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Cotton and Products

Annual

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Report Highlights: The Italian textile industry continued to face major difficulties during 2003 due to weak domestic confidence, low export performance and increased competition from low cost countries. Turnover for the textile sector overall decreased by 5.3%. The drop also affected cotton spinning and weaving companies. As a consequence, Italian imports of raw cotton from all sources in MY 2002/2003 decreased by 8% to 253,947 MT. However, the United states, thanks to the weak dollar, ranked number six as a source of imported fiber with 18,003 MT (+31.3%) and a market share of 7.1 %. The same decreasing import trend will continue in the current MY 2003/04 and is not expected to improve in the coming year 2004/05.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Calendar year 2003 was yet another challenging year for the overall Italian textile industry. In MY 2002/03 Italian imports of raw cotton totaled 253,947 MT. This is a decrease of 21,713 MT or about 8 % compared to the previous season. For MY 2003/04 a further decrease is expected; and, imports in MY 2004/05 are expected to remain virtually the same. In MY 2002/03 the top three suppliers of raw cotton to the Italian market were Uzbekistan, Syria and Egypt. The United States ranked number six with 18,003 MT (+ 31.3 %) and a market share of 7.1 percent.

The Italian economy is at a standstill. The expected growth did not happen which further weakened domestic confidence and trade sources believe that unless the world economic growth achieves a turnaround, demand for textile cannot be expected to match the increasing production capacities of the sector. The Italian textile industry continues to face strong competition from low cost countries. The weaker dollar relative to the Euro has increased U.S. competitiveness for raw cotton.

Conversion Rate (average for Calendar Year 2003): U.S. $ 1 = Euro 0.8840

Situation and Outlook

Italian Textile and Apparel Industry - Overview

The overall textile and clothing sector involves about 58,000 industrial and craftsman enterprises, about 10,000 family business whose 687,100 employees contribute to roughly 11% of the manufacturing sector's added value. Large and medium sized companies are often world leaders in fashion and offer original and very distinctive products which satisfy consumer's taste and at the same time meet consumer's needs. This implies a continuous improvement in technical performances of fibers, yarns, fabrics and finishing.

The Italian Textile/Clothing industry is strongly export oriented. Currently more than 60% of total turnover is achieved thanks to foreign markets. During 2003 the performance of the Italian textile industry reflected the overall downturn in the economy, as well as the uncertainty generated by the very negative situation in almost all traditional export markets. Falling business and consumer confidence and the continued pressure of low cost imports contributed to modest performance of the industry. The overall Italian textile turnover during 2003 was valued at €43.5 billion (49.4 billion US$) or –5.3% lower than the previous year. Italian exports followed the same negative trend registering a sharp decrease for the third consecutive year. Germany still represents the first buyer market of Italian fashion products, however, during 2003 Italian exports decreased by 14%. Italian exports also dropped toward France (-5.3%) and the U.K. (-14.6%). Italian exports to Spain were stable while exports to the US dropped by 10%. China, the leading supplier, has continued to raise the flows of price-competitive products to Italy (+20%).

Italian turnover for the cotton sector decreased by 7% in Euro currencies to €10,520 million (11,900 US$). There have been some reductions or relocation of production facilities from Italy to other countries. This affected also the cotton spins and weaving companies. This trend is expected to continue through the next few years mainly in the new countries which recently joined the EU. 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**.** Conservative forecast are postponing the beginning of the economic recovery until the last part of 2004.

