APPENDIX VI
Report – Joop de Voest

ZAMBIA TRADE AND INVESTMENT ENHANCEMENT PROJECT
(ZAMTIE)

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EXTENSION OF TIME FOR IMPORTS OF TEXTILES FROM OUTSIDE THE AGOA REGION

Prepared

by

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Extension of Time for Imports of Textiles from Outside the AGOA Region

1. Introduction

Current AGOA legislation will see eligible LDC's (Least Developed Countries) garment manufacturers have to source yarn and fabric from AGOA eligible countries from September 2004 to achieve duty and quota free access to US market.

A number of eligible LDC's are now lobbying for the September 2004 deadline to be extended.

The reason given is fabric shortages in the region from September 2004 onward.

2. Current Status Quo

2.1 Garments

The AGOA Trade Agreement has initially had a significant impact on the garment manufacturing sector of a number of AGOA eligible countries. The most notable beneficiary LDC's were Kenya, Lesotho, Madagascar and Swaziland.

In 2002 AGOA was also beginning to impact on other LDC's garment industries such as Botswana, Malawi, Mozambique, Namibia and Uganda. Others are anticipated to benefit from investment in garment manufacturing facilities from 2003.

Investments in garment manufacturing facilities for the 2001/2002 period have been significant as briefly touched upon below :

- Botswana
  Three new apparel plants. Existing manufacturers gearing up for AGOA exports.
- Kenya
  A total of 17 garment plants commissioned for AGOA exports.
- Lesotho
  Eleven new garment plants with existing ones expanding.
- Madagascar

A number of closed plants being reopened for exports to the US.

- Malawi

Two existing plants expanded for AGOA led exports with two others having
recently commenced exporting.

- Mauritius (non LDC)

Existing plants redirecting export to the USA with others having expanded production facilities. A number of new plants, AGOA export led, have also been set up.

Some existing manufacturers have set up plants in Mozambique, Lesotho and South Africa (non LDC).

- Mozambique

Existing manufacturers started exporting to the USA, one expanded and a new plant commenced production end 2002.

- Namibia

New garment plant started exporting to the USA mid-2002. Another trying to.

- Swaziland

Eight new AGOA led plants set up. More already under construction.

- Tanzania

One dedicated new AGOA led manufacturer and two existing ones trying.

- Zambia

One existing company gearing up to export to the USA.

- Other

Uganda has seen the first garment investment go in. Ethiopia is gearing up as are other countries.

2.2 **Textiles**

The textile industry, the largest of which resides in South Africa, was slow to react. From approximately mid-2001 to end-2002 however, investments in this sector of the industry have risen rapidly. A brief, but not exhaustive, overview is set out below:

- Botswana

The spinning division of a closed plant has been restarted late 2002.

- Kenya

Mill modernisation being implemented.

- Lesotho

A US$ 100 million investment in a denim mill (with garment plant and existing garment expansion).

Another garment plant, the biggest in Lesotho, integrated backward by purchasing an integrated denim mill in South Africa - currently doubling in size.

- Madagascar

Integrated cotton mill modernisation?

- Mauritius

A new spinning mill. Others being planned, not necessarily in Mauritius by Mauritian garment/fabric mills.
Expansion and modernisation of existing fabric knitting plants.
Capex estimated more than US$ 30 million.

- Mozambique

A fully integrated cotton mill under construction.

- Namibia

A US$ 100 million investment in a fully integrated spinning and fabric knitting plant (plus garment facilities). Phase 1 of 3 phases complete.

- South Africa

Four fully integrated mills (cotton, wool and synthetic) have expanded both spinning and weaving mills.
Six existing spinning plants have expanded with one new investment (new entrant) and one new EU/RSA Joint Venture and one US/RSA Joint Venture.
Eight weaving plants expanding capacity.
Two new large weaving mills (newcomers).
More than a dozen fabric knitting plants have expanded, the largest of which is doubling capacity.

