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Cotton and Products

Annual

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Report Highlights: Italian economic growth continued to be sluggish in 2002 because of flagging domestic confidence and weak export performance. Trade sources believe in a weak recovery in Italian textile manufacturing only during the second half of 2003 and to gather strength in 2004**.** The U.S. cotton market share in Italy for CY 2002 is 5.08%. Demand for U.S. pima cotton remains strong among fine-yarn spinners. Despite a drop of 5,400 bales imports in 2002 Italy remained the fourth most important market for US pima cotton. The Italian Association of spinners, weavers and finishers (ATI) is involved in helping members on main issues such as environment, innovation and management complexity in view of future challenges and opportunities in modern globalization but also in more complex markets.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SITUATION AND OUTLOOK

Italian Cotton/Textile Industry - Overview

During 2002 the Italian cotton/flax industry showed clear signs of slowing down. Turnover decreased (-3.9%) from 11,780 to 11,310 million Euros. This was a result of a general low confidence, a weak export performance and on going imports from low labor cost countries. The strength of the Euro (which has inflated Italian retail prices to some extent) could further undermine consumer confidence and keep a damper on retail sales**.** Weak recovery is expected by the end of 2003 and to gather strength in 2004, driven by low real interest rates, reviving confidence and accelerating world demand. Labor market liberalization and wage moderation underpin an ongoing structural shift toward more labor intensive production. On the production technology side, innovations are increasingly directed toward first level quality control systems, flexibility and safety. However productivity growth is still quite low and strengthening it will require policies to promote product market competition and innovation.

For the past two years Italian mill consumption of cotton slightly declined due to a reduction in mill capacity utilization and some mill closures. The cotton fiber is still the most popular fibre however, is encountering the inter-fiber competition which favors man-made fibers, and it is particularly noteworthy that both garment manufacturers and consumers in Italy are seeking more novelty yarns which require the use of man-made fibers (MMF). No major changes occurred in the structure of the Italian cotton spinning and weaving industries. Industry is such that the vast majority of Italian cotton spinning and weaving is undertaken in the northern region of Lombardia, where in 2002, 56% of the ring-spinning and rotor-spinning capacity, and 67% of the cotton-weaving capacity, was located. Investments made by the Italian cotton textile industry slightly declined in 2002 from 357 to 356 million Euros. The decrease in investments was not as large as previous year which was due largely to a continued shift in production to Eastern Europe. However, despite clear signs of a slowing down the Italian textile and clothing sector is still encountering international success which has been favored over years by the coexistence, with equal status and importance, of large, medium and small companies. The capacity of innovation, attention to quality of materials and processing characterize large companies. Medium sized companies are often world leaders in specific niche markets, while small companies are specializing and excel in one or more specific production stage. Beside industry's management, design and distribution are also important factors. The Italian fashion system is offering original, very distinctive products, while at the same time keeping up with consumers tastes and satisfying roles. The weakening of one or more of these factors could jeopardize the future of the Italian textile and clothing sectors. A matter of concern for the industrial component is unfair competition based on social/environmental dumping and the lack of reciprocity in market access. For the design component it is the imitations that risk jeopardizing the message of the superior quality content of Made-In Italy fashion. For the distribution, problems arise from the difficulty of obtaining space in new emerging markets with a very dynamic clothing consumption and spending power. By 2005 in Europe, textile products will be traded freely. It will be a difficult challenge for the Italian textile industries which faces high production costs.
Distribution in Italy: At retail level, most outlets (department stores, chain stores and specialty stores)

selling apparel and those selling high-quality home furnishings and household textiles, reflected the overall Italian economic situation during 2002, with seasonal fluctuations.

