

THE GLOBAL COTTON PROJECT

International cotton promotion

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In the race for market share, the cotton industry faces strong competition from chemical fibres. Today, chemical fibres account for more than half the world's consumption of textile fibres, an increase of over 20 per cent since 1966 – most of it at cotton's expense.

Furthermore, synthetic production is expanding at an increasing rate and synthetics are expected to capture a greater share of the growing world fibre market. Cotton's traditional advantages – price and performance – no longer hold true. Cotton is no longer king.

But the race is not over yet. The global cotton industry is a strong and profitable industry and further declines are not inevitable if its stakeholders act together to develop an integrated game plan.

This document puts the case for action. It summarises the facts and figures behind cotton's declining market share; explores a successful experience that the industry may draw on, and suggests a way for the industry to get back in the race through the establishment of the Global Cotton Project.

Recognising the challenge: Huge value at risk globally

The global cotton industry is losing significant value as its share of the textile market declines. Three main reasons account for this decline: relative to synthetic fibres, the price of cotton is higher; the industry has failed to lower production costs; and it has allowed synthetic fibres to take the lead in promoting their performance capabilities.

Cotton's world market share in decline

Over the last 20 years world fibre consumption has grown steadily at a compound rate of about 2.5 percent. At the same time, cotton's market share has fallen around 1 percent every five years since 1970 when it held 53 percent of the market – a slow but steady erosion during that period [Chart 1].

This decline in market share represents a huge loss in value – as well as in uncaptured trade worth tens of billions of dollars. If the cotton industry had managed to sustain its 1970 levels to the year 2000, then the global market would have consumed 45 million tonnes of cotton during this period [Chart 2]. At current prices this represents more than 50 billion dollars in industry revenues.

Price sensitive markets grow consumption – but not of cotton

In the Far East and centrally planned Asian markets, consumer incomes are rising – and the amount people spend on textiles and clothing is increasing. For example, in South Korea per person fibre consumption increased three times between 1975 and 1989, a period of rapid economic growth. In addition, the centrally planned Asian markets now account for nearly one-sixth of the world's total textile consumption and boast the highest growth rate (nearly 5 percent a year) in textile consumption in the world.

However, cotton's share of these growing markets has plummeted by nearly one-third [Chart 3]. Gains in the large US and European markets have countered, but not completely offset, this trend. Much of the loss in market share is due to cotton's uncompetitive price relative to the price of synthetic fibres, which has been falling steadily as the industry continues to build production capacity in the fast growing Asia region. If the trend is not halted – and reversed – cotton will cede the dominant share of the largest textile markets in the world to synthetic fibres.

Synthetics establishing a solid cost advantage

Yet synthetic fibres have not always cost significantly less than cotton. Indeed in the early 1960's, they cost more – but changes in production technologies and input costs have given synthetic fibres the edge [Chart 4]. Polyester, for example, is now nearly 30

percent cheaper than cotton. And despite projected improvements in the cotton industry, including those in seed and processing technologies, project improvements in synthetic production technology are projected to sustain – or even increase – its cost advantage.

While cotton faces considerable cost pressure – and in some large and growing markets where price is paramount, may already be out of the game – it can do much to retrieve its position in existing markets by reducing production costs. For example, the industry can potentially reduce its costs by between 10 and 30 percent through the application of transgenic cottons. However, the growing industry faces the difficult challenge of capturing this opportunity – while meeting the challenges of the increasing insecticide resistance of pests and the related yield management problems. A quantum jump in performance is needed if synthetic fibres are to be challenged on costs.

Cotton's performance and consumer preference edge under threat

As well as price, the global cotton industry faces an additional challenge. Cotton commands a significant price premium – in markets that can afford it – for its looks, feel and wearability. However, these performance advantages are under threat from the synthetic textile industry which can now deliver the qualities that consumers demand. These include outerwear with good insulation, water resistance and durability, while retaining 'breathing' characteristics, anti-microbial and water wicking textiles, and premium fabrics with a luxury look and feel.

By promoting its strengths, the synthetics industry is creating strong performance niches and winning new acceptance at the high end of the market. Synthetics are now on the fashion runways of the world. The 'eco-friendliness' of cotton is being questioned. Consumers can be turned off cotton. This trend, unchecked, may create a dangerous challenge to cotton's dominant position in premium western markets [Chart 5]. The industry cannot afford to lose its lead.

