



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 6/05/2006

GAIN Report Number: IT6026

Italy

Cotton and Products

Annual

2006

Approved by:

Robin Gray
U.S. Embassy

Prepared by:

Dana Biasetti

Report Highlights: Weak domestic economic growth, low export performance and increased competition from low cost textile suppliers are leading Italian companies to import finished textiles directly from the Far East, slowly shrinking the Italian spinning sector.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Rome [IT1]
[IT]

Table of Contents

<i>Situation Outlook</i>	<i>page</i>	<i>3</i>
Italian Economy in General		<i>3</i>
Italian Textile and Apparel Industry		<i>3</i>
<i>Production</i>		<i>5</i>
Raw Cotton		<i>5</i>
Cotton Spinning		
Cotton Weaving		<i>5</i>
Textile Apparel & Distribution		<i>6</i>
<i>Stocks</i>		<i>6</i>
<i>Trade</i>		<i>6</i>
Italian Cotton Imports and Exports		<i>9</i>
Imports from the United States		<i>9</i>
<i>Policy</i>		<i>10</i>
<i>PSD Table</i>		<i>10</i>

Situation and Outlook

Italian Economy in General

GDP growth in Italy has been anemic for the last three years, with an average annual growth rate of just 0.6 percent. The Italian manufacturing sector has had negative growth in six of the last eight quarters. As reported in the PSD table for cotton imports, exports and domestic use are all down. Competitive and efficient textile producers in China and India and Eastern Europe are increasingly able to meet Italian manufactures' traditional quality and Italian textile producers are feeling the pinch. This is reducing Italian demand for U.S. cotton.

Italian Textile and Apparel Industry – Overview

Italy is one of the few European nations to maintain a spinning industry. The overall textile and clothing sector involves more than 67,000 small to medium-sized companies that contribute roughly 12,3% of the manufacturing sector's added value. These companies include world leaders in the fashion industry that offer original and trend-setting products, which forces them to seek out cutting edge textile and spinning technologies and products.

The Italian textile and clothing industry is heavily export oriented, with more than 50% of total turnover coming from exports. The declining trend in sales shown in the table below is expected to continue at least until CY 2007 when improved economic conditions in the Italian and major export markets may improve. The increase in textile and clothing imports can be expected to continue for the competitive reasons mentioned above.

Table 1
Italian Textile-Clothing Industry Total Sales (2000-2004)
(Millions of Euro)

	2000	2001	2002	2003	2004
Sales					
	47,101	47,789	45,889	43,150	42,551
Exports					
	27,047	28,952	27,989	26,335	26,600
Imports					
	13,173	14,150	14,315	14,244	14,909
Number of Companies					
	n/a	73,344	71,840	70,001	67,457
Number of Employees					
	n/a	609,629	596,071	567,032	543,124

Source: Istat (Italian National Statistical Bureau)

Italian mill consumption of cotton continues to decline due to reduction in mill capacity utilization and mill closures. The vast majority of Italian cotton spinning and weaving is in the northern region of Lombardia, where 60% of the ring and rotor-spinning capacity, and 70% of the cotton-weaving capacity are located.

Investment in the Italian cotton textile industry in 2005 was stagnant at €355 million after sizable decreases in previous years. These disinvestments are expected to continue, despite the Italian clothing sector enjoying international success. The Italian fashion system continues to offer original, distinctive products, which remain in demand and which create and follow styles. We can expect that Italian clothing manufacturers will continue to thrive as they increasingly manufacture their textiles and garments in other countries. Italian spinners and weavers will probably not.

