

**Presentation by**

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Consequences of soaring raw material prices for  
the textile industry in Pakistan and the world

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## Soaring Cotton Prices

- 1) Entire cotton textile value chain is under pressure**
- 2) Input costs rise across the board and are difficult to pass on**
- 3) Many textile mills lack sufficient working capital and/or cotton**

## **Ad 1) Textile Value Chain Under Pressure**

**1) Textile mills further downstream (i.e. finishers, apparel manufacturers are under higher pressure than further upstream (i.e. spinners)**

**2) Bigger textile mills are often stronger to absorb cost increases and/or to pass them on**

## **Ad 2) Passing on of Input Costs**

**1) Not only cotton prices are soaring (approx. +150% since Jan. 2010) but also labor costs (i.e. China up to +30%), energy costs (i.e. oil approx. + 50%), environmental costs (i.e. legislation), etc.**

**2) Integrated textile mills are often more flexible to absorb cost increases**

## **Ad 3) Lack of Working Capital and/or Cotton**

**1) Increasing input costs require higher working capital that is not always available**

**2) Textile mills with low cotton stocks and/or no access to cotton are in trouble**

# Textile and Clothing Industry

- 1) Buyer-Driven Industry dominated by retailers, brands or sourcing companies**
- 2) Buyers demand more and more full-package service from their suppliers**

# **New Paradigm in the Global Textile Industry**

## **Until 2010**

- 1) In the past 10-20 years retailers were used to falling prices for their textiles**
- 2) The bargaining power was considerable and negotiations were focused more on prices than on quality**

# **New Paradigm in the Global Textile Industry**

## **Since 2010**

- 1) Retailers realize that their suppliers will not provide them with goods for their shelves unless they will also make a profit**
- 2) Many manufacturers, especially in China, India and Brazil are better off supplying the local markets instead of the international markets**



# **New Paradigm in the Global Textile Industry**

## **Since 2010**

**3) Bigger retailers are trying to reduce the number of suppliers**

**4) Smaller retailers have a strong interest in strengthening their partnership with their suppliers if they want reliable partners**

## **How is the Textile Machinery Industry Affected?**

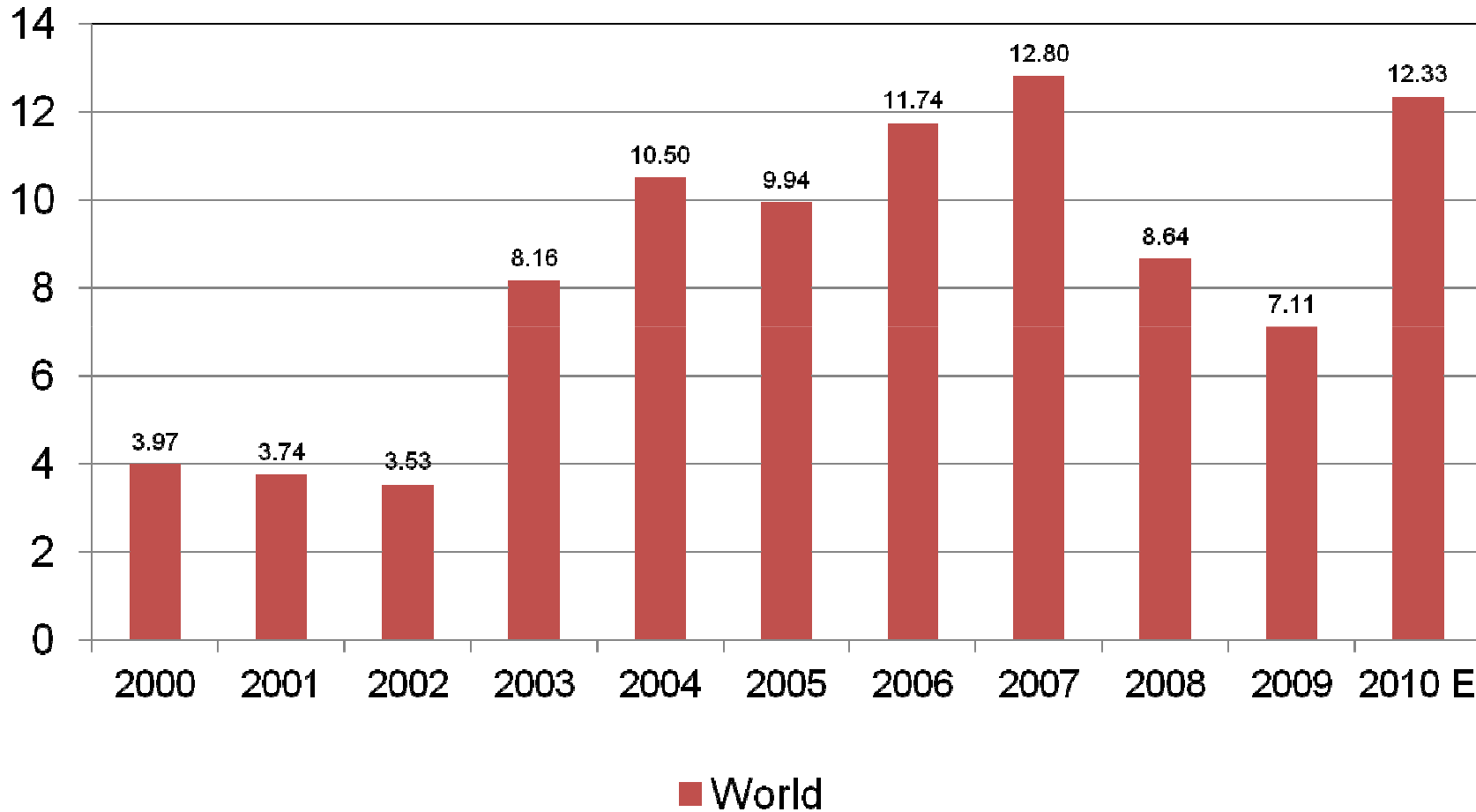
**1) The textile machinery industry certainly felt the Global Financial and Economic Crisis in 2008 and 2009 but recovered well in 2010**

**2) A look at ITMF's International Textile Machinery Shipment Statistics shows the extent to which investments were reduced during the crisis and how they picked up again afterwards**

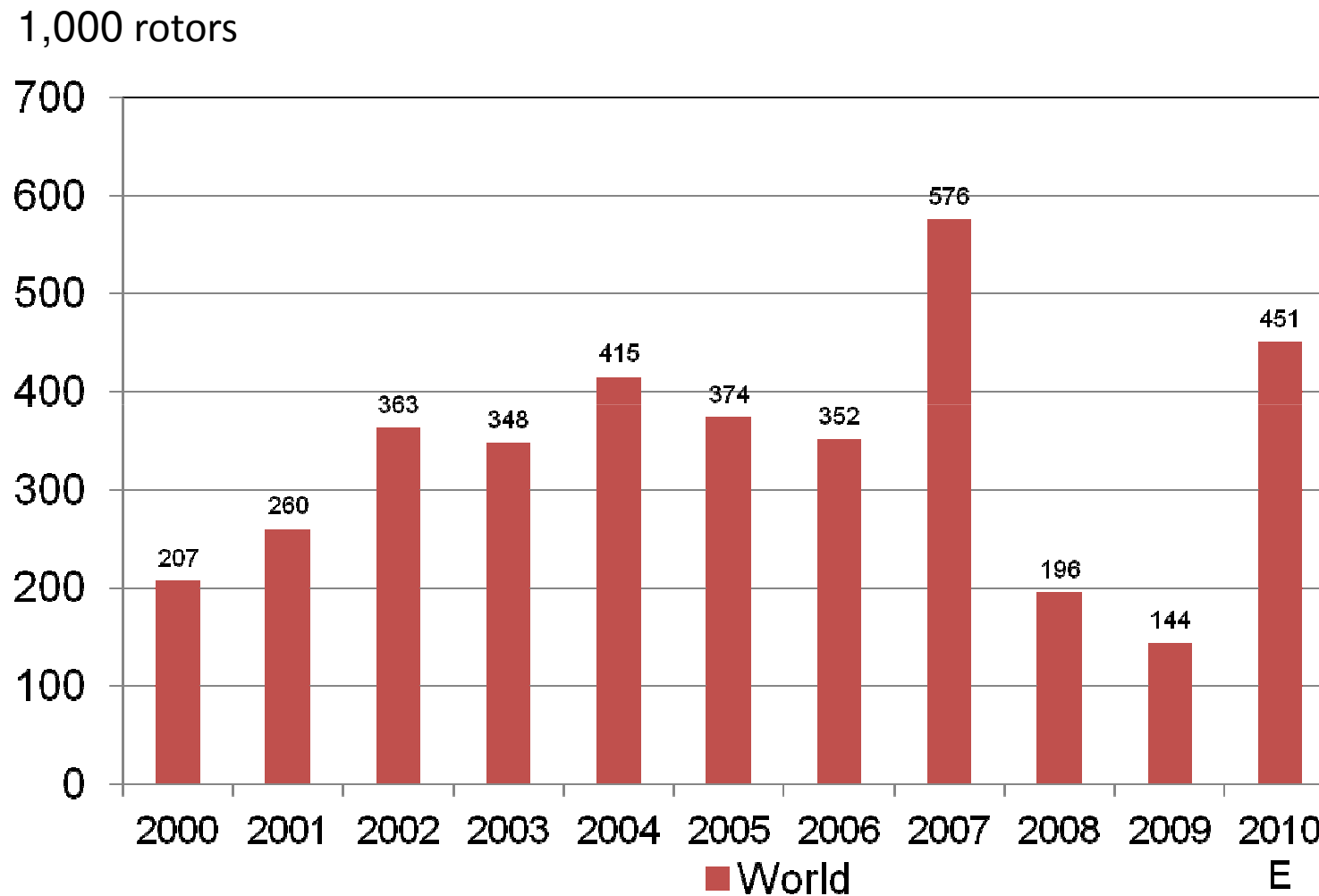
# Shipped Short-staple Spindles 2000 - 2010



