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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

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UNIDO Contract No. 85/55
Project No: DP/ETH/83/013
Activity Code: DP/01/31.4

MARKETS FOR ETHIOPIAN COTTON GOODS IN WESTERN EUROPE, THE ARABIAN GULF AND THE UNITED STATES OF AMERICA

Prepared for

THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANISATION

by

AGRO-ECONOMIC SERVICES LIMITED

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ANNEXES

ACTION SUMMARY

The overall recommendation is that, for the immediate future, exports be confined to grey cotton yarn, grey cotton cloth in plain weaves and probably drills and bleached cotton, knitted T shirts and underwear, i.e. products for which there is a 'commodity' market with little seasonal changes.

Europe provides opportunities for all three forms of export.

The Middle East provides opportunities for the export of bleached T shirts and underwear, but not for the export of grey yarn and fabric.

The size of shipments required by the US market is considered to be too large for the NTC to provide at present. For this and other reasons (see page 125) it is recommended that the export market in the US should not be considered at this stage.

Knitted Products: It is stated in Section 7.3 that little can be done in present circumstances to achieve the immediate improvement of export quality garments. However, a reduction in yarn twist and the introduction of a more efficient fabric softener are suggested. Pending the implementation of a technical assistance programme it is recommended that export effort be limited to basic products such as bleached white single jersey, rib and interlock vests, T shirts and pants.

Yarn: The report recommends that export yarns should be confined to carded yarns in the count range 18-36s. Ethiopian cotton is suitable for spinning within this range and there is a substantial market in Europe for such yarns. Detailed import statistics for cotton yarns by count range are readily available for the UK only. However, the pattern of imports for the UK approximates that of other major importing countries. The UK import figures for 1985 were as follows:

Count	Up to 8.5s	8.5-24s	24-47s	47-68s	Over 68s
'000 Tonnes	5.8	22.4	13.6	0.7	1.2

Source: Quarterly Statistical Returns (Summer 1986)

Thus, the recommended export count range (18-36s) falls within the range of counts of highest imports.

The spinning equipment installed at Kombolcha and at No. 1 mill Dire Dawa is capable of producing yarns of export quality provided satisfactory quality control systems are introduced and rigidly adhered to. The present comparative levels of yarn quality obtained are illustrated by Table 80, page 145. They show room for improvement in relation to the Uster standards, but given the proper organisation of quality control and maintenance there is little doubt that Kombolcha and Dire Dawa can produce yarns of export quality.

Grey Cotton Cloth: It is stated in the report that the weaving equipment at Kombolcha is capable of producing fabric for which there is a strong export market in terms of constructions (plains and twills), width and

quality. As in the case of yarn, the import statistics for the UK are presented here as representative of the EEC countries as a whole. For plain weave grey cotton fabrics UK imports for 1985 analysed by width were as follows:

Width (cm)	Less than 85	85-115	115-165	Over 165
Quantity (10^6 m^2):	4.4	47.3	193.7	14.6

Source: Quarterly Statistical Returns (Summer 1986)

It can be seen that the width range 115 - 165 cm accounted for approximately 75 percent of the grey cloth imports. The bulk of the looms at Kombolcha (346 out of a total of 479) are of 175 cm needlespace and thus capable of producing fabrics in this width range.

Cloth Quality Considerations

Table 79 on Page 144 of the report provides comparative fault rates for Ethiopian and UK fabric. Cloth faults may be divided into serious and minor. Slubs, for example, are usually regarded as a minor fault provided they are small in size, e.g. < 1 cm x 1.5 yarn diameters. Thus, a large number of slubs, relative to other and more serious categories of faults, can usually be tolerated.

The important common faults are:

- Ends down;
- Broken or double picks;
- Weft bars;
- Starting places.

These in total, with any other obviously serious faults, should not exceed 70 - 80 per 1,000 metres of cloth length. The figures for the cloth from Kombolcha shown in Table 79 give 123 broken/double picks and 106 starting places per 1,000 metres. This level of serious faults is clearly not acceptable in export quality fabric. However, it is expected that the numbers will be reduced as the looms at Kombolcha become fully commissioned and the weavers and technicians become more familiar with the loom.

Operational Considerations

It is recommended that the NTC should become a member of the International Institute for Cotton. This organisation is located in the United Kingdom at Kingston Road, Didsbury, Manchester (Telephone 061 434 9821). The Institute works to increase the world consumption of cotton and provides a forecasting service on fabric designs and colours up to one year ahead of the market. If the NTC wish to enter the export market for finished fabrics, subject to seasonal fashion changes, the access to such a forecasting service will be essential.

Also, although there are large numbers of European textile importers and agents, there are only a small number who will assist mills to achieve the standards required in the export market. Should the NTC wish to

contact one or more of such companies with a view to establishing a mutually beneficial business relationship, then the following are recommended:

Remei Ag,
(Patrick Hohmann),
Hellmahle,
CH-6344 Meierokappel,
Switzerland.

Telex: 868999 Reag CH

Leighton Textiles Limited,
(David Hughes),
1 Cross Lane South,
Risley,
Warrington, Cheshire,
WA3 7AQ,
United Kingdom.

Telex: 629721 LILTON G

1.0 INTRODUCTION

1.0 INTRODUCTION

1.1 GENERAL

This study has been prepared for UNIDO by Agro-economic Services Limited (AeSL). It was undertaken on behalf of the Naticnal Textiles Corporation of Ethiopia (NTC) with a view to assessing the export market prospects for certain cotton goods; to making recommendations as to technical improvements which would make such goods more competitive in international markets; and to suggesting appropriate strategies for their most effective marketing in Western Europe and the Middle East.

1.2 SCOPE OF CONTRACTING SERVICES

1.2.1 The Original Agreement

The Scope of Contracting Services agreed in Contract No. 85/55 is set out verbatim below.

The study would have four aspects:

(i) Identification of countries within the geographical areas indicated which seem to merit more detailed consideration as potential markets for NTC cotton knitwear and as being representative of other markets in the area.

(ii) Detailed consideration of the market potential in the countries identified.

(iii) Recommendations as to the way in which NTC should market its produce in the markets identified.

(iv) Recommendations of changes in the categories and quality of cotton knitwear produced by Asmara Textile Mills and Ethiopia Textile Industry needed to make their output more competitive in the markets identified.

This Scope was subsequently modified by agreement between UNIDO and AeSL at the instance of NTC. The factors taken into account were:

- The prospective agreement between NTC and Brivio C.e C.S.P.A. to undertake the management of NTC's cotton knitting operations and the marketing of the product other than in countries in the COMECON bloc for a period of ten years.

- The opinion of NTC that African markets offered only limited outlets for its cotton goods and that more attention should be given to Western Europe and the Middle East.

- The wish of NTC that consideration should be given to export prospects in the USA as the largest national market for cotton goods.

1.2.2 Subsequent Modifications to Scope

The agreed modifications in the Scope of Services related to both product and geographical coverage.

1.2.2.1 Product Coverage: The product coverage was to include:

- grey cotton yarns
- grey cotton woven fabrics
- knitted cotton goods

Particular emphasis was to be placed on the grey yarns and grey fabrics in all studies of country markets.

1.2.2.2 Geographical Coverage: The geographical coverage was to be Western Europe and the Middle East. Consideration was also to be given to the possibility of developing an export market for Ethiopian cotton goods in the USA. This latter exercise was to be confined to documentary sources available in London and there was to be no field-work undertaken in the USA itself. Should the prospects appear promising, UNIDO would consider a more detailed study of the US market.

1.3 CONSULTANTS' APPROACH

The results of screening studies undertaken and discussions with UNIDO and NTC indicated that the most appropriate markets for detailed consideration were Germany, Italy, Saudi Arabia and the other Gulf Cooperation countries. However, in view of the difficulties encountered in securing visas for Saudi Arabia, it was finally decided that fieldwork in Middle Eastern markets should be confined to the United Arab Emirates. As the AeSL Project Manager had by this time, however, visited Kuwait and moved onto Bahrain, the findings relating to these countries are presented in this report.

Information on markets other than those in which fieldwork was undertaken was to be gathered by means of desk research. However, it became apparent, in the course of regional screening to select countries for fieldwork, that, trade statistics apart, desk research would not allow the development of a reasonably complete and coherent picture of these other markets, such a picture as might serve as basis for confident marketing recommendations; available information is simply limited and discontinuous. There are evident market opportunities for Ethiopia in the countries in which fieldwork was done, subject to the achievement of standards of technical and management efficiency. These standards will take time and effort to realise.

2.0 SUMMARY WITH MAIN FINDINGS AND RECOMMENDATIONS

2.0 SUMMARY WITH MAIN FINDINGS AND RECOMMENDATIONS

2.1 SUMMARY

This report considers the opportunities for the Ethiopian National Textiles Corporation to market cotton grey yarn and grey cloth and cotton knitwear in major European and Middle Eastern consuming countries and makes recommendations as to how this might be most effectively carried out. The report also examines critically the NTC products and the operational processes involved in their manufacture in Ethiopia and suggests ways in which they could be made more internationally competitive.

With regard to the market opportunities, it is the main conclusion of the report that, while the market is extremely competitive, there are varying opportunities for Ethiopian suppliers to sell grey goods and knitted underwear in Germany and, to a lesser extent, in Italy, partly because of the propensity of these countries to import these products, partly because Ethiopia, as a signatory of the Lome Convention, enjoys access to their markets effectively unrestricted either by the tariff-barriers or the quotas which have limited imports from major exporting countries. In the case of Kuwait, Bahrain and the UAE there is an opportunity to sell significant quantities of knitted cotton underwear, but Ethiopia would face unrestricted competition from major world suppliers. The market for grey goods, on the other hand, is insignificant.

In the case of all markets, it is concluded that NTC would need to work initially with local wholesalers. A number of companies who might be approached in this connection are identified. It is recommended, however, more particularly with regard to grey goods, that it should from the very start take pains to become acquainted with the consumers of its products and their technical and commercial requirements. This would have direct benefits and also create a useful basis should the company ever determine to establish its own selling agency in any of the markets.

The technical assessment of NTC's products and operations is critical and must cast doubts on the company's present ability to compete effectively, not so much because of the poor quality of what it is producing, but because it is probably unable at present to produce material of any quality, low or high, in large volumes to consistent specifications. Recommendations are made for programmes of technical assistance designed to attack the immediate causes of weakness, but the point is made that unless other, deeper, causes of the company's current performance are attended to, such technical reforms are likely to be rendered ineffective.

2.2 MAIN FINDINGS

2.2.1 Screening of European and Middle Eastern Markets

The study established that the most promising markets for grey yarn, grey fabric and cotton knitwear produced in Ethiopia were Germany and Italy in the case of Europe and Saudi Arabia in the Middle East, with Kuwait and the United Arab Emirates judged to be rather less interesting. Because of the difficulty in obtaining visas for Saudi Arabia it did not prove possible to carry out field research in that country. It was finally agreed that the study of the Gulf countries should concentrate on the UAE, although AeSL had already visited Kuwait and Bahrain and information on these countries is included in the report.

2.2.2 The Market for Gre Yarn and Grey Cloth

2.2.2.1 The Middle East: Only one consumer of grey yarn and fabric was identified in the countries visited, the National Textiles Company located at Safat in Kuwait. This company was a relatively small consumer requiring no more than 200,000 m/year of fabric and 100 tonnes of yarn for the manufacture of terry towels. It was expecting to increase its requirements substantially in the fairly near future, but the rational basis for this expectation was not understood by AeSL. It was judged unlikely that other significant processors of either yarn or fabric would emerge in the next ten years. In short, no expansion of demand was foreseen.

All supplies of yarn and fabric required by NTC were imported. There appeared to be no producers in Kuwait's neighbouring countries in the Gulf Co-operation Council. The choice of suppliers was based upon consideration of their ability to deliver materials to fairly tight specifications and to maintain delivery schedules. There was no tariff or non-tariff barrier against an Ethiopian company wishing to service this requirement which would not apply to all other suppliers, but such a company might find it difficult to persuade the NTC that it was able to meet specification and delivery requirements. Furthermore, it would find it even more difficult to compete in terms of price with the company's present suppliers.

2.2.2.2 Germany: Apparent consumption of grey yarn in 1984 was 229,247 tonnes of which 147,818 tonnes were imported. It is estimated that by 1990 the requirement will be in the region of 250,000 tonnes and in 1995 269,000 tonnes. Although imports had increased in absolute terms in recent years, they had not tended to grow relative to domestic production. This reflects the effect of the quota limitations placed on imports from the main supplying countries, and, to a lesser extent, a high tariff. Behind this screen of physical and fiscal controls the German industry had made considerable efforts to improve its efficiency and it was now a major exporter, particularly to other EEC member-states. Nevertheless, it was still likely that imports would continue to grow in volume terms.

Imports from Ethiopia enjoy duty-free access to the market - a substantial competitive advantage. On the other hand, although imports from ACP countries such as Ethiopia are not formally restricted by quota, the global maximum established for free entry from these countries as a group into Germany before the German Customs Authority and the EEC would consider invoking the Safeguard Clause under the Lome Convention is set at a very low level. The opportunities for Ethiopia to sell in this market even if it could compete effectively on price might, therefore, be limited if the German Government cares to stand on its rights.

With regard to grey cloth, apparent consumption in Germany in 1984 was 67,408 tonnes, but the market for this material had shown no propensity to grow for a number of years and it was concluded that demand was likely to remain fairly static in the foreseeable future. The volume of imports had, in fact shown some signs of growth in recent years and there seems no doubt that more would be imported were it not for the operation of the quota system. Whether this would be at the expense of domestic production or whether demand would actually expand if the market was given freer access to cheaper supplies is uncertain. There is no doubt, however, that NTC should be able to

sell considerable volumes given that Ethiopian suppliers are not disadvantaged by tariff or subject to any formal limitations on the volumes it can ship into Germany. Again, cotton fabric is subject to a guideline ceiling on the volumes that can be imported from ACP countries, but this is much more generous than it is in the case of yarn.

2.2.2.3 Italy: Italian consumption of grey yarn in 1984 is calculated at 248,367 tonnes. Of this imports accounted for nearly 98,000 tonnes and their share of the total supply had increased markedly in the preceding years.

The upward trend in demand is expected to continue in the next few years, perhaps reaching 281,500 tonnes in 1990 and 320,000 tonnes in 1995. The growth trend in imports is expected to continue, limited only by the effect of quotas. Italy does not impose any restrictions on imports of yarn from Ethiopia, but the level at which it indicat s that it might c'nsider taking action against supplies from ACP sources is set very low. It should be remembered, however, that this guideline is intended to be indicative rather than prescriptive and there is no reason to suppose that if Ethiopia began to send shipments which breached the limitation it would necessarily result in immediate restrictive action.

