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**Italy**

**Cotton and Products**

**Annual**

**2002**

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**Report Highlights:** In 2002 the Italian textile industry recovery, which started in 2000 and continued in 2001, slowed down. Industry activity was lead by export demand. Export market competition in 2002 and the fragile Italian economy make trade sources doubt a sustained recovery in Italian textile manufacturing during the second half of 2002-03. The U.S. cotton market share in Italy is 4.7 %, although demand for U.S. pima cotton remains strong among fine-yarn spinners, with imports in 2002 up 5%.

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Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Rome [IT1], IT’

## SITUATION AND OUTLOOK

## ITALIAN TEXTILE INDUSTRY - OVERVIEW

During 2001, the Italian textile industry marked time, showing a few signs of the gentle momentum of recovery which had been experienced in 2000 (and which had been mainly due to the continued healthy pick-up in export demand). For the balance of 2002, that trend continued. However, Italian mill consumption of cotton declined in 2001, the first "significant" drop in many years.

The principal contributory factors in the stagnation were a reduction in mill capacity utilization as demand slowed in domestic and export markets for the coarser-count carded cotton yarns, and some mill closures. Particularly, inter-fiber competition is still shifting demand for 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).

At retail level, year-to-date performance for the rest of 2002 showed little change. Most outlets (department stores, chain stores and specialty stores) selling apparel and those selling high-quality home furnishings and household textiles, mirror the overall Italian economic situation, with seasonal fluctuations. Hence, with ever-tougher competition in export markets, and the rather fragile condition of the Italian economy, trade sources doubt the likelihood of any sustained recovery in Italian textile manufacturing during the second half of 2002 and in 2003.

Note: Official textile statistics for 2001 became available in late October 2002, at which time this report was compiled.

Italian Textile Industry Production
(In '000 metric Tons)

| | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Yarn | | | | | |
| Pure Cotton | 225.3 | 221.9 | 200.2 | 212.3 | 207.5 |
| Synthetics | 13.2 | 13.0 | 12.4 | 13.6 | 14.0 |
| Mixed cotton | 23.0 | 23.1 | 24.1 | 25.6 | 26.9 |
| Other | 4.9 | 4.4 | 2.7 | 2.7 | 0.8 |
| Total | 266.4 | 262.4 | 239.4 | 254.2 | 249.2 |

Textiles

| | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Pure Cotton | 156 | 161 | 154 | 163 | 167 |
| Synthetic | 27 | 28 | 26 | 27 | 28 |
| Continuous filament | 11 | 10 | 10 | 11 | 11 |
| Other | 9 | 8 | 9 | 9 | 9 |
| Total | 202 | 209 | 198 | 210 | 215 |

Source: Associazione Tessile Italiana (Italian Textile Association)

PRIMARY TEXTILE MANUFACTURING

(Spinning and weaving in the cotton sector)

Overview

The structure of the industry is such that the vast majority of Italian cotton spinning and weaving is undertaken in the northern region of Lombardia, where in 2001, 56% of the ring-spinning and rotor-spinning capacity, and 67% of the cotton-weaving capacity, was located.

There were some further changes in mill ownership during 2001/02. For example, the Manifattura di Gemona traditional cotton mill at Gorizia (scarcely more than 10 years old) was sold to Benetton with a corresponding change in the product mix. However, other large spinning concerns (Niggeler & Kupfer, Filartex, and Legnano) appear to be prospering while continuing the level of their cotton utilization. The latter are spinners in the fine count ranges.

Changes in the Italian Cotton Association Structure

The former Associazione Cotoniera Italiana (Italian Cotton Association) merged with the Finishers Association to become the Associazione Tessile Italiana (Italian Textile Association). The former Garment Manufacturers' Association merged with the wool and silk associations to become the Associazione Italiana delle Industrie della Filiera Tessile Abbigliamento (Italian Textile-Clothing Association). Discussions were held between the two associations concerning a possible Pan-Textile Association. The former Director-General of the Associazione Cotoniera Italiana resigned in May 2002, to be succeeded in the merged association by the Director-General of the former Garment Manufacturers Association.