Table 2
Textile- Installed Capacities (MTs)

Textile- Installed Capacities	2001	2002	2003	2004
Spinning				
- Ring Spindles	1,432,460	1,401,275	1,317,580	1,298,460
- O-E Rotors	88,640	82,555	79,910	79,405
Weaving				
- Shuttleless Looms	11,745	11,540	11,470	11,386
- Shuttle Looms	1,665	1,640	1,639	1,627
Average Number of People Employed (full-time equivalent)	38,860	38,065	36,855	35,480

Activity Level

Fiber Consumption (Metric Tons)				
- Cotton	255,540	245,660	243,221	239,456
- ManMade Fiber	31,555	26,945	27,876	25,978
- Others	1,015	800	705	762
- Total All Fibers	288,110	273,405	271,802	266,196
Spun-Yarn Production (incl. Core Yarns) M.T.				
- Cotton (85% cotton or over)	207,510	193,100	177,265	162,550
- Blends (51-84% cotton)	5,560	5,055	5,043	5,039
- Others	36,175	33,640	32,751	31,890

Fabric Production/Woven only (M.T.)				
- Cotton (85% cotton or over)	164,475	164,215	154,690	146,780
- Blends (51-84% cotton)	6,530	6,310	6,290	6,187
- Others	40,735	39,235	39,011	38,287
Capacity Utilization				
Hours Worked per Active Spindle/Year	6,772	6,420	6,020	6,005
Hours Worked per Active Loom/Year	6,015	5,915	5,770	5,630

Source: Associazione Tessile Italiana

Production

Raw Cotton

Italy does not produce any cotton. Italy's major cotton suppliers are shown below in Table 8. Raw cotton imports have declined because of manufacturing competition from Eastern European countries that recently joined the EU and from the Far East.

Cotton Spinning

Italian cotton spinners are famous for producing the finest yarns for use in weaving, knitting and even hand-knitting. Italian yarns are sought after by wholesalers, weaving mills, and knitwear manufacturers worldwide. Italian combed/carded cotton production value in 2004 was €516 million compared to €580 million in 2003 (minus 11 percent) and the downward trend has continued in more recent years.

Table 3
Italian Cotton Spinning (Cotton Yarn Sector)
(Millions of Euro)

	2000	2001	2002	2003	2004
Production Value					
	3,641	3,651	3,116	2,796	2,777
Exports					
	892	983	900	826	913
Imports					
	308	333	313	294	333

Source: Sistema Moda Italia

Cotton Weaving

Italian cotton weaving production decreased in 2004 (from 197,100 to 186,865 tons) due to a general drop in internal demand. This decrease was also found in sectors that, until last year, had shown a good performance, such as shirting and denim. Delivery of fabrics decreased from 196,260 to 187,351 tons. The number of looms installed at the end of 2004 was 11,880 representing a slight decrease from 2003. In 2005 and 2006 this trend has continued.

Table 4
Italian Combed/Carded Cotton Sector
(Millions of Euro)

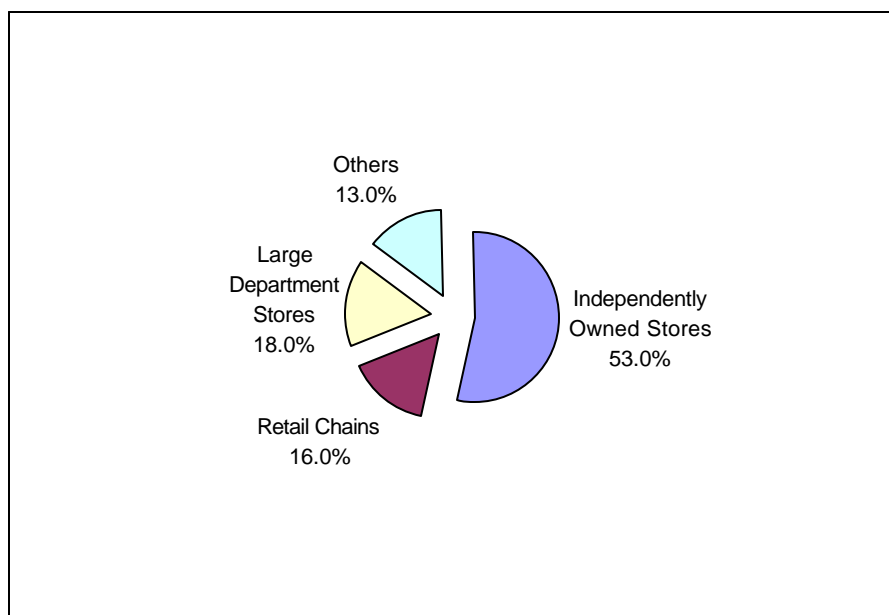
	2000	2001	2002	2003	2004
Production Value					
	749	648	589	580	516
Exports					
	147	137	145	150	136

