Cotton Outlook

Special Feature

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ITMF

INTERNATIONAL TEXTILE MANUFACTURERS FEDERATION

Annual Conference 2014 Beijing

American Cotton Shippers Association

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International Cotton Institute | May 27, 2015 - July 14, 2015

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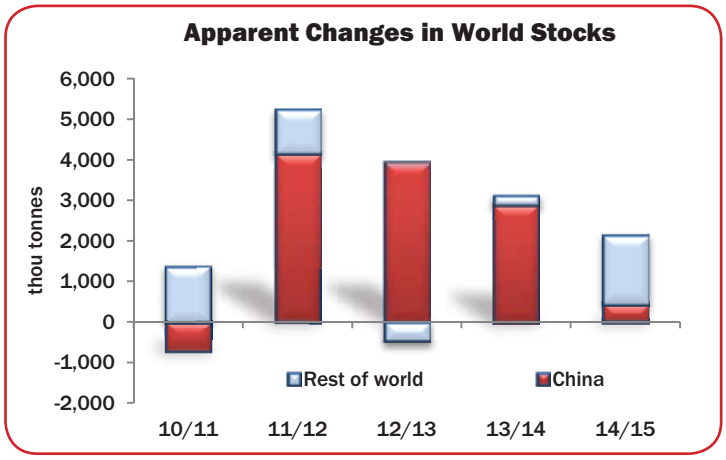
World Cotton Market

Ray Butler,
Managing Director, Cotlook Limited

A year ago, it was evident that cotton prices had stayed remarkably firm, given that the effect of China's various policy decisions had been to absorb the global surpluses that might otherwise have weighed on international prices but that a new regime was in prospect for the 2014/15 season.

That new regime is now upon us. China's government has made clear that it will no longer establish a floor price as it switches to a system of target price and direct subsidies to producers. Meanwhile, despite lowering the auction base price for state reserve cotton, price expectations in the internal market have declined much further, influenced partly by downward movement in international values. In late July, therefore, China's government was still controlling something in excess of 11 million tonnes of accumulated reserves and by the end of the month, the estimated total stock in China (government, commercial and industrial stocks) was estimated to be more than 12.3 million tonnes, or 72 percent more than the amount of mill consumption in the 2013/14 season.



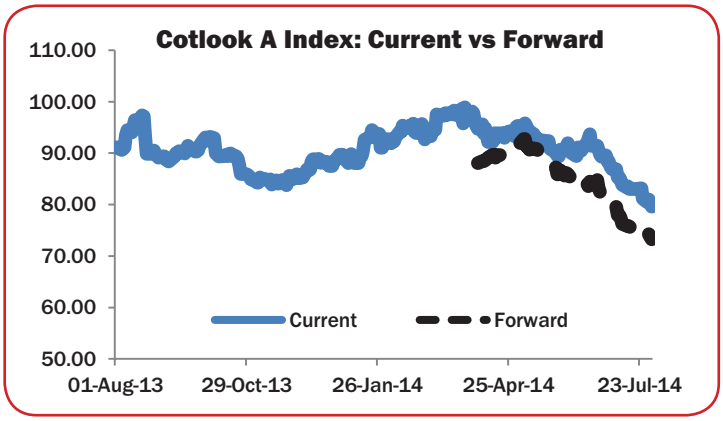
The aim of the policy change would seem to be to allow the internal market to function in 2014/15, with farmers afforded price protection through subsidies and the state playing no direct role in removing market surpluses during the harvest period (though state trading enterprises may well be encouraged to do the job instead). Among China's other principal macro levers, control of import quota allocations remains in place and there is no certainty (apart from China's annual WTO commitment) as to what volumes will be permitted during the course of the season ahead. Cotton Outlook has taken the view, so far at least, that China's cotton imports will dip sharply for a second successive season.

Hence, unlike during the past three seasons, during which additions to global stocks were located principally in China, as a result of Beijing's policy, the outlook in 2014/15 would seem to be for stocks to increase principally in the rest of the world. The effect on the price outlook has already been self-evident. As 2013/14 progressed, it rapidly became clear that the forthcoming change of season would bring with it a significant, downward adjustment in world prices.

The differential between the Cotlook 2013/14 and 2014/15 A Indices, when the latter was first calculated in early April this year, was 6.65 US cents per lb. Anyone wanting to buy cotton that would arrive in the mill at final destination after the late summer, therefore, was generally unwilling to pay prices related to 2013/14 crop values. The differential reached a peak of 9.55 cents during mid-June, after which prices, both nearby and forward, began to fall.

That decline was predicated on changing views as to crop prospects, particularly those in the United States. Texas, the US's largest producing state, is reliant on the receipt of rainfall. Persisting drought had led to large-scale abandonment of cotton after planting, as crops perished, in the preceding couple of years. In 2014, however, rainfall has been abundant, and though more is probably needed before the crop is fully made, some producers in the region anticipate bumper yields. The USDA, which predicted during the late spring a US crop of slightly over 3.15 million tonnes, revised that figure in August to over 3.8 million tonnes.

A not dissimilar scenario has unfolded in India. This year's Southwest Monsoon, on which much of the country's agriculture is dependent, proved slow in arriving and only covered the country in its entirety in early July. The prospect of a sharply reduced Indian output quickly diminished; indeed, some observers contend that the area planted to cotton in some regions will have increased, since the optimum planting period for certain other crops had passed



by the time abundant rainfall arrived. At the time of writing, private crop forecasts were generally increasing, some of them to record levels.

An abundant global supply signals a continuation of downward pressure on prices, unless, that is, cotton consumption recovers more strongly than of late, something which is not yet readily discernible but which some estimates (such as those by the USDA and the International Cotton Advisory Committee) believe will result from cotton's increased competitiveness with the man-made fibres – specifically, polyester.

In China, polyester staple prices in mid-August were typically some six percent lower than a year earlier. The China Cotton Index was about 11 percent lower but forward prices on the Zhengzhou cotton futures market and the China National Cotton Exchange showed substantial, progressive discounts through into next year's delivery months, suggesting that cotton lint supplies will continue to cheapen as the months progress.

Lower market prices could of course place cotton as a less attractive choice of crop for farmers in the next round of planting. This development is already evident in Southern Hemisphere producing countries (notably Australia and Brazil), whose farmers are already scaling back their planting intentions for later this year. These crops, however, will not be available until the second half of 2015, however, and the impact of the reductions on price nearby is therefore muted.

A more urgent consideration for the market is the probable lateness of the current crops in the United States and India (and, also, in Xinjiang) , which points to there perhaps being a tight supply of high grades prior to the bulk availability for shipment of the Northern Hemisphere new crops, late in the fourth quarter and in early 2015.

Those who have been in a position to market their new crop supplies early, therefore, might have gained a short-term advantage over those whose crops have been delayed.

The ITMF considers all aspects of the global textiles industry, from fibre through to retail, not just cotton as a raw material. However, as a natural product that provides livelihoods for millions of people around the world, not least in China, cotton remains an important part of the deliberations at the Federation's annual conferences. The changing face of China's cotton policy will surely be a topic for discussion during the forthcoming meeting, and in its margins, in a few weeks' time in Beijing.

Facilitating Transformation and Upgrading, Deepening International Cooperation

Wang Tiankai,
President of China National Textile and Apparel Council

As a traditional pillar industry, China's textile industry is moving into a crucial phase for its transformation and upgrading, and development mode of the industry is undergoing fundamental change. From 2011 to the first half of 2014, growth of the industrial value added of textile enterprises above designated size gradually declined from 10.7% to 7.6% with the soft landing of national economy. The overall growth slows down obviously. However, indicators of economic activity show stable progress, and industrial structure is further rationalized.

The driving force behind the significant adjustment of China's textile industry is the change of macro environment both at home and abroad. International economy will be for a long period in the sluggish recovery from the Financial Crisis while national economy is entering a new normal state – shifting from a high-speed to a medium-speed growth. Domestic and overseas markets also change in many ways. China's textile industry must pursue transformation and upgrading to efficiently get adapted to the new economic normal state. More importantly, the industry with a fibre processing capacity of 48.50 million tons needs to further enhance its status in the international industrial and value chains. Also, it is the historical mission of China's textile industry to transform and upgrade so as to boost the country's progress in new industrialization and urbanization and contribute to the realization of "Chinese Dream" – to build a moderately prosperous society and realize national rejuvenation.

There are four key aspects in the transformation and upgrading of China's textile industry. First is scientific and technological innovation. Basic research and development capacity will be strengthened, and technological breakthroughs will be made to cope with pressure from raw material supply, equipment replacement, energy saving and environmental protection so as to improve the core competitiveness of the industry. Second is development of self-owned brands. Further efforts will go to high quality products and social compliance, national culture inheritance and demonstration of modern flavour, creative designing and market trends reflection, dynamic marketing and distribution to meet the diversified, multi-level domestic market demands. Third is realization of sustainability. The industry will promote the wide application of energy saving and environment friendly technology, the concept of manufacturing new products from waste, and improvement on management and service to realize the ecological development. Fourth is human resource support. The industry will improve personnel management, service and training for the reserve of skilled labours, qualified technicians and talented persons.

The foundation of transformation and upgrading of China's textile industry is strong supply of raw materials. Affected by China's cotton policy and overcapacity in man-made fibre industry, the industrial transformation and upgrading has run into a bottleneck. With the arrival of new cotton this year, the government will make significant adjustment on cotton policy to give the market a better play in resources allocation. Given the opportunity, China's textile industry on one hand will make good use of domestic cotton resource, and on the other hand will push forward the reform of cotton circulation system to eliminate the gap with international prices. Meanwhile, the structure of man-made fibre products will be optimized to make substantial progress in simulation, variation and versatility, which will promote the innovation of the downstream industrial chain and meet the market demand for made-up products.