Table 1: Italy – General Economic and Textile Production Data

ITALY:	2001	2002
General Economic Data		
Change in GNP (% real growth)	1.8	0.4
Inflation (GNP deflator in %)	2.07	2.05
Unemployment (% of total workforce)	9.05	9.0
Exchange Rate (Units of National Currency per USD)	1.12	1.06
Textile- Installed Capacities		
Spinning		
- Ring Spindles	1,432,460	1,401,275
- O-E Rotors	88,640	82,555
Weaving		
- Shuttleless Looms	11,745	11,540
- Shuttle Looms	1,665	1,640
Average Number of People Employed (full-time equivalent)	38,860	38,065
Average Cost of Labor of Textile Workers Euro) *	15.38	15.90
Average Cost of Labor of Textile Workers USD) *	13.70	15.00
Activity Level		
Fiber Consumption (Metric Tons)		
- Cotton	255,540	245,660
- ManMade Fiber	31,555	26,945
- Others	1,015	800
- Total All Fibers	288,110	273,405
Spun-Yarn Production (incl. Core Yarns) M.T.		
- Cotton (85% cotton or over)	207510	193100
- Blends (51-84% cotton	5560	5055
- Others	36175	33640
Fabric Production - Woven only) M.T.		
- Cotton (85% cotton or over)	164,475	164,215
- Blends (51-84% cotton	6,530	6,310
- Others	40,735	39,235
Capacity Utilization		
Hours Worked per Active Spindle/Year	6,772	6,420
Hours Worked per Active Loom/Year	6,015	5,915

* (per hour and including social charges)

Table 2: Italian Textile Industry Production (in metric tons)

	2001	2002	2003
Yarn			
Pure Cotton	207,510	193,100	177,265
Synthetics	14,040	13,025	11,540
Mixed cotton	26,865	24,905	22,575
Other	830	754	605
Total	249,245	231,795	211,985

Textiles

	2001	2002	2003
Pure Cotton	167,475	164,215	154,690
Synthetic	27,580	26,835	25,025
Continuous filaments	10,915	10,570	9,720
Other	8,770	8,140	7,665
Total	214,740	209,760	197,100

Source: Associazione Tessile Italiana (Italian Textile Association)

Primary Textile Manufacturing
(Spinning and weaving in the Cotton sector)

The Italian textile industry continues to face strong competition from low cost countries. There have been a number of closures or relocation of production facilities to Eastern European countries. This trend will continue in the future and there will be more regional trade agreements and strategic alliances with neighboring low-cost countries. Individual trading stragegies are tending to develop at the firm-level rather than at the national level. The vast majority of Italian cotton spinning and weaving is undertaken in the northern region of Lombardia. Investments made by the Italian cotton textile industry slightly declined in 2003 from 357 to 356 million Euros (or about 403 million US $).

Production and Trade

There is no domestic raw cotton production in Italy. The country therefore depends on cotton imports for its textile and apparel industry.

Preliminary official production and trade statistics from the Associazione Tessile Italiana (ATI) show that the total cotton/textile output for 2003 was down 7% on the previous year to €10,520 million (11,900 million US$). The worsened economic situation is affecting industries, domestic consumption and foreign trade**.** The evolution of the euro/dollar exchange rate has penalized Italian exports and favored imports from low cost countries often quoted in US dollars. The geopolitical tensions which have characterized the past and current year make forecasting uncertain and difficult to make. A recovery for 2004 is not expected by the Italian textile industry before the end of the year.

Cotton-System Spinning

The Italian yarn makers produce the finest and most fashion-oriented yarns for use in weaving, knitting and even hand-knitting. Italian yarns are 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 2003 on the cotton-spinning system (including blends with man-made fibers) dropped by 8.5 % percent to 211,985 MT. The knitting and weaving sector encountered difficulties due to weak demand.

The ATI preliminary data shows that the most severe drop was registered for ring carded yarn with a drop of 12.3% to 12,700 tons; the combed carded yarns fell by 10% to 74,350 and the open-end yarn production registered a lighter drop of -6% to 90,210 tons. Yarn orders for 2003 dropped to 34,620 tons (-9.6%)**.**

Cotton Weaving

Italian cotton weaving production decreased by 6% in 2003 (from 209,760 to 197,100 tons) due to a general drop of the internal demand also in sectors that until last year showed a good performance such as shirting and denim. Delivery of fabrics decreased by 7.1% (from 211,295 to 196,260 tons) causing a stocks increase of 2.7% of finished products (from 32,895 to 33,770 tons). The number of looms installed at the end of 2002 was around 13 thousand representing a slight decrease from the previous year. There is not updated data for 2003 available.

