

Focus on Fiber

All eyes are on São Paulo
for the 2010 ITMF Conference

By **MIKE McCUE**
EDITOR

The cotton industry is like a vast, living organism that stretches from one corner of the globe to the other, with every country and sector depending on the others for its health and ability to thrive. When there is dramatic change in one part of the chain—as there currently is, with global cotton prices reaching heights they haven't seen in decades—the delicate balance can be upset.

If supply and demand are stable, there is profit enough for all stakeholders, from growers to merchants, mills to retailers. But when one sector of the industry is out of sync with the others, it transforms a cooperative, symbiotic relationship into one that puts enormous pressure on a single link in the chain.

As the cotton industry turns its eyes to São Paulo, Brazil, for the 2010 International Textile Manufacturers Federation

(ITMF) Conference, the balance is dangerously close to being upset. Spiraling cotton prices are a great boon to those growers who have cotton to sell, and while high prices aren't doing much damage to the downstream industry yet, the pressure is building.

The key to maintaining stability, as it usually does, rests in the hands of consumers. As long as they demand cotton products from retailers, high prices can be absorbed by various sectors of the supply chain without incurring long-term damage.

"Rising cotton prices are certainly a big concern for the spinning industry, accounting for 40 percent to 70 percent of total manufacturing costs, according to ITMF's International Production Costs Comparison Survey," says Christian Schindler, ITMF Director General. "But it's a concern for all other segments of the downstream industry as well. Since retail prices do not tend to rise much—if at all—the entire value chain has to absorb rising raw material costs in one way or

the other through reduced margins. The question is, who will absorb most of the price increases?"

Terry Townsend, executive director of the International Cotton Advisory Committee, agrees that high material prices can be painful, but points out that high consumer demand is mitigating the pain so far.

"In theory and in practice, rising prices of cotton must be hurtful to textile mills," he says. "However, this rally is demand driven. Consumers are buying, retailers are restocking, cut-and-sew operations are producing, and that leads to demand for finished fabric, greige goods and yarn. It is my impression that spinners are coping with the rise in prices, at least for now."

When and how the tastes of today's buyers will change is anyone's guess, according to Ted Schachter, a professor at the New York-based Fashion Institute of Technology. "Consumer tastes are determined by their culture, their peers and reference groups," he says. "As these consumers become citizens of the digital environment, they are exposed to other cultures and groups. This exposure creates a blend of beliefs, a mixture of the new and the old. Eventually, the consumer is forced to decide what characteristics and traits to keep and which to shed."

Chasing fickle consumer tastes is usually a difficult and never-ending process, but the global adoption of the Internet might have changed the game permanently, in this case. "I believe that the use of the Internet is a permanent, fundamental shift," says Schachter, who will be a speaker at ITMF's session on The Neo Consumer (Monday, October 18, 4:00 PM to 6:30 PM). "Modern textiles and apparel have to fit the consumer's life. New movements such as 'green' and 'sustainability' are now part of the consumer DNA, and this will be passed on to their offspring, further reinforcing those beliefs. Work environments and social activities have changed, and fabrics must adapt."

How fabrics will adapt to those specific issues also are areas of focus at this year's ITMF Conference, with sessions dedicated to sustainability, the different perspectives on the future of genetically modified (GM) cotton, and the competition between cotton and man-made fibers, among others.

With the cotton industry enjoying a rapid ascent from the depths it plunged to in March 2008, a high-level meeting between the leaders of the cotton and textile industries couldn't come at a better time. Here is a sneak peek at some of the most pressing topics up for discussion at the 2010 ITMF Conference.