Production and trade

The official production and trade statistics from the Associazione Tessile Italiana show that total cotton/textile output for 2001 was up by 2.4% on the previous year. The post-9/11 economic slump have affected output, domestic consumption and foreign trade. The domestic market remains intensely competitive (although exports have increased further); it is felt in trade circles that output is unlikely to show a significant increase even beyond 2002.

Cotton-system Spinning

In 2001, Italian production of yarn on the cotton-spinning system (including blends with man-made fibers) fell by 2% to 249,245 Tons. The breakdown showed that carded yarn production fell by 1.8% to represent 57% of total production, while combed yarn production fell by 2.9% to represent 43% of total production. Of total yarn production on the cotton-spinning system, 83% was pure cotton. Over the long term productivity continued to increase, with the number of hours required per worker to produce 100kg of carded yarn (of average count Ne 24) having fallen from 4.15 to 3.24 during the preceding decade.

Cotton Weaving

Italian cotton weaving production increased just 2.2% in 2001 (from 210,120 to 214,740 Tons). All cotton weaving sectors expanded output in 2001, including production of shirting, denim, velvet and all fabrics for the casual-wear market. As a rough indicator of efficiencies of operation and increased productivity, the number of looms installed at the end of 2001 was 13,410, representing a slight decrease from the previous year (and a huge reduction from the 45,000+ installed at the end of 1980.

Significant weaving moved out of Italy in the 1990's. Investments made by the Italian cotton textile industry declined further in 2001 due largely to a continued shift in production to Eastern Europe. However, despite the largely difficult operating conditions within the industry, employment in the primary textile industry (spinning/weaving) declined by a further 2% during 2001 to 38,860.

Prospects for the balance of 2002

From a trade perspective over the past year, the weak U.S. dollar against the Euro has caused textile producers to suffer from increased import price pressures. On the domestic market, there are still some concerns about the continued weakness of stock markets around the world, and fears as to the prospect of another middle-East war. 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. A survey in 2002 showed that prices of many goods, including some textile products, have increased since the introduction of the Euro, and caused a downturn in retail spending.

Many mills closed early for 2002the Summer holidays; this earlier-than-usual closure (combined with re-opening later-than-customarily in August) was the result of overall sluggish demand for finished goods. By the beginning of November, there were few signs of an improvement in the economic situation. In consequence, the mood of spinners had darkened, with cotton being bought only for usual production.  No stocks building is occurring.

Despite the situation in Ivory Coast (which has resulted in longer shipment periods for cotton from Mali and Burkina Faso), other West African growths such as Benin and Cameroon had become more affordable than new crop Central Asian cotton. But by Fall 2002, the modest firming of the dollar against the Euro meant that some U.S. California / Arizona cotton had been sold for shipment before the end of calendar 2002, at comparatively favorable prices.

## MARKETING

Cotton consumption in Italy is closely tied to price, overall market demand, and fashion trends. Traditionally, U.S. cotton has offered Italian spinners quality, reliability of supply, service, and sustainability, but the higher cost of the U.S. product has limited imports since the end of the 1990's. Higher priced cotton is bought in Italy, but only if mills are convinced of its benefits. Sustained educational efforts emphasizing spinning characteristics of cotton types can help overcome price differences. As testimony to this approach, and with the comparative strength of the Italian ELS market, the Supima Association of America continues its presence and activities in Italy; and thanks to continuous and successful promotional activities worldwide, its trademark enjoys a high degree of recognition for U.S. Pima cotton and its products.

Fashion is one of Italy’s leading exports, and cotton demand is also closely tied to fashion trends. During the past two years denim consumption in Italy has increased significantly year-on-year, and fashion industry forecasts show that demand is expected to grow further during the coming year. Denim was a principal component of the cotton fabric trade in 2001: while exports rose by 25% year-on-year to 47,971 Tons, denim imports more than doubled to 41,593. Significant gains in market share have reportedly been achieved by U.S. denim exporters, and U.S. cotton textile / apparel manufacturers interested in exporting their products to Italy should continue to capitalize on the strong cultural tie between denim and the United States, as well as the quality of their product, in order to build on this encouraging trend.

