



66th Plenary Meeting of the INTERNATIONAL COTTON ADVISORY COMMITTEE

MINUTES FIRST OPEN SESSION

11:00 hr. Monday October 22, 2007

Mr. Yakup Güngör, President of Textile Group of Hacı Ömer Sabancı Holding A.S., in the Chair.

The topic of this Session was Strategies for National Competitiveness in Textile and Garment Industries.

The first speaker, Mr. Ahmet Öksüz, Vice Chairman of the Istanbul Textile and Apparel Exporters' Association, presented the outlook for the Turkish textile and apparel sectors in a global competitive world. He highlighted that structural change occurred in the global textile and apparel industry in recent years, and the change in the paradigm of competitiveness from being cost and price oriented to being quality oriented. He stated that competitiveness nowadays requires qualified human resources, significant research and development efforts, and more creative marketing strategies. He indicated that the phasing out of textile quotas in 2005 has increased competition, and that price became the main tool for competition. He also indicated that recent significant increases in population in Asian countries have expanded the size of the world textile market, and that a new supply model based on regionalism is in practice in world textile trade. In this new supply model, not only prices but also product quality and social standards define the terms of competition. Mr. Öksüz reported that in this new global environment, Turkey has made sound reforms and will continue to liberalize its economy in the coming years and that, as a result, he expects to see Turkish trade of textile and garments increase. He said that Turkey succeeded at further enhancing the functioning market economy through ensuring competitiveness, upgrading productivity, strengthening the investment climate, encouraging private initiative and entrepreneurial skills, and employment creation. He reported that Turkey was ranked ninth among textile exporting countries, and fourth among apparel exporting countries in 2005. He indicated that Germany was the main destination for Turkish exports of clothing in 2006, followed by the United Kingdom, the U.S. and France. The total share of the E.U. on Turkish exports of clothing is estimated at 76%, while its share of Turkish exports of textiles is estimated at 41%, according to the Turkish Undersecretariat for Foreign Trade. Mr. Öksüz highlighted the differences between textile and apparel firms in Turkey. Textile firms are big, capital intensive corporations, and employ half a million people, while apparel firms are small and medium, labor intensive enterprises, and employ 2 million people. He indicated that Turkey is the fourth largest yarn producer in the world, with 6.5 million short staple spindles, 745 thousand long staple spindles, and 552 thousand open-ended rotors, comprising 52 percent of the E.U. installed capacity. He also indicated that Turkey has the seventh largest loom capacity in the world, totaling 55 thousand looms and representing 43% of the E.U. installed capacity. He said that Turkey benefits from the E.U. new supply model, given the E.U.'s intention to reduce the delivery time and the strategic location of Turkey, as well as Turkish installed capacity. Mr. Öksüz emphasized that quality management should be applied to the whole value chain in order to increase competitiveness, and that Turkey should pursue the goal of representing 6% of global trade in 2010, a projected value of 30 billion U.S. dollars. He also stated that in order to enhance competitiveness, the Turkish textile and apparel sector is aware of the fact that a major change in the strategy and state policies are also essential.

The secretary General thanked Mr. Öksüz for his presentation. He asked whether it is feasible for countries to develop any apparel industries and not textile industries. Mr. Öksüz answered that the

apparel sector is crucial for the textile sector, and that if the apparel sector grows, the textile sector will also grow.

The delegate from **Côte d'Ivoire** asked about the way competitiveness is ensured in Turkey, whether by law, regulations or other mechanisms. Mr. Öksüz answered that the textile and garment sector is very important in Turkey, and that the disadvantage of high local cost of labor and energy is compensated with the focus of the sector on producing high value added products, investments in marketing and branding, and not so much on competing in prices. He added that Turkey, as a member country of the WTO, is also fighting against unfair competition in that forum.

