

CLUSTER REPORT 1/2017

OUTLOOK ON THE SOUTH AFRICAN COTTON TEXTILE INDUSTRY

To understand the current status of the textile and clothing industry, it is important to know about all the previous developments, programmes and arrangements, international and local, that had an effect on the said industry.

For many years the international trade in textiles and clothing was subjected to bilateral quotas negotiated under the Multifibre Arrangement (MFA) in terms of the General Agreement on Tariffs and Trade (GATT) (later the World Trade Organisation). The integration of the textile and clothing sectors into GATT took place over a couple of years, from January 1995 onwards, to be terminated on 1 January 2005. During this period many Eastern (Chinese) companies invested in textile and clothing manufacturing operations in South Africa. However, with the termination of the MFA at the end of 2004 many of these companies closed overnight and moved back to their homeland. [Government's response to the influx of imports mainly from China through the imposition of quotas over the period 2007 to 2008, proved largely ineffective against the surge of low-cost textiles and clothing.]

A feature of the "new" South Africa in the 1980's was that the demand for variety was not very different to that of the sophisticated "first world". The overall level of consumption, however, remained relatively low, totally no more than a third and less than that of the developed countries in the West. At that stage the total local per capita consumption of all textile fibres was less than 7 kg, represented by all end usage. The development of both fashion and variety represented the problem of comparatively low volumes and high variety, which tended to push production costs up higher than those of our overseas competitors. The problem was aggravated by the aggressive and often price-disruptive tactics of principal exporting countries in the East.

The need to extend a degree of protection to the industry was recognized, and the then Board of Trade and Industry (now ITAC) undertook various investigations that led to reasonable levels of protection. Combined with this, quantitative import control (designed principally to protect the Balance of Payments) added an element of additional protection. The combined effects of tariffs and quantitative controls led to a growth in the demand for woven fabrics alone of 150 per cent between 1949 and 1981. At this latter date, fully 80 per cent of the local demand for both woven and knitted fabrics was met by local production. This was backed by local production of cotton and wool, as well as by the local manufacture of synthetic spun and filament yarns.

Import penetration did however escalate from 1988 onwards. Import control was removed in the mid-1989 and the level of protection was materially reduced in the case of the 'ad valorem' levels.

From 1988 to 1993 new investments and upgrading of technology were hampered due to surcharge levied on imported machinery (and other products) to protect the Balance of Payments.

Over the years Government announced various programmes for the local textile and clothing industries, like the Structural Adjustment Programme (SAP) in 1989, which offered duty-free imports based on export volumes, for a period of 5 years. At the same time the General Export Incentive Scheme (GEIS) was introduced which offered textile manufacturers an export incentive based on export value. GEIS was abolished on 11 July 1997. In 1994 the SAP Scheme was replaced by the Duty Credit Certificate Scheme (DCCS) that offered a customs duty credit reward for export performance.

The initial recommended SAP Scheme was based on two legs, namely funds for investments and the duty-free imports based on exports. However, Government only approved the tariff side and rejected the monetary side of the programme. The SAP Scheme proved to be ill-considered and highly disruptive that ultimately led to the destruction of certain sectors of the industry, for example jerseys. This situation was aggravated by the excessive dumping of textile products from the East into South Africa, as well as fraud and inadequate Customs controls.

On 12 June 1995 the Long Term Strategy for the Textile Pipeline was announced. The plan entailed the phase-down of tariffs over eight years. The textile industry has embraced the principles of the GATT and the philosophy of trade liberalization, and the challenge to become more efficient and competitive by remodeling itself. Since 1995 large capital investments have already been made the improved financial performance of some of the industry's major companies provided concrete evidence that the industry was determined to succeed.

Various trade blocs were created that affected the local textile and clothing industries, for example the bilateral trade agreements with neighbouring Zimbabwe and Malawi, the Southern African Development Community (SADC) since 2000, the European Union (EU) since 2000, and the USA Africa Growth and Opportunity Act (AGOA) since October 2000. In terms of AGOA the preferential treatment was never extended to yarns, fabrics and domestic textiles, but only to clothing.

At the beginning of 2002, the tariff structure on textiles and clothing was drastically affected with the removal of the alternate specific duties, which heralded the onset of illegal imports and undervalued imports, especially from the East.

Since 2002 the textile and clothing sectors were characterized by major changes in the industry.