In the case of grey cloth, the market in Italy had shown itself more dynamic than had been the case in Germany in recent years. This is understood to reflect the growing requirements of a large number of processors and finishers without integrated weaving facilities and their success in maintaining a demand for Italian dyed and printed fabrics and clothing. Demand for grey cloth was estimated at around 207,000 tonnes in 1984 and the momentum of growth was expected to be sustained reaching 290,000 tonnes in 1990 and 317,000 tonnes in 1995.

Imports had been increasing during the early 1980s, but their share of total supply had shown a tendency to decline. The operation of the quota system and the growing efficiency of the Italian domestic industry was thought likely to maintain this trend in the period to 1995. Nevertheless, there should be an opportunity for sales of Ethiopian fabrics in these years because of Ethiopia's advantages under the Lome Convention and the reasonably generous guidelines set for maximum imports from ACP countries - which, as already intimated, might not be acted upon.

2.2.3 The Market for Knitted Underwear

It was decided to concentrate the review of the market for knitted cotton garments on those items of underwear - vests, pants and T-shirts - already being produced by NTC, a decision which reflects the findings of the technical assessment which recommends that, given the present operational circumstances of the NTC knitting factories, these should for the time being produce only underwear for export.

There is, indeed, evidence of a growing demand for knitted men's shirts, sweaters and other categories of outerwear, but success in this area of the market is to a large extent dependent on considerations of fashion which are far less influential in the case of underwear. It was felt that it would take

some time for the NTC to become sufficiently responsive to the constantly changing requirements of this market.

2.2.3.1 The Middle East: In each of the countries covered, Kuwait, Bahrain and the UAE, there was discovered a fairly mature market for underwear insofar as most adult males and females wore under clothing in the Western style. The corrollary of this, however, was that the room for growth in the market as a result of increases in personal disposable income was likely to be limited.

The market in all of the countries was limited by the very small populations which included large foreign contingents whose numbers recent events had demonstrated to be very sensitive to downturns in economic activity. All three countries are significant entrepots for trade with other Gulf countries, mainly Saudi Arabia and Iran. Trade with Iran, however, had largely dried up because of the Gulf War. The UAE's shipments to Saudi Arabia, on the other hand, while still extensive, had also been diminished as a result of the effects of economic recession and the consequent decline in the expatriate population in the Kingdom.

Trade sources all reported that the great bulk of the demand for underwear was of the men's and boys' pants, T-shirts and vests. The market for women's and girls' items, was limited by the small number of females even in the context of the overall small size of the populations of these countries.

The general preference was for white garments usually of classic designs. The chief exception to this general rule was amongst young people who demonstrated a pronounced preference for coloured vests and T-shirts and mini-slip types of underpants. Trade opinion was that the purchasers of the more expensive types of underwear were aware of the advantages of pure cotton clothing in local conditions. The more assertive styles favoured by the young, however, were usually of mixed cotton and synthetic fibres as were women's undergarments, but this was a matter of availability rather than preference. Retailers catering mostly to young people reported great success for stylish articles in a variety of colours knitted from pure cotton and selling at the top of the price range.

At the lower end of the market, the great bulk of the garments sold were said to be of cotton and synthetic mixed fibres. This was thought to be largely a matter of price as most consumers were unlikely to be aware of the difference between cotton and competing knitting fibres or of the comparitive advantages and disadvantages. It was not difficult to buy pure cotton garments even in the cheapest markets and there was no evidence of consumer resistance to them except, possibly, on ground of price.

The markets in Kuwait, Bahrain and the UAE were estimated at around 3 million, 1-1.5 million and 2-2.5 million pieces per annum respectively in 1985, all of it imported. No significant growth was expected in the foreseeable future, largely because it seemed unlikely that there would be any real upward movement in the expatriate populations in that time.

There were no formal barriers in these markets likely to disadvantage NTC products as opposed to those from other sources as knitted underwear was not produced in any of the Gulf Co-operation Council countries. This meant, however, that Ethiopian supplies would compete on an equal standing with those from all other sources. In those circumstances, it is difficult to conceive that significant sales would be made, given the very price-competitive nature of the environment and the fact that NTC has no reputation either as a quality producer or a producer of cheap materials which is reliable for producing to specification.

2.2.3.2 Germany: Germany has been, and still is, an expanding market for cotton underwear. To some extent this is a consequence of the way that cotton garments have displaced those made of synthetic and mixed fibres, although population growth has also enlarged the overall numbers sold. As the substitution effect has largely run its course, there now seems to be very little room for additional growth at the expense of garments knitted from other fibres. However, the upward trend in the population should ensure that demand continues to grow in the foreseeable future. Consumption in 1984 amounted to 33,720 tonnes which is anticipated to increase to 35,000 tonnes in 1990 and 36,000 tonnes in 1995.

Imports grew rapidly in both absolute and relative terms in the early 1980s and in 1984 they were rather larger than domestic consumption which suggests that considerable quantities were re-exported. German production, on the other hand, declined considerably in the period confirming the information of trade sources that the German industry was not able to secure the same improvements in productivity in garment manufacture which it did in the more capital-intensive spinning and weaving sectors. There seems no doubt that, were it not for the protection given by the tariff and quota structures, there would now be virtually no production of cotton underwear in Germany itself.

There are obviously opportunities for Ethiopia to export significant volumes of underwear to this market, especially in view of the lack of any formal restrictions on its activities in this respect - and, indeed, this has already been demonstrated. There seems no doubt that importers, denied opportunities to buy all they require from better-established sources, particularly in the Far East, would be very pleased to buy NTC products if they could be persuaded that these would be supplied reliably as per specification and delivery schedules.

T-shirts are subject to guideline maxima as to the volumes that may be imported into Germany from ACP countries - albeit set at a reasonably generous level. As noted elsewhere, however, these ceilings are intended only as guidelines rather than as formal quotas and the German Government and the EEC have always shown themselves reluctant to have recourse to the control measures open to them under the Lome Convention. Other underclothes are not even subject to guideline maxima which suggests that these are regarded as less sensitive than T-shirts and, therefore, even less likely to be subject to measures restricting imports.

2.2.3.3 Italy: Contrary to the experience of Germany, the consumption of cotton underwear in Italy appears to have declined steadily in the early 1980s, apparently in the face of competition from garments of mixed fibre yarns -

although there may have been some movement to lighter constructions. This downward trend is thought by the trade to be coming to an end, but the grounds for this expectation are not altogether clear. In the circumstances it seems unreasonable to anticipate any significant growth in demand in the next ten years, which suggests that consumption in 1990 and 1995 might be around 26,500 tonnes.

Imports constituted a negligible proportion of the total supply in recent years. This is attributable largely to the effect of the tariff structure and, even more so, the highly restrictive quota limitations. There is, no doubt, a feeling in Italy that foreigners cannot compete with Italian garment makers, but it seems unlikely that imports of 'bread-and-butter' items such as jockey briefs, vests and T-shirts would be so low in a free market situation. There are certainly opportunities for NTC to sell into this market as an ACP supplier not subject to tariffs or quotas, although the guideline maxima for T-shirts are set at very low levels. The volumes that can be sold are, however, likely to be more limited than in Germany.

2.2.4 The Market in the USA

As agreed with UNIDO, a detailed review of published sources available in London was made to determine whether it was worthwhile undertaking a full scale study of market opportunities for NTC products in the USA.

The study indicated that the USA was, in fact, a very substantial importer of grey cloth (but not yarn) and of knitted cotton underwear. There was, however, a growing protectionist sentiment in the country, although this was directed in particular against the main world suppliers, especially those in the Far East, and Ethiopia might be able to take advantage of its status as a new and relatively very small supplier of the US market. Nevertheless, even although the Administration had vetoed a particularly severe anti-import measure which had passed through both Houses of Congress, it seems possible that some lesser restrictions might be approved in order to mollify the protectionists given the strength of feeling.

Other factors considered likely to impede Ethiopian entry into the US market were:

- The country's geographical remoteness and the lack of any established direct transport links.

- The low technical standards of Ethiopian products - although this is not unredeemable.

- The political antipathy of the US Administration to the Dergue - although it is recognised that this might not necessarily constitute an obstacle to trade.

Against this there must be set the attractions of Ethiopian products for certain elements of the Afro-American population. This is understood to have already been a selling point for a line of shirts produced by NTC. Whether it

would be persuasive in the case of less glamorous items such as underwear must, however, be doubted. In the circumstances AeSL recommends that it would not be an effective use of resources to mount a full scale review of US market prospects at the present time. It would be best to see what emerges from the confrontation between the Administration and the protectionist lobby. It would also seem appropriate to see if NTC products could be made price-competitive in the US market, taking especially into account the need to establish freight links. In the view of the AeSL, however, any further considerations of this market should await the technical improvements recommended in this report.

2.3 RECOMMENDATIONS

These recommendations relate to the marketing of NTC products. Technical recommendations are dealt with in Section 7 of the main text.

2.3.1 Production to be Oriented to Needs of Market

2.3.1.1 Over-supplied World Markets: NTC's efforts to market the cotton goods presently under consideration must be planned in the full realisation that these are products with which world markets are already generously over-supplied. It will have to compete in particular with Far Eastern suppliers who are able to manufacture grey goods and cotton knitwear in large volumes at very low cost and to consistent standards.

The emergence of Mainland China as a major supplier is the current phenomenon of the world market which is further intensifying its fiercely competitive nature. Already Chinese producers are able to dominate markets for grey goods wherever they are permitted to do so. As producers of knitted goods they are not yet so well-established, but there is no doubt that, aided by Hong Kong expertise, they are moving in that direction. The experience of Hong Kong and Taiwan has long demonstrated that Chinese producers are not only fully able to take advantage of the latest technology in areas where production can be made capital-intensive, but can also deploy adaptable, well-motivated work-forces, at low cost in areas like garment-making where operations are inevitably more labour-intensive.

In Italy and Germany the NTC is protected in part from the full force of Chinese competition by the effects of a tariff/quota system which is deliberately contrived to protect domestic industries and also to encourage trade between EEC-members and countries associated with the Community such as Turkey and Yugoslavia. As a member of the ACP group of countries, Ethiopia is not affected by these protectionist barriers - although too great success in penetrating EEC markets could have the effect of bringing others into play. In these countries, however, it will compete with Greek and Turkish suppliers who not only enjoy free access in the same way as NTC, but also benefit from export subsidies and manufacturing locations more convenient to the market-place.

In the Middle Eastern markets considered all suppliers compete on equal terms with no physical limitations, and tariffs are set at low levels (to raise some revenue rather than influence supply source). In these countries the domination of Chinese and Hong Kong producers would no doubt be more complete were it not for the fact that the markets are small compared to

those in the USA and Europe and many local distributors are opportunistic, seeking low-cost one-off deals rather than more settled relationships with reliable suppliers. Partly for this reason Chinese goods still have the reputation of being 'cheap and nasty' enabling other producers to dominate the high cost end of the market. There are signs, however, that this situation is coming to an end as importers become more professional and the markets more organised.

2.3.1.2 The Implications for NTC: In the circumstances outlined above it is vital for new suppliers such as NTC that they organise their whole export operation to meet the requirements of the market place. The attitude adopted by EDDC for domestic marketing that consumers have to accept what is made available will not serve.

This means that NTC must be able to deliver goods in the volumes required at the lowest cost and to the quality agreed on schedule. Consistency to specification, whether this is for high or low quality, and timeliness are perhaps the first essentials. Furthermore, these considerations point to the additional necessity of awareness of the requirements of individual consumers, insofar as this is possible, and the tailoring of production to this awareness.

The recommendations made below are influenced by this overriding philosphy.

2.3.2 Grey Goods

The following marketing recommendations assume the acceptance and implementation of the operational improvements outlined in Section 7 (p. 127 et seq.).

2.3.2.1 Germany and Italy: The following points are made:

2.3.2.1.1 Price: Prices for yarn and grey cloth vary, of course, according to the category sold. Price information proved very difficult to obtain but guidance is presented for yarn on pages 69/70 (Germany) and pages 89-91 (Italy), and on fabric on pages 75/6 (Germany) and pages 98/9 (Italy).

It should be borne in mind, however, that the duty-free status of Ethiopian products gives them an inbuilt advantage over supplies from the main sources (see pages 109-111).

Even given this advantage there is reason to suppose that NTC may find it difficult to match the prices of Chinese materials. This may not be critical in that Chinese supplies will almost certainly be limited by quota. It is probably more important to ensure that Ethiopian supplies are at least competitive with those from Greece which has completely free access and that a continuing effort be made to ensure that intelligence on this point be kept up-to-date. Ways of doing this are discussed below.

2.3.2.1.2 Categories of Material: Almost certainly NTC will have to be able to provide ranges of yarn and cloth, but there would be production advantages in trying to limit the numbers of different categories. In broad terms the study established the following categories as those most usually required of import sources in both Germany and Italy:

Yarn	Cloth
Single 14-40s	115-165 cm, 130-
Single 40-80s	200 gs/m², plain weave

(For yarn in Germany, see pages 64/5 and in Italy pages 80-83; for fabric in Germany see page 72 and in Italy pages 92-95).

2.3.2.1.3 Target Tonnages: Subject to their meeting the requirements relating to price, delivery and specification consistency indicated above, the limitation on the volumes of grey goods Ethiopia can supply are likely to be determined by decisions of the Customs authorities rather than market considerations. Although Ethiopian imports are not subject to quotas, the guidelines established at which they might begin to consider invoking the Safeguard Clause of the Lome Convention are set at very low levels and, in the case of yarn, levels which suggest that they would be reluctant to see any imports at all from ACP sources.

In these circumstances the best course seems to be to export as much as possible to both markets in order to establish a basis for negotiating future quotas. To prepare for this eventuality it would be advisable to keep full records of exports, noting volumes and values of the various categories and products in each shipment, and the dates of departure from Ethiopia and at which they cleared Customs control in the European ports. The co-operation of the importer would, of course, be necessary in this latter connection. These records would form an essential basis for any negotiations with the German and Italian governments on quotas should the Safeguard Clause be involved.

No guidance can be given as to the levels at which the authorities would chose to invoke the Safeguard Clause. Germany has the reputation of being more liberal, but the long-established links between Italy and Ethiopia may dispose the Italians to interpret the limits generously in the case of imports from that source. It is probably reasonable to assume that both countries would accept up to 100 tonnes/year of yarn with equanimity while, in the case of grey fabric, Germany might accept 3,000 tonnes/year and Italy 500 tonnes/year. It is not inconceivable that greater volumes would be acceptable, but these should, perhaps, be the initial targets.