The second speaker was Mr. Ziya Altunyaldiz, Acting General Director of Exports in the Government of Turkey. Mr. Altunyaldiz made a presentation about the rapid transition of the Turkish textile and clothing sectors in the global arena. He emphasized that global competition in textiles and clothing markets has intensified after 2005 when quotas were abolished and that production has concentrated in the regions with relatively lower costs of production. He also pointed out that final consumption of textile products increased at a faster pace in developing countries than in developed countries. He indicated that increased demand for high value added products (such as technical textiles and branded/fashion oriented products), flexible production, fast delivery, just in time management in production structures, clustering of firms, social and environmental standards and increased attention to TRIPs are among the main issues of the global agenda for textiles and clothing. Mr. Altunyaldiz stated that cotton plays a crucial role in the world market for textiles, and that cotton was losing market share to non-cotton fibers. He indicated that the most relevant recent developments in the global agenda for cotton have been the Development of the Doha Round and the Cotton Initiative of the C-4 countries. He also mentioned that despite NAMA negotiations (Non-Agricultural Market Access), tariffs remain high. He also pointed out that demand for organic as well as high quality cotton has been increasing in recent years. He highlighted that the main competition tools for Turkey after 2005 are a strong production chain from fiber to ready wear ("full package service"), "fast fashion" (Turkey is capable of launching at least 4 collections a year), branding, proximity to big markets (the E.U., Russia, Middle East countries), large textile production capacity that can be adapted to produce technical/functional textiles, observation of environmental and human health standards and intellectual property rights, and a focus on new market approaches. The national strategy for sustained competitiveness in textiles and clothing can be classified into an exporting strategy based on high value added technical/functional/smart textiles and technology and design driven clothing products, a clustering strategy for small and medium enterprises in order to improve their international competitiveness, and a promotion strategy ("Turquality"). Mr. Altunyaldiz indicated that Turkey is the seventh biggest cotton producing country, the fourth biggest cotton consuming country, and the second biggest cotton importing country. He reported that the national strategies for sustaining cotton competitiveness include the establishment of the National Cotton Council, increasing the production of organic cotton, reducing costs of production, intensifying research and development activities and facilitating widespread utilization of machinery during harvest. He ended his presentation by thanking everybody for attending the meetings. The delegate of India, on behalf of the Indian delegation, thanked Mr. Altunyaldiz for organizing the meetings and for his presentation, and asked about the official steps that the government is taking to make Turkish textile and apparel very competitive. Mr. Altunyaldiz indicated that the government of Turkey is promoting the addition of value throughout the supply chain. In that respect, he highlighted that Turkey has a unique advantage: having all stages of the supply chain within the same country. Producers work to achieve higher yields per hectare, increase cotton quality and some of them plant organic cotton. The textile sector produces technical/functional textiles. The clothing sector is trying to promote designer and own-brand clothes to penetrate more markets. All these steps, he concluded, tend to make Turkey a leading country in the region.

The third speaker, Mr. Matthias Knappe, Chief of the Market Development Sector at the International Trade Center, made a presentation about the competitiveness requirements of the textile industry. He indicated that competitiveness is market-/buyer-driven and has 3 levels (macro, meso and micro

levels), and that cotton, textiles and clothing are not 3 different value chains but one value system combined at national, regional or global level. He noted that the U.S., the E.U. and Japan were the traditional markets for textiles and clothing, but nowadays that leading role has been taken over by Asia. He said that the future of the textile and clothing markets is in developing countries, whose economies have been growing significantly faster than those of the U.S., the E.U. and Japan. He highlighted that understanding the market is the first step to be competitive. He said that the most important factor when placing import orders is consistent quality, followed by speed to the market in the second place, and low cost and product development capabilities in the third place. He indicated that at the macro level there has been a shift in competitiveness, and that preference is not a substitute to competitiveness. Trade policy aspects are losing importance, and macro costs (aggregate cost of doing business, corruption, etc.) are still important but production costs (price) are no longer the most important determinant of trade. At the meso-level, he said that institutional infrastructure is crucial for sector development, and that the textiles and clothing sector is changing from a disorganized business to a managed sector. He cited as an example the development of new programs at Asian universities specializing in textiles and clothing. He claimed that the industry needs to build know-how and skills and that small and medium enterprises need the institutional back-up to become competitive. At the micro level, which is in his view the most important of three levels, he noted that not only manufacturing and sourcing and product development were key to competitiveness, but also full service and full partnership are required nowadays to be competitive in the world market. He cited as an example of full service and full partnership the relationship between JC Penny in the U.S. and LT Hong Kong, through which the warehouse in Hong Kong maintains a real time inventory of all stores of JC Penny, and places shipping orders immediately after stocks go under a certain minimum level at each store in the U.S. Mr. Knappe highlighted the relevance of recognizing the three part relationship between factory size, product size and customer size. As an example, he indicated that a small company cannot be a supplier of simple t-shirts to Wal-Mart. Finally, he underlined the importance of recognizing the potential for value addition through linking chains of value into a value system, and controlling the links. China (Mainland), India, Turkey, Brazil and to some extent South Africa are considered to have the complete value system. Small countries might not be able to develop a vertically integrated industry, but they can develop a regional vertically integrated industry from cotton to clothing. He cited COMESA in Africa as an example of value system, since it controls the links between all value chains across countries, even organic cotton. He mentioned that this argument could be considered as his own answer to Dr. Townsend's question to Mr. Öksüz.

