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Vietnam

Cotton and Products Annual

2012

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Report Highlights:

The Vietnam Marketing Year (MY) 2012/13 cotton supply and demand estimates include smaller production and ending stocks compared with last year. Production is down 6 percent while cotton imports are up by 5 percent. Domestic mill use is increasing slightly due to the expanding cotton yarn spinning sector. While Vietnam requires about 350,000 metric tons (mt) of cotton yearly to serve its growing textile and garment sector, the country's 10,000 hectares (ha) of cotton farms produce only 4,500 tons, which only meets 1.4 percent of the total demand. Despite recent contract defaults, U.S. cotton will likely continue to be the largest source of imported cotton in MY 2012/13.

Executive Summary:

Vietnam relies heavily on cotton imports (1,620 thousand bales or 354,000 mt in MY 2011/12) to feed the growing textile and spinning industry due to limited cotton production. This reliance is forecast to grow in marketing year 2012/13 with imports reaching 1,705 thousand bales or 372,000 mt, 97.4 percent of forecast consumption.

Due to favorable cotton prices in August 2011, Vietnam's MY 2011/12 cotton lint production reached 5,180 mt equivalent to a mere 23.8 thousand bales, a year-on-year increase of 10.4 percent, due mainly to expanded planted area and increased cotton yield. Domestic production still only meets 1.4 percent of the total cotton demand from the textile industry. However, in early 2012, cotton prices dropped significantly and cotton is less competitive than other crops like corn and soybeans. Post forecasts the 2012/13 cotton production to decrease by 11.4 percent to 4,590 mt of cotton lint (21 thousand bales).

Cotton lint demand in Vietnam has remained strong, despite the global economic downturn, as the textile and spinning industry continues to expand. In 2011/12, cotton imports increased slightly by 3.1 percent in comparison with the previous year, to approximately 354,000 mt. Despite, economic uncertainty during the 2nd half of 2012, Post estimates Vietnam's cotton imports in 2012/13 to increase 5 percent over the previous year, to 372,000 mt (1.705 million bales) due to strong exports of yarns to China and Turkey.

In 2011, the United States, for the fifth consecutive year, remained the largest supplier of cotton to Vietnam. Vietnam sourced 133,200 tons (about 41 percent) of its total cotton imports in 2011 from the United States. Vietnam is now the seventh largest market for U.S. cotton at \$362.3 million in 2011.

Commodities:

Cotton

Author Defined:**SITUATION AND OUTLOOK*****Textile Industry***

Vietnam is now ranked among the world's top seven textile, garment, and apparel-exporting countries. Despite the global economic downturn, Vietnam's 2011 textile, garment, and apparel exports were well over the government's target reaching a value of \$15.8 billion, an increase of 26 percent over 2010 (Source: Vietnam General Statistics Office). This growth is mainly due to the sector maintaining its traditional export markets (USA, EU, Japan), while also expanding to new export markets (Korea, Taiwan, the Middle East, Singapore, China, Turkey, etc.). Vietnam has set ambitious targets for the textile industry, with exports projected by Vietnam Textile and Apparel Association (VITAS) to reach \$20 billion by 2020. The Trans-Pacific Partnership Agreement (TPP), if finalized, would help Vietnam achieve this target.

Vietnam is one of a very few countries in Asia that has expanded its yarn spinning sector in recent years. Not only foreign investors like Texthong Group (Hong Kong), Kyung Bang Vietnam (Korea); Itochu (Japan) etc., but also local businesses (Vinatex, Dai Cuong, Phu Bai, Thien Nam etc.) have increased investments in yarn spinning in Vietnam. Currently, Vietnam is home to 100 spinning factories belonging to over 80 enterprises. From only 2 million spindles in 2000, Vietnam spindle capacity reached over 5 million spindles (equivalent) in 2011 creating the potential for voracious demand for imported cotton.

Textile, garment, and apparel exports to the United States, the largest market for Vietnam, accounted for nearly 50 percent of total sector exports in 2011. This represented a year- to-year increase of 7.6 percent.

