



SA COTTON CLUSTER REPORT Q2/2019

THE IMPACT OF THE COTTON CLUSTER TO DATE IN RESPECT OF COTTON TEXTILE IMPORTS AND EXPORTS

Introduction

During 2013, realising the need for growth in the cotton industry, the Department of Trade and Industry (the dti) and other like-minded cotton industry value-chain stakeholders united and form a cluster, to be a five-year initiative. The cluster was funded by *the dti* and the funds are managed by the IDC.

The five-year plan and funding were to support the acceleration of growth and development in the cotton industry, and hopefully, to increase employment in the value chain.

The cotton value chain (or pipe-line) generally consists of the following: seed supplier, cotton farmer, ginners, yarn spinners, fabric weavers and knitters, garment and home textiles production, retailer and consumer. Into this pipe-line other sectors are included, e.g. nonwovens for industrial and medical uses, and other yarns and fabrics for technical textiles, amongst others.

The statement was made that *“if South Africa increased its local beneficiation of cotton to a level where it can do import substitution of 50% on four basic retail items – t-shirts, towels, chinos and underwear – it could create more than 75 000 jobs in the industry, and inject nearly R10 billion into the economy”*.

The Cluster came about in 2014.

Presumptions

Unfortunately, we do not have information regarding local textile production to compare it to imports and exports. Values could give a wrong impression. Although Stats SA publish local ex-factory sales values, there is no separate figures for cotton goods. For this reason we can only compare imports and exports.



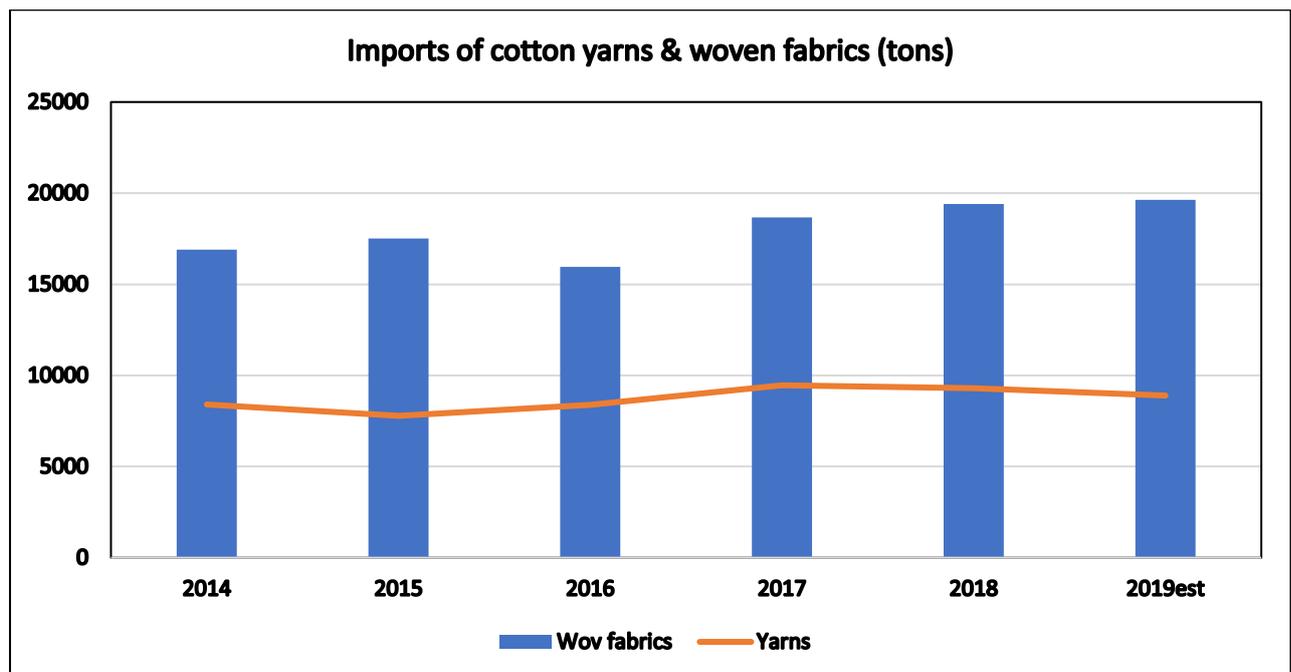
I have tried to work out the possible volume of cotton lint content used in the manufacture of certain products (making certain assumptions), both in terms of imports and exports. Based on available assumptions (from Texfed), 1 kg lint equates to 0.9 kg yarn, while 1 kg yarn is approximately 0.9 kg fabric.