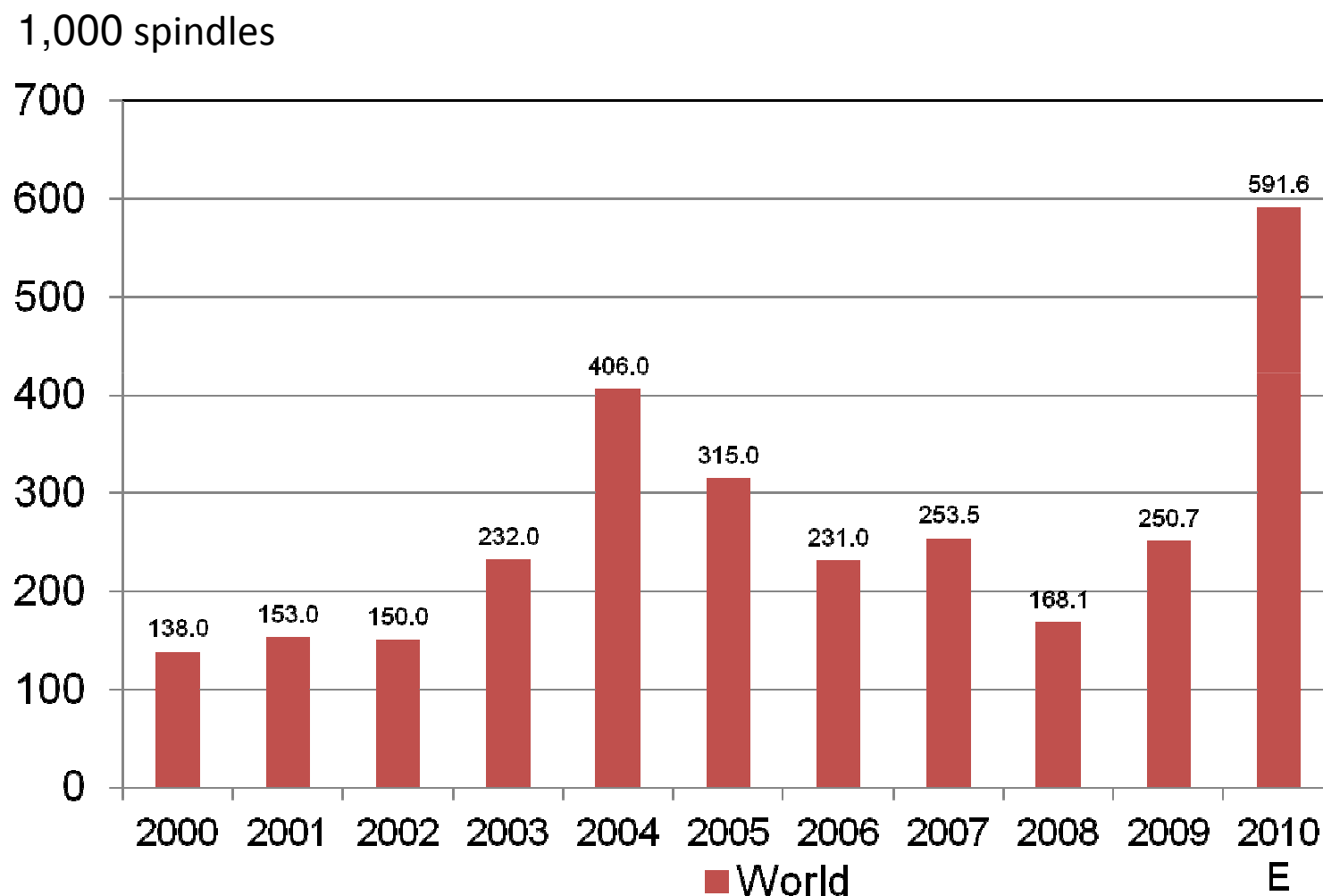
million spindles



# Shipped Open-end Rotors 2000 - 2010

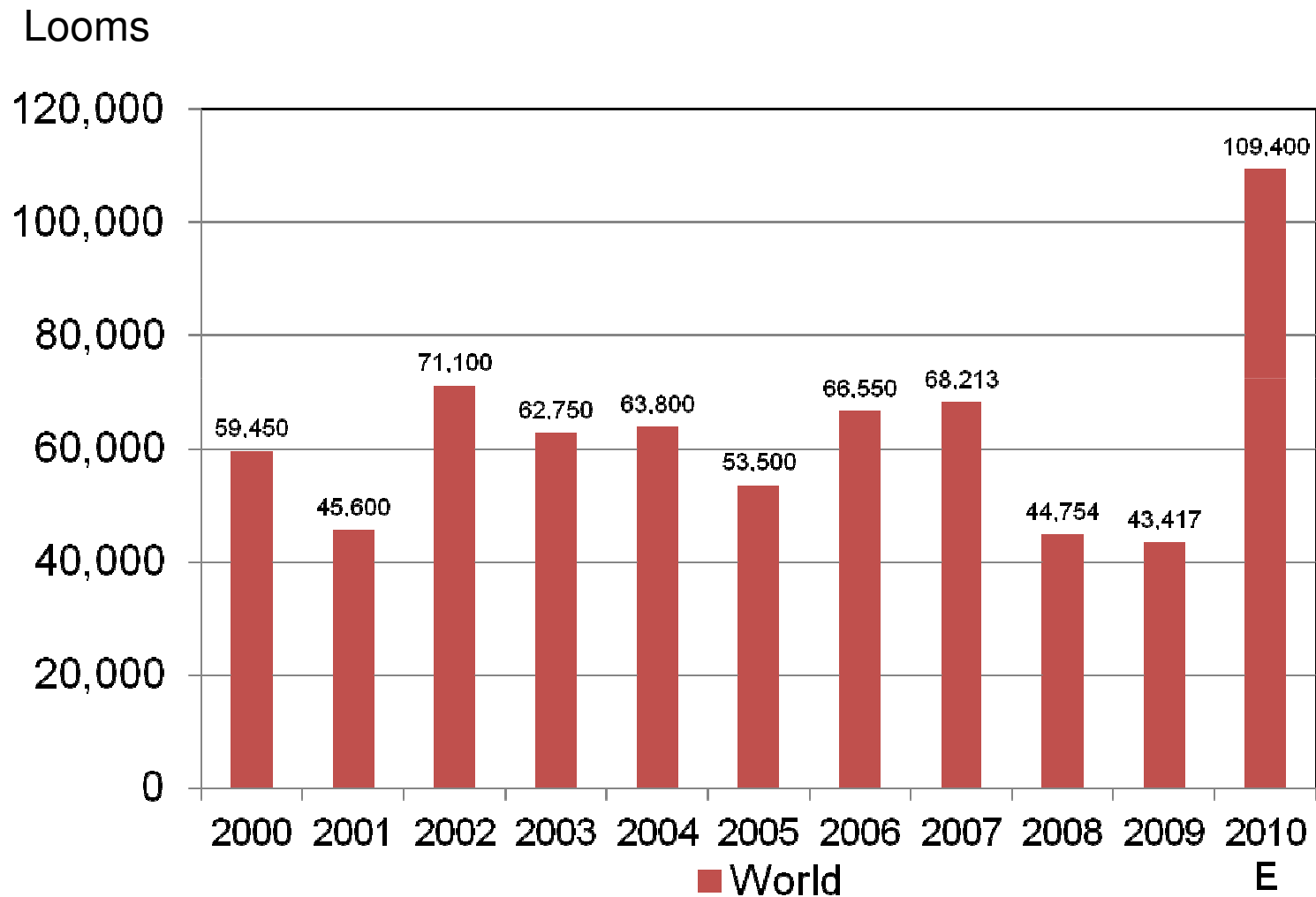


# Shipped Texturing Spindles 2000 - 2010

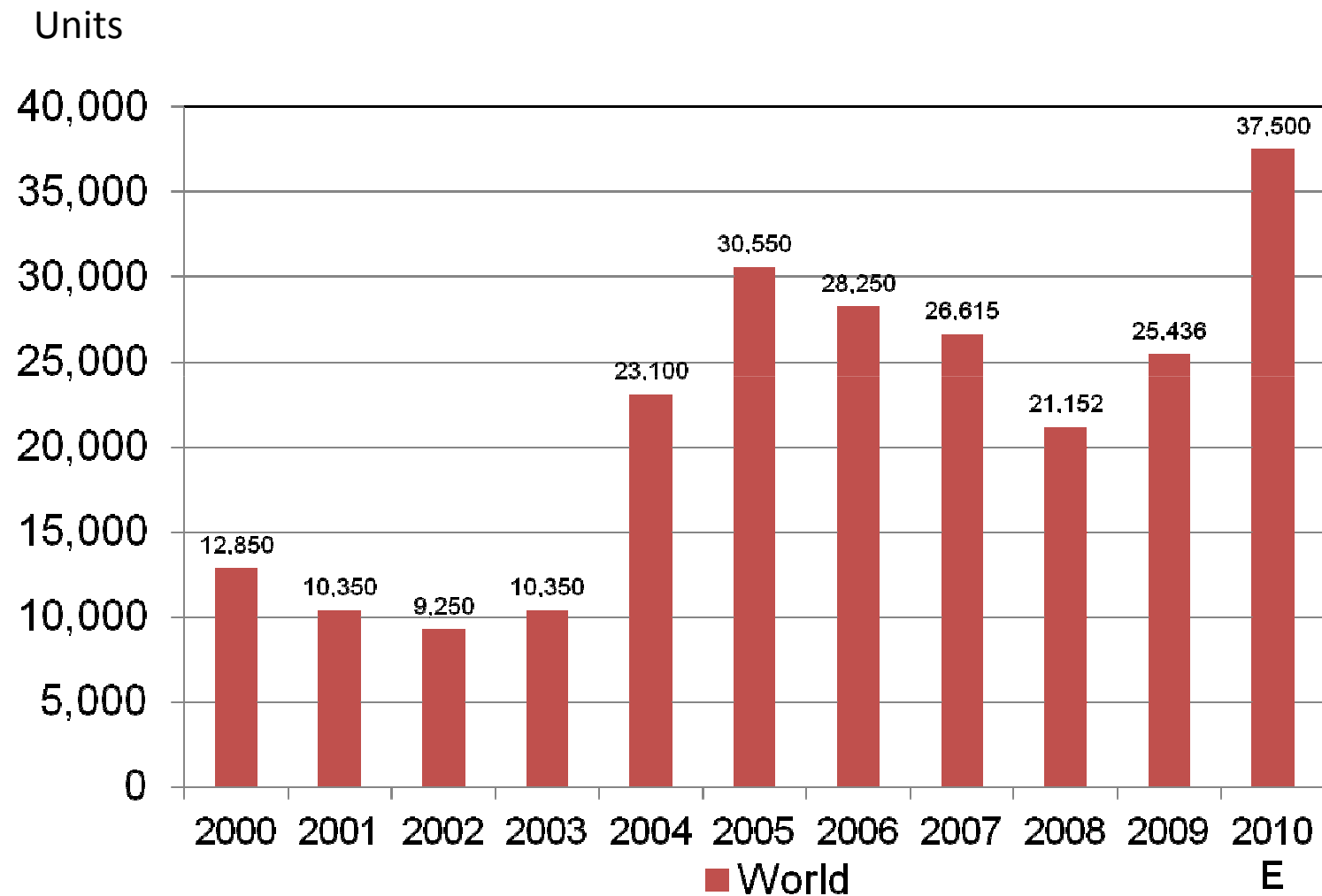


# Shipped Shuttle-less Looms

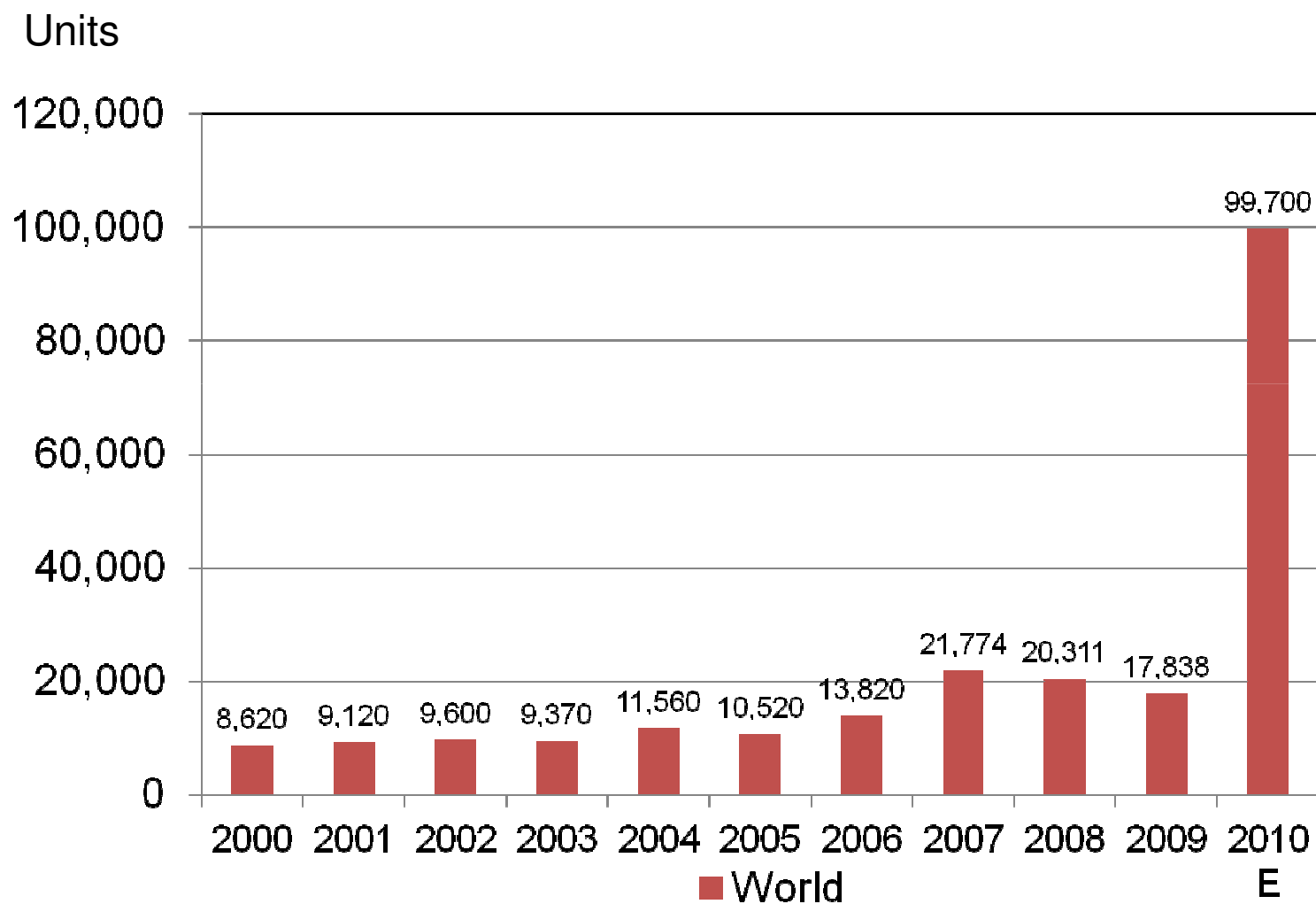
## 2000 - 2010



# Shipped Circular Knitting Machines 2000 - 2010



# Shipped electr. Flat Knitting Machines 2000 - 2010

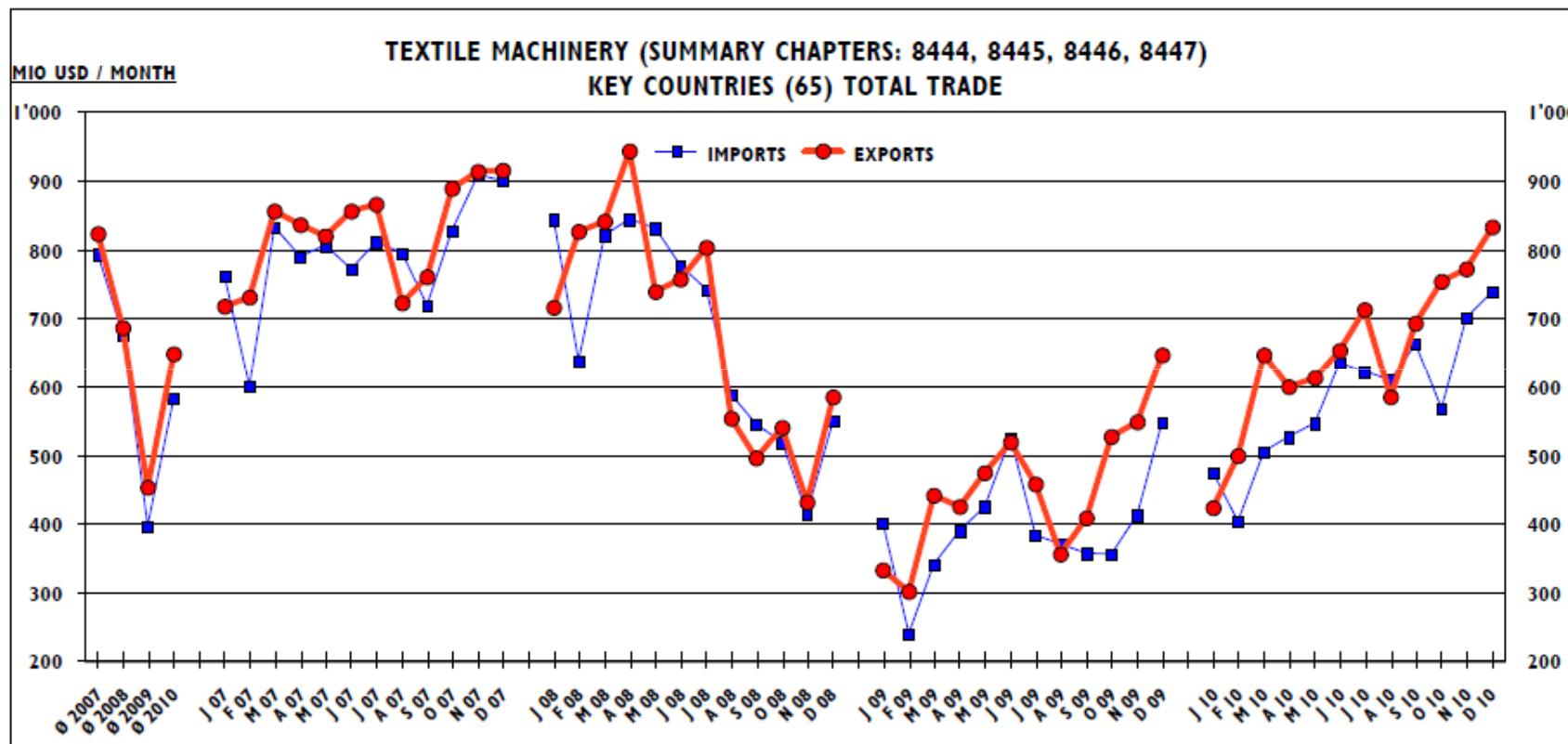




# **What Does the Recovery Look Like?**

**A steady recovery can be observed on a global scale since February 2009**

# Imports