Cotton Market

Post forecasts MY 2012/13 cotton lint production at 21 thousand bales, almost a 13 percent decline compared to MY 2011/12 as strong competition from other agricultural crops (i.e. corn, cassava, and soybeans) will reduce planted area slightly. Vietnam’s plan of having a domestic cotton growing area of 76,000 ha by 2020 is extremely ambitious (Vietnam planted 10,000 ha in 2012). Vietnam will continue to rely heavily on cotton imports to fulfill its cotton needs.

MY 2012/13 cotton imports are forecast at 1.7 million bales, an increase of almost 5 percent over MY 2011/12. This growth is attributed to the expanding cotton spinning sector and continuing strong exports of Vietnamese cotton yarn to overseas makers, especially China and Turkey. In 2011, for the fifth consecutive year, the United States remains the largest supplier of cotton to Vietnam. Vietnam sourced 133,200 tons (about 41 percent) of its total cotton imports in 2011 from the United States making Vietnam the seventh largest market for U.S. cotton at a value of \$369 million.

Vietnam exports over 70 percent of the yarn (including cotton yarn) that it produces. Main export markets for Vietnamese cotton yarn are China, Turkey, USA, Korea, Indonesia, Thailand.

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- Table 1: Vietnam’s Cotton Production, Supply and Demand

Cotton Vietnam	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Aug 2010		Market Year Begin: Aug 2011		Market Year Begin: Aug 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	10	0	11	0	10
Area Harvested	9	10	10	11	10	10
Beginning Stocks	375	375	377	315	425	282
Production	22	21	23	24	23	21
Imports	1,630	1,569	1,625	1,624	1,750	1,705
MY Imports from U.S.	0	514	0	717	0	525
Total Supply	2,027	1,965	2,025	1,962	2,198	2,008
Exports	0	0	0	0	0	0
Use	1,650	1,650	1,600	1,680	1,750	1,750
Loss	0	0	0	0	0	0

Total Dom. Cons.	1,650	1,650	1,600	1,680	1,750	1,750
Ending Stocks	377	315	425	282	448	258
Total Distribution	2,027	1,965	2,025	1,962	2,198	2,008
Stock to Use %	23	19	27	17	26	15
Yield	532.	455.	501.	489.	501.	477.
TS=TD		0		0		0
Comments						

Source: FAS, Official USDA Estimates, post estimates

Note for unit measures:

- Planted area/Harvest area: 1,000 ha
- Stocks/Production/Imports/ MY imports from U.S/ Total Supply/Exports/Use/Total Domestic Consumption/Ending Stocks/Total distribution: 1,000 bales (480-lb bale equivalent to 218-kg bale)

PRODUCTION (see Tables 2 and 3 for details)

- Vietnam's 2011/12 Cotton Production

According to statistical data from the Ministry of Agricultural and Rural Development (MARD), Vietnam's cotton production in 2011/12 is estimated at 14,200 mt of cotton seed (equivalent to 5,180 mt of cotton lint, 24 thousand bales, at a ginning rate of 36.5 percent), an increase of 10.4 percent compared to 2010/11; this is mainly due to higher cotton yield and increased cotton harvested area. Although harvested area increased it still only reached 11,000 ha in 2011/12. Higher cotton purchase prices led to better economic returns from cotton farming. The increase in cotton acreage occurred in the primary growing regions including the Northwest, the South Central Coast, and the Tay Nguyen Central Highlands, especially in the Tay Nguyen Central Highlands, where the major ginning mills are located. The MARD's statistical data estimates the average cotton yield of 2011/12 crop at 1.34 mt of cottonseed per hectare.

