The US is still the world's biggest producer of cotton, even though most of the mills that weave the yarn are now in Asia. With demand for cotton growing worldwide, this article shows that a recent decision among US farmers to sow less cotton—in favour of wheat, corn and soybeans—could have important consequences for the sports apparel industry.

Cotton could become a prickly issue

After spending three years as the world's worst-performing commodity, cotton consumption is expected to rise by 2.7%—to 27 million tons—in the coming 12 months, according to the International Cotton Advisory Committee. Coinciding with this is an expected 2.3% drop in world cotton output, down to 25.4 million tons (which would be the largest annual shortfall in five years). Fingers are pointing to the US, the world's largest exporter of cotton, for precipitating the deficit.

A growing demand and falling supply has forecasters convinced prices are going to rise; by how much remains to be seen. This past spring's predicted 6.9% rise to €0.44 ($0.62) per pound has already been reached. Now, Schroders Agriculture Fund foresees a possible doubling in price to over €0.71 ($1) a pound. For the sports apparel industry, where cotton covers consumers literally from head to toe, a significant rise in material costs would not go unnoticed.

The good news, for the sports apparel industry at least, is that not everyone is convinced prices are going to take the widely predicted leap. Perhaps even better news is that the impact of any cotton industry shifts can be moderated: industry can take advantage of existing programmes that maximise the efficiency of their supply chains—most notably with China.

Courting cotton

The growing demand for cotton emanates mainly from China and India, where rising income levels and cultural changes are prompting both nations to spend more money on products such as jeans and T-shirts. China's sporting goods industry is also playing a notable role in this increase.

According to Research and Markets' China Sporting Goods Industry Report 2006–2007, the annual sales revenue of China's sporting goods is currently around €3.7 billion. Rival



Cotton Council International

market research firm the NPD Group said recently that sales in this industry had increased by 13% in China during 2006.

This move is evidenced by Nike's 2007 annual report, which showed an 11% increase in revenue for apparel in the Asia Pacific region. The report states: "China continues to be the primary driver of growth within the region, as revenue increased nearly 26%." Nike's first quarter results for this fiscal year show more of the same, reporting that apparel revenues in the Asia Pacific region increased 20% to €170 million ($240.5 million).

Further reflecting China's influence over the sports apparel market, the World Federation of the Sporting Goods Industry recently declared that goods made in China share more than 65% of the world market. With next year's Summer Olympics to be held in Beijing, growth can only continue, and China's demand for cotton is expected to increase accordingly.

Meanwhile, amid this growth, some US farmers are turning away from cotton in favour of more profitable crops. Corn (alternative fuel seekers have started an ethanol gold rush in the US) and wheat both reached record highs, and soybeans have risen by 65%, according to the *Washington Post*. If cotton futures for delivery in December 2008 stay below €0.50 per pound, US farmers could cut sowings to about 9 million acres, the lowest since 1983.

What this means to you

It's difficult to gauge the effect that an increase in the cost of cotton will have on the manufacturing cycle, and leading sports apparel companies are not yet acknowledging any imminent impact. A spokesperson for Nike said that the rise in the cost of cotton was not something he had any information on. Reebok, Lotto and Champion did not return requests for information on the subject.

However, if it takes one pound of cotton to create one T-shirt, as freetheplanet.com estimates, then an €0.11 (15 cents) per pound increase (the median average of recent predictions) would translate to a million T-shirts costing an extra €106,100 ($150,000) to manufacture. Just one manufacturer, albeit the US's largest, American Apparel, has the capacity to make that number, a million T-shirts, every week. There is, then, at least the potential for the price increase to add more than €5 million to that company's annual raw materials costs.

Mitigating the impact

Perhaps the greatest way to limit unnecessary expenditure is through a more efficient supply chain, particularly one that capitalises on business relations with China. Now in its fourth year, Cotton Council International's (CCI) Supply Chain Marketing Programme has been working to facilitate such relationships. By introducing well-matched buyers and sellers, CCI is trying to turn the sweeping lines that currently stretch from the American South to countless points on the globe into more direct lines that reach strategically placed local resources.

CCI's supply programme was, in part, an obvious step to take soon after China's accession to the World Trade Organisation (WTO) in 2001. China had suddenly become a key player in global trade, driving buyers to look at markets they had never before considered.

"Our brands and retailers would informally ask us if we could recommend a mill in country X that can supply product Y," says Will Bettendorf, director for supply chain marketing at CCI, "and so we would, on a very informal basis, help them when and how we could." As such requests proliferated, CCI recognised a service they could offer; in 2003 the programme was launched.

The organisation's offerings range from conferences for 200–300 people, to its 'buyers' tours', through which 10–15 buyers are taken to a key country to meet suppliers. Since its launch, CCI has hosted tours to China, Bangladesh, India, Turkey and Pakistan.



The Cotton Council International wants sports clothing manufacturers to look at the cotton supply chain in a new way.

Cotton Council International

According to Mr Bettendorf, the retail value of the products traded as a result of these has surpassed €31 million ($44 million).

Stephanie Thiers-Ratcliffe, CCI marketing manager, describes last March's tour to China as "a great way to bring together key European and US buyers, from the brand and retailing sectors, with mill suppliers to promote sales of export-quality cotton items."

Ms Thiers-Ratcliffe stresses the importance of strengthened ties with China. "China is the largest importer of US cotton and the world's biggest consumer at mill level," she says. "It's good to bring together organisations in the supply chain so they can be mutually beneficial to each other." CCI hosted a buying tour to Shanghai at the end of October, where participants attended a mini trade show, took several mill tours, and experienced China's largest textile trade fair, Intertextile Shanghai.

