

OUTLOOK ON TEXTILES

CLUSTER REPORT FOR Q3 AND Q4 OF 2016

It is now approximately three years since the start of the Sustainable Cotton Cluster initiative. A lot of work, time and money went into it. The question arises as to whether there were any benefits to the industry to date. One should take into consideration that three years is a very short period, taking into account the pipeline, spanning from farmer to retailer, also involving the ginners, spinners, fabric and garment producers.

Factors playing a role in cotton production are, amongst others, drought/rain and insects and pests. The local cotton season runs from April to March. Then starts the ginning and spinning and other processes in the pipeline. From the start of the planting of cotton until the time the finished product is on the retail shelves, nearly two years could have passed. First there is the planting season and then there is the marketing season. Therefore, it is possible that the farmers only now could start to adapt to planting cotton rather than other crops (provided the price is right), and to start to see the possible benefits of the initiative. After the marketing season the spinning of the yarn and the further production of textiles could start.

However, said that, it seems as if there is a definite spark in the planting of cotton for the new season. The area planted for the new season is estimated to be approximately 17 500 hectares.

Total hectares planted with cotton in South Africa:

Production year	Hectares	
2012/13	6827	Planted other crops due to price
2013/14	7458	Planted other crops due to price
2014/15	15228	Good year for cotton
2015/16	7039	Drought
2016/17	17500	As result of cluster initiative

Source: Cotton SA

The past production season saw one of the worst droughts over the past 100 years, resulting in close to a 70% drop in dryland hectares compared to the previous season. Irrigation hectares were also under pressure due to the high prices for summer grains at planting time, resulting in many farmers opting to plant maize instead. The latest estimates indicated that a local crop of approximately 43000 bales can be expected this year, which is about 53% down from the previous season.

The biggest challenge facing the industry this year is to produce sufficient cotton to satisfy the demand from the Cluster. All the well-known clothing and textile retail groups, which is members of the Cluster, have so far failed to make known their cotton requirements for the next season. However, it is expected that the requirements would exceed the crop of the current year.

Under the Cluster there is a ready market with a fixed price in place for the cotton farmer, with the guarantee that no fluctuation in the world cotton prices will affect this price during the course of the season. Price certainty and guaranteed off-take are some of the benefits under the Cluster which could benefit farmers.

It should be noted that the production year and marketing year of cotton are not the same.

Production of cotton lint produced by RSA ginners from RSA seed cotton:

Marketing year	<i>Pertaining to production year</i>	RSA Production of lint Tons	Imports of lint by cotton spinners Tons
2013/14	2012/13	5305	19607
2014/15	2013/14	8760	18081
2015/16	2014/15	16911	19274
2016/17est	2015/16	8798	18000

Source: Cotton SA

The following table indicates the consumption of cotton lint by South African spinners as well as the export of cotton lint from South Africa:

Marketing year	Consumption of lint Tons	Exports of lint Tons
2013/14	22398	3454
2014/15	20774	6635
2015/16	21259	11471
2016/17 est	21000	9000

Source: Cotton SA

The RSA average cotton lint prices (R/kg) compared to the international price (US c/lb) and the average import prices (R/kg fob) are as follows:

RSA Marketing year	RSA cotton lint R/kg	Average price of imports R/kg fob	Cotlook A index US c/lb
2013/14	16.74	16.45	91
2014/15	18.52	18.71	71
2015/16	19.03	18.31	70
2016/17 est	20.00	21.97	75

Source: Cotton SA & SARS

The lint price showed an increase.

The following table gives an indication of the South African textile fibre consumption at mill level (cotton vs non-cotton):

Year	Cotton Tons	Non-cotton Tons	TOTAL Tons	Market share of cotton %
2011	19828	109438	129266	15.3
2012	19077	104212	123289	15.5
2013	21582	96492	146598	14.7
2014	21254	92555	145206	14.6
2015	21284	92311	129266	16.5
2016 est	20899	85843	106742	19.6

Source: Cotton SA (Cotton consumption)

The next production process in the cotton pipeline is the spinning process. Spinners have to produce good quality yarn on an ongoing basis.