- Vietnam's 2012/13 Cotton Production

Since the end of 2011 / early 2012, cotton prices have dropped sharply. At the same time, prices of corn and soybean have been increasing gradually (see the "Prices Section" including the tables 7 and 8 for more details). As such, Post expects farmers to switch from cotton to more profitable crops like corn and soybeans. Post estimates Vietnam's cotton area in 2012/13 will fall 9.4 percent over the previous year to just 9,600 hectares. MY 2012/13 cotton yield is projected to decrease 2 percent from the previous crop, to about 1.31 mt of cottonseed per hectare. Therefore, Vietnam 2012/13 cotton production is estimated at 12,580 mt of cotton seed or 4,590 mt of cotton fiber (21 thousand bales), a year-on-year reduction of 11.4 percent (see tables 2 and 3 below).

- Table 2: Vietnam's Cotton Production (from 2010/11 to 2012/13)

	2010/11	2011/12	2012/13 (Projected)
Crop area (THA)	9.80	10.60	9.60
Crop yield (MT/HA)	1.31	1.34	1.31
Seed cotton production (TMT)	12.84	14.20	12.58

GOR (%)	36.50	36.50	36.50
Cotton fiber production (TMT)	4.69	5.18	4.59
Quantity (1,000 bales, 218kg/bale)	21.49	23.78	21.06

Source: MARD, GSO, other trade sources and Post's projection

- Table 3: Vietnam's cotton production by region, 2010 – 2012

Growing Regions	2010			2011			2012*		
	Area	Yield	Prod.	Area	Yield	Prod.	Area	Yield	Prod.
	THA	MT/HA	TMT	THA	MT/HA	TMT	THA	MT/HA	TMT
North East	0.82	1.2	0.98	0.90	1.24	1.12	n/a	n/a	n/a
North West	1.80	1.2	2.16	1.90	1.16	2.20	n/a	n/a	n/a
North Central Coast	0.12	1.1	0.13	0.12	1.20	0.14	n/a	n/a	n/a
South Central Coast	0.80	1.6	1.28	1.70	1.63	2.77	n/a	n/a	n/a
Central Highlands	3.90	1.34	5.23	4.12	1.35	5.56	n/a	n/a	n/a
South East	2.40	1.3	3.12	1.85	1.3	2.41	n/a	n/a	n/a
Mekong River Delta	0.00	0.00	0.00	0.00	0.00	0.00	n/a	n/a	n/a
Total Vietnam	9.8	1.31	12.90	10.6	1.34	14.20	9.6	1.31	12.58

Source: MARD; General Statistics Office (GSO); and other trade sources.

Note:

- Prod.: Production
- THA: Thousand Hectares
- MT/HA: Metric Ton per Hectare
- TMT: Thousand Metric Tons n/a: not available
- (*): estimates

Cotton production in Vietnam is highly susceptible to weather conditions and can fluctuate widely year-to-year. More than 90 percent of the cotton production area in Vietnam is rain-fed, with planting initiated in the rainy season (May/June – August) and harvesting taking place from October - December. In areas where irrigation is possible, cotton may be planted in the dry season (November/December), thereby allowing for harvesting from March through May.

TRADE

Calendar year 2011 saw almost an 8 percent decline in the quantity of cotton imports as high prices and the global economic situation resulted in the demand for textiles slowing. U.S. exports in 2009-2011 remained relatively stable, between 132,900 and 141,300 mt. However, Post forecasts the volume of exports in calendar year 2012 to drop below 130,000 mt.

Table 4: Import Trade Matrix

Country: Vietnam

Commodity: Cotton

Time Period						
Imports for:	2009		2010		2011	
U.S.	141,300	U.S.	132,900	U.S.	133,200	
Others		Others		Others		

Africa	53,000	Africa	71,339	Africa	50,000
India	32,000	India	65,917	India	43,000
Brazil	15,083	Brazil	14,893	Brazil	29,000
Pakistan	9,104	Australia	10,364	Pakistan	17,400
UAE	2,878	Pakistan	10,300	Australia	10,800
Australia	1,904	Malaysia	4,647	Malaysia	10,000
Mexico	1,736	CIS	4,030	Argentina	5,800
China	800	Argentina	2,537	China	2,700
Taiwan	750	Mexico	1,070	Mexico	1,850
CIS	700	Taiwan	950	Taiwan	1,100
Total for Others	117,955		186,047		171,650
Others not Listed	40,857		33,953		22,150
Grand Total	300,112		352,900		327,000

Source: Vietnam Customs Department; MARD; World Trade Atlas, Traders & Post's estimate
Unit: Metric Tons

In MY 2010/11, Vietnam imported 343,000 tons (or 1.57 million bales) of cotton fiber, valued at over \$1 billion. Cotton imports for MY 2011/12 were about 354,000 tons (or 1.623 million bales) for \$871 million, a slight increase of 3 percent in quantity but a sharp decrease of 18 percent in value over the previous year due to plummeting world cotton prices (see Tables 7 & 8).