Transformation and upgrading of China's textile industry still need to optimize the use of international resources and strengthen dialogue and cooperation with other countries to create a more workable multinational supply chain and industrial layout. The International Textile Manufacturers Federation – ITMF – plays the important role in promoting exchanges and cooperation of textile industries in the world. As a member of the big family, China's textile industry will build communication and mutual trust with other countries, expand each other's markets and deepen trade cooperation, co-work on technology innovation projects and make full use of capital and personnel, and enlarge mutual investment activity to forge a rationally divided, complementary and coordinated world textile industry system. China's textile industry is expected to achieve success in its transformation and upgrading with the support of global textile resources, and will work closely with other countries in a reciprocated way for the prosperity and development of the world textile industry.

The ITMF Annual Conference 2014 will be held in October, Beijing, China. As the host, China National Textile and Apparel Council – CNTAC – will devote every effort to ensure the organization and services of the conference. We sincerely welcome delegates from all around the world to Beijing and wish the conference a complete success.

China's Role in the Global Textile Industry

Dr. Christian Schindler,
Director General, ITMF

After 2009 in Shanghai, the ITMF Annual Conference will take place for a second time in five years in China in 2014, this time in Beijing. This is certainly no coincidence but a consequence of China's important role in the global fibre, textile, textile chemical and textile machinery industries. China has emerged as one of the major beneficiaries of the end of the old quota system under the WTO that was finally phased out at the end of 2008. China has become the world's largest man-made fibre, cotton, textile, apparel and textile machinery producer. Furthermore, China is also the world's largest exporter of textiles and apparel.

Data on global cotton production and consumption, as well as cotton trade, illustrate the important role of China. Although India may surpass it in 2014/15, China has long been the world's leading producer of cotton, as well as the main consumer. The importance of China as a textile producing country becomes even more visible when looking at total natural and man-made fibre consumption and comparing it with other major textile producing countries. According to PCI Fibres, China's total fibre consumption in 2013 reached about 46.5 million tons, of which cotton accounted for around 17% and the balance of man-made fibres. In comparison, India's total fibre consumption in 2013 amounted to some 8.3 million tons of which no less than 59% consisted of cotton.

In 2011 global cotton yarn imports amounted to 2.7 million tons of which China alone absorbed around 28%. Just one year later, global imports increased to some 3.07 million tons, of which around 44% went to China. This increase was a consequence of relatively high cotton prices in China, compared with international values. While the latter dropped from the record high of above US$2.30 per lb attained in in the first half of 2011 to their current level closer to $0.75, China's domestic cotton prices remained around $ 1.40/lb – the price floor set by China's cotton policy. The trend of rising cotton yarn imports into China persisted in 2013 and into 2014. India, Pakistan, Indonesia, Vietnam, Turkey, the USA and others have benefited from this surge of Chinese cotton yarn imports.

ICAC data on global cotton fabric production indicate that China is also the largest producer of cotton fabrics, accounting for 33 percent of the world total in 2013, followed by India, Pakistan, Indonesia, Brazil and Turkey. China was also at the top of the list of major exporters, with its share in 2012 amounting to 50%, with Pakistan (7%) a distant second, followed by India (4%) and Turkey (3.5%), and also the biggest importer.

China has retained its leading position despite expensive domestic cotton and cotton yarn prices. By importing lower-priced imports of both, the downstream textile industry has been able to avoid some of the negative impact of high cotton costs. In addition, the Chinese textile industry has turned to using more man-made fibres in blends or by substituting cotton with man-made fibres altogether.

ITMF's International Production Cost Comparison (IPCC), as well as the Textile Machinery Shipment Statistics (ITMSS) illustrate very clearly that China plays and most likely will continue to play an important role in the global textile and apparel industry, though not necessarily in all segments.

According to ITMF's International Production Cost Comparison the most cost-competitive country in 2012 in

Total Costs 2012: Ring-Yarn

	Brazil	China	Egypt	India	Indo.	Italy	Korea	Turkey	USA
Waste	0.286	0.49	0.435	0.265	0.301	0.295	0.296	0.274	0.249
	8%	11%	11%	9%	10%	6%	9%	8%	8%
Labour	0.218	0.061	0.06	0.035	0.062	0.854	0.211	0.204	0.532
	6%	1%	2%	1%	2%	19%	7%	6%	16%
Power	0.478	0.413	0.136	0.351	0.296	0.696	0.225	0.379	0.174
	13%	9%	3%	11%	9%	15%	7%	12%	5%
Auxiliary material	0.142	0.138	0.138	0.138	0.137	0.157	0.142	0.138	0.151
	4%	3%	3%	4%	4%	3%	4%	4%	5%
Capital (depreciation & interest)	0.68	0.522	0.554	0.633	0.452	0.771	0.521	0.559	0.62
	19%	11%	14%	21%	15%	17%	16%	17%	19%
Raw material	1.771	3.028	2.69	1.64	1.857	1.82	1.83	1.704	1.553
	50%	65%	67%	54%	60%	39%	57%	52%	47%
Total yarn costs (per kg of yarn)	3.575	4.652	4.013	3.062	3.105	4.593	3.225	3.258	3.279
Index (Italy: 100)	-74	-101	-87	(67	-68	-100	-70	-83	-71

Source: ITMF, International Production Cost Comparison (IPCC) 2012

Note: Manufacturing costs relate to the production area only, i.e. excluding overheads.

manufacturing of cotton ring-yarn (Ne 30) – excluding the raw material – was Indonesia (US$ 1.25/kg) closely followed by Egypt ($ 1.32/kg), Korea ($ 1.40/kg), and India ($ 1.42/kg). Turkey ($1.55/kg) and China ($1.62/kg) were not much higher.

Once raw material costs are included, the cost-competitiveness changed dramatically. Chinese cotton ring-yarn then looked relatively expensive (US$ 4.65/kg) – dearer, even than cotton ring-yarn from Italy ($ 4.59/kg). The most cost-competitive country was India ($ 3.06/kg), followed by Indonesia ($ 3.11/kg), Korea ($ 3.23/kg), the US ($ 3.30/kg) and Brazil ($ 3.58/kg). In other words, if prices are indexed against Italy's total costs for a kilogram of cotton ring-yarn (= 100), India as the most cost-competitive country stood at 67 whereas China reached 101.

Total Costs 2012: Woven Ring Yarn Fabric

	Brazil	China	Egypt	India	Indo.	Italy	Korea	Turkey	USA
Waste	0.061	0.1	0.09	0.056	0.064	0.064	0.063	0.059	0.053
	6%	9%	9%	7%	8%	4%	7%	7%	6%
Labour	0.1	0.037	0.026	0.017	0.031	0.383	0.102	0.096	0.246
	10%	3%	3%	2%	4%	26%	12%	10%	26%
Power	0.187	0.164	0.054	0.138	0.118	0.277	0.09	0.151	0.069
	19%	14%	6%	17%	14%	19%	10%	16%	7%
Auxiliary material	0.066	0.066	0.081	0.081	0.081	0.107	0.076	0.09	0.06
	6%	6%	9%	10%	10%	7%	9%	10%	6%
Capital (depreciation & interest)	0.249	0.191	0.194	0.223	0.169	0.311	0.177	0.204	0.233
	25%	17%	20%	27%	21%	21%	21%	22%	24%
Raw material	0.337	0.575	0.511	0.312	0.353	0.346	0.348	0.324	0.295
	34%	51%	53%	37%	43%	23%	41%	35%	31%
Total fabric costs (USD per meter of fabric)	1	1.133	0.956	0.827	0.816	1.488	0.855	0.924	0.956
Index (Italy: 100)	-67	-76	-64	-56	-55	-100	-57	-62	-64

Source: ITMF, International Production Cost Comparison (IPCC) 2012

Note: Manufacturing costs relate to the production area only, i.e. excluding overheads.

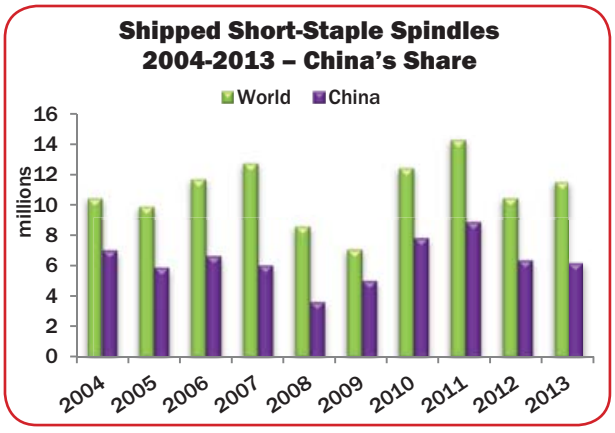
In woven cotton fabrics (again excluding raw material), Egypt was the most cost-competitive (US$ 0.19/meter) followed by Indonesia ($ 0.23/meter), Korea ($ 0.24/meter), India ($ 02.25/meter) and China ($ 0.25/meter). Including the raw material cost, China's competitiveness deteriorates significantly, being 31 cents more expensive than Indonesia (at $ 0.82/meter), followed by India ($ 0.83/meter), Korea ($ 0.86/meter), Turkey (0.92/meter), the USA and Egypt (each $ 0.96/meter) and Brazil ($ 1.00/meter). Using Italy's total cost as a base of 100, Indonesia stood at 55 and China at 76. The negative effect of expensive Chinese cotton was still evident, though much less than in ring-spinning, since the share of the raw material is smaller.

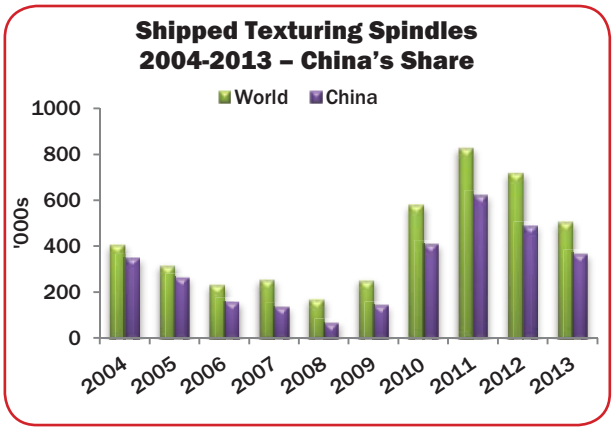
ITMF's IPCC 2012 data show that expensive cotton prices make cotton spinning less competitive and lead to increased cotton and/or cotton yarn imports, and that such imports improve the competitiveness of weavers and knitters.