White Gold Is White Hot

At press time, the December 2010 price for cotton in New York is more than US\$1 per pound, reaching heights it hasn't seen since the mid-1980s. While that's putting green

Highlights of the Brazilian Textile Sector

- **Number of companies:** 30,000
- **Average clothing production:** 9.8 billion pieces annually
- **Employs 1.7 million employees, 75% of whom are women**
- **Second-largest employer in the transformation industry** (which converts raw materials into a commercial product that is ready to be used or consumed)
- **Second-largest "first job" generator**
- **Fifth-largest textile producer in the world**
- **Second-largest denim producer in the world**
- **Represents 17.1% of the jobs in the transformation industry's GDP, and about 3.5% of GDP**

2009 Textile Sector Data:

- **Total earnings of the Brazilian textile and apparel chain:** US\$45 billion
- **Exports (without cotton fiber):** US\$1.206 billion, compared to US\$1.725 billion in 2008
- **Imports (without cotton fiber):** US\$3.460 billion, compared to US\$3.776 billion in 2008
- **Trade Balance (without cotton fiber):** A deficit of US\$2.054 billion, compared to a deficit of US\$2.050 billion in 2008

Textile Sector Data, Jan. to July 2010:

- **Exports (without cotton fiber):** US\$803 million
- **Imports (without cotton fiber):** US\$2.686 billion
- **Trade Balance (without cotton fiber):** A deficit US\$1.883 billion

in the pockets of cotton growers, it's putting financial stress on mills (assuming there is any cotton available for them to purchase at all).

However, the imbalance seems to be manageable so far, even for downstream companies that have to absorb higher costs as cotton moves through the chain. The key is that the rise in prices is demand driven rather than supply driven, says Townsend, who will address the topic of volatility and uncertainty in the international cotton market during ITMF's Fibre Report.

"In a supply-driven market, where short crops are driving prices higher, spinners and weavers are hurt because they are unable to pass higher cotton prices to customers, at least not for a period of months," he says. "However, in a market driven by strong demand, it is my impression that spinners and fabric producers are able to increase prices, at least to some extent, to offset rising costs."

One other factor that mitigates short-term price spikes is the long time that it takes to transform cotton "from dirt to shirt," a process that typically takes a year or more. Cotton products that will be on the shelves during Christmas were designed and ordered a year ago, and spinners were producing the yarn for those products during the first four months of 2010—using cotton that was grown in 2009. Weavers, knitters and fabric finishers were making the cloth from February through June, and the cut-and-sew companies were making the final products from May through September.



Christian Schindler



Ted Schachter

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Every step along the way, the cotton being used was grown in 2009.

"It will be Easter 2011, at the earliest, before cotton from 2010 begins to show up on shelves, and that allows time for markets to adjust and the higher costs to be partially passed along the value chain," Townsend continues. "The question is, will consumer prices rise because of higher cotton prices? In theory, yes, eventually the consumer has to pay for everything. But in practice, cotton is such a small component of the retail price of a \$40 dress shirt, a \$35 pair of pants, or even a \$5 t-shirt, that it is hard to measure the small increases in consumer prices that will occur. As a practical matter, consumers will never notice the increase in cotton prices."

Although that might be the case for now, flaws in the global pricing system will need to be addressed before things take a turn for the worse, according to Ertugrul Tanriverdi, vice president of Ensar Tekstil, a spinning company based in Turkey.

"Actually, as far as prices go, we are not complaining too much about the current situation because we have strong demand," he says. "But the bullish market of the last two months has increased our costs significantly. It is impossible for us to sell yarn at the current levels. In the long term, cotton acreage will increase because of the high prices at the beginning of the season, and that is good news for everybody."



Ertugrul Tanriverdi

"The most troubling issue for spinners is that this rise in the New York Futures price has nothing to do with the supply and demand situation, or any other traditional reason," he continues. "It is all speculative and there is nothing we can do about it. We must have a protection system for it. Cotton prices are much higher than they should be. We are expecting a drop to cover our positions, but U.S. cotton is unreachable and we look forward to having access to local cotton, and shipments from other locations, at lower prices."

The Fibre Session

3:00 PM to 5:00 PM, Sunday, October 17, 2010

One of the most closely watched sessions at this year's ITMF Conference will surely be The Fibre Session, part of which addresses the competition between natural and man-made fibers (MMF). It will take an even more prominent position in the minds of textile companies this year, given the current cotton price spike.