and Exports Key Countries Textile Machinery 2007 - 2010

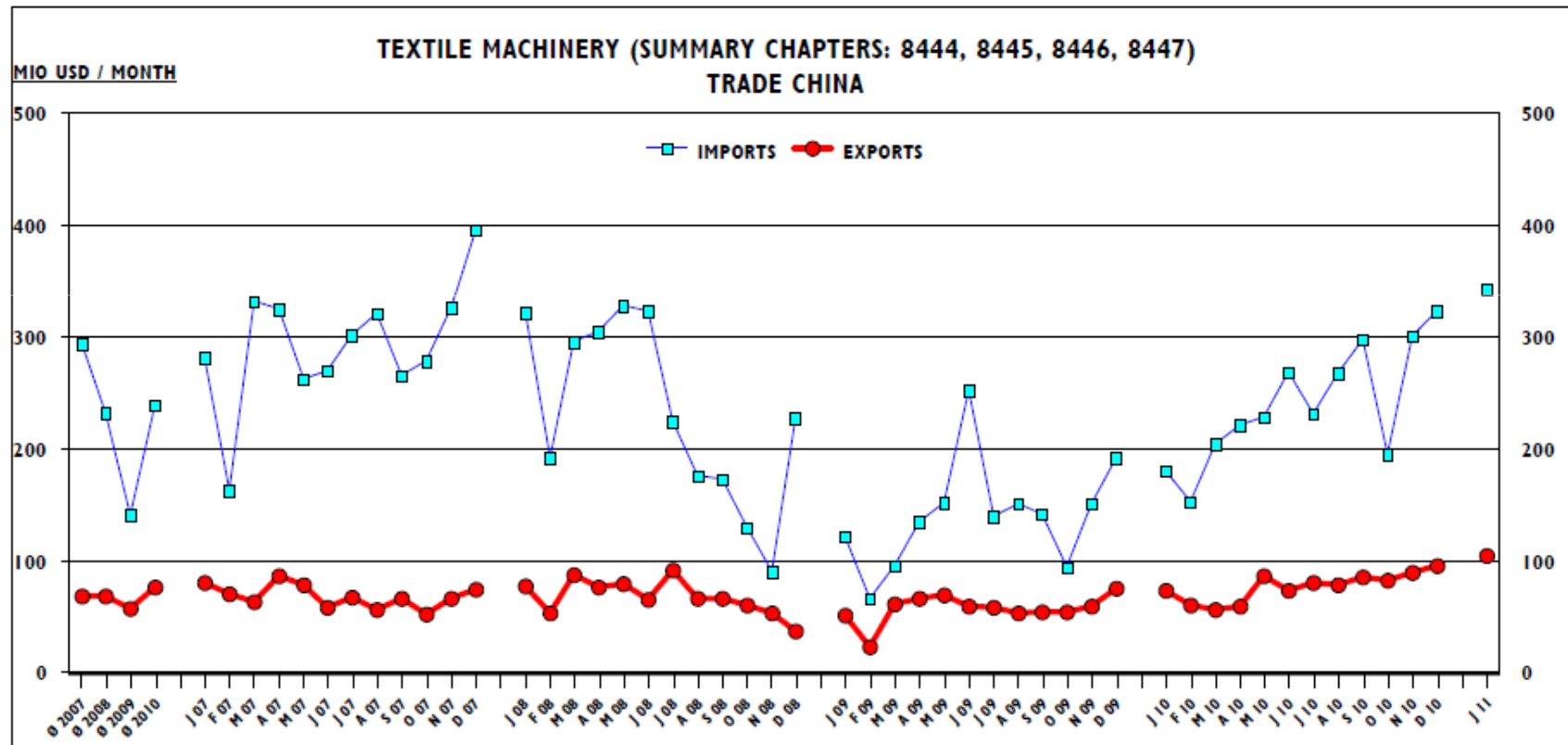


**REMARKS:**

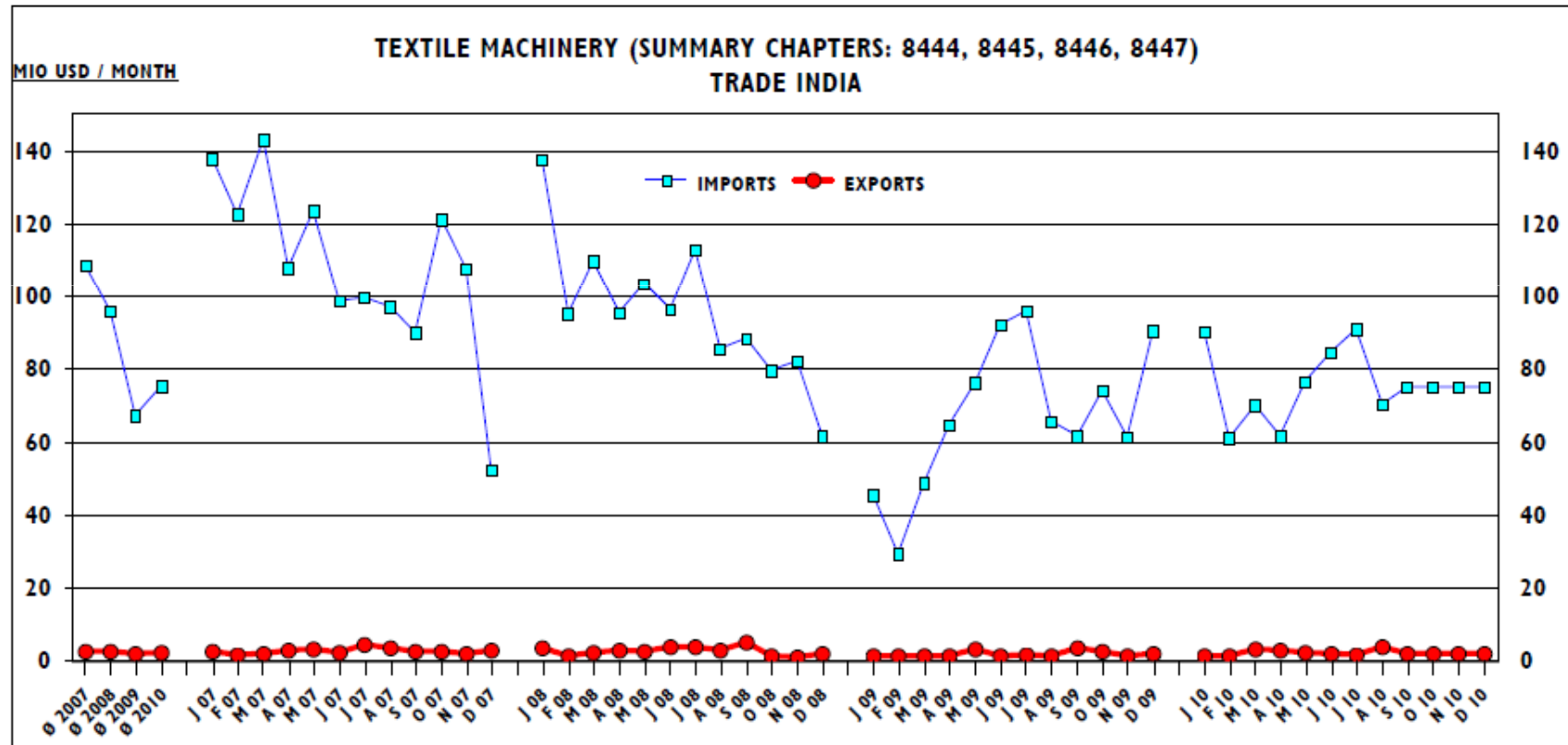
THE MAJORITY OF IMPORT DATA ARE AVAILABLE UP TO DECEMBER 2010 NOW.

IN SOME COUNTRIES DECEMBER 2010 DATA ARE LATE. THEREFORE TRADE DECEMBER HAS BEEN ESTIMATED ON BASIS MONTHS AVAILABLE IN 2010. DATA DECEMBER 2010 WILL CLIMB SLIGHTLY AGAIN AS SOON AS FINAL DATA ARE AVAILABLE

# Imports and Exports China Textile Machinery 2007 - 2010



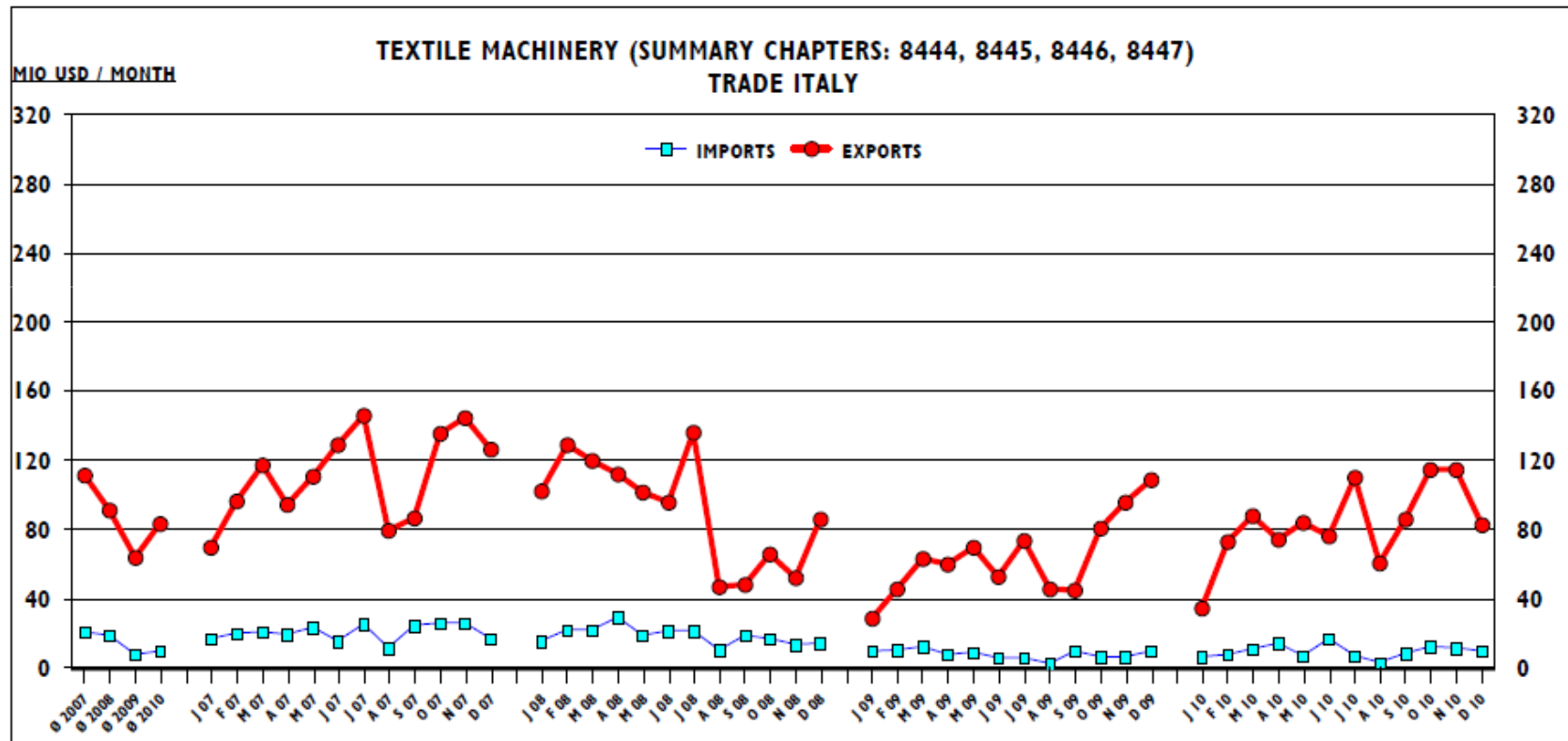
# Imports and Exports India Textile Machinery 2007 - 2010



