

Textiles Intelligence

Editorial: Cotton to Keep its Share of the Global Textile and Apparel Market in 2020-30 as China's Fibre Con- sumption Growth Slows

by Textiles Intelligence

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All tons are metric tons unless otherwise stated.

n/a = not available or not applicable

Textiles Intelligence

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Editorial: Cotton to Keep its Share of the Global Textile and Apparel Market in 2020-30 as China's Fibre Consumption Growth Slows

INTRODUCTION

The organisers of the 2013 Annual Conference of the International Textile Manufacturers Federation (ITMF), held during September 8-10, were pleased with the unusually large number of delegates who had been attracted to the event.

The high attendance was due in no small part to the convenient location of the conference in Bregenz, Austria—close to the German and Swiss borders. This meant that, unlike the 2012 event held in Vietnam, many European delegates were able to reach the 2013 event quickly by car or by train.

A second factor was that the timing and location of the event provided delegates with the opportunity to attend the 52nd Dornbirn Man-Made Fibers Congress. This was held during September 11-13, 2013¹—and Dornbirn is only about 10 km from Bregenz.

Last, but by no means least, the beautiful location of Bregenz—on the shores of Bodensee (Lake Constance)—no doubt played its part.

Those delegates who arrived early enough to attend the Fibre Session of the ITMF conference on Sunday September 8, 2013, were well rewarded. So were those who stayed until the end of the conference on Tuesday September 10, 2013, to hear a refreshingly candid presentation by Sun Ruizhe—a vice-president of the China National Textile and Apparel Council (CNTAC) and an articulate speaker of the English language. Mr Sun also lent his presence throughout the duration of the conference and posed some interesting and pertinent questions to speakers in other sessions.

Mr Sun's candid approach—which included an acknowledgement of China's role in global social responsibility—led to some speculation among delegates as to whether this might be a reflection of a more open policy by China's new rulers.

¹ A report on the 52nd Dornbirn Man-Made Fibers Congress is planned for a forthcoming issue of the Textiles Intelligence publication *Technical Textile Markets*.

IMPACT OF CHINA'S STOCKPILE

The size of China's controversial cotton stockpile², known as the China National Reserve, continues to attract attention and consternation—and, indeed, some bewilderment—in the global fibre, textile and apparel industry.

At the Fibre Session on September 8, 2013, the outgoing executive director of the International Cotton Advisory Committee (ICAC), Terry Townsend, helped to throw some light on the situation in a paper entitled “Fourth Year of Cotton Surplus & Measuring Sustainability in Cotton”.

Because of the size of the China National Reserve, world cotton stocks are expected to reach a record high of 19 mn tons by the end of the 2013/14 season, and the ratio of global cotton stocks to cotton use is expected to reach its highest level since the Great Depression, which began in 1929.

With stocks at such a high level, past experience would suggest that the Cotlook “A” index³ should be much lower than the 89 US cents/lb which prevailed in the first half of September 2013. Lower prices would then discourage plantings in the subsequent crop year leading to lower production levels and—provided production was lower than consumption—stocks would fall.

Over the years, this “market forces” mechanism has kept supply and demand in balance and stocks at reasonable levels. However, as Mr Townsend remarked, prices have become “trapped” in a narrow range.

So what is keeping global cotton prices so high? As Mr Townsend pointed out, the China National Reserve is not available for general use around the world, and the availability of raw cotton on the market in China is rationed in order to keep cotton prices in the country artificially high.

The purpose of China's policy in this regard is to provide a satisfactory income for Chinese cotton growers and to encourage the latter to plant cotton rather than other crops in order to ensure that the Chinese textile industry has an adequate supply of raw materials.

² For further information, see “Global Trends in Fibre Prices, Production and Consumption”, *Textile Outlook International*, No 162, June 2013. An update of this report is planned for a forthcoming issue of *Textile Outlook International*.

³ The Cotlook “A” index is a measure of the price of cotton whose fibre quality and staple length match or exceed that of middling 1-3/32 inch, a grade which is usually used for medium count yarns.

Because the price of cotton in China is kept at a higher level than the global price, Chinese spinners have to pay more for their raw materials than their counterparts in other countries.

Furthermore, Chinese spinners are prevented from importing cheaper supplies freely as raw cotton imports are restricted by quotas.