2.3.2.1.4 Outlets: There is considered to be no alternative to the use of established importers as outlets in the early stages of developing these markets. This takes into consideration not only the expense to NTC of setting up independent organisations to market the produce and of holding stocks, but also NTC's lack of in-house experience in export marketing.

It is difficult to single out particular companies which might be approached in this connection as nearly all those who talked to AeSL pronounced themselves willing to consider NTC materials. AeSL would recommend, however, that NTC make its selection on the following basis:

- The company should be a wholesaler rather than a buyer of these materials for its own use. This should ensure that NTC develops a wider market base which should have advantages if the object is to develop regular sales.

- It should deal with both yarn and cloth. (The volumes of yarn contemplated are very small and may hardly be worthy of consideration as a separate item).

- It should be prepared to send buyers and quality control agents to Ethiopia in order to ensure that what is shipped conforms to requirements.

In Germany the company which seems most likely to fulfil these requirements and should be approached in the first instance is Bunge G.M.B.H., Baumwollborse, Postfach, 106827, 2800 Bremen, 1. In the case of Italy the most appropriate outlet would seem to be Associated Traders Spa, Corso Venezia 2, 20121, Milano, or Filcotton Sas di R. Taganardi e SC, Via Manzoni 43, 20121 Milano. It should be noted, however, that both these latter companies do not send their buyers or quality control agents into the field.

For other possible outlets for yarn see pages 65-69 (Germany) and 83-89 (Italy), and for fabric pages 73-75 (Germany) and 95-98 (Italy).

2.3.2.1.5 NTC Contact with Consumers: Although all active marketing should be entrusted to the chosen outlet, it would seem advantageous for NTC to make periodic visits to Italy and Germany with the object not only of broadening the relationship with the importing company, but also of improving its own trade intelligence and making direct contact with consumers. The importer should be aware of the activities of the NTC representatives and encouraged to see them as supplementing his own marketing and, therefore, something with which he can co-operate. Particular functions to be carried out during such visits, apart from the general process of making the name of NTC more familiar in the market-place, should be the collection of the fullest possible information on volumes and specifications required by end-users and their buying policies and also the encouragement of criticisms - hopefully constructive - of NTC products and service which can be fed back both to the importer and to the NTC headquarters. Data on prices of competitive products, particularly those from Greece, should also be gathered. Expertise acquired in this way would form an essential basis for the establishment of local offices by NTC should this ever appear appropriate.

2.3.2.2 The Middle East: The requirements of the single consumer identified with regard to quality, volumes, packaging etc are indicated on pages 35/6. These also give details of the prices at which these materials were offered in October 1985 (page 34). To sell to this company the NTC would need to submit samples and quote prices at which they could be delivered. It is likely that a small order might then be placed and, if this was satisfactorily fulfilled, a larger order would follow involving a number of deliveries. The company made clear its policy of always seeking the lowest cost source subject to specifications, delivery and price considerations. This indicates that it is not so concerned to develop continuing relations with any one supplier.

2.3.3 Cotton Knitwear

2.3.3.1 Europe: In view of Brivio's responsibility for marketing NTC's output and its established links with the German and Italian markets it would be otiose for AeSL to make recommendations as to the way their products should be marketed in Europe.

2.3.3.2 The Middle East: With regard to the Middle East, AeSL recommends that NTC attempts to sell its cotton knitwear through Primlaks International.

The main reason for this recommendation is not so much Primlaks' importance as a supplier of the UAE market, but the fact that it uses Dubai as a bridgehead for servicing the much larger Saudi Arabian market. This means that if it could persuade the company to carry its products, not only would NTC be able to sell worthwhile volumes through a single outlet, but would establish a presence in Saudi Arabia and this might later serve as a basis for direct sales into that country.

It would be difficult for NTC to service the Saudi market unless it was first willing to make contact with a local company able to sponsor the visits of its representatives to the Kingdom.

NTC was able to identify only one other company with established representatives in both Saudi Arabia and the smaller Gulf states and that was the Delmon agency which has offices in Kuwait, Bahrain and Jeddah. The disadvantage of using Delmon, however, is that it is only a commission agency, taking delivery only of products for which it has firm orders. As such it seems to be held in less high regard than a company prepared to buy for stock such as Primlaks.

Primlaks could probably take up to one million units of underwear per annum, a volume far beyond any other company operating in the countries visited by AeSL. (Although Grand Stores in Kuwait claimed to have purchased 2 million units from Japan in 1985 at prices perhaps 100 percent higher than Primlaks would be prepared to pay, AeSL doubts this claim and certainly doubts Grand Stores' ability to place orders of this magnitude every year).

The disadvantage in attempting to sell through Primlaks is that that company is oriented to buying from Chinese sources and has established links, certainly in Hong Kong and probably in Mainland China. Furthermore, it concentrates on the lowest cost end of the market where consumers do not readily distinguish between pure cotton items and those manufactured from mixed fibres. This means that NTC products would have to match the prices of such items, implying a cif Dubai value of around US $6/dozen in October 1985. The company is, nevertheless, able to insist on the maintenance of delivery schedules and specification consistency.

With regard to the markets in the smaller Gulf countries covered as such, although in total each of these would be of interest to NTC, in none of them was it possible to identify a single supplier with a significant market share. Still less was there a major supplier identified who was represented in more than one of the countries - with the single exception of Delmon - and, although AeSL was given to understand that some importers did sell outside their home market, there was no impression that this was on a consistent and regular basis. If suppliers looked beyond their national frontiers it was more to Saudi Arabia or Iran - where the trade had largely dried up - than to the other small principalities. In order to sell worthwhile volumes in the area, therefore, it would be necessary for NTC to deal with a number of importers with all the additional effort this implies.

For distribution of knitted goods see pages 33/4 (Kuwait), 40/1 (Bahrain) and 48/9 (UAE). The only outlet identified for grey goods is in Kuwait (page 35).

All importers contacted prefer to buy underwear ready-packaged for retail sale in printed polybags holding a single garment. Card stiffeners are regarded as an important selling point, but are probably an unjustifiable luxury at the end of the market serviced by Primlaks. For wholesale purposes the retail packs should be packed in cardboard cartons of a dozen items. Wholesale packs should preferably be shipped in corrugated containers holding 48 or 96 cartons. There is a preference for shipments to be containerised.

3.0 SELECTION OF MARKETS FOR DETAILED STUDY

3.0 SELECTION OF MARKETS FOR DETAILED STUDY

3.1 OBJECTIVE OF SURVEY

The original terms of reference required that market research be undertaken in respect of cotton knitwear (SITC 846.2) in one European country, one Middle Eastern country and two countries in Africa. Management thinking changed appreciably between the drafting of the first consultancy specification and the visit to Addis Ababa in late September 1985, of AeSL's Project Manager, Mr. Peter Steele. The scope of the research and consultancy assignment was modified in two important ways.

First, the product scope of the terms of reference was extended to include grey goods, and cotton yarn. Second, the geographical scope was modified: field work was not to be undertaken in African countries, but instead was to be undertaken in additional West European and Middle Eastern markets; a preference was expressed in favour of Italy as the additional European market, other things being equal.

The screening survey to select countries for market research had been completed and written up when Mr. Steele visited Addis Ababa. The modifications in the terms of reference did not necessitate change in the method of screening; they did require extra effort to obtain data on trade in grey goods and yarn for European countries in particular. The information obtained on African countries is retained in this report and the approach to market selection explained in order to assist retrieval should this be found useful at some future date.

The method of selecting markets from among the very large number included within the geographical scope of the original proposal was to rank them in terms of size, however size be measured, on the principle that the larger the market the higher the ranking; the greater the likelihood, that is, of a country becoming an importer of textiles from Ethiopia. There may be reason to qualify and modify the preliminary selection made on the basis of size of market. Such qualifications are explained in the text of the appropriate sections. The most notable qualification related to African countries; the desirability, namely, of including a member country of the Preferential Trade Area for Eastern and Southern African States (PTA). Having chosen one African country for market research and assuming it is not a member of the PTA the procedure then was to move down the rankings until a PTA member was encountered.

3.2 SCREENING METHOD

The sources of the foreign trade figures reproduced in Appendix C are the following:

(a) UN Foreign Trade Yearbook 1982

(b) UN Commodity Trade Statistics Series D

(c) Eurostat Analytical Tables of Foreign Trade, SITC Rev 1983 (iv 6).

The trade categories used are as follows:

(a) SITC 846.2 - "undergarments, knitted or crocheted, of cotton, not elastic or rubberised"; this category includes men's and boy's shirts (846.21) and other undergarments (846.29);

(b) SITC 651.3 - cotton yarn. The Eurostat source indicated reports trade under four categories which have been aggregated:

851.31 Cotton yarn measuring per single yarn not more than 14,000 M per kg

851.32 14,000 - 40,000 M/kg

851.33 40,000 - 80,000 M/kg

851.34 Equal to or greater than 80,000 M/kg.

(c) SITC 652.1 - cotton fabrics. woven, unbleached, not mercerized. Eurostat reports trade under four categories which, again, have been aggregated for the purpose of this present exercise:

652.11 Cotton gauze

652.12 Terry towelling of cotton

652.14 Other fabrics containing 85 percent or more by weight of cotton

652.15 Other fabrics containing less than 85 percent by weight of cotton.

The figures given in the latest (1982) UN trade yearbook are for the top 50 importers. Most West European countries appear among the 50 largest importers, exporters or both; many African countries do not.

Recourse to the foreign trade reports of individual African countries avails little. The reports accessible to the team in London libraries are not up to date; there are wide variations in classification. It was quickly apparent that time spent on the trade reports of individual countries would be unproductive.

UN trade data were taken as a sufficient basis for selecting a European country. The first approach to choosing African and Middle Eastern candidates had to be by way of more readily accessible macro-economic data.

Demand for consumer goods is in the first instance a function of population and household income. Two aspects of population are considered: its absolute size and the degree of urbanisation; the reason for giving weight to the latter is that the higher income groups, which contribute to effective demand for consumer goods more than proportionately to their actual numbers, are generally urban. The differentiation of countries in terms of income is done by way of GNP or GDP per caput.

The screening procedure is to rank the countries of the Middle East and Africa using the figures for population, urbanisation and per caput GNP or GDP which are reproduced in Tables 6 and 10. The rank numbers are regarded as scores

and are added across for each country to give a basis for a new ranking on the principle that the lower the numerical value of the cumulative score the higher the ranking.

The highest ranking countries are then considered in the light of other knowledge, same of it systematic and some judgemental.

3.3 RESULTS OF SCREENING

3.3.1 Western Europe

The UN data reproduced in Table 1 show a stable and consistent pattern of trading in SITC 846.2. Most countries of Western Europe are net importers. The net exporters are relatively few: Italy, Portugal, Denmark, Ireland and Greece. By far the largest net importer is the Federal Republic of West Germany.

TABLE 1

VALUE OF NET IMPORTS OF SITC 846.2 BY SELECTED COUNTRIES OF WESTERN EUROPE IN 1982

	'000 US $
Germany (Federal Republic)	346,204
UK	105,662
France	84,524
Netherlands	81,823
Switzerland	52,843
Belgium Luxembourg	51,250
Sweden	48,352
Norway	30,957
Finland	11,055
Austria	10,926

Source: UN Yearbook of International Trade Statistics 1982 Vol 2.

Germany is also the largest importer among Western European countries of cotton yarn (Tables 2 and 4) and a substantial importer of grey goods (Tables 3 and 4).

Italy, for which a preference has been expressed as the second European country in which market research is undertaken, is a net exporter of cotton knitwear. Even as an importer of knitwear it appears rather less interesting (after the Federal Republic of Germany) than 6 other countries.

In terms of the aggregate import volume of yarn and grey goods Italy is the largest among Western European countries (Tables 2, 3 and 4), importing 20 percent more than the UK in 1982. The UK is, however, the country which on prima facia grounds recommends itself as the most interesting after the

TABLE 2

THE FOREIGN TRADE OF SELECTED EUROPEAN COUNTRIES

IN SITC 846.2 (COTTON KNITWEAR) 1978-82

('000 US $)

	Imports			Exports		
	1978	1980	1982	1979	1980	1982
Germany (Federal Republic)	293,122	476,216	467,373	86,871	132,833	121,169
United Kingdom	88,028	160,989	151,170	36,559	46,647	45,508
France	64,565	152,182	180,503	70,106	113,750	95,979
Netherlands	102,665	143,666	118,949	29,027	38,911	37,126
Switzerland	72,144	105,800	100,276	37,560	52,277	47,433
Belgium-Luxembourg	52,011	78,334	70,519	16,660	25,793	19,269
Sweden	34,510	62,632	53,145	3,560	6,405	4,793
Italy	26,451	53,644	38,814	32,849	60,621	66,096
Austria	24,883	50,240	53,514	15,665	33,589	42,588
Norway	17,089	28,450	31,945	608	1,157	988
Denmark	17,318	23,626	26,477	20,251	33,499	35,390
Finland	7,595	17,892	17,445	7,277	10,833	6,390
Ireland	7,370	14,363	16,825	9,636	14,454	12,911
Greece	4,892	3,789	3,519	35,626	97,216	90,579
Spain	419	985	1,355	NL	NL	NL
Portugal	NL	NL	NL	NL	120,471	127,257

NL Not listed in UK Yearbook. UN rankings made on basis of aggregate imports or exports for years 1979 to 1981 inclusive for top 50 importing or exporting countries. In above tabulation UN rankings followed for exports only.

Source: UN Yearbook of International Trade Statistics 1982 Vol 2.

TABLE 3

EEC IMPORTS OF COTTON YARN (SITC 651.3*)

IN 1983

Importing Countries	Total from all Sources	Of which from Extra EEC Sources
	'000 tons	%
Germany	123.5	64
France	46.9	48
Italy	69.2	72
Netherlands	20.8	28
Belgium/Luxembourg	56.9	59
UK	46.0	54
Ireland	6.0	65
Denmark	18.1	59
Greece	3.8	54

* Excluding SITC 651.35 ie cotton yarn put up for retail sale.

Source: Eurostat Analytical Tables.