Understanding the US experience: The case for concerted action

While the threat to the cotton industry cannot be underestimated, it is not the first time it has faced such challenges.

During the 1960s and early 1970s, the US cotton industry saw its market share fall by more than 20 percent, a serious threat, especially as it came at a time when cotton boasted a significant price advantage.

The US cotton industry responded with concerted action to counter the threat. It united stakeholders and established a central program initially funded by the industry [Chart 6]. These funds were initially contributed through assessments on the cotton contained in textiles and other goods grown in and imported into the US – around \$1 per bale and ½ percent on product value.

The funds are invested on behalf of the industry through a private company owned by US cotton farmers, Cotton Incorporated. Two-thirds of the money is spent on promotion and one-fifth on textile research, including mill process improvement and fibre and textile development. Agricultural research receives 10 percent of funding while the balance supports the overall effort.

This investment paid off handsomely. By firmly establishing a consumer preference for cotton, the US cotton industry succeeded in recapturing market share, almost completely reversing initial losses with share moving back towards 60 percent. Analysis undertaken by Texas A&M University suggests that every 10 percent increase in promotional expenditure yielded 2 million additional pounds per month consumption. Pay-off from research was twice this figure. Every dollar invested by the industry returned six dollars as the program matured [Chart 7].

Developing the response

The US experience demonstrates how a concerted, collective response can change consumer preferences, and improve products and production economics. Such a collective response also offers the potential to make the best use of industry knowledge and resources to meet the global challenge.

This experience suggests that there is a real opportunity to act collectively through a global initiative that is shaped around:

- Ideas that are fact based and practical, and offer high-value potential
- Pragmatic, achievable action plans that focus on impact
- An organisational structure and resources that effectively mobilise around initiatives and facilitate their implementation
- Funding mechanisms that draw equitably from all industry participants
- Governance mechanisms that represent industry perspectives, and sustain focus and discipline throughout the implementation process. They should also continue to finetune the effort to meet the changing demands of the real world.

The starting point must be a sound base of ideas and the industry can undertake a number of initiatives, both globally and within regions, to help cotton's overall competitiveness.

Capturing promotional synergies and global branding are certain to be an important part of a collective program. And the growing Far East and centrally planned markets of Asia also offer tantalising opportunities. The growth in prosperity in these markets is generating a new consumer market at an astounding rate. Between 1990 and the year

2000, the number of people with an annual income above US\$800 – a recognised threshold of consumerism – is projected to grow almost ninefold. This represents a staggering increase, from 30 million people to approximately 260 million people – more than the current consumer population of the US.

But who among these people are potential cotton consumers and what will they consume? How should cotton be sold and when do segments become significant? These are among the issues the industry will need to analyse to ensure it only focuses on the most important. Others include market regulation, distribution structure barriers, consumer ‘eco-politics’ and industry stimulation policies. The industry’s responses must capture global synergies, where these exist, meet individual stakeholder needs and maximise the benefits for the global industry. As for the US experience highlighted, such a united global response has the potential to produce results.

While support for research and development in product and processes will almost certainly pay dividends, simply ensuring that best practices in all parts of the industry chain are rapidly and effectively shared may also have a huge pay-off.

Doing something about it: the Global Cotton Project

To meet this challenge, Colly Cotton formulated the Global Cotton Project in 1997 in conjunction with a group of leading international cotton industry participants and McKinsey & Company, a leading international consultancy firm.

Under this project, we are seeking key industry stakeholders to fund an initial seed project with the objective of developing the elements of a high-impact global industry program.

The industry program would evaluate a wide range of ideas, drawing the best together into concrete initiatives with clear implementation and organisation plans, funding and governance mechanisms. The stakeholders would then need to make the commitment to

further action, funding the specific initiatives which have been proposed, and getting on with the job of lifting industry performance.

The Global Cotton Project is the seed project. It also needs a clear approach, resources, a governance mechanism and funding. The approach would comprise three overlapping phases to be carried out over approximately four months:

- The first phase would assess the potential for improvement; capture and evaluate ideas; understand underlying economics, trends and performance barriers; and prioritise opportunities.
- The next phase would focus on developing specific cases for action; work in detail on high potential opportunities to develop practical action plans and estimate pay-offs; establish how specific initiatives and the overall program may be supported and funded.
- The final phase would shape and package the proposals, some may be country-specific and independent, others are expected to fall within a collective program.

