



ICG Newsletter

Recent global news from the retail, textile, apparel, footwear, and agriculture sectors as the world emerges slowly, steadily and positively from the Covid-19 health crisis.

The Americas

US Ban on China Cotton Upends Apparel Supply Chains

The ban on the import of cotton from the Xinjiang region of China has thrown the supply chains of US retailers and brands into a tailspin. The ban on cotton from the region, which represents 87% of China's cotton crop, has resulted in massive order cancellations and revenue losses for China growers, fabric suppliers and apparel makers as China represents 20% of the world's cotton supply. Retailers such as Old Navy, Banana Republic, Ikea and H&M have cut off all purchases of cotton from the region as the Better Cotton Initiative stopped licensing cotton from the region last year. Nike has confirmed that it is no longer using textiles or yarn from the region. US Customs and Border Patrol is enforcing the ban but has not released the number of shipments it has seized at the border.

Source: https://www.washingtonpost.com/world/asia_pacific/china-cotton-sanctions-xinjiang-uyghurs/2021/02/21/a8a4b128-70ee-11eb-93be-c10813e358a2_story.html

US Supplying China's Growing Demand for Cotton

The US Department of Agriculture reports that US cotton is down five million bales compared to last year but sales to China are expected to near 15.25 million bales, nearly half of US exports in the first five months of the 2020/2021 cycle. Where China has primarily sourced from Brazil and India the past two years, the US returned to the #1 position supporting China's State-Owned Enterprises (SOEs) likely driven by the Phase One Agreement.

Source: <https://apps.fas.usda.gov/psdonline/circulars/cotton.pdf>



Retail Sales Projected to Grow 6.5% to 8.2% in 2021

The National Retail Federation is predicting that the US economy will see its fastest growth in two decades as the rollout of the vaccine significantly reduces the effects of the Covid-19 pandemic with sales topping \$4.33 trillion. Even greater growth will be seen in ecommerce where sales are expected to grow 18% to 23% with sales of \$1.14 trillion to \$1.19 trillion. In addition, the group is seeing an increase in travel, low interest rates which will help continue to robust home sales, continuing savings by consumers and more spending on social gatherings and eating out.

Source: <https://www.cnbc.com/2021/02/24/us-retail-sales-to-rise-6point5percent-to-8point2percent-in-2021-national-retail-federation-says.html>

Sephora Announces 260 New Stores in Major Expansion

Sephora announced it will open 60 new, free-standing stores in 2021 along with 200 stores inside Kohl's owned stores. The free-standing stores will not be in malls but in neighborhoods close to other stores and shops where families live and shop for daily goods such as groceries, pizza and exercise centers. It is also expanding its buy online/pickup business to reflect the changing shopping habits brought on by the pandemic.

Source: <https://www.retaildive.com/news/sephora-plans-260-store-expansion-through-kohls-owned-stores/595796/>

Major Changes at L Brands

L Brands, the parent company of Victoria Secret announced that it will permanently close 30-50 stores in the US in addition to the 250 store closings announced for 2020. But it also announced the opening of 49 new Bath & Body Works stores in the US and one in Canada this year in "off-mall" locations while also announcing that it will close 40 stores in US malls. It will also move ahead with the spinoff of its Victoria Secret brand to a separate company.

Source: <https://www.usatoday.com/story/money/shopping/2021/02/24/victoria-secret-store-closures-2021-bath-body-works-opening/6806159002/>



Belk Finds New Life in Bankruptcy Approval

The owner of Belk Stores, Sycamore Partners, transferred a large share of ownership to lenders to secure a lifeline and reducing debt by \$450 million keeping all stores open and all employees on the payroll, for now. The company avoided liquidation but indicated that there could be layoffs in the future based upon filings which were sent to the lenders.

Source: <https://www.charlotteobserver.com/news/business/article249433360.html>

Tuesday Morning Exits Bankruptcy

With new financing of \$110 million secured with JP Morgan, Wells Fargo and Bank of America, Tuesday Morning exited bankruptcy in early January though with a smaller retail footprint. The chain has 490 stores across the US down from 687 last spring. The company is not yet out of the woods as sales remain down from 2019 levels and cash flow is negative for October and November 2020.

Source: https://www.retaildive.com/news/tuesday-morning-exits-bankruptcy/592821/?utm_source=Sailthru&utm_medium=email&utm_campaign=Issue:%202021-01-05%20Retail%20Dive%20Newsletter%20%5Bissue:31702%5D&utm_term=Retail%20Dive

Macy's Continues Downsizing

In 2020 Macy's announced the closing of 125 stores over a three-year period to "rightsize" its retail footprint and return to profitability. In early January, the company announced that 45 of those stores will close in early 2021 in an effort to speed up its recovery. Many of the closings will be at lower-end malls which are already struggling with the effects of the pandemic where consumers have largely stopped shopping in stores favoring online shopping.

Source: https://www.retaildive.com/news/macys-continues-downsizing-effort-with-45-more-store-closures/592888/?utm_source=Sailthru&utm_medium=email&utm_campaign=Newsletter%20Weekly%20Roundup:%20Retail%20Dive:%20Daily%20Dive%2001-09-2021&utm_term=Retail%20Dive%20Weekender



PayUp Fashion Calls for Paying Factories for Cancelled Orders

The global pandemic caused store closures and community lock downs across the world throwing tens of millions out of work. With closed stores, retailers cancelled apparel orders or demanded reduced and extended payment terms which caused factories to close and leaving factory owners with mountains of finished products and bills for materials and labor with little-to-no income to pay their workers. PayUp Fashion, an NGO formed to help factories deal with the issue faced by factory owners and workers, is using its experience to pressure the likes of Zara, Gap and Next to pay the factory owners the millions of dollars rightfully owed so the workers can receive paychecks which are long overdue.