**REMARKS:**

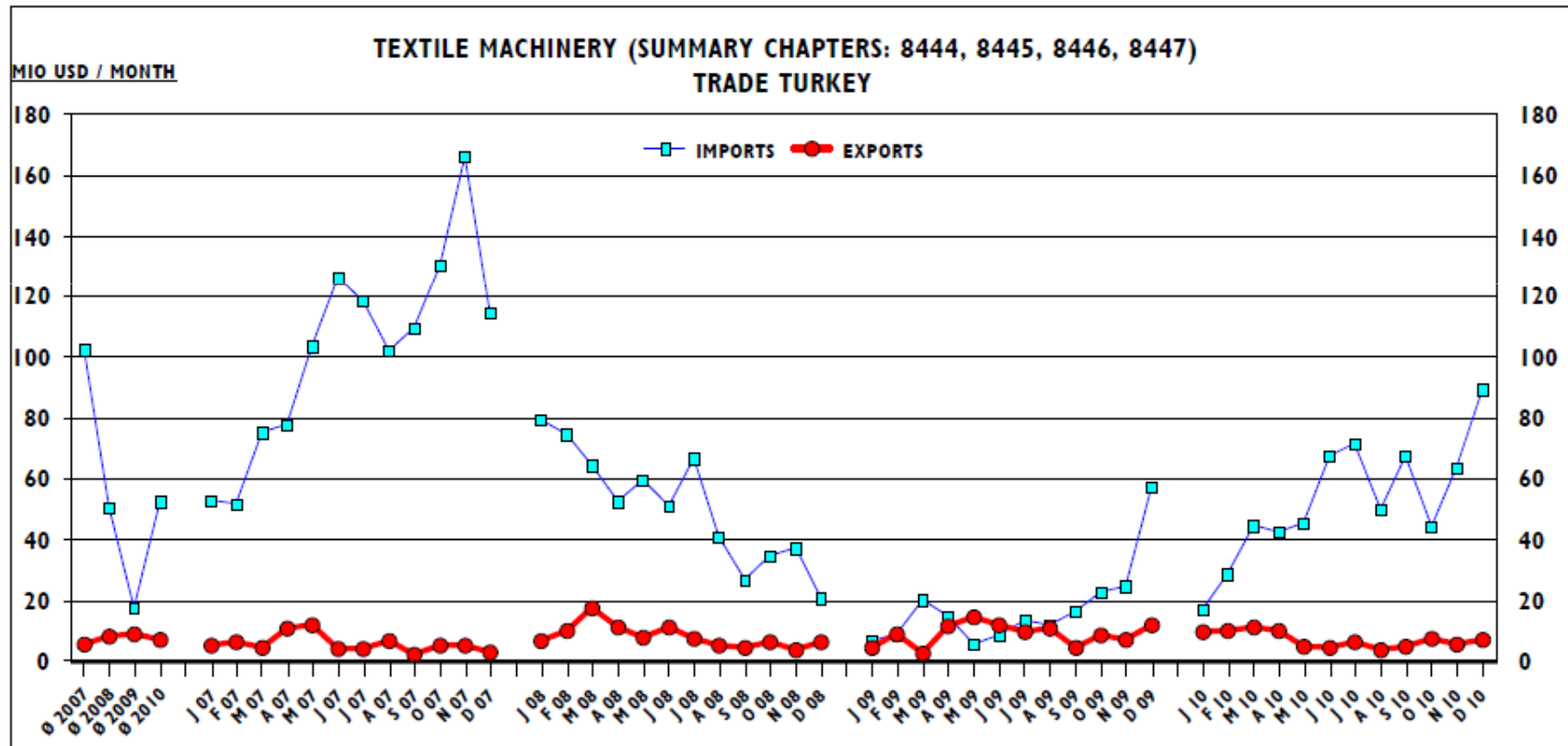
INDIA: TRADE DATA ARE AVAILABLE UP TO AUGUST 2010. DATA SEPTEMBER 2010 ONWARDS HAS BEEN ESTIMATED ON BASIS 8 MONTHS 2010.

# Imports and Exports Italy Textile Machinery 2007 - 2010

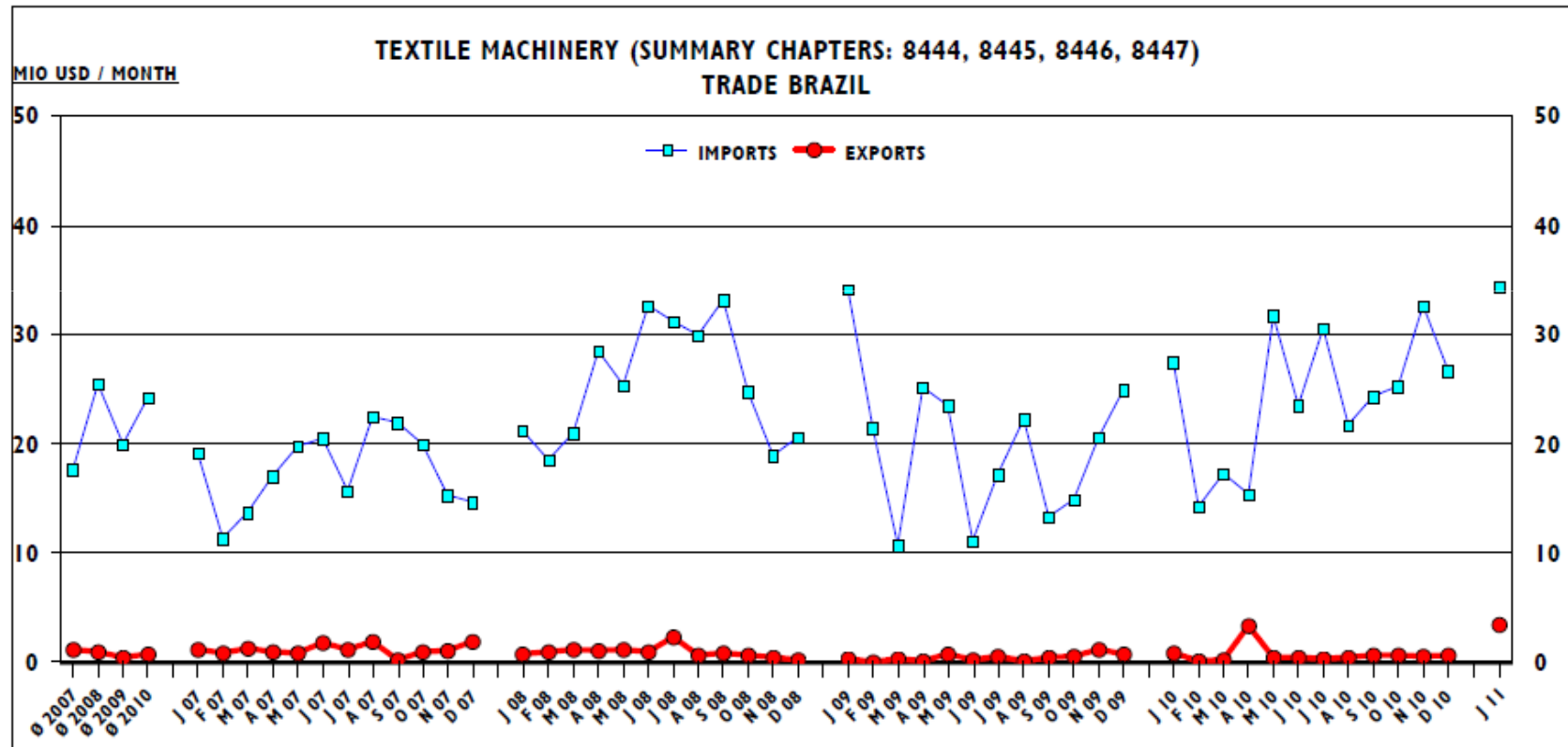


DATA MONTH DECEMBER 2010 HAS BEEN ESTIMATED ON BASIS 11 MONTHS

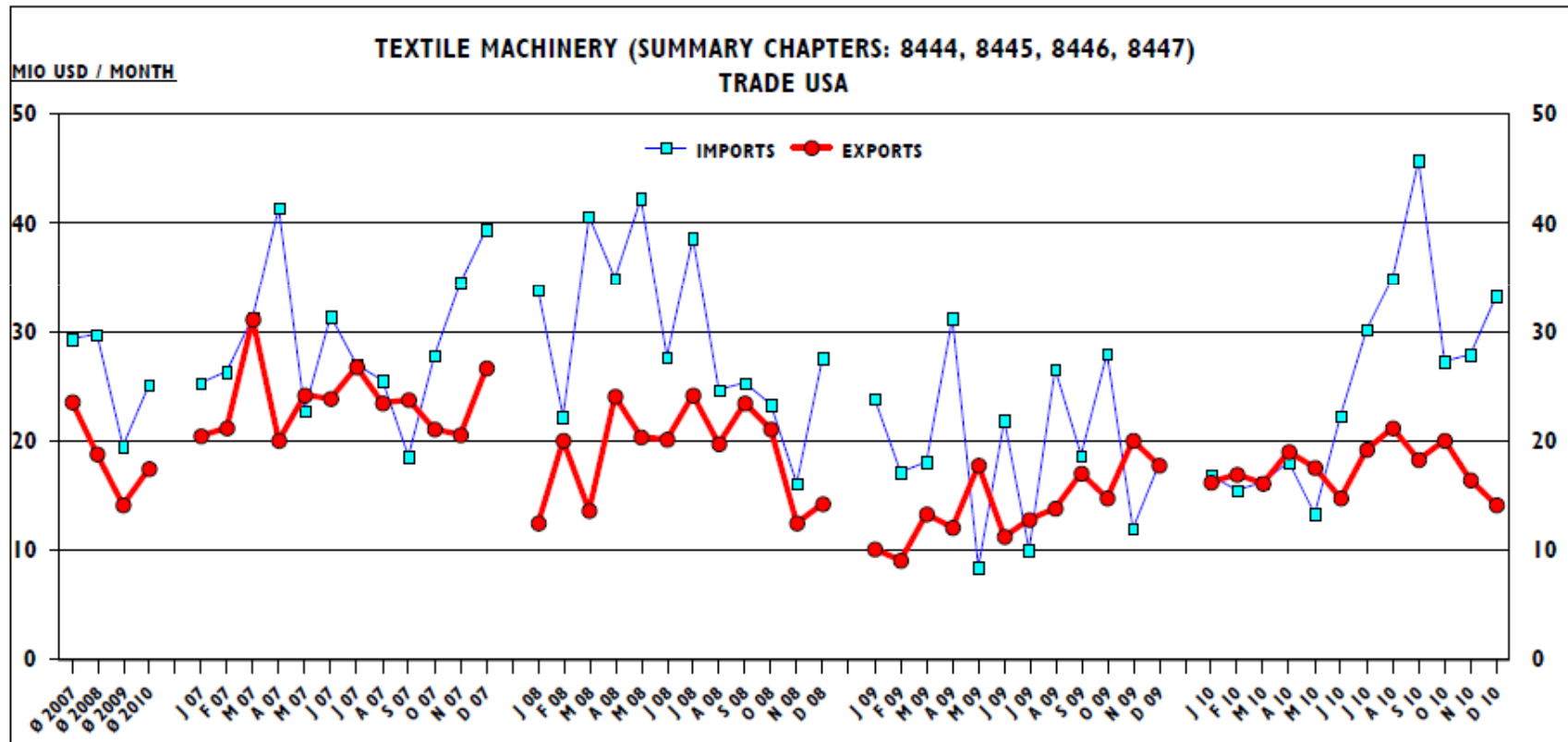
# Imports and Exports Turkey Textile Machinery 2007 - 2010