The delegate from **Colombia** disagreed with Mr. Knappe regarding the importance of the macro level for achieving competitiveness, and stated that she believes the macro level has played an increasing role in recent years for the competitiveness of the cotton sector, and cited as an example the deep reform process undergone by Turkey over the last year. The delegate from Colombia also asked Mr. Knappe to explain his views about the role of changes in exchange rates on competitiveness. Mr. Knapp answered that although the CFA zone was affected by changes in the exchange rate, the overall relevance of the effects at the macro level is declining, particularly after the elimination of quotas. However, he noted that the macro level is still important.

The delegate from **South Africa** disagreed with Mr. Knappe on any factor being less important than the others. She indicated that the relative importance depends on the perspective of the observer, and as a member of the government she has to look and care for all three elements. Mr. Knappe stated that he referred to relative levels of importance throughout his presentation, and not absolute levels of importance, so the macro level is less important relative to the other two levels in his perspective, but that is different from stating that the macro level is not important.

The delegate of **Egypt** commented that since 1963 there have been 6 faculty members in his country dedicated exclusively to studying issues related to the garment and textile industry.

The delegate from **Kenya** thanked the Committee for allowing her country to be a member of the ICAC and asked for clarification from Mr. Knappe on the macro sector becoming less important and, in particular, on how to manage economies of scale as we move into smaller units. Mr. Knappe agreed with the delegate from Kenya that full partnership requires big companies, and that this tendency goes against small companies. However, he indicated that at the meso level production infrastructure could be organized so that many smaller companies achieve economies of scale acting together.

The fourth speaker, Mr. Shafqat Ellahi Shaikh, Chairman of All Pakistan Textile Mills Association, presented Pakistan's strategies for national competitiveness in textile and garment industries. He asserted that in today's globalized trade, successful players must be able to nurture their textile economies where competitive advantages exist. He said that Pakistan enjoys an inherent advantage in basic textiles, and that such advantage is being utilized by the industry as a springboard to move down the textile value chain. Mr. Shaikh asserted that the textile sector is the backbone of the Pakistani industry today, and reported that there are 12 million installed spindles in Pakistan (half of which are less than five years old), 24 thousand shuttle less looms, 6 thousand air jet looms, 300 thousand auto/power looms, 18 thousand knitting machines, and 4.6 billion square meters of fabric processing capacity. He said that Pakistani production is estimated at 2.4 million tons, and that there is the potential to increase cotton production with the introduction of biotech cotton, which is being considered at the moment. He also said that Pakistani cotton consumption is increasing at an average annual rate of 8%, and that cotton consumption is estimated at 2.7 million tons, while man-made fiber consumption is estimated at 0.5 million tons. Mr. Shaikh emphasized that the Government of Pakistan is an advocate of an open, deregulated and market driven economy and, as such, is putting special emphasis on privatization, liberalization and attracting foreign direct investments, mainly through investing heavily in infrastructure and local capacity building. He said that current Pakistani textile exports amount to 10.6 billion US dollars in 2007, and that the Government of Pakistan has set a target of 23 billion US dollars of textile exports for 2014, while the private sector has set a target of 29 billion US dollars of textile exports for 2014. He mentioned that Pakistan enjoys special market access to textile and clothing in China (Mainland) under a free trade agreement that eliminates all tariffs for Chinese imports of cotton yarn, undyed fabric, processed fabric and bed linen from Pakistan for domestic use starting in 2008, and sequentially reduces the tariff for ready-made garments from 16% in 2007 to 8.04% in 2010. Mr. Shaikh also mentioned that Pakistan expects to sign a bilateral agreement with the U.S. through which some areas, denominated as Reconstruction Opportunity Zones, will be designated as duty free areas for 15 years, in an attempt to facilitate their recovery from the earthquake that affected Pakistan in 2005. He highlighted the size of the local market in Pakistan, about 160 million people from which 60 percent are at most 30 years old. He also highlighted Pakistan's strategic location, close to China and India, and the existence of land routes to Turkey, Central Asia and Afghanistan as strengths to generate alliances and joint ventures with other countries. He compared input costs in Pakistan with those in China (Mainland), India and Turkey, and concluded that input costs in Pakistan are the lowest in the region.

A person from the audience thanked Mr. Shaikh for his presentation and commented that the road connecting Pakistan and Turkey has been under construction for at least one and a half years, and asked him about the expected date of finalization of construction, since without such a route it is not possible to deliver marketing orders on time. Mr. Shaikh answered that it is not possible to finish such a route in a short time, but it is important that the route is under construction now.

Another person asked if there are any effective measures in place to avoid imports into China (Mainland) from being re-exported. Mr. Shaikh answered that nowadays there is no duty in China (Mainland) for imports that are being re-exported, but that there are duties on imports for local consumption, and the free trade agreement eliminates duties for Pakistan's exports into China (Mainland) for domestic use.

