



75th Plenary Meeting of the INTERNATIONAL COTTON ADVISORY COMMITTEE

MINUTES FOURTH OPEN SESSION Overcoming Textile Industry Challenges

13:45 hr. Tuesday, November 1, 2016

In the Chair, Mr. Hassan Iqbal, Secretary Ministry of Textile Industry, Government of Pakistan, in the Chair

Mr. Kanwar M. Usman, Director, Ministry of Textile Industry began by noting that the textile industry is a lynchpin for the economy of Pakistan and contributes significantly to GDP. Mr. Usman explained that while Pakistan was a significant exporter and producer of cotton yarn and cotton cloth, ranking as 3rd or 4th largest in the world, it did not fare as well in cotton apparel exports. He noted that Pakistan is one of the few countries that has a complete cotton value chain from cotton production to garments and that cotton represents the largest share (nearly 80%) of mill use, unlike much of the rest of the world. He stated that cotton has lost market share worldwide, which is shown by the fact that its share of total textile imports by the United States, the world's largest importer of textiles, has declined to around 45% from 55% and similarly, cotton share of Germany's textile imports, the second largest, has declined from 48% to 40%.

The USA is the largest textile importer and cotton's share of imports is around 45%, but used to be higher. Second is Germany, where the share of cotton in imports is around 40% and used to be 48%. Mr. Usman explained that, prior to establishment of the World Trade Organization, it was mostly yarn and fabrics that were highly traded. Since the creation of the WTO, finished apparel has dominated textile trade. He noted that one of the challenges for the textile sector, particularly for small- and medium-size enterprises in developing countries is that the sector is highly fragmented. He stated that while tariffs on textiles have decreased somewhat, non-tariff barriers have increased, so that the textile and apparel trade still operates in a restricted market. He explained that strict labor and environmental requirements are an example of non-tariff barriers that textile companies face, noting that Pakistan is one of the few countries that has signed the eight Core Conventions covering subjects that are considered as fundamental principles and rights at work identified by the International Labor Organization's governing body. Mr. Usman stated that efforts are under way to modernize Pakistan's textile sector, which has happened at a slower pace than in developed countries. So, the government is providing support, such as reduced taxes and zero-rated tariffs on imports of machinery. He noted that the government of Pakistan has introduced the 2nd technology upgradation fund, so that every manufacturer will be provided one-time financial support to install new machinery in the textile sector starting from July 1, 2016.

Mr. Andrew Macdonald, Board Member, International Textile Manufacturers Federation (ITMF), noted that textiles face three main challenges : water, energy, and creativity. The latter is defined as turning new and imaginative ideas into reality. He noted that the world population was still expanding very quickly, but by some projections will likely start to drop by the end of the century. This expansion will increase the demand for water and energy. He said that China has become a significant textile exporter while the textile exports of many other countries have been relatively unchanged since 2000. He asserted that e-commerce will play an increasingly larger role in clothing sales in the near future.

He explained that the competitiveness of the textile sector depends on increasing speed while using less labor, energy and water. He stated that there are already some options available for overcoming these challenges, such as machines like Drydye which dyes fabrics without using water. He noted that energy usage has declined in recent years for both ring spinning (-9%) and rotor spinning (-61%) so that both are as competitive as open-end spinning with regard to energy usage. This is important since energy represents about 20% of total spinning costs. This fact explains in part why spinning mills are returning to the United States, which has significantly lower energy costs than its competitors. Mr. Macdonald articulated that mass customization, digital printing, and an evolution in big data that connects farmers with end consumers are ways to bring creativity to the textile sector.

He commented that cotton also faces these three challenges, which can be met by developing cotton plants that require less water through breeding and genetic modification. He stated that machines used in ginning and harvesting will need to become more energy efficient. He noted that, with regard to creativity, cotton classing should also evolve in a fashion similar to how phones have evolved over time to become cell phones used by most people that are now integral to people's daily lives. Mr. Macdonald noted that high volume instrument (HVI) classing is already available, but is not widely used. The industry should actually be moving to further communicate the data from HVI to other participants in the value chain.

He explained that cotton consumption will not likely grow much over the next five years, but that both polyester fiber and filament are going to continue to grow quickly, with China maintaining its position as the largest producer while other countries, such as India and recently Vietnam, are also quickly expanding polyester production. He asserted that this is very significant because China is currently not even fully using all of its polyester production capacity. The recent decline in both value and volume of China's cotton yarn imports is also troubling, as it is by far the largest cotton yarn importer. If nothing is done, then cotton's market share will continue to decline.

A delegate from Burkina Faso gave thanks for the interesting presentations as they drew attention to the whole cotton value chain and inquired as to the reasons for the recent growth in polyester consumption.

Mr. Macdonald responded that the low price of polyester was one of the main reasons, but the other reasons include the fact that many spinning mills never returned to using cotton after switching during the price spike in 2011 and that polyester is easier to spin since it is more consistent. He also stated that polyester can now very easily mimic cotton and has other technical properties, such as moisture wicking, so that cotton needs to highlight the comfort of cotton that consumers still demand.

A member from the audience stated that it was important for textile to be integrated if it wants to compete in the international market and asked whether Pakistan's textile sector was under a composite or sub-contracting system.

Mr. Usman stated that Pakistan has 50 composite units but the rest of the industry is very fragmented. Even in the spinning sector the majority of the units focus solely on spinning with no linkages to even weaving. He noted however, that Pakistan's level of technology is better than its neighbors, such as India and Bangladesh, so that there is room for growth.

Mr. Macdonald added that Pakistan's technology is well within world standards. He stated that ginning, however, was not given sufficient importance. Much of the quality of the crop can be lost during ginning and Pakistan should focus on modernizing its ginning facilities to make it more compatible with spinners' needs.

Mr. Usman noted that the Govern of Pakistan has included ginning in its long-term financing facilities, which include a loan of 5% for three to ten years and new ginning machinery is also part of the 2nd Technology Upgradation Fund.

A delegate from India asked what measures can be taken by the cotton sector to overcome the challenges discussed and how cotton can avoid being overtaken by polyester.

Mr. Macdonald said several measures can be taken including debunking the propaganda against cotton and looking at the level of government support for polyester and manmade fibers provided by countries such as China, which can be a possible argument to put forward at the international level.

A member of the audience asked whether Pakistan was working on any organic alternate.

Mr. Usman stated that it was very hard to replace cotton fibers, since both viscose and hemp have lower strength. So, the main competition is between cotton and polyester.

A member of the audience noted that the price of viscose is also too high for it to be a substitute He asked whether cheaper prices would hurt farmers, even if it makes cotton more competitive for spinners and what was the outlook for Pakistan as more countries enter the international cotton market.

Mr. Usman stated that there are two ways to address these issues. The short-term approach by the government is coming up with a package to benefit the textile sector. The long-term approach is a new bill to have improved seed technology to improve yields and the government's focus on expanding its apparel sector since Pakistan is currently producing more upstream products.

Mr. Macdonald asserted that the situation was not entirely dire. While cotton's market share is decreasing, absolute consumption is likely to grow in the near future. He also noted that China is moving production from the eastern part of the country to the west. This strategy was unlikely to be successful since water is not as available and transportation is more complicated. As a result China's cotton production is likely to decline, so Pakistan should focus on expanding production and eliminate its need for imports.

The Chair noted that the point that Pakistan should not import cotton was important.

A member of the audience noted that the future of cotton should be more optimistic because, while area was significantly lower last season, it is set to increase significantly this season. The focus should be on making textiles more cost-efficient by using new technologies to increase yields.