Cotton's Importance in the Textile Industry: The Role of the ICAC

An Address by
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Distinguished participants in this symposium on cotton and the textile industry in Peru:

It is a great pleasure for me to be in Peru and to be able to share with you my thoughts on the importance of cotton in the world textile industry and the role that the International Cotton Advisory Committee (ICAC) can play in assisting all the participants in cotton and textile activities be successful in their endeavors in our increasingly liberalized world economy.

Cotton has always played an important part in Peruvian economy and society. The Gossypium Barbadense species of cotton originated in Peru over 3,000 years ago, as evidenced by the fabrics and cloaks which have been found in ancient tombs. In 1926, the first year in the organized statistics on cotton production maintained by the ICAC, Peru was the fourth largest exporter of cotton in the world, after the USA, India and Egypt. Given its importance in the cotton world, it should come as no surprise that Peru was one of the ten founding country members of the International Cotton Advisory Committee in 1939. And the Committee has held its annual Plenary Meeting in Lima on two occasions, in 1966 and in 1988.

In way of background, cotton today is the major fiber in the world textile industry (Chart 1). World textile fiber consumption in calendar year 1998 is expected to be 45 million tons. Of this total cotton will represent approximately 20 million tons.

And the functions of the International Cotton Advisory Committee are

a. To observe and keep in close touch with developments affecting the world cotton situation.
b. To collect, disseminate, and keep complete, authentic and timely statistics and other information relating to world production, trade, consumption, stocks and prices of cotton; and other textile fibers, or of textiles
c. To suggest to member governments of ICAC, as and when advisable, any measures ICAC considers suitable and practicable for the furtherance of international collaboration directed towards developing and maintaining a sound world cotton economy.
d. To be the forum for international discussions on matters related to cotton prices.

The Current World Cotton Situation

Because it is the function of the ICAC to observe the world cotton situation and because it is necessary to have a basis for our thinking about cotton and the textile industry, I would like to review with you the current world cotton situation.

The fundamental determinant of textile fiber consumption and cotton consumption is world economic growth (Chart 2) Year to year changes in textile fiber consumption track the year to year changes in economic growth.

World economic growth has been greater than 3% for the last several years (Chart 3) and has created a good environment for the textile industry. The world economy had been expected to grow at a rate or 4% in 1998 until the Asian economic crisis developed in the second half of 1997. As a result of the crisis the International Monetary Fund reduced its forecast of 1998 economic growth to 3%. The economies in East Asia most affected by the crisis had been growing at rates of 7% for many years. Instead they are likely to be contracting at about the same rate. This reduction in world income is expected to be quite a drag on economic growth as it makes its way through the Japanese economy and the region's major trading partners. We probably have not yet fully appreciated its impact.

As I mentioned earlier, world cotton consumption is now around 20 million tons (or 90 million 480 lb. bales) (Chart 4). Consumption appeared to be stagnant at the 18 million ton level from the late 1980s through the early 1990s. The apparent stagnation was due to the restructuring of the economies of the Soviet Union and its Eastern European allies. The Socialist economic system in place in these countries had led to a level of cotton consumption which could not be sustained in the free economy which developed after 1991. When the Soviet Union first dissolved, Russia was the world's largest consumer of cotton. The Russian textilie industry, together with the textile industries of Eastern Europe, produced products which were of insufficient quality to compete freely with textile products produced elsewhere. Also the sharp drop in income in these societies in the first days of restructuring reduced the ability of the population to purchase any textile products, as evidenced by graphic pictures of old women selling their underwear on the street. Now nearly all the republics of the former Soviet Union and economically independent Eastern European countries are experiencing positive economic growth and the fundamental increase in world textile consumption going on elsewhere in the world is no longer being offset by the Soviet bloc declines.

World cotton production reached a peak in 1991 at 95 million bales (Chart 5). Competitive pricing led to a sharp decline in world cotton prices in 1992 and 1993 as the cotton producing republics of the former Soviet Union sold their cotton directly in world markets and other producers instituted policies to remain competitive through the use of mechanisms which made it possible to match the Central Asian prices, no matter how low. Lower prices reduced the incentive to grow cotton in many countries without the ability to subsidize their growers in this period.

The exhaustion of world stocks and the ordering of Central Asian exports resulted in a recovery in world prices at the end of 1993 and to recovery in production in the 1994 and 1995 seasons. Production in the season which is just ending has been balanced (Chart 6). In the coming season, world production is expected to fall behind world consumption as a number of major cotton producing countries are having difficulty in maintaining their productivity.

China continues to be a major factor in the price outlook for cotton (Chart 7). In the 1994, 1995 and 1996 seasons, China was a major importer of cotton and caused prices to be higher than they would have been otherwise. Now in light of the Asian economic crisis, China, trying to maintain its exports, is evidently engaged in a major program to export its excess stocks of agricultural commodities. China will switch from being a net importer to a net exporter in the coming season and tend to depress cotton prices until they stop liquidating their stocks. China is currently consuming more cotton than it is producing and eventually this impact on cotton prices will go away.

Considering the impact of supply and demand changes and China's actions, cotton prices are expected to remain near 72 cents a pound (delivered to North Europe – the Cotlook A Index) next season, close to the average of the last 20 years (Chart 8).