Due to the expanding cotton spinning sector, strong exports of yarn to China, and lower prices relative to the last 18 months, Post estimates Vietnam's cotton imports in 2012/13 to increase by 5 percent to 372,000 tons (1.705 million bales).

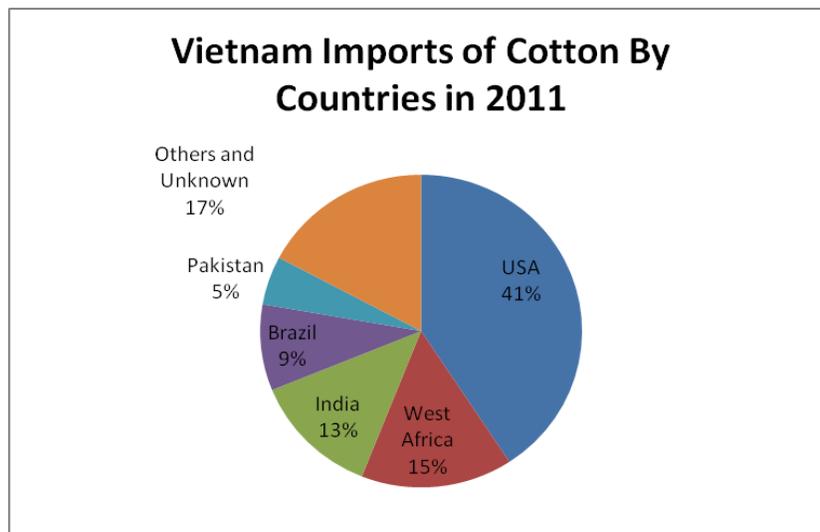
• Table 5: Vietnam's Monthly Cotton Imports (MY2010/11 and 2011/12)

	August 2010-July 2011		August 2011-July 2012	
	Qty (1000MT)	Value (\$ million)	Qty (1000MT)	Value (\$ million)
Aug	32	64	21	58
Sep	31	59	14	53
Oct	24	50	30	80
Nov	23	49	33	93
Dec	30	76	25	63
Jan	37	104	18	47
Feb	29	85	33	77
Mar	38	131	38	86
Apr	29	107	32	73
May	29	121	38	84
Jun	21	82	35	75
Jul	20	78	37	83
TOTAL	343	1007	354	871

Sources: Vietnam General Statistic Office, Vietnam Customs Department, and other trade sources.

- Vietnam's Primary Cotton Suppliers

According to Table 4, in 2011, Vietnam imported about 327,000 tons of cotton, a year-on-year decrease of approximately 8 percent. The United States remained the number one cotton supplier to Vietnam, with over 41 percent share of Vietnam’s total cotton imports (note: this marked the fifth consecutive year that the U.S. was the leading supplier of cotton to Vietnam). African countries ranked second and India was the third largest supplier.