## TRADE

### RAW COTTON

Up to the mid-1970's, Italy grew a small quantity of cotton in the South of the country; however, for all practical purposes, domestic production of cotton has been zero for many years, and Italy is hence import-dependent. (Also, as a non-cotton-producing country, any exports recorded by Customs & Excise are of a trans-shipment or forwarding nature, and hence for 2000/01 onward are not included in the Trade Matrices).

In MY 00/01 cotton imports into Italy increased by just 1.3% (in volume terms), due to the modest expansion of demand for domestically-produced products as described above. However, imports of raw cotton during Calendar Year 2001 (the most recent figures available) were over 10% down from the level for 2000, at 278,423 Metric Tons. Central Asia remained the principal supplier, but with a slightly smaller market share (24%). Greece maintained second place, while the proportion of Australian cotton increased.

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 00/01 increased slightly over the 99/00 level, because of more attractive asking prices resulting from the depressed level and subsequent erratic behavior of New York Cotton Futures.

Stocks

At textile mill level in Italy, ending stocks of raw cotton fell almost to zero in 2000 due to the increased demand in MY 99/00. Price volatility (and predominantly low prices) in the raw cotton market over the past season has arisen primarily from continued global over-supply and consequent high world cotton stock levels. A survey by *"Cotton Outlook"* in April 2002 showed that stock cover in Italy for the coming four seasons was: Q2/02 95%, Q3/02 83%, Q4/02 67%, Q1/03 37%. (The forward cover for Q1/03 was the highest recorded in the global survey). By Summer 2002, as elsewhere in Europe, very few spinners' nearby commitments remained unfilled, and the sharp upward movement in futures prices in mid-June 2002 meant that most spinners temporarily withdrew from the market. (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 product.)

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. The official Italian statistics do not break-down imports of raw cotton by type, and hence upland and ELS cotton types are reported together. Consumption of U.S. Pima cotton in Italy remains strong, and around 30-35,000 bales of U.S. ELS cotton were imported into Italy in each of the past several Marketing Years.

Cotton: U.S. ELS Cotton Imported into Italy (U.S. Pima cotton, in bales of 480 lb)

| 1997-1998 | 1998-1999 | 1999-2000 | 2000-2001 | 2001-2002 |
|---|---|---|---|---|
| 27,600 | 15,300 | 35,600 | 35,500 | 28,700 |

Source: Supima Association of America

Competition

Egypt continues to be the major competitor of U.S. ELS cotton, because on the basis of quality Egyptian prices are consistently a few cents/lb below that of U.S. cotton. The move towards privatization in the Egyptian cotton trade has made good progress, and during the past three years the private sector has overtaken the public sector. Changes in Egyptian ginning and bale-pressing practices are claimed to guarantee a more homogeneous and less "contaminated" cotton (i.e. containing less foreign matter), the latter being particularly important for fine-count spinners.

There have been other changes in the marketing of ELS cotton in the past season. China has made great progress with its Type 146 ELS cotton. Additionally, in 2002 in particular, "honeydew" (aphid excretions and plant sugars which cause stickiness in the raw cotton) from some origins including the U.S. has reportedly been a major problem for spinners in Italy and elsewhere. A further consideration is the expansion in global production of GM cottons, and Italian spinners report numerous requests from yarn customers for a particular seed variety's origin.

VALUE-ADDED COTTON PRODUCTS:

Yarn and Fabric

Despite Italian industry pressure, the European Union did not adopt the proposed antidumping duties on raw cotton textile imports from third countries such as China, Egypt, India and Turkey (previously, Syria had joined the list of countries suspected of dumping). Trade contacts report that the measures were dropped mainly due to opposition of Northern European member states.