This raises the question whether such circumstances have had, or will have negative impacts on the entire textile supply chain. ITMF's **International Textile Machinery Shipment Statistics** (ITMSS) clearly shows that China has invested tremendously in the past 10 years in NEW textile machinery in all textile segments – from spinning and texturing to weaving and knitting in which it has absorbed the bulk of new installations. In short-staple spindles, China's global share in 2013 reached 54% - despite high domestic cotton prices.

In texturing the dominance is even more pronounced with China's share reaching 72% in 2013.

In weaving, the situation is not much different with China having installed 66% of all new shuttle-less looms in 2013.

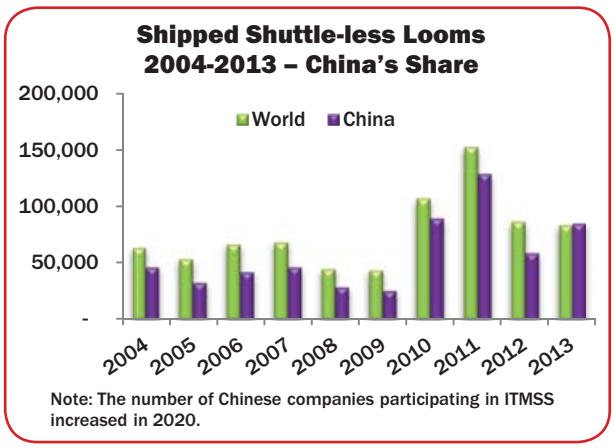


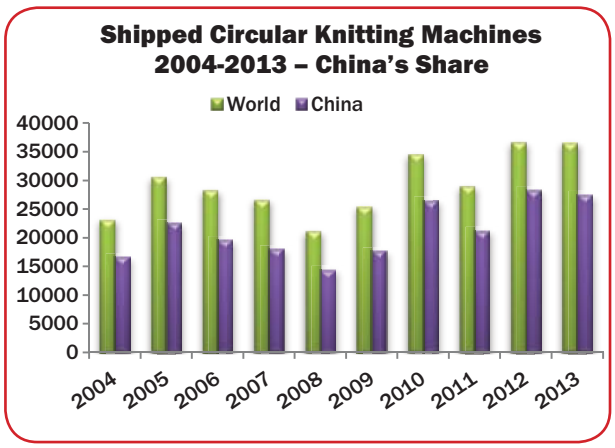


Source: ITMF, International textile Machinery Shipment statistic (ITMSS) 2013

In circular knitting machines China absorbed 75% of all new installed machines worldwide.

It is certainly true that the cost situation in China is not as favourable as it was 10 years ago. Rising labour and energy costs, as well as stricter social and environmental regulations, have added expenses. Heavy investment in more efficient and productive textile machines have compensated to a certain extent, by increasing productivity and raising energy efficiency. Arguably, with labour costs representing only around 1% of total manufacturing costs in ring-spinning and 3% in weaving, China will be able to absorb rising labour costs for quite some time. In addition, China's totally integrated textile industry, with many textile clusters, enjoys many synergies and is able to offer a wide range of products that is second to none. This does not mean that the investment intensity of the past 10 years will continue





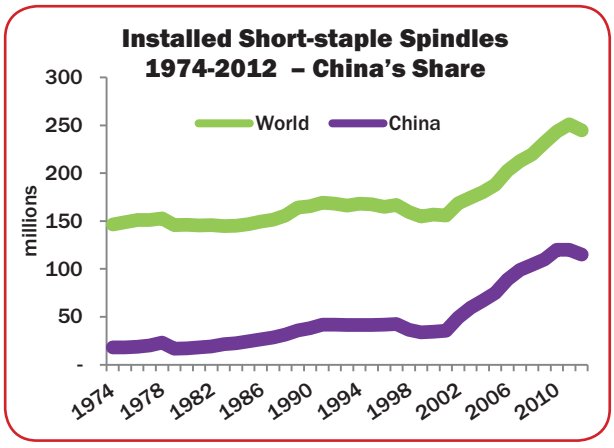
Source: ITMF, International textile Machinery Shipment statistic (ITMSS) 2013

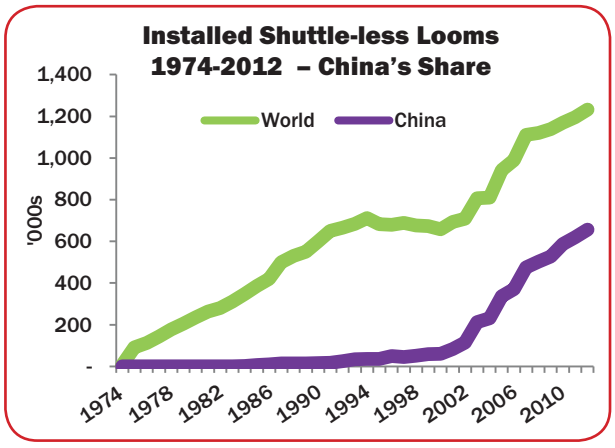
forever. There are good reasons for investing outside China, and it is noteworthy that Chinese companies have participated in such investments.

While the bulk of new machines placed in China was for replacement of outdated and inefficient machines, a significant number added to capacity so as to cater for both domestic needs as well as China's customers overseas.

The two graphs on installed capacities of short-staple spindles and shuttle less looms in the world and in China show that around 50% of world capacities in spinning and weaving is located in China.

A growing world population, higher GDP per capita and rising per capita fibre use are long-term trends that are leading to increased global demand for fibres and hence for new (and additional) textile machinery installations. China has played a major role in the recent past and it can be expected that it will also do so in the foreseeable future.





Source: ITMF, International textile Machinery Shipment statistic (ITMSS) 2013

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Transformation and Upgrading of China's Textile Industry from a Large Scale One to a Powerful One Current Situation and Prospects

Sun Ruizhe,
Vice-Chairman of China National Textile and Apparel Council

As a fundamental consumer goods industry, the textile industry has always been a traditional pillar industry of China's national economy. It is also important for people's livelihoods. The industry has obvious international competitive advantages, forms an important part of the strategic, emerging industries, gives impetus to the development of fashion and is an important carrier of the cultural and creative industries. The textile industry has made outstanding achievements in terms of the speed of its development, technological progress, quality and benefit, market vitality and globalization, and has attracted broader and broader attention.

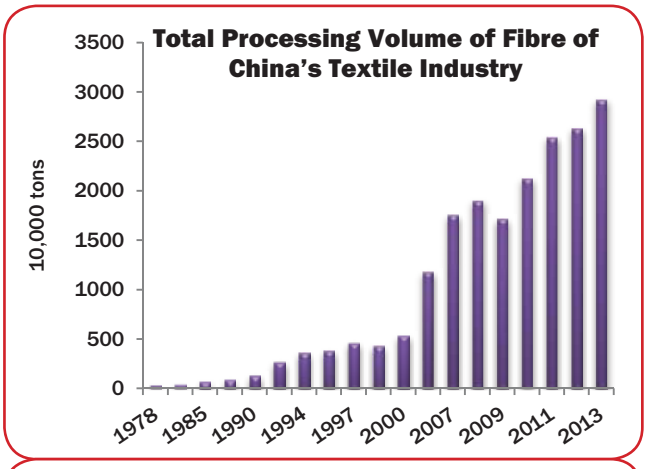
1. Current Situation of China's Textile Industry

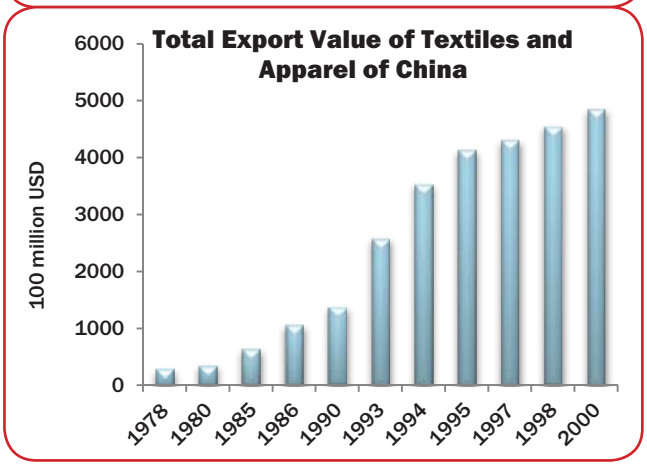
The textile industry has shown rapid growth during this century. It boasts the largest scale in the world, with the most complete industrial chain. As well as the critical role it plays in the growth of the economy, in the creation of jobs and improvement in people's living standards and support to auxiliary industries, the industry has also given positive solutions to the "Three Rural Issues" and stimulated the enhancement of countryside urbanisation.

China is the largest producer and exporter of textiles and apparel. In 2013, the volume of textile fibre processed in China exceeded 48.50 million tons, or 55% of the world total; export value of textiles and apparel was US$29.2075 million, 11.24% more than in the preceding year. (Note: By the time of distributing this article, WTO had not yet released percentage data for 2013, but in 2012 China accounted for 36% of the global export value.)

China's textile industry still has obvious competitive advantages and its overall competitiveness will be unshakeable in the short to medium term. China has established a complete and continuously improving production system that dovetails various upstream and downstream sectors. Compared with China, Southeast Asian and South Asian countries still lag behind on several aspects, such as labour quality, infrastructure, service and guaranteed delivery. Moreover, labour costs and pay levels in these regions have been rising steadily.