A new interim programme called the "Textile and Clothing Industry Development Programme" (TCIDP) was announced during 2006. A new programme for South Africa, which is WTO compliant, and called the Production Incentive Programme, has then been developed. It consisted of two components (an Upgrade Grant and an Interest Subsidy for Working Capital) and should be administered by the IDC, to run until March 2017. The Production Programme was introduced during 2010, to be applicable until March 2017.

During 2008 *the dti* launched a new general incentive programme called the Enterprise Investment Programme (EIP), which included the Manufacturing Investment Programme (MIP), to be available

until the end of 2014. During 2009 *the dti* also launched the Clothing and Textile Competitiveness Improvement Programme (CTCIP), to be applicable until 2014 (but still applicable) and administered by the IDC.

Government had reviewed its Industrial Policy Action Plan (IPAP), and during June 2011 it introduced its Preferential Procurement Programme.

Between 2008 and 2010, being the height of the global economic crisis, some manufacturing entities closed, giving a clear indication that the local textile industry was contracting. The last couple of years we have also seen changes in the textile and clothing sectors as results of closures, amalgamations, change of ownership and change of names.

During November 2013, the Government approved a 5-year business plan and R200 million grant funding for the establishment of a national cluster, namely the Southern Africa Sustainable Textile and Apparel Cluster (SASTAC) for the South African **cotton** textile and apparel sector. The main objective of this cluster initiative is to build and improve the capacity in the cotton industry value chain for sustainable textiles and apparel.

The local cotton industry, on request of the retail sector, has introduced the “Better Cotton Initiative” (BCI). It becomes increasingly important to find more sustainable solutions for cotton farmers to safeguard the future of cotton. This initiative focus on the key sustainability issues like pesticide use, water use, soil fertility, bio-diversity, as well as labour and working condition.

We do recognize that all the various programmes introduced by Government were done with the best of intentions and that it made use of the only means available at that stage. It is recognized that monetary assistance was not available then.

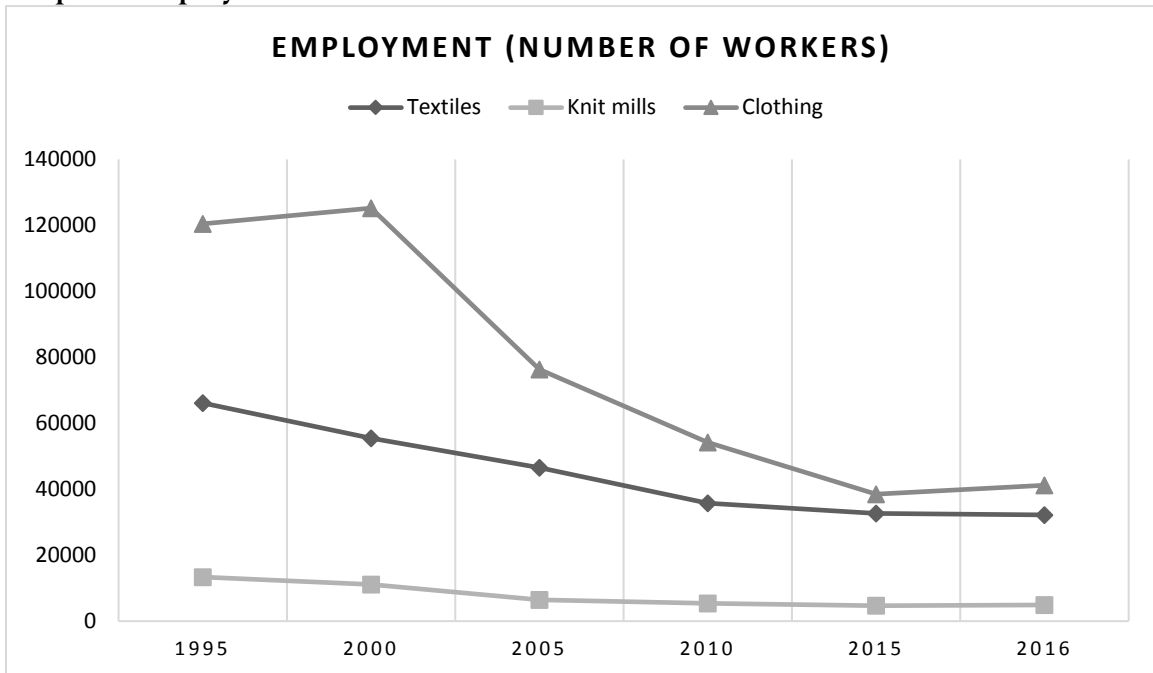
Various developments, programmes and arrangements, both local and international, affected the local textile and clothing industry. Most of the programmes introduced by Government were focussed on exports. The question arises as to whether the programmes had a positive or negative influence or no influence at all.