Source: Sistema Moda Italia

Textile and Apparel Distribution in Italy

Distribution in Italy is dominated by small independent outlets. The economic and organizational efficiency of large-scale distribution, however, is beginning to change this reality. The modern retail system enables a stronger producer – retailer – consumer interaction on a wider scale using new technology in communication and improved organization of the production cycle from the first yarn processing to the point of sales.

Table 5
Retail Channels in Italy, Textile/Clothing Items



Source: ISTAT (Italian National Statistical Bureau)

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.

Trade

Italian Cotton Imports and Exports

While world demand for cotton is increasing, Italian imports of raw cotton are declining due to the relocation of manufacturing plants to more price competitive countries. However, the high quality of Italian manufactured cotton products still has a great appeal, maintaining the industry, and manufacturers recognize the value, consistency and quality of U.S. cotton.

By comparing Tables 6 and 7, it is evident that Italy is now importing more combed cotton than it produces and exports. Compared to 2003, in 2004 the Italian combed cotton sector suffered a 12% production decrease. In part these imports are growing because of the decrease in textile milling capacity in country. Australia maintains its position as Italy's largest supplier, while Poland is the number one export market for Italian combed cotton.

Table 6
Italian Combed Cotton Imports

Italian Combed Cotton Imports		
Value for 2004		
Top Countries	Millions of Euro	Market Share
Australia	47	15,9
France	45	15,3
Germany	40	13,5
South Africa	29	9,9
Uruguay	22	7,3
Other	114	38,1
Total	297	0

Source: Sistema Moda Italia

Table 7
Italian Combed Cotton Exports

Italian Combed Cotton Exports		
Value for 2004		
Top Countries	Millions of Euro	Market Share
Poland	21	15,6
Turkey	15	10,8
Check Republic	14	10,4
Romania	13	9,7
Bulgaria	12	8,4
Other	61	27,0
Total	136	0

Source: Sistema Moda Italia

In 2004, Greece became the number one supplier to Italy of raw cotton, surpassing Syria in this position. The Italian market for raw cotton has a large share of "fine count" spinners. Egyptian cottons and USA Pima compete for finest yarn counts. Egypt continues to be the major competitor of the U.S. ELS (Extra Long Staple) cotton in Italy. Egyptian prices are usually a few cents per pound below that of U.S. cotton landed in Italy.

However, consumption of U.S. Pima cotton in Italy continues to remain strong. In 2004/2005 the export of SUPIMA cotton fell to a 1 percent market share, while in 2003/2004 it accounted for 3 percent of the market. Considering the first five months of 2005, total imports of raw cotton decreased by 10% in volume. Imports from the U.S., unlike most of the other countries had a very good performance, with a 48% increase from the previous year.

Table 8
Italian Raw Cotton Imports by Country of Origin

Origin	Imports (Tons)	
	Jan/Dec 2003	Jan/Dec 2004
Greece	20,116	23,613
Syria	23,756	20,941
Uzbekistan	33,261	18,418
United States	19,118	15,874
Mali	13,482	14,086
Tajikistan	10,628	9,866
Australia	11,146	8,892
Turkey	13,888	8,830
Zimbabwe	4,312	8,553
Others	85,070	67,988
Total	234,777	197,061

Source: Associazione Tessile Italiana

Table 9
Italian Raw Cotton Imports by Country of Origin

Country	Jan-May 2004	Jan-May 2005	05/04 change
	Tons		
Europe Total	37,294	38,110	2%
Syria	12,599	12,271	-3%
Greece	8,091	10,986	36%
Uzbekistan	8,245	10,796	31%
United States	6,439	9,499	48%
Egypt	3,530	5,053	43%
Brazil	1,809	4,833	167%
Zimbabwe	2,622	4,753	81%
Tajikistan	6,132	4,258	-31%
Mali	6,997	4,229	-40%
Spain	2,571	2,265	-12%
Kazakhstan	910	2,251	147%
U.K.	1,278	2,246	76%
Pakistan	848	2,165	155%
Turkey	6,361	1,126	-82%
Total	85,732	76,731	-10%