Consequently, they find it hard to produce yarn competitively and Chinese fabric manufacturers have turned to buying cheaper yarn from abroad. As a result, many Chinese spinners are making losses and a number have gone out of business.

So a policy intended to provide Chinese cotton farmers with a living wage and provide the Chinese textile industry with a supply of raw materials has had the perverse effect and unintended consequence of causing extreme disarray in an important sector of the Chinese textile industry.

The worry of cotton growers, cotton traders and the textile and apparel industry outside China is that their future is affected significantly by policies pursued by the government of a country which has the largest textile and apparel industry in the world and dominates cotton production and cotton consumption.

Admittedly, the market forces which have served to regulate the market in the past can be a blunt instrument. But, with a few exceptions, the system worked. Now, the industry is in uncharted territory and this is making everyone nervous.

COTTON'S POPULARITY AMONG CONSUMERS CONTINUES UNABATED

The consumer market seems oblivious to the machinations further upstream. The market has survived the biggest cotton price shock in history⁴, and consumer demand for cotton products remains strong.

Moreover, surveys show that consumers in developed economies perceive cotton products to be “high value” rather than “commodity” items.

Consumers also believe that cotton is safe for the environment. According to a paper presented at the ITMF conference by the

⁴ Between March 2009 and March 2011 the Cotlook “A” index surged by 346% to just under 230 cents/lb. Thereafter, it fell sharply before stabilising at around the 80 cents/lb level between May 2012 and December 2012. During January-March 2013 it began to creep up again—to around the 90 US cents/lb mark—due to continued stockpiling by the Chinese government before stabilising at this level. See also “The Effect of Rises in Cotton Fibre Prices on Textile and Apparel Prices in the Supply Chain”, *Textile Outlook International*, No 157, August 2012.

president of Bremer Baumwollbörse (Bremen Cotton Exchange), Fritz Grobien, it was revealed in a survey⁵ that 86% of consumers said that cotton was safe for the environment compared with 76% in the case of silk, 75% in the case of wool, 44% in the case of polyester, 41% in the case of elastane (spandex), 41% in the case of rayon and 39% in the case of nylon.

COTTON LOOKS SET TO RETAIN ITS MARKET SHARE IN 2020-30 AS THE GLOBAL MARKET SLOWS

Looking ahead, cotton looks set to hold its market share over the 2020-30 period. This prediction was made at the 2013 ITMF conference by Peter Driscoll of PCI Fibres and it contradicts forecasts made in a paper by Franz Martin Haemmerle which was presented at the 2011 ITMF conference in Barcelona, Spain⁶.

The downside is that cotton will maintain its share because growth in consumption of all fibre types will slow from 3.5% per annum during 2010-20 to only 1.0% per annum during 2020-30. This prediction is considerably more pessimistic than the 2.5% growth rate which has been forecast for 2020-30 by other observers.

The cause of this slowdown, according to PCI Fibres, will be a dramatic cut in the rate of growth of China's fibre consumption, starting in or around 2020.

As a result, global man-made fibre production will grow by only 0.8% per annum during 2020-30 after growing by 3.8% per annum during 2012-20.

PCI Fibres' predictions are intriguing but somewhat alarming for the global fibre, textile and apparel industry as a whole as they raise a whole set of new questions. Who will survive the slowdown and who will not? Is there a future for fibre, textile and apparel production in countries other than those with the lowest costs? If the answer is affirmative, what form will such production take and, importantly, what level of scale will be sustainable?

No doubt the answers to these questions will be debated in future ITMF conferences, once industry experts and analysts have had time to digest these forecasts and come up with predictions. Hopefully this

⁵ Based on the 2012 *Lifestyle Monitor* published by Cotton Incorporated and Cotton Council International (CCI), and the 2012 *Environment Survey* published by Cotton Incorporated.

⁶ See "Global Fibre Demand to 2030: What Will Happen When Cotton Stops Growing?", *Textile Outlook International*, No 153, December 2011.

may be as early as October 16-18, 2014, when the next ITMF conference is due to be held. This would be especially appropriate as the intended venue for the 2014 conference is Beijing, China.

Robin Anson
Editorial Director, *Textile Outlook International*
September 25, 2013