It would be interesting to see the effect over the years and then to determine if the current cluster initiative would or could have a positive effect, at least on the **cotton** textile pipeline.

We looked at the information in 5 year increments since 1995.

Employment showed a declining trend from 2000 onwards. Textiles (especially spinning and weaving) is mostly capital intensive, while knitting mills is both capital and labour intensive. Clothing is mostly labour intensive.

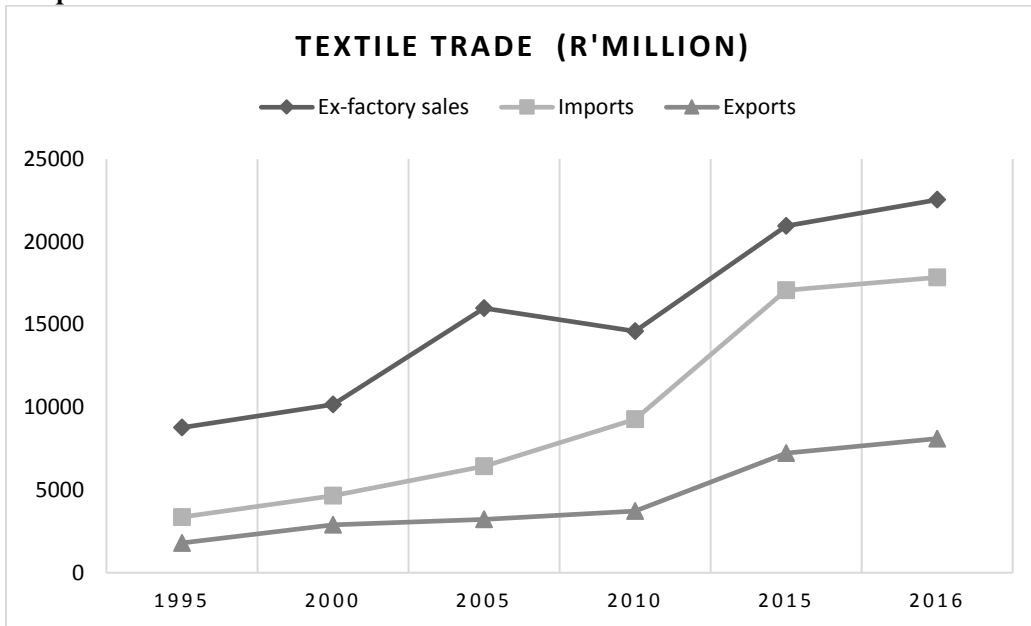
Graph 1: Employment



Employment, especially in the clothing sector, declined drastically. This was the result of increased garment imports which lead to a decline in local garment production. This had an effect on the pipeline.

The following graph gives an indication of the value of ex-factory sales, imports and exports of the textile industry.

Graph 2: Textile Trade



Ex-factory sales, imports and exports of textiles shows an increasing trend. With respect to imports, the value showed a steep increase since 2010. (It should be mentioned that more than 50% of the value of textile exports represent raw wool fibres.)

Clothing trade (R'million) is set out in the next graph.