The output of the effort will be a clear blueprint for action in the form of a business plan which lays out initiatives, their pay-offs and the mechanisms for funding and supporting their implementation.

The effort can only succeed with support and funding from industry stakeholders such as the Australian cotton industry. This support would need to be accompanied by an ability to contribute to, and shape, outcomes and to access the benefits of their investment.

This can be achieved by establishing a 'World Cotton' company, limited by guarantee and based on token equity contributions from all stakeholders. By contributing funds, either in cash or resources, to this company, and by voting in Directors (who would then

form the Steering Group of the Global Cotton Project) stakeholders would establish both effective governance and funding mechanisms, and access rights to Project outputs.

Total funding – both in external fees and team expenses and in equivalent contributed resource costs – is estimated at roughly US\$1.5 million for the projected four month seed Project effort.

A steering group will be needed to represent the interests of stakeholders and provide effective project guidance. It should ideally represent a balance of industry participant, regional and government interests.

To make the Global Cotton Project a reality, we as an industry need to contribute cash and perhaps also resources. Your input and support as the project proceeds will also be essential.

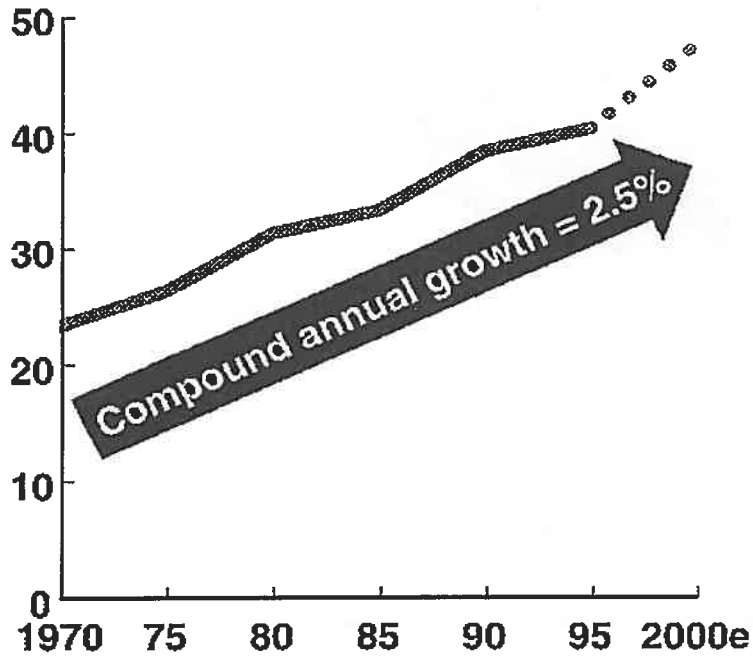
As an individual player it is unlikely that Australia can significantly influence global outcomes. But together with international allies, through united action, we can help reverse cotton's global decline and recapture billions of dollars in value for the industry.



Cotton Share

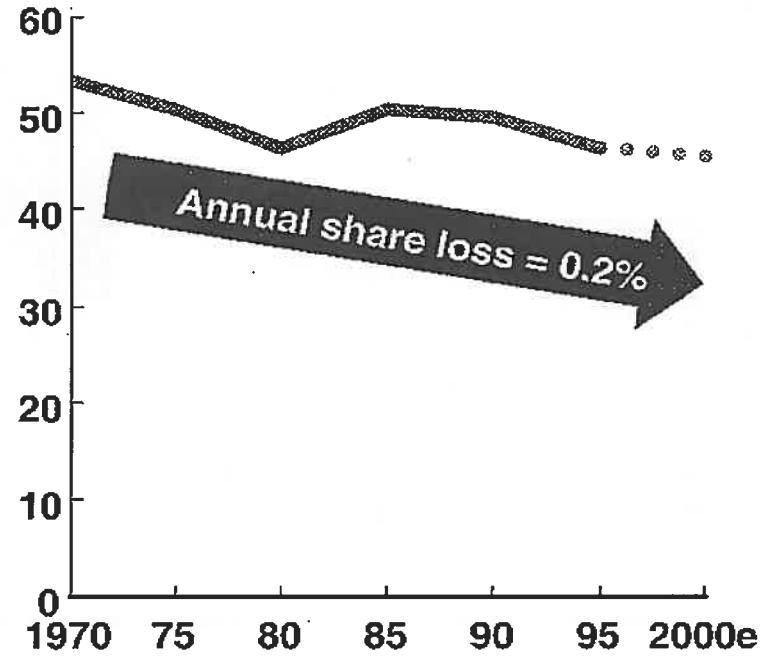
Total textile market booms . . .

