



# 75<sup>th</sup> Plenary Meeting of the INTERNATIONAL COTTON ADVISORY COMMITTEE

## MINUTES

### EIGHTH OPEN SESSION

#### Challenges to Cotton: Confronting Inter-fiber Competition

11:00 hr. Thursday, November 3, 2016

In the Chair, Mr. Kanwar Usman, Director RDA, Ministry of Textile Industry, Government of Pakistan

Ms. Lorena Ruiz, the ICAC Economist, presented a report on confronting inter-fiber competition. She noted that world consumption of all textile fibers increased from 15 million tons in 1960 to a projected 90 million tons in 2015. However, not all fibers experienced the same rate of consumption growth. While non-cellulosic fibers increased at an average growth rate of 7%, cotton increased by only 1.6% annually. As a result, the market share of cotton in total fiber consumption declined from about 68% in 1960, to 39% in 2008 and to only 26% in 2016. The expansion of polyester consumption in both filament and staple has been spectacular over time, especially in China, where polyester filament grew from 600,000 tons in 1990 to 33 million tons in 2015. In India, polyester filament production capacity remained below 1 million tons until 2001. Since then, production capacity has steadily increased and reached 4.5 million tons in 2015. Ms Ruiz presented some preliminary results of the apparel and intermediate products import analysis conducted by Cotton Council International, Cotton Incorporated and the ICAC Secretariat.

She concluded her presentation by presenting six strategies that the cotton industry should implement to counteract the adverse trends in cotton demand: competitive pricing, investment and use of technology, investments in research and development to improve cotton fiber performance, increased sustainability, promotional campaigns, and analysis of trade policy measures to understand the increase of production capacity in the polyester sector.

Mr. Sarwar explained that there were two broad categories of fiber: 1) natural, which includes cellulose (e.g., cotton), protein (e.g., silk) and minerals (used primarily in industry); and 2) man-made, which includes natural polymers (e.g., polyester) and synthetic (e.g., nylon). In reviewing the history of cotton production of Pakistan and the world, he noted that in the last 15 years, area has been relatively stable while yield had initially increased greatly before stagnating. India's and China's share of world cotton production have increased significantly over last 10 to 15 years. While global demand for cotton is not forecast to increase significantly, that for polyester is, particularly for nano-fibers and other advanced technical products. Polyester has in recent years dominated the fiber market and China is the main player. Textile mills are choosing polyester for several reasons: lower price in relation to cotton; ease of adjustment to user requirements; and, given current world production levels, incapacity of cotton to meet all of the world's demand for fiber. Current prices are rather low and input costs are high, so cotton area and production will decrease. Cotton production is subject to great variations in its environment, which can make production volume uncertain, whereas man-made fibers are produced in controlled environments. Cotton is still in demand due to properties such as comfort, hypo-allergenic properties, strength and flexibility. The sector could take several steps to improve the situation: increase yields; focus on providing benefits to all participants in the cotton value chain; reduce cost of production; increase awareness of the beneficial properties of cotton; and announce support prices far enough in advance for farmers to take advantage of them.

Mr. Engelhardt noted that while total demand for fiber has increased greatly, synthetic fiber consumption has grown at a much faster rate than cotton since the mid-1990s. Since polyester accounted for three-quarters of fiber consumption, it was a serious threat to cotton. He noted that cotton production has generally declined after seeing a brief resurgence with the adoption of biotech cotton and the declining again. Meanwhile cellulosic fibers experienced an opposite pattern, with production surging from 2000 onward. Cotton's growth came primarily from the increase in yield from adopting biotech, whereas there has been a massive investment into the feedstock for polyester to expand capacity to produce PTA and MEG since the late 2000s. This investment has led to overcapacity in production of polyester, which has a direct downward impact on prices. In contrast, cotton experienced a price surge in 2010/11 due to low stocks. The same pattern of overcapacity leading to low prices was now occurring with other competing fibers, including nylon and viscose. China is the leader in both cotton and man-made fiber production and consumption, although China is reducing its cotton production and use, as well as investing overseas.

Macroeconomic and demographic factors are neutral for either fiber, although developed countries that have high incomes and consume a relatively large share of cotton have shrinking populations, while developing countries with growing populations have lower incomes and usually consume less cotton. As a result, population growth is not likely to increase cotton consumption significantly. He noted that staple fibers are used not only for yarn but also for non-wovens and filling for upholstery among other things, and that filament yarn production has increased greatly, accounting for 53% of all production last year.