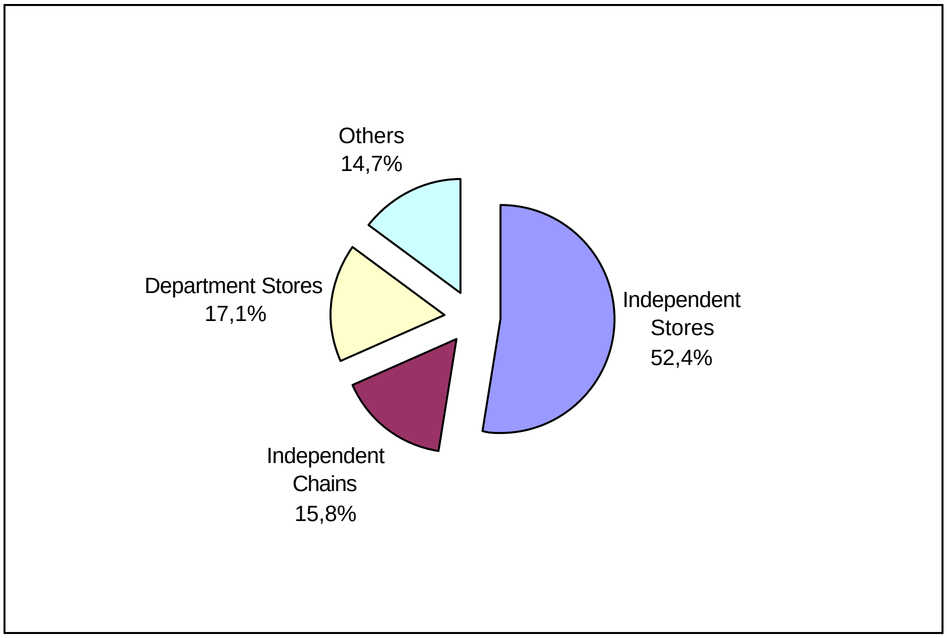
Textile/Apparel Distribution in Italy

During 2003 the independent stores and chains selling apparel and high quality home furnishing performed better than department stores. However, the overall sales reflected the economic situation.

The textile industry’s attention to consumer behavior is favored in Italy by the existence of an articulated system, with a significant presence of independent retailers. The need to modernize retail outlets is leading to a rapid evolution of the retail system towards more highly structured models with larger sales area. The economic and organizational efficiency of large scale distribution is becoming as important as the traditional attention always paid to the consumer.

The modern retail system requires a stronger producer – retailer – consumer interaction, a new technology in communication and an improved organization of the production cycle from the first yarn processing to the point of sales.

Table: Retail Channels in Italy, Textile/Clothing Items (% weight)



Trade

Raw Cotton

Italy produces no cotton for commercial use therefore the cotton export figures included in Trade Matrices are usually of a trans-shipment or forwarding nature.

In Italy, cotton imports mainly follow the consumption and export trend. Imports of raw cotton decreased by 7.9% in MY 2002/2003 to 253,947 and no rebound is expected for MY 2003/2004 or the coming year 2004/2005. The lack of competitiveness of the Italian textile industry is having a negative impact on raw cotton imports. Uzbekistan, despite the 26% decrease, was still the largest supplier of raw cotton to the Italian market during MY 2002/2003 immediately followed by Syria (with 33,388 MT, +24%). During the first six months of MY 2003 (Aug. 2003 through Jan. 2004), compared to the same period of previous year, Italian imports of raw cotton posted a 25.4% fall in volume terms. Uzbekistan and Syria dropped by 24.7 % and 63% respectively. Egypt and Turkey increased their export by 12.5% and 29.6% respectively.