# Imports and Exports Brazil Textile Machinery 2007 - 2010



# Imports and Exports USA Textile Machinery 2007 - 2010





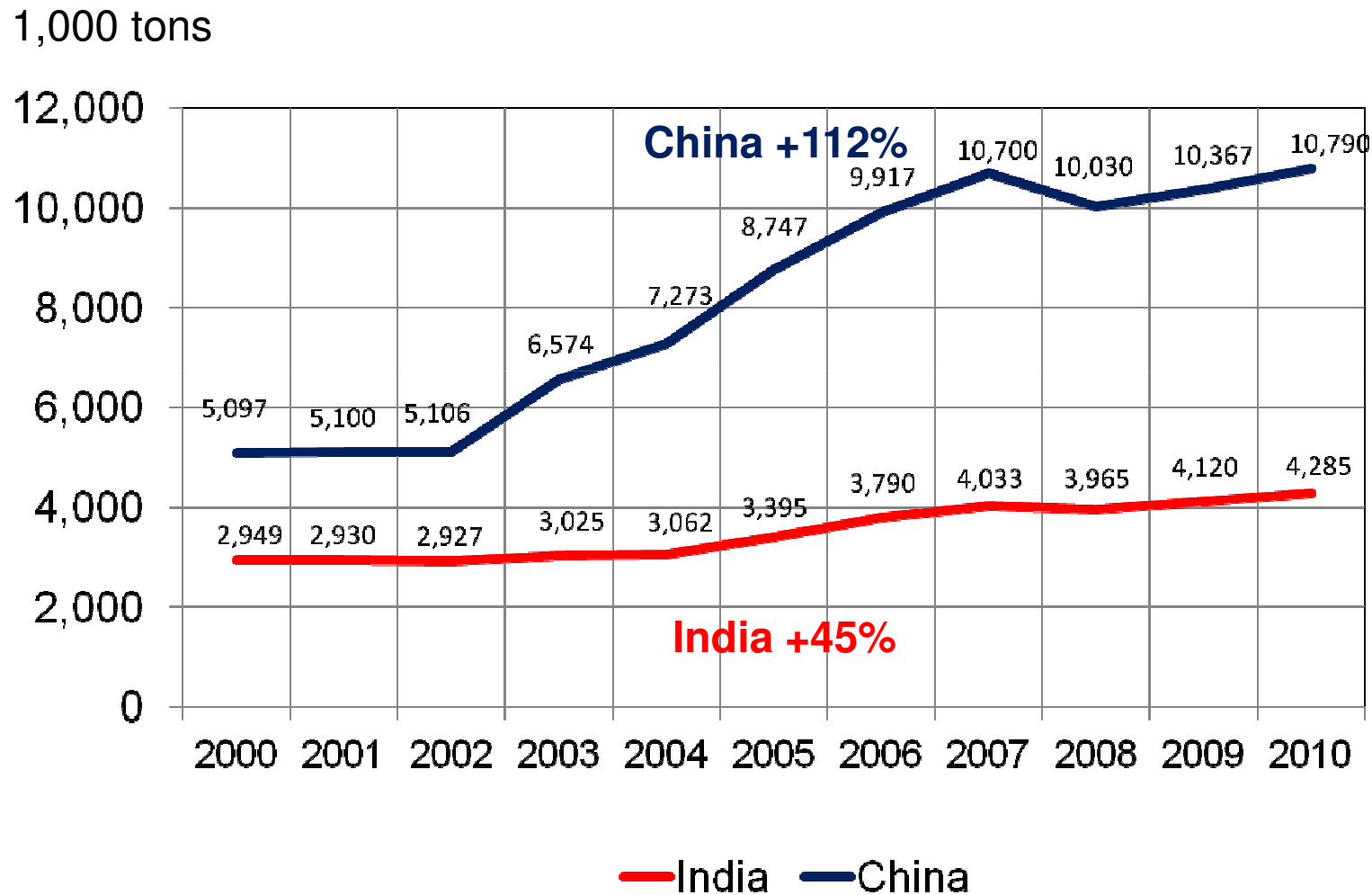
## **Soaring Cotton Prices and Textile Machinery Shipments**

- 1) The spinning machinery industry is not feeling any consequences from soaring cotton prices. The order books are full and delivery time can be anywhere between 6 months and 2 years**
- 2) Further downstream the impact of soaring cotton prices on textile machinery is stronger as passing on inputs costs to the retail industry is more difficult**

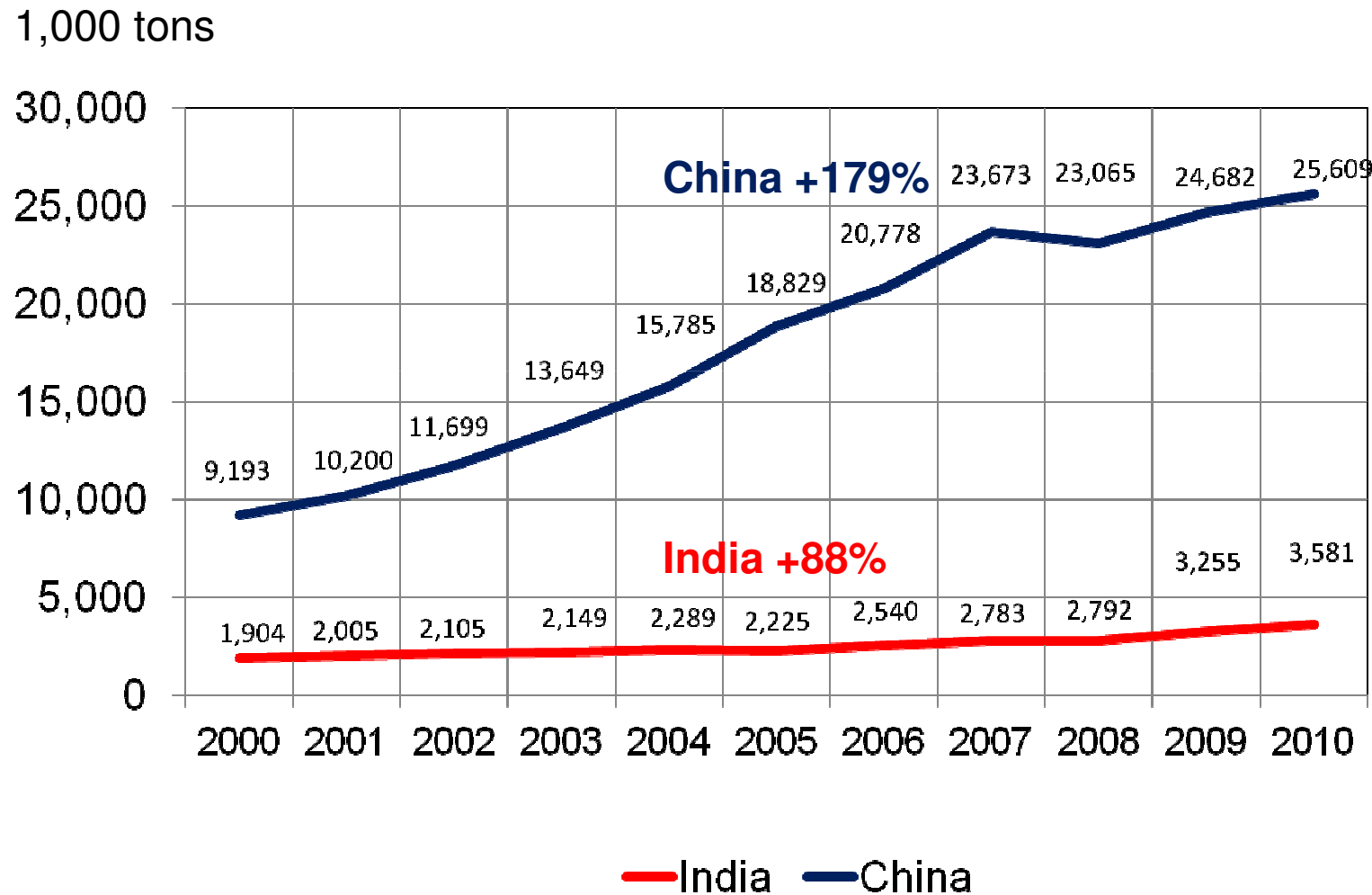
## **Reasons for Investments**

- 1) Recovery of the global economy in general and the continuous high growth rates in China, India, Brazil, Turkey, Indonesia, etc. in particular**
- 2) Per capita consumption is increasing strongly, especially in emerging countries**
- 3) Upgrading of the machinery park in order to be more efficient and to reduce costs per unit**