Cotton is strongly influence by political developments, such as the Trans-Pacific Partnership, which has 12 members that are large producers or consumers of cotton and contains a yarn-forward rule that allows for duty free exports if yarn is produced from a member countries' fiber is used. This presents an opportunity to increase consumption. ICAC members represent a large share of world cotton production and could use their influence to raise and stabilize prices, in a manner similar to OPEC. Cotton has an advantage in being a sustainable fiber in comparison with polyester. Significant progress had been achieved, but that cotton still suffered from a negative perception. The weakness comes from the cotton industry itself, which has focused too much on marketing to business rather than to end consumers. The numerous types of sustainable cotton initiatives caused confusion among consumers.

A delegate from Zimbabwe asked what would be needed to motivate farmers to grow cotton given the current cotton market and what were the prospects for cotton prices.

Ms. Ruiz replied that the ICAC has an econometric price model, which only forecasts one season ahead. The current forecast for the season ending July 31, 2016 is that prices will range between 60 and 80 cents/lb.

Mr. Macdonald asked about the relation between the increased production of GMO cotton and increased polyester consumption. He also requested that ICAC reinstate the Task Force on Cotton Identity Programs in order to help resolve the confusion about the different types of cotton.

Mr. Engelhardt explained that after the approval of GMO cotton, cotton yields and production grew significantly, which prompted governments to invest in polyester staple fiber.

Mr. Macdonald commented that he thought it would have been the other way around due to the increased competition.

A member from the audience stated that cotton production would need to increase by 4 million tons in order to meet regain its market share, and economics dictated that cotton prices would need to

increase in order to encourage production. He requested that ICAC suggest to governments to increase subsidies to farmers, particularly in developing countries and what inquired as to the subsidies available for polyester.

Mr. Engelhardt responded that the impact of subsidies was discussed in the first session. He did not have an overview of all polyester subsidies.

The Chair commented that because oil prices are low, polyester prices will stay low. If cotton prices remained at their current low levels, there might be an opportunity for cotton to regain some of its market share.

A member from the audience asked whether China should be a member of ICAC its domination of fiber markets.

Mr. Sette responded that efforts have been made to get China to join, but that country had not shown much interest. He noted that China is not a member of any of the major international commodity bodies. He stated that ICAC was open to China's membership in ICAC, but this was unlikely to happen in the foreseeable future.

An audience member stated that man-made fibers will likely continue to put pressure on cotton production and wondered which economies (developing or developed) were more vulnerable, given that 70% of cotton is produced in developing countries.

The Chair stated that any cotton-producing country would be vulnerable, though developing countries would be particularly so. As a result, all producing countries needed to work together to show that cotton is good for the environment and that polyester has negative side effects.

An audience member asked for comments from the panel on the technical challenges that cotton faces in comparison with polyester, such as durability and the low capacity to wick moisture. He mentioned that Cotton Incorporated, located in the United States, did research on these properties for cotton

Mr. Macdonald stated that, from his experience in textile manufacturing, the technology existed to produce the properties mentioned, but this was expensive. The focus should instead be on improving the quality and productivity of cotton.

The Chair noted that it would be beneficial for the agricultural sector to create links with the textile sector.

A delegate from Taiwan stated that she does market research on this topic and that Taiwan is mainly focused on man-made fibers, although it does import cotton and cotton yarn. She mentioned that textile companies in Taiwan tend to blend both cotton and polyester to create fabric with quick drying properties for outdoor and sportswear retailers and wondered whether there was a way for cotton and polyester to work together for the benefit of both. She was interested in more research about this topic from ICAC.

Ms. Ruiz stated that blends were on the increase, but that the share of cotton in them has declined. Once the percentage of cotton in a blend falls below 50%, it was no longer considered a cotton article by the Harmonized System codes. Given the price differential between cotton and polyester, it will be hard to increase the cotton content in blends.

The delegate from India commented that technical textiles are becoming increasingly important and

wondered if this will cause polyester consumption to further grow, thereby creating further challenges for cotton. She asked if it would be possible to create further categories of blended fiber articles to better understand how much of each type is being consumed. She noted that a lot of data was shared during the presentations and asked if participants would be able to access it later.

The Chair noted that all presentations would be placed on the ICAC website and he appreciated the comment on technical textiles, which merited further investigation.

Ms. Ruiz responded that she had presented preliminary results from an ongoing study. She noted that much information was lacking, particularly from important fiber consumers, such as Vietnam, China, Indonesia, and Bangladesh. To obtain more detailed information for blends, the harmonized tariff schedule would need to be revised. She was working with to interpret the available data she had and noted that the next part of the study would also look at policy.