Cotton yarns

Imports of cotton yarn: During 2014 a total of 8 413 tons of cotton yarn, were imported, while 9 293 tons were imported during 2018 (an increase of 10.5%). The 2018 volume equates to approximately 10 325.6 tons lint.

Exports of cotton yarn: During 2014 a total of 1 810 tons of cotton yarn were exported, compared to 1 086 tons during 2018. The 2018 figure equates to approximately 1 206.6 tons lint.

Graph 1: Volume of imports of cotton yarns and woven fabrics:



Cotton yarn is the input into both woven and knitted fabrics.

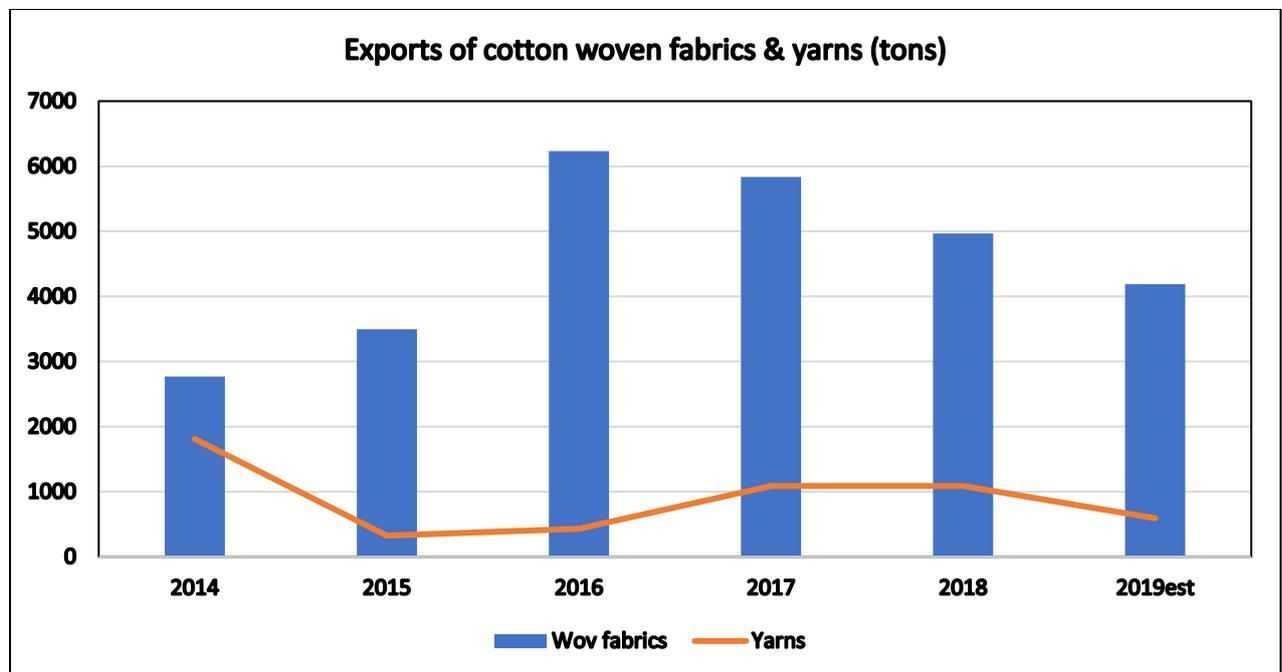
Cotton woven fabrics

Imports of cotton woven fabrics: During 2014 a total of 16 903 tons of cotton fabrics were imported, while 19 397 tons were imported during 2018 (an increase of about 14.8%). The 2018 volume equates to about 23 946.9 tons of cotton lint.

Exports of cotton woven fabrics: During 2014 a total of 2 769 tons of cotton fabrics were exported, while 4 966 tons were exported during 2018 (a substantial increase), calculated as 6 130.9 tons of cotton lint.

Woven cotton fabrics is the input into chinós.