Given the current slowdown in productivity growth (Chart 9) – cotton yields have not increased since 1991, the first such six year period of no growth in yields in the ICAC records – we had earlier expected prices to be somewhat higher, around 80 US cents per pound. Thus unless there are some breakthroughs in yield in the major producing countries, once China has reduced its stocks somewhat, there should be a tendency for prices to rise.

The Advantage of Having a Cotton Production Sector

Since 1945, the ICAC has been made up of both producing and consuming cotton countries. The Committee promotes measures which are in the interests of cotton, not just those which are in the interest of the cotton producing countries. Since 1990, the ICAC has been recognized as an international body for cotton under the Common Fund for Commodities. To be such a body, the organization must represent both producing and consuming interests. As such our efforts have been to promote good conditions for international trade in cotton. However, since 1990, we have noted a strong tendency for the textile mill consumption of cotton to become increasingly concentrated in producing countries (Chart 10).

In 1980 about 54% of mill use was in the ten largest cotton producing countries. Today over 70% of world mill use is located in these ten largest producing countries. The growth of mill consumption in the last ten years in India, Pakistan, Turkey and the USA is an indication that cotton producing countries can have an advantage in the textile industry.

Raw material costs are very significant in the production of yarns. According to data from the International Textile Manufacturers Federation, cotton costs represent between 50 and 75% of the total costs of producing yarn (Chart 11). With raw materials being such a significant factor, it is obvious that being close to the source of raw materials is an advantage as it is possible to minimize the costs of raw material transportation, storage and interest.

Yarn costs in both India and the USA – where almost all cotton is produced domestically -- are lower than in other countries in both ring spinning and in open end spinning (Charts 12 and 13). The price of cotton in India is on average about 20% less than international prices and sometimes as much as 40% less (Chart 14). Assuming Indian textile mills are smart buyers of cotton, they can have a substantial advantage over textile mills who have to depend on internationally procured cotton.

Domestic mills also have the advantage of choice of supplies which are most suitable to their needs. While not always the case, the proximity of textile mills to gins and warehouses allows for local mills to be more selective than the typical export customer. Familiarity with growing areas can also permit mills to achieve a uniformity in their supplies which is unlikely to be available to the export customer. In the USA for example, some mills buy cotton, through merchants, from the same farmers year after year.

Together, the advantages of minimizing transportation and handling costs and having greater control over individual supplies seem to result in the increasing concentration of textile mill activities in cotton producing countries.

How Can the ICAC Help?

Since its earliest days, the ICAC has been the provider of information in the world cotton industry.

Originally, the Committee served as a vehicle for the exchange of information on the cotton sectors in member countries and for the collection and dissemination of statistics on cotton. The quality and timeliness of these statistics has constantly improved. Today, the Secretariat of the Committee provides historical statistics on cotton production, consumption, trade and stocks in printed publications, by fax, by email, on CD-ROM and over the Internet.

In addition to historical data the Secretariat makes forecasts for the current season and the forthcoming season. In May of each year, the forecasts are extended another year into the future. Five year forecasts of cotton supply, demand and price are made once a year at the time of the annual Plenary Meeting.

The Committee today is the only source of data on cotton textile production and trade. The FAO of the United Nations has discontinued its surveys of Apparel Fiber Consumption. The ICAC continues to survey more than 100 countries each year to develop data series on yarn and fabric production, imports and exports. Utilizing these statistics, the Secretariat staff forecasts world textile demand by region of the world.

Utilizing its estimates and forecasts of demand and supply, the Secretariat has since 1987 made regular forecasts of cotton prices. These price forecasts are available to all members of the Committee as guides to future developments in the industry. In essence, the Secretariat has been making price forecasts all along, through its forecasts of production and consumption. The price forecast is a way of summarizing the net effect of changes in production and consumption on cotton supplies.

The Committee is also a source of technical information about cotton. Through its Technical Information Section, the Committee disseminates information about developments in cotton production research and promotes access to new technology in cotton production and processing. Each year the Committee sponsors a Research Associate program in which researchers from member countries come to Washington or other centers to receive training in cotton economics, statistics or technology. This year, the Research Associate program is providing partial scholarships for 25 researchers to attend the second