World fibre consumption
Millions of tonnes



. . . but cotton's share declines globally

Cotton share
Percent

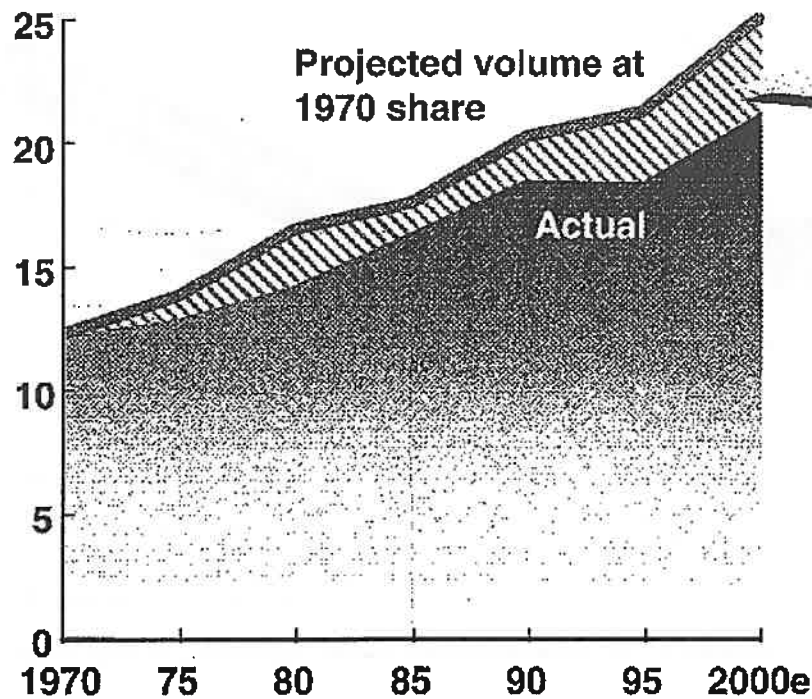


Source: Knight Ridder Financial 1995; UN Conference on Trade and Development; Fiber Organon; Reuters News Service, a.o.