- Swaziland

A closed spinning plant completely refurbished and modernised.
A large fabric knitting plant and dye house under construction.
A new weaving mill under construction.
Capex estimated at more than US$ 40 million.

- Tanzania

Integrated mills rehabilitation and modernisation.
Stand-alone spinning plant rehabilitation and modernisation.

- Uganda

Rehabilitation of existing integrated cotton mill. Capex US$ 20 million.
Another being contemplated.

- Zambia

A spinning mill redirected sales from the EU to Mauritius and South Africa.
Another closed spinning mill has been restarted.

- NB : Other

Two fully integrated textile mills have completed their pre-feasibility studies, one likely in Botswana and one likely in Zambia.
Another five new spinning mills (newcomers) are busy with their feasibility studies.
This still excludes investment plans for textile mills in Mali, Nigeria, etc.

2.2.1 **Textile Capex in Volumes**

In spinning 40 000 tons (*1) of additional capacity will have been put in place between mid-2001 and end-2002. This equates to 25% of actual production volumes in the year 2000.

An additional 35 000 tons of spun yarn production capacity is being planned (pre-feasibility/feasibility stage).

*1 of which 45% is synthetic and blend yarns; the balance cotton

On the fabric knitting and weaving front, 210 million square metres will be in place by 2004 by way of expansions and new entrants. A further 180-200 million square metres of woven and knit fabric is being planned, not necessarily all in place by September 2004 (but possible in 2005).

2.3 **Yarn and Fabric Needs - September 2004**

If the garment industry were to be able to take full advantage of the AGOA II CAP by September 2004, some 850 million garments would need to be exported to the USA.

As at end 2002, the combined garment production of 18 AGOA eligible countries producing garments was just less than 1,15 billion garments.

It is thus highly unlikely, even with all the investments in garment manufacturing capacity going in, that sub-Saharan Africa would be able to reach that CAP target. For many countries the infrastructure is just not in place. Some countries are already discouraging the number of new investments in garment manufacturing, e.g. Swaziland.

Our estimate is that between 50% and 60% of the AGOA II CAP could possibly be met by September 2004.

In this scenario the region would require

- 110 000 to 120 000 tons of additional yarn
- 600 to 650 million square metres of additional fabric.

2.3.1 **Realised**

Additional yarn capacity installed by end-2002 is 40 000 tons (35%).

Planned (known) additional capacity is 35 000 tons (30%).

Additional fabric capacity being installed during 2001/2002 is 210 million square metres (35%).

Planned (known) additional capacity is 180 to 200 million square metres (30%).

2.3.2 **Potential (*1) Shortfall - September 2004**

The shortfall in terms of yarn and fabric requirements by end September 2004 would be 40 000 tons and 200 million square metres respectively.

*1 Based on existing capacity going in and planned investment going in known to the writer.

There may well be further capital expenditure in textiles of which the writer is not aware.

2.4 **Impact of Extending the LDC Status Beyond 2004**

2.4.1 **Fibres**

Extending the LDC status beyond 2004 should not affect the cotton growing and ginning industry as fibres under the AGOA agreement can be sourced from anywhere in the world.

However, the cotton growing and ginning industry in the region will be affected. By extending the LDC status, yarns and fabrics will continue to be imported negating the need for investments in spinning and thus additional fibre demand.

Based on a number of studies on cotton lint sourcing, spinning mills in sub-Saharan Africa prefer to source locally (within the region) and are even willing to pay a slight premium for doing so.

Zambia has over the last year or two become a major supplier of cotton lint to, in particular, the SACU (South African Customs Union) where the bulk of investments in spinning is taking place. The SACU countries

themselves do not grow and gin enough cotton and thus rely on countries like Zambia for supplies.

Extending the LDC status beyond 2004 will not encourage new investments in spinning in SACU or other countries in the region. It is an outright disincentive for setting up additional spinning, knitting and weaving mills.