The key issue in the cotton-vs.-MMF debate, as it is with high material prices, is consumer demand, according to session moderator Andrew Macdonald, ITMF Advisory Board member and international affairs consultant with ABRAPA, the Brazilian Cotton Growers Association.

"The fiber session is unique, in that it is the only cotton forum for textile industry leaders," he says. "Other cotton events are attended by cotton buyers from textile companies."

The Brazilian Textile and Apparel Industry Association (ABIT)

The Brazilian Textile and Apparel Industry Association (ABIT) represents the integration of the Brazilian textile chain. Founded on the early 1960s, ABIT sponsors companies of every segment in the textile industry, including cotton growing, synthetic raw materials, textile fibers, spinning, weaving, knitwear, dyeing, printing and clothing.

ABIT's mission is to support the sustainable development of the Brazilian textile industry, representing its interests in the presence of governmental and international organizations, as well as making the textile sector better known to the general public.

One of the relevant events sponsored by ABIT is the ABIT Fashion Prize, which gathers important personalities of various sectors and the press to make public which companies of the textile industry have stood out within their particular activity sector throughout the year, thus bringing those involved in the production process and the final consumers into closer contact.

In 2001, based upon the responsible growth of the Brazilian textile industry, ABIT—supported by The Brazilian Export and Promotion Agency (APEX)—launched the trademark event that will promote Brazilian textile products abroad: TEXBRASIL.

In addition to promoting Brazilian textile products in the world market, TEXBRASIL develops strategic programs for exportation, stimulating Brazilian entrepreneurs through its activities and courses to increase their exports. The export strategies developed by TEXBRASIL have now become a benchmark for APEX.

In order to achieve excellence within the textile sector, ABIT develops special professional training programs and supports social and environmental programs, among its other activities. Aiming meet the needs of every sector within the textile industry, ABIT relies on the following Sector Commissions:

- **Fiber** (cotton fiber; raw wool, wool tops and yarn; long fiber sector)
- **Spinning** (Cotton Spinning Sector; PV/ PA and Viscose Spinning Sector; Lining and Ramie Spinning Sector)
- **Weaving**
- **Clothing**
- **Colored Denim**
- **Machinery, quality and productivity/ infrastructure/ technical norms/standards**
- **Finance and Statistics**
- **Marketing**
- **Foreign Trade**
- **Wool Sector**
- **Sewing Threads**
- **Knitwear**
- **Kettentul & Raschel Knitwear**
- **Coverings and Blankets**
- **Bedclothes, Table Lining and Towels**
- **Rugs, Carpets and Linings**
- **Decoration**
- **Texturizers**
- **Processing**



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At the fiber session, we expect senior management to attend, creating an opportunity for them to update themselves in regard to the latest situation on cotton and synthetic fibers.

"From the cotton industry's perspective, the challenge is to convince the consumer to purchase cotton products rather than those polluting synthetic garments," Macdonald continues. "Somehow, the public has been skillfully steered away from cotton on the arguments that it is unsafe—and more importantly, socially unacceptable—to encourage the growth of non-organic products. As long as the retailers encourage this incorrect posture, the textile and apparel industries will continue to produce what they understand the public wants."

This is also a time of opportunity for cotton professionals, however. "For cotton traders and merchants, I believe the opportunity is to embrace instrument testing of cotton as the principle manner of indentifying the cotton characteristics in their contracts, and do away with the old fashioned hand classing and the vague evaluation of quality by just looking," Macdonald says. "All textile industries today require the instrument data to process their cotton, so the opportunity is to supply them with what they really require. It also ensures fairness for the grower, who can see the results of his work in the form of written data, rather than someone's biased opinion. This

will help textile companies attain profitability, and eventually pass on their real costs to the final consumer."

The other area of focus for The Fibre Session would be sure to draw a crowd of cotton professionals in any setting: the future of GM cotton. It features the perspectives of two cotton industry powerhouses, the United States and Brazil.

GM cotton has been overwhelmingly accepted within the United States in the last 10 years, but for many countries,

emotion rather than science has been used in determining policy when it comes to the introduction of biotech traits, according to Don Cameron, general manager of Terranova Ranch, who will present the U.S. perspective.