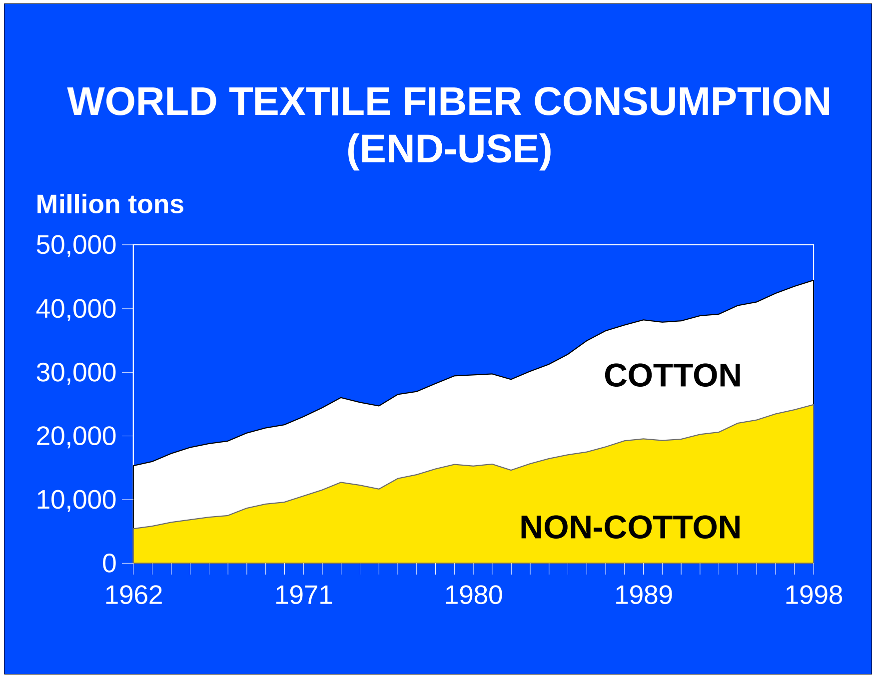
World Cotton Research Conference which the Committee is sponsoring, together with the Hellenic Cotton Board and other organizations, in Athens Greece in September.

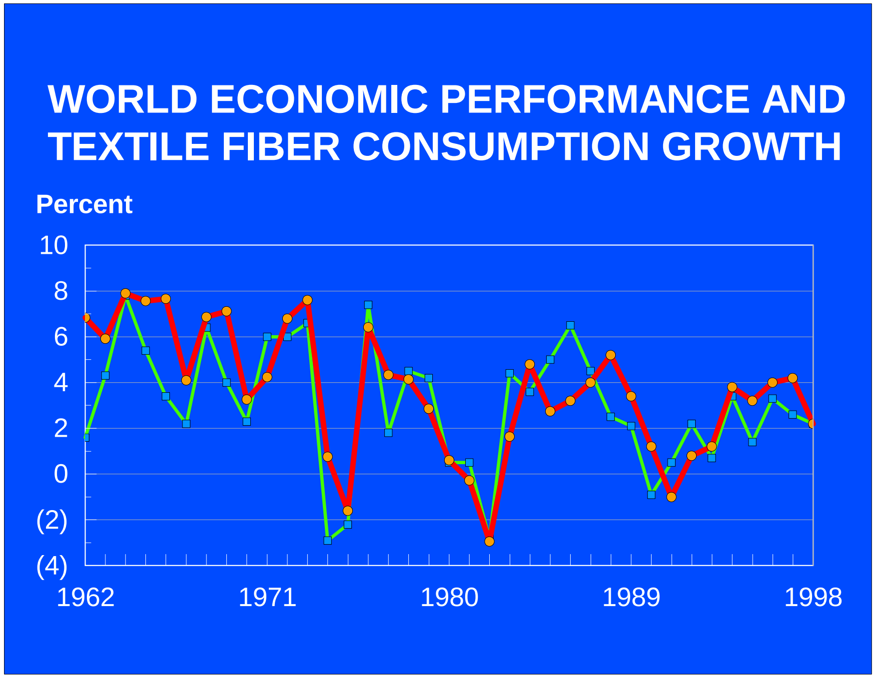
Through its cooperation with the Common Fund for Commodities, the ICAC has been able to attract over US$17 million in funding for research projects to control the boll weevil, whitefly and other insects, to fight diseases and to promote market development. Approximately 20 of the Committee's 42 members have benefited directly from these projects. In most cases, the assistance received has been many times the annual ICAC assessments.

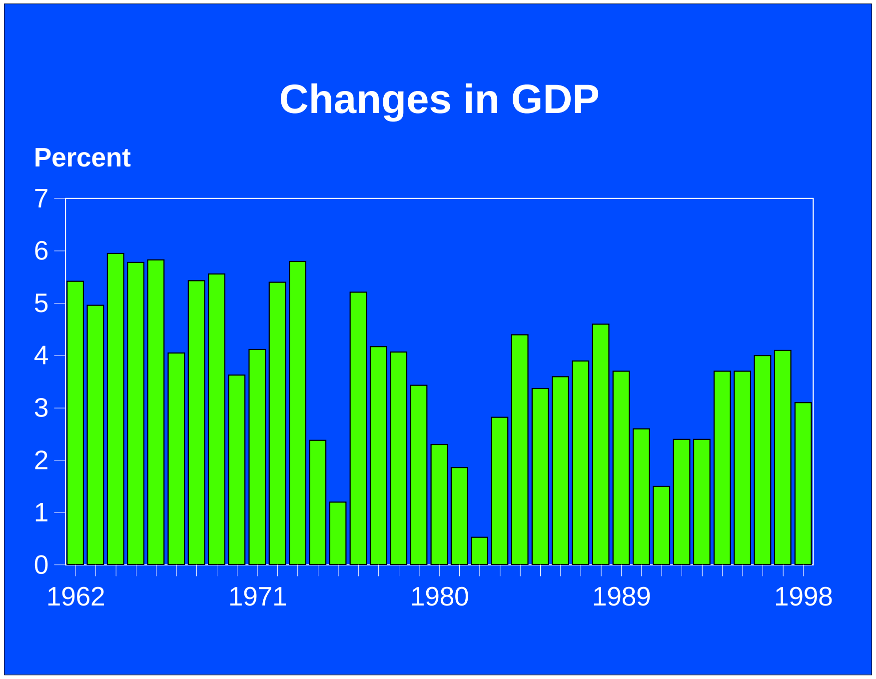
Increasingly in current years, the staff of the Secretariat has been able to advise the cotton and textile sectors in member countries on policies to promote development. As examples in Latin America, a pricing mechanism for Bolivian cotton purchased locally was proposed in which producers and textile mills could agree in advance on a price and could then share the risks of price fluctuations. Except for the developed countries, few countries have put in place textile import surveillance mechanisms to allow them early warning of dumping activities or unfair trade practices. Brazil is a country which has instituted such a system and the Secretariat is prepared to assist other countries do the same. In Colombia Secretariat personnel were instrumental in the establishment of CIDETEXCO, a center for new technology in the textile industry in Colombia, and in coordinated planning for the development of and training of persons for the textile industry.

