.3 billion meters for the domestic sector and 2.9 billion meters for the RMG export sector.

Spinning and weaving mills commissioned in recent years are in a position to supply high quality yarns and fabrics required for the export oriented RMG sector, but typically at a 10 to 15 percent premium over those sourced from China and India. Moreover, locally produced fabrics are at a disadvantage due to large scale leakage of fabrics imported under a duty drawback provision provided to the country's export oriented RMG sector.

Trade:

Raw cotton imports in MY 2009/10 are forecast at 660,000 tons. Imports in MY 2008/09 are estimated to increase by 5 percent from MY 2007/08 imports to reach 640,000 tons due to softening import prices and increased demand from the spinning sub-sector. Uzbekistan continues to be the principal supplier of raw cotton, enjoying 67 percent market share due to competitive prices and a short delivery period. India has also emerged as a major supplier of raw cotton due to its price competitiveness and geographical proximity. The share of U.S. raw cotton has now declined to around 6 percent from 16 percent in MY 2005/06. In order to improve the market share, U.S. cotton prices will have to remain competitive to offset the freight advantage and shorter delivery periods enjoyed by neighboring suppliers like Uzbekistan and India.

Despite larger domestic production, yarn imports in CY 2008 are estimated to increase to 250,000 tons from 240,000 tons in CY 2007 due to a high growth in demand from the growing RMG sector. Availability of lower priced Indian yarns also contributed to larger imports. Yarn imports in CY 2009 are forecast to remain unchanged at the CY 2008 level of 250,000 tons due to large carryover stocks of domestic yarns. India continues to be the principal supplier of yarn with 72 percent market share. Fabric imports in CY 2009 are forecast at 2.30 billion meters, marginally down from the estimated 2.34 billion meters in CY 2008 due to larger domestic production. China, with a market share of 74 percent, continues to be the principal supplier due to its price advantage in quality categories.

Following the withdrawal of a ban on yarn imports through India-Bangladesh land ports, the domestic market has been flooded with Indian yarns which are 15 to 20 percent cheaper than locally produced yarns. This has resulted in a large build up of yarn stocks with the domestic spinning mills. Considering the concerns expressed by the Bangladesh Textile Mills Association (BTMA), the government has recently reinstated procedural restrictions on imports of Indian yarns through the Benapole land port.

Yarn and fabric imports by the export oriented RMG sector enjoy a duty draw back incentive provided by the government. There is no quantitative restriction on imports of textile raw materials including fabrics. A ten percent import duty on polyester, viscose, acrylic, synthetic and modacrylic staple fibre, and a 15 percent duty on textile chemical dyes imposed in FY 08 still continues despite pressure from the domestic industry for its

withdrawal. The government withdrew the import duty on textile capital machinery subject to certification from BTMA. The provision of an alternative cash incentive for the export oriented textile sector at the rate of 5 percent of the export value continues. Industry leaders are pleading with the government to raise the cash incentive to at least 10 percent, provide other export subsidies and adopt a liberal tax policy regime in order to help the industry weather the impact of the global financial meltdown and to help the country maintain its RMG markets share. The public sector and private sector banks are charging 9 percent and 11-12 percent interest respectively on credit to the textile industry, which is 2-3 percent cheaper than the normal market rate. The duty structure on raw cotton, yarn, fabric and textile dye-chemical imports are shown in Table 7.

Marketing:

Bangladesh is almost entirely dependent on imports to meet the rapidly growing demand for raw cotton. More than 40 percent of raw cotton imports are meant for the export oriented RMG sector. Bangladesh spinning mills prefer U.S. cotton, both Pima and Upland, for their superior quality, consistency and better ginning output compared to those from other sources. Mills are ready to pay a reasonable premium for U.S. raw cotton. However, high freight costs and longer delivery periods makes U.S. cotton mostly uncompetitive in Bangladesh.

Apparel exports from Bangladesh continued to register strong growth during the post-Multi-Fiber Agreement (MFA) era. In FY 2007/08, knit garment exports achieved over 21 percent growth while woven garment exports grew by 11 percent. Overall exports of readymade garments are estimated to reach \$10.7 billion in FY 2007/08 up 16 percent from FY 2006/07 exports (Table 9). The United States accounted for more than 30 percent of Bangladesh's RMG exports (about \$3.2 billion in FY2007/08) while the European Union as a group absorbed nearly 61 percent. The duty-free export of 8 million pieces of RMG products to India through a tariff rate quota (TRQ) system is now facing problems as India has started imposing a VAT and other levies on such export consignments, denying the benefit it offered to Bangladesh under the South Asian Free Trade Agreement (SAFTA).