The fifth speaker, Dr. M.L. Dhaoui, Coordinator of Thematic Issues at the Office of the Director-General, UNIDO (United Nations Industrial Development Organization), presented UNIDO's approach on upgrading productive and trade capacities in cotton, textile and garment industries. UNIDO was established in 1966 as UN Special Organ responsible for promoting sustainable industrialization throughout the developing world and in countries with economies in transition. In 1986, UNIDO was transformed into a United Nations Specialized Agency. The focus on technical cooperation is based on a set of thematic initiatives: trade capacity building, poverty reduction through productive activities, and energy and environment. As a Global Forum, UNIDO disseminates knowledge about industry and provides a platform for the various actors in the public and private sectors, civil society and the policy-making community in general to enhance cooperation, establish dialogue and develop partnerships. As a Technical Cooperation Agency, UNIDO designs and implements programs through integrated programs or country service frameworks, based on combinations of its service modules, or in stand-alone projects involving only one or two service modules, and regional programs with focus on thematic issues. The Cotton Initiative is UNIDO's response to the Doha Declaration issued on the occasion of the Fourth WTO Conference, the Millennium Development Goals, and the proposal for an E.U.-Africa partnership in support of cotton sector development. UNIDO's Cotton Initiative seeks to enhance and diversify the cotton sector's contribution to GDP, employment and exports thereby addressing declining competitiveness and stagnating income of African cotton producers, and contributing to efforts aiming at reducing dependence of primary goods and eradication of poverty in the region. The Cotton Initiative intends to enhance the competitiveness of the supply capacity of the cotton, textile and garment (CTG) chain, ensure the conformity of the CTG products with international standards, and connect efficiently the CTG products to national, regional and international markets. Dr. Dhaoui indicated that the ongoing activities in the frame of the Cotton Initiative are directed to strengthening quality infrastructure in West Africa and establishing the institutional infrastructure for the standardized instrument testing for cotton; supporting the Association Cotonnière Africaine for development of the African Cotton Standards and training of technicians and engineers from various cotton companies in West Africa on cotton seed breeding, ginning, classification and trade; conducting research to develop appropriate strategies for the cotton value chain in Africa; and preparing a Cotton Quality Manual for West Africa countries. UNIDO's approach on upgrading productive and trade capacities in the field of textile and garment industries consists of increasing the local transformation at first and second levels in the cotton-textile-garment value chain. He emphasized that through restructuring and upgrading of selected African cotton and textile enterprises, supply capacity will be strengthened to improve productivity and competitiveness on a pilot basis, facilitating access to new technologies and innovations, strategy development and market promotion. He indicated that the objective of this approach is to enable developing countries to rapidly establish the necessary physical and institutional infrastructure to satisfy the technical requirements of the Multilateral Trading System. For integrated technical assistance and capacity building actions UNIDO developed the 3-Cs Trade Capacity Building Approach focusing on the areas of: Competitiveness of the supply side, Conformity with market requirements and Connectivity to the market. He underlined that the upgrading and modernization programs primarily aim at enhancing and supporting competitiveness of textile and garment industries, and integration in global trade and growth at the industrial and enterprise levels. These programs cover the upgrading of pilot enterprises selected from textile and garment industries, improvement of the business environment and strengthening of technical support institutions (technical centers, building national capacities, developing business centers, developing quality and standardization institutes, investment and export

institutions) dealing with textile and garment industries. Dr. Dhaoui said that the factors affecting competitiveness of CGT industries can be grouped into external and internal sources. The external sources come from the national economy, while internal sources come from the industry and the enterprise. This approach resembles the approach of the International Trade Center presented earlier by Mr. Knappe. Dr. Dhaoui presented two success stories from the upgrading program in Tunisia. A 5-year program with a firm specialized in denim and sports-wear, SITEX (the National Textiles Society), resulted in significant gains in competitiveness: production of first class textiles increased from 88 to 95 percent, off-shade textiles production declined from 28.7 to 2.6 percent; job placement of young specialists increased from 12 to 15 percent; and the delivery time decreased to 2-3 weeks. The second case is that of United Colors of Benetton, a transnational company that currently has a network of 100 sub-contractors and suppliers throughout the country with around 7,000 people working. He indicated that the upgrading program resulted in a 20% increase in the total revenue from exports of the locally finished ready-made garments.

The delegate of **South Africa** thanked the hosts and the Secretariat for making this meeting a success, and Mr. Knappe and Dr. Dhaoui for bringing about the issue of which kind of competitiveness we are talking about. She highlighted the importance of this topic, and claimed that there is a need to take the discussion to another level so that all can benefit from this integrated approach, particularly regarding the integration of the three levels of competitiveness and how to reach a balance among them.

The CHAIR of thanked the contributions of the panelists and the audience.

The Session was adjourned at 13:00.