In general, development trend of the textile industry in 2013 can be summarised in four statements: making progress in overcoming difficulties; accelerating the pace of adjustment; reversing the transmission of responsibility; seeking changes and avoiding risks. "Making progress in overcoming difficulties" is demonstrated by various indicators, such as operating income, profit, investment, exports and turnover. "Accelerating the pace of adjustment" is shown by the frequent mergers and acquisitions and restructuring of the industry. "Reversing the transmission of responsibility" is manifested by environmental-friendly





policies, resource conservation and consumption safety. "Seeking changes and avoid risks" is an inevitable choice for a textile industry under pressure. "Change" is a "normal state" in the textile industry. It should be the industry's "attitude". In 2014, the operation of the textile industry remains generally stable. Most indicators reflect growth. From January to June, the industrial added-value of textile enterprises above a designated size increased by 7.5%, year-on-year; the completion rate of investment in fixed assets on projects above 5 million yuan was 454.48 billion yuan, up 16.06%; the export value of textile and apparel was

US$132.48 billion, up 4.17%; above-scale enterprises have achieved a prime operating revenue of 3.103855 trillion yuan, up 8.51%; total profit of these enterprises was 147.758 billion yuan, a gain of 11.75%; the return on sales was 4.76%, up 0.14%.

China's textile industry is faced with an urgent task of transformation and upgrading. In general, the external situation is still complicated. On the one hand, the industry is faced with favourable conditions, such as the recovery of the global economy and intensifying reform at home. It faces, on the other hand, several risk factors. For instance, the impact of cotton issues is still outstanding. The momentum of domestic demand growth is still weak in conventional retail outlets. There is exposure to rising, embedded costs. The situation of energy-saving and environmental protection is grim. The cost of dyestuff is rising fast. The textile industry is exposed to huge pressure for further development. The key to ensure stable growth in the future is to accelerate the pace of transformation and upgrading and conciliate various external risks and internal contradictions. Meanwhile, continuous improvement should be made on the domestic policy, which is very important for the industry's stability.

2. Mission of China's Textile Industry

The development of the global textile industry follows a specific process. Firstly, it is a dominant industry in the initial phase of industrialisation, and an industry that turns luxury goods into necessities. Secondly, it is a mainstream industry in that supports the economy and employment. Thirdly, it is a fundamental industry for social-economic transformation and upgrading.

Build a well-off society in an all-round way. This mission not only sets higher requirements on the industry's transformation and upgrading, but also provides rare opportunities. Building a powerful textile country has become a mission for China's textile industry.

Fundamentally speaking, the transformation from a large-scale industry to a powerful one is an issue concerning the modernisation of China's industrial system. The textile industry should satisfy people's increasing demands, and adapt to the new positioning of international division of labour, so as to create new advantages. The textile industry not only stimulates the overall upgrading of manufacturing industry, but also accelerates the nurturing and development of strategic emerging industries, such as services, energy, new materials development and transport.

3. The Future of China's Textile Industry

China's economy has entered a "phase of inflection point", as it transforms from structural acceleration at the stage of industrialization to structural deceleration at the stage of urbanisation, a process that needs to take place whilst maintaining stability and enhancing quality and efficiency. On the whole, the macro-economy of China is entering a new normal era, during which it must not only overcome the "three traps" (middle-income trap, Kuznets cycle trap and Thucydides' trap) but also enhance the productivity of labour and capital, and transform from high-speed growth into highly-efficient growth.

This situation also applies to the textile industry. In general, the velocity of its development remains stable in the "Twelfth Five-Year Plan". However, compared with the "Tenth Five-Year Plan" and the "Eleventh Five-Year Plan", the velocity is slowing. Meanwhile, adjustment of the internal structure is intensifying. This phenomenon is evidence that the textile industry has indeed entered a new stage of development, transforming from large-scale to powerful. At present, the industry's comparative advantage has two aspects: firstly, the comparative advantage of labour productivity that focuses on both scale and benefit (in other words, the advantage derived from scale-based market share, structural optimisation guaranteed by industrial integration, and innovation-driven, high quality); secondly, the comparative advantage of sustainable development (which means pursuing environmental issues, resource conservation and recycling during the production process, developing brand loyalty, guiding fashion, and attracting talent).

The next 5~10 years will continue to be in an important era of strategic development and opportunities for the textile industry. Four principal lines should be pursued, namely innovation (focusing on materials and 'intelligentisation'); fashion-oriented brand development; promotion of a sense of responsibility; enhancing society.

To increase its international competitive advantages, the textile industry must gradually change its scale and cost advantages into technology and brand innovation advantages and maintain steady growth by focusing on structural adjustment, transformation and upgrading. In so doing, it will raise employment and quality, and thereby be equipped to satisfy the continuously increasing consumption demands of the Chinese people.

In future, the textile industry must complete several tasks, such as taking the lead in technical innovation, advancing home-made brands and improving raw materials and resources. Other examples are integrating cluster development, paying more attention to the growth of small and medium-sized enterprises and creating a stable policy environment. All stakeholders in the textile industry should make joint efforts to achieve these goals.

Devoted to the Sustainable Development of Traditional Industry

Esquel Group's Experiences on a "Green Road"

John Cheh,
Vice Chairman & CEO, Esquel Group

Prepare for a "New Normal State" of Economy

In a post-crisis era, the major economies in the world began to focus on a new concept: the "New Normal State" of economy. This concept was first proposed by Mohamed El-Erian, the former CEO of PIMCO. Chinese President Xi Jinping also mentioned this concept in his recent speeches: "China is still in an important period of strategic opportunities for development. We should strengthen our confidence, start from the periodical features of economic development at the current stage, and adapt to a 'New Normal State' of economy."

One of the major characteristics of the "New Normal State" is that the major force of stimulating economic growth will rely on the transformation and upgrading, the enhancement of productivity and diversified innovation. Industrial development should not be made at the expense of resources and environment. Instead, we should achieve sustainable development by making incessant exploration.

Sustainable Development of Traditional Textile and Apparel Industry

Textile and apparel is a traditional labor-intensive industry with high energy consumption and severe environmental issues. In recent years, the textile industry is faced with several problems, such as the rising exchange rate of RMB, rising labor costs, and the fluctuation of raw material prices. Sustainable development has become the core challenge for the industry. It is also the future that the industry expects. Innovation, technology and talent have become the endogenous power for the industry to achieve sustainable development.

In future, the development opportunities and core competitiveness of the textile and apparel industry will mainly depend on the strategy of sustainable development and ability of enterprises. Enterprises will fundamentally enhance production efficiency, enhance brand connotation and business performance through technical innovation and green development, and fulfill their responsibilities to various stakeholders, including employees, customers, environment and consumers. This is an inevitable choice for enterprises to achieve sustainable development.

Esquel on a "Green Road"

As one of the biggest cotton shirt manufacturers in the world, Esquel Group produces more than 100 million shirts every year. The company has 60,000 employees in more than 30 factories all over the world, and was regarded as an unconventional enterprise in a conventional industry. In the past several years, Esquel has devoted itself to the development of textile and apparel industry. The company's turnover keeps on the rise and its competitiveness is continuously increasing. These achievements are inseparable from our corporate culture, our green, integrated supply chain management and our strategy of sustainable development.

In July 2014, the Institute of Public and Environmental Affairs (IPE) and Natural Resources Defense Council (NRDC) of U.S jointly published a "Green Supply Chain Corporate Information Transparency Index" (CITI) at the Eco-Forum Global in Guiyang. Among the evaluation results in the first phase, Esqual ranks the third among the green supply chain evaluation of 147 consumer brands at home and abroad, and ranks the second in the textile industry.

Esquel's "5E Culture" and Strategy of Sustainable Development

We consider corporate culture as the foundation for sustainable development. Since long ago, Esquel has been exploring how to achieve sustainable development, and created its unique "5E Culture": Ethics, Environment, Exploration, Excellence and Education. Good corporate culture is the foundation for all businesses. These concepts are firmly rooted in every employee's heart, and have provided wisdom, confidence and courage to Esquel for exploring sustainable development.

It is also extremely important to establish corresponding mechanisms and platforms for discussion and promotion. Esquel has established a "Sustainable Development Committee" within the company to lead and promote the work relevant to sustainable development. This committee is further divided into four sub-committees: "Environmental Protection", "Caring for Employees", "Harmonious Society" and "High-quality Products". It aims to stimulate product innovation, and develop green products and production processes, so as to minimize the impact of production on environment, and meanwhile, hope to enhance the employees' professional skills and life skills, providing them with a safe, healthy and environmental-friendly working environment, while seeking better learning opportunities for children in the community, and helping them to grow up as successors with a sense of responsibility.

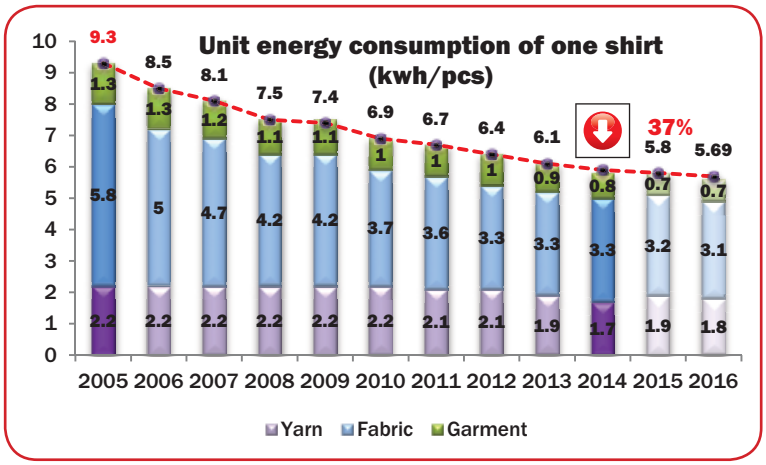
Esquel's Practices on Sustainable Development

In terms of strategy and operations management, Esquel always takes a green and vertical integrated management mode of supply chain, and unifies directions and integrates resources through this mode, so as to ensure the green and sustainable development in all sectors of the supply chain. Specifically, we have made the following practices:

Apply technology in the entire production process. Cotton planting is the first link in the entire supply chain of Esquel. Esquel has its own cottonseed cultivation team. They make gene sequencing by cooperating with scientific research institutions (and sent cotton seeds into space on the Shenzhou spaceship). We have cultivated the "Esquel No.1" extra-long staple cotton, and further enhanced the quality of cotton; we use drip irrigation technology during the planting process and have greatly reduced the demand on water; we use cold bleaching techniques during the process of cotton dyeing, so as to effectively reduced the time for cotton whitening process and the consumption of water, energy and chemicals; we use non-starching techniques during the process of weaving and dyeing. We have also developed new pulsed dyeing techniques, so as to greatly reduced the consumption of chemicals and energy during the process of dyeing, minimize pollutant discharge and relieve the burden on sewage treatment; during the process of garment manufacturing, Esquel has developed G2 water-washing techniques by cooperating with its suppliers, which successfully reduced the steps of water-washing from 8 to 6, and further reduces the consumption of water, energy and chemicals. In addition, Esquel has its own environmental-friendly power and sewage treatment plants (the largest scale in China's textile industry). We've made incessant exploration of new approaches to pollution treatment by using various new technologies. We use PVA interception and recycling technology, and sludge pressing and drying technologies. We've invested hundreds of millions of RMB to build reclaimed water recycling facilities, which could purify 5,000 tons of sewage into drinkable water every day, and could be directly reused during the process of production.