Imports

In 2000 and 2001 there was a significant increase in import penetration. Italian imports of cotton yarn and fabrics increased in 2000, with yarn imports increasing by 18% in volume terms to 139,617 Tons (to help meet downstream demand in the weaving and knitting industries), and fabric imports increasing by 11% in volume terms to 152,978 Tons. The largest supplier of cotton yarns and fabrics to Italy was Turkey, by far the largest consumer of cotton in the European region. Imports also increased in 2001. Cotton yarn imports in 2001 continued the modest upward trend of the past few years (up by 1.4%, to 142,000 Metric Tons). Of this, the gain made by Turkey (+14%) to remain the dominant supplier, is particularly noteworthy; India remains in second position as a yarn supplier. However, cotton fabric imports in 2001 continued to grow sharply (up by 21%, to 185,087 Metric Tons - and up by 28% in value terms, reflecting the result of a growing demand for high-value specialty fabrics).

Exports

Italian exports of cotton yarn and fabrics increased in 2000, with yarn exports increasing by 17% in volume terms to 107,385 Tons, and fabric exports increasing by 19% in volume terms to 153,985 Tons. The largest export markets for cotton yarns and fabrics were E.U. partners Germany and France. These increases were a reflection of the dominant position which many fine quality Italian apparel fabrics (especially shirting and leisure-wear) and household textiles continue to command in export markets. However, exports are reported to have had mixed fortunes in 2001. Cotton yarn exports in 2001 were down by 5%, to 102,052 Metric Tons. This was a reversal of the expansion in exports which had occurred in 1999/2000. In the more buoyant fabric sector, cotton fabric exports in 2001 again increased (up by 17%, to 179,883 Metric Tons), with exports to the key outward-processing trade partners (including Tunisia, Morocco, and Romania) again growing year-on-year.

Stocks

In the value-added sector, stocks of cotton yarn and fabrics at the end of 2000 showed an increase of 6% (in volume terms) compared to the end of 1999. At the end of 2001, although some spinners had reported an accumulation of yarn stocks, and an associated weakness of prices in the face of increased import penetration (with Syria a strong competitor for new orders), yarn stocks had overall fallen slightly to 209,00 Tons. Fabric stocks had however increased slightly, to 214,00 Tons, and were at the highest level for a decade (despite the cost of carrying inventory, further reflecting the difficult market conditions).

PS&D TABLES

COTTON

| PSD Table | | | | | | |
|---|---|---|---|---|---|---|
| Country | Italy | | | | | |
| Commodity | Cotton | | | | (HECTARES)(MT) | |
| | Revised | 2000 | Preliminary | 2001 | Forecast | 2002 |
| | Old | New | Old | New | Old | New |
| Market Year Begin | | 08/2000 | | 08/2001 | | 08/2002 |
| Area Planted | 0 | 0 | 0 | 0 | 0 | 0 |
| Area Harvested | 1000 | 0 | 1000 | 0 | 1000 | 0 |
| Beginning Stocks | 35489 | 0 | 33094 | 1000 | 35489 | 2000 |
| Production | 218 | 0 | 218 | 0 | 218 | 0 |
| Imports | 295673 | 320000 | 293931 | 310000 | 299374 | 304000 |
| TOTAL SUPPLY | 331380 | 320000 | 327243 | 311000 | 335081 | 306000 |
| Exports | 6532 | 6000 | 6532 | 6000 | 6532 | 6000 |
| USE Dom. Consumption | 289576 | 311000 | 283045 | 301000 | 293931 | 290000 |
| Loss Dom. Consumption | 2177 | 2000 | 2177 | 2000 | 2177 | 2000 |
| TOTAL Dom. Consumption | 291753 | 313000 | 285222 | 303000 | 296108 | 292000 |
| Ending Stocks | 33094 | 1000 | 35489 | 2000 | 32441 | 14000 |
| TOTAL DISTRIBUTION | 331379 | 320000 | 327243 | 311000 | 335081 | 312000 |

COTTON: Bales (of 480 lbs net weight)

| **(HECTARES) (1,000 - 480lb BALES)**<br>**Beg. Month/Year of Marketing Year: 8/02** | |
|---|---|
| Area planted | 0 |
| Area Harvested | 0 |
| Beginning Stocks | 9,180 |
| Production | 0 |
| Imports | 1,395,360 |
| TOTAL SUPPLY | 1,404,540 |
| Exports | 27,540 |
| USE Dom. Consumption | 1,331,100 |
| Loss Dom. Consumption | 9,180 |
| TOTAL Dom. Consumption | 1,340,280 |
| Ending Stocks | 64,260 |
| TOTAL DISTRIBUTION | 1,404.540 |

