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Textile Sector Profits Up 50 Percent for Jan - May Period

DATE: 2007/07/05

China's textile and spinning sector notched up profits of 10.43 billion yuan (US 1.4 billion dollars) for January through May, a respectable 50 percent rise in sales from the same period a year ago. Figures provided by China's National Bureau of Statistics (NBS) reveal a gross return of 291.75 billion yuan, which was up 26 percent year-on-year. Gross assets held by the sector totaled 535.71 billion yuan, up 17.77 percent.

Source: xinhua

Tax Rebate Cut Changes Textile Export Strategy

DATE: 2007/07/05

The tax rebate of textile exports will be reduced to 11 percent from 13 percent from this month, which will mean a 25 percent profit drop to Fomo, a Beijing-based garments company. Senior managers of this export-oriented clothing maker have held several meetings to discuss the impacts from and countermeasures to a new national policy. China decided to cut or do away with tax rebates for over 2,800 items from July 1 as an effort to reduce the mounting trade surplus and adjust the export mix.

It is the boldest move the government has ever made to rein in exports since it joined the World Trade Organization in 2001. The affected items account for 37 percent of all export products. Industrial profits will decline by 4.6 percent when tax rebates fall one percentage point, according to 2006 statistics, said Wang Yu, vice chairman of the China Chamber of Commerce for Import and Export of Textiles.

This time the policy was announced just 10 days before it came into effect and manufacturers with full order books have little possibility of increasing production. More than 900 young women are working on 20,000 black suits along a production line clipping, sewing and ironing inside a workshop

Source: China Textile Network Company

of Fomo. The suits, to be exported to Japan in mid July, will be the company's first batch of products affected by the new policy, said Fomo's deputy general manager Liu Yuzhong, adding that the company has cut the price of the suits in order to win the contract and now it is impossible to raise the price.

Liu said due to the tax rebate adjustment, Fomo's aggregate export tax rebates will be reduced by no less than 5 million yuan (US\$657,375) this year. Last year its export tax rebates were 2.5 million yuan. Fomo is not alone as the policy affects the profit margins of many industries, textiles in particular.

The textile industry is a major contributor to China's big trade surplus. It saw a US\$129.2 billion trade surplus last year, accounting for 71 percent of the nation's total. In the first quarter of 2007, the textile industry's trade surplus reached US\$27.28 billion, accounting for nearly 60 percent of the total surplus. As a result, the textile industry will bear the brunt of the tax rebate adjustment.

Export mix adjustment

The move is an effort to adjust structure of the textile industry and help textiles and garment producers shift their focus to value-added exports from low-priced and low value-added goods, said Chen Ping, a vice director at Beijing Customs. For quite a long time, China's textiles and garments exports have been successful due to large quantities and low prices. Low value-added products with similar designs and poor quality have intensified competition in recent years.

With the appreciation of the yuan, and rising labor and material costs, the textile industry saw a slower growth, Chen said. The industry's trade surplus was US\$28.21 billion in the first four months of 2007, up 17.4 percent over the same period last year, compared to 25.1 percent in the first four months of 2006.

Small garments enterprises, which make low value-added and single products, face the risks of being squeezed out of the export market, as they mainly rely on tax rebates, Chen said. A small clothing enterprise with an annual export value of about US\$2 million in Hangzhou, East China's Zhejiang Province, will basically be unprofitable after the tax rebate change, the firm's owner said. The fundamental way out is to transform the business model, optimize the export product mix, build brands, increase added value, diversify varieties and designs and improve packaging and marketing, said Wang Shenyang, chairman of the China Chamber of Commerce for Import and Export of Textiles.

Liu Hongyu, deputy general manager of Beijing-based Smart Garments Company, echoed Wang's view saying that higher technology and quality guarantee a higher profit. Liu takes Smart's experience as an example. The company earns 50 cents from each piece made for Wal-Mart and Carrefour, the world's largest retail chain groups, and more than US\$5 from an OEM (original equipment manufacturing) piece, while the profit might top US\$100 when it is produced with Smart's own brand and design.

Smart, with 70 percent of its products exported to the Japanese, European and American markets, is shifting its business from doing OEM to products with its own brand, he said. "China's textile industry had entered a crucial phase of upgrading instead of simple expansion in quantity," said an industry expert. It is necessary to go through the course of selling cheap products to fine ones at reasonable or higher prices that they are worth. The tax rebate cut may not affect those enterprises

which exports high value-added products, said an official at a foreign economic and trade bureau in Zhejiang.

An official at Ningbo Shenzhou Textile Co Ltd, which has an annual export value of about US\$345 million, said the tax rebate cut is acceptable for Shenzhou. Meanwhile, the adjustment reminds Shenzhou of strengthening its risk resistance by improving its technology and added value, added the official.

Setting its sights on mid-range and high-end markets, Shenzhou has become a major producer in China for the world's top sporting goods makers like Nike and Adidas. Shenzhou has exported 45 million pieces of garments worth US\$180 million in the first half of this year and the export value this year is expected to reach US\$400 million.

Source: China Daily

Cotton Railway Shipments Drop in May

DATE: 2007/07/03

China's National Development and Reform Commission reported that daily rail shipments for the month of May totaled 139,270 cars, a record high and an increase of 7.5 percent year-on-year. The total tonnage was a whopping 263 million tons, an increase of 7.7 percent year-on-year. Daily shipments for cotton, however, were down 14.3 percent year-on-year.

Source: globecot

Export tax rebate deadline comes on Sunday

DATE: 2007/07/03

Starting from July 1st, China will cut or eliminate export tax rebates for more than 2,800 export items. This is the boldest move yet to rein in exports since China joined the World Trade Organization in 2001.