TABLE 4

EEC IMPORTS OF COTTON GREY GOODS (SITC 652.1)

IN 1983

Importing Countries	Total from all Sources	Of which from Extra EEC Sources
	'000 tons	%
Germany	38.7	74
France	40.4	53
Italy	49.7	57
Netherlands	21.5	69
Belgium/Luxembourg	8.7	37
UK	52.6	86
Ireland	1.6	78
Denmark	6.7	88
Greece	0.2	21

Source: Eurostat Analytical Tables.

Federal Republic of Germany. But the trade and cultural ties between Ethiopia and Italy are an important factor, although there is inherent difficulty in determining what weight to give them.

If in selecting a second European country the prime consideration is the demand for yarn and grey goods, then Italy is the country which recommends itself.

3.3.2 The Middle East

The preliminary ranking of the countries of the Middle East is done in terms of the population, urbanisation and per caput GDP figures which are reproduced in Table 5. The highest ranking countries are the following:

(i) Kuwait
(ii) Saudi Arabia, Israel
(iii) Qatar, UAE
(iv) Iraq.

The next step is to consider these countries in the context provided by the UN trade data reproduced in Tables 6 and 7.

Lebanon and Iraq are dismissed from consideration because the security situation in these countries militates against market research. Syria is a substantial grower and user of cotton (Table 8) and a net exporter of cotton textiles (Table 6). Kuwait, UAE and Saudi Arabia are left, in the order of magnitude stated. Of these, Saudi Arabia has much the largest population base - 10.4 mn compared with 1.7 mn in Kuwait and 1.2 mn in UAE. Furthermore, Kuwait is thought to be a centre for entrepot trade, its role enhanced if not created by the Iran-Iraq war. The statistics are not available to demonstrate the extent of such a role. But the mere possibility in conjunction with Kuwait's significantly smaller population are the ground for advancing Saudi Arabia as the choice of Middle Eastern markets.

Saudi Arabia does not appear to have a significant cotton textile industry (Table 8). The country's trade policy is liberal; there are few limitations; there are no exchange restrictions. Items under BTN 60.04 and 60.05 (the BTN codes equivalent to SITC 846.2) are subject to a modest import duty of 4 percent ad valorem. Cotton towels are the only cotton textiles which incur a duty of 20 percent, a means of protecting local industry.

3.3.3 Africa

The data for African countries (Table 9 et seq) are included for purposes of record only at this stage.

A preliminary ranking yields the following result:

(i) Republic of South Africa
(ii) Algeria
(iii) Egypt
(iv) Tunisia, Morocco
(v) Nigeria
(vi) Cameroon

TABLE 5

IMPORTS OF COTTON YARN AND COTTON GREY GOODS

BY SELECTED NON-EEC COUNTRIES OF

WESTERN EUROPE IN 1983

(tons)

	SITC Category	
	651.3	652.1
Austria	18,756	13,049[1]
Finland	5,760	4,354
Norway	2,736	1,031
Portugal	947	511
Spain[2]	89	481
Sweden[2]	7,756	4,138
Switzerland	5,984	5,141

1 SITC 652
2 1982

Source: UN Commodity Trade Statistics Series D

TABLE 6

POPULATION, DEGREE OF URBANISATION AND PER CAPUT

GDP OF COUNTRIES OF THE MIDDLE EAST

Country	Population mid 1983 mn	Proportion of total population in urban areas in 1983 %	GDP per caput in 1980 US $
Bahrain	0.4	81[1]	10,352
Iran	42.5	53	2,355
Iraq	14.7	69	3,700
Israel	4.1	90	5,568
Jordan	3.2	72	1,525
Kuwait	1.7	92	20,143
Lebanon	2.6	78	1,273[2]
Oman	1.1	25	5,682
Qatar	0.3	85*	31,610
Saudi Arabia	10.4	71	16,953
South Yemen	2.0	37	339
Syria	9.6	48	1,470
Turkey	47.3	45	1,267
UAE	1.2	79	30,233
Yemen (AR)	7.6	18	476

1 1981
2 1979

Source: World Bank Development Report, UN Demographic and National Accounts Yearbooks, and Consultants' estimates (asterisked).

TABLE 7

IMPORTS AND EXPORTS OF SITC 846.2 BY COUNTRIES

OF THE MIDDLE EAST

(Total value '000 US $ 1979-81 inclusive)

Country	Imports	Exports
Lebanon	12,390	533
Kuwait	8,249[1]	
UAE	7,358[2]	
Iraq	5,839	
Saudi Arabia	4,016	
Syria		10,614

Note: UN ranking is made on basis of aggregate trade in 3 year period 1979-81 of top 50 countries throughout World. The lowest value of imports of the countries with which this study is concerned is US $1,343,000 for Congo. Middle Eastern countries not included in UN ranking are therefore presumed to have imports equal to or less than US $1,343,000 for the 3 year term.

1 One year only 1981
2 One year only 1980

Source: UN Yearbook of International Trade Statistics 1982 Vol 2.

TABLE 8

IMPORTS OF COTTON YARN AND COTTON GREY GOODS

BY SELECTED MIDDLE EASTERN COUNTRIES

IN 1983

(tons)

Importing Countries	SITC Category	
	651.3	652.1
Jordan	195	1,150
Oman	82	1,184[1]
Saudi Arabia[2]	601	2,458
UAE[3]	221	3

1 SITC 652
2 January-September
3 1982

Source: UN Commodity Trade Statistics Series D.

TABLE 9

APPARENT CONSUMPTION OF RAW COTTON IN COUNTRIES OF THE MIDDLE EAST IN 1983/84

('000 bales of 480 lbs)

Country	Production	Imports	Exports	Stock Change	Consumption
Iran	409			-4	413
Iraq	30	98		+8	120
Israel	425	20	358	+9	78
Jordan		5			5
Lebanon		10			10
Syria	888		698	-60	250
Turkey	2,398		500	+125	1,773
Yemen (PDR)	25		20		5
Yemen (AR)	40		20		20

Source: Cotton: World Statistics
Bulletin of the International Cotton Advisory Committee

TABLE 10

POPULATION, DEGREE OF URBANISATION, AND PER CAPUT GNP OF AFRICAN COUNTRIES

Country	Population mid 1983 mn	Proportion of total population in urban areas in 1983 %	GNP per caput 1983 US $
North West Africa			
Algeria	20.6	46	2,320
Burkina Faso	6.5	11	180
Mali	7.2	19	160
Mauritania	1.6	25	480
Morocco	20.8	43	760
Niger	6.1	14	240
Tunisia	6.9	54	1,290
West Africa			
Benin	3.8	16	290
Cameroon	9.6	39	820
The Gambia	0.7	19	173[2]
Ghana	12.8	38	310
Guinea	5.8	26	300
Guinea-Bissau	0.9	17	141[3]
Ivory Coast	9.5	44	710
Liberia	2.1	38	480
Nigeria	93.6	22	770
Senegal	6.2	34	440
Sierra Leone	3.6	23	330
Togo	2.8	22	280
North East Africa			
Chad	4.8	20	109[1]
Djibouti*	0.3	n.a.	480[1]
Egypt	45.2	45	700
Libya	3.4	61	8.480
Somalia*	5.1	33	250
Sudan	20.8	20	400
Central Africa			
Angola	8.2	23	n.a.
Central African Republic	2.5	44	280
Congo	1.8	55	1,230
Equatorial Guinea	0.4	n.a.	n.a.
Gabon	1.1	n.a.	n.a.
Zaire	29.7	38	170
Zambia*	6.3	47	580
East Africa			
Burundi*	4.5	2	240
Kenya*	18.9	17	340
Malawi*	6.6	11	210
Mozambique	13.3	17	n.a.
Rwanda*	5.7	5	270
Tanzania*	20.8	14	240
Uganda*	13.9	7	220
South Africa			
Botswana	1.0	n.a.	n.a.
Lesotho*	1.5	13	460
Namibia	1.5	n.a.	n.a.
Republic of South Africa	31.5	55	2,490
Swaziland	0.6	n.a.	n.a.
Zimbabwe*	7.9	24	740

n.a. = not available

1 1980
2 1981
3 1982
* Member of PTA

Source: World Bank Development Report
UN Demographic Yearbook
UN National Accounts Yearbook

TABLE 11

IMPORTS AND EXPORTS OF SITC 846.2 BY

AFRICAN COUNTRIES

(Total value '000 US $ for period 1979-81)

Country	Imports	Exports
Cameroon	13,324	442
Tunisia	7,802[2]	26,356[2]
Angola	7,246	
Gabon	4,378	
Nigeria	3,728[2]	109[2]
Ivory Coast	2,085	274
Zimbabwe	1,477	
Zaire	1,359	
Congo	1,343	
Morocco		23,567
Mali		20,953[3]
Egypt		3,031[1]
Kenya		1,836[2]
Benin		763

1 Total(s) for one year only
2 Total(s) for two years
3 Virtually all of total attributed to year 1979; value of exports in subsequent years minimal

Source: UN Yearbook of International Trade Statistics 1982 Vol 2.

TABLE 12

APPARENT CONSUMPTION OF RAW COTTON IN

AFRICAN COUNTRIES 1983/84

('000 bales of 480 lbs)

	Production	Imports	Exports	Stock Change	Apparent Consumption
Algeria		77			77
Angola	20		5	+5	10
Benin	40		25	+5	10
Burkina Faso	145		100	+40	5
Burundi	10		10	-2	2
Cameroon	170		100	+40	30
Central African Republic	55		30	+18	7
Chad	236		175	+51	10
Egypt	1,839	100	830	-200	1,309
Ethiopia	90		12	-22	100
Ghana	10	20			30
Guinea		7			7
Guinea Bissau	2		2		
Ivory Coast	268		175	+12	81
Madagascar	69	22		-1	92
Malawi	30		15	-10	25
Mali	249		169	+45	35
Morocco	30	66		+16	80
Mozambique	70		50	-15	35
Niger	4	3		-1	8
Nigeria	62	245		+2	305
Senegal	54		25	+9	20
Somalia		5			5
Republic of South Africa	158	120		-12	290
Sudan	1,006		1,150	-224	80
Tanzania	215		133	-12	94
Togo	54		50	-6	10
Tunisia		58			58
Uganda	85		16	+48	21
Zaire	50				50
Zambia	45		19	-2	28
Zimbabwe	418		350	-1	69

Source: Cotton World Statistics
Bulletin of the International Cotton Advisory Committee

(vii) Ivory Coast, Libya
(viii) Zimbabwe
(ix) Zambia
(x) Ghana, Sudan, Congo
(xi) Senegal
(xii) Zaire, Kenya
(xiii) Liberia, Tanzania.

3.4 COUNTRIES SELECTED

The countries selected for market research are the following:

Europe:	Federal Republic of Germany
	Italy
Middle East:	Saudi Arabia
	Kuwait
	UAE

4.0 THE ARAB GULF MARKETS

4.0 THE ARAB GULF MARKETS

4.1 KUWAIT

4.1.1 The Economic Background

It is difficult to develop a full picture of the current state of the Kuwaiti economy from the published statistics currently available. Nevertheless, a number of significant indicators suggest a substantial decline in activity and - particularly important given the products presently under consideration - in consumer expenditure:

- The decline in import levels from US$ 7,848 million in 1982 to US$ 7,123 and US$ 6,700 million in 1984 and 1984 respectively - a significant movement given Kuwait's dependence on imports for so many of the common necessities of life.

- The reduction of 37.5 percent in 1984 as opposed to 1982 in the floor area of buildings approved for private sector construction and of 67.9 percent for public sector - although construction only accounted for 9.8 percent of non-oil GDP in 1983 it is a major employer of labour.[1/]

- The fall of 2.5 percent in the contribution of wholesale and retail trading to GDP in 1983 compared to 1982 at current prices - ie rather more allowing for inflation. It is understood that this trend persisted in 1984 and 1985.

- The decline in the numbers of expatriate guest-workers by mid 1985 to 1.016 million - below 1983 levels - from a peak of 1.128 in mid 1984. The expatriate community constitutes the most economically active as well as the largest section of the population - 60 percent in mid-1985.

Subjective evidence gathered by AeSL in the course of its interview programme confirmed this impression of a decline in economic activity since 1982. The factors underlying this trend were said to be:

- The collapse of the Souk al Manakh or informal stock market in 1982 which bankrupted many companies and other employers of labour.

- The Iran-Iraq war which has considerably reduced the volume of Kuwait's commerce - although the country is still understood to be a major unofficial entrepot for munitions bound for Iraq.

- The reduced value of the oil revenues in the light of declining world demand and the weakness of the US dollar.

Of these factors, the first two are considered to have by far the greatest immediate impact on economic activity.

1/ Out of 26,892 First-Time Work Permits issued in January-September 1984, 17,809 were for construction workers.

The decline in the expatriate community - which in 1984-85 involved an overall decline in the total Kuwaiti population, including natives, of 5 percent - is important for the present study not only because it is indicative of a general economic malaise, but because it reduced the numbers purchasing imported clothing and clothing and other textile items manufactured within Kuwait. Furthermore, insofar as the decline in numbers was also a consequence of a drive against illegal residents prompted by political disturbances - the latest manifestation of which was the attempt on the Amir's life in May 1985 - it must have had the effect of making those who remained feel less secure in their position and less inclined to spend money in Kuwait. Certainly private transfers of money out of the country recorded on the current account were markedly higher in 1983 and 1984 than in 1982 while private sector capital transfers increased massively in those years.

A revealing statistic as to the current state of consumer spending was the unofficial estimate of some of the larger department stores that the turnover of the traditional May and November sales was up to 50 percent down on 1982 levels in 1984 with no improvement in sight in 1985.

4.1.2 The Market for Knitted Cotton Goods

4.1.2.1 Supply and Consumption: There is no manufacture of knitted cotton goods in Kuwait.

Detailed statistics of foreign trade are available only for the period to end 1982 and there is no distinct category for knitted cotton underwear or even for underwear as a whole. Any attempt to interpolate current levels of imports from these figures would be wholly misleading, partly because in the 1970s and early 1980s Kuwait was the channel for massive re-exports, mainly to Iran, much of which were unrecorded, and this trade has now wholly dried up, and partly because the decline in local demand, common throughout the Gulf region, has left importers with substantial stocks.

It is unofficially estimated that retail sales would amount to 3 million pieces per annum which would have a c & f value of US$ 2.50 - 3.00 million at current rates. The great bulk of these would be men's and boys' underwear - it is understood that knitted cotton is not much used for female underwear, females prefering the more stylish and easily cared for man-made fibre briefs and seldom wearing vests or T-shirts. Such female knitted cotton underwear as is sold is intended mainly for the children of the more westernised expatriates.