Table 1: Italian Textile Industry Production
(In Metric Tons)

	2000	2001	2002
Yarn			
Pure Cotton	212,345	207,510	193,100
Synthetics	13,595	14,040	13,025
Mixed cotton	25,545	26,865	24,905
Other	2,700	830	754
Total	254,185	249,245	231,795

Textiles

	2000	2001	2002
Pure Cotton	163,450	167,475	164,215
Synthetic	27,130	27,580	26,835
Continuous filaments	10,710	10,915	10,570
Other	8,830	8,770	8,140
Total	210,120	214,740	209,760

Source: Associazione Tessile Italiana (Italian Textile Association)

Production and trade

The official production and trade statistics from the Associazione Tessile Italiana show that total cotton/textile output for 2002 was down 3.9% on the previous year (from 11,780 to 11,315 million Euros). The worsened economical situation is affecting industries, domestic consumption and foreign trade**.** The worsening of geopolitical tensions which have characterized the early 2003 makes forecast uncertain and difficult to make. However in trade circles it is felt that economic situation is expected to improve by the end of 2003 and beginning of 2004.

Cotton-system Spinning

The Italian yarn makers have produced the finest and most fashion-oriented yarns for any use in weaving, knitting and even hand-knitting. Italian yarns have been appreciated all over the world by wholesalers, weaving mills, knitwear manufacturers, as well as hand-knitting yarns. In line with the overall unknown factors characterizing the present economic situation, the Italian production of yarn during 2002 on the cotton-spinning system (including blends with man-made fibers) dropped by 7 percent to 231,795 MT. due to a stagnant domestic and foreign demand. The knitting sector continued to encounter difficulties caused by a more favorable trend in certain textile sectors at least in the first part of the year.

The breakdown showed that the open-end yarn production registered the most severe drop (-11%) to 96,010 while the combed carded yarns fell by 8.3 % to 82,610 tons. An opposite trend was registered for the ring carded yarn production that after many difficult years reached 14,480 tons (9,535 tons in 2001). The outstanding yarn orders dropped to 38,295 tons (-4.4%).
Combed carded yarn and ring carded yarn production uses' top qualities from Uzbekistan, Mali, Ivory Coast and, in smaller percentage, Australian cottons. Open-end yarn production uses less expensive Greek and Syrian Mediterranean crops.

Of total yarn production on the cotton-spinning system, 83% was pure cotton.

Cotton Weaving

Italian cotton weaving production decreased just 2.3% in 2002 (from 214,740 to 209,760 tons) due to the favorable trend registered during the first part of 2002 of certain sectors such as production of shirting, denim and velvet. Delivery of fabrics did not decrease as much as production reaching 211,295 tons (-1.3%) causing a drop of stock of 3.3%. The number of looms installed at the end of 2002 was around 13 thousand representing a slight decrease from the previous year.

MARKETING

The major factor, affecting US cotton exports into Italy, is its price relative to that of competitors (Egypt and China with its Type 146 ELS cotton). However, the very sophisticated Italian textile industry is always looking for superior manufacturing quality and is always looking for top quality cotton. Importers are always interested in long fiber cotton as the Italian industry diversifies and focuses more on the finest and most fashion-oriented yarns. Sustained educational efforts emphasizing spinning characteristics of cotton types can help overcome price differences.

Italian cotton fabric manufacturers continue to shift some of their production to Eastern countries and reportedly cotton used for this production is bought in these countries. During 2002 the best consumption results among Italian consumers were obtained in the shirting, velvet and denim sectors. US denim and US apparel manufacturers could improve their export share on the Italian market.

TRADE

Raw Cotton

Italy produces no cotton. The country is traditionally open to importing various cotton growth; price and quality are the major factors influencing final buyers' purchasing decision. Since Italy does not produce cotton, the cotton export figures included in Trade Matrices are usually of a transhipment or forwarding nature.

During calendar year 2002 Italian imports of raw cotton decreased by 3 percent (from 278,423 MT to 270,078 MT). The largest supplier of raw cotton to the Italian market during 2002 was again Uzbekistan (43,182 MT - 11%), followed by Syria (with 33,863 MT, +52%). Uzbekistan has not been able to reach its cotton production target for the past few years for many reasons including weather problems, inadequate production incentives, low quality inputs (especially seeds) a deteriorating infrastructure, especially irrigation. During the first seven months of MY 2002 (Aug. 2002 through Feb.2003) Italian imports of raw cotton further decreased by 5.2 % in volume terms and Syria became the number one supplier. Uzbekistan cotton exports to Italy dropped by 21%.