According to the Ministry of Finance, the targetted items account for 37 percent of all exported products. The textiles industry is one of the most affected areas. The tax rebates of textile export goods will be deducted by 2 per cent.

Currently the average profit margin in the textiles and clothing industry is no more than 5 percent. Such a disincentive will result in benefits of the textile industry shrinking by 10 to 20 percent. Many clothes business traders say they've sensed the pressure brought along with the measure.

Huang Xinhua is deputy manager of a textile company in eastern China's Zhejiang province. "As we could not get the cargo delivered by the end of June, we will have to accept the reduced tax rebates. So basically for this round of deals our net profit is very small."

The textiles industry is described by the Ministry of Commerce as "easy to trigger trade frictions". As the major creator of China's huge trade surplus, it comprised more than 70 per cent of China's total trade surplus last year.

Professor Xu Fu with the International Economy department of the Tianjin-based Nankai University, says China's exporters should use this opportunity to restructure the industry, and actively change their ways of making profits. "Small textile clothes manufacturers should improve the quality of their products and their service, in order to offset the loss in tax rebates. They should also develop a series of brand name products to increase their competitiveness."

Source: CRIENGLISH.com

2007 China Cotton Conference Ends - Consensus Evident on Crop

DATE: 2007/07/02

The 2007 China Cotton Conference was held in Urumqi, Xinjiang on June 27 - 29, drawing a record crowd of over 800 in attendance, including a large number of foreign delegations. Topics discussed were rather diverse, with the center of attention on the size of the 2006/07 Chinese cotton crop, consumption and unsold stocks.

A clear consensus emerged from the Chinese delegates' presentations that the 2006 Chinese crop equaled at least 7.1 million tons due to an underestimation of the Xinjiang crop. In regard to the 2007 crop, there was agreement that output at this juncture looks set to reach or exceed last season, which means production of 7.1 million tons or more. As to consumption, there was no clear consensus, with the issue being centered on the problems with the current NBS surveys on yarn output.

International traders found some relief from the fact that it is now obvious that China's domestic stocks of high-grade cotton have significantly tightened. Amid this tightness, new sales of both consignment cotton and new sales were active during the conference. Chinese mills clearly need high-grade M 1-3/32" and higher cotton. Imported cotton is also cheaper than local cotton, which is another new incentive for imports.

Another feature that emerged from the conference, where a large delegation of Indian ginners and merchants were present, was the new role India is playing in Chinese cotton trade. Indian new crop is again set to dominate turnover in imported cotton during the November 2007 through March 2008 time period. The availability of very cheap freight between Indian and Chinese ports has helped contribute to the popularity of Indian cotton. Freight costs of 50 to 150 U.S. dollars per container are being quoted, with even cheaper rates having been quoted at some point. Ginners are increasingly selling the Gujarat crop FOB a Gujarat port, which is further enhancing the attractiveness of Indian cotton. The improvement in quality has also added to the willingness of Chinese mills to expand usage.

Source: Globecot

China`s Cotton Imports may Fall on Record Production

DATE: 2007/06/29

China, the world biggest producer and consumer of cotton, may reduce imports by 32% this year, pressuring international prices as a record domestic crop boosts supplies.

China`s imports may fall to 2.8 million metric tonne in the marketing year through August, as output is forecast to rise 25% to 7.1 million tonne, Shi Jianwei, vice chairman of the China Cotton Association, said on Wednesday in an interview at a conference in Urumqi, capital of northwestern Xinjiang province.

Slow imports by China in the final quarter of 2006 and the first quarter of 2007 weighed on New York cotton futures, which reached a low for the year of 46.85 cents a pound on May 14. Still, prices have risen 31% since then, as traders expected shipments to China to increase in the second half. About 400,000 tonne a month for the next few months will be the upper limit, Ray Butler, managing director at researcher Cotlook Ltd, said at the conference.

China, which buys cotton mostly from the US, imported 1.5 million tonne in the nine months ending May 31, according to customs data. Imports from June-August would need to be 1.3 million tonne to reach Shi forecast for the year. China actual output is a mystery, Shi said, adding that output for the year could even be as much as 7.5 million tonne, much higher than the 6.7 million tonne reported by the National Bureau of Statistics. Every year the industry finds more cotton output unsupported by statistics mainly due to production unreported by China, said Joe Nicosia, CEO of Allenberg Cotton Co, at the same conference.

These unaccounted volumes prevented cotton prices from rising to levels hoped for by speculators, he said. For the 2007-08 marketing year, production could drop to 6.1 million tonne, as the weather may not be so good, while demand may remain the same as this year because the growth of China`s textile production is slowing, Shi said. "There is no sign" that current domestic cotton demand is outstripping supply, he added. US cotton production is expected to fall to 18.8 million bales from 21.59 million bales, according to the US Department of Agriculture. US exports will rise to 17.5 million bales in the year starting on August 1, from 13 million bales this year, the department said June 11.

Source: Bloomberg.

Chinese Mills Set to Expand Import Purchases

DATE: 2007/07/02

Chinese mills are clearly concerned about the dwindling supplies of local high grades. Imported cotton is also now competitive with local cotton, following the rapid rise in local prices during the past ten days. Most SM 1-1/8" quotes, after VAT and import taxes, are now 250 to 400 yuan per ton below the price of local cotton. The overall demand for high grades has also accelerated from a shift in domestic yarn demand to the higher-count yarns. This first led to an increase in demand for Xinjiang top grades and has now spread to import styles. Sliding-scale import quotas are also available in a substantial volume, following the issuance in early June of an additional 1.1 million tons in quotas. Domestic yarn prices are also rallying in the 32 and 40-count combed yarns, which is

Source: China Textile Network Company

adding to spinners' confidence in building nearby stocks.

Source: Globecot