"Many countries are now slowly accepting the adoption of GM cotton and are reaping the benefits," he says. "To be



Andrew Macdonald



Don Cameron

Q&A with Fernando Pimentel, Superintendent Director, ABIT



Fernando Pimentel

1 From a global perspective, what makes the Brazilian textile industry unique?

Brazil has a strong and diversified textile and apparel industry, mixed with a strong creative sector. There are almost 100 schools and universities of fashion, not to mention the vocational courses. We have also one of the most famous 'fashion weeks' in the world, which contributes to the wonderful atmosphere. In addition to the strong textile and apparel industry, it's a good time for Brazil as a nation. Our economy will grow more than seven percent this year, and in the last seven years, more than 30 million people have joined the rapidly growing middle class, representing more consumers in the market.

2 What does the future hold for cotton in Brazilian textiles and apparel? Will cotton's presence increase, decrease, or stay the same in coming years?

Cotton represents about 60% of fiber consumption in Brazil. We believe that in the future, cotton will maintain a total market share of about 50%. The production and consumption of chemical fibers in Brazil is increasing, but at the same time, we believe that Brazil will still consume more cotton than most other countries in the world.

3 Is there anything that cotton professionals can do to increase their role in Brazil's textile industry?

The cotton professionals in Brazil need to do a better job of promoting the use of the fiber in fashion and technical products. They need to have a greater presence at fashion shows to advertise the wonderful characteristics and uses of 'white gold.' There is plenty of opportunity for growth because Brazil is one of the few countries in the world that can increase the production of cotton without decreasing its food production.

4 How will the Brazilian textile and clothing industry be different in five years? Twenty years?

We expect that per-capita consumption in Brazil will reach around 18 kg per person during the next six years. Today it is about 12 kg per person, so if that projection holds, the textile and apparel industry has a brilliant future in Brazil. We think we will be recognized as a clean and sustainable industry, offering innovative and creative products to a large internal market while still competing in the international market with environmentally friendly goods. We believe in a free market, but we can't open our market to competitors who don't follow the same types of labor and environmental laws we have in Brazil.

competitive in world cotton production, these adaptations in cotton farming must be made. Those that don't adapt will eventually lose their industry. Improvements from GM cotton can be seen in the less-developed countries of the world, where yields have dramatically increased after its adoption.

"The improved utilization of inputs—land, fertilizer, pesticides and most importantly, water—with GM crops more than offsets the fear of this technology. The more efficient use of these finite resources makes more land available for other uses and gives cotton a smaller environmental footprint."

The Brazilian perspective will come from Haroldo Cunha, president of ABRAPA, who sets the stage by pointing out that only 15 percent of the South American country's current crop consists of GM cotton. "Brazil has been extremely slow to permit the introduction of GM cotton due to fears about how such plants could affect the environment over time," he says. "Recently, some traits have been approved, including Bollgard, Roundup Ready, Liberty Link and Wide Strike. But overall, we are

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very concerned that we are at least 10 years behind our cotton-growing colleagues in terms of having our own varieties modified with the latest traits.”

However, some of the most modern traits, such as Roundup Ready Flex and Bollgard II, won't be commercially available in Brazil until the 2013-14 season, and that's a movement that Cunha believes has to pick up steam if Brazil wants to maintain the momentum it's generated in the global cotton industry over the last few years.

“GM cotton must be the future of cotton if we are going to achieve improvements to the environment with the reduction of herbicides and toxic insecticide sprayings,” Cunha says. “In Brazil, most of the cotton is grown in our savannahs, which extend over the equator. The very hot and damp conditions are ideal for all sorts of pests, including sucking pests, soil pests, airborne fungi, and the imported boll weevil.

“GM offers us the potential to sharply reduce the application of toxic chemicals, and together with integrated pest management and good farming practices, will permit the growth of our industry as well as preserve the environment for our children. It would also give us an opportunity to reduce costs and allow cotton to compete with man-made fibers.”