Value Loss Significant

World cotton consumption
Millions of tonnes

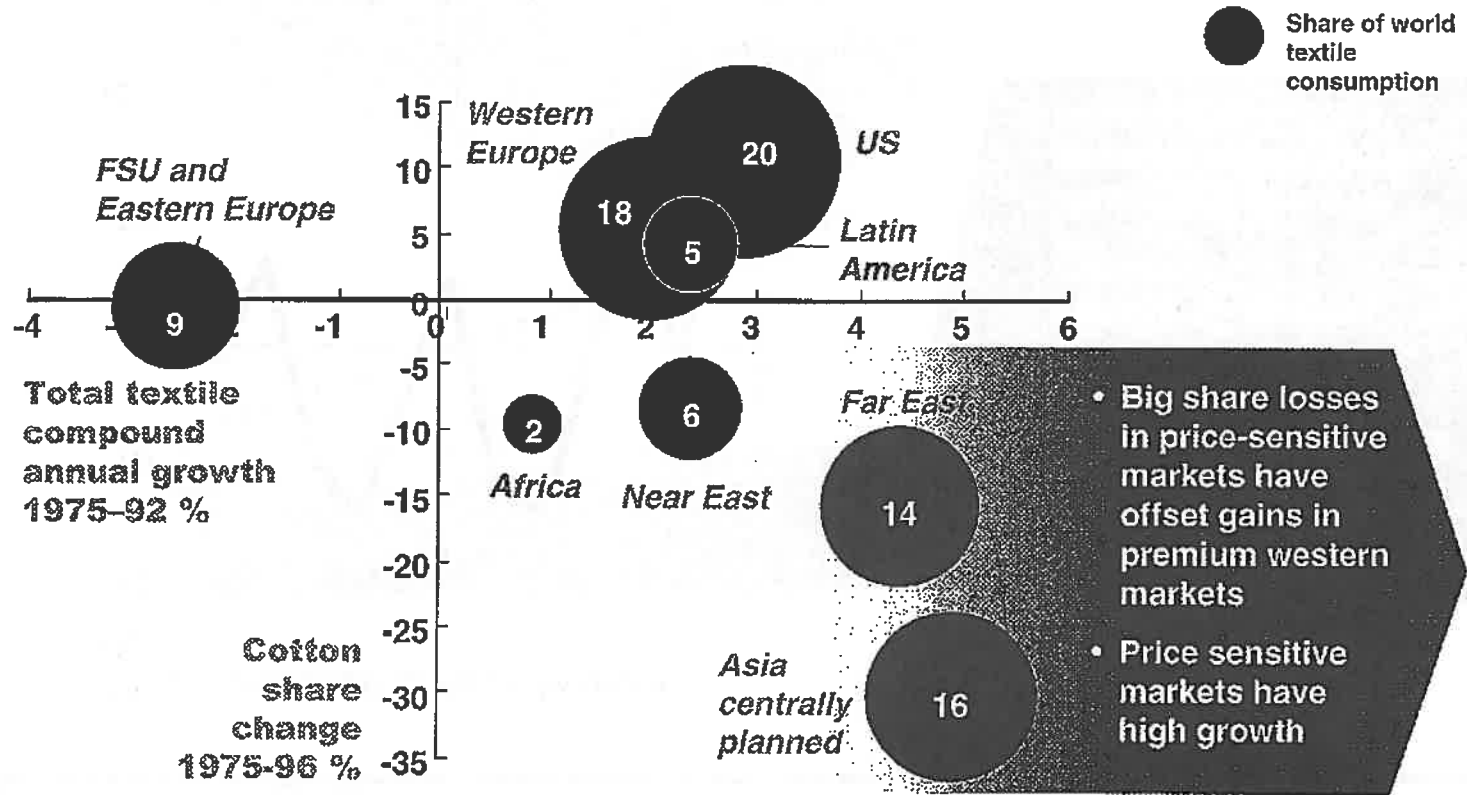


- Additional volume had cotton's global share remained at 1970 levels
- Cumulative volume lost ~45 million tonnes

Source: Knight Ridder Financial 1995; UN Conference on Trade and Development; Fiber Organon; Reuters News Service, a.o.



Regional Consumption Changes

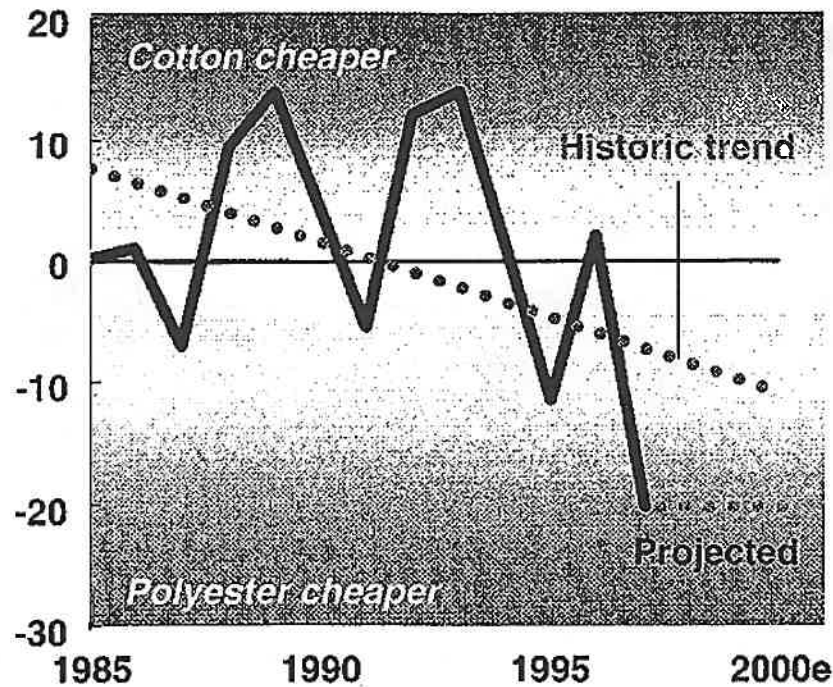


Source: World Apparel Fibre Consumption Survey (FAO Rome)



Polyester/Cotton Price Gap Widens

Polyester/cotton price difference
US¢/lb



Cotton's price disadvantages

- Will block cotton share capture in huge, fast-growing—but price-sensitive—eastern markets
- May erode share in price-sensitive niches in western markets

Source: Knight Ridder Financial (CRB Commodity Yearbook); Reuters Business Briefing



Performance 'Squeeze'