U.S. Cotton Exports to Vietnam

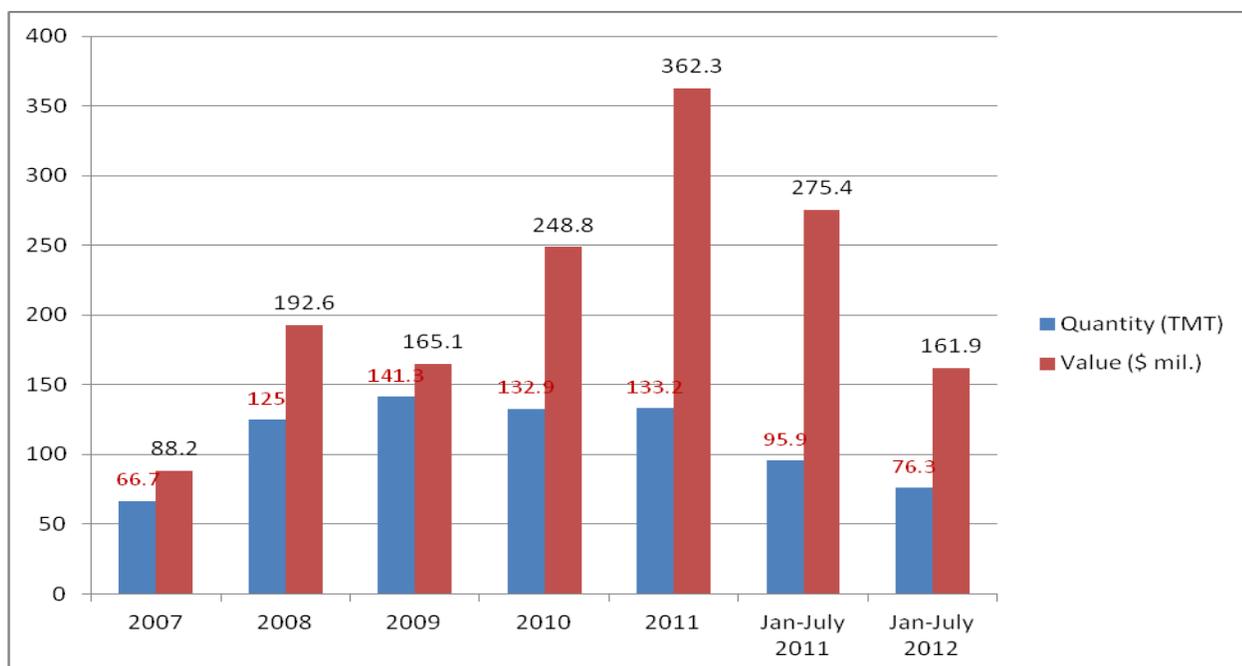
In 2011, U.S. cotton exports reached 133,200 tons for a value of \$362 million, a year-on-year increase of 0.4 percent in quantity and 45.6 percent in value due to spiking international prices.

During Jan-July 2012, U.S. cotton exports were 76,338 mt valued at \$161.9 million, a significant reduction of 20 percent in quantity and 41 percent in value (see table 6 below). Several factors in the international cotton market have caused volatility in world prices. Unfortunately, this volatility led some mills and other purchasers in Vietnam to default on contracts with US cotton suppliers. The contract default situation made most U.S. cotton suppliers hesitate to sell cotton to the Vietnam market. This is the main reason for the big drop in U.S. cotton exports to Vietnam in the first seven months of 2012, and the results of that situation will likely restrict exports into 2013.

Table 6: U.S. Cotton Exports to Vietnam

	2007	2008	2009	2010	2011	Jan-July 2011	Jan-July 2012	% change in compared with the same period 2011
Quantity (TMT)	66.7	125	141.3	132.9	133.2	95.9	76.3	-20
Value (\$ mil.)	88.2	192.6	165.1	248.8	362.3	275.4	161.9	-41

US Exports of Cotton to Vietnam by Quantity and Value



CONSUMPTION

Vietnam's domestic cotton consumption continues to increase in order to meet strong demand from its expanding textile industry. Demand for textiles is strong, for both export and domestic markets. Vietnam is currently home to 100 spinning mills with 5 million spindles (equivalent) for a total capacity of 400,000 tons of fiber. Domestic cotton consumption has been increasing at an average rate of 7-8 percent, per year, for the last five years. Post revises estimated domestic cotton consumption for 2010/11 at 360,400 tons (or 1,650 thousand bales), and for 2011/12 at 366,000 tons (or 1.68 million bales) (see PS&D Table 1). This revision reflects the stronger exports of cotton yarn to overseas markets, especially China and Turkey.

