



# International Cotton Advisory Committee

**Attachment 3b**

## **The Impact of Covid-19 on the Global Cotton Textile Industry, Initial Assessment 564<sup>th</sup> Meeting of the Standing Committee**

**16 April 2020  
Virtual Meeting on GoToMeeting  
<https://global.gotomeeting.com/join/237405149>**



**Attachment 3b to SC 564  
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**For information**

## **The Impact of Covid-19 on the Global Cotton Textile Industry, Initial Assessment**

Covid-19's impact on the world textile chain has been devastating. From retail to brands, textile mills, trade, producers and all associated industries, monetary and job losses are mounting. Estimates by the International Labour Organization (ILO) indicate that full or partial lockdown has affected 2.7 billion workers, or 81% of the world's workforce. The ILO estimates that the majority of the hardest-hit workers — about 1.25 billion, 38% of the global workforce — are in retail trade, accommodation, food services and manufacturing. Retail and manufacturing, including textiles, are facing the closure of retail stores, cancelled orders, job losses and reduced salaries, as well as suppressed demand for textiles, clothing and fast fashion. There are several estimates on the number of workers employed in the global textile and cotton industry, ranging from 250 million to 300 million, and almost all of them are affected and face losses. The value of textiles produced in 2019 is estimated by the Grand View Research company at \$962 billion.

### **Order Cancellations Damage Demand for Textiles and Cotton**

Textile demand contraction accelerated at the retail level in March and April in Europe, USA, Asia, Brazil, Canada, Australia and other areas, as most of the stores around the world have been closed for weeks and retailers were faced with growing losses, large inventories and no in-store customers. At the same time, consumers are faced with sharply reduced disposable income and substantially less spending power. Consumer spending priorities include food, sanitary items and utilities, rather than clothing and textiles. Major retailers have suffered significant losses and had to close stores. Macy's, Kohls, Gap, Bed Bath & Beyond, JC Penny, Levy Strauss and others have seen their sales decline by up to 90% during the shutdown. In Germany, the largest department store, Galeria Karstadt Kaufhof, filed for administrative insolvency, the equivalent of bankruptcy in the USA, as it was losing 80 million euros per week. The Galeria was a retailer for major brands such as Adidas, Calvin Klein, Ralph Lauren, Scotch & Soda and more.

Major brands have cancelled billions of dollars' worth of contracts with textile mills in major textile-dependent economies. Bangladesh has suffered the brunt of those cancellations. According to the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), \$3.11 billion worth of textile exports — 967 million pieces — were cancelled by the major brands, affecting 1123 factories and 2.23 million workers. Some of the brands pledged to accept and pay for the orders already completed and even to create a wage fund for the workers who lost their jobs, but that represents only a small portion of the pre-Covid-19 business. In Pakistan, textile order cancellations are estimated at \$1.3 billion, affecting hundreds of mills and millions of workers. The Indian Clothing Manufacturing Association estimates that the Indian industry



has suffered losses of \$13 billion as a result of the shutdown and cancelled orders. Textile mills in China are returning to operations but indications are that they are only operating at about 30% of capacity. The Chinese textile industry is valued at \$250 billion. Vietnam, Indonesia, Myanmar and other countries face similar cancellations. Spinners in all markets report a significant build-up in yarn stocks, order cancellations and contraction in operations.

The ITMF in March-April conducted a couple of surveys on the Covid-19 impact on the global textile industry. The survey reached 700 companies and indicates that in 2020, cancellations of orders could reach 31% and the employee turnover could reach 28%. That could mean total losses for the global textile industry of about \$300 billion. World cotton mill use will decline during the last five months of the 2019/20 season because of the cancellations of orders in China and other major textile economies. It is estimated that if the loss in spinning capacity between February and July 2020 averages 30%, mill use of cotton could decline from 26 million tonnes in 2018/19 to about 23 million tonnes in 2019/20. Based on the loss of this volume in demand, losses for the global cotton industry are estimated at \$5 billion.

### **Lesser Effect on Production**

At this time, cotton plantings for 2020/21 in the Northern Hemisphere, accounting for 90% of world production, are underway. Losses in cotton plantings and production are expected to be much smaller than in cotton demand despite a decline in cotton prices from 80 cents per pound in December 2019 to below 60 cents per pound today (per the Cotlook A Index). In some producing countries like Brazil, a switch from cotton to more attractively priced corn, soybeans and grain is expected. However, in other major producing countries, government programs guaranteeing target prices (like the USA), minimum support price (MSP) programs (like India and Pakistan) or direct subsidies (like China), will limit the extent of the decline in cotton plantings. Many producers have already made planting decisions but could change them at the last minute. For example, US prospective plantings for 2020/21 indicate only 1% decrease in planted area. However, many analysts expect a larger decline, as the surveys were taken before the major impacts of the Covid-19 became more obvious. Government economic relief/stimulus programs could also provide additional aid to cotton producers. However, in India and Pakistan, the lockdown has delayed seed processing, which could negatively affect plantings. In West Africa, the stronger US dollar benefits producers so cotton plantings might actually increase in 2020/21. Overall, global production could decline by 0.5-1 million tons, bringing the total closer to 25 million tons. That would mean an increase of about 2 million tonnes in world stocks, which will apply downward pressure on cotton prices.

### **Contract Defaults and Losses will Damage Cotton Merchandising**

Plummeting demand from major cotton-consuming countries will mean a similar decline in the world cotton trade. The cancellations of orders from brands and retailers forced the closure of spinning mills and led to an explosion in contract defaults on a very large scale. This is a major crisis and many of the cotton merchants are suffering very large losses that can reach hundreds of millions of dollars. Many companies, especially smaller family-owned firms, will be forced



out of business, similar to the crises in 2008 and 2011. Total losses suffered by the cotton merchants could range from \$1 billion to \$2 billion. It will mean further consolidation in the cotton merchandising industry, where multinational, multicommodity companies have a better chance of survival. The recovery will happen, but it will take several seasons before we return to pre-Covid-19 levels.