U.S. cotton exports to Italy

In general, Italy imports from the United States predominantly ELS cotton (for the production of fine-count combed-cotton yarns), because U.S. upland cotton is generally not price competitive with other supplying countries**.** However, according to trade sources, total imports of U.S. cotton into Italy in MY 01/02 increased slightly over the 99/00 level but unfortunately this trend didn't continue during the first seven months of MY 02/03: Italian imports of raw cotton further decreased by12.6 % in volume terms.

Stocks

At textile mill level in Italy, ending stocks of raw cotton were still low at the end of 2002 but slightly better than the previous year. Manufacturers and importers continue to avoid building stocks because of the uncertainty in the market, and because they do not want to pay carrying charges - warehouse fees, and insurance - for unused raw products due to higher cotton prices. Trade sources report that price increases is, in part due to the fact that world production is dropping from year-earlier levels.

ELS Cotton

The Italian market for raw cotton is characterized by a predominance of "fine count" spinners. The U.S. meets a significant portion of this demand, through the export of U.S. Pima cotton. Egyptian cottons and USA Pima compete for finest yarn counts. Reportedly, Egypt seems to be planting more ELS varieties in the longer fiber category and less of the Giza 86 which has traditionally been the competitor to U.S. Pima. CIS ELS is a price-sensitive component for Extra Long Staple and Long Staple Mixes.

Italian trade statistics do not distinguish between Pima /ELS and Upland cotton. USDA Export Sales reports the following distribution:

Table 2: US Exports of Pima/ELS Cotton to Italy

Pima/ELS	1997/98	1998/99	1999/00	2000/01	2001/02
480 lb. bales	26,500	14,700	34,300	34,100	28,700
MT	5,762	3,196	7,458	7,415	6,240

Source: USDA/FAS Export Sales

VALUE-ADDED COTTON PRODUCTS

Yarn and Fabric

Trade

Imports

Foreign trade data related to 2002 for the overall cotton/flax products (yarn, fabrics and household linen) registered a drop in imports of 5.7% in value (from 1,895 to 1,787 Million Euros). The drop is mainly to be attributed to cotton yarn (-11.3%)and fabrics (-6.8%). Total global exports register an increase of 3.3 % (from 3,193 to 3,300 million Euros): export increases were registered for cotton fabrics (+7.4%) and household linen (+4.3%) while cotton yarn, flax yarn and fabrics decreased -9.3%, -16.1% and -8.5% respectively.

The largest supplier of cotton yarn to Italy was Turkey followed by India and Syria while the largest supplier of cotton fabric was Russia followed by Turkey, Belgium and Germany.

Exports

Italian exports of cotton yarn in 2002 decreased both in volume and value. The largest export markets for cotton yarns were EU partners: Germany, Spain and France. In the more active fabric sector, cotton fabric exports increased both in value and in volume to the key outward-processing partners (including Tunisia, Romania and Turkey).

Stocks

In the value-added sector, stocks of cotton yarn and fabrics at the end of 2002 showed a decrease of 5.7 and 3.3% in volume terms compared to the end of 2001 reaching 18,600 tons and 32,895 tons respectively.

PS&D TABLES

Source: Italian Official Statistical Data. ISTAT

PRICES TABLE

TRADE MATRIXES

Cotton Imports Marketing Year Basis

Cotton Exports Marketing Year Basis

Note: As a non cotton producing country, any exports recorded by Customs & Excise are of a transhipment or forwarding nature.