Although the ginning industry can export out of the region, the lack of a growing captive regional market will be a disincentive for Zambia to continue encouraging the growing of cotton (labour impact).

2.4.2 **Spinning and Fabric Weaving and Knitting**

Investing in textiles, by its very nature capital intensive, requires certainty.

By extending the LDC status, even by two years to 2006, uncertainty will creep in. The current thinking of the textile industry is that if the LDC status is extended now, it can be extended again.

Not only will the planned/pre- and feasibility stage known investments be postponed, but existing capacity expansions will also be in jeopardy, e.g. Phase II and III of "Ramatex's investment plans, Nien Hsing in Lesotho, Thai Tex/Tex Ray in Swaziland, da Cuca in Mozambique, etc.

Zambia is the potential candidate country for an investment in an integrated spinning, weaving, dyeing and finishing and garment manufacturing consortium. They are also in discussion with cotton farming and ginning specialists to extend the investment into growing and ginning cotton for the integrated mill.

Some 35 000 tons of planned spinning capacity and 200 million square metres of planned fabric weaving and knitting capacity will not materialise should the LDC status be extended. This excludes as yet unknown planned expansions and new investments. The latter, judging from the investment drive by Trade and Investment Agencies of many of the AGOA eligible countries, could be considerable.

2.4.3 **Garments**

Investments in garment manufacturing capacity will indeed be boosted by extending the LDC status.

The yarn and fabric shortage gap will however widen as the incentive to invest in spinning and fabric manufacturing for a captive market disappears, yet the AGOA CAP increases.

The pressure to therefore ask for another extension of the LDC status will increase. The textile industry knows this and will therefore factor it into their investment equation, e.g. no further investments. If there are any investments they will only be in South Africa and Mauritius.

However, the planned investments in these countries will be at risk as 2008 draws nearer (the investment payback period is diminishing).

3. **Zambia**

Extending the LDC status will impact on Zambia negatively. Firstly, as indicated earlier, there will be no real incentive to continue increasing cotton growing activities. Mothballed gins may also not be reactivated.

Secondly, Zambia will lose any chance it has in attracting the consortium looking to invest in an integrated cotton mill as the consortium will simply stave off its investment decision. The ability to attract additional garment plants to cluster around the mill complex will also disappear (no anchor tenant).

The investment in the garment plant will go ahead but, as a garment plant on its own, this will not necessarily be in Zambia. For garment manufacturing only other countries also have their advantages. It is for the integrated textile mill that Zambia has a strategic edge.

For the existing garment manufacturers, the extension of the LDC status will allow them access to fabrics from anywhere.

However, there is as yet only one company with a chance of achieving export to the USA.

The writer gathers from ZAMTIE that the company in question will be using fabrics from South Africa. In this case there would be no need to extend the LDC status as South Africa is already a non-LDC country.

Extending the LDC status will also negatively impact on Zambia's existing textile industry, in particular its spinning industry. The effect of this was already felt by SWARP as it was gearing up to supply Ramatex in Namibia. Yarn orders were abruptly stopped when Namibia gained LDC

status in the latter part of 2002. There was no longer a need to source yarn from AGOA eligible countries. The same for the fabric knitters in Botswana, a country which also obtained its LDC status in 2002.

Other existing mills in Zambia will also no longer have any real incentive to modernise. There will also be no need to attract new investments to Zambia.

In all, there will be no real benefits for the Zambian textile pipeline (cotton growing to garments).

4. **Conclusion**

For a temporary hiccup in yarn and fabric supply, based on the current September 2004 LDC cut-off status, an extension will seriously undermine the textile investment plans in more countries than just Zambia.

The yarn and fabric gap will just continue to grow to such an extent that further extensions of the LDC status will have to be granted.

This was not the intention of the AGOA Agreement and may thus even put the Agreement in jeopardy.