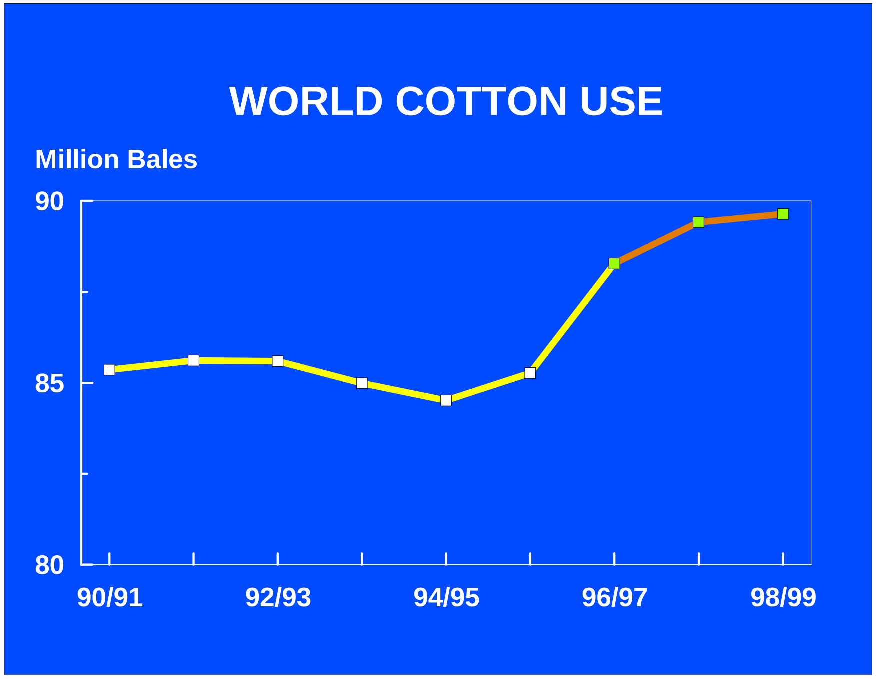
In the free market environment of this decade and the decade to come, information will be the key to success. Information about raw material supplies, information about production technology, information about markets and information about competitors. Without it, a small country is at the mercy of the larger players in the market. But with it, through the universal advantages of the Internet and through the assistance of organizations such as the ICAC which each day makes the latest information freely available to all its members, the playing field becomes truly level. With the ICAC's help, Peru can compete with the largest countries on equal terms.

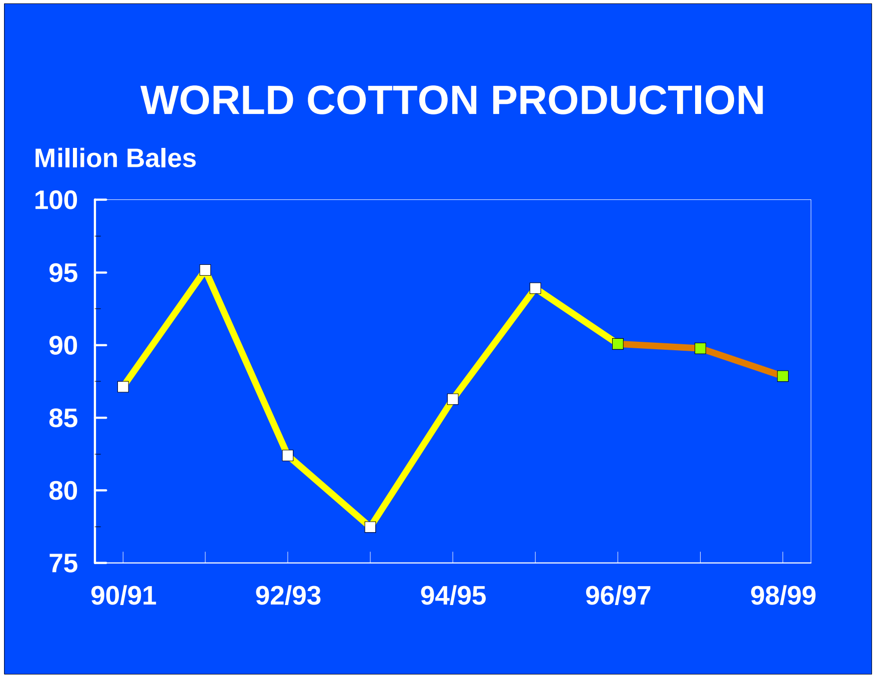
I look forward to reestablishing the long relationship which Peru has had with the International Cotton Advisory Committee and to a long partnership in the development of the Peruvian Cotton and Textile Industries.