Production, Supply and Demand Data Statistics:

Cotton Bangladesh	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Aug 2007			Market Year Begin: Aug 2008			Market Year Begin: Aug 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Planted	0	32	32	0	42	33			32
Area Harvested	29	29	29	42	42	33			32
Beginning Stocks	505	509	505	584	538	580			611
Production	39	39	35	60	60	42			44
Imports	2,800	2,756	2,800	2,750	2,939	2,939			3,031
MY Imports from U.S.	0	0	0	0	0	0			0
Total Supply	3,344	3,304	3,340	3,394	3,537	3,561			3,686
Exports	0	0	0	0	0	0			0
Use	2,750	2,756	2,750	2,750	2,985	2,939			3,031
Loss	10	10	10	10	11	11			14
Total Dom. Cons.	2,760	2,766	2,760	2,760	2,996	2,950			3,045

Ending Stocks	584	538	580	634	541	611			641
Total Distribution	3,344	3,304	3,340	3,394	3,537	3,561			3,686

Author Defined:

Table 2: Import Trade Matrix: Raw Cotton

Country:	2007	Units:	Metric tons
Commodity:	2007/2008		
Time period:	Aug-Jul		
Imports for	2007		2008
U.S.	37000	U.S.	39000
Others		Others	
Uzbekistan	35000	Uzbekistan	336000
Africa	35000	Africa	36000
India	60000	India	76000
Pakistan	36000	Pakistan	45000
Other CIS	56000	Other CIS	78000
Total for Others	537000		571000
Others not listed	36000		30000
Grand Total	610000		640000

Table 3: Import Trade Matrix: Cotton Yarn

Country:	2007	Units:	Metric tons
Commodity:	Cotton Yarn		
Time period:	Jan-Dec		
Imports for	2007		2008
U.S.	0	U.S.	0
Others		Others	
India	152000	India	180000
Pakistan	20000	Pakistan	12000
Indonesia	5000	Indonesia	4000
Thailand	10000	Thailand	8000
Taiwan	6000	Taiwan	5000
China	22000	China	16000
Total for Others	215000		225000
Others not listed	25000		25000
Grand Total	240000		250000

Table 4: Import Trade Matrix: Fabric

Country:	2007	Units:	Mil. Meters
Commodity:	Fabric		
Time period:	Jan-Dec		
Imports for	2007		2008

U.S.	0	U.S.	0
Others		Others	
China	1750	China	1740
Pakistan	124	Pakistan	110
India	270	India	280
Indonesia	16	Indonesia	10
Thailand	70	Thailand	40
Japan	30	Japan	50
Total for Others	2260		2230
Others not listed	120		110
Grand Total	2380		2340

Table 5: Area and Production of Raw Cotton

YEAR	AREA HARVESTED (Hectare)	PRODUCTION	
		Bales*	Tons
2002-03	47,640	74,640	14,323
2003-04	49,118	82,140	14,934
2004-05	44,000	73,190	13,310
2005-06	49,770	77,000	14,000
2006-07	42,100	70,530	12,824
2007-08	28,707	42,380	7,705
2008-09	32,600	50,600	9,200

*1 bale = 400 lbs.

Source: Cotton Development Board (CDB), Government of Bangladesh

Table 6: Production and Consumption estimates of Yarn and Fabrics

Year	Production		Consumption	
	Yarn ('000' tons)	Fabrics (Mill. Meters)	Yarn ('000' tons)	Fabrics (Mill. Meters)
2002/03	291	1,280	525	3,740
2003/04	323	1,340	540	3,780
2004/05	344	1,410	565	3,825
2005/06	395	1,540	598	3,980
2006/07	445	1,650	660	4,060
2007/08	493	1,820	720	4,160

Sources: Bangladesh Textile Mills Association (BTMA), and Ministry of Textiles, Government of Bangladesh

Table 7: Current Duty Structure on Textile Sector

Items	Import Duty	VAT	Advance Income Tax	License Fee	Total
Raw Cotton	0	0	0	0	0
Man-made Fibres	10%	15%	3%	2.5%	30.5%
Yarn	10%	15%	3%	2.5%	30.5%
Fabric	25%	15%	3%	2.5%	45.5%
Textile dyes-chemicals	15%	15%	3%	2.5%	35.5%

Source: National Board of Revenue (NBR), Government of Bangladesh

Table 8: Growth in the Primary Textile Sector (Spinning)

Years	No. of	Spindle	Growth in No. of	Growth in
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	Mills	Capacity	Mills	Spindle Capacity
1995	84	1,701,823	10.52%	19.56%
2000	116	2,289,280	38.09%	34.52%
2001	145	2,352,310	25.00%	2.75%
2002	163	3,390,026	12.41%	44.11%
2003	174	3,419,504	6.75%	0.87%
2004	197	3,931,624	13.22%	14.98%
2005	230	4,937,353	16.75 %	25.58%
2006	260	5,500,000	8.70%	11.39%
2007	283	6,000,000	8.85%	9.09%
2008	341	7,200,000	20.0%	20.00%

Source: Bangladesh Textile Mills Association (BTMA)

Table 9: Bangladesh Garments Exports by Fiscal Year

YEARS	MILLION US\$			GROWTH
	WOVEN	KNIT	TOTAL	
2001-02	3,125	1,459	4,584	-6%
2002-03	3,258	1,654	4,912	7%
2003-04	3,538	2,148	5,686	16%
2004-05	3,598	2,820	6,418	13%
2005-06	4,084	3,817	7,901	23%
2006-07	4,658	4,554	9,212	17%
2007-08	5,169	5,533	10,702	16%

Source: Export Promotion Bureau (EPB), Government of Bangladesh