Travel Report

East Asia

Bangkok – Jakarta - Taipei

May 11 – 15, 1998

During May 11 – 15, 1998 members of the ITMF Spinners Committee travelled to Bangkok, Jakarta and Taipei to meet with industry representatives of the respective countries (and Korea). The purpose of the visit was to inform spinners in this important cotton consuming area of the Committee's existence, its activities and recommendations and to secure their support for the ideas propagated by the Committee.

Participants

Committee Members

Romano Bonadei	Italy	Filati Filartex Spa.
Steven Chen	Taiwan	Tah Hong Textile Co.
Hugh S.M. Chiang	Malaysia	Pentex SDN, Berhad
Robert M. Galmes	Australia	Bonds Spinning Mills
Young Ho Kim	Korea	Ilshin Spinning Co.
D.N. Lakshminarayanaswami	India	Sri Ramakrishna Mills
Andrew Macdonald	Brazil	Alpargatas Santista Têxtil (Committee Chairman)

ITMF Secretariat

Herwig Strolz	Director General

ITMF would like to put on record its appreciation for the assistance provided in the preparation and execution of the workshops by the Thai Textile Manufacturing Association (TTMA), the Indonesian Textile Association (API) and the Taiwan Textile Federation (TTF).

Presentation of the Spinners Committee

Each of the 3 workshop were opened with a presentation by the Chairman of the Committee, Mr. Andrew Macdonald on the Committee's objectives, activities and recommendations, a summary of which follows hereunder.

Objectives

In November 1985, the International Textile Manufacturers Federation set up a Spinners Committee with the intention of creating a strong spinner's voice in all matters of interest to the industry. It identified as main objectives:

- to support the development of quality cotton fibre based on modern spinning requirements;
- to provide advice relating to the harvesting, handling and ginning of cotton;
- to promote the mechanical testing of raw cotton.

Fostering dialogue in the cotton pipeline

To bring about a re-orientation of thinking in line with modern spinning requirements and learn about new developments, the Committee – right from its inception – recognised the need for the establishment of a dialogue to involve all parties interested in the cotton pipeline from breeder to farmer, ginner, trader and spinner.

In the many visits paid to cotton producing countries over the years, the Committee met with representatives of the cotton growing and processing industry and of local governments with the purpose of informing them on the textile industry's requirements, tendencies based on the experience of the industry and the anticipated evolution of synthetic fibre as a competitor.

Reaction from growers and merchants

In the course of its missions, the Committee has invariably met with opposition to its ideas, cotton producers maintaining that the merchants were buying all their cotton without asking for any special requirements or being ready to pay premiums for better characteristics. International merchants on the other hand would look upon the Committee as a group of idealists, maintaining that their buyers were not prepared to pay premiums for anything better and that all they want was price.

The Committee felt, however, that it must continue to take a stand to promote cotton quality, when, without doubt, polyester and other synthetic fibres were today spinning better than cotton, with zero waste, no contamination, stickiness or any of the other problems which spinners find to be on the increase. Spinners confront these points in favour of synthetics without even mentioning the price advantage with exists today.

Looking for change

So, the Committee is looking for change and a new attitude to the future of cotton:

Spinners need quality to meet consumer demand;

Spinners need quality and innovation to compete with synthetics;

Spinners need reduction in cost through productivity and efficiency, faster machines and less labour.

Apart from the commercial grade, spinners require that

modern cotton fibres should be:
- longer
- stronger
- uniform
- mature
- no short fibre
- no neps
- no seed-coat fragments
- free from stickiness
- no contamination.

In the light of these requirements there is a need to discuss the question as to who is responsible or who could be influenced in the chain, to bring about the improvements.

	Seed breeder	Farmer	Harvesting	Ginning	Bale
longer	yes	yes		yes	
stronger	yes	yes		yes	
uniform	yes		yes	yes	
mature	yes	yes			
short fibre	yes		yes	yes	
neps			yes	yes	
seed-coat fragments	yes			yes	
stickiness		yes			
contamination		yes	yes	yes	yes

In the first place, what is required is a vigorous **seed breeding programme** for yield and quality.