Graph 2: Exports of cotton yarn and woven fabrics



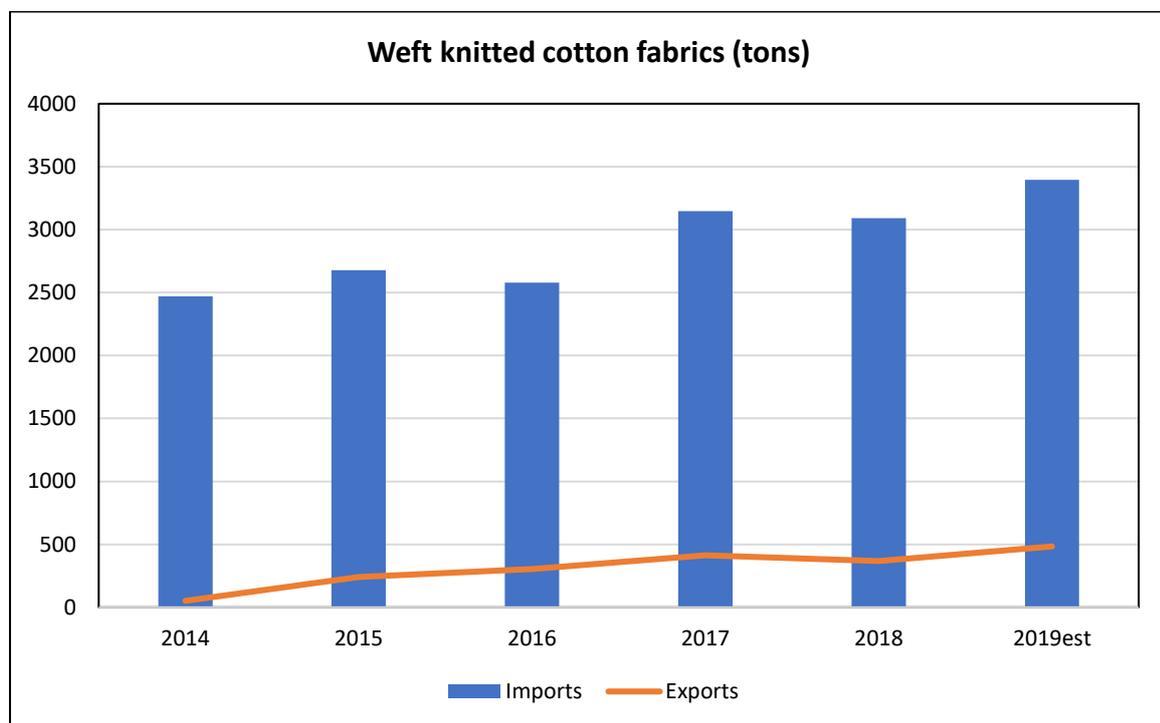
Cotton knitted fabrics

Imports of all cotton knitted fabrics: During 2014 a total of 2 856 tons of cotton knitted fabrics were imported, while 7 724 tons were imported during 2018 (a 170% increase). The 2018 volume equates to about 9 535.8 tons of cotton lint.

Exports of all cotton knitted fabrics: During 2014 a total of 1 504 tons of cotton knitted fabrics were exported, while 569 tons were exported during 2018 (a 62% decrease), calculated as 702.5 tons of cotton lint.

Only a part of total cotton knitted fabrics (*weft knits*) are used for the manufacture of t-shirts. Imports of weft knit fabrics increased from 2 856 tons in 2014 to 3 092 tons in 2018 (about 3 817.3 tons lint). Exports showed a substantial increase from 51 tons in 2014 to 368 tons in 2018 (454.3 tons lint).

Graph 3: Imports and exports of weft knitted cotton fabrics



(Weft knitted fabrics suitable for the manufacture of t-shirts)

One of the **cluster's visions** are to increase South Africa's local beneficiation of cotton to a level where it can do import substitution of 50% on four basic retail items – t-shirts, towels, chinos and underwear. T-shirts, chinos and towels are discussed in this report.