It should also be noted that a substantial proportion of the men's and boys' knitted cotton underwear also, in fact, consists of articles produced from mixed cotton and manmade fibres - usually polyester. The great bulk of the cheaper underwear imported from Far Eastern sources is of this nature although, as will be noted, there is probably an increasing awareness of the superior comfort and hygienic properties of pure cotton.

Traditionally, the USA has been the main supplier of the higher quality items, although the UK and, in recent years, Spain have also been significant sources. Hong Kong has almost certainly been the main source of cheaper items which constitute the great bulk of the market although, again, supplies have been taken from other sources such as Japan, South Korea and the Philippines as

well as from countries such as the Lebanon and Tunisia. Because of the current high levels of stocks it is unlikely that the 1985 sourcing pattern is in any way representative.

The demand for knitted cotton outer garments, such as sports shirts and sweaters, is minimal. Presumably those who require such things tend to buy them in Europe or the USA.

4.1.2.2 Market Preferences: Most knitted underclothes sold were of the single-jersey type. Although rib-knit articles were encountered they do not seem to be particularly popular.

By far the most common colour was white. The demand for coloured underclothes was largely confined to young, single men who were the category most seriously affected by the decline in the expatriate labour force already discussed. Coloured underclothes are, of course, unsuitable for wear under the traditional white gown (Kandoura) affected by most Kuwaiti males.

With regard to styles, there was some doubt as to whether the market preferred the sleeveless or sleeved vests. The latter is more effective as a means of preventing sweat discoloration of outer garments and is probably preferred for this reason. In the case of underpants, the so-called 'classic' or jockey-style briefs constitute the greater part of those sold. As in the case of coloured underwear, demand for other styles, such as mini-briefs, was said to have been affected by the decline in the numbers of single young men in the expatriate work force.

As noted in the previous section, a great proportion of the total knitted underwear sold is of mixed cotton and manmade fibre rather than of pure cotton, but there may be some trend towards a greater consumption of pure cotton articles. This may reflect increased awareness of their particular suitability for the Kuwaiti climate or, again, a decline in the numbers of less well-remunerated expatriate workers who would be more aware of:

- the relative cheapness of mixed fibre articles
- their easy-care properties
- their longer useful life

It seems likely, however, that what is consumed largely reflects what is available for purchase. The department stores aimed at the middle and upper income brackets are more likely to carry pure cotton; specialist boutiques aiming at the more style-conscious young might purchase more mixed-fibre items because fashion underwear is more often made from mixed fibres, while those supplying the stallholders in the souks import what is cheapest which, traditionally, has been mixed fibre.

4.1.2.3 Distribution Structure: Importing of knitted underwear is undertaken by the country's main department stores both for sale through their own retail outlets and for sale to smaller retailers. There are some eighteen such companies, but the main importers appear to be:

- The Grand Stores
- The Union Trading Company

Grand Stores claimed to have imported some 2 million singlets and briefs under the Japanese 'Renown' label. This seems completely disproportionate with the estimated requirements of the domestic market, especially as 'Renown' clothing is certainly at the upper end of the price and quality ranges as far as Far Eastern supplies are concerned. The Union Trading Company, which has five outlets in the Emirate, claimed to be currently importing 10,000 dozen/year of men's underwear and 5,000 dozen/year of children's, and other major importers are understood to be importing similar volumes. It could, of course, be the case that Grand Stores has purchased such a large volume with a view to exporting it elsewhere in the Gulf, but its own statements, on the face of it, contradict this possibility.

Another important source of imports, mainly supplying the small traders in the souks, are the commission agents which perform a broking function for a number of buyers, but only purchase for specific orders. These tend to deal with cheaper products and more reputable retailers are said to prefer to deal with those who have their own stake in the trade. Nevertheless, such companies account for a substantial proportion of total imports, although the present recession in demand and the stocks held at both wholesale and retail levels has attenuated their activities. Probably the most important of the companies is the Delmon Trading Corporation which has branches in addition in Bahrain and Jeddah.

Mention should be made also of the W.J. Towell Corporation which is a major importer and wholesaler in Kuwait and the UAE. This company once dominated the market for underwear and has held the agency for the US 'Hanes' brand for 25 years. Although well-respected, however, it is no longer a major force in this particular area of the garment trade.

Buying of clothes is generally undertaken with a view to re-stocking for the winter and summer seasons beginning end-November and end-May. As knitted cotton underwear is, for the most part, neither a fashion nor seasonal item, this scheduling is not so important and the existing very high stocks seem to have disrupted existing buying patterns.

4.1.2.4 Prices: Importers of underwear invariably purchase on a c&f basis. The highest prices quoted were for the US brands of 'Hanes', 'Stedman' and 'Carter's' which ranged around US$15/dozen c&f. The lowest price for pure cotton goods from the Far East was US$ 7-8/dozen. The Japanese 'Renown' brand was imported at US$ 12/dozen.

Respondants were reluctant to discuss mark-ups, but it seems that these are around 20-25 percent at the wholesale level. Retail mark-ups, on the other hand, were said to range between 80-100 percent. The mark-up placed by Grand Stores on its 'Renown' brand are greater even than this, if indeed the c&f price was around US$ 1/piece as quoted. Commission agents made their profit on the 5 percent commission paid them by the supplier when the price was accepted by the consumer. It was customary, however, for 40 percent of this commission to be passed on to the consumer when the Letter of Credit was opened. (A 5 percent commission was usually paid by suppliers to all substantial importers).

4.1.2.5 Packaging: Underwear is usually sold in single piece poly-bags - although briefs and singlets originating in the USA are often retailed in 2 or 3-

packs. The more expensive brands are usually stiffened with card, but not the cheaper Far Eastern items. The retail packs are usually packed in cartons of one dozen items for wholesale distribution and come in a shipping case capable of holding either 48 or 96 such cartons.

Shipment is usually carried out in standard 20' containers to minimise losses through pilfering. Containers can contain some 350 cases, but most importers are unable to take a container-load of underwear at one delivery and either take mixed loads of underwear and other garments or share containers with other importers.

4.1.3 The Market for Grey Goods

The only consumer of cotton grey goods discovered in Kuwait was the National Textile Company, P.O. Box 25 186, Safat, Kuwait (Telex 23810 TEXMILL-KT). This company manufacturers terry towelling and uses cotton fabric as the base and yarn for tufting.

Production was currently mainly for the domestic market which was reported to take 65 percent of output while the balance was exported, for the most part to other GCC countries. Output had declined substantially since mid-1984, reflecting the general recession of economic activity in the region. Substantial recovery was anticipated in 1986, but this would seem to be wishful thinking rather than a rationally-based expectation of a market upturn.

Current consumption of grey fabric was said to be in the region of 200,000 metres/year down from 240,000 m in mid-1984. The possible increase in 1986 was put in the region of 100,000 m - but note the above caveat. The fabric is purchased according to the specifications indicated overleaf. The preferred width is 67", but 68" was also acceptable (NB the width was defined in inches rather than centimetres: the mill engineers seem to work according to the Imperial system of measures, but purchasing is in the metric system).

Current sources of supply are India and Pakistan. The company was paying around US$ 0.50/m for this material.

Consumption of grey yarn was said to be 100 tonnes per annum. The anticipated requirement in 1986 was 200 tonnes - again see above. Specifications for the 14^S material are indicated below. AeSL understands that 16^S material is also used in equal quantities.

The main sources of supply were Greece, Egypt, Brazil and Turkey. The mill was currently assessing a new supplier from Pakistan.

Prices were around US$ 2.5/kg c&f, but the new potential supplier from Pakistan had quoted US$ 1.6/kg c&f.

The National Textile Corporation always dealt directly with its suppliers and never through any agency. Payment terms were Sight Letter of Credit, 120-day Letter of Credit or CAD at 60 days or 120 days. Delivery was, wherever appropriate, every two months.

Grey cloth was required in bales, yarn in cones packed in cartons - see specifications. Shipments were always by container, sea-freight.

The company professed to be ready to consider the NTC as a potential supplier. They would require to be shown samples and to satisfy themselves that deliveries would be as per sample. Although the management seemed to be Indian, the wide range of sources of the fabric named does not suggest that there was any predilection for the sub-Continent as a source of supply. Any attempt to sell to this consumer while the world textile market was in its current depressed state would, however, involve competing with the low prices quoted.

Details of relevant company specifications follow:

SPECIFICATION FOR NE 14/1 YARN

1.	Count	14^{s} combed or carded only in form of cones
2.	Ring Spun S or Z	(Open end also can be considered)
3.	Coefficient of Variation	Maximum 18%
4.	Break Factor	2300 to 2400 minimum

(Break factor or counts/strength proportion is multiplication of yarn counts by strength in lbs of a lea (120 yds.) of cotton yarn).

5.	TPI	16 to 17
6.	Mean U% - 13	Thin places per km - 50 Thick places per km - 200 Neps per km -150
7.	Waxed 0.1% to 0.2% (soft paraffin wax)	
8.	Package	Yarn package should weigh not less than 1.800 kgs and not more than 2.000 kgs
9.	To be packed per carton	30/40 cones

Annual requirements 50 tons

SPECIFICATION FOR GREY FABRIC

Plain weave 100% cotton

50 warp ends per inch - 50 weft picks per inch

Warp: 20/- Ne Weft: 20/-Ne

Size content - 7% maximum

Width: 68" (172 cm) or 67" (170 cm)

Variation in width from piece to piece: Not more than 1 cm

Annual requirements: 240,000 metres

4.1.4 Future Trends in Demand

The study carried out suggested that the market for the sort of cotton knitwear mainly required by the Kuwait market, i.e. white, single-jersey, men's and boys' underwear of classic designs, is little affected by trends in disposable incomes. Such underwear is not a luxury purchase but, increasingly, a common necessity to be replaced when items have worn out - usually without particular thought as to style and quality - by whatever is available in the retail establishments the consumer habitually patronises. The decline in domestic demand reported by all trade sources is considered by AeSL to be not so much a direct result of economic decline affecting consumer spending patterns, but of the fall in the population consequent on that decline.

Similarly, the demand for the products of the Kuwaiti National Textile Corporation and, consequently, that company's requirements, for the grey yarn and grey cloth used in manufacturing those products is mainly a factor of the decline in the domestic market - although in the case of terry towelling, production has also been affected by the decline in demand elsewhere in the Gulf region.

The pattern of demand for the products of interest to this study in the next ten years is, therefore, likely to depend mainly on whether, and to what extent, the population of the country recovers from the very substantial decline experienced in the last eighteen months which will, in its turn, depend on the nature of economic development during that period. In the case of grey goods, the pattern of economic recovery elsewhere in the Gulf will also be of significance.

The main factors underlying the present malaise of the Kuwaiti economy - the Souk al Manakh collapse and the Gulf War - will, presumably, be resolved in the next ten years. Recovery from the Souk collapse is largely a matter of nurturing confidence that the country's institutions have been so modified as to make unlikely any repetition of the crisis - although it has to be admitted that this process still has to get fairly underway. Similarly, the Gulf War seems to have been reduced to a struggle fuelled largely by the mutual antipathy of the respective national leaders and, given the inability of either side to strike a decisive blow, will come to an end only when one or the other of these men is removed by human or divine agency. It is, at the moment, impossible to predict this consummation, but in the nature of things it should happen before 1995.

The third factor affecting Kuwait's economic performance, the reduced value of the oil revenues, is, indeed, likely to prove more permanent but, given the absolute size of those revenues, augmented as they are by the country's enormous income from overseas investment, this is unlikely to prove a serious impediment to economic recovery.

Nevertheless, it seems unlikely that recovery, when it comes, will involve a significant recovery in the numbers of economically-active residents so substantially reduced in the last year. The former size of that population was mainly a factor of the infrastructural investment undertaken in the last fifteen years and that process is now largely completed. Much remains to be done in the way of maintaining and refurbishing existing assets and services could, no doubt, be developed, but the work-force required for these purposes

is unlikely to be as large as that required in the earlier phase of massive construction projects. Industrial development may also require greater numbers in this sector than at present, but there must be considerable doubts as to whether substantial investment in labour-intensive industry can ever be justified given the small size of the Kuwaiti domestic market and its high labour costs. (This consideration is likely to inhibit any further development of the textile industry in the country). The suspicions of the large expatriate population entertained by native Kuwaitis has been nourished by the political disturbances of recent years and by the undermining of traditional mores by western influences and it seems unlikely that policies involving any substantial recovery in the numbers of foreign workers and businessmen will ever be deliberately adopted.

It is, therefore, considered unlikely that conditions in Kuwait will produce a substantial increase in the consumption of cotton knitwear or of products manufactured locally from grey goods. There may, indeed, be a qualitative increase in the consumption of pure cotton underwear as the expatriate population balance is shifted away from young, unmarried men performing unskilled or semi-skilled work towards professional, managerial and commercial workers, but this is likely to be of relatively slight consequence.

The recovery of trade in the Gulf at the end of the War should see some recovery in demand for Kuwaiti textile products. It has already been suggested, however, that this industry is unlikely to be able to compete effectively in major markets in the region and it is expected that increases in output for export will not be significant.

On balance, therefore, no significant improvement in demand for any of the products should be looked for in the forecast period.

4.2 BAHRAIN

4.2.1 The Economic Background

The population structure of Bahrain is markedly different from that of the other Gulf countries studied in that the local population is not out-numbered by the expatriate community. Out of a total population at end-1983 of under 400,000, only about 100,000 were foreigners, of whom some 80,000 were actually employed. Furthermore, the local population is more economically active than is the case elsewhere. Not only does the Government actively seek to recruit locals wherever possible for public service posts, but the traditional small trading and artisanal crafts still absorb considerable numbers and Bahrainis have become involved in industrial activities to a greater extent than is seen in the other countries of the region.

The relatively small size of the expatriate community is largely a result of the fact that, compared with its neighbours, Bahrain's oil revenues are not large and this has imposed restrictions on the scale of economic development the country has been able to afford. Indeed, in recent years Saudi Arabia has felt obliged to support public expenditure levels in the interests of maintaining regional stability.

The current recession in the world oil m has probably affected Bahrain more severely than the other Gulf countri ely because of the lack of

any margin between income and expenditure requirements either in terms of public spending or the balance of trade. It is estimated that the expatriate population declined by rather more than 15 percent in the current year. This is partly a result of reduced expenditure on infra-structural investment programmes which are major employers of foreign labour. In addition, the general recession in the Gulf has also affected off-shore banking activity - Bahrain's other major economic activity: three banks have left the country and others have either reduced their representation and/or dismissed staff. The decline in the expatriate community consequent on these developments have affected consumer spending - with adverse consequences for the locals involved in this sector - and also threatens with bankruptcy Bahraini companies which had invested in residential and commercial accommodation.