Cotton Imports (Aug. 2002/Feb 2003)

Import Trade Matrix		
Country	Italy	Units: Metric Tons
Commodity	Cotton	
Time period	Aug-Feb	8/02- 2/03 / 8/01-2/02
Imports for:	2002/2003	% Change
U.S.	6,497	-12.6
Others		
Syria	20,765	71.7
Uzbekistan	18,781	-21
Australia	12,951	-20.7
Greece	10,646	-45.6
Egypt	10,123	41.7
Mali	8,452	98.6
Tajikistan	6,394	54.5
Cameroon	5,782	80.5
Pakistan	5,218	10
Turkey	4,615	69.3
Total for Others	103727	
Others not Listed	31,973	
Grand Total	142197	-5.2

Table - Imports of Cotton Yarns (HS 5204, 5205, 5207 in MT)

Import Trade Matrix			
Country	Italy		
Commodity	Cotton Yarns	Units:	Metric Tons
Time period	Jan/Dec.		Jan/Dec.
Imports for:	2001		2002
U.S.	46	Others	54
Turkey		India	
Syria	37,520	Turkey	25,959
India	14,106	India	17,391
Syria	13,092	Syria	15,386
Egypt	10,626	Greece	10,101
Austria	6,496	Egypt	9,911
Greece	6,216	Pakistan	8,262
Germany	5,989	Austria	7,510
Hungary	3,801	Germany	4,995
Pakistan	3,696	Belgium	3,632
Belgium	3,584	Hungary	3,181
Total for Others	105126		106328
Others not Listed	31,396		32,989
Grand Total	136568		139371

Table - Exports of Cotton Yarns (HS 5204, 5205,5207 in MT)

Export Trade Matrix			
Country	Italy		
Commodity	Cotton Yarns	Units:	Metric Tons
Time period	Jan/Dec		Jan/Dec
Exports for:	2001		2002
U.S.	2,085	U.S.	1,597
Others		Others	
Germany	12,885	Germany	9,926
Spain	12,519	Spain	9,690
France	9,471	France	8,949
Belgium	6,227	Austria	5,253
Hungary	6,093	Hungary	4,810
Austria	5,690	Portugal	4,294
Portugal	4,883	Belgium	4,025
Slovenia	3,309	Slovenia	3,962
UK	2,779	Turkey	2,625
Switzerland	1,988	UK	1,754
Total for Others	65844		55288
Others not Listed	16,410		16,321
Grand Total	84339		73206

Table - Imports of Cotton Fabric(HS 5208, 5209 in MT)

Import Trade Matrix			
Country	Italy		
Commodity	Cotton Fabric	Units:	Metric Tons
Time period	Jan/Dec		Jan/Dec
Imports for:	2001		2002
U.S.	727	U.S.	606
Others		Others	
Turkey	14,607	Russia	12,669
India	11,889	Turkey	10,706
Germany	11,095	Belgium	10,471
Belgium	10,673	Germany	10,320
France	10,086	China	9,246
Russia	9,538	Pakistan	8,307
Indonesia	8,266	France	8,185
China	7,027	Indonesia	7,441
Spain	6,173	Slovenia	6,897
Pakistan	6,083	India	6,704
Total for Others	95437		90946
Others not Listed	66,982		62,652
Grand Total	163146		154204

Table - Exports of Cotton Fabric(HS 5208, 5209 in MT)

Export Trade Matrix			
Country	Italy		
Commodity	Cotton Fabric	Units:	Metric Tons
Time period	Jan/Dec		Jan/Dec
Exports for:	2001		2002
U.S.	5,798	U.S.	5,753
Others		Others	
Tunisia	22,399	Tunisia	23,914
Germany	14,435	Romania	16,629
Romania	13,493	Turkey	16,283
France	10,094	Germany	12,792
Turkey	8,364	France	9,277
Morocco	8,276	Morocco	7,918
Spain	4,469	Poland	4,769
Poland	4,467	Spain	4,467
UK	4,277	Hungary	3,947
Portugal	3,965	UK	3,783
Total for Others	94239		103779
Others not Listed	35,011		39,249
Grand Total	135048		148781