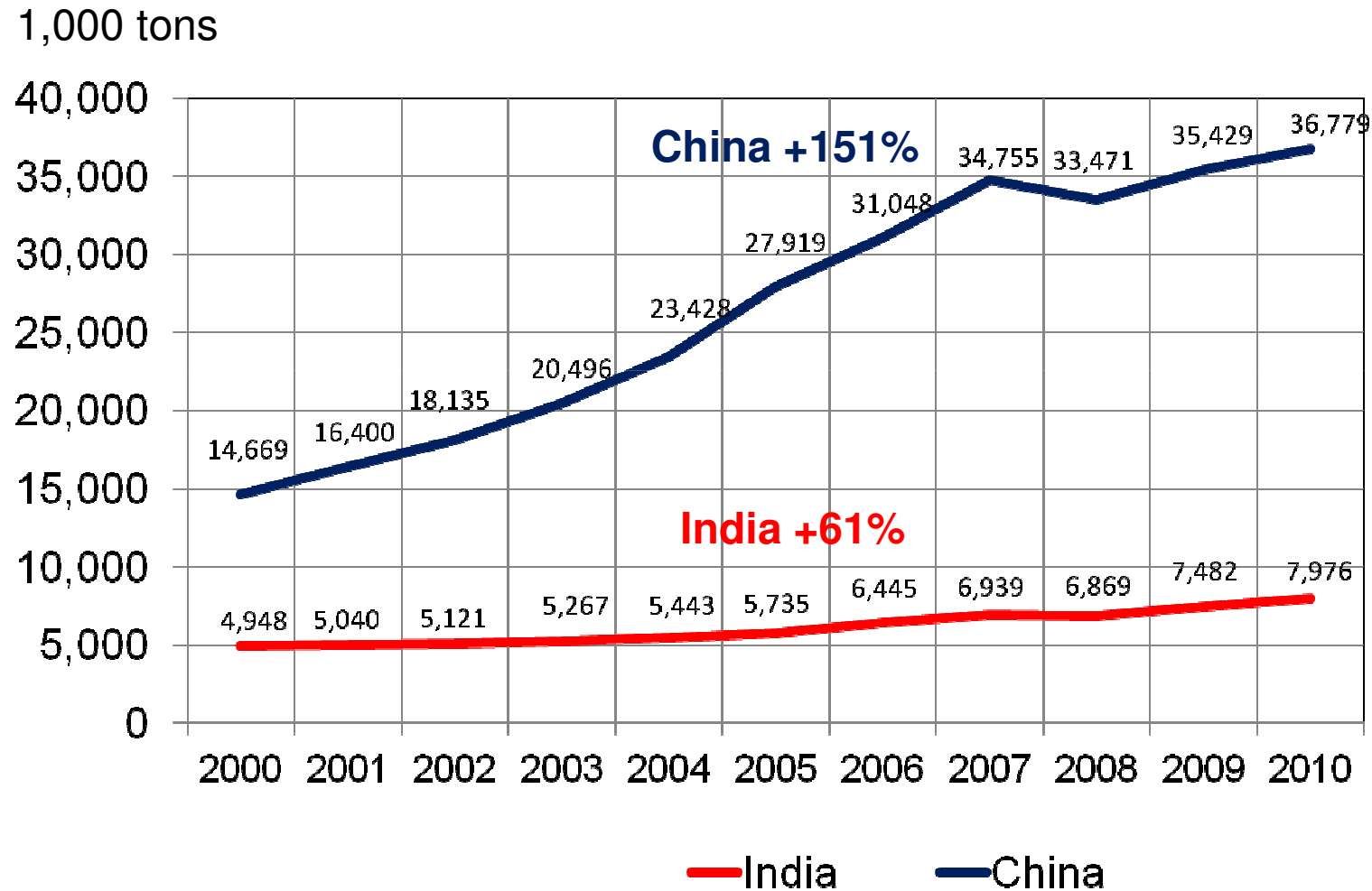
# Cotton Fiber Demand 2000 – 2010



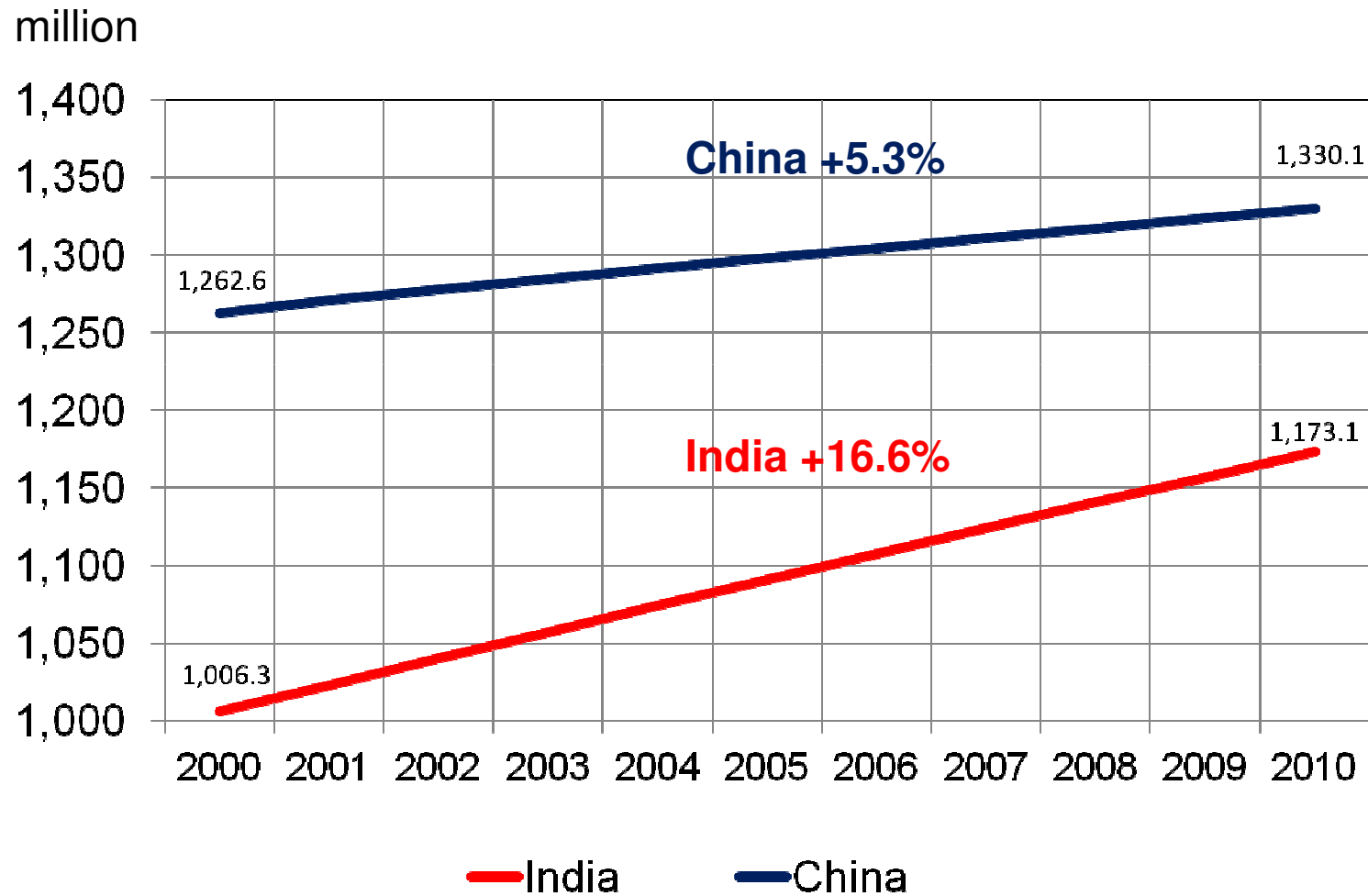
# Synthetic Fiber Demand 2000 – 2010



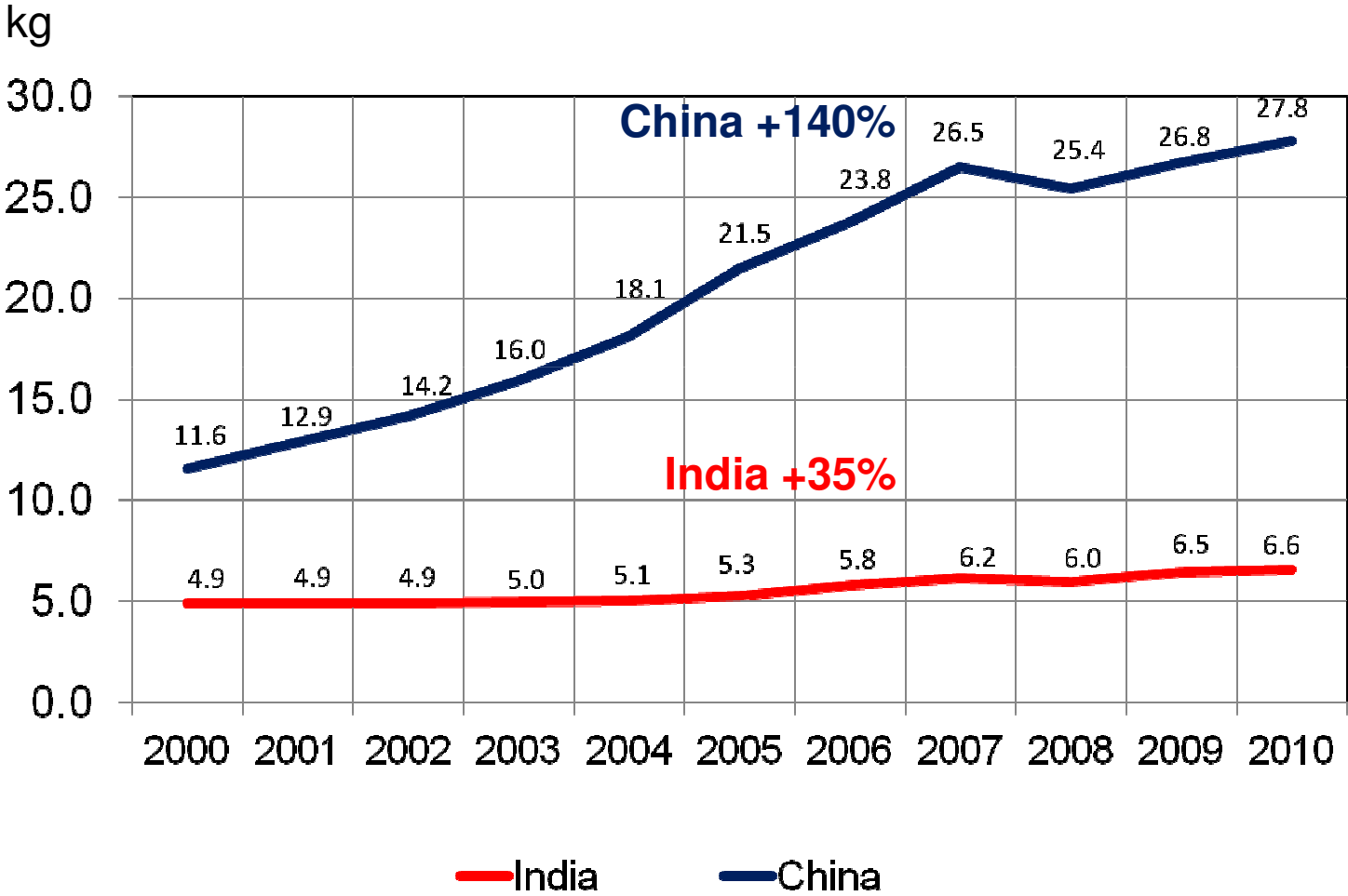
# Total Fiber Demand 2000 – 2010



# Population 2000 – 2010



# Fiber Demand per Capita 2000 – 2010



# **ITMF's State of Trade Report**

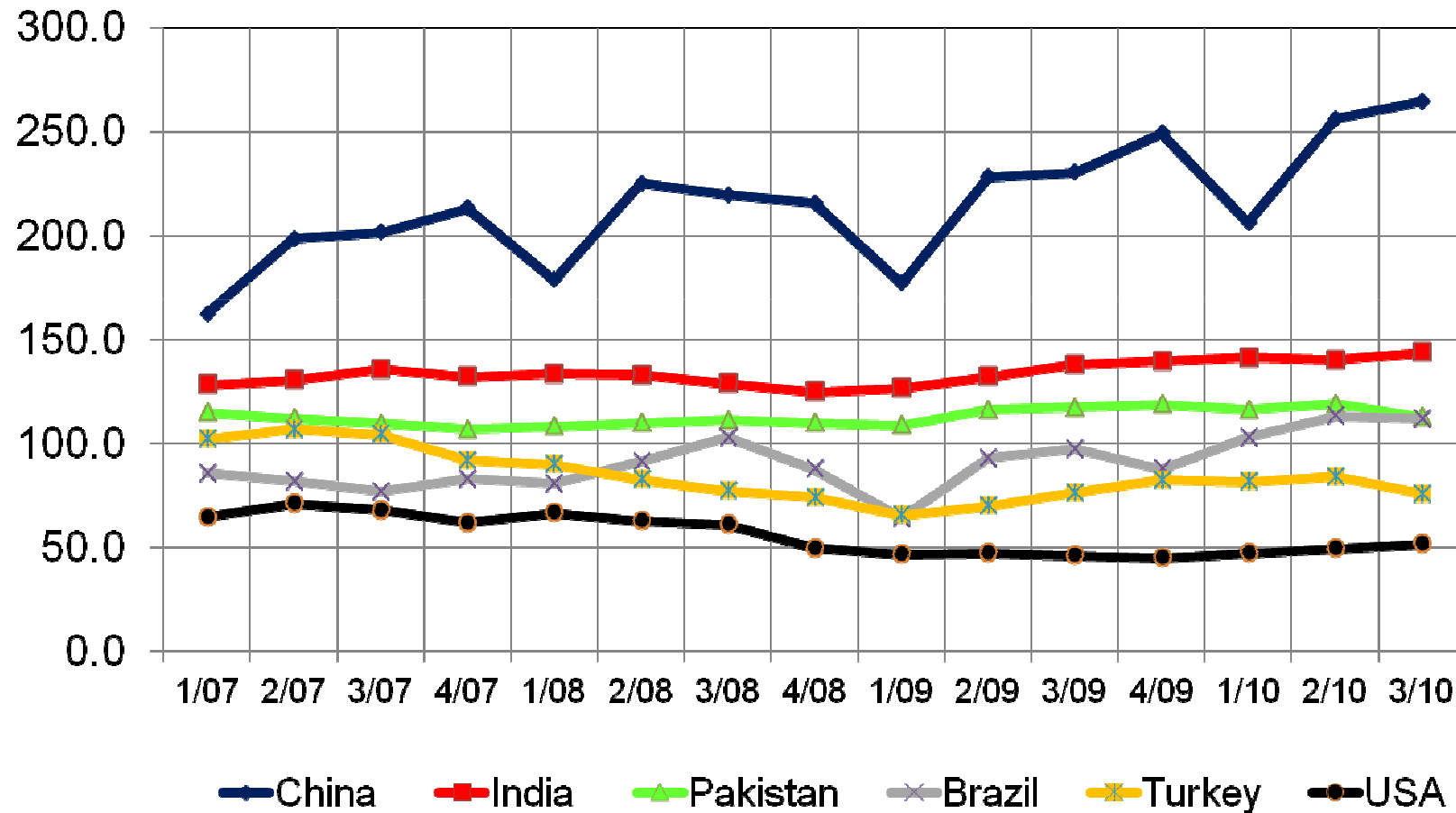
**This quarterly report on cotton yarn and fabric production indicates that yarn production was especially increasing in China and - to a lesser degree - in India and Brazil since 2007**



