



# INTERNATIONAL COTTON ADVISORY COMMITTEE

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## Aide Memoire

**To:** Delegates to the Standing Committee, Coordinating Agencies, Members of the PSAP, SEEP and CSITC

**From:** Executive Director

**Subject:** ICAC International Seminar

**Date:** November 3, 2008

### The Global Textile Industry Value Chain Taipei, October 17, 2008

An international seminar was held in Taipei, China (Taiwan) on 17 October 2008 organized by the Taiwan Textile Federation (TTF) and the ICAC, sponsored by the Ministry of Economic Affairs (MoEA) and other organizations. There were 155 participants from 16 countries.

The seminar focused on the global textile industry value chain, factors serving to improve competitiveness in textile and apparel trade, textile sourcing trends, the importance of the major textile and apparel production regions, the added value of product innovation, and the role of the government in stimulating growth and investment opportunities for the textile industry.

Seminar speakers and participants discussed major factors that can lead to success in the increasingly competitive environment in the world textile market. Major factors include international collaboration and vertical integration, proximity to consuming markets, technology, product innovation and research, the government's role in supporting research and development, and the development of performance products and functional textiles, especially in countries with increasing labor costs, such as Taiwan and Korea. Participants were informed on the latest technological innovations in production of ecologically friendly raw materials and textiles as well as advanced technologies in dyeing and textile product quality testing.

Welcoming remarks were made by Mr. Roland Tsai, Chairman, TTF: He emphasized the role of functional textiles as a basis for competitiveness in Taiwan and asserted that **there is no ideal place for textiles**. Taiwan is also positioning itself as a platform for cooperation to facilitate finance, design, innovation, technology and production in the Asia/Pacific region.

Welcoming remarks by Mr. Terry Townsend, Executive Director, ICAC: He highlighted the importance of textile industry in China (Taiwan) and the role China (Taiwan) plays in international cooperation in cotton and textiles sponsored by the ICAC. **Each segment of the cotton textile industry must be internationally competitive** in order for the whole to expand, while quality, product innovation, reliability, demand responsiveness, market proximity, quick turnover and preferential tariffs are becoming increasingly important competition factors.

Welcoming remarks by Mr. Lin Sheng-Chun, Deputy Minister, MoEA: He indicated that textiles are the **third largest foreign exchange earner in Taiwan**, employing 200,000 people, generating billions in revenues, and the government is working to stimulate demand and exports.

The Keynote Speech was presented by Mr. Giuseppe Gherzi, Gherzi Engineering Zurich. He described the current situation and observed that textile industry is growing in South America on the account of increased denim production, European use is declining, Turkey is shifting capacity to Egypt, India is in crisis, but is still

expanding capacity, while China (Mainland) is losing competitiveness as a result of rising labor costs. **He listed 7 Key Success Factors: 1) availability of raw material, 2) textile machinery manufacturing, 3) conversion (production) costs, 4) innovation & fashion, domestic demand and proximity to large markets, 5) sourcing strategy at retail and 7) currencies. Of those, innovation & fashion, textile machinery knowledge and proximity to Asia are relative strengths for Taiwan.** Textile machinery production is shifting toward China (Mainland) and India. He expects China (Mainland) and India will continue to dominate textile and apparel exports. He used Germany as an example of sustained growth in textile production through innovation with technical textiles. Innovation will bring mass customization of garments, new technical and specialized textiles, new technologies such as plasma finishing and nanotechnology in many applications. He noted that although free trade agreements (FTAs) can be important, they could be a temporary solution.

## Session I

Mr. Ha Myeng-Keun, Executive Vice Chair of the Korea Federation of Textile Industries said that Korean textile and apparel exports equaled \$13.4 billion in 2007, compared with \$14.8 billion in 1990. Yarn and fabric account for 70% of exports and are growing, while apparel exports are falling. China (Mainland) is the largest trading partner for Korean textiles, and there are substantial Korean investments in China (Mainland). Korea is promoting FTAs with many countries. **Korea's strengths include having the 6<sup>th</sup> largest textile industry in the world, providing infrastructure and scale, world class IT, and overseas investments.** He described the Gaeseong Industrial Complex in North Korea 40 km north of Seoul, which is a competitive production base with cheap labor and transportation costs. A large part of Korean textile production is based in this complex already. The strength of Korea's global textile supply chain is based on FTAs with many countries, well-developed international supply chains from spinning to dyeing industries, and proximity to China and Japan. Weaknesses include obsolete factories, poor vertical integration, weak global fashion design and branding, high labor costs. Korea's strategy is to reduce logistical costs, diversification of global sourcing and quick delivery with integration across countries, improving design and planning and promotion of the use of IT.