Cost disadvantage blocks price-sensitive users

- Polyester costs projected US45¢/lb with no capacity constraint
- Bt cotton and related improvements may reduce but cannot close the gap— and may be difficult to capture in any case

**Cotton
product**

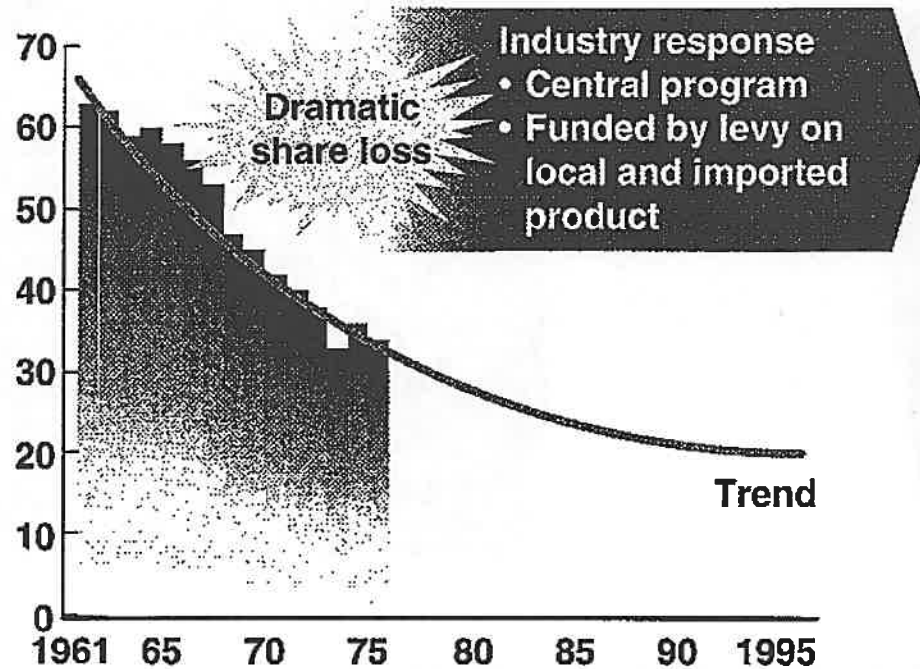
Performance advantage erosion may create premium market challenge

- US branding has created effective price premium
- Synthetics challenge increasing
 - 'Luxury' rebranding
 - Product improvements mimic look and feel, deliver new features (anti-microbial, water wicking, etc.)
 - Positioned as 'eco-friendly'