U.S. Cotton Exports to Italy

In general, Italy imports from the United States predominantly extra-long staple (ELS) cotton (for the production of fine-count combed-cotton yarns). The high price of U.S. cotton compared to similar quality from other sources poses a big obstacle to higher U.S. exports to Italy. However, the weak U.S. dollar is increasing opportunities for U.S. cotton in the Italian market. Total imports of U.S. cotton into Italy in MY 02/03 increased by 31.3%

over the 01/02 level; this trend continued during the first six months of MY 03/04 where Italian imports of raw cotton from the US further increased by 28.6 % in volume terms.

ELS cotton

The Italian market for raw cotton is characterized by a predominance of "fine count" spinners. Egyptian cottons and USA Pima compete for finest yarn counts. Egypt continues to be the major competitor of U.S. ELS cotton, because, for the same quality level, Egyptian prices are few cents per pound below that of U.S. cotton. Consumption of U.S. Pima cotton in Italy remained strong in MY 2002/2003, however PIMA imports for current MY are expected to decrease significantly.

Italian trade statistics do not distinguish between Pima /ELS and Upland cotton. Data for USDA Export Sales are as follows:

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

Italian trade statistics do not distinguish between Pima/ElS and Upland cotton. Data for USDA Export Sales are as follows:

Pima/ELS	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04*
480 lb. bales	15,300	35,600	35,500	29,700	16,900	16,900
MT	3,327	7,741	7,719	6,458	3,675	3,675

Source: USDA/FAS Export Sale
* 2003/04 sales through May 6, 2004

Value-Added Cotton Products Trade

Imports

According to 2003 ISTAT data, imports in the cotton category (yarn, fabrics and household linen) decreased by 4.8% in value to €1,701 Million (1,924 million US $). The drop is attributed to cotton yarn (-3.3%) and fabrics (-9.8%) while the flax yarn and fabrics increased by 7.5 and 4.5% respectively. Household linens increased by 8.9%.

Italian imports of cotton yarns increased by 3% in quantity during 2003. The largest supplier of cotton yarn to Italy was Turkey (+5.3%) followed by India (+ 13.6%) and Syria (+ 28%). Italian imports of cotton fabrics decreased by almost 6%). The largest supplier of cotton fabric was Russia (-0.7) followed by Pakistan (+44.6%) and Turkey (+9.0%).

No increase in imports is expected in 2004/2005.

Exports

Total exports related to 2003 for the overall cotton/flax products (yarn, fabrics and household linen) registered a decrease of 2.7% to 3,210 million Euros (3,631 million US $): export decreases were registered for cotton yarns (-11.1%) and cotton fabrics (-2.5%)

while exports for flax yarn and flax fabric increased by 1.9 and 7.5% respectively. Exports of household linens were stable.

Italian exports of cotton yarn in 2003 decreased by almost 10% in volume. The largest export markets for cotton yarns were EU partners: Spain, Germany, and France. The stagnating economic situation in most European countries as well as a sluggish consumer demand was the main reason for the export drop. Also the most active fabric sector decreased the cotton fabric exports during 2003 by 3.8%. This was a reversal of the expansion in export which had occurred during past years, increased both in value and in volume to key outward-processing partners including Tunisia, Romania and Turkey. Exports in 2003/04 and 2004/05 are expected to decrease.

Stocks

Textile mills throughout Italy report that ending stocks of raw cotton are still low. In the private sector industry these stocks have to be carried and financed which is costly. Manufacturers and importers hesitate to burden their balance sheets with high cotton stocks or simply lack the credit to do so.

Marketing

Italy, as for other European countries, has traditionally been a strong natural fiber and cotton-predominant market. One of the most important challenges for cotton is that it is in danger of losing its position as the dominant fiber at consumer level. Cotton still plays in Italy a dominant role in apparel and home furnishings however, polyester and other synthetic fibers are gaining market share in industrial utilization.

In this particular moment of economic turmoil, international cotton organizations should join forces with Italian cotton/textile associations and commercial organizations in order to encourage and facilitate market development programs to promote cotton fiber and products and stimulate underlying demand at consumers' level.