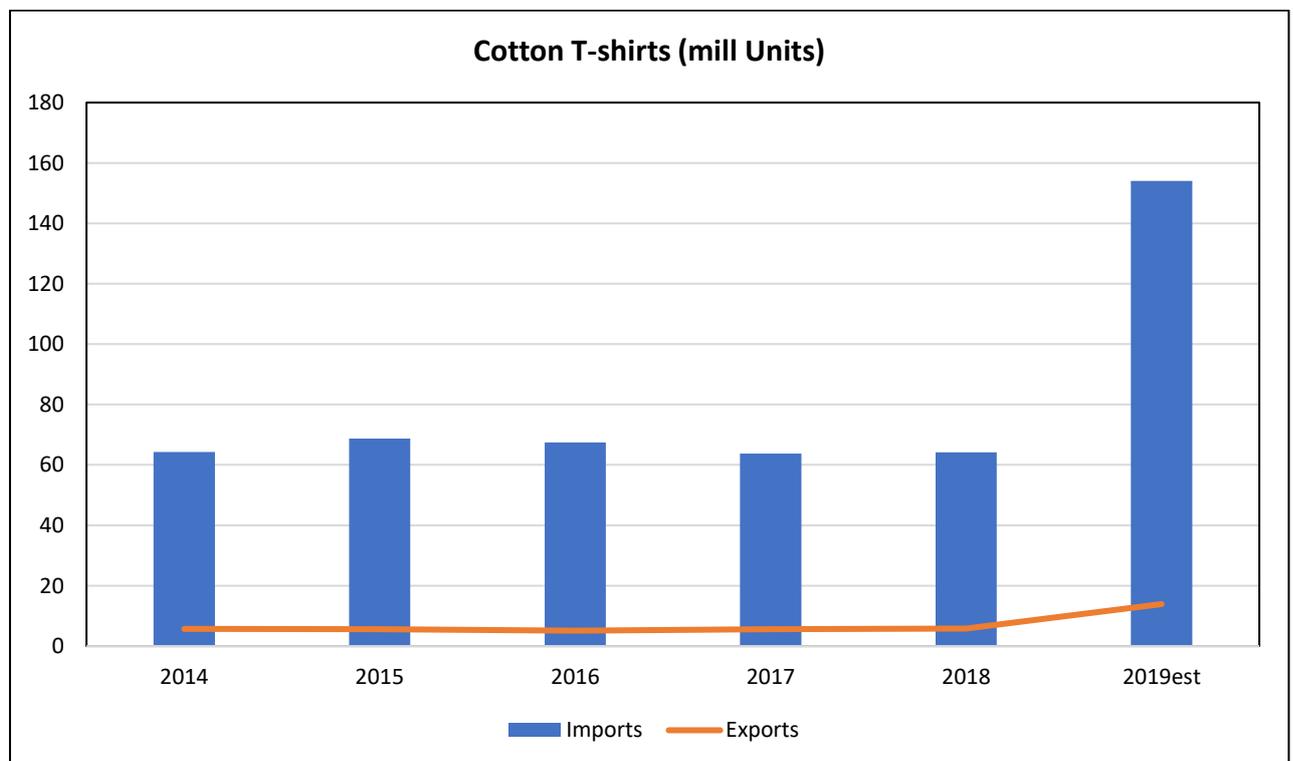
Cotton t-shirts

Imports of cotton t-shirts was 64.3 million units in 2014 and 64.2 million units in 2018. The 2018 volume equates to approximately 19 260 tons of cotton lint per year.

Exports of cotton t-shirts was 5.7 million units in 2014 and 5.8 million units in 2018, which could be approximately 1 740 tons of cotton lint per year.

It is estimated that approximately 154.0 million units could be imported during 2019 (during Jan-May 2019 a total of 64.2 million were imported), and 13.9 million units could be exported (during the first 5 months of 2019 a total of 5.8 million were exported).