For a spinner to produce good quality cotton yarn, it is most important to obtain huge volumes of “similar” cotton to ascertain that cotton could be spun for 3-4 months without any noticeable changes being made to the spinning processes. If not, the following problems could be expected, namely the yarn could have a “barre” problem (leading to colour variations when dyeing the yarn and/or fabrics). The strength of the yarn is also very important as weavers and knitters continue to invest in high speed machinery that needs strong yarn.

Taking into account the technical requirements from local spinners, it is clear that it is problematic for local spinners to use South Africa cotton lint because of the relative small cotton crop that are spread between 5-6 ginners, the different cultivars, the mixture of hand and machine harvested cotton, the mixture of irrigation and dry land cotton, the grades that differs between Deal AX to Dirk A2, and the quantities and qualities that is unknown before the start of the season, which lead to uncertainties regarding the buying of cotton lint prior to the season.

These are all factors that need to be taken into account by farmers when starting to plant cotton.

The sustainability of cotton production involves addressing not only financial and environmental aspects, but also social considerations. A balance between profitability, environmental impact and the people involved in cotton cultivation is vital to ensure a sustainable cotton value chain. With this in mind the local industry has embarked on the Better Cotton Initiative (BCI). The BCI focuses on transforming cotton production worldwide as a mainstream commodity. The specific aims of the BCI are to reduce the environmental impact of cotton production, to improve the livelihood and economic development in cotton producing areas, improve commitment to and flow of better cotton throughout the supply chain, and to ensure the credibility and sustainability of the BCI. Cotton SA decided to adopt the BCI with some adaptation to fit the Southern African environment.

The local textile industry and the rest of the cotton pipeline has not shown any significant extensions or major increase in production and trade.

Both the textile sector and the clothing sector showed a decline in capacity utilisation. In the textile sector the average capacity utilisation changed from 71.6% in 2013 to 68.2% in 2016. For the clothing sector it changed from 81.2% in 2013 to 77.5% in 2016.

The index of physical volume of production (seasonally adjusted) for the spinning, weaving and finishing sector, show an increase during the last two years, while the index for the other sectors show a decline. The index is set out in the following table:

Index: 2010=100	2013	2014	2015	2016
Spin, weave, finish	82.6	81.8	84.4	88.3
Other textiles	95.2	96.2	92.8	93.7
Knitting mills	65.4	57.7	54.0	52.7
Wearing apparel	101.2	101.7	101.0	96.1

Source: Stats SA

The following table shows the value of ex-factory sales of all textiles and clothing:

R 'million	2013	2014	2015	2016
Spin, weave, finish	5380	6342	6996	8198
Other textiles	10454	11737	13968	14340
Knitting mills	1727	2048	2376	2396
Wearing apparel	15447	16928	15334	17354

Source: Stats SA

During 2016 textiles to the value of a total of R19.3 billion have been imported, 5% more than in 2015. Exports of textiles amounted to R10.49 billion, 12.6% more than in 2015. Clothing imports increased by 7.4% to amount to R23.7 billion, while exports amounted to R5.2 billion, only 2.5% more than the previous year. (The figures include the trade with the BLNS countries.)