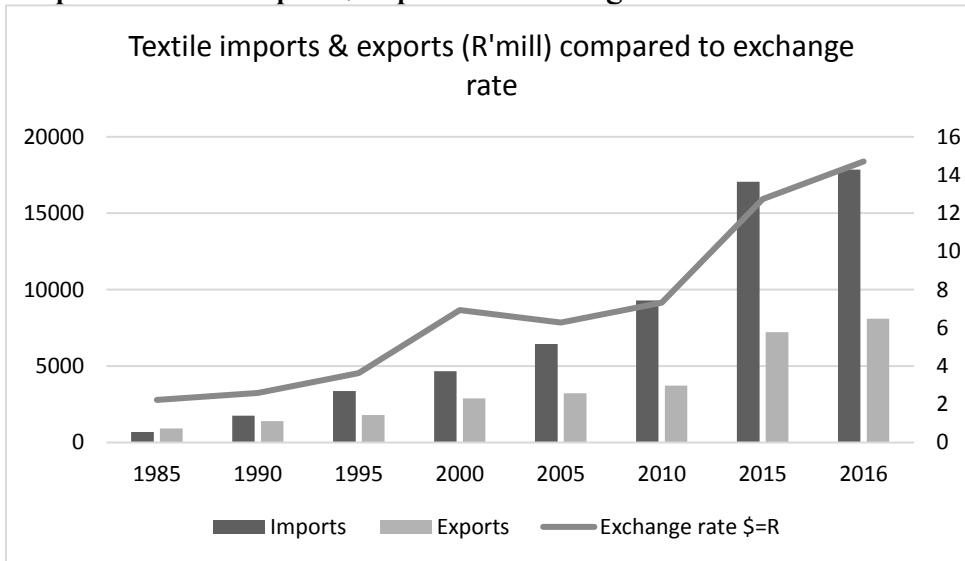
Graph 3: Clothing Trade



Exports of clothing showed a stagnant line. Whatever programme was introduced by Government had little or no effect on the exports of clothing. On the contrary, imports increased substantially while exports represent a flat line.

The next graph gives an indication of the value of textile imports and exports compared to the R- $\$$ exchange rate.

Graph 4: Textile Imports, Exports & Exchange rate



It is clear the exchange rate also played a part in the increase in the value of trade.

FIBRES:

The **volume** of imports and exports of **cotton fibre**, compared to the local mill consumption of cotton, is set out in the next graph.

Graph 5: Cotton fibre imports, exports & mill consumption

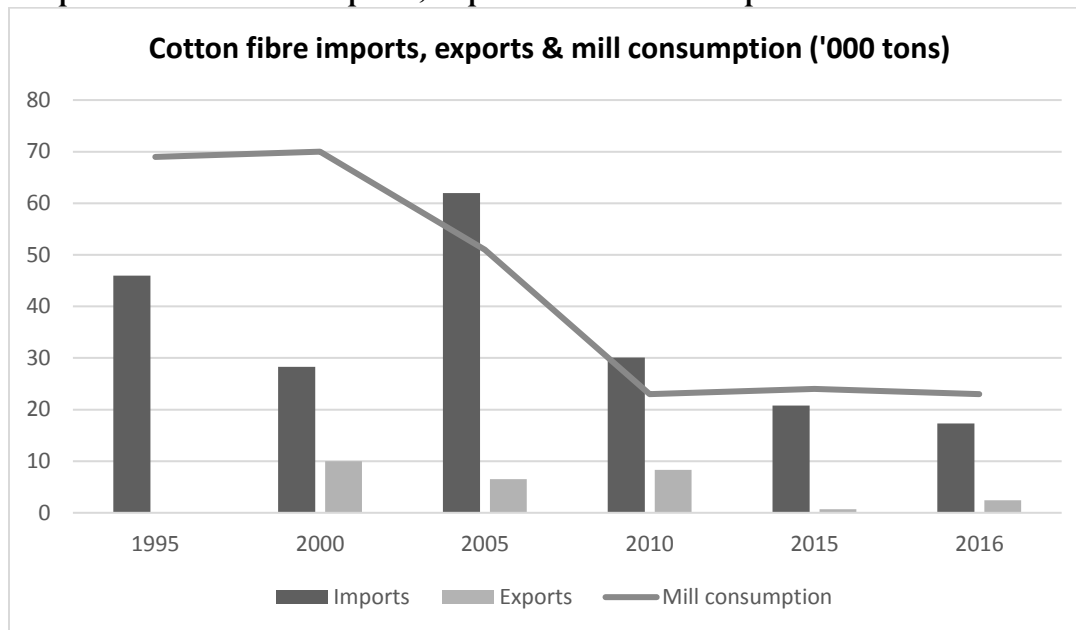


Table 1: COTTON LINT STATISTICS

SOUTH AFRICA	Production	Imports	Exports	Local consumption	SA price
	Tons'000	Tons'000	Tons'000	Tons'000	c/kg
2011/12	13	18.2	14	20	1364
2012/13	6	14.6	11	19	1508
2013/14	10	19.6	3	22	1674
2014/15	10	18.1	7	21	1852
2015/16	17	19.3	11	21	1903
2016/17	10	16.5	9	21	2261
2017/18est	15	17.0	11	22	2300

Source: Cotton SA

Local **cotton fibre** production varied over the years due to demand and droughts, amongst others.