Cotton consumption in Italy is closely tied to price, overall market demand and fashion trends. Higher priced cotton is bought by Italian traders if mills are convinced of benefits. Quality continues to pay an important role. Italian importers and mills continue to be interested in U.S. long fiber cotton, as the Italian textile industry diversifies and focuses more on niche but highly technical and mostly fashion-oriented yarns and high value cotton fabrics. Sustained educational efforts emphasizing spinning characteristics of U.S. cotton types can help overcome price differences.

U.S. fashion, mostly casual and sportswear, remains very popular in Italy; however most known brands are being manufactured in low cost far eastern (Asian) countries.

Policy

The 2004 year will be a challenging year for the textile sector. As of December 2004 there will be an end to the quota regime and many changes are expected in the world of textiles. Italy, like many other European countries, will have to re-evaluate its competitive position and take steps to take advantage of the liberalized trade market. The effect of free trade, technological development and changes in the channels of distribution will provide a strong inducement to enter into strategic alliances across frontiers, mainly with low cost countries.

By May 2004 there will also be enlargements of the European Union with 10 more countries joining the EU. Most of the new member countries will have lower production costs and there are fears that there will be more textile imports flowing into Italy in the near future. While there are concerns for the future, the Italian textile industry hopes for higher exports of high-value items as income and living standards will improve in the joining countries.

Traders believe that the removal of quotas will have some positive advantages: there will surely be fierce competition but also increased opportunities for the most efficient producers.

PSD TABLE

Cotton

PSD Table

Country	**Italy**					
Commodity	**Cotton**				(HECTARES)(MT)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [	Estimate [	DA Official [	Estimate [	DA Official [	Estimate [
Market Year Begin		08/2002		08/2003		08/2004
Area Planted	0	0	0	0	0	0
Area Harvested	1000	1000	1000	1000	0	1000
Beginning Stocks	29829	30000	30264	29500	23950	27000
Production	218	0	218	0	0	0
Imports	264755	253947	212283	203000	0	205000
TOTAL SUPPLY	294802	283947	242765	232500	23950	232000
Exports	6532	6594	4355	5200	0	5200
USE Dom. Consumption	255829	245853	212283	198700	0	199200
Loss Dom. Consumption	2177	2000	2177	1600	0	1600
TOTAL Dom. Consumptic	258006	247853	214460	200300	0	200800
Ending Stocks	30264	29500	23950	27000	0	26000
TOTAL DISTRIBUTION	294802	283947	242765	232500	0	232000

TRADE MATRIXES

Raw Cotton Imports

Import Trade Matrix

Country	Italy		
Commodity	Cotton		
Time Period	Aug-July	Units:	Aug-July
Imports for:	2001/2002		**2002/2003**
U.S.	13713	U.S.	18003
Others		Others	
Uzbekistan	46861	Uzbekistan	34801
Greece	32768	Syria	33388
Egypt	15761	Egypt	21933
Syria	26933	Greece	18736
Australia	22810	Australia	18117
Mali	12263	Mali	14929
Brazil	10249	Turkey	12627
Zimbabwe	9818	Tajikistan	11383
Tajikistan	9160	Cameroon	8521
Burkina Faso	8571	Burkina Faso	7949
Total for Others	195194		182384
Others not Listed	66753		53560
Grand Total	275660		253947

Raw Cotton Exports

Export Trade Matrix

Country	Italy		
Commodity	Cotton		
Time Period	Aug-July	Units:	Aug-July
Imports for:	2001-2002		**2002-2003**
U.S.	0	U.S.	1
Others		Others	
Bosnia Herzegovina	2521	Bosnia Herzegovina	2051
Hungary	1111	Bulgary	1081
Bulgary	911	Hungary	943
France	691	Switzerland	397
Switzerland	368	Tunisia	372
Latvia	237	Latvia	344
India	200	Turkey	245
Taiwan	184	France	203
Germany	165	Japan	172
Japan	160	China	128
Total for Others	6548		5936
Others not Listed	714		657
Grand Total	7262		6594

Raw Cotton Imports Marketing Year (partial)