A Successful Market Response to Threat: US

Cotton share of US market*
Percent



How the money was spent

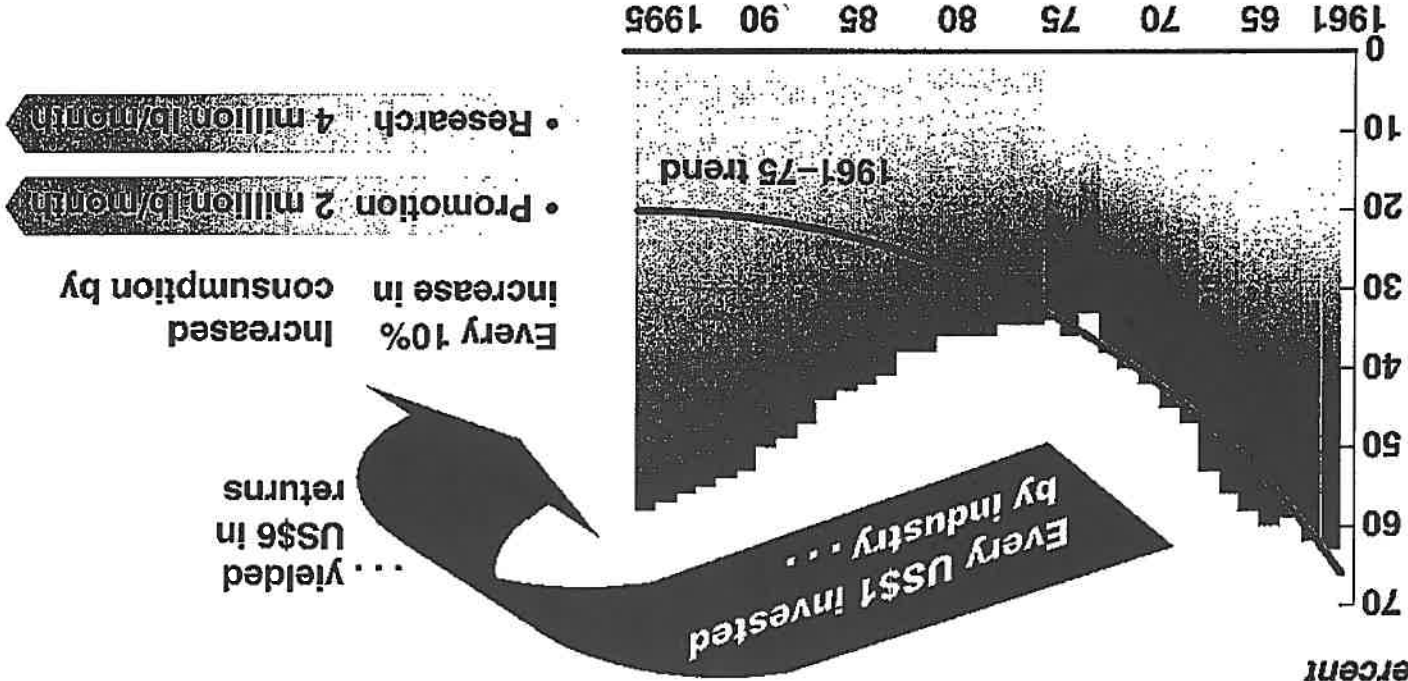


* Excludes carpet
Source: Texas A&M Cotton Program Review, August 1996



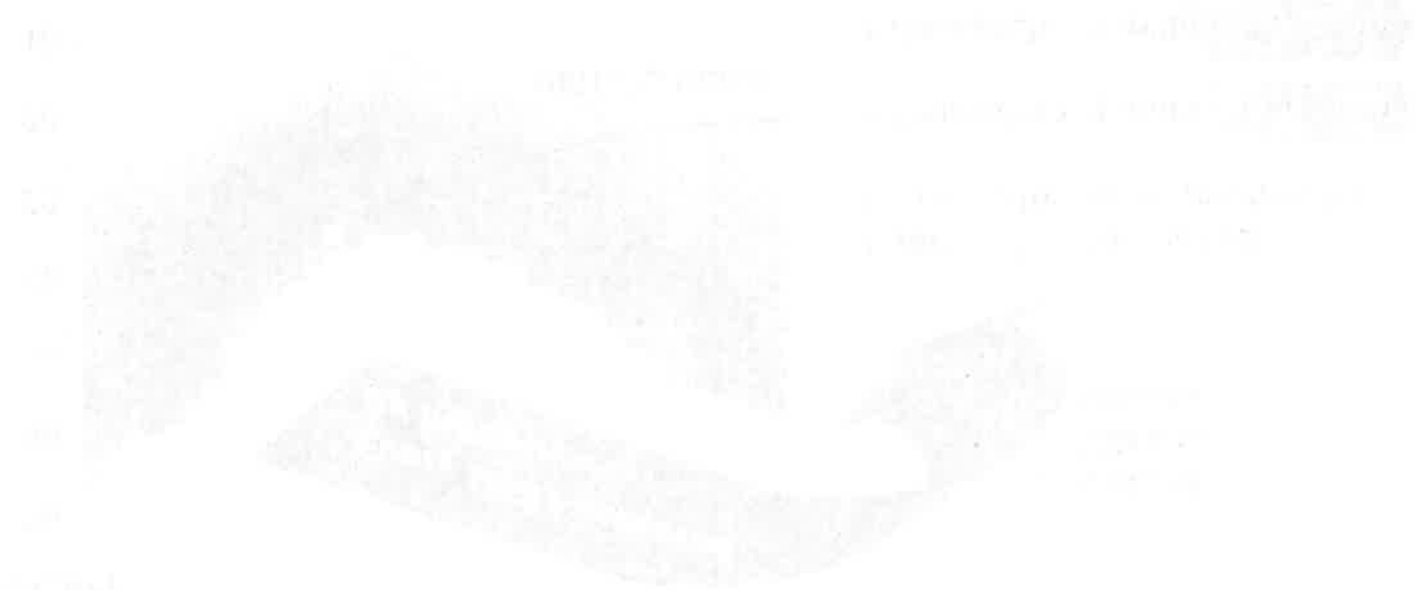
The Impact of a Coordinated Response: US

Cotton share of US market*



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