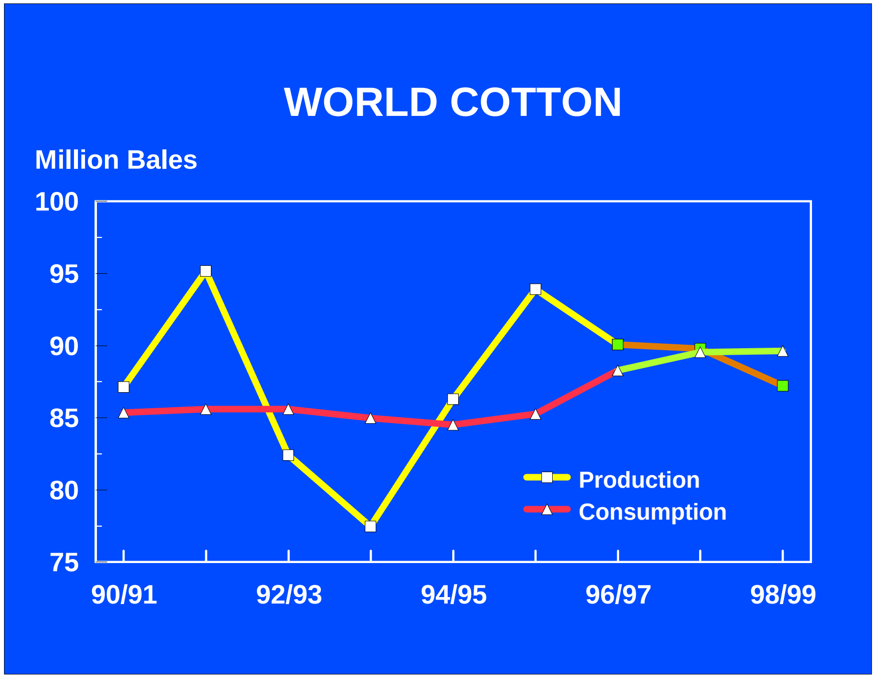

WORLD TEXTILE FIBER CONSUMPTION (END-USE)
Million tons
50,000
40,000
30,000
20,000
10,000
0
1962
1971
1980
1989
1998
COTTON
NON-COTTON