The following table compares cotton consumption with the mill consumption of other fibres. (The figures are derived from estimated local production plus imports less exports.)

Table 2: SOUTH AFRICAN FIBRE CONSUMPTION (at Mill level)

TONS	2012	2013	2014	2015	2016
Cotton	19800	21000	22000	23000	17680
Polyester	50084	36113	32932	30488	58022
Other	54128	60379	59623	61823	47921
TOTAL	124012	117492	114555	115311	123623

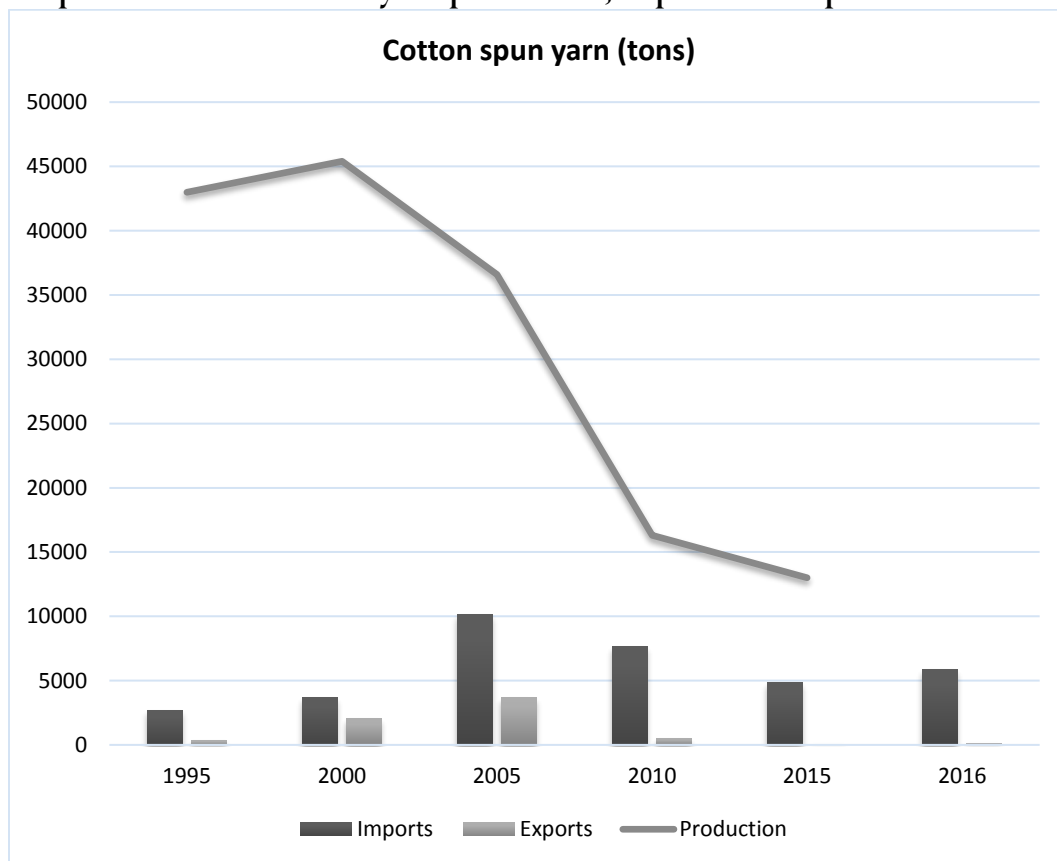
Local cotton fibre consumption at mill level showed an increase from 2012 to 2015, but showed a decline from 2015 to 2016.

Cotton fibre consumption, as percentage of total fibres, represent less than 20 per cent of total fibre consumption. Polyester, the synthetic substitute for cotton, represent around 40 per cent of total consumption. Price plays a major part. Currently the cotton lint price is around R23/kg. Based on the official import statistics, the free-on-board import price for polyester fibre averaged R17.21/kg for 2016 (with payment of import duty it averaged about R18.50/kg). This is less than the current average R23/kg local price of cotton lint.