Due to strong demand from China and Turkey for Vietnamese cotton yarn, Vietnam cotton yarn exports will continue to increase in 2012/13. This will result in stronger cotton lint demand in 2012/13. Post estimates cotton consumption in 2012/13 at 365,800 tons (or 1.75 million bales), an increase of 4.2 percent over the previous year.

STOCKS

During 2011, and the first 7 months of 2012, Vietnamese businesses suffered high interest rates on bank loans. The average interest rate in 2011 was 20 percent, while in 2012 it has been about 15-16 percent, which is among the highest in Asia. As a result, cotton users and traders have tried to minimize costs by reducing carry-over stocks of cotton. Ending stocks in 2010/11; 2011/12; and 2012/13 are estimated at 315 thousand bales, 282 thousand bales, and 258 thousand bales, respectively. Stocks-to-use is forecast to fall to 15 percent in 2012/13 as users and traders shed excess inventory.

PRICES

Fluctuations in cotton prices over the last 18 months have had two effects on the Vietnamese cotton market. Firstly, high prices in 2011 resulted in an expansion in planted area and increased production in

MY 2011/12. Secondly, the rapid decline in prices in 2012 -- following their record run up in 2011 -- resulted in a number of contract defaults which affected U.S. cotton exports to Vietnam. Table 6 illustrates the sharp increase in cotton import prices during Jan-Nov 2011 (in comparison to monthly prices in 2010). Import prices reached a staggering \$4.17 / kg in May 2011, well over double the price in January 2010.

However, beginning in May 2011 prices began to fall and by June 2012 reached \$2.14 /kg, the price level in November 2010. Table 7 shows the decline in average cotton import prices during Jan-July 2012. Prices decreased by 35 percent in comparison with prices in Jan-July 2011.

This wide fluctuation in prices over the last 18 months has caused great upheaval in the world cotton trade. Worldwide contract defaults grew exponentially as prices reached record highs and then dropped precipitously in 2012. Vietnam is one of a number of countries that had a significant number of cotton contract defaults listed on either the International Cotton Association (ICA) or American Cotton Exporters Association Default lists.

Table 7: Cotton Average Import Price in 2010 and 2011

Country: Vietnam

Commodity: Cotton

Price in USD per Kg			
	2010	2011	% Change 2011/2010
Jan	1.58	2.81	78
Feb	1.64	2.93	79
Mar	1.67	3.42	105
Apr	1.55	3.69	138
May	1.78	4.17	134
Jun	1.88	3.98	112
Jul	1.97	3.89	97
Aug	2.00	2.76	38
Sep	1.90	3.67	93
Oct	2.08	2.67	28
Nov	2.13	2.84	33
Dec	2.53	2.52	0
Calendar Year Average Price	1.88	3.24	72
Exchange Rate	20,900	Local Currency/US\$	

Source: Vietnam Customs Department and Vietnam Ministry of Industry & Trade

Table 8: Average Cotton Import Price for the first seven months of 2011 and 2012

Prices in	USD	per kg	
Year	2011	2012	% Change 2012/2011
Jan	2.81	2.58	-8
Feb	2.93	2.31	-21
Mar	3.42	2.24	-35
Apr	3.69	2.27	-38

May	4.17	2.19	-47
Jun	3.98	2.14	-46
Jul	3.89	2.24	-42
Average Price from Jan-July	3.49	2.26	-35

Source: Vietnam Customs Department and Vietnam Ministry of Industry & Trade

Domestic Prices:

Presently, the Vietnam Cotton Company (VCC) is buying seed cotton at an average price of VND 12,000/kg, equivalent to \$0.576/kg (or 26.2 U.S. cents/lb), a decrease of 29.4 percent in comparison with the previous crop (note: in the previous crop, VCC bought seed cotton at VND 17,000-18,000/kg). VCC is currently selling ginned cotton to mills at \$1.97-1.99/kg (89.4-90.3 US cents/lb). However, it is quite difficult for mills to accept these price levels due to the current slump in cotton international prices.