The following table gives an indication of the imports of different types of cotton textiles:

	Cotton fibres, ginned but not further processed Tons	Cotton yarn Tons	Cotton woven fabrics Tons	Cotton knitted fabrics Tons
2013	40390	13172	37896	2131
2014	26511	8413	16903	2886
2015	17465	7784	17519	3122
2016	14098	8395	15958	3338

Source: SARS (Customs & Excise)

The exports of different types of cotton textiles are as follows:

	Cotton fibres (all types) Tons	Cotton yarn Tons	Cotton woven fabrics Tons	Cotton knitted fabrics Tons
2013	5236	4028	2725	1459
2014	4955	1810	2769	1504
2015	3625	326	3497	1017
2016	6198	433	6233	3061

Source: SARS (Customs & Excise)

The cotton products that are currently forming part of the cotton cluster are cotton towels and cotton t-shirts. Imports and exports of these products are as follows:

COTTON T-SHIRTS	IMPORTS Million Units	EXPORTS Million Units
2013	74.3	5.8
2014	64.3	5.7
2015	68.7	5.6
2016	67.4	5.1
COTTON TOWELS	IMPORTS Tons	EXPORTS Tons
2013	5382	1018
2014	4937	893
2015	6568	948
2016	6167	842

Source: SARS (Customs & Excise)

Cotton fibres compete with polyester fibres in the pipeline. The following table gives an indication of the imports of cotton fibres and yarns compared to polyester fibres and yarns (both filament and spun):

IMPORTS	Cotton fibres (ginned, not further processed) TONS	Polyester fibres TONS	Cotton yarns TONS	Polyester spun yarns TONS	Polyester filament yarns TONS
2013	40390	11230	13172	3672	22820
2014	26511	9324	8413	3290	22211
2015	17465	9354	7784	4457	22767
2016	14098	10217	8395	5473	26091

Source: SARS (Customs & Excise)

Price comparisons between cotton lint and polyester fibres:

	Cotton lint (Local) R/kg	Imported Cotton lint (ginned, not further processed) (ave R/kg fob)	Polyester fibre (ave R/kg fob)
2013	16.74	16.45	16.36
2014	18.52	18.71	18.96
2015	19.03	18.31	17.36
2016	20.00	21.97	17.25

Employment in the textile and clothing sectors show a mixed reaction. In the sector “preparation and spinning of fibres; weaving of textiles” employment show a slight decline from 2013 to 2014, but thereafter it showed a slight increase. Employment for “wearing apparel” show a decline, while that for the sector “knitted and crocheted fabrics and articles” show a mixed reaction.

The number of employment in each sector as at June of each year is set out in the following table:

	Total Spinning & Weaving No of workers	Knitting (fabrics and garments) No of workers	Wearing apparel No of workers
2013	8073	4486	41229
2014	7807	4614	40358
2015	11005	4627	39353
2016	10944	4502	33865

Source: Stats SA

One of the IPAP interventions is the retail driven integrated supply chain programmes. This intervention will provide the implementation mechanism through which retailers will systematically replace imports with fully integrated local value chains. A number of retailer groups have already pledged support for the scheme, like Mr Price, Edcon and Woolworths.

The retail trade sales of textiles, clothing, footwear and leather (both at current prices and at constant 2012 prices) show an increase. During 2016 retail trade sales for textiles, clothing, footwear and leather, at current prices, amounted to R177.3 billion, which is less than one per cent more than in 2015. However, the consumption of cotton at retail level is approximately 300 000 tons of lint, while we produce locally during a normal season approximately 20 000 tons of lint. There is thus a huge potential for the expansion of cotton lint production locally.

CONCLUSION

Although the cotton pipeline is a lengthy one (nearly two years from planting to finding its way down the pipeline), it is clear that a number of role players throughout the pipeline are buying into the programme as they start to see the benefits and value of the initiative.

A number of farmers have embarked on planting cotton on large parts of their land, to such an extent that a bigger cotton crop is expected for the 2017/18 production year.

Apparently some investment recently also went into the knitting sector. We can only hope that they are also starting to see the benefits to become part of this initiative. Talks have started with Da Gama regarding the production of traceable cotton fabrics for the manufacture of "chino" trousers.

The consumption of cotton at retail level has enormous potential for the local industry.

We are optimistic that the local cotton pipeline, and especially the local cotton textile and clothing sectors, would rise from their current state.

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