Enhance the awareness of employees and apply technology everywhere. Esquel is devoted to popularising and promoting the concept of environmental protection and enhancing working efficiency by means of technology. For example, our employees have developed an App named "E-Pay Slip". Employees all over the world can inquire about information on their salary by mobile phone. In this way, we have reduced the paper consumption of conventional pay slips, saving 5,000 pieces of A4 paper every month. We've not only reduced waste, protected our environment, and also enhanced working efficiency but, more importantly, we've encouraged our employees to pay attention to environment protection in office and in daily life, and enhanced their awareness of applying technology.

Technology facilitates energy conservation and consumption reduction. Comparing with 2005, Esquel, in 2014, has cut down its unit water consumption by 52% and unit energy consumption by 37%, and has achieved good economic benefit. Many people regard environmental protection as an input, but we regard it as an investment. We have made our plans of environmental protection for the next three years, hoping to further cut down water consumption by 20% and energy consumption by 15%.



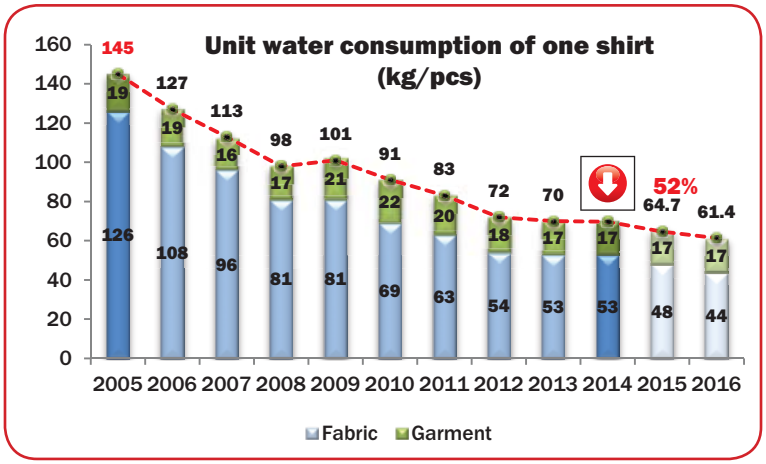
Make great efforts to build a green supply chain. Esquel always works closely with universities, scientific research institutions and NGOs, and actively promotes the supply chain and the entire industry to develop towards a more environmental-friendly and green direction. Esquel is the first enterprise to form a partnership with Institute of Public and Environmental Affairs (IPE). We use their Green Choice Alliance Platform to make regular verification and comparison of our suppliers, and urge suppliers with records of polluting the environment to make rectification. We organize a forum for suppliers from all over the world every year, inviting them to discuss the latest technologies in relation to sustainable development. In June 2012, Esquel was invited to participate in the "UN Conference on Sustainable Development" in Rio de Janeiro with its NGO partners, and discussed several issues on the conference. For example, how should NGOs and enterprises cooperate with each other to promote the green development of the entire supply chain? Moreover, Esquel has organized "Sustainable Development Forums" several times, and invited its partners to discuss the sustainable development of the textile industry.

Employees are our treasure: Esquel Group firmly believes that employees are our most precious treasure. Talent plays the most important part in technological innovation and in enhancing production efficiency. The Esquel Group cherishes talent and attaches great importance to nurturing it. We provide various platforms to employees and encourage them to give full play to their creativity, so as to create conditions for Esquel to make diversified innovation and achieve sustainable development.

"Live in Harmony with Nature": Our Vision for the Future

When talking about the future, it is worth mentioning our "Ten Suchnesses" project. This is a project in which we that we have invested 2 billion yuan in Guilin, Guangxi Province. It promotes living in harmony with the landscape of Guilin and combines design with R&D, production, retailing, exhibition and leisure. We are trying to build a pace-setting industrial tourism base in industry, and create a platform for displaying to the world the achievements of the new-type textile and apparel industry on green production, fashion trends and scientific research. We hope to create a paradigm that combines eco-agriculture in the primary industry with textile industry in the secondary industry and fashion industry in the tertiary industry. By launching this project, Esquel hopes to create a new 2.0 pattern for exploring traditional industrial development, and start a new journey of transformation and upgrading.

Sustainable development is an inevitable choice. It is also a process of exploration. During this process, Esquel Group hopes to join hands with its partners, give full play to the role of technology and management, and try to make more outstanding achievements.



Note: "Ten Suchnesses" is derived from "Lotus Sutra", a Buddhist scripture. It is comprised of ten concepts: appearance, nature, body, force, act, effect, cause, predestined relationship, retribution, ins and outs.

China to be a Net Exporter of Capital

Zhang Hairong,
China Association of Enterprises with Foreign Investment (CAEFI)

In recent years, China's foreign investment has been growing rapidly. On a policy level, the Ministry of Commerce regulates such investment and commercial behaviour. The newly revised "Offshore Investment Management Approach" has enhanced the facilitation of overseas investment. The following paragraphs give an overview of the main features of China's foreign investment from 2010 to the end of 2013, including those for the textile and apparel industry.

In 2010, net direct foreign investment was US$68.81 billion, 21.7 % more than in 2009. New equity investment was $20.64 billion (accounting for 30% of the total); profit reinvestment was $24.01 billion (34.9%); other forms of investment accounted for the balance. In 2011, the total direct foreign investment flow rose to $74.65 billion (+8.5%), of which new equity investment accounted for 42% and profit reinvestment for 32.8%. In 2012, in contrast to a 17% drop in global direct foreign investment, China's figure reached a historical high of $87.8 billion, propelling China into the top three global foreign investors for the first time.

By the end of 2011, total foreign investment was valued at $424.78 billion. This had risen, a year later, to $531.91 billion, making China 13th in the world ranking.

On September 9, 2014, the Ministry of Commerce, National Bureau of Statistics and State Administration of Foreign Exchange jointly promulgated "The 2013 Statistical Bulletin of China's Direct Foreign Investment". This bulletin disclosed the annual data of China's direct foreign investment in 2013, which was up 1.4% on the year, thereby setting a new record.

Foreign investment in manufacturing, leasing and business services, finance, mining, wholesale and retail, transportation/warehousing, postal services and construction, represented 92.4% of China's total direct foreign investment by the end of 2012. The comparable proportion a year later was 83 percent. During the first seven months of this year, investment in manufacturing was $3.63 billion (6.9 percent of the total).

A typical example in the textiles manufacturing sector, is Luthai Textile Co., Ltd. (described on its website as 'a global leader in the field of specially yarn dyed fabric').. Currently, the company hs overseas investments which include Luthai Textile (U.S) Corporation, Luthai (Cambodia) Co., Ltd and Luthai (Myanmar) Co., Ltd.

In August 2013, $2 million were invested in the foundation of Luthai Textile (U.S) Corporation in New York State (a company mainly engaged in market research, new product development and marketing, product sales and customer relation maintenance), via which the company hopes to strengthen its level of globalisation, enhance brand awareness, and lay foundations for the company to complete industrial transformation and structural upgrading.

In December last year, $20 million were invested in the Cambodian operation, which has a business scope that includes the processing and sale of shirts. Production scale is intended to reach 6 million shirts annually; currently the first phase (installing half that capacity) has been completed and pilot production has started.

In July this year, the company invested US$10 million in establishing garment processing in Myanmar, to take advantage of lower labour costs and thereby enhance the company's global competitiveness. Capacity is planned to reach 3 million shirts annually, though the project is stillat an early stage.

The newly revised "Offshore Investment Management Approach" aims to implement the decisions of the Third Plenary Session of the 18th Central Committee and to accord with the spirit of the State Council's directive to reduce administrative barriers and strengthen the efforts to streamline and decentralise administration, except in respect of sensitive regions or sectors or those above a specific value. Other investments will merely be put on the record.

In future, China will enhance its strategic position by direct foreign investment and the current trend suggests it will become a net exporter of capital.

China's Textiles and Apparel Market

Zhang Man,
Manager of Textile Department, Beijing Cotton Outlook Consulting Co., Ltd (BCO)

Under the influence of the overall economic situation at home and abroad, in the first half of 2014, the growth of China's textiles and apparel industry slowed. The up-stream cotton price was decreasing, and the cotton textiles industry was significantly lacking confidence. Growth in the global market was slight. However, faced by rapid growth of the cotton textile industries in Vietnam and India, international competitiveness was weakened and export volume was decreasing; while the growth in apparel imports accelerated. During the second half of this year, market circumstances at home and abroad should improve, adding momentum to the textile industry's further development. As the textile industry enters a new cotton season, the market situation is highly complicated. Enterprises are faced with both opportunities and risks.