Secondly, it is the **cotton harvesting** where the damage first occurs to the original fibres, since with handpicking disappearing in most countries, mechanical harvesting is employed where the creation of neps and spindle twist first occurs. Good maintenance is essential at this stage to make the process as respectful of cotton as possible.

Ginning is where the worst damage occurs to the cotton fibre and is exactly the area in which the Spinners Committee is pressing for slower speeds and more gentle treatment. Better controls will have to be introduced such as the Uster IntelliGin, the objectives of which need, however, to be re-oriented to give better quality to the customer rather than just better returns to the farmer.

In the **drying**, if the cotton is heated over 100° C, many important waxes are destroyed, which explains why so much cotton ginned in the super high-speed gins has so many naps, lack of uniformity and has a rough texture – all coming from over-drying. Not to mention the damage caused by the so called lint-cleaner which beats the cotton with bars and saws in an endeavour to remove the trash.

So new ideas are required to draw the cotton fibre from the seed without damaging it. The Spinners Committee is also working in this field, encouraging ginning and spinning machine manufacturers to invent alternative processes. Roller ginning is successful but much too slow. Speeding up this process and then coupling it with perhaps the modern high-speed cleaners that spinners use in the blow room could be a solution, and the Committee is looking into it.

These are just a few areas, which, if worked on, could improve the quality of the cotton arriving at the spinyard, without increasing cost.

Bridging the cotton pipeline

The <u>cotton farmer</u>, who is the original seller, plays an important role in improving the quality of cotton. It is he who has to be incentivated to influence the seed breeder to improve quality in the field and then convince the harvesting machine builder and his ginner not to spoil the cotton with inadequate mechanical treatment.

The next link in the cotton chain, after the bale has been produced, is the person or organization who could influence the cotton grower, i.e. the <u>international merchant</u>. His role is extremely important to spinners since he is their direct supplier and has the contact with the farmer or the ginner. Spinners therefore need to be united to convince the international merchant community that they are facing new challenges today and even more so tomorrow and are requiring changes to accompany these challenges. Since its inception, the Committee has therefore been seeking the understanding and support from merchants so that through them, cotton farmers and breeders can be reached to explain that if cotton cannot meet these new challenges, cotton spinning will slowly become extinct.

Influencing the chain

The question today is how can spinners influence this long chain before cotton reaches the spinning frame, since spinners are not in contact with the various intermediary steps? The Committee firmly believes that the way is, if not directly, at least through their supplier, the international merchant and improved contracting conditions.

It is with this background in mind that the Committee in its numerous country visits has been asking other spinners to support it in its crusade for better cotton and to insist on change through improved contracting conditions. These will oblige the trade to pass on spinners' requirements to farmers, seed breeders and ginners through premiums for better qualities together with fair penalties for inferior quality, to offset the losses off-standard merchandise produces.

Whilst the role of the international cotton merchant is vital in the transmission of information throughout the cotton pipeline, the Committee does not wish the trader to be squeezed between buyer and seller and that there must be rules to protect both parties. The Committee is in no way criticising the international trade or any of its associations. They are fine arbitrary bodies whose role is to legislate disputes, not to define new trading conditions. As new conditions arise, rules must, however, be adapted to change. Once new trading conditions – such as those now being proposed by the ITMF Spinners Committee – are accepted and well tried, spinners expect the new rules to follow.

Check List for International Cotton Contracting

The ITMF Spinners Committee has prepared a Check List for spinner friends throughout the world when buying cotton, discussing contract conditions and subsequently issuing a contract. Sellers may object and even try to frighten spinners by increasing the price. However, spinners should remember that they are the customer, and that the customer is always right, and that there are, after all, other sellers.

The Check List as proposed by the Spinners Committee consists of a series of recommendations, followed by an annex which explains each recommendation in greater detail.

The delivery of correct quantity at the appropriate time within the established specifications and at the agreed price is essential. To ensure that this message is passed down the chain to the farmer, there must be a clear and totally comprehensive written agreement between the buyer and the seller.