YARNS:

The following table shows the local volume of production, imports and exports of cotton spun yarns. It is obvious that the production of cotton spun yarns has declined.

Graph 6: Volume of Cotton yarn production, imports and exports



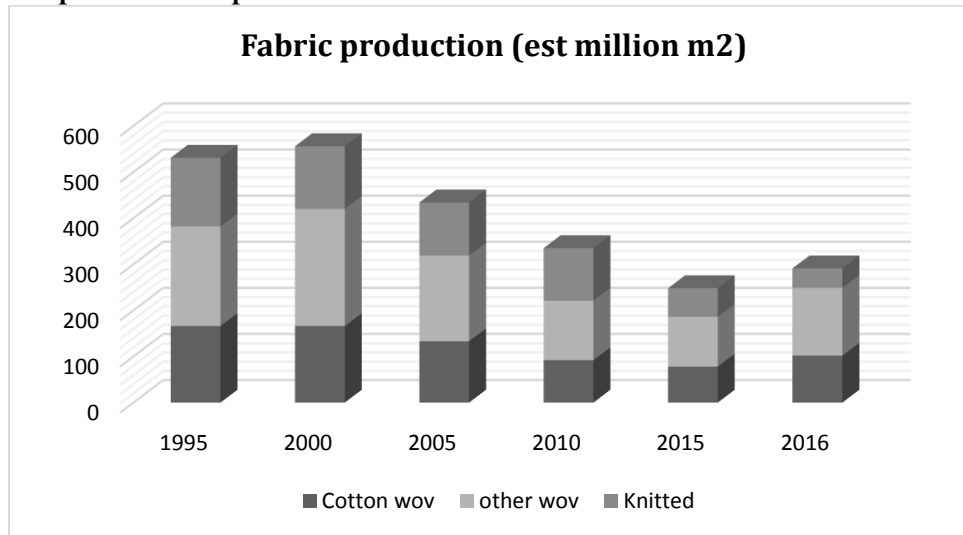
Source: ICAC (production) & SARS (imports & exports)

Imports of **cotton** yarns show signs of increase while local production is clearly declining.

FABRICS:

Fabric production, in general, shows a declining trend.

Graph 7: Fabric production



The production of woven **cotton fabrics** showed a decline, with a slight increase from 2015 to 2016, a trend followed by the other woven fabrics also. However, the production of knitted fabrics showed a declining trend. Knitted fabrics are the main input for t-shirts.

T-SHIRTS AND TOWELS:

The two products that are currently part of the sustainable cotton cluster/BCI is cotton t-shirts and cotton towels.

During 2016 about 9 per cent less units of cotton t-shirts were imported than in 2013. During the same period 14 per cent less non-cotton t-shirts were imported. Exports of cotton t-shirts showed a decline of 14 per cent from 2013 to 2016, while the volume of exports of non-cotton t-shirts increased by 33 per cent over the same period.

The volume of imports of cotton towels from 2013 to 2016 increased by 14 per cent while it increased by 41 per cent in terms of value. Exports of the volume of cotton towels declined by 17 per cent over the same period, while it increased by 26 per cent in value.

The industry continued to contract, with a decline in employment and production. There are many reasons for this: increased imports at low prices, change in organizational structures within

the companies, effect of changes in the exchange rates, more stringent labour and tax laws, amongst others. However, increased low-priced imports of clothing and other finished goods played a major role.

It appears as if all the various programmes that was initiated by the Department of Trade and Industry, and implemented by Government, did not help to sustain the industry. The industry continued to contracted, with a decline in employment and production in general.

During 1998 there were quite a number of cotton spinners, weavers and knitters operating in the country. Currently there is only a few spinners, weavers and knitters left in South Africa. The major vertically integrated textile mills, for example the Frame Group, David Whiteheads and the Romatex Group have all changed. Very little of the David Whitehead group is left, while Frame and Romatex amalgamated.

Interesting to note that all the previous programmes centered around tariff protection and tariff relief. No funds were ever made available for capital investments, operating costs, etcetera. The current cluster for cotton sustainability, however, have received large amounts of funds.

The following tables give an indication of cotton product imports and exports compared to total imports and exports.