Mr. Richard Silvia, President, RWS Marketing & Sales indicated that producers need innovation and product development to survive. The top 5 home textile retailers account for 54% of sales by the top 50 producers. He **highlighted the difference between direct and indirect costs.** Direct costs include 1) material such as yarn and fabric (these account for about 60% of the fob cost of a home textiles product), 2) cut-make-trim, 3) freight, 4) duty, 5) storage, and 6) finance. Indirect costs include 1) quality, 2) reliability, 3) timeliness, 4) control of information and logistics, and 5) goodwill. The ability to produce in-house is an advantage leading to vertical integration. Future issues: 1) rising shipping costs, 2) direct sales to retailers, 3) long-run pricing strategies, and 4) trade agreements. He said that major retailers are forcing suppliers to reduce their carbon footprint. He pointed to a need to target customers with new product developments and ideas.

Mr. Brad Beal, International Consultant for Jockey International noted that cost is always important and **international collaboration helps lower costs.** Collaboration allows better design (closer to production but still sensitive to local consumer desires), cheaper manufacturing through sharing of best practices, ideas and sourcing materials from cheapest origins, on-time delivery, compliance with regulations, compliance with Corporate Social Responsibility goals, and training. Changes in material design and packaging can be made quickly and brand reaction to international collaboration is positive. Speed-to-market is very important and cost advantages of different regions should be utilized. Training people and making partners profitable is important as well.

Mr. Elmas Wu, Vice President, New Wide Enterprise Co said that many retailers are targeting the middle class. Consumers want more information. Consumers want more functionality. **Six strategies of New Wide: 1) quality (internal labs and audits), 2) innovation (internal research, trends, new materials and items), 3) quick response, (internal and external newsletters, teams for each brand, vertical integration of production), 4) use of IT and integration of information, 5) digital sample room (interactive web site) and 6) sustainability (recycling water, no air pollution, using recycled fibers).** He noted that sharing information, innovation and execution were keys.

## Session II

Mr. Rainer Baechi, Chairman, Institute for Marketology (IMO), Switzerland described the Global Organic Textile Standard (GOTS). GOTS has about 600 licensees and first use of the GOTS' logo started in August 2008. The German IVN, the Japanese JoCA, the U.S. OTA and the UK Soil Association are the founding associations. He indicated that in the food sector organic production grows 20-30% annually, while organic cotton production rose 150% in 2007/08. He described **the social criteria of the GOT standards**, use of accessories, packaging and transport and the certification process.

Mr. Naiming Wei, Head of Operations Asia, Uster Technologies, Shanghai described defects in yarn and fabric caused by quality problems in fiber and yarn, including those caused by yarn thick places, flying fibers in the mill, neps, foreign matter, yarn weak spots, pilling and hairiness. He described some of the testing processes to measure yarn and fabric quality. **(There are about 60 parameters used to measure yarn quality alone: strength, thin-thick places, uniformity and hairiness are among the most important.)** He described services provided by Uster.

Mr. Allen Terhaar, Executive Director, Cotton Council International described survey results indicating consumer preferences for various fibers and willingness to pay extra for organic or eco-friendly products. He indicated that consumers are less concerned about environmental impact of fiber and clothing. Consumers are less concerned about the use of pesticides and Bt varieties to grow fibers than for food crops. **Few global consumers are willing to pay extra to find eco-friendly clothing, organic cotton, and consumers perceive cotton as better for the environment than chemical fibers.** Consumers strongly prefer natural fibers in clothes and are willing to pay more for natural fibers, compared to man-made fibers.

Mr. Ulrich Hanxleden, Head of Business Development, DyStar described new technologies in cotton dyeing. **New technologies are aimed at reducing environmental impacts, costs, wastes and the use of water.** He showed that new dye products require less dye and soap, less time for the process, reduce the quantity of chemical oxygen use, water and effluent produced in dyeing and finishing processes, particularly for dark colors and in denim finishing.