The commercial details of any contract are a matter of agreement between buyer and seller all the way down the line. With everyone viewing buying and selling differently, flexibility in contracting is important. It is however also important to have a standard approach and unify the basic objectives of the purchase. If, to achieve these objectives, buyers and sellers wish to set aside or vary any of the conditions laid down by the cotton associations, they are entirely free to do so. However, anything that is set aside, varied or added, must be defined in the contract.

The Spinners Committee also recommends establishing value differences for any quality variation and to write them into the contract. In many cases, quality variation results in arbitration because parameters included in the contract were not clearly established. The standard contracts used by the various cotton associations are not clear on many of these points. Establishing these at the time of contracting will assure that the seller will pass the spinners' requirements down the line.

The Check List as proposed by the Spinners Committee which is divided into three parts – technical details, contractual details and arbitration details – is attached to this report.

Workshop discussions

Bangkok

The President of the Thai Textile Manufacturing Association, Mr. Phongsak Assakul, introduced the executives of the Thai companies present which together represented approx. one third out of the 4 million spindles installed and the 3.3 to 3.5 million active in the country. He welcomed the Committee's initiative to hold a workshop in Bangkok to discuss a subject area which was close to the heart of all Thai spinners.

On cotton buying: Thai spinners recognized the importance for profitability of a careful cotton-buying policy. Whilst 5-7 years ago, cotton was bought on micronaire only, today requirements are specified in greater detail with cotton being tested on HVI machines by many spinners. The change of orientation has come with the second generation of mill owners that were educated abroad. It was helped by the electronic revolution and with it the quicker information on price developments. Some of the companies present reported little change in their buying habits in terms of origin. Improvements were, however, noted in shipping standards over the years and a better compliance with contract conditions.

On cotton testing: There were contradictory reports on the handling of HVI test results, some spinners maintaining that their HVI readings were accepted by shippers whilst others reported the opposite. Some spinners were regularly dragging their cotton sellers to the mills to visually demonstrate what problems deliveries below contract specifications can cause at the floor shop.

On cotton quality: Whilst the cotton that is today going into production is generally of better quality than say, five or ten years ago, there remain serious problems, the worst being contamination and neps.

On contamination: Reference was made to the ITMF Cotton Contamination Survey which a number of Thai spinners found to be an excellent document they have been using to their great advantage. Whilst the mechanical detection devices now on the market are useful remedies, nothing can replace the careful selection of cotton for which the ITMF report is a most welcome reference source. It was agreed that for the next edition of the survey in 1999, questionnaires would also be sent to the Thai association which would encourage all Thai spinners to participate.

On the Asian crisis: Even before the July 2, 1997 devaluation, Thai textiles were becoming less and less competitive, mainly because of China's devaluation in 1994. After jumping to 58 Baths for 1 Dollar, the currency inched back progressively to 37, the tendency being towards a further strengthening and an expected year-end value of 35. This was the result mainly of Thailand's close collaboration with the IMF and the strict observance of the conditions imposed by the Fund.

Although benefiting from a devalued currency, spinners had to pay more for cotton, labour, interest and machinery. Another off-setting factor were lower prices in the export market which had come under pressure from Indonesia. Whilst enquiries from buyers were there, price ideas were widely divergent and could be met in many cases only if production costs were reduced to which there was a limit.

Whilst all mills lost out as a result of the devaluation, those most hit were companies with a short-term exposure denominated in foreign currency.

The domestic textile market was described as very weak to non-existent. Exports were better, not so much in Dollar terms but on a Bath-basis, provided that the government could hold the currency at a rate of 40 $^{+}$/-2.

According to some executives, the biggest problem Thailand was facing was the lack of credit to which the industry is reacting by closing capacity and shifting to man-made fibres.

Other views expressed were tinted with greater pessimism. The weakness of the local market caused particular hardship to open-end spinners for which it is the main outlet. Apart from being slow, the little business there was, could easily be taken away by imports from, say, Indonesia, if the Bath were maintained at a rate of 38. If no significant change occurred in the second half of the year, working spindles in Thailand could fall to 2 million from the present 3.3/3.5. Overall expectations for recovery of domestic demand are low considering the cost of capital, interest rates standing at 22 - 24% (short-term) and 19% (long-term).