Current Offer Prices (based on CNF Ho Chi Minh City, prompt shipment, quoted on Sep 10): Current indicative offer prices (\$/kg or US cents/lb) for cotton (quality equivalent to Strict Middling 1.1/8”) from various sources are as follows: West Africa – \$1.94/kg (87.9 US cents/lb); USA – \$1.95/kg (88.5 US cents/lb); and India-\$1.97/kg (89.4 US cents/lb). Table 9 below shows that the U.S. remains competitive in the Vietnamese import market.

Table 9: Indicative Cotton Quote Prices

CNF Ho Chi Minh City, Prompt Shipment
US cents/Lb

	Indicative price March 10, 2011	Indicative price March 10, 2012	Indicative price Sep 10, 2012	% change in comparison with the prices of March 10, 2011
USA	230	102	88.5	-61.5
West Africa	220	105	87.8	-60.1
India	238	99	89.4	-59.0

Source: indicative quote prices from various cotton traders

MARKETING/POLICY

- Tariff on Cotton

Cotton has a zero tariff on [cotton lint], but a 10 percent value added tax is assessed.

Biotech Policy and Cotton Production

Vietnam has identified and approved three crops (cotton, soybeans, and corn) for biotech development in Vietnam. Currently, however, commercial production of those genetically engineered (GE) crops, and trade in GE seeds, is still not yet allowed as the commercialization of GE crops is not yet approved.

However, despite the lack of a biosafety certification process, MARD issued the first permission for conducting confined and multi-location field trials of Bt corn to three companies in 2010 and 2011. To date, these trials have not yet resulted in certification of any GE varieties. Although cotton is one of the

three crops identified for GE production in Vietnam, to date, no confined or multi-location field trials for cotton have been undertaken.

Vietnam Cotton Development Plan for 2015-2020

On January 8, 2010, the Prime Minister signed the Prime Minister's Decision No. 29/QD-TTg, approving the Vietnam Cotton Development Master Plan for 2015-2020. Table 10 below shows the main targets of this plan.

Table 10: Vietnam Cotton Development Plan 2015-2020

	2015	2020
Total crop area (THA)	30.00	76.00
Irrigated cotton area (THA)	9.00	40.00
Averaged crop yield (MT/HA)	1.50	2.00
Yield of irrigated cotton (MT/HA)	2.00	2.50
Cotton fiber production (TMT)	20.00	60.00
Quantity (1,000 bales)	91.86	275.57

Under the program, the Government of Vietnam (GOV) will encourage larger-scale cotton farms and intensive cotton farming in order to increase cotton output and cotton quality. The planned key areas for cotton cultivation to include Dak Lak, Dak Nong, and Gia Lai provinces in the Central Highlands; Ninh Thuan, Binh Thuan, Binh Phuoc, Dong Nai, and Ba Ria-Vung Tau in the south-east and central coastal regions; and Dien Bien, Son La, and Bac Giang in the northern region.

The GOV plans to establish a fund to help farmers with extension work and cotton price stabilization. Low-interest loans will be made available to cotton farmers. The GOV also plans to invest in building infrastructure and irrigation in cotton growing areas. The Ministry of Trade and Industry (MOIT) has also approved plans for garment & textile development for 2015 and its plan for 2020.

Post believes both these plans are ambitious. Previous efforts to promote cotton development have been unsuccessful, due to limited land resources and competition from other crops.

- Table 11: Vietnam's Projections for the garment and textile industry to 2020

Description	Unit	2010	2015	2020
1. Export value	\$ million	12,000	18,000	25,000
2. Number of employees	Thousand persons	2,500	2,750	3,000
3. Key products				
- cotton lint	1000 mt	20	40	60
- Fiber, polyester yarn	1000 mt	120	210	300
- all kind of yarn	1000 mt	350	500	650
- all kind of fabrics	million m ²	1.000	1.500	2.000
- Garment products	million pieces	1.800	2.850	4.000
4. for domestic market	%	50	60	70