Source: <https://www.treehugger.com/fashion-brands-pressure-pay-debts-garment-factories-5094767>

American Eagle to Shutter 225 Stores by 2023 as Aerie Grows

In its drive to return to growth and profitability, the company announced plans to eventually close up to 225 of the current 880 were announced on January 21. Sales of the denim-based American Eagle stores have plateaued though some stores remain quite profitable. It is forecast that profits will increase with revenue directed toward growing the Aerie lingerie platform as it extends into swimwear and activewear. The plan is to continue Aerie as primarily e-commerce business while carefully adding store locations.

Source: https://www.retaildive.com/news/in-quest-for-profit-american-eagle-plans-as-many-as-225-store-closures/593806/?utm_source=Sailthru&utm_medium=email&utm_campaign=Issue:%202021-01-22%20Retail%20Dive%20Newsletter%20%5Bissue:32045%5D&utm_term=Retail%20Dive



EAME

ASOS Buys Topshop, Topman, Miss Selfridge and HIIT from Bankrupt Arcadia Group

British retailer ASOS has purchased the ecommerce businesses of TopShop, Topman, Miss Selfridge and HIIT from Sir Philip Green's Arcadia Group which went into bankruptcy last year for \$364 million (£265 million). The acquisitions do not include the retail stores sites which will put thousands of workers to the street. The pandemic drove sales away from stores increasing ecommerce to 60% of Arcadia's 2020 revenue. Profits at ASOS's online brands have quadrupled since August driven fully by increased online sales.

Source: <https://www.businessinsider.com/asos-topshop-administration-deal-arcadia-group-philip-green-topman-2021-2>

Secondhand: The Future of Luxury and Fashion?

Vestiaire Collective, based in Paris, France is betting that the trend of teenagers in buying and selling luxury brand clothing over the internet has the potential to dramatically reshape the apparel industry. The resale of a handbag can save up to 90% of the carbon footprint of a new bag while extending the life of clothing by nine months with a new owner can cut its carbon footprint by 30%. In addition, it is estimated that over \$1 trillion in merchandise availability is resting in the closets of consumer with much of that merchandise having never been worn.

Source: <https://www.mckinsey.com/industries/retail/our-insights/is-luxury-resale-the-future-of-fashion?cid=other-eml-alt-mip-mck&hpid=a018f966-98b6-4fb9-8a2a-32dd0ff548ac&hctky=12107224&hlkid=49bda702a60f433b985b8f4c90e741f9>



Asia

Bangladesh Apparel Exports Continue to Suffer from Covid-19 Impact

The Bangladesh apparel export sector continues to suffer order cancellations as business dropped almost 19% from January 2020 to January 2021. The president of the Bangladesh Garment Manufacturers Export Association, Rubana Huq, said they do not expect to see a movement upward in orders until the third quarter of 2021 based on their assessment of the economic climate of their western customers.

Source: <https://www.dw.com/en/covid-bangladeshs-textile-industry-hit-hard-by-pandemic/a-56552114>

Myanmar Coup Devastates Apparel Sector

The military coup in Myanmar has caused further cancellations of orders by US and EU customers in addition to the Covid-19 related cancellations which drove an 11.75% drop in orders for 2020 compared to 2019. Apparel exports account for one-third of Myanmar's export income. It is anticipated that the apparel sector, which is mainly housed in industrial parks controlled by the Myanmar military, may drop a further 15% in 2021 due to downward pressure from western customers.

Source: <https://www.fibre2fashion.com/news/apparel-news/military-coup-to-further-affect-myanmar-s-apparel-industry-272529-newsdetails.htm>

50% of Asia Apparel Workers Lose Jobs Due to Pandemic – But a Plan with Hope

Asia garment and footwear manufacturing accounts for 68% of global exports yet the region has seen a massive reduction and cancellation of orders brought about by the Covid-19 pandemic. In response, a group of US retailers led by the American Apparel & Footwear Association, Target, Nike, Gap in partnership with USAID will invest \$250 million to improve the Indo-Pacific region's overall



infrastructure, economy and trade. A portion of the funds will go toward improving working conditions for workers in Myanmar and another project to create a network of ethical business in Sri Lanka.

Source: <https://www.borgenmagazine.com/u-s-companies-improve-jobs-in-asia/>

Forced Labor Alleged to Pick Cotton in Xinjiang Province, China

US Customs and Border Patrol, in a news conference in early December, called upon the industry to conduct "significant due diligence" in their cotton supply chain given the amount of forced labor and prison labor which is coming from the Xinjiang Province. A study by the Victims of Communism Memorial Foundation found that cotton for use in trimmings or finished goods was prevalent throughout Asia. It is estimated that 20% of all garments produced worldwide contains cotton from Xinjiang Province.

Source: https://www.supplychaindive.com/news/uighur-labor-xinjiang-cotton-center-global-policy-cbp/592362/?utm_source=Sailthru&utm_medium=email&utm_campaign=Issue:%202020-12-21%20Supply%20Chain%20Dive%20%5Bissue:31569%5D&utm_term=Supply%20Chain%20Dive

US Bans Cotton from XPCC in China

The US Government has banned all cotton produced by Xinjiang Production and Construction Corps, a group the US Government refers to as a quasi-military organization using forced labor. XPCC produces about 30% of China's cotton. The United Nations has reported that about one million Muslim Uighurs are kept in forced labor camps which the China government denies referring to the camps as "vocational training centers needed to fight extremism". The move could effectively ban all cotton exports from China according to a knowledgeable source.

Source: <https://www.reuters.com/article/us-usa-trade-china-idUSKBN28C38V>

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March
2021

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