The workshop closed with a vote of confidence by the President of the Thai Textile Manufacturing Association. He felt that whilst recovery of the economy may take a long time, perhaps even years, Thailand was now generally back on the right track, the balance of trade showing a surplus again and foreign investments starting to revive.

Indonesia

With 45 executives present at the meeting, this was the best attended workshop although not in terms of spindles represented. On behalf of the Indonesian Textile Association (API), Mr. Mintardjo Halim, Chairman of p.t. Sandratex, welcomed the ITMF delegation and thanked the Committee for selecting Jakarta as a workshop venue. The mission was particularly important for the Indonesian spinning industry in its endeavour to improve the quality of its textile production.

On delivery standards: There was general complaint on the part of Indonesian spinners that they were getting third-rate cotton well below contracted specifications, and were moreover loosing out under the LCA contract. What can ITMF do to help?

Committee members confirmed that there was indeed little inclination on the part of the LCA or other cotton associations to enter into a constructive dialogue with spinners about the change in cotton contract conditions which the Committee had first proposed already 4 years ago. In order to influence the trade, spinners need to build up a united front. This should be easier today as we are in a buyers' market in which cotton is rapidly loosing out to man-made fibres.

That the task is not without hope is best demonstrated by the experience of the Italian spinning industry, which has gone together and formulated rules favourable to spinners that are today used throughout Italy and accepted by merchants, penalties included.

On green card: Indonesian spinners complained that when buying American cotton they could not get green cards. The Committee pointed out that if (US) cotton was bought on green card terms, the cards had to be supplied by law. This did not apply to cotton bought on type. Even in that case, green cards can be obtained, but without obligation on the part of the seller.

On rejection: Buying and selling cotton with a rejection clause is only available to spinners in the United States and Europe. To avoid recurrence of supplies below contracted specifications, the Committee recommended that spinners change their supplier.

On contract conditions: As today spinners are not protected in all aspects by the LCA contract, the Committee recommended to include private conditions in their contract.

On an ITMF international standard contract: It is too early in the eyes of the Committee to start on such a venture. The aim at this point is first to have a full debate with the cotton associations concerned on the Committee's Check List on Cotton Contracting within the framework of the ITMF Joint Cotton Committee. The present competitive climate in the fibre market is putting pressure on cotton – and hence on cotton merchants. If they want to maintain market share for their fibre, they must accept change.

ITMF has not launched a contract yet because it does not want to provoke confrontation with the cotton trade. The purpose of the Committee workshops in Asia is to build a broader basis of support from spinners in the main cotton-consuming countries.

The workshops were also designed to incentivate local spinners in the area to use their association as a forum for the exchange of experience and opinion, at least once a year.

On premiums: The inclusion of premiums for better cottons will become a standing institution in contracting in future. Cotton sold by the Boswell Company and by Calcot receive premiums from Japanese spinners of 4 cents for carrying a contamination-free guarantee.

On contamination detection: The Committee reported on a new system developed by the Loptex Company in Italy that can detect 1 gram of contaminant but is still in the trial stage. White plastic, however, cannot be detected yet.

On cavitoma: Cavitoma which is affecting strength, dyeability and increases waste of up to 15% can only be claimed for lower strength. The only protection for spinners therefore is to stipulate minimum strength levels in the contract.

On the Asian crisis: Local market demand in Indonesia has fallen by 50% whereas exports have increased by the same amount. For many textile mills, the local market remains the more important, given the total population of Indonesia of close to 180 million.

Taiwan

Mr. Steven Chen opened the workshop on behalf of the Taiwan Textile Federation. Taiwanese spinners around the table represented approx. 1.2 million spindles out of 2.8 million active and 3.3 million installed.

On contracting: For spinners to protect themselves better in future, they will have to become much more specific in their requirements. Thus, Mr. Macdonald reported that his company is regularly incorporating in its contracts 40 additional clauses and this is accepted by their suppliers. Another example is Italy, where spinners had a decisive word in the formulation of the rules of the Italian cotton association which are today accepted by the cotton trade. There is no reason why Taiwanese spinners should not emulate the example of the Italians. Mr. Bonadei (Italy) reported that parameters regularly included in his company's contracts are length, strength, mic, neps, short-fibre index and uniformity. Starting out originally with one supplier, he now has 5 willing to sell on all of the above specifications, for which he has so far been limited to US and Australian origins.