Although GM cotton is already a mainstay for U.S. farms, Cameron knows that it still has its detractors and opponents in the global community. “It is unfortunate that there is opposition even after this technology has been proven safe and beneficial in so many crops,” he says. “There will always be opponents to technology, whether they be GM crops, hybridized seeds, or some other technology. The world cotton market provides options for those who don't want to buy GM cotton—organic cotton, for instance, which does not allow for the use of GM seeds in its production and is available in many products and garments. It's all about choice: choice for a grower to use and plant GM crops or to use conventional seeds for cotton production.”

While offering choices to consumers is important, it carries long-term consequences as well, Cunha insists. “Although the rich nations like the idea of organic products, they have to understand that this is not sustainable with our growing world population, increased longevity, and the increased purchasing power in many developing countries. If we want a better place to live, we need to embrace GM crops immediately, and turn our attention to saying ‘no’ to synthetic fibers made from the most polluting of all matter on this planet: oil.”

Sustainability and Profitability: Do They Go Together? 10:30 AM to 12:30 PM, Tuesday, October 19, 2010

Few issues are of greater importance to the cotton and textile industries than sustainability. While many understand that the term refers to the impact on society and the environment, it also covers the critical issue of profitability. If a business can't be profitable, it can't be sustainable.

This session has pulled together an expert panel of speak-



Haroldo Cunha



John Cheh

ers from all over the world, covering a variety of disciplines: Dr. John Cheh, CEO of the Esquel Group; John Easton, ecology solutions manager with the DyStar Group; Jeff Harlowe, senior vice president with Levi Strauss and Co.; Giuliano Noci, professor of marketing, Politecnico di Milano; and Wang Tiankai, vice president of the China National Textile and Apparel Council.

Industry professionals, and even some of the more knowledgeable consumers, are aware of the “low-hanging fruit” when it comes to sustainability. There is a well-known need for weed- and pest-control methods that are less harmful to the environment, and it's also common knowledge that growing cotton requires a significant amount of water for irrigation. In many cases, those two issues combine to create a different problem, such as the negative impact of agrochemical run-off on water courses and the long-term impact of pesticide use on soil quality.

Technology can provide some of the solutions. “The use of water-saving farming methods, such as drip irrigation, can help reduce the water consumption of cotton growing,” Cheh says, “and the development of cotton breeds that are more drought-resistant will also make cotton farming more sustainable.”

“The industry needs greener growing technologies that can maintain or even increase yields,” says Giuliano Noci. “Biodiversity is another challenge for the whole supply-chain. It is a great lever for supporting sustainable development in underdeveloped areas, but everybody knows that some cotton species are less productive or less workable than others. Researching methods that improve ‘underperforming’ species is an opportunity to pursue economic efficiency and effectiveness in an environmentally and socially responsible way.”

Ironically, one frequently discussed solution involves little or no technology at all. But many suggest that organic farming, which garners a lot of press and publicity, isn't the panacea some wish it were. There are concerns about the overall sustainability of organic cotton, and some studies contend that organic farming decreases the yield of farms and could have far-reaching, detrimental effects such as deforestation and price increases that make it impossible for consumers in some parts of the world to buy cotton.

As a result, neither the cotton industry nor the textile industry can truly achieve the goal of sustainability in a vacuum, because their fates are intertwined. “Industry efforts like ‘organic cotton’ and ‘fair trade cotton’ are easy to communicate to consumers, but only focus on a narrow aspect of the supply chain and do not adequately address the real sustainability issue,” according to John Cheh. “A more holistic approach to sustainability—one that covers not only cotton farming, but also the making of yarn, fabric and garments, including energy- and water-intensive processes such as dyeing and finishing—is needed.”

“Cotton is the most important textile material, so its greatest challenge in terms of sustainability should be the

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sustainable development of the textile industry,” according to Tiankai. “The fundamentals for the sustainable development of the cotton industry are improving the profitability of the textile industry and enhancing the digestion and transmission capacity of the industrial chain on raw material price fluctuations. Improving the cotton circulation system and bolstering national reserves—not to mention preventing wild cotton price fluctuations—are also important aspects of sustainable development.”