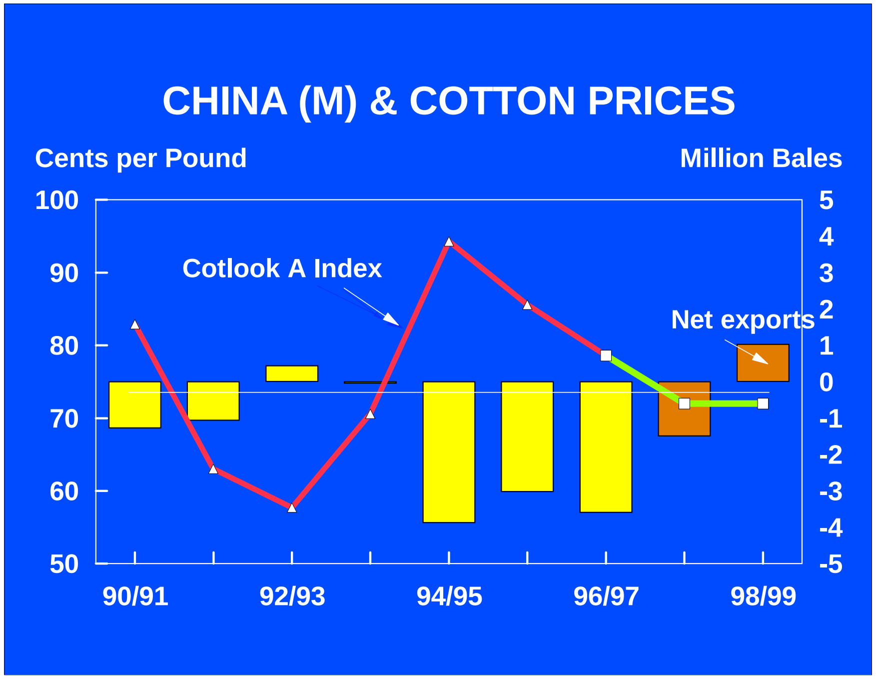

WORLD ECONOMIC PERFORMANCE AND TEXTILE FIBER CONSUMPTION GROWTH
Percent
10
8
6
4
2
0
(2)
(4)
1962
1971
1980
1989
1998

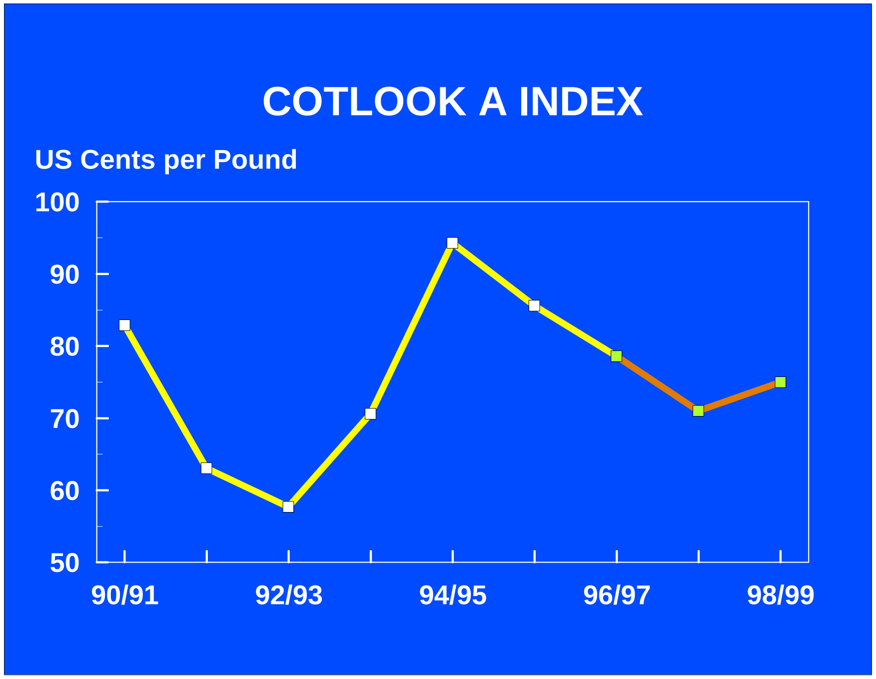

Changes in GDP
Percent
7
6
5
4
3
2
1
0
1962
1971
1980
1989
1998

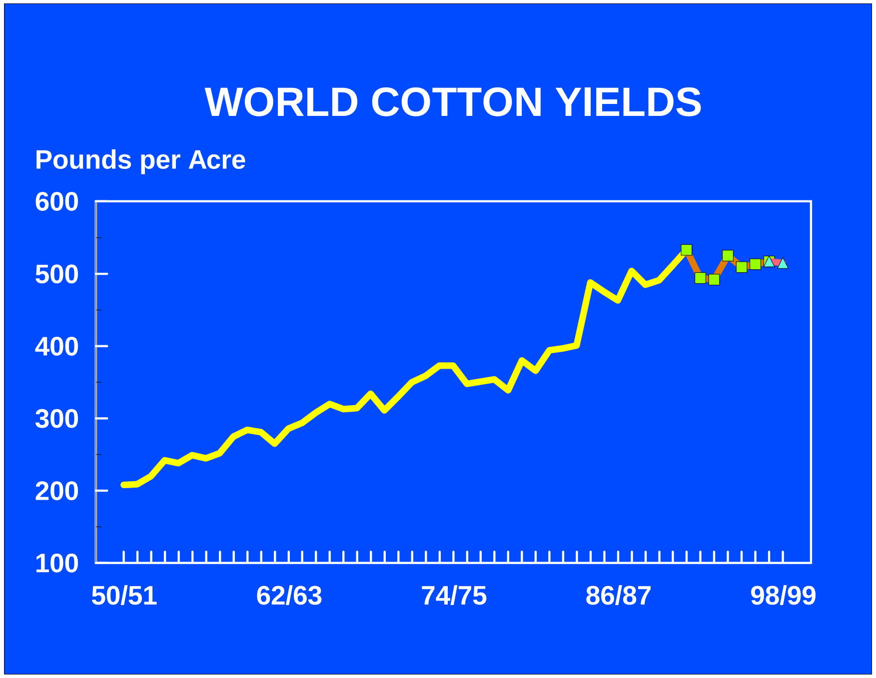

WORLD COTTON USE
Million Bales
90
85
80
90/91
92/93
94/95
96/97
98/99

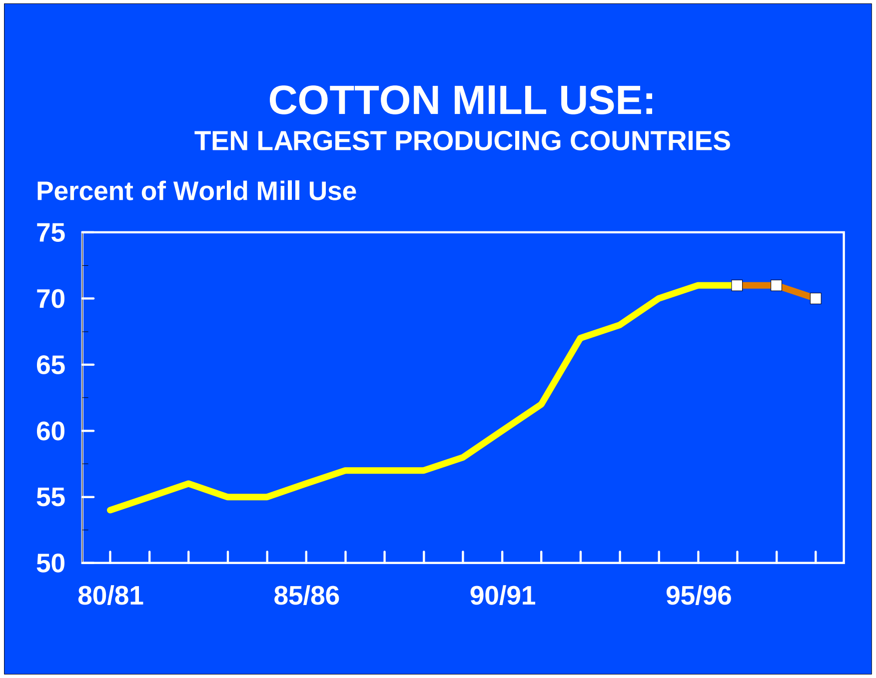