Graph 4: Imports and exports of cotton t-shirts



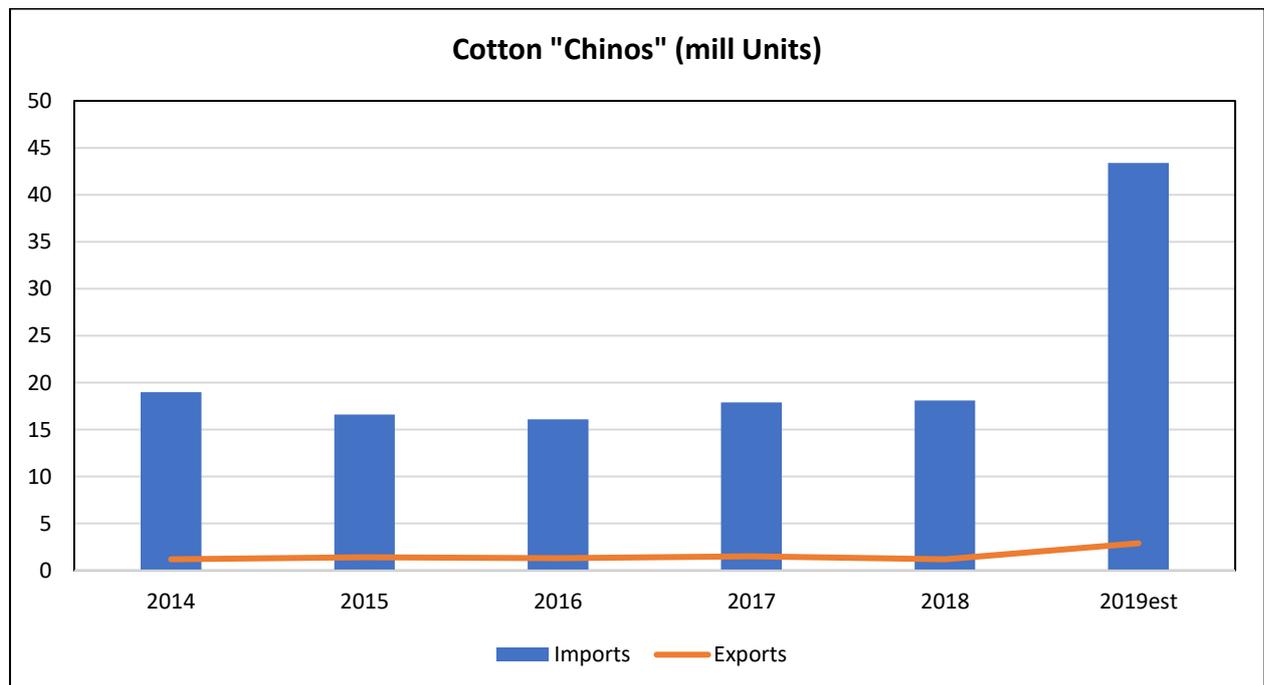
According to the available information, it appears as if the trend in the import and export of cotton t-shirts from 2014 to 2018 remained more or less the same. There is no major change in the trend of imports and exports of cotton t-shirts since the start of the cluster. The expectation for 2019 is somewhat different.

Cotton "Chinos"

Imports of cotton "chinos" (men's pants of cotton fabrics, excluding denim pants), another product mentioned on the cluster's list, was 19.0 million units in 2014 and 18.1 million units in 2018. This represents approximately an average of 11 760 tons of cotton lint per annum. It is estimated that approximately 43.4 million units could be imported during 2019 (during the period Jan-May 2019 a total of 18.1 million units were imported).

Exports of cotton chinos was 1.2 million units in 2014 and 1.2 million units in 2018, which could be on average approximately 780 tons cotton lint per year. It is estimated that approximately 2.9 million units could be exported during 2019 (during the period Jan-May 2019 a total of 1.2 million units were exported).

Graph 5: Imports and exports of cotton chinos



Since 2014 there was no major change in the trend of imports and exports of chinos. However, it is expected that exports could increase during 2019.