In an effort to redress the consequences of these developments for the local population, the Government has this year ordered Government departments to reduce the usual increase in recurrent expenditure. Because of the inefficiency of the civil service departments it has been possible to effect this without making staff redundant in great numbers and it is planned to use the savings achieved to support a substantially increased programme of spending on public sector projects in the next two years. As already intimated, such projects usually tend to draw in expatriate labour and such will almost certainly be the result on this occasion whatever the Government's intentions. Nevertheless, the revival of the expatriate community will have the effect of increasing demand for goods and services which Bahrainis customarily supply.

4.2.2 The Market for Knitted Cotton Goods

4.2.2.1 Supply and Consumptic There is no production of knitted cotton goods in Bahrain.

The very great bulk of such goods imported into the country consist of underwear. The supply of outerwear knitted from pure cotton yarn such as sports shirts and sweaters appeared to be slight, articles of this type usually being produced from mixed fibre yarns.

Recorded imports of underwear in recent years are indicated in Table 13. The much greater volumes of men's and boy's items is immediately obvious and it should also be noted that a much greater proportion of female articles would be produced wholly or partly from mmf yarns.

The downturn in impo. t volumes mainly reflects the drying up of Bahrain's re-export trade with Iran and, to a lesser extent, with other GCC markets. Imports for domestic consumption are also understood to have fallen away in 1984 and 1985 as a result of the economic recession. Substantial stocks were built up in 1984 and this particularly affected trade in 1985.

By far the largest single source of supply in 1984 was Mainland China which accounted for 54.3 percent of total recorded imports by volume and 40.2 percent by value. The other significant sources were Hong Kong (14.5 percent and 14.2 percent), South Korea (6.0 percent and 6.1 percent) and Thailand (5.7 percent and 5.5 percent). It is understood that the cut-back in 1985 mainly affected the volumes taken from China.

Retail sales are thought to average around 1-1.5 million pieces per annum which would have a c & f value of a little over US $1.00 million.

4.2.2.2 Market Preferences: The greater part of the knitted underwear consumed in Bahrain is manufactured from mixed fibre yarns rather than from pure cotton. This is mainly a factor of price rather than of a conscious preference.

With regard to styles, the general preference is for the white classic designs, although young men tend to buy coloured items and the more scantily-cut types of underpant. This could be largely a consequence of the fact that these items are more vigorously marketed in the boutique clothes shops which tend to be patronised by young men. Whereas white classic garments are merely laid out on shelves or sometimes not even exposed for sale at all, the coloured and styled items are hung on display racks and are often more attractively packaged in solid polythene boxes or card cartons rather than the normal poly-bags.

There seems to be a preference for sleeved vests or T-shirts as opposed to singlets, but this may be partly because the former are also purchased for wear as outer garments.

4.2.2.3 The Distribution Structure: It is understood that most imports are undertaken by companies which have their own retail outlets, although the bulk of their purchases are likely to be for wholesale distribution or for re-exports. The most important of these companies are:

- Abdulghaffar
- AA Bastaki
- Akhund Awazi
- Salam Trading Company
- Ameen Trading Company.

Ameen is thought to be the largest of these companies as far as imports of underwear are concerned. It is associated with the Gulf Star Limited in Hong Kong which acts as a buying agency - although it buys as much from Mainland Chinese as from Hong Kong products. The company also has an associate company in Jeddah, Ameen Commercial Enterprises, which, as might be expected, handles far greater volumes than the Bahrain company. Domestic sales average 6,000 dozen/annum.

Abdulghaffar is mainly concerned with servicing the demand for coloured and fashionable items. It deals mainly with the Philippines, but also buys from such sources as Tunisia and the Lebanon.

Apart from these companies with their own retail outlets in Bahrain, there are a number of commission agents which buy on behalf of small local traders. The most important of these is understood to be the Delmon Trading Agency which, as noted in the Kuwait section of this report, has associates in Kuwait, the Delmon Trading Corporation, and Jeddah, the Abdul Aziz Al-Shaik Trading Corporation.

As in Kuwait, commission agents act as sales agents for overseas products in the country where they are established, but do not undertake any wholesaling

function. In other words, they will only buy articles for which they have secured specific orders. A number of Delmon's clients have in the past traded with Iran, but this trade has died away completely as a result of the Gulf War. Sales to the local market were currently running at only 500 doz/month.

Delmon tends to deal with the cheapest suppliers. In 1984 this meant that it mainly purchased Chinese material, but it complained that Chinese suppliers had proved untrustworthy in the matter of delivering as per sample and, as a consequence, in 1985 it had delt with other supplies in the Far East such asThailand, the Philippines, Singapore, Hong Kong and South Korea. (Ameen, it should be noted, specifically denied that the Chinese were unreliable suppliers. This could, however, reflect the fact that the Ameens group had an associate company in Hong Kong able to deal directly suppliers in China and the Crown Colony.

4.2.2.4 Prices: Importers in Bahrain invariably purchased knitted cotton underwear on a c & f basis.

The lowest prices quoted for pure cotton garments were around US $9/doz up to a maximum of around US $15/dozen. All importers expected a commission from suppliers of 5 percent of the c & f price when the price quoted was accepted. It was customary, however, for commission agents such as Delmon to pass on 40 percent of their commission to the customer when the sale was confirmed and the Letter of Credit was opened. (This is understood to be a common practice in the trade in all GCC countries.)

The duty on imported underwear is 10 percent ad valorem and this, together with the port-handling charges and minimal inland freightage, is added to the wholesale price. Wholesale mark-ups were reported to range around 25 percent. Retailers added the Sales Tax of BD 0.450/dozen and then doubled the resultant sum to calculate the unit retail price.

4.2.2.5 Packaging: The packaging of knitted cotton underwear was similar to that encountered in the case of Kuwait and the UAE. Garments were retailed in one-piece poly-bags, usually stiffened with card. The retail packs were themselves packed in wholesale cartons of 6 or, more usually, 12 pieces, the wholesale cartons themselves, being packed in corrugated shipping cases containing 48 or 96 cartons. The great bulk of imported clothing was shipped in 20' containers to reduce the incidence of pilfering. Because of the small size of the market, underwear was usually either containerised with other textile products or, less commonly it is understood, importers shared containers.

4.2.3 The Market for Grey Goods

There is no significant demand for grey cotton yarn or fabric in Bahrain.

4.2.4 Future Trends in Demand

It has been argued above that the main factor underlying the sluggishness of the market for knitted underwear in the last year or so was the substantial decline in the expatriate population. This was an indirect result of the cut-backs in Government expenditure consequent on the decline in the value of the states oil revenues. The planned massive expansion of expenditure on capital items in 1986 and 1987 should, however, stem the outflow of population and could even attract

greater numbers. It is intended that this programme should be mainly funded from savings arising from the cut-back in expenditure on recurrent items so the expansion need not be necessarily affected by the failure of oil revenues to recover their value. Furthermore, it is likely that Saudi Arabia would be prepared to increase its present financial support to the Bahraini government to cover this expenditure because of its interest in the economic development and internal tranquility of its neighbour.

Although it seems reasonable, therefore, to anticipate some recovery in economic activity in the fairly near future, AeSL considers, however, that it would be a mistake to expect this to lead a recovery in the rapid upward trend in the population, either in the short term of in the next ten years or so. This reflects:

- The existence of a growing pool of local labour which will have first call on the new jobs created - although there would be difficulty in recruiting Bahrainis to carry out either manual labour or the more highly-skilled technical and managerial functions.

- The reluctance in ruling circles to create conditions in which a further influx of guest-workers threatens to swamp the local population and undermine local mores as has happened in Gulf countries.

For these reasons, it is not considered likely that the present domestic market for underwear of around 1 million pieces per annum will expand significantly between 1986-95.

4.3 THE UNITED ARAB EMIRATES

4.3.1 The Economic Background

The UAE is a federation of seven formerly sovereign principalities, Abu Dhabi, Dubai, Sharjah, Ras al Kaimah, Fujairah, Ajman and Umm al Quwain. Despite the growth of federal institutions, economic development is very much centred in the individual states with national considerations coming a poor second to local autonomy in the calculations of the various rulers.

Abu Dhabi, which has vast reserves of oil and gas, it easily the wealthiest of the Emirates, but economic activity there is almost entirely a factor of the Ruler's expenditure of his oil revenues. There is no independent, self-generating focus of activity.

Of the Northern Emirates[1/], Dubai, again, has substantial oil revenues and the Ruler's expenditure of these has been the main engine of the remarkable economic growth the state has enjoyed in the past twenty years. On the other hand, the State has tended to nurture an independent commercial sector - of which the Ruler's family has traditionally been a part - with well-established trading links with the other Gulf states. (It is significant in the context of the present study that Dubai is the effective commercial centre of the federation though which most imports are channelled and is also the main shopping centre.) The Dubai industrial sector is, indeed, a creation of its oil wealth, but it is more sophisticated and less dependent on State support than industry elsewhere in the UAE - such as it is.

1/ The term refers to Dubai and its less wealthy neighbours, Sharjah, Ras al Kaimah, Fujairah, Ajman and Umm al Quwain.

The other Northern Emirates, on the other hand, have only limited natural resources and no independent economic sectors of any consequence. In these areas economic activity has been largely fuelled by federal expenditure. This is largely determined by Abu Dhabi which is the chief contributor to the federal budget. Only Sharjah has any prospect of enjoying anything like economic self-sufficiency.

AeSL is of the opinion that the main factor influencing the UAE market for clothing, particularly underwear, is the absolute size of the economically active population. This reflects two considerations:

- The market is relatively mature in that almost all the population now wears underwear in the western style - ie briefs and vests, mostly knitted from cotton or cotton-type yarns. There is, therefore, no likelihood of demand increasing dramatically as significant segments of the population adopt this practice for the first time.

- Underwear is a bread-and-butter necessity of life rather than a luxury or a consumer good conferring prestige and/or satisfaction on the owner. This means that volumes purchased are largely uninfluenced by fluctuations in an individual's income-level unless this is sufficiently significant to affect a revolution in his life-style, including standards of personal hygiene and comfort. (The one group which are probably an exception to the rule that the function of underwear is purely utilitarian are young men and women and it is likely that their concerns influence the styles of the underwear they buy rather than the quantities.)

The overall size of the population at end-1983 was around 1.2 mn. Most of these lived in the coastal cities of Abu Dhabi, Dubai and, to a lesser extent, Sharjah with smaller concentrations in the other state capitals and - in the context of the UAE - at Al Ain, Abu Dhabi, and Khor Fhakkan, Sharjah. About half the total population was economically active at that time and nearly three quarters of it was male. (This has significance in the pattern of demand for clothing.)

Only about 200,000 of the population were UAE nationals. Most of the expatriate majority were from the Indian sub-continent, but there was also a large and well-established Iranian community - important in maintaining Dubai's traditional trading links with Iran during the Gulf War. There were, in addition, significant numbers of nationals of other Arab countries. Europeans, mainly British, were relatively few in number, but tended to occupy key positions in the economy and the administration. (The UAE has close ties with the United Kingdom which was the protecting power of the constituent principalities for some 120 years). There was also a small American community, largely but not entirely associated with the oil industry. It is AeSL's impression that in recent years there has been a growth in the number of Orientals, mainly Philippinos employed in the large hotels in Dubai.

The growth of this expatriate community was at once a factor of the economic development of the UAE and, given the small size of the local population, was a necessary condition of that growth. The increase was of explosive proportions, total numbers more than doubling between 1975 and 1983. The trend since 1983 is uncertain, but, as most people in the country are only there to work, it seems likely that the recession in the last eighteen months or so will certainly have stemmed the rate of growth and could even have brought about an absolute

decline in numbers. This was certainly a belief current amont those members of the business community with whom AeSL discussed the matter. There is also objective evidence that it might be the case in the reported drastic decline in residential rentals - particularly in Abu Dhabi, much less so in Dubai.

The factors underlying the recession are understood to be:

- The decline in the value of oil revenues due to the weakness of the US dollar and reduced world demand.

- The decline in construction activity which is, in part, a consequence of the decline in oil revenues which has caused postponements and cut-backs in projected public sector development programmes, particularly in Abu Dhabi, and at a Federal level - Federal funds being mainly dependent on the good will of the ruler of Abu Dhabi. This has affected both public and private sector activity in Abu Dhabi and the Northern Emirates other than Dubai.

As already noted, Dubai's economy has been less dependent on public sector spending to fuel economic activity and it has been less affected by the recession than its less sophisticated neighbours. Private sector construction activity is said to have been maintained at a higher level than in the other Emirates. Nevertheless, business life has suffered as a result of downturn in its trade with the other Gulf states and with Iran.

4.3.2 The Market for Knitted Cotton Goods

4.3.2.1 Supply and Consumption: Separate import statistics are maintained by each of the Emirates, but only in the case of Dubai and Abu Dhabi are they sufficiently detailed to be useful to the present study. According to trade sources, the only port of any consequence is, in fact, Dubai and this is certainly confirmed by a comparison of the import statistics for clothing of that state with those of Abu Dhabi and Sharjah. As there is no local manufacture, the imports of Dubai may, therefore, be considered to constitute virtually the sum of the total gross supply of underwear for the UAE as a whole.

Unfortunately, it is only in 1984 and 1985 that Dubai's import statistics have disaggregated knitted clothing from those of total clothing so objective medium-term trend analysis is not possible. Imports in 1984 and 1985 were as follows:

	1984		Jan-June			
			1984		1985	
	Tonnes	DH 000	Tonnes	DH 000	Tonnes	DH 000
Men's and boy's	294.7	7.06	129.7	3.1	205.2	6.1
Women's and girl's	130.4	4.50	57.4	1.8	37.6	1.3

It is interesting that in 1984 the volume of imports of female items represented about 30 percent of the total; roughly the estimated proportion of females in the total population. This may have been coincidental: certainly such imports declined marked in relative terms in the first half of 1985.

The increase in imports of male items in the first half of 1985 compared with 1984 is puzzling in the light of the universal insistence in trade circles that the market was particularly sluggish at this time. Unfortunately the figures for Dubai's re-export and transit[1/] trade are not sufficiently detailed to record underwear items, so it is not possible to determine what proportion of the volumes indicated later left the country or what additional volumes moved through the Export Free Zone. The reports of the recession in demand elsewhere in the Gulf suggest that it is unlikely that the increase was caused by an upturn in external markets. There are, however, a number of possible explanations:

- An increase in the dhow-carried traffic to Iran out of Dubai creek funded by Iranian residents as more formal re-exports to that country have been discouraged by Iraqi attacks on merchant shipping.