WORLD COTTON PRODUCTION
Million Bales
100
95
90
85
80
75
90/91
92/93
94/95
96/97
98/99

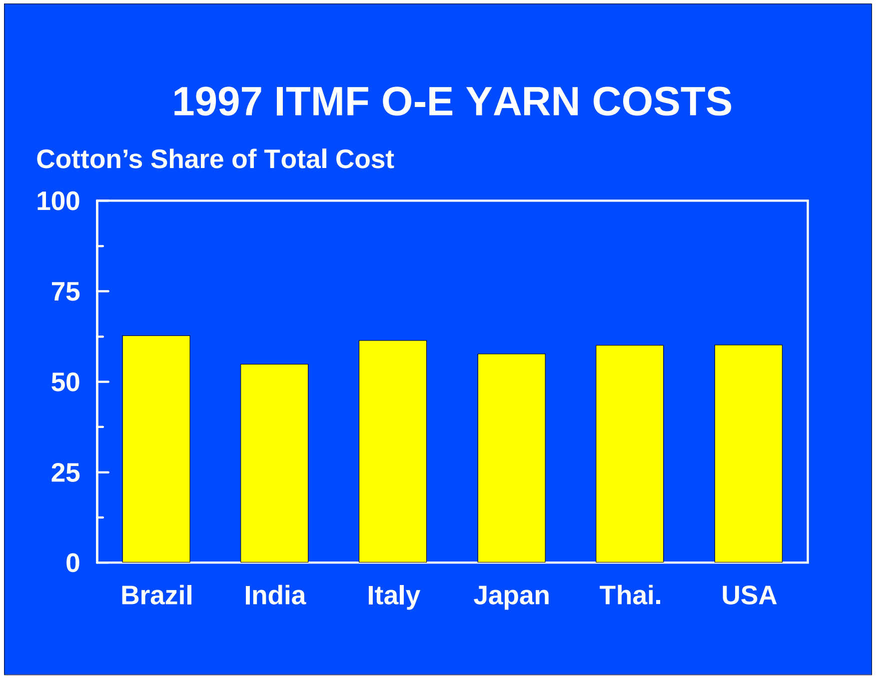

WORLD COTTON
Million Bales
100
95
90
85
80
75
Production
Consumption
90/91
92/93
94/95
96/97
98/99

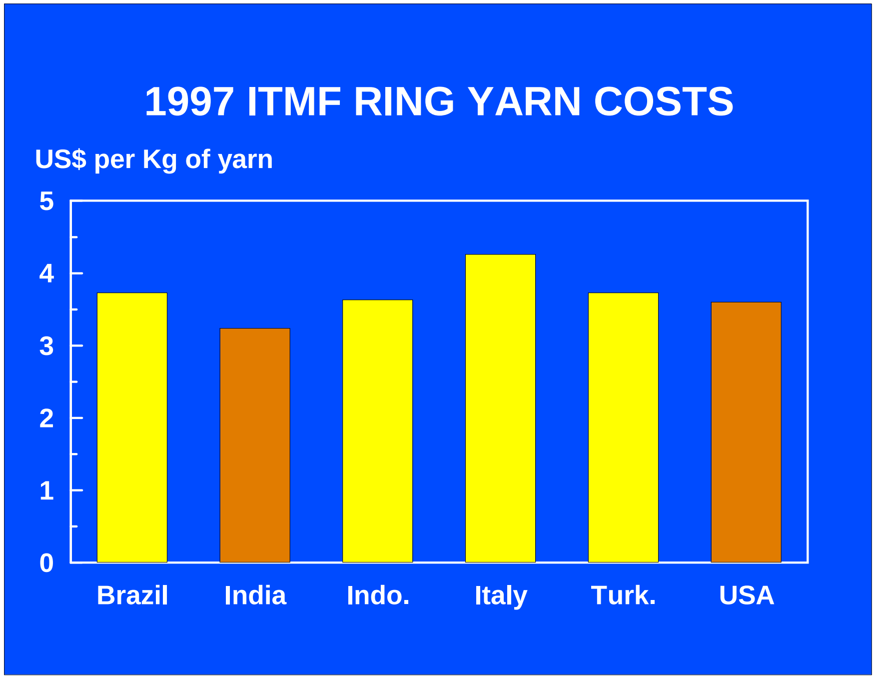

CHINA (M) & COTTON PRICES
Cents per Pound
Million Bales
Cotlook A Index
Net exports
100
90
80
70
60
50
5
4
3
2
1
0
-1
-2
-3
-4
-5
90/91
92/93
94/95
96/97
98/99