1. Domestic consumer market regains momentum.

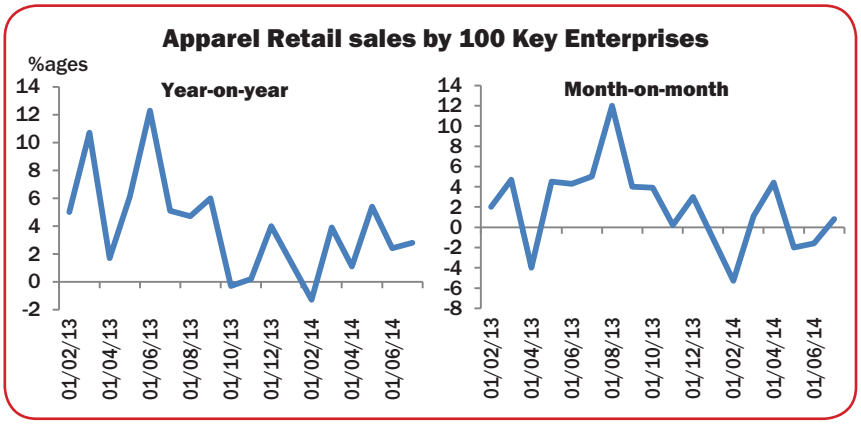
In the first half of this year, the domestic consumer market was short of momentum but a steady rise has been observed since the second quarter. E-business has become an important distribution channel for the textile industry.

1) Apparel retails sale grow more slowly than those of all consumer goods

From January to July 2014, total retail sales of consumer goods were 14.4974 trillion yuan, with year-on-year growth of 12.1%. Figures for apparel, shoes, hats, knitwear and textiles were 672.8 billion yuan and 10.3%, respectively. The percentage gain was slightly more than the cumulative value to June.

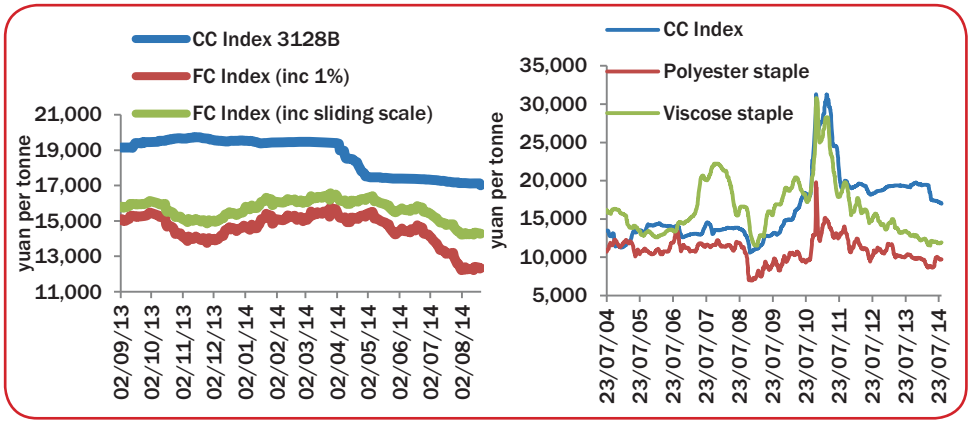
2) Apparel sales by key retailers

In July 2014, retail sales of apparel commodities in one hundred key, large-scale retail enterprises nationwide increased by 2.8% in value, year-on-year. This represented a small gain from a month earlier but a decline of 2.3 percentage points from the figure in the same period last year. In volume, the gain in July was 0.8%, following negative growth in the two previous months. A year earlier, the reading was 5.0 percent.

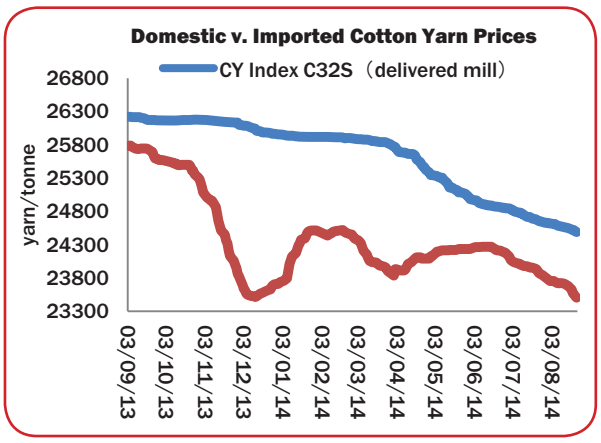


3) Lack of confidence

The change in the government's cotton policy has engendered uncertainty in the entire cotton textiles industry. High prices, relative to international values, adversely affected the competitiveness of domestic enterprises during the first half of this year. International market share declined and enterprises also suffered losses in domestic markets.



According to Beijing Cotton Outlook, the cotton textiles sector PMI has decreased for



five consecutive months, far worse than the manufacturing industry's PMI (51.7%), published by the State Statistics Bureau. Orders were short term and small in quantity. Product prices were decreasing and substitution of cotton by chemical fibers and imported cotton yarn grew stronger.

4) E-business success

E-business has become a channel of textile and apparel sales that cannot be ignored, given its low cost.. E-business revenues were 1.3 trillion yuan in 2012 (26.4% from the apparel industry, the highest share of any industry). Gross online retail sales of apparel and home textiles were 490 billion yuan in 2013 - a year-on-year growth of 47.15%. Apparel alone accounted for 434 billion yuan (up 42.29%); at 56 billion, gross online retail sales of home textiles doubled. Online sales volume of leisure and sports brands grew rapidly. Moreover, enterprises continue to expand overseas market via E-business platforms.

2. International demand

1) Export growth

Textile and apparel exports during the first seven months of 2014 were valued at US$162.85 billion, up 5.13% from a year earlier (but that compares with growth of close to 13.0% in the same period of 2013). In July, growth was higher than in the three preceding months. Growth has been phenomenal since the year 2000.

2) Major Trading Partners

Major markets are the EU, U.S, Japan and ASEAN countries, which together in the first half of 2014 accounted for US$73.375 billion, or over 55.0% of the total.

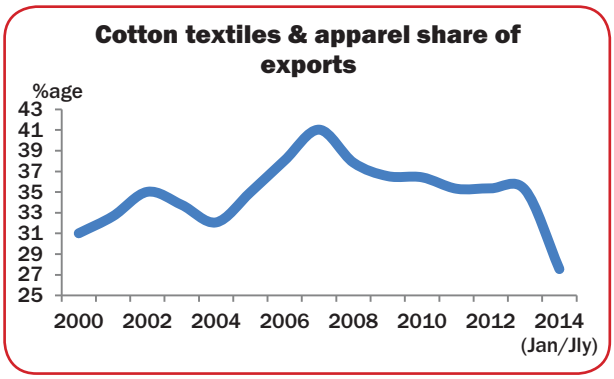
The share taken by ASEAN is gradually increasing while exports to the EU and U.S have been on a path of recovery. China's export to the EU began to rebound in 2014 (+18%) after decreasing for two consecutive years, but the export volume is still lower than in 2011. Exports to the U.S. also began to recover (+6.9%) in the first half of this year. In contrast, those to Japan were 2.43% lower than in 2011, and the percentage continues to decrease.

Textile and Apparel Export to Major Trade Partners

Year	EU	U.S.	Japan	ASEAN
2012	-11.90%	3.30%	0.50%	34.20%
2013	9.60%	6.90%	-0.90%	28.30%
2014 (Jan/June)	18.50%	6.90%	-8.40%	3.20%

3) Cotton Textile Products and Apparel

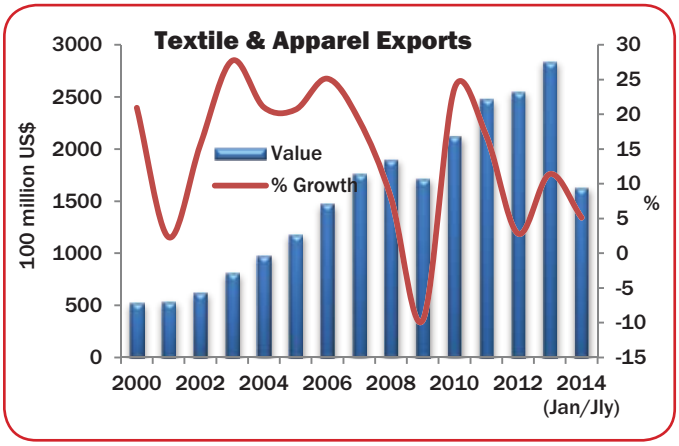
Cotton textile products and apparel exports in the first half of 2014 were 7.03% lower in value from a year earlier (textiles minus 5.86%, apparel minus 7.51%). Hence, it can be seen that non-cotton products stimulated the overall growth of textile and apparel exports. The share of cotton products reached a peak of 41.03% in 2007; it had remained above 30 percent since 2005 but is now on a downward trajectory.

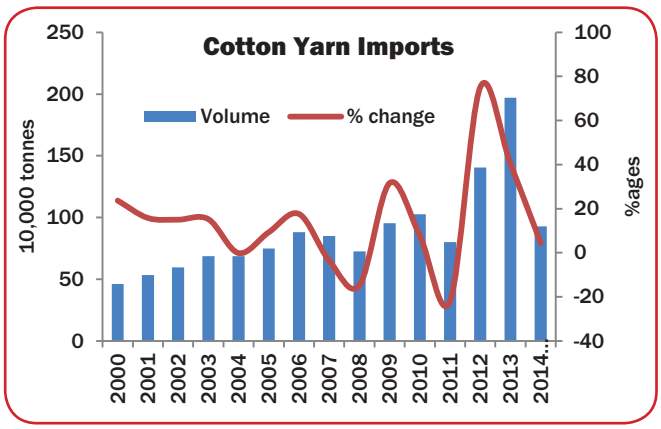


	Q2, 2014				2013			
	Textile Product		Apparel		Textile Product		Apparel	
	10 thou US$	Year-on-Year (%)	10 thou US$	Year-on-Year (%)	10 thou US$	Year-on-Year (%)	10 thou US$	Year-on-Year (%)
U.S.	82,086	0.56	531,384	-5.04	169,653	5.46	1,235,132	5.69
EU	77,796	1.66	700,241	4.98	156,205	10.06	1,458,958	3.38
ASEAN	351,683	-1.67	360,106	-23.36	748,442	33.55	933,381	32.35
Japan	54,395	-4.3	329,283	-16.64	112,931	-8.03	702,596	-1.8

On a region-by-region basis, an outstanding feature is the faster growth recorded in cotton textile and apparel sales this year than last to the EU, whereas those to the U.S. decreased by 5.04%. Another is the decrease in exports to ASEAN, owing to the rapid growth of industries in Vietnam and Cambodia.