TRADE MATRIXES

Cotton Imports Calendar Year Basis

| | | | |
|---|---|---|---|
| Import Trade Matrix | | | |
| Country | Italy | | |
| Commodity | Cotton | | |
| Time period | | Units: | Metric Tons |
| Imports for: | 2000 | | 2001 |
| U.S. | 13,759 | U.S. | 12,994 |
| Others | | Others | |
| Central Asia | 81,826 | Central Asia | 67,109 |
| Greece | 30,121 | Greece | 27,410 |
| Syria | 28,524 | Syria | 22,284 |
| Australia | 26,598 | Australia | 26,475 |
| Egypt | 23,193 | Egypt | 15,298 |
| Mali | 12,910 | Mali | 6,606 |
| Zimbabwe | 12,191 | Zimbabwe | 13,394 |
| Burkina Faso | 10,347 | Burkina Faso | 10,827 |
| Pakistan | 9,434 | Pakistan | 10,034 |
| Ivory Coast | 9,296 | Ivory Coast | 7,862 |
| Total for Others | 244440 | | 207299 |
| Others not Listed | 54,815 | | 58,130 |
| Grand Total | 313014 | | 278423 |

Cotton Exports Calendar Year Basis

| | | | |
|---|---|---|---|
| Export Trade Matrix | | | |
| Country | Italy | | |
| Commodity | Cotton | | |
| Time period | | Units: | Metric Tons |
| Exports for: | 1999 | | 2000 |
| U.S. | | U.S. | |
| Others | | Others | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Total for Others | 0 | | 0 |
| Others not Listed | 6,492 | | |
| Grand Total | 6492 | | 0 |

Note: As a non cotton producing country, any exports recorded by Customs & Excise are of a trans-shipment or forwarding nature and hence for 2000 onward are not included in the trade matrix.

VALUE ADDED COTTON (COTTON YARN AND FABRIC)

IMPORTS of Cotton Yarn and Fabric into Italy (Calendar Year basis)

Unit: Metric Tons

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| U.S. | 1,026 | 1,047 | 841 |
| Turkey | 46,864 | 43,645 | 53,599 |
| India | 19,489 | 22,582 | 26,189 |
| Germany | 19,844 | 20,609 | 18,164 |
| France | 12,808 | 14,441 | 15,491 |
| Egypt | 10,961 | 14,424 | 12,406 |
| Belgium | n/a | 14,331 | 15,224 |
| Syria | 3,614 | 13,736 | 14,871 |
| Russia | n/a | 11,030 | 12,211 |
| Others not listed | 141,206 | 136,750 | 158,095 |
| Grand Total | 255,812 | 292,595 | 327,091 |

Source: Associazione Tessile Italiana
(Note: some countries contained in prior-year "others not listed" are broken-out for 2000 for clarity)

EXPORTS of Cotton Yarn and Fabric from Italy (Calendar Year basis)
Unit: Metric Tons

| | 2000 | 2001 |
|---|---|---|
| U.S. | 14,777 | 12,813 |
| Germany | 36,499 | 36,744 |
| France | 27,127 | 27,332 |
| Tunisia | 21,762 | 25,877 |
| Spain | 19,345 | 20,003 |
| U.K. | 14,471 | 12,837 |
| Romania | 14,033 | 18,169 |
| Turkey | 9,295 | 11,425 |
| Morocco | 8,959 | 9,583 |
| Switzerland | 4,115 | 623 |
| India | 2,796 | 429 |
| Egypt | 607 | 925 |
| Syria | 320 | 761 |
| Others not listed | 87,264 | 104,414 |
| Grand Total | 261,370 | 281,935 |

Source: Associazione Tessile Italiana

(Note: Prior-year data are aggregated in the official Statistics)