# Yarn Production 2007 - 2010



Avr. Q1 – Q4 2003 = 100 %



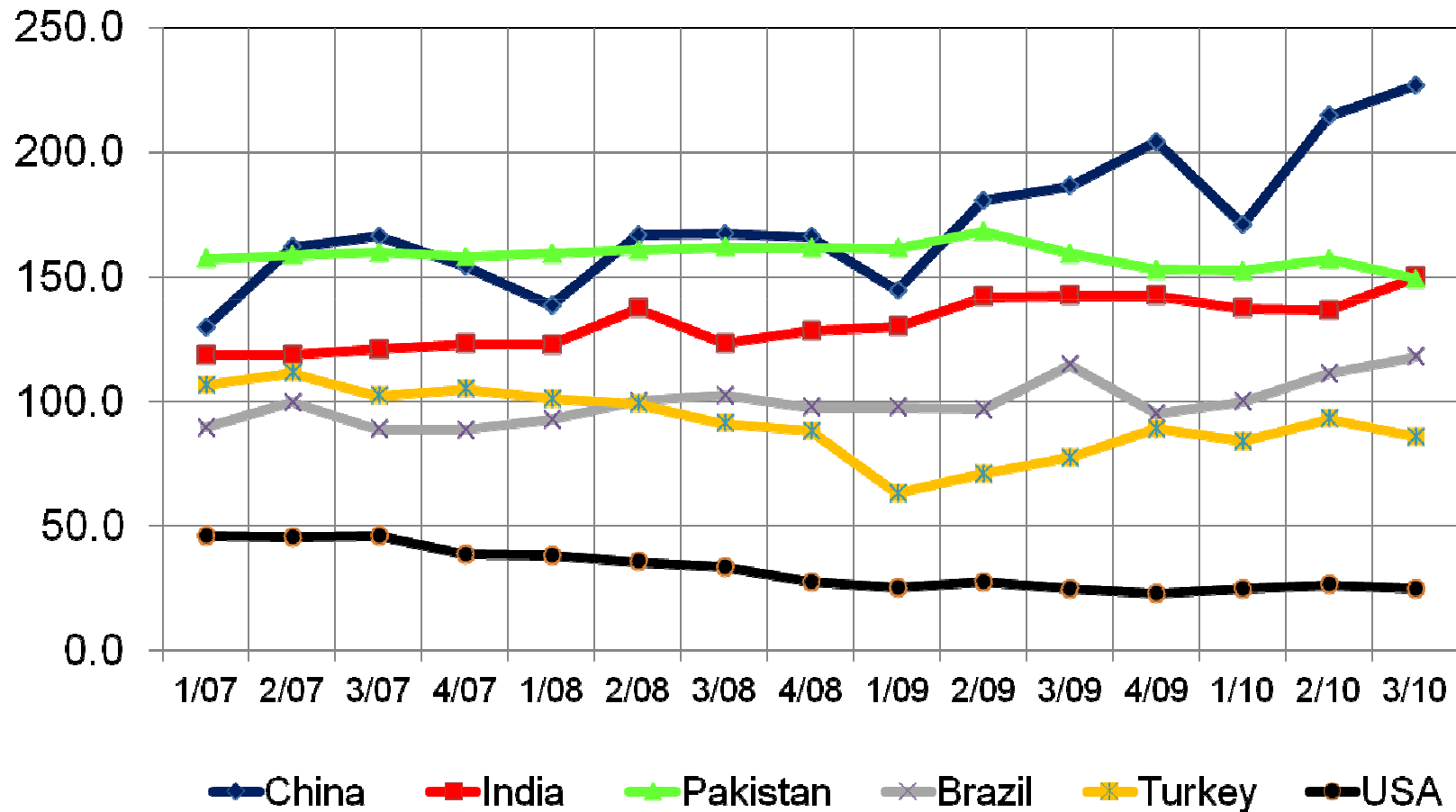
## **ITMF's State of Trade Report**

**In fabric production the situation is similar with China and India increasing production considerably since 2007**

# Fabric Production 2007 - 2010



Avr. Q1 – Q4 2003 = 100 %

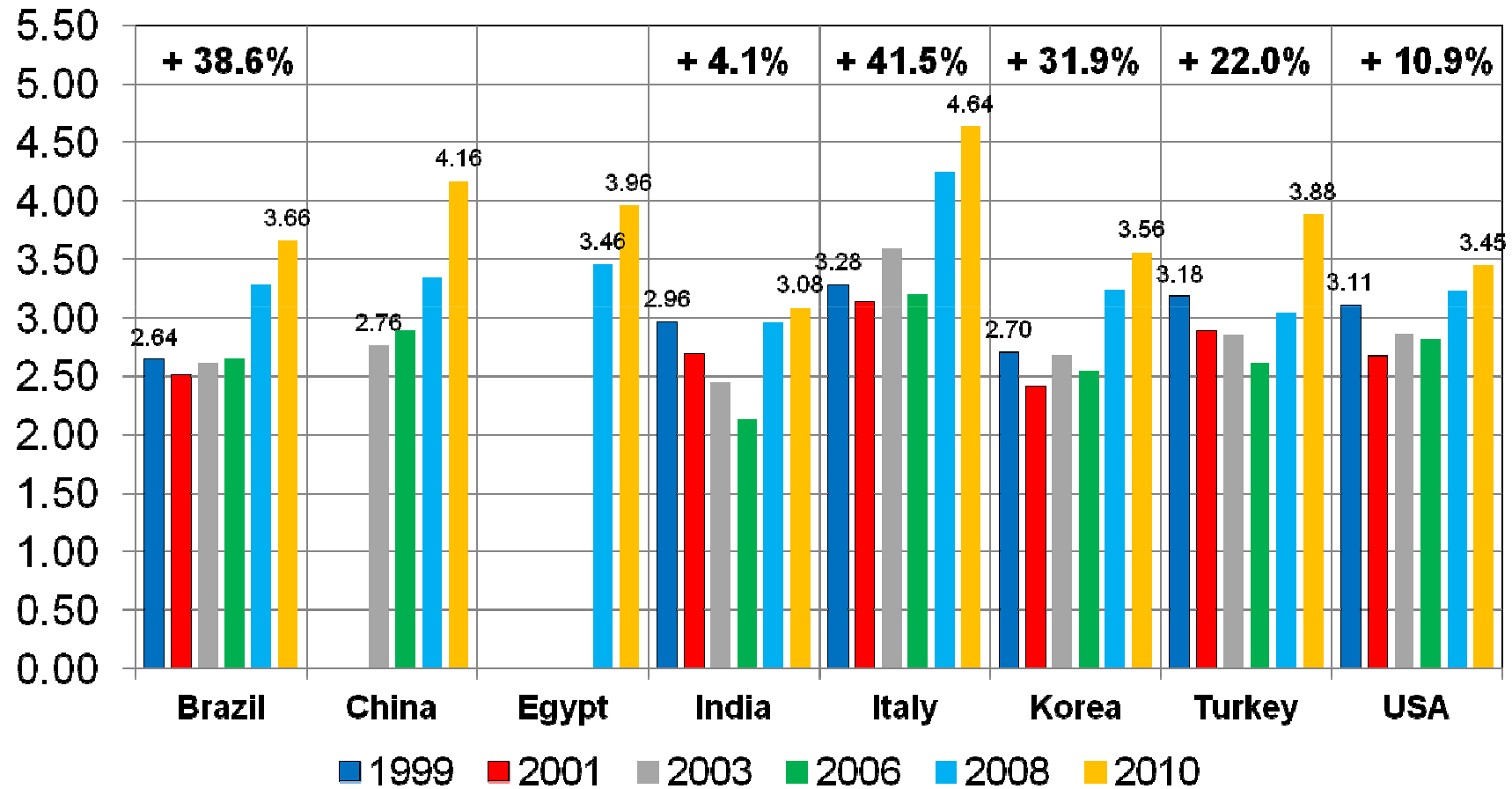


## **ITMF's International Production Cost Comparison Study (1999-2010)**

- 1) The main result is that production costs were rising across the board in all countries and all segments**
  
- 2) It is interesting to note that in all segments it is not China but India that is having the lowest production costs – also due to lower raw material costs**
  
- 3) In cotton spinning also other countries are competitive like the USA, Korea and - to a lesser extent - Brazil**

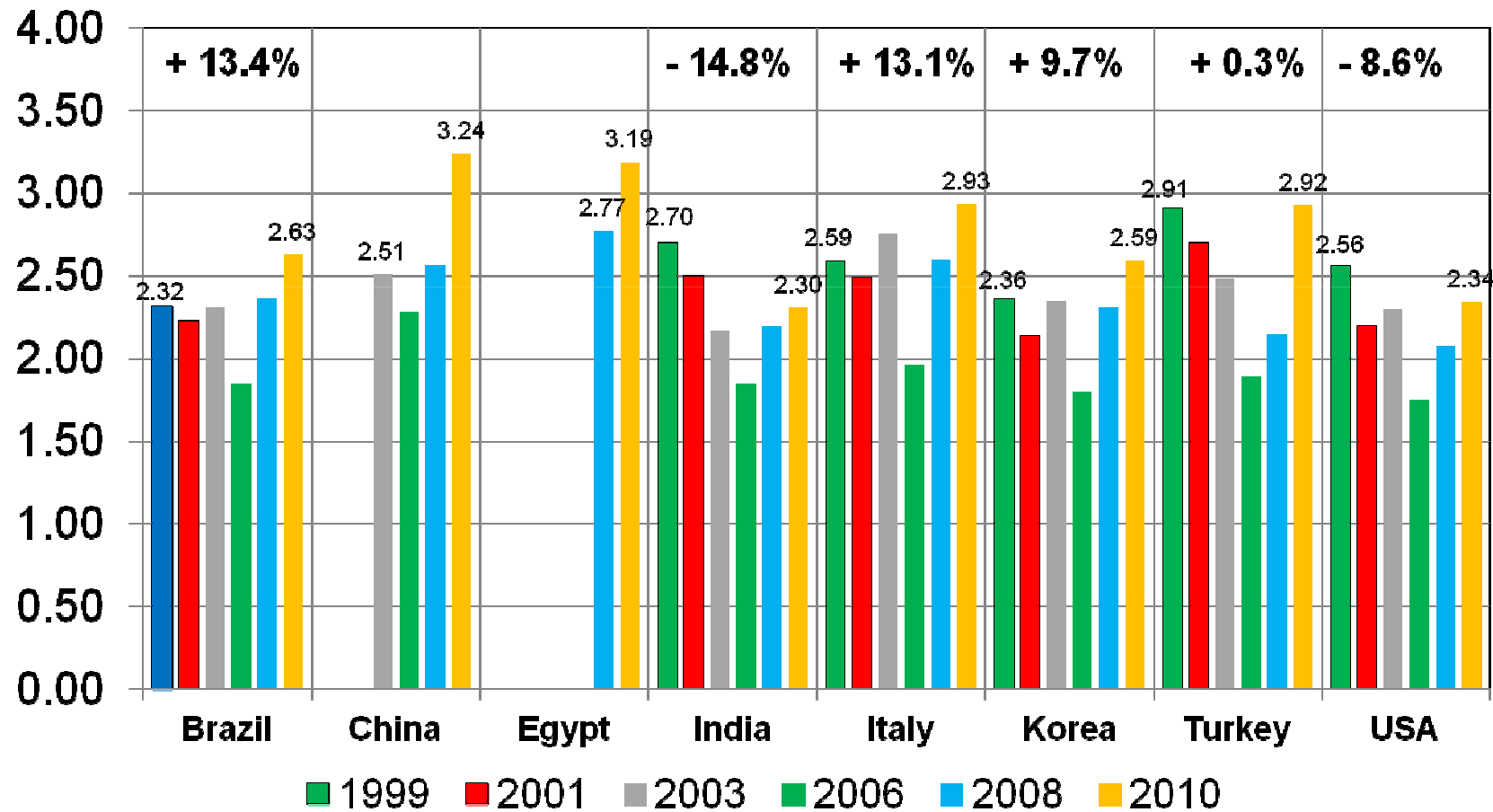
# Total Ring Yarn Spinning Costs (Ne 30) 1999 - 2010

USD per kg yarn



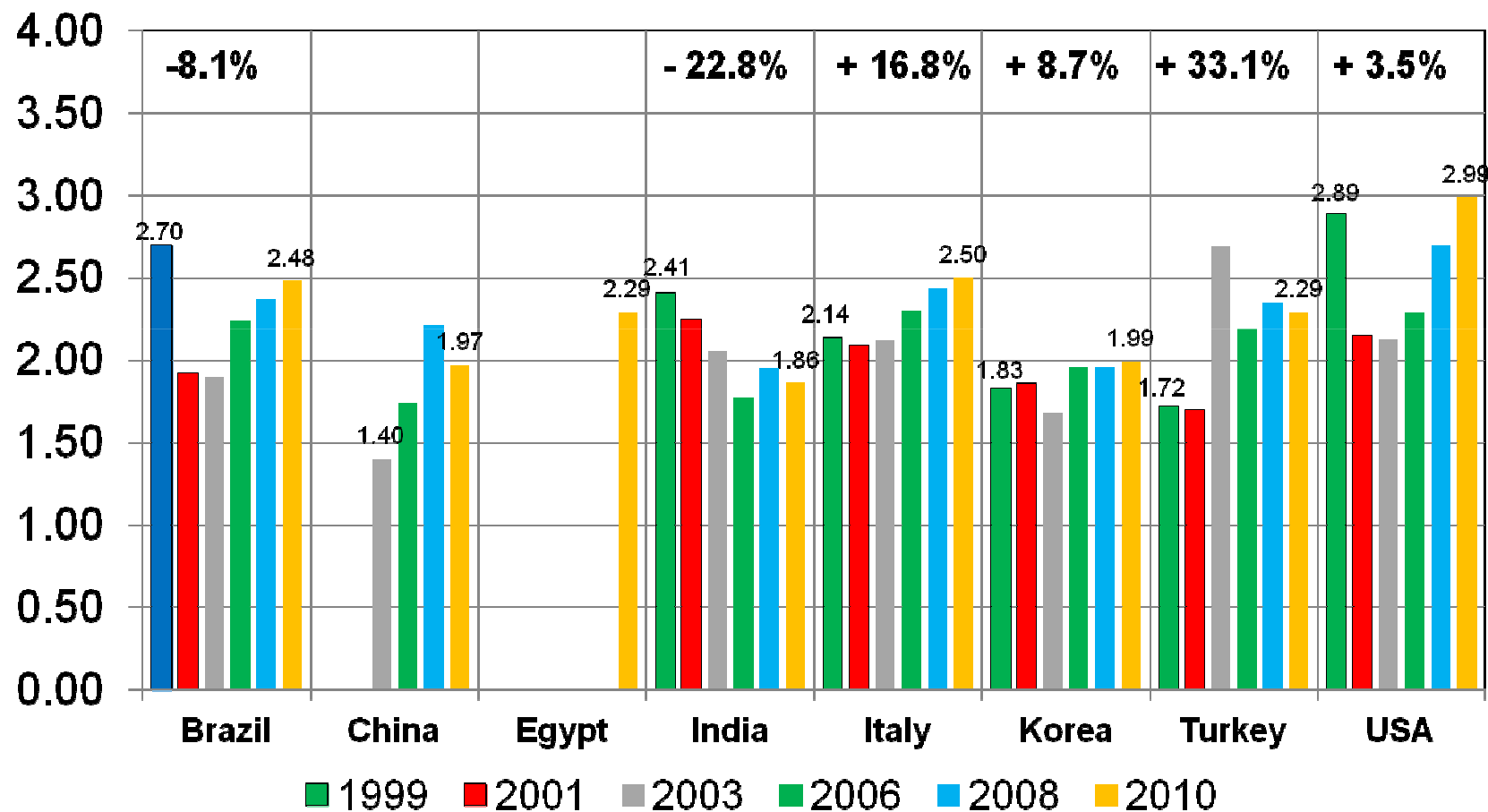
# Total Rotor Yarn Spinning Costs (Ne 20) 1999 - 2010