Source: Associazione Tessile Italiana

Table 10
Italian Combed Cotton Exports by Country of Destination
(January – May 2005)

Country	Tons	1000	EURO
		EURO	KG
Europe Total	1,351	2,185	1.62
Switzerland	221	410	1.85
Turkey	58	122	2.12
Hungary	143	265	1.85
Bulgaria	175	263	1.5
Slovenia	40	47	1.16
Bosnia-Herzegovina	636	664	1.04
Tunisia	42	52	1.24
Saudi Arabia	23	259	11.28
Total	1,338	2,082	0

Source: Associazione Tessile Italiana

Imports from the United States

Italy mainly imports from the United States extra-long staple (ELS) cotton for the production of fine-count combed-cotton yarns. The higher price of U.S. cotton compared to other sources is the main constraint to higher U.S. exports to Italy. U.S. cotton exports to Italy have improved in 2005 from a slump in 2004. U.S. cotton is considered to be of quality and the consistency of the product has helped it maintain its position in the Italian market.

Table 11
Italian SUPIMA Cotton Imports From the United States

Cumulative to Date					
Values in \$					
(Time frame January – August)					
	2001	2002	2003	2004	2005
Total	10,555,976	5,862,862	719,492	165,257	1,040,256

Source: U.S. Department of Commerce

Policy

General Policy Analysis

Italian exporters and trade officials have expressed concern over the termination of the multilateral WTO Agreement on Textiles and Clothing, arguing that the elimination of the agreement poses a serious threat to the Italian manufacturing industry. Prato, Italy's largest fabric production province, has lost 30 percent of its textile manufacturing companies in the last ten years. In the mean time, Italian imports of fabrics and apparel from China have increased six times, going from €23 million in 1994 to €130 million in 2004. A recent study conducted by the University of Florence forecasts a further 25 percent decrease in the number of local textile manufacturers during the next three years.

Italian clothing manufacturing sector is renowned for producing high quality apparel with worldwide appeal. The Italian government and trade officials are calling for EU rules to make country of origin labeling mandatory on all the textiles manufactured and imported into the EU. Their hope is that this information would encourage fashion conscious consumers to buy Italian products. Unfortunately, the question "what is Italian?" is becoming more difficult to answer as Italian companies increasingly move their textile and garment manufacturing outside the country, thereby combining economic efficiencies with the stylish Italian designs.

PSD Table

Country Commodity	Italy		(HECTARES)(MT)				UOM
	2003	Revised	2004	Estimate	2005	Forecast	
Market Year Begin	USDA Official [Estimate[NA	Official [Estimate[NA	Official [Estimate[New]	
	08/2003			08/2004		08/2005	MM/YYYY
Area Planted	0	0	0	0	0	0	(HECTARE
Area Harvested	0	0	0	0	0	0	(HECTARE
Beginning Stocks	38538	29500	31135	25000	32006	30000	(MT)
Production	0	0	0	0	0	0	(MT)
Imports	201397	228108	209453	194144	174181	171738	(MT)
MY Imp. from U.S.	0	19117	0	16012	0	13276	(MT)
TOTAL SUPPLY	239935	257608	240588	219144	206187	201738	(MT)
Exports	5225	4978	5008	4169	3266	4000	(MT)
USE Dom. Consumption	201397	226130	201397	183475	174181	162238	(MT)
Loss Dom. Consumption	2177	1500	2177	1500	2177	1500	(MT)
TOTAL Dom. Consumpti	203574	227630	203574	184975	176358	163738	(MT)
Ending Stocks	31135	25000	32006	30000	26563	34000	(MT)
TOTAL DISTRIBUTION	239934	257608	240588	219144	206187	201738	(MT)