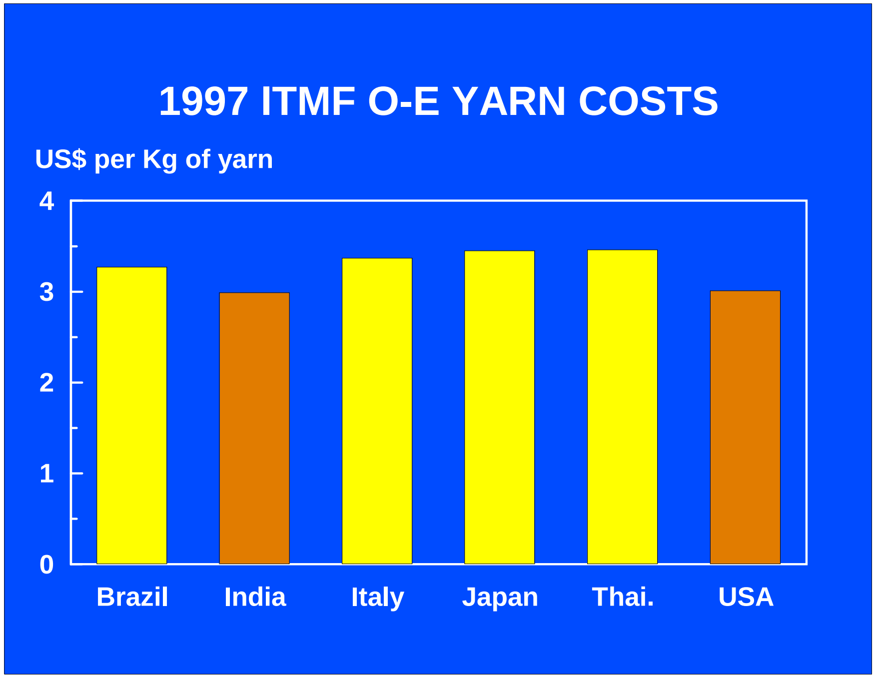

COTLOOK A INDEX
US Cents per Pound
100
90
80
70
60
50
90/91
92/93
94/95
96/97
98/99

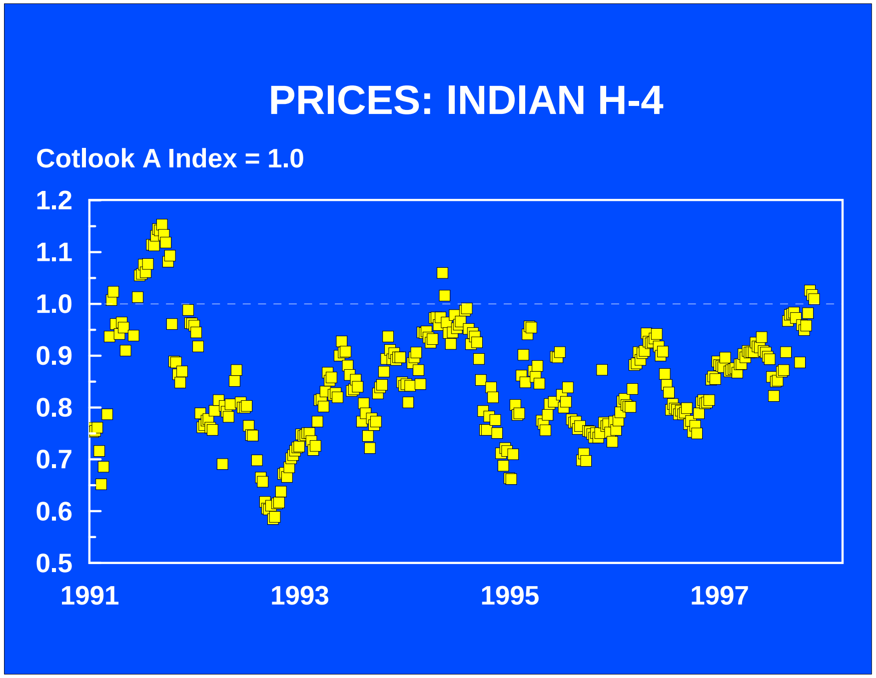

WORLD COTTON YIELDS
Pounds per Acre
600
500
400
300
200
100
50/51
62/63
74/75
86/87
98/99


COTTON MILL USE:
TEN LARGEST PRODUCING COUNTRIES
Percent of World Mill Use
75
70
65
60
55
50
80/81
85/86
90/91
95/96


1997 ITMF O-E YARN COSTS
Cotton's Share of Total Cost
100
75
50
25
0
Brazil
India
Italy
Japan
Thai.
USA


1997 ITMF RING YARN COSTS
US$ per Kg of yarn
5
4
3
2
1
0
Brazil
India
Indo.
Italy
Turk.
USA


1997 ITMF O-E YARN COSTS
US$ per Kg of yarn
4
3
2
1
0
Brazil
India
Italy
Japan
Thai.
USA


PRICES: INDIAN H-4
Cotlook A Index = 1.0
1.2
1.1
1.0
0.9
0.8
0.7
0.6
0.5
1991
1993
1995
1997