Cotton towels

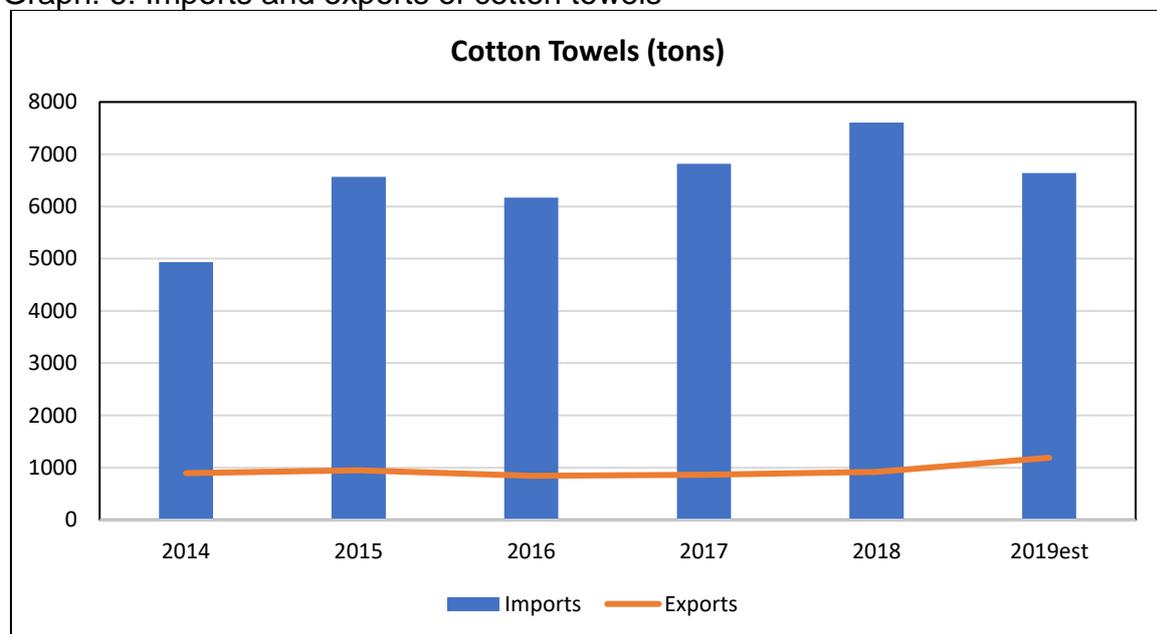
Cotton towels is also on the list of preferred cotton products that are expected to thrive under the cluster.

The cotton towels are manufactured from cotton woven terry towelling. Imports of cotton terry towelling during 2014 was 103 tons (approximately 127 tons lint) compared to 19 tons (about 23 tons of lint) in 2018, a substantial decrease in volume of imports. During 2014 about 195 tons (about 240.7 tons of lint) of towelling was exported, compared to 102 tons in 2018 (approximately 125.9 tons of lint).

The volume of imports of cotton towels changed from 4 937 tons (6 095 tons of lint) in 2014 to 7 605 tons (9 388.9 tons of lint) in 2018, with an estimated 6 641 tons of towels during 2019.

Exports of towels during 2014 was 893 tons (about 1 102.47 tons of lint) and 918 tons (1 133.3 tons of lint) during 2018, with an estimated 1 188 tons (1 466.7 tons of lint) during 2019.

Graph: 6: Imports and exports of cotton towels



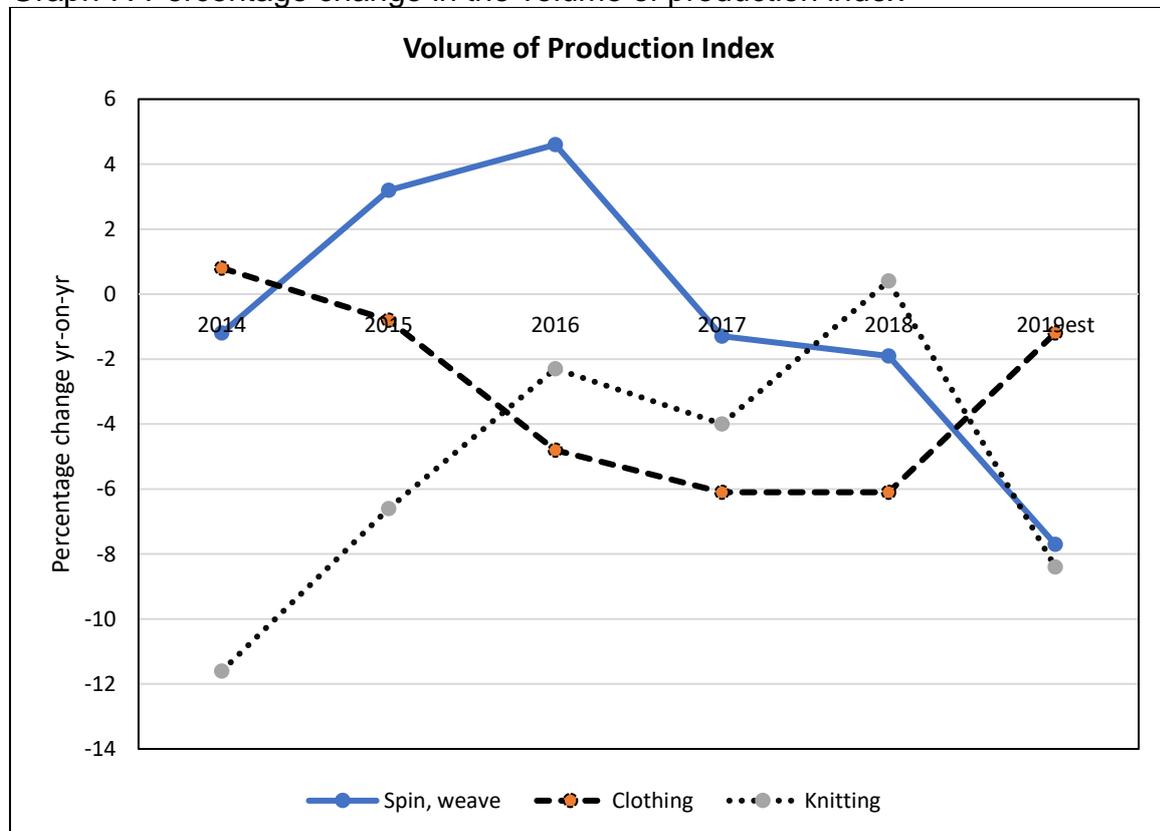
According to the available information it seems as if imports of towels increased from 2016 to 2018 with an estimated decline in 2019. Exports was rather constant, with an estimated increase during 2019.