Grade, staple and micronaire are the normally traded parameters because they can be measured now for 50 years. New instrumentation has since come on the market or is in the introductory stage, the progress being due in no small measure to the initiative taken by ITMF 20 years ago with the establishment of the International Committee on Cotton Testing Methods. The cotton trade is slow in following. Eventually it will have to yield. The pace at which this will happen will depend entirely on the urgency with which spinners are demanding test results from their suppliers.

On HVI in contracting: At the Universal Standards Conference in Memphis in 1996 the decision about the incorporation into existing agreements of HVI fibre measurements was delayed. The Committee felt that there was no reason for the exclusion and that spinners should work for it.

On reacting to contamination: If contamination is detected after arrival at the mill, the supplier must be advised immediately but in no case later than 2 weeks. An international controller should then be nominated by mutual agreement to inspect the shipment. To avoid prolonged disputes on the issue, it is recommended that the procedure is stipulated in the contract. US cotton is being sold today on a contamination-free guarantee by more than one supplier.

On testing equipment: HVI is the oldest of the new generation of testing equipment. One of the coming instruments with great potential for spinners is the Fibre Contamination Tester (FCT) developed by Lintronics of Israel which can test neps, seed-coat fragments and stickiness at HVI speed, i.e. in 20-30 seconds. AFIS is a good instrument but with a 3 minute-testing duration too slow. The future is for the FCT to be incorporated in ginning which would allow the seller to provide guarantees on the parameters the instrument can measure.

On maturity testing: To the question of whether testing for maturity is more important than micronaire the Committee replied that there is a relationship between the two, their relative importance being dependent on the end-product. Maturity is for instance critical for knitters but not at all for denim manufacturers. Maturity measuring instruments are on the market but the testing time is long.

On cotton buying in Asia: Cotton was bought in Asia mostly by the CEOs who in many cases have little or no knowledge of cotton. If Asian textile mills want to remain competitive in cotton processing, they must drastically change their cotton buying policy.

The Committee suggested that since many sellers of cotton today have HVI machines, spinners should ask for test results and select according to the end-use of the yarn.

On premiums: If spinners want to get better cotton, they must be prepared to pay premiums. If a seller guarantees say, 83 UI uniformity or 30 grs/tex, these are parameters worth the payment of a premium.

On the elimination of contamination: The most effective way of eliminating contamination would be at source, i.e. in the field, in the transport to the gin and from there to the press (India). A new detection devise developed by Loptex could in future be installed in gins (in the chute before baling).

Regarding the experience with detection devices in spinning, they were generally felt to be effective but could not eliminate contamination 100%. As only a 1% to 2% loss of fabric was accepted by the (export-oriented) clothing industry in a number of Asian countries, spinners have to continue to fight for the elimination of contamination at source and be particularly careful in their buying procedure.

On country damage: To avoid problems with insurance companies, the Committee is recommending that the buyer makes sure that the insurance taken out by the buyer or seller covers country damage between the warehouse of the shipper and the warehouse of the spinner.

On baling: Asked whether the wrapping in plastic was generally accepted as a viable solution, the Committee warned of the development of fungus (cavitoma) and bacteria in plastic-packed cotton which is humid when coming from the gin. The requirement of spinners should be for cotton to be baled in cotton fabric as is done already in many countries.

On textile activity in Taiwan: Whilst the synthetic fibre business was slow, cotton was the only area which enjoyed growth in finished knitted fabrics, mostly yarn-dyed. Whilst the "Cotton USA" programme was successful with denim demand for leisure apparel rising, it was generally difficult to generate profits in the cotton-system sector. Whilst spindle capacity was going down, labour shortage remained severe throughout the industry.

On Chinese cotton: Taiwanese spinners expect China to continue to release cotton from stock in a big way, supply and demand being totally out of balance at the present time. Whereas in the past the main objective was to protect the farmer, the new prime minister seems to want to introduce a market economy also in agriculture.