- Increased transfers of stocks out of the Export Free Zones into the Dubai Customs Territory of stocks that it was improving impossible to re-export in the normal way. (This would be done either with a view to selling them cheaply in Dubai itself or of shipping them on to Iran by the means indicated above.)

- Over-optimistic ordering at end-1984 based upon expectations of a market up-turn in 1985 that did not materialise.

These possible explanations of the higher level of imports in the first half of 1985 are not mutually exclusive. The comments of trade sources certainly support the view that stocks were at a high level by late-1985, but it was less clear whether this was caused by supply or demand factors.

According to trade sources, of the total volumes of underwear purchased by Dubai merchants - including that passing through the export-free zones - about 25 percent was currently sold outside the UAE and, in earlier years, this could reach 50 percent. One major trader insisted that he re-exported 85 percent of his purchases even in 1985. While the figure quoted is probably an exaggeration, there seems no doubt that he was in fact mainly engaged in this form of trading. The major re-export market was reported to be Saudi Arabia. The present size of the once-important Iranian market cannot be assessed.

The major source of supply of male underwear in recent years has been Hong Kong, although supplies from Mainland China increased markedly in 1985. There was no other supplier of comparable significance, although higher quality produce is sourced from Western Europe, the USA and other areas. China's success in improving its market share in 1985 reflected its ability to undercut even Hong Kong in terms of price. Sourcing of the smaller volumes of female underwear seems even more volatile. In 1983 the most important sources was Taiwan followed at some distance by Hong Kong, while in 1985 China had taken over as the major supplier and imports from Taiwan were much less significant.

1/ Dubai Customs define as re-exports those goods not formally entering the Customs Territory and Transit Trade those goods entering the Territory with a view to their re-export at some later date when a market has been found.

TABLE 13

HONG KONG EXPORTS TO THE UAE, 1981-84

('000 pieces)

	1981	1982	1983	1984
Cotton				
Men's briefs	1,268.3	1,528.8	1,718.2	1,491.6
Boys' briefs	91.4	22.2	24.8	96.8
Other men's underwear	2,083.4	2,002.5	1,814.5	1,173.5
Other boys' underwear	136.7	62.4	19.8	13.8
Women's panties	417.6	60.5	108.0	83.4
Girls' panties	83.4	65.7	66.0	38.9
Synthetic				
Men's briefs	550.7	947.8	901.2	1,135.6
Other men's underwear	1,661.4	2,160.4	1,541.2	1,160.5

Source: Hong Kong Trade Statistics

Table 13 above analyses in more detail Hong Kong's exports destined for UAE ports - ie principally Dubai. It is interesting that male clothing knitted from cotton -mostly cotton with added mmf - is much more important than that knitted from mainly synthetic fibre yarn. The relative unimportance of imports of boys' clothing compared to those of men is also noteworthy. It is, perhaps, significant that exports of male underwear is aggregate declined significantly from the 1982 levels in both 1983 and 1984, although whether this reflects more the sluggishness of the market or the success of China in increasing its sales is uncertain given the absence of comparable data relating to Chinese trade. It seems likely that the latter factor was more important, although it is undeniable that the market in the UAE itself and the Gulf generally did decline in this period.

Domestic consumption of underwear is estimated to range between 2-2.5 mn pieces per annum valued at US $2.00 mn c & f. It has been argued above that the chief factor affecting trends in the level of demand are changes in overall population size. On this argument it is almost certain that consumption would have decreased as asserted by those in the trade.

It should be noted that significant quantities of knitted men's shirts are also exported to the UAE. Hong Kong alone in 1984 exported over 5 million pieces - although it is likely that more than half of these were re-exported. These exports were recorded as being of cotton by the Hong Kong trade statistics, but this definition is understood to include cotton with added mmf and almost all these shirts are thought to have been manufactured from mixed fibre yarns. Pure cotton shirts from France have not sold well in the Emirates because of the high cost.

4.3.2.2 Market Preferences: AeSL does not consider that there is, as yet, much awareness of the virtues of pure cotton knitted garments as opposed to those knitted from mixed cotton and mmf yarns, except, possibly, at the very top end of the market. Even there it is difficult to determine whether consumers make their decisions on the basis of style and cut as opposed to the material used - although there are those in the trade who consider that the process of education, a term which in this context seems to be synonymous with westernisation, makes the latter consideration increasingly significant.

It is fairly certain that the bulk of the items coming from Hong Kong and China - already noted as the main sources of underwear - are knitted from mixed fibre yarns. It was implied that many of the garments coming from these countries would be of this nature even when they are labelled as being of pure cotton - although the Hong Kong Certificate of Origin system, if properly applied, should make this impossible. There is, in any case, no doubt that Chinese garments, whether from Hong Kong or the Mainland, have a reputation for being 'cheap and nasty' although Chinese suppliers are, in fact, technically capable of producing goods of any quality. It is significant that Hong Kong-made underwear, sold under the 'Gino Bellini' label with the origin suppressed and packaged in attractive cartons printed in France - as opposed to polythene bags - can be sold at the top of the price range.

With regard to considerations of fashion, most of the market seems to want white garments of classic designs. The Al Fajer department store, which considers itself to be the most important single retail outlet and targets specifically the westernised expatriate community, stated that, although it offers briefs under the French 'Orly' brand in both 'jockey' and 'slip' styles, the former are by far the most popular. Young men, on the other hand, tend to prefer colour and the slip style of brief. The success of the 'Gino Bellini' brand introduced by the Attalah Freij fashion-boutique in Dubai is indicative of this. The 'Gino Bellini' range is also sold by 'Princes Exhibition' in Al Ain which is again aimed at the fashion-conscious young and the owner stated that these had completely displaced the traditional jockey brief manufactured by the US company, 'Hanes', which he also sold. ('Princes Exhibition' is of interest in that the local population in Al Ain is probably less heavily outnumbered by expatriates than it is in the main centres of Abu Dhabi, Dubai and Sharjah, while the expatriate community contains greater numbers drawn from other Arab countries which means that the boutique's clientele would be more representative of the younger generation of wealthy Arabs than that of, say, Attalah Freij in the cosmopolitan heart of Dubai).

At the lower end of the market again most of the garments are white and traditionally styled. It is, indeed, possible to find 'slips' in the souks in Dubai, Abu Dhabi and Sharjah, but it seems likely that anyone sufficiently fashion-conscious to require these items will prefer to pay DH15 for an 'Orly' or 'Gino Bellini' product rather than DH7 for an inferior article, such as 'Wigaro' from a market-stall.

The preference with regard to undershirts - whether the singlet or sleeved T-shirt styles - is not so clear, but AeSL was given to understand that T-shirts moved faster than singlets. This probably reflects the superior protection they offer outer garments from sweat-staining as well as the fact that they can themselves be worn as an outer garment.

As already noted, outer garments knitted from cotton and cotton-type yarns are available in the UAE, mainly in Dubai which is the chief shopping centre. Most of these consist of sports shirts, but, of these the most popular - which are undoubtedly those emanting from Hong Kong, Taiwan and China - and cover more up-market lines, such as the 'Fred Perry' and 'Addidas' tennis shirts, are manufactured from mixed cotton and mmf yarn rather than cotton. Pure cotton shirts under the French 'Chemise Lacoste' brand are, indeed, available, at DH95/each. The Al Fajer department store, however, stated that they were too highly priced for the market, although they sell better to the more fasion-conscious clientele of Al Souk Al Markazi department store in the prestigious Al Ghurair shopping centre. Al Fajer thought that a similar garment priced at DH40-50 would sell well. There is reason to believe, however, that these items sell mainly on their brand names and designer logos. It is, for instance significant that Nemati Sports in the Al Ghurair centre had seen fit to introduce a line of cheap Taiwanese copies in mixed yarns of the 'Chemise Lacoste' shirt complete with the Alligator logo.

4.3.2.3 The Distribution Structure: As already suggested, the main importers of knitted cotton and cotton-type underwear are located in Dubai and retail outlets throughout the Emirates are mainly serviced from that centre.

The great bulk of underwear imported into Dubai is handled by wholesale companies which have outlets in the Moushid Bazaar on the Deira side of the Dubai creek. Souk stall-holders and owners of the less up-market boutiques throughout the Emirates will, for the most part, buy through these companies.

The largest is probably Primlaks International, part of the Primlaks and Kaysons Group. Primlaks, which has associated companies in Hong Kong, South Korea, Taiwan and Japan as well as others in West Africa, South America the UK and the USA, indicated that it imported about 5 million pieces of underwear per annum at a rate of one container per month. The company, however, obviously regards Dubai mainly as a useful entrepot for the Gulf as a whole and particularly for Saudi Arabia. Although it agreed that all Gulf markets were currently sluggish, it still claimed to re-export 85 percent of what it imported - although this is probably an exaggeration. (It also stated that in its opinion, very little of the underwear arriving from the Far East was knitted from pure cotton yarn as opposed to mixed cotton and mmf.)

There are a number of other smaller importers operating in the Moushid Bazaar, of which VIP Trading is perhaps typical. VIP Trading imported monthly 3-4,000 dozen of all types of clothing items. Of this probably no more than 500-1,000 dozen would consist of underwear. Like Primlaks, it was inclined to minimise the proportion of pure cotton items amongst its imports.

In addition to the importers with wholesale/retail outlets in the Moushid Bazaar, there are understood to be a number of commission agents buying to order only. It did not prove possible to identify any of these organisations and it seems that most of this operate on a small scale in the Emirates and, as soon as possible, transform themselves into more formal importer/wholesaler companies. (VIP is understood to have evolved in this way.)

In addition to the distribution of the cheaper brands of underwear through the Moushid Bazaar traders and commission agents there are also a significant

number of retail shops which import on their own behalf. These companies tend to sell a much higher proportion of pure cotton underwear than those retailers who purchase through the Moushid Bazaar. This is mainly sourced in Western Europe or the USA and it seems their clientele is consciously prejudiced against Far Eastern products. (This has been discussed above under 'Market Preferences'.) The largest of these retailers is thought to be Al Fajer Department Store which claimed to be selling 20,000 dozen pieces/year. There were perhaps a dozen other such retail outlets in Dubai which in the main shopping centre for all the Emirates. In Abu Dhabi there were probably only two or three comparable shops and perhaps the same number in Sharjah. 'Princes Exhibition' seemed to be the only significant clothing outlet in Al Ain and it purchased most of its cotton underwear through Attallah Freij in Dubai.

4.3.2.4 Prices: All knitted cotton underwear imported into the UAE is purchased on a c & f basis.

C & f prices for most material imported from the Far East were said to range between US $5-6/dozen for that sourced in Mainland China and US $7-8 for that from Hong Kong. The cheapest cotton items were reported to cost around US $8/dozen. Higher quality items, particularly those with recognised brand names like 'Orly', were understood to have a c & f value of around US $15-16/dozen. The duty is 4 percent ad valorem.

Wholesaler mark-ups were said to average around 25 percent. This was obviously considered modest by the standards of earlier years and reflected the extremely competitive nature of the markets in the latter part of 1985. On elsewhere in the Gulf, it is understood to be the practice that the supplier will give the importer a discount of around 5 percent of the c & f value of the order. In the case of commission agents, however, 40 percent of the 5 percent commission is later payable to the customer.

Retail mark-ups are thought to be equivalent to at least 100 percent on the wholesale price. This presumably reflects the fact that demand for these items is largely price-inelastic. The cheapest pure cotton briefs available in the souks were offered at a retail price of DH7/piece - it was usually possible to bargain a discount and the actual selling price might be DH5-6. 'Orly' briefs were offered at DH10.60/piece in Al Ahlia-Pris Unic supermarket in Abu Dhabi and at DH15/piece in the Al Fajer department store in Dubai. This suggests that Al Ahlia's price was about 100 percent above the wholesale price. Al Fajer's, which imports on its own account and would pay only the import duty, would seem to be considerably higher. Similarly, it is likely that Attalah Freij was securing a very high mark-up when it sold the Hong Kong-made 'Gino Bellini' mini-slips at DH15/piece.

4.3.2.5 Packaging: Most underwear sold in the UAE was retailed in one-piece polythene bags, usually with a card stiffener. The more expensive brands from Western Europe - and those aping them like 'Gino Bellini' - are sold in stiff, printed cartons or rigid plastic boxes. The nature of the pack is considered quite important when pricing the merchandise. As elsewhere in the Gulf, Far Eastern brands are usually packed in wholesale cartons, twelve one-piece bags to a carton, which are themselves packed in corrugated shipping cases containing 48 or 96 cartons. Containers usually hold 35 such cases.

4.3.3 The Market for Grey Goods

There is no significant demand for grey goods in the UAE.

4.3.4 Future Trends in Demand

It is argued that the demand for knitted cotton underwear is largely contingent on the size of the population - especially that proportion which is economically active rather than on levels of disposable personal income. Although the present tight market is indirectly a result of economic recession it is, directly, consequence of the population failing to grow or even declining from earlier levels. Recovery in economic activity would, therefore, produce a revival in demand only if it results in a recovery in the population growth-rate.

Some population increase would in fact probably come about because renewed economic activity would create a renewed demand for labour and it is unlikely that there is in fact a large pool of unemployed to draw upon. There would, therefore, have to be some immigration.

On the other hand, it is unlikely that economic activity will in future be so labour-intensive as in earlier years. This is particularly so in the case of construction work - the major employer of labour - as most of the basic infrastructure is in place. There are still large projects under consideration, but they are not on the same scale as hitherto. Similarly, in the private residential field, the requirement will be more for renewal and maintenance work than for the erection of new buildings. In other areas of the economy, the recovery of the other Gulf states from the present recession should lead to an upturn in commercial activity, while there is probably still scope for further industrial expansion, although not on a large scale, given the small size of the local market and the likelihood that local development will reduce export opportunities in Saudi Arabia, the only substantial foreign market in which UAE producers might compete. It seems likely then, that population growth in future, if it occurs at all, will be on a modest scale.

This would certainly be a consummation devoutly to be wished for by influential groups in the ruling circles of all the emirates, with the possible exception of Dubai. It seems likely that there would be considerable resistance to any development which threatened to renew the massive influxes of the 1970s and early 1980s.

In view of these factors it is not considered likely that this will in fact be a substantial increase in the population on present levels in the next ten years. This means that demand for underwear is unlikely to exceed 2.5-3.0 mn pieces/year by any great margin.