The export of both cotton yarn and cotton fabrics is decreasing. Reductions of 9.4% and 12.5% were recorded in the first half of this year. Cotton yarn export volume was 241,000 tonnes, down from a peak of 584,000 in 2007.





3. Imports

1) Apparel imports surge

Textile and apparel imports grew in value during the first half of this year by 2.89%. Those of textiles were down (minus 1.6%) whereas those of apparel increased by 23.4%, gains being attributable mainly to North Korea, Vietnam and Bangladesh. In cotton textiles and apparel, the overall gain was 1.06% but while imports of textiles decreased (by 4.13 percent) those of apparel rose (by 25.7 percent), with both ASEAN and EU recording increases above 20%.

2) Cotton yarn import volume rises

Gains in volume have occurred in recent years while unit import prices have dropped (3.43%). However, the year-on-year gain slackened during the second quarter of this year, in face of the impending change in cotton policy and market expectations of lower cotton prices, raising fears of contractual issues.

3) Lower raw cotton imports

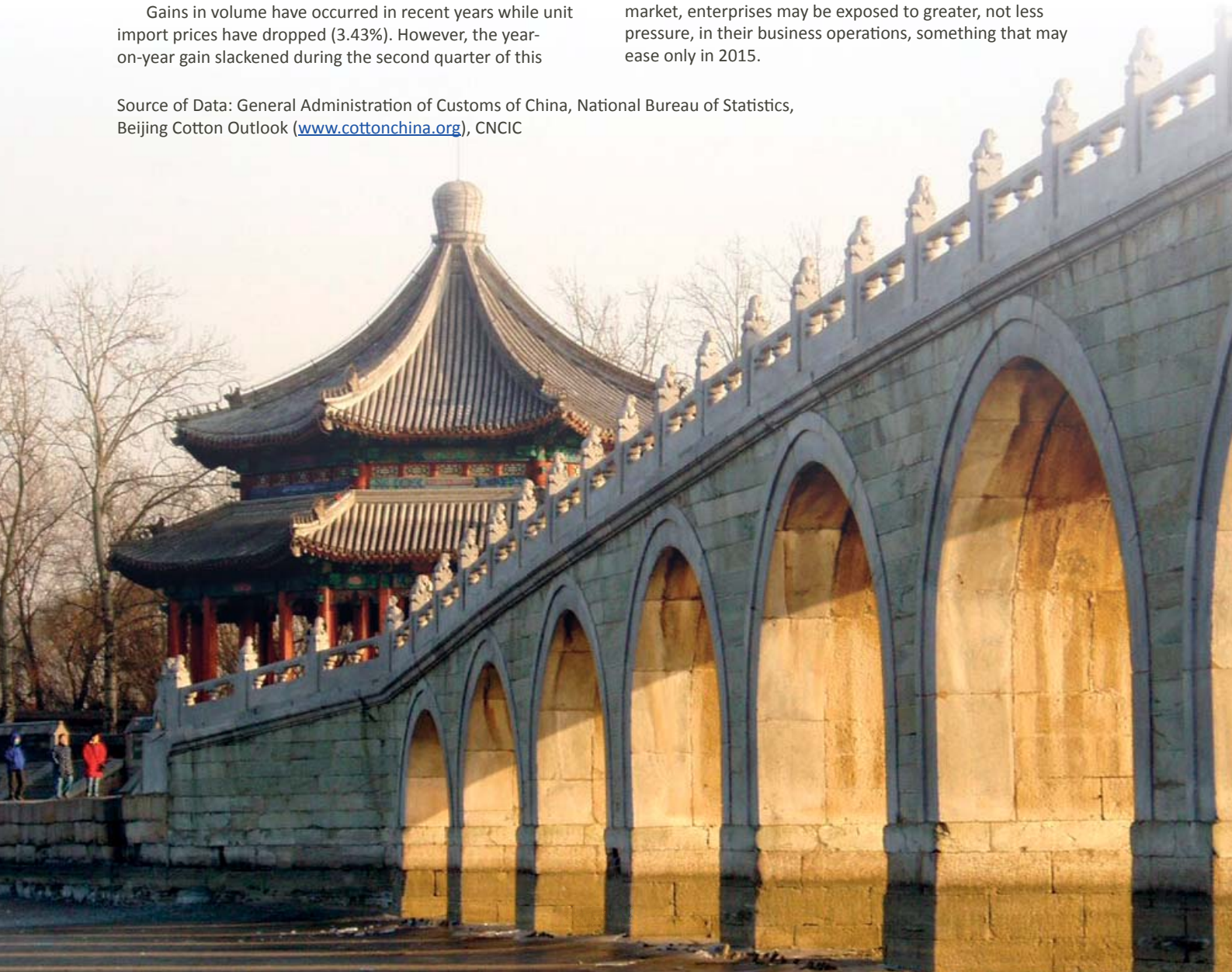
In the first half of 2014, raw cotton imports, at 1.395 million tons, were 42.2% lower on the year. In the first half of this year, India accounted for 50% of the total. The U.S. and Australia were the second and third largest sources, respectively.

4. Complicated outlook for the cotton market

According to forecasts by several institutions, GDP growth will accelerate in the advanced economies of Europe and the U.S. China's economy has shown positive signs of stabilisation and recovery. A cautiously optimistic view could be taken of prospects for the development of manufacturing industry. The official PMI in July of 51.7% was higher for the fifth consecutive month

However, the uncertainties in cotton have added risk to business operations. More complicated purchasing decisions are faced, as well as difficulty in forecasting a bottom line price. The narrowing gap between domestic and international prices should eventually restore the competitiveness of China's cotton products at home and abroad but pain may have to be endured during the interim, as the transition from state reserve purchasing to direct subsidy policy is implemented. As new crop enters the market, enterprises may be exposed to greater, not less pressure, in their business operations, something that may ease only in 2015.

Source of Data: General Administration of Customs of China, National Bureau of Statistics, Beijing Cotton Outlook (www.cottonchina.org), CNCIC



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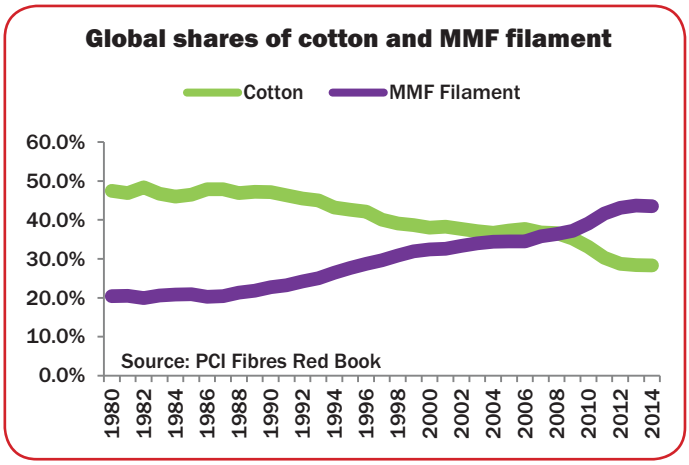
Textiles in China: a move towards filament

Peter Driscoll,
Managing Director PCI Fibres

By their nature filament textiles, if silk (the queen of fibres) is excluded, are made from manmade fibres (MMF) such as acetate, rayon, nylon, polypropylene and especially polyester. Worldwide filament textiles in MMF were reckoned in 1980 to make up 20% of a total market of nearly 30 million tons across all applications, apparel, household and technical. Cotton had a 48% share, so that with certain MMF the market for all forms of short-staple textiles was at 57%. The balance was made up of long-staple textiles and nonwovens. Within the mix polyester textile filament had a global share of 7%.

By 2014, in a total market estimated in the just published ***PCI Fibres Red Book*** to be just over 80 million tons, cotton's share is reckoned to have come down to 28% with all forms of short-staple textiles at 42%. MMF filament textiles are put at 44% with the polyester textile filament share overall at 32%.

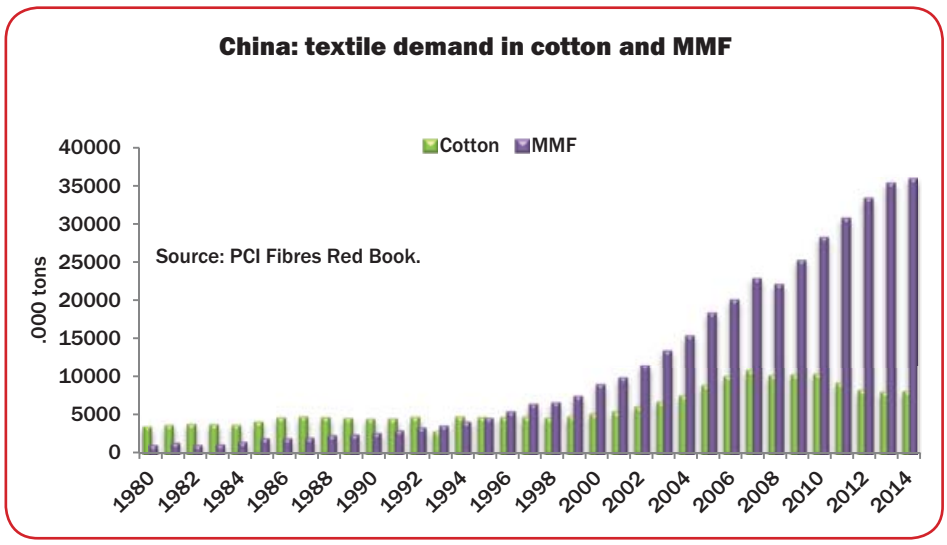
Although cotton has lost share, it has not lost volume; since 1980 having increased from some 14.3 million tons to an estimated 24.3 million in 2014. In that period however MMF filament has grown from 6.1 million tons to an astonishing 37.4 million. Filament textiles, as well as trying to imitate other textile forms, offer a very wide range of effects, some quite new. They also offer ease of production and then easy care in use; they also offer security of supply and, because of this, relatively stable pricing, although this might not always appear to be the case. Compared with cotton, MMF filament did not experience to anything like the same extent or to the same duration the price-spike of 2010/11 which so much weakened downstream confidence in the natural fibre. And since then MMF in all its forms has not experienced the effects of the massive build in the cotton reserve seen in China. Typically manmade fibre producers carry very little stock, only enough to service the business; although this is not to say that stocks of MMF products might not increase further along the textile pipeline.