"Buyers don't have to waste so much time getting to know these mystery companies because we've already done that," says Mr Bettendorf. "We've already filtered out the companies who aren't qualified suppliers." The filtering process includes ensuring that the products on a company's stand are made up of a majority of US cotton, and that the company has experience in the export market.

The changing chain

Despite the attention this programme places on non-US entities, Mr Bettendorf feels that the global focus of the initiative has only strengthened the US cotton market. "Frankly," he continues, "our programme has given the US yarn mills, in particular, a new lease of life. They're doing business in Central and South America when they'd never done a drop of export business before."

He illustrates this shift by recalling an event held in Korea several years ago. He explains: "I can remember the sales director of one US yarn mill; this man supposedly had international experience. Yet, at this event, he just sat back, staring at everyone walking past, talking only to his colleagues, laughing at the cultural differences—he had a real small-town mentality." Now, Bettendorf points out, this same man has an office in Guatemala, enjoys eating kimchi, and can even speak some Spanish. "It's been interesting; he has changed because he's had to," the CCI director adds.

The bottom line

Although CCI takes pride in the financial benefits its programme brings to participants, it is the assurance of quality through new partnerships that's most appreciated by some of the sports apparel industry's biggest players.

Nicolas Thibault, textile sourcing manager for Intersport France, praises the programme's sourcing trips for providing fruitful contacts with local suppliers, matched to his company's specific needs. "Each trip is an opportunity to meet from 20 to 40 suppliers," he says, "which allows me to build up a customised database that could also be used later when our needs are changing." Mr Thibault adds that while the programme has helped to develop his company's turnover, he puts even more value on the "added reliability" it brings.



Field of dreams. Many farmers in the US have moved out of cotton, planting more corn, wheat and soybeans instead.

John Burton

An uncertain market

Reliability is particularly important right now, when the cotton industry is experiencing, as Will Bettendorf concedes, "lots of rumours in the market, lots of uncertainty". Inherent in the debate over the price of cotton is the question of continued cotton demand. Last year, PCI Fibres, which specialises in forecasting chemical synthetic fibre demand, estimated that Chinese per capita cotton consumption would fall from just over 3.5 kilograms in 2006 to just under 3.5 kilograms in 2010.

Speaking at September's World Cotton Research Conference in Lubbock, Texas, Allen A Terhaar of CCI disputed PCI's predictions, pointing out that cotton has consistently outperformed PCI's predictions since 2000. He says that the same applies to PCI's predictions for India's cotton consumption. "Why should we think that the 2007 to 2010 picture should be the reverse of what 2002 to 2006 showed? Is there going to be a fundamental shift in Indian cotton demand and consumer preference as it goes into its next five years of economic expansion, or are the pundits wrong?" he asks. "I think they are wrong. They are consistently underestimating underlying demand for cotton at this point."

Ultimately these predictions are at the mercy

of the men and women who are in the field (literally) and making decisions about what to plant. Are they guided by the rise and fall in demand, or do tradition and resources dictate a more consistent future?

John Burton has been farming most of his life and has run his own farming business in Barney, Georgia, since 1972. For most of that time, 1,400 of his 2,000 acres has been devoted to cotton (which translates to 1.26 million pounds of cotton per harvest).

Speaking in late September, Mr Burton agreed that cotton's value was currently up; however, even at that day's €0.45 ($0.63) a pound, he says the profit margin is "very slim". He adds: "This rate is subject to change by the day, by the hour, by the minute—though I expect it will be between five and eight cents (€0.03 and €0.06) of that figure."

He doesn't expect that to change dramatically, despite what the pundits are saying. "I've seen projections for a steep rise in price and watched the exact opposite happen," he says. "Supply and demand doesn't drive the market. Rumours do." Looking back over the last 15 years, he can recall few times that the price of cotton veered significantly: once in 2003 when cotton sold for €0.56 ($0.80) per pound, and one time in the mid-nineties when it leapt to €0.83 ($1.17). He feels that predictions of cotton hitting €0.71 ($1) per pound this coming year are unrealistic: "Even if the price does rise, I don't see it going beyond 80 cents (€0.56)," says Burton.

Next year John Burton will plant the same 1,400 acres of cotton that he has planted for so many years. He is confident that the market will remain relatively unmoved by the purported numbers of American farmers turning to soybean, wheat and corn. "All of these commodities—cotton, wheat, corn—trade worldwide," he says. "Ten years ago, the cotton market would have been over a dollar at a time like this, but not now."

Cotton is indeed a worldwide market. The vast amounts of cotton that China imports each year is in addition to its home-grown crop; according to the China Cotton Association, there are 140 million farmers working the Chinese cotton fields. Last year the US slipped from second place to third as the world's largest producer of cotton. India—where the government estimates that there are at least five million cotton farmers working—overtook the US because of last year's solid yield, due in part to India's new GMO (genetically modified organism) worm-resistant cotton.

"In this worldwide market," says Mr Burton, "a fluctuation here or there is not going to be enough to significantly change the world's overall supply."

Cotton prices won't change everything

Should the prices take Schroders' predicted leap or continue to linger around the €0.43 mark, Will Bettendorf is confident that today's supply chain structure will only continue evolving towards more sophisticated and localised buyer-supplier relationships.

"It's hard to believe, but it's cheaper for a Chinese mill to import from America than to buy it from its own cotton suppliers," says Bettendorf. "The world market will demand cotton and the US is going to be there to sell it to them."