Table 3 : TEXTILE & TEXTILE ARTICLE IMPORTS (Incl BLNS countries)

	2013		2014		2015		2016	
	Tons	R'000	Tons	R'000	Tons	R'000	Tons	R'000
FIBRES : TOTAL	89778	1683743	70871	1757692	59784	1834978	61219	2247671
Cotton	45675	774391	31519	601351	21822	410388	18581	408448
YARNS : TOTAL	54179	1620166	49445	1726349	51118	1840705	56186	2097379
Cotton	13172	316663	8413	297736	7784	286874	8395	369083
FABRICS : TOTAL	145697	5361845	129287	6152950	144341	7068097	133495	7230432
Cotton	37896	1013237	16903	1159449	17519	1305883	15958	1348643
Knitted	28864	1417058	37835	1804520	46219	2244601	43467	2322115

Source: SARS (Customs & Excise)

SARS only started to include the volume and value of trade with the BLNS countries from 2013 onwards.

Table 4 : TEXTILE & TEXTILE ARTICLE EXPORTS (Incl BLNS countries)

	2013		2014		2015		2016	
	Tons	R'000	Tons	R'000	Tons	R'000	Tons	R'000
FIBRES : TOTAL	63724	3972434	66277	4187589	69492	4660050	82330	5681717
Cotton	5236	95163	4955	105773	3625	68915	6198	136193
YARNS : TOTAL	7990	332640	4634	299076	3244	264802	3489	317448
Cotton	4028	121218	1810	63896	326	18734	433	23359
FABRICS : TOTAL	13467	899265	14831	946874	13348	1194544	17107	1139368
Cotton	2725	177591	2769	204520	3497	245191	6233	263033
Knitted	3354	228221	5456	285563	3155	451270	3061	326001

Source: SARS (Customs & Excise)

SARS only started to include the volume and value of trade with the BLNS countries from 2013 onwards.

There is a decline in the volume of cotton spun yarn imports. This could be the result that more yarns are produced locally. This could be the case because of the increase in the exports of cotton spun yarns. The reason why more yarns are exported could mean that there is a decline in the local demand for yarns.

There is also a decline in the volume of cotton woven fabric imports. This could either be the result that more fabrics are produced locally, or that more finished goods are imported resulting in a decline in the demand for fabrics.

Forecast

The following table shows the imports of certain cotton products from January to April 2017.

Table 5 : Monthly Volume of Imports of Cotton Products Jan-Apr 2017

	Jan '17	Feb '17	Mar '17	Apr '17
Cotton Lint ('000 kg)	1932.9	2100.4	1252.0	2102.7
Cotton spun Yarn ('000 kg)	806.2	653.2	807.8	754.8
Cotton woven Fabrics ('000 kg)	1697.0	1371.0	1140.1	1654.2
Cotton T-shirts ('000 Units)	4489	4603	4846	4422
Cotton Towels ('000 kg)	471.9	434.2	558.7	466.0

The estimated 2017 volume of imports for the finished goods (t-shirts and towels) is less than the volume imported during 2016. However, the volume of imports of the products being inputs (e.g. lint, yarn and fabrics) seems to be more than in 2016.

We do not know what the situation is with the local production of cotton t-shirts and towels. It makes it therefore difficult to forecast whether the cluster programme is “profitable”. We also do not know how many yarns and fabrics are produced locally. We can only make assumptions based on old information and the change in the volume of production index.

Conclusion

There is a slight increase in the estimated production of cotton woven fabrics, but it appears that there is a decline in the production of cotton yarn. The increase in woven cotton fabric production is, however, inconclusive to suspect that the cluster is slowly starting to show signs of progress.

The programmes that focused only on increased exports had little effect in general (although it might have served certain sectors in the industry). Employment declined, imports increased while there was little effect on exports. The local industry contracted.

It appears that funds are needed to stimulate the cotton pipeline in particular (and the industry in general), starting with the production of cotton fibre, and investments in ginning as well as spinning mills. Funds to cover input costs is needed to support the small farmers (to help with fuel, maintenance of equipment, etc).

The funds invested in the Sustainable Cotton Cluster so far indicated that cotton lint production could increase. However, investment in ginning facilities is needed to take up local crop.

It is the conclusion that additional funds and more time is needed to set up facilities to convert seed cotton into lint and then to convert lint further down the pipeline.

Compiled by Cotton SA
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