USD per kg yarn



# Total Textured Yarn Costs (75 den) 1999 - 2010

USD per kg yarn

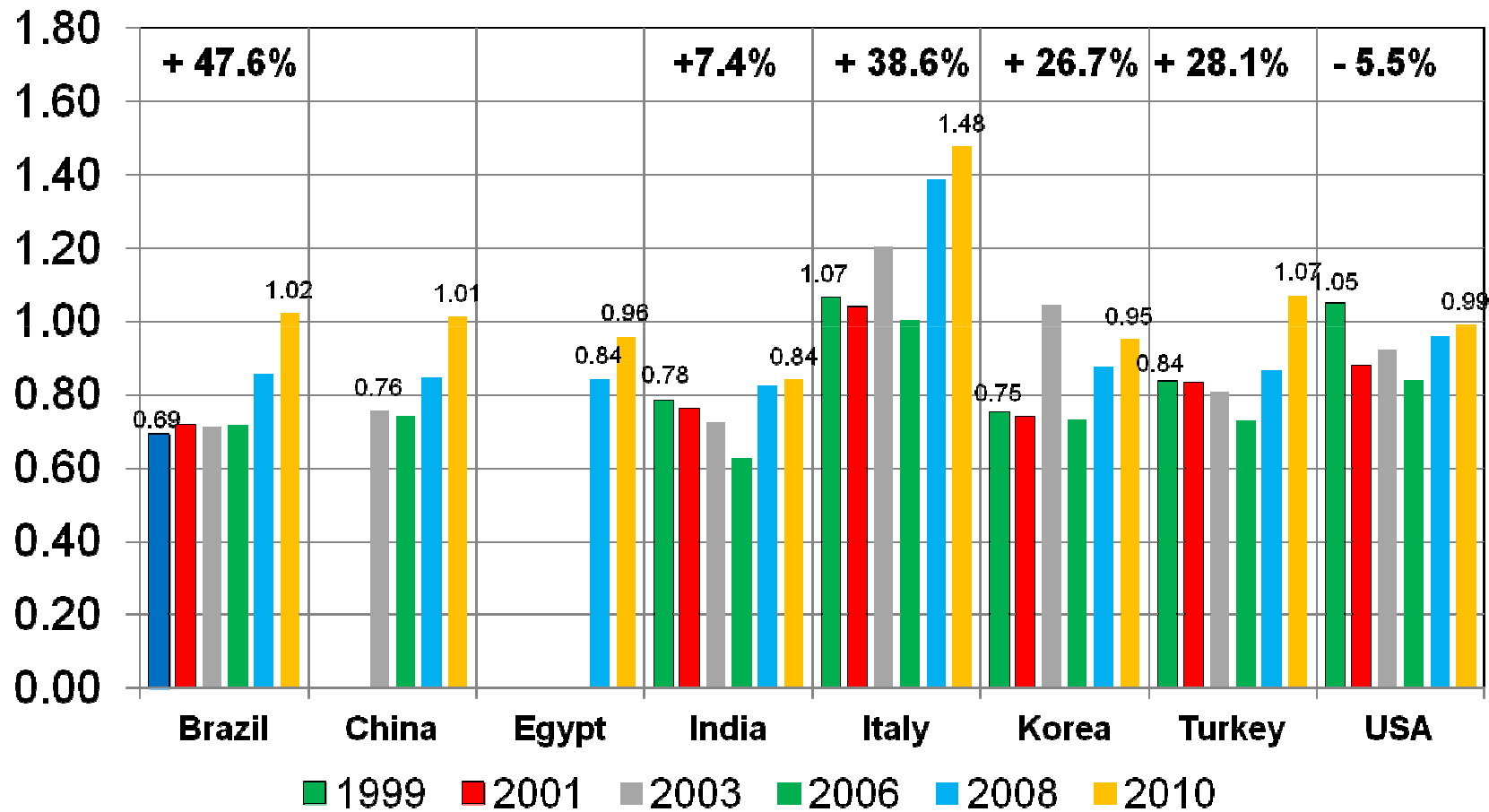


# Total Costs

## Woven Ring Yarn Fabric

### 1999 - 2010

USD per meter of fabric

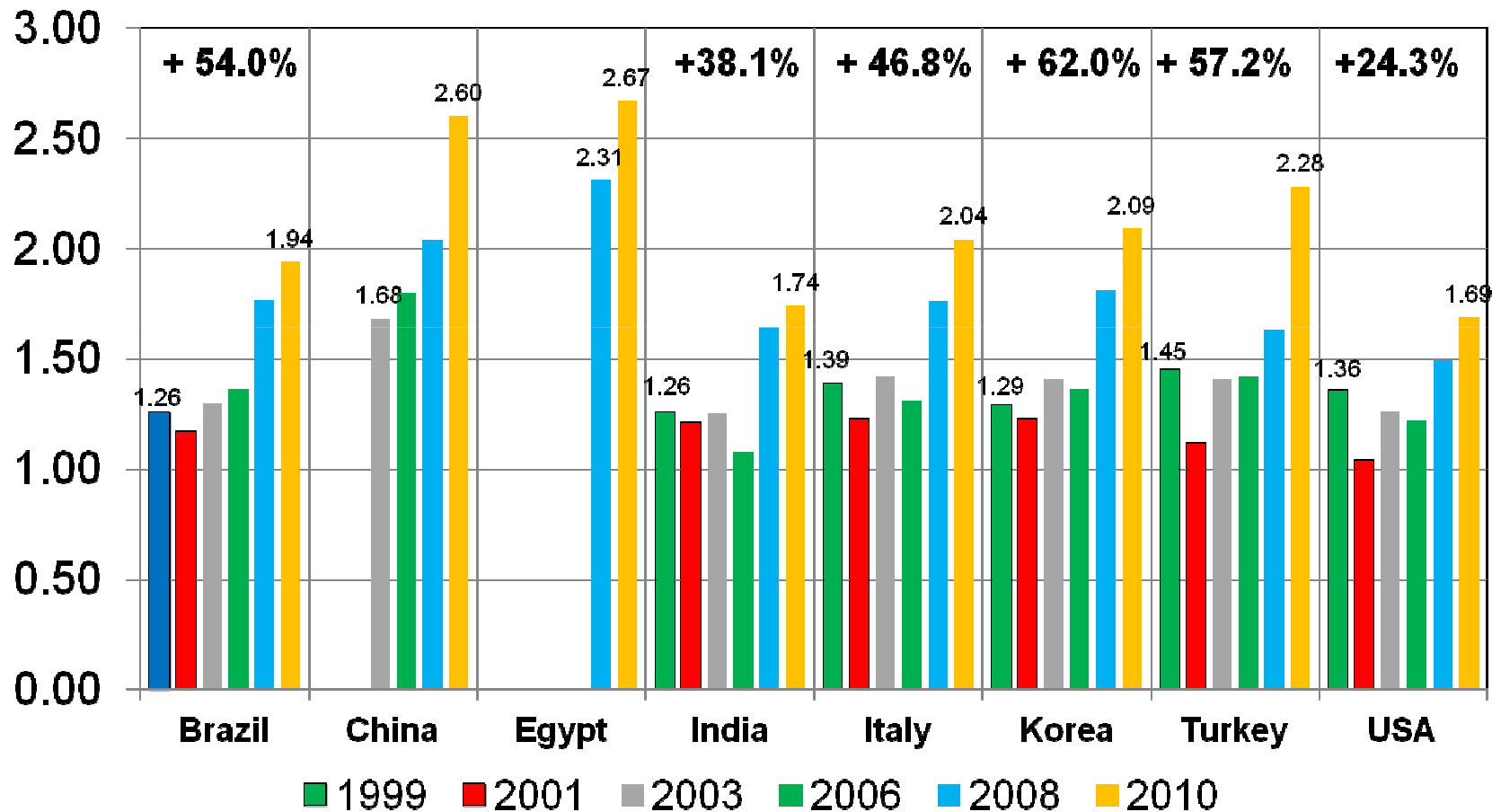




# Raw Material Costs (Cotton) 1999 - 2010



USD per kg



# Reasons behind current surge in cotton price

- Lower production (due to bad weather)
- Increased demand to meet increase consumption
- record low ending stocks
- Increased speculative investor activity due to expansionary monetary policies and excess market liquidity

# Impact of current cotton scenario on world textile trade

- High level of uncertainty resulting in fluctuating demand
- Inability to forecast accurately
- Shifts towards alternative materials
- Mill closure across the board resulting in increased unemployment
- Declining trend in demand of final made-up products

# Pakistan's position in the textile world

- 4<sup>th</sup> Largest producer of cotton
  - 3<sup>rd</sup> largest consumer of cotton
  - 3<sup>rd</sup> largest importer of cotton
- Outcome: Whatever happens in Pakistan affects the world and whatever happens in the world affects Pakistan.

# Pakistan Cotton Balance Sheet

	<b>2009/10</b>	<b>2010/11</b>
	<b>(million metric tons)</b>	<b>(million metric tons)</b>
<b>Opening Stock</b>	0.579	0.473
Production	2.019	1.829
Import	0.336	0.370 *
<b>Total Supply</b>	2.355	1.829
Mill Consumption	2.307	2.200
Export	0.154	0.029
<b>Total Demand</b>	2.461	2.229
<b>Closing Stock</b>	0.473	0.443

\* Only approx. 200'000 tons have been imported so far. It is questionable whether the remaining amount can be imported.

Source: ICAC (Jan/Feb 2011)

# Cotton Balance Sheet



## Pakistan vs. other Countries

<b>2010/2011</b>	<b>Pakistan</b>	<b>China</b>	<b>India</b>	<b>Turkey</b>	<b>Brazil</b>
(million metric tons)					
<b>Opening Stock</b>	0.473	2.937	1.445	0.363	0.680
Production	1.829	6.400	5.72	0.498	1.835
Import	0.370 *	3.200	0.091	0.700	0.150
<b>Total Supply</b>	1.829	9.600	5.811	1.198	1.985
Mill Consumption	2.200	9.818	4.56	1.250	1.041
Export	0.029	0.005	1.011	0.010	0.526
<b>Total Demand</b>	2.229	9.823	5.571	1.260	1.567
<b>Closing Stock</b>	0.443	2.714	1.685	0.291	1.098

\* Only approx. 200'000 tons have been imported so far. It is questionable whether the remaining amount can be imported.

Source: ICAC (Jan/Feb 2011)

# Overview of Pakistan's textile Industry

- **Textile industry contributes 55% to Pakistan's total exports**
- **Textile industry employs 40% of Pakistan total labour force**

# Impact of current cotton scenario on Pakistan and its textile industry

- Reduced spinning yield and output due to deteriorated fiber quality resulting from bad weather and floods. Output/spindle 5-10% less.
- Decrease in yarn, cloth and bed-linen exports (insert chart)
- Squeeze in mill profitability



# Impact of current cotton scenario on Pakistan and its textile industry

- Wide spread closure of small and medium scale industry due to
  - unavailability of cotton
  - high fluctuation in demand as well as cotton price
  - increased working capital requirement due to tripling of cotton prices

# Impact of current cotton scenario on Pakistan and its textile industry



- Spinning and integrated textile companies are mostly in the position of passing on higher raw material costs.
- Downstream textile mills – weavers, knitters, finishers, garment manufacturers – are in a difficult position as they are being squeezed between higher input costs and limited sales prices at retail level.

# Impact of current cotton scenario on Pakistan and its textile industry

- Across the board increase in cost of production due to high borrowing to finance working capital at exorbitantly higher interest rates as compared to regional competitors like India, China and Bangladesh

# Pakistan Export Breakup comparison

	Products	2010-2011 Jul-Jan	2009-2010 Jul-Jan	% age Change
<b>Raw Cotton</b>	Qty (M Kg)	76.48	145.31	-47%
	Value (M.\$)	183.20	174.26	5%
	Price / Kg	2.40	1.20	100%
<b>Cotton Yarn</b>	Qty (M Kg)	331.87	440.20	-25%
	Value (M.\$)	1,206.05	911.90	32%
	Price / Kg	3.63	2.07	75%
<b>Cotton Cloth</b>	Qty (M. Sq. Mtrs)	1,111.16	1,031.70	8%
	Value (M.\$)	1,331.63	1,008.62	32%
	Price / Sq. Mtrs	1.20	0.98	23%
<b>Bed Wear</b>	Qty (M. Kgs)	185.18	190.68	-3%
	Value (M.\$)	1,160.17	1,001.82	16%
	Price / Kg	6.27	5.25	19%
<b>Towels</b>	Qty (M.Kgs)	109.76	110.47	-1%
	Value (M.\$)	410.33	383.26	7%
	Price / Kg	3.74	3.47	8%
<b>Hosiery &amp; Knitwear</b>	Qty (M. Doz)	72.87	60.40	21%
	Value (M.\$)	1,296.26	1,035.78	25%
	Price / Doz	17.79	17.15	4%
<b>Ready Made Garments</b>	Qty (M. Doz)	19.42	15.73	23%
	Value (M.\$)	952.17	715.82	33%
	Price / Doz	49.04	45.50	8%
<b>Other Textile Products</b>	Value (M.\$)	972.22	759.34	28%

Source : APTMA (All Pakistan Textile Mills Association)

# Pakistan Export Breakup comparison



Products		Jan-11	Jan-10	% age Change
<b>Raw Cotton</b>	Qty (M Kg)	5.84	21.05	-72%
	Value (M.\$)	17.06	28.41	-40%
	Price / Kg	2.92	1.35	117%
<b>Yarn</b>	Qty (M Kg)	51.37	70.83	-27%
	Value (M.\$)	218.02	137.55	58%
	Price / Kg	4.24	1.94	119%
<b>Cotton Cloth</b>	Qty (M. Sq. Mtrs)	152.89	180.29	-15%
	Value (M.\$)	207.00	167.19	24%
	Price / Sq.Mtrs	1.35	0.93	46%
<b>Bed Wear</b>	Qty (M. Kgs)	25.77	29.85	-14%
	Value (M.\$)	167.99	153.99	9%
	Price / Kg	6.52	5.16	26%
<b>Towels</b>	Qty (M.Kgs)	18.04	17.76	2%
	Value (M.\$)	63.96	63.02	1%
	Price / Kg	3.54	3.55	0%
<b>Hosiery &amp; Knitwear</b>	Qty (M. Doz)	10.59	8.83	20%
	Value (M.\$)	189.75	145.90	30%
	Price / Doz	17.92	16.53	8%
<b>Ready Made Garments</b>	Qty (M. Doz)	3.19	2.73	17%
	Value (M.\$)	159.98	120.64	33%
	Price / Doz	50.18	44.21	14%
<b>Other Textile Products</b>	Value (M.\$)	171.15	113.63	51%

Source : APTMA (All Pakistan Textile Mills Association)

# Conclusion

- Globalization has led to consolidation of buyers
  - Result: Too few buyers, too many supplier
    - Major imbalance in negotiation mechanism
  - Monopolistic situation
- Western consumers need to change their consumption towards reuse rather than disposition in order to reduce per capita usage of cotton

- Industry needs to work on partnership basis, allowing reasonable profit margins to manufacturers, enabling them to survive.



**Thank you for your attention!**

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