The textile and clothing industries are still very much import orientated.

Local production

With regard to local production of textiles and clothing, no information is available. The volume of production index, as published by Stats SA, is the only indication as to the trends in local production.

Graph 7: Percentage change in the volume of production index



Clothing showed a decline from 2014 to 2018, with an estimated increase in 2019. The knitting sector showed an increase from 2014 to 2016 and thereafter an irregular trend, with an estimated decline in 2019. The index for the spinning, weaving and finishing sector showed an increase from 2014 to 2016, and thereafter a decline.

Imports of cotton yarns and fabrics during 2018 equates to approximately 65 677 tons of cotton lint (calculated), compared to approximately 30 216 tons in 2014, an increase of about 117%.

Exports of cotton yarns and fabrics during 2018 equates to approximately 7 337 tons of cotton lint (calculated), compared to approximately 5 430 tons in 2014, an increase of about 35%.

According to the available information it appears that, although exports of cotton yarns and fabrics increased from 2014 to 2018, imports increased at a much higher rate. The reason for the increased imports could be that local garment and other final product manufacturers would rather import yarns and fabrics (most of the times at lower prices) than to buy from local mills.

When the imports and exports of t-shirts, chinos and towels are calculated into cotton lint, it shows that imports increased by approximately 7%, while exports increased by 10%.

Due to a lack of local production figures, it is not possible to determine import substitution.

Employment

I do not think that we should kid ourselves to think that thousands of job opportunities will be created as a result of the cluster. On farm level, when it's a good season, yes. However, when it's a bad season, then jobs will be shed. Employment on farm level is not always a sure thing. And even on farm level, more advanced technology is introduced: bigger planters and harvesters, drones, etc.