Import Trade Matrix

Country	Italy			
Commodity	Cotton			
Time Period	Aug-Jan	Units:	Aug-Jan	% Change
Imports for:	2002/2003		**2003/2004**	Over Previous Year
U.S.	4864	U.S.	6253	28.6%
Others		Others		
Syria	18746	Uzbekistan	11424	-24.7%
Uzbekistan	15176	Egypt	8424	12.5%
Australia	11343	Greece	8187	1.5%
Greece	8070	Syria	6934	- 63.0%
Egypt	7489	Mali	6451	- 16.3%
Mali	7712	Turkey	4930	29.6%
Tajikistan	5391	Tajikistan	4735	-12.2%
Cameroon	4845	Brazil	3726	3.8%
Turkey	3805	Australia	3295	-71.0%
Brazil	3591	Cameroon	3000	-38.1%
Total for Others	86168		61106	-29.1%
Others not Listed	28946		22143	-23.5%
Grand Total	119978		89502	-25.4%

Cotton Yarn Imports

Import Trade Matrix

Country	Italy		
Commodity	Cotton Yarns		
Time Period	Jan-Dec	Units:	Jan-Dec
Imports for:	2002		**2003**
U.S.	54	U.S.	56
Others		Others	
Turkey	25959	Turkey	27331
India	17391	India	19764
Syria	15386	Syria	19672
Greece	10189	Egypt	12764
Egypt	9911	Greece	9724
Pakistan	8262	Pakistan	8572
Austria	7530	Austria	6430
Germany	5188	Germany	4042
Belgium	3891	Hungary	3557
Hungary	3181	Uzbekistan	3112
Total for Others	106888		114968
Others not Listed	33060		29126
Grand Total	140002		144150

Cotton Yarn Exports

Export Trade Matrix

Country	Italy		
Commodity	Cotton Yarns		
Time Period	Jan-Dec	Units:	Jan-Dec
Imports for:	2002		**2003**
U.S.	1597	U.S.	1514
Others		Others	
Germany	10100	Spain	9467
Spain	9838	Germany	7396
France	9059	France	6239
Austria	5254	Hungary	4140
Hungary	4810	Austria	3807
Portugal	4300	Slovenia	3612
Belgium	4227	Portugal	3434
Slovenia	3962	Czech Republic	2683
Turkey	2625	Belgium	2647
Czech Republic	1761	Turkey	2207
Total for Others	55936	Total for Others	45632
Others not Listed	16329	Others not Listed	19599
Grand Total	73862	Grand Total	66745

Cotton Fabrics Imports

Import Trade Matrix

Country	Italy		
Commodity	Cotton Fabric		
Time Period	Jan-Dec	Units:	Jan-Dec
Imports for:	2002		**2003**
U.S.	727	U.S.	292
Others		Others	
Russia	12669	Russia	12578
Turkey	10706	Pakistan	12013
Belgium	10544	Turkey	11667
China	9246	China	11141
France	8395	Belgium	7852
Pakistan	8307	Indonesia	7118
Germany	7922	Germany	6968
Indonesia	7441	India	6348
Slovenia	6897	France	5613
India	6704	Slovenia	4996
Total for Others	88831		86294
Others not Listed	65513		59567
Grand Total	155071		146153

Cotton Fabrics Exports

Export Trade Matrix

Country Italy

Commodity Cotton Fabric

Time Period	Jan-Dec	Units: MT	Jan-Dec
Imports for:	2002		**2003**
U.S.	5753	U.S.	6447
Others		Others	
Tunisia	23914	Tunisia	23984
Romania	16624	Romania	18027
Turkey	16283	Turkey	15460
France	9485	France	7595
Morocco	7918	Morocco	7509
Georgia	7667	Poland	5696
Germany	5609	Georgia	5517
Poland	4769	Spain	5276
Spain	4704	Germany	4318
Hungary	3947	Hungary	3826
Total for Others	100920		97208
Others not Listed	43711		41066
Grand Total	150384		144721