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## China - Peoples Republic of

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### **The 24th International Wool Trade Fair and Information Conference**

**Report Categories:**

Agricultural Situation

Exporter Guide

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**Report Highlights:**

On September 12~14, ATO Director and staff attended the 24th International Wool Trade Fair & Information Conference organized by China Wool Textile Association and the Nanjing Wool Market in Sanya, Hainan Province. The Conference was regarded as China's largest annual wool industry trade gathering. Delegates from major wool production countries including the United States, Australia, New Zealand, Great Britain, Uruguay, and Canada attended the event. ATO Guangzhou led a group of eight U.S. wool industry representatives and members of the American Sheep Industry Association (ASIA).

The three-day conference consisted of an information plenary, wool trade fair, global wool summit and an international wool salon discussion session. This large-scale get-together of manufacturers, weavers, spinners, brokers, and agents as well as international wool boards has brought global wool exporters and experts to China for networking and, primarily, sharing market trends and doing business. The entire

supply chain had an opportunity to present their perspective on the market outlook versus local policies that impact the wool business and consumer demand in China.

## **General Information:**

### **Overview**

The President of the China Wool Textile Association commenced the Conference with a brief report on the state of economic environment for the local wool textile industry. Since 2012, this industry has been confronted with unprecedented obstacles and difficulties due to an excessive dependence on exports and reinvigorated by the central government's VAT rebate. The industry leaders shared a depressed outlook in the coming year as weak global demand, increased labor costs in Mainland China, weak and underdeveloped domestic demand, higher raw wool material prices, and risky financial costs all contributed to the doldrums. Wool textile industries have witnessed lower benefits and greater production costs in the last three years as a result of rapid economic growth in China. From January to July in 2012, China's wool materials and products exported to Europe including wool top, wool yarn, wool fabric, wool knitwear, wool carpet all dropped sharply. In fact, aside from modest gains exports to the ASEANs in semi processed products there was not much more to highlight in 2012.

**Why not focus on developing domestic demand for wool in China?** Although previously cited as being critical of domestic sales, according to official industry statistics, wool woven garments saw a steady 17-percent increase in sales worth \$82 billion (RMB 518 billion). In 2011, driven by global wool market's significant growth in pricing and the appreciation of the Chinese currency against the U.S. dollar, China's wool market combined index also peaked at \$1,436 p/kg (9,050 ¥0.1/kg) in July. Nevertheless this happened as a result of tight supplies for raw wool and created an otherwise sharp decrease in sales due to slumping sales in Europe due to the ongoing financial crisis. The Association's spokesperson even tried to link the U.S credit rating downgraded for the first time by Standard & Poor's as being a catalyst for declining global wool prices. However, he contradicted himself as the world wool price remains at the relatively high level. In fact, Europe's economic woes have widely lowered customer demand since 2011, but in contrast, Chinese manufacturers have made no headway in developing the domestic demand. The industry leadership is to blame for their myopic efforts at stubbornly clinging on to a dwindling export market and has distracted them from pursuing a market with greater potential for guaranteed double digit increases in the next ten years: Mainland China.

**China: largest wool importer in the world:** Although China is the world's leading wool importer and manufacturer, domestic demand for wool import has not grown as quickly as some analysts have speculated for a number of reasons. First, global wool production has been steadily declining (at least in the last four years even though many producing countries have sizably expanded their herds). At the same time, wool price have increased at a faster pace than expected due to low stock-use ratios and speculation. The total raw wool exported to China in 2010 and 2011 reached 333,000 tons and 331,000 tons respectively. However, during January to July 2012, the accumulated raw wool imported by China accounted to 152,600 tons or a 6.4 percent decrease compared to the same period in 2011. Fine wool imports, in particular, largely dropped by 25 percent.

**Demand and Production:** Consumer demand is a key factor that influences wool production and pricing in a more immediate way than in the cotton textile industry because purchasing patterns tend to

be less cyclical and erratic. Australia remains the world's wool manufacturer and others rely on Australian wool price variations as a reference point for sales. According to reports conducted by the International Wool Textile Organization, world wool production has been falling since 2011, while at the same time raw wool stocks in grower and exporting countries were becoming less and less especially in countries like Australia and New Zealand. During a conversation with international marketing consultant from American Sheep Industry, ATO Guangzhou staff learned that U.S. greasy shorn wool production was 30 million pounds in 2011 which was 3 percent lower than in 2010. U.S. wool production has declined along with decreasing lamb inventories. Wool market demand and production was deemed by one U.S. participant as unsatisfying in the last two years.

According to a wool market snapshot report conducted by Montana State University, America exported 9 million pounds of clean wool in 2011, in which more than 70 percent of all U.S. wool exports were purchased by China. The other top destination for U.S. wool exports included India and Germany.

**Challenges and Competition:** Fierce competition also comes from increasing usage of synthetic fibers, which is a dangerous signal to the entire wool industry. According to a source from CIRFS, Wool Market Company, for two decades (between 2000 and 2020), synthetic fiber experienced an average annual growth in usage of 9 percent, quite the contrary, average growth of wool in usage saw a 3-percent decrease. And the growth gap for these two materials is close to 12 percent.

Another barrier that influences wool demand is the unfair and misleading rating of wool materials which creates consumer concerns over the quality of wool woven apparels. According to source from Nelson Company, closer to 50 percent of Americans think that wool apparels prickle. Prickle is thought to be twice as important as an appeal to "expensiveness" or brand loyalty. Furthermore, about 10 percent of consumers believe they are allergic to wool, though in reality this is a rare condition.

**Future Opportunities:** Although the overall market situation for the global wool industry is less than optimistic, there are still opportunities and potential on the horizon. Many wool production countries have started to explore potential in promoting wool woven children's wear. With authorized underpinned skin comfort assessment and specification, consumers will have a better understanding on the advantages of wool apparel for kids. On the other hand, China is working on launching a new "Pink" wool mark in 2013 for children to wear, which is also a good sign for the whole wool industry is considering developing the domestic market. The American Sheep Industry Association expressed their members' continued desire in targeting the China market, and would like to further explore opportunities in South China.