The global pattern for cotton is not to be seen in quite the same way for China. In that market cotton's share of consumer demand has indeed fallen, but to a far greater extent: from 71% in 1980 to an estimated 13% in 2014. And cotton has also lost volume in the Chinese consumer market: from 3.1 million tons in 1980 to some 2.6 million in 2014. Meanwhile consumer demand for MMF of all types has risen from 1.1 to 16.4 million tons; market share moving from 3% to 86%. Clearly, this change has been supported by policy decisions to widen the consumer market in China without increasing the strain on resources. Immense investment has been encouraged first in MMF apparel and then, moving upstream, to textiles and fibres, and more recently fibre raw materials. At the same time the development of local technology and equipment has been fully supported.

Over the last three decades the MMF textiles business in China, in all its forms, has been running very strongly, breeding a confidence in the product which has in turn been fed back into further expansion. In contrast, at least in recent years, the cotton textiles sector has witnessed a policy of restraint that has led to very high fibre prices in China, and the effective transfer of yarn-spinning of staple fibre to other markets. This transfer has come in two forms: as a movement offshore into South East Asia by Chinese mills, and particularly as a flood of spun yarn imports into China from its competitors in the Indian Subcontinent and from elsewhere, even the USA.

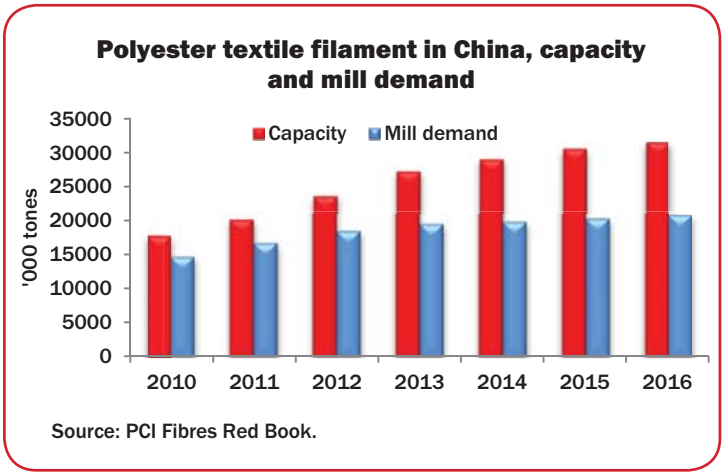
The cotton sector in China now faces a new threat. Polyester textile filament capacity has expanded rapidly in China, from 0.6 million tons in 1990, to 4.5 million in 2000, to 17.8 million in 2010 and to 29.0 million today. This has increased China's share of global capacity in polyester textile filament from 14% to 76%. And, although China's share is levelling out as funds become less available, and as India expands again, there is still new capacity coming on-stream; with 1.8 million tons arriving this year, at least another 1.6 million tons committed for next year and a further 1.0 million tons in 2016 – all at a time when Chinese mill demand for this yarn is growing, according to the PCI Fibres analysis, by just 340,000 tons this year,



450,000 tons in 2015 and 520,000 tons in 2016. To try and maintain operating-rates, the Chinese fibre-producers are obliged to export more and more of their polyester textile filament. But, even so, capacity utilisation for this fibre type in China has dropped from the profitable 84% of 2010 to a loss-making rate close to 70%, with the notional break-even rate of 80% unlikely to be regained unless capacity is cut drastically. There is simply not enough textile activity in other regions able to absorb so much surplus material.

Much has been made in the general media of China's growing debt burden and the declining returns to be made from investment in general. The Chinese polyester textile filament industry is more than representative of this situation. Local and export demand for textiles is not growing as quickly as expected by many observers both inside and outside China, yet capacity has been expanded rapidly at every level. The only sector in the last few years not to have run as fast with investment is that of cotton textiles.

The filament textile sector in China might outwardly seem very buoyant when compared with cotton, but it is extremely fragile because of its over-supply. It is likely therefore to cause severe disruption in seeking to lay off product into other markets through very competitive exports. Exports of MMF textile filament products are already beginning to expand, and in the short-term could take further market share, particularly against staple textiles in general and even some nonwovens. Cotton alone might resist some of this shift, at least in the short-term. Cotton pricing has become increasingly competitive over the last year, and, in any case, might well have over-compensated, in terms of lost volume, for the pricing problems of the last few years. ***PCI Fibres*** indeed expects a small recovery in cotton's global share, although the long-term trends still favour the MMF range of products, even if not with the same growth rates as previously.



The Circular Economy of Recycled Textiles Still Growing in China

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As a large textile producer and consumer, China has a large quantity of worn-out textiles. The composition of fibre differs, such as cotton, wool, silk, linen, chemical fibre and mixtures. If garments are made of natural fibre, such as cotton, wool and linen, they can be recycled and reprocessed into composite materials, heat-insulating materials and filling materials. Garments made of chemical fibre can be recycled and reprocessed for reuse as regenerated fibre and in various technical textiles, such as strainer, waterproof materials, composite materials and packing materials for various sectors, e.g. construction, environmental protection, agriculture and transportation.

According to the research findings of the Bureau of International Recycling (BIR), the use of one kilogramme of recycled textiles reduces carbon dioxide emissions by 3.6 kilogrammes, saves 6,000 litres of water, lowers the consumption of fertiliser by 0.3 kilograms that of pesticides by 0.2 kilogrammes. If the textile industry recycles a large amount of worn-out textiles, it could significantly reduce the emission of carbon dioxide compared with processing virgin materials.

Recycling of worn-out textiles has grown relatively mature in some overseas countries, but the activity is still at an initial stage in China. The textile sector lacks policy guidance, laws and regulations and the market is not mature. Typically, used textiles have been merely discarded and burned, not recycled. This not only results in a waste of resources, but also brings risks to the environment.

Currently, China's market conditions for recycled textile resources are by no means optimistic. The market has the following features:

First, "low", "small" and "scattered" features: "low" means low grade and low added-value of recycled products; "small" means small scale enterprises. These enterprises are always managed by individuals and without scale production. "Scattered" means that the recycling enterprises are located in many different places. There are hidden threats to safety in these enterprises, and they compete with each other in a disorderly fashion.

Second, no industrial cluster has been formed in China. Recycling enterprises are operating in different ways. There is some concentration of recycling facilities for used textiles textiles in Cixi and Cangnan in Zhejiang Province, but there no government department is taking control of the recycling issue and establishing regularized, well-managed regional collection and distribution centres so as to regulate the sector. Enterprises engaging in the recycling of used textiles are mainly small-scale, privately-owned enterprises or a single department in certain textile enterprises. Recycling in these enterprises is small-scale, and production and utilisation is made by the enterprises themselves. So far, no large leading enterprise is engaging in large-scale, high-valued and resource-based recycling of used textiles.

Third, no standards, regulations and policies are available for the recycling industry, and the industry suffers a lack of guidance. Some practices are still in a 'grey zone', and cannot ensure the sound development of the entire industry.

Fourth, there is a bottleneck in the recycling and reprocessing technologies. Consequently, recycling costs are increasing. Sometimes, in fact, the cost of using recycled fibre is higher than the cost of using the original fibre, and such fibre thus fails to attract effective demand from downstream industries.

Fifth, the general public lacks the social awareness of the benefits of recycling used textiles. Compared with waste paper, metal, plastics, household appliances and vehicles, the general public has not fully realised the importance in the context of textiles. Many people misunderstand and consider that used textiles are the same as "foreign garbage" and "shoddy cotton", and, inconsequence, have an emotional resistance to recycling.

"The 12th Five Year Plan for the Textile Industry" clearly states that over the period China will establish an initial system for recycling textile fibres. In 2015, the total processing volume of fibre is expected to reach 51.50 million tons, of which 15% will consist of recycled fibres. Based on the concept of "reduced quantification, reutilisation and resource-based", China will gradually establish a sound recycling system of textile products, promulgate relevant laws and regulations, and establish a management and monitoring system for recycled textile products.

In 2014, the China Resource Recycling Association (CRRA) established a Recycled Textiles Council (RTC) to promote the following works:

(1) Promote the construction of a standardised system of recycled textiles.

RTC will invite textile experts to develop industrial standards for classifying recycled textiles and fibres, establish a recycled textiles standards system that is in line with the development level of China's textile science and industry, and make relevant product standards and detection methods and standards.

(2) Strengthen the efforts of survey and research in the recycling sector and give advice to decision-makers.

RTC will undertake a deep survey of the recycling industry for used textiles, collect and sort out questions and suggestions from the industry, write reports on policies and suggestions, and provide reference to government departments on decision-making.

(3) Strengthen self-discipline of recycling industry and improve trade environment.

Based on the results of survey, RTC will promulgate industrial regulations at a suitable time, strengthen the self-discipline of the recycling industry and make efforts to improve the trading environment.

(4) Strengthen the efforts of technical research on recycled fibre.

RTC will cooperate with research institutes and universities and carry out basic scientific research, create designs to optimize the functions of recycled fibre, conduct research on fundamental prototyping theories and strengthen the efforts of scientific researches on recyclable fibre and new-type bionic fibres. It will seek to turn research findings into productive forces, break the technological bottleneck during the recycling process, cut the cost of using such fibre and expand the size of the market.

(5) Enhance awareness of the general public by organising social publicity campaigns.

To be successful, recycling used textiles requires acceptance by the general public. RTC will enhance awareness by organising various social events and by cooperating with garment manufacturers, universities and secondary schools, downstream enterprises and charitable organizations to raise the basic knowledge of recycled fibre and enhance the general public's level of recognition and acceptance.

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