That is one of the keys: It’s not enough for the cotton industry to actually be sustainable ... it needs to be *perceived* as sustainable by consumers. “It’s vital for retailers to share information with consumers about how cotton can be sustainably produced in order to truly impact buying habits,” Harlowe says. “That is no small feat, and requires a massive collaborative effort from retailers and the cotton industry. We know from our lifecycle assessment that one of the most important things we can do as a jeans maker to reduce water use is to change how we farm the cotton used for our products. But we also need to work together with industry to help educate consumers about why they should support sustainable cotton.”

That’s why, Noci says, the perception of sustainability is the key to developing a profitable, sustainable cotton supply chain. “Of course, the advantages of this reinforced perception by customers must be shared along the supply chain; it is the only way to give incentives to all the players in the industry to move toward more and more responsible behaviors.

“In fact, marketing sustainability means marketing the supply chains themselves, not just individual products. As a result, collaboration, benefit sharing and participation at all the levels of the farming-manufacturing-distribution chain are necessary to be really ‘green’ and to enjoy the advantages of sustainability.”

That’s a significant task and would require a never-before-seen level of collaboration, but cotton has one undeniable trump card: an overwhelming popularity among consumers that can’t be denied.

Each speaker believes there will be value for attendees at the session:

Giuliano Noci: “I think that the debate on sustainability has too often been characterized by the idea that marketing sustainability means “giving less for more”—being sustainable decreases some features of the product, and customers will pay more for that. This idea cannot actually be sustainable over time. At the conference, we will start discussing sustainability as a way to give more: the same quality (if not even more), at similar prices, with the bonus of the green qualities; several companies and supply-chains in different industries have accomplished this goal, joining sustainability and profitability. I think the cotton industry can also do that, and the conference



Giuliano Noci



Wang Tiankai



John Easton



John Harlowe

can provide cotton professionals with inspirational ideas about how to succeed in this challenge.”

John Cheh: “With the heightened awareness of climate change, governments are pushing the industry to adopt cleaner production processes, and apparel brands are driving their suppliers to take similar measures. Conventional wisdom suggests that the investment in sustainability will lower corporate profitability, but Esquel’s experience suggests that there is often a business case justifying the investment. We hope to share some of our experiences at the ITMF Conference and hear how others have achieved sustainability and profitability at the same time.”

Wang Tiankai: “Literally speaking, ‘sustainability’ and ‘profitability’ are two contrary and conflicting concepts; however, in fact, they are interrelated and mutually reinforcing. For the textile industry, sustainability consists of the management and control elements in the fields of society, economy, humanities, environment, law, politics, and so on. For example, social compliance covers three aspects: the labor relationship, the environment, and fair trade. In the short term, the promotion of social compliance would lead to an increase in operation costs and a decrease in profits, thus putting heavy pressure on the company. On the other hand, in the long term, it would also increase labor productivity, improve the company’s image, advance the brand’s value and social recognition, and help it realize long-term profitability. The professionals from the cotton industry who attend this year’s ITMF conference to discuss the issues on sustainability and profitability would, without a doubt, strengthen the understanding of the textile raw material among each of the countries and regions, and further promote global cooperation and division of labor.”

John Easton: “Hopefully, attendees will get an overview of the whole supply chain, from seed to store, and learn how reducing the environmental impact at each stage can boost the positive image of cotton, save money, and save the planet. From a dyestuff company perspective, we can make a major contribution at the cotton-processing stage by offering innova-

tive, high-quality products that reduce environmental impact (by saving energy and water) and aid compliance with restricted substance lists, while offering the consumer attractive products (shades) with good performance and durability (fastness).”

John Harlowe: “For more and more companies, social responsibility has become a cornerstone around which businesses are built. Sustainability is a global issue that affects every country, every industry and every community. As technology and innovation continue to change at a rapid pace, the ITMF Conference offers a rare opportunity to learn from some of the brightest leaders in the field and collaboratively brainstorm creative solutions that not only help reduce the impact of our businesses on the planet, but also drive more efficient business practices.”