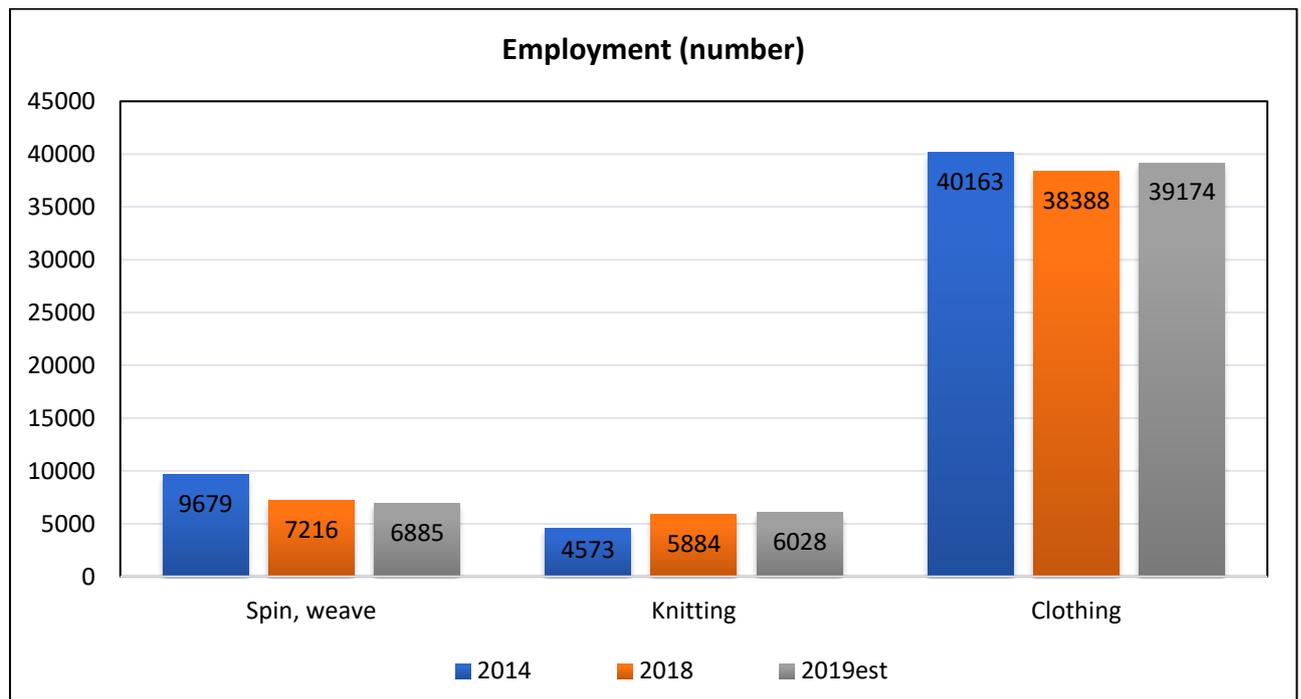
The production of yarns and fabrics is capital intensive. The more advanced the equipment, the less jobs will be created. During 2018 an average of 7 216 people was employed in this sector, compared to 9 679 in 2014 (a 25% decline).

The clothing industry, however, is labour intensive. Even in this sector, more advanced technology could hamper employment. During 2018 an average of 38 388 people was employed in this sector, compared to 40 163 in 2014 (a 5% decline).

Employment in the knitting sector (fabrics and garments) increased from 4 573 people in 2014 to 5 884 in 2018 (an increase of 29%). This sector seems to show some degree of growth in terms of employment.

It seems as if more employment opportunities would only be created in the textile and clothing retail sector: more shops, more jobs. [Employment in the whole of the retail sector increased by 17% from 2014 to 2018.]

Graph 8: Employment



Utilisation of local capacity

When is there “growth” in the utilisation of capacity where there was a continuous decline? During 2018, capacity utilisation was 66.4% in respect of textiles (down from 70% in 2014) and 75.3% in respect of clothing (down from 79.3% in 2014). During the first quarter of 2019 it is 67.4% and 75.9% respectively. The reason for the decline in capacity utilisation is “insufficient demand”, which could be as a result of the continuous increase in imports.

Conclusion

I have tried to work out the possible volume of cotton lint used in the manufacture of certain products (making certain assumptions), both in terms of imports and exports. Imports is still increasing although at a slower rate. There is, however, an increase in exports.

The equivalent of the cotton lint content of imported cotton yarns and fabrics increased by 23% from 2014 compared to 2018, while the lint content for exported yarns and fabrics increased by 7.1% from 2014 compared to 2018.

In respect of t-shirts, chinos and towels, the cotton lint content of imports increased by 7% (2014 compared to 2018), while exports increased by 10%.

Utilisation of capacity is declining.

The percentage change in the volume of production index for clothing showed an increase in 2018 after a continuous decline since 2014. Textiles is declining.

The volume of imports continued to increase. However, there is some growth in exports as it also showed an increase in terms of volumes.

The cotton lint content of exports of the products that form part of the Cluster initiative, is increasing. It is not only the cotton lint that is exported, but also the "value-added" goods.

Although it took some time, I would say that the Cluster is only now showing that it could have a positive impact on the cotton sector going forward.

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August 2019*