5.0 THE EUROPEAN MARKETS

5.0 THE EUROPEAN MARKETS

5.1 WEST GERMANY

5.1.1 Economic Background

In 1983, 61.4 m West Germans in 21 m private households constituted the largest consumer market in Western Europe. West Germany is also the world's second largest trader of cotton textiles and has the highest import quota for textiles in the EEC[1]/. For many years, private consumption levels have exceeded those in other EEC countries, reaching more than 50 percent of GDP. This reflects West Germany's advanced stage of economic development and, perhaps, the government's deliberate policy of restricted intervention in the economy.

Escape from the recent recession, however, was not possible and real GDP growth declined in 1981 and 1982. But the economy picked up in 1983 due primarily to recovery in private consumption. This stands in contrast to all previous recoveries that were stimulated by exports or investment. In recent year, real GDP growth continued and resulted largely from an export boom fuelled by a strong dollar.

Table 14 below shows positive trends since 1982 in the major determinants of aggregate demand and reflects increasing economic activity.

TABLE 14

WEST GERMAN ECONOMIC INDICATORS, 1981-1984

(DM bn)	Constant 1976 Prices			
	1981	1982	1983	1984
Private Consumption	708	688	706	711
Imports	358	365	367	388
Construction	152	146	147	150

Source: Eurostat

The growth in private consumption was stimulated by the decline in inflation from 3.3 percent in 1983 to 2.4 percent in 1984 and consequently led to a recovery in industrial production as shown in Table 15 below.

TABLE 15

GERMAN INDUSTRIAL PRODUCTION 1981-1984

	1981	1982	1983	1984
% Annual Changes by Volume in Industrial Production (1980 = 100)	98.1	95.3	95.9	98.8

Source: Eurostat

1/ See Section 5.3 below for discussion of European textile import regulations.

Subjective evidence gathered by AeSL in the course of its interview programme confirmed this recent surge in economic activity, although the level of unemployment, the most topical issue at present, stands at a post-war high of 2.1 m. Nevertheless, most trade sources indicated that unemployment levels had negligible effects on consumption.

5.1.2 The Market for Knitted Cotton Goods

5.1.2.1 Supply and Consumption: German production of cotton underwear and T-shirts in the period 1979 to 1984 - the products with which this survey is chiefly concerned - declined steadily. Imports, however, tended to increase markedly in the period and the net effect was a rising trend in supply. Despite a slight upward movement in exports, this suggests that consumption increased fairly steadily in these years. This confirms information from trade sources that imports had been increasing in recent years as had consumption.

The market for underwear, particularly underpants, is very mature in Germany and the AeSL's analysis of the market does not suggest that the growth in consumption indicated in the period under review was a direct consequence of the overall increase in private consumption in the economy as a whole. The information in Table 16 below does suggest, however, that consumption of cotton underwear has been growing at the expense of those produced and other fibres - taking one year with another - and this seems likely to be the main cause of the upward trend. (Although it is argueable that the growth in disposable personal incomes which allowed the growing preference for the more expensive products to be indulged was an indirect cause of the growth in consumption of cotton underwear).

TABLE 16

SUPPLY OF COTTON KNITWEAR, 1979-1984

(Tonnes)	1979	1980	1981	1982	1983	1984
Production	12,880	12,856	11,751	6,301	6,211	6,020
of which:						
mens underwear	2,959	2,919	2,916	1,660	1,820	1,732
womens underwear	9,921	9,937	8,835	2,684	2,503	2,422
T-shirts	NA	NA	NA	1,957	1,888	1,866
Imports	22,488	28,993	30,619	31,238	33,089	34,629
Exports	5,042	5,669	5,740	5,850	5,813	6,929
Apparent Consumption Underwear and T-shirts (category 639681 only)	NA	NA	NA	31,689	33,487	33,720

Source: Eurostat Federal Statistical Office.

The growing relative importance of import sources in total supply in the period reviewed in Table 16 will have been noted. This development reflects t' increasing inability of German manufacturers to compete in terms of pric with foreign producers who are also able to match them on quality grounds. I

addition many countries are now subsidising exports of textiles and textile products. There is no doubt that import levels would be even greater were it not for the regulation of this trade.

Table 17 below analyses imports in more detail and also indicates the increase in imports of cotton clothing overall. The growth of imports of jerseys and similar clothing is particularly marked.

TABLE 17

IMPORTS OF COTTON KNITWEAR, 1979-1984

(Tonnes)	1979	1980	1981	1982	1983	1984
Cotton Jerseys and Pullovers etc	8,964	10,601	9,092	9,886	16,580	21,730
Cotton Dresses etc	598	951	914	1,238	2,082	2,246
Other Outer Garments	2,278	4,516	4,190	4,384	7,557	11,131
TOTAL	11,840	16,068	14,196	15,508	26,219	35,107
Men's Shirts	1,128	1,618	2,867	3,291	2,850	3,256
Other Under Garments	21,360	27,375	27,752	27,947	30,239	31,373
TOTAL	22,488	28,993	30,619	31,238	33,089	34,629

Source: OECD

Imports of the major individual categories of knitted cotton underwear in 1979 and 1984 were as follows:

(Tonnes)	1979	1984
Cotton T-shirts	7,154	10,299
Mens/Boys Shirts	1,128	3,256
Womens/Girls/Infants blouses and shirts	1,614	1,697
Mens/Boys Underpants	4,099	5,594
Womens Panties	2,662	3,543

TABLE 18

IMPORTS OF UNDERWEAR. 1979-1984

(Tonnes)	1979	1980	1981	1982	1983	1984
Total	26,507	33,013	34,051	34,293	36,300	37,453
of which synthetic and mixed	4,019	4,020	3,432	3,055	3,211	2,824

Source: Eurostat

The main regional sources for underwear have tended to be the advanced industrial economies of Western Europe and the Far East. The main individual sources were Greece, Italy, Turkey and Hong Kong. (Greece and Italy are, of course, EEC members and Turkey has preferential access to the EEC market which has allowed it to reduce the importance of Hong Kong as a supplier.

5.1.2.2 Market Preferences: It was the universal opinion of trade sources approached by AeSL that there was an increasing preference in the German market for knitted cotton underwear as compared to that manufactured from mmf or mixtures. Pure cotton products were said to constitute some 80 percent of the market. This was said to reflect the increasing awareness of the superior comfort and hygienic properties of cotton as well as the developments in recent years to improve its easy-care qualities.

Styling preferences were said to be conservative. Most sales of underpants were of the classic jockey-briefs, fairly generously cut, while women preferred the fuller-cut panties. The main colour was white. The chief exception to this rule was to be found in the younger generation market that, for reasons of fashion, preferred coloured mini-slips, usually of mmf yarns, to the standard white cotton underpants. (Young women tended to wear white panties for everyday and mini-slips for special occasions). The preferred type of vest was the sleeveless singlet as opposed to the T-shirt, white again being the usual colour. Favourite knitting constructions were 1 x 1 rib and single jersey using 28 gauge yarns.

5.1.2.3 Distribution: There were three main types of retail outlet for underwear in Germany:

- the department store - generally multiple chains spread throughout the country;

- more specialist boutiques and haberdashers which were more often individual establishments; and

- mail-order houses.

The department stores tend to buy directly from suppliers on a centralised basis as do the mail-order houses while the smaller retailers are more often reliant on wholesale producers and importers. The main entry points for imports are Hamburg and Bremen and for air traffic Frankfurt-am-Main. The main wholesalers were said to be:

- Schiesser AG
  7760 Radolfzell am Bodensee
  Schutzenstrasse 18 Postfach 1520

- Mey
  Albstadt-Lautlingen
  Postfach 15

- USA (Underwear Sales Agency)
  Hanauer Landstr. 217
  6000 Frankfurt-am-Main

The largest department store groups were:

- Karstadt Aktiengesellschaft
  Hauptverwaltung
  Theodor-Althoff-Strasse 2
  PO Box 102164
  4300 Essen 1

- Kaufhof Aktiengesellschaft
  Leonhard-Tietz-Strasse 1
  5000 Koln 1

- Hertie
  6000 Frankfurt-am-Main 71
  Lyoner Strasse 15

- Horten Aktiengesellschaft
  D-4000 Dusseldorf 1
  Am Seestern 1
  PO Box 1133

These disposed of, respectively, 613, 201, 130 and 80 retail outlets.

The main mail-order houses were:

- Quelle
  Gustav Schickedanz KG
  Nurnberger Strasse 91-95
  8510 Furth/Bay

- Otto Versand
  Wandsbeker Strasse 3-7
  2000 Hamburg 71

Schiesser aims at the middle and upper markets while Hertie and Kaufhof cater for the lower and higher price-quality ranges. Department stores generally carry a broad range of goods in order to capture a wider market - hence the need to import.

The main details of these companies are:

Karstadt

- Sells 3.8 m pieces of girls and boys clothing per annum. The value of the sales of all garments and home textiles is around DM 5 bn of which the cotton underwear component is substantial. The company finds that its business is usually affected by fluctuations in the economy.

- Most products it sells are standard style and white. The main construction is one x one single jersey of 28 gauge. The other important construction is one x one rib.

- Its main sources of supply are the Far East and Turkey. Suppliers are reliable in terms of quality, workmanship and adherence to delivery schedules. These are fundamental considerations.

- Sells mainly in West Germany in both low and high priced market.

- Buying follows a seasonal pattern. New orders are placed in autumn for sale in spring. Buying agents, unlike quality controllers, do not reside in supplying countries.

- It controls packaging operations. For shipping, it has a special export carton. Shipments are always containerised.

- Asked if it would be prepared to buy from NTC, the company said it would if price, quality and delivery matched its requirements.

Kaufhof

- Sells an estimated 1 m packs per annum - its retail packs usually hold 1 or 3 pieces. The company finds that its business is usually affected by fluctuations in the economy.

- Most products it sells are standard style and white. The main construction is one x one single jersey of 28 gauge. The other important construction is one x one rib.

- The main source of supply is Hong Kong. Its suppliers are reliable in terms of quality, fashion and delivery. These are fundamental considerations.

- Sells mainly in West Germany in low and high price market under its own label "Elite". Labels of other distributors or producers are also used.

- Buying is said to be every 3 months with very strict delivery times, orders having to arrive on fixed days. Buying agents reside in supplying countries but quality control is performed in West Germany.

- For shipping, it has a special or export carton. Shipments are always containerised.

- Asked if it would be prepared to buy from NTC, the company said it would if price and quality are favourable.

Hertie

- The value of annual sales of all clothing and home textiles is around DM 120 m. The company finds

that its business is usually affected by fluctuations in the economy.

- Most products it sells are standard style and white. The main constructions are one x one and two x two single jersey of 28 gauge. The other important construction is one x one rib.

- The main source of supply is Greece. It suppliers are reliable in terms of quality, workmanship and adherence to delivery times. These are fundamental considerations.

- Sells mainly in West Germany in low and high price markets. It uses its own range of labels depending on the items, as well as those from other distributors.

- Buying is carried out monthly and delivery times are strict. Buying agents reside in supplying countries while quality controllers perform their duties locally.

- Retail packs hold 1 or 3 pieces. For shipping it has a special carton holding 10-30 packs. Shipments are always containerised.

- Asked if it would be prepared to buy from NTC the company said it would not as quality standards were poor. The question of price was secondary.

Horten

- The value of annual sales of all goods is around DM 2.8 bn. The company finds that its business is usually affected by fluctuations in the economy.

- Most products it sells are standard style and white. The main construction is one x one single jersey of 28 gauge. The other important construction is one x one rib.

- The main sources of supply are the Far East and Italy. Its supplies are reliable in terms of quality and fashion. These are fundamental considerations.

- Sells mainly in West Germany in low and high price markets.

- Buying follows a seasonal pattern and adherence to delivery times is strict. Buying agents reside in supplying countries. Quality control is carried out locally.

- Retail packs hold 1 or 3 pieces. For shipping it has a special carton holding 10-30 pieces. Shipments are always containerised.

- Asked if it would be prepared to buy from NTC, the company said it would if quality and delivery times met requirements.

USA

- Sells vast quantities of underwear but mainly T-shirts to other wholesalers and chains in West Germany.

- Most products it sells are standard style and white. The main construction is single jersey.

- The main sources of supply are India and Ethiopia. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These are fundamental considerations.

Schiesser

- The value of annual sales is around DM 176 m - its retail packs usually holding 1 to 3 pieces. The company finds that its business is usually affected by fluctuations in the economy.

- Most products it sells are standard style and white. The main construction is one x one single jersey of 28 gauge. The other important construction is one x one rib.

- The main source of supply is Greece. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These are fundamental considerations.

- Sells mainly in West Germany in middle and high price markets. If uses its own label "Schiesser".

- Orders are placed 3 months before expected delivery for standard items or 4 months for fashionable ones. Buying agents, unlike quality controllers, do not reside in supplying countries.

- For shipping or truck, it has a special or export carton holding 10-30 retail packs. Shipments and truckloads are always containerised.

- Asked if it would be prepared to buy from NTC, the company said it would if quality and delivery requirements were met.

- Schiesser is gradually withdrawing from the T-shirt market.

Mey

- Sells only ladies underwear - 1½ m to 6 m pieces per annum. Its retail packs usually hold 1 to 3 pieces. The value of these sales is around DM 60 m. The company finds that the business is usually affected by fluctuations in the economy although the number of pieces sold does not seem to fall.

- Most products it sells are standard style and white. The main construction is one x one single jersey of 28 gauge. The other important construction is one x one rib.

- The main sources of supply use its own factories ie West Germany to ensure quality. This is a fundamental consideration.

- Sells mainly in West Germany in high price market. It uses its own label "Mey".

- Quality control is carried out on the spot.

- Delivery is by truck or train. Retail packs usually hold 1 to 3 pieces. Sometimes, pieces are sold "on the hanger", with 250-300 briefs in a special carton.

- Asked if it would be prepared to import, the company said that it would if standards of quality and workmanship matched its requirements.

Quelle

- The values of sales of all goods is around DM 9 bn per annum - its retail packs usually hold 1 to 3 pieces. The company finds that its business is usually unaffected by fluctuations in the economy.

- Most products it sells are standard style and white. The main construction is one x one single jersey of 28 gauge. The other important construction is one x one rib.

- The main sources of supply are Greece and Spain. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These are fundamental considerations.

- Sells mainly in West Germany to all sections of the market.

- Order for two catalogues, Spring/Summer and Autumn/Winter. The initial order is in June for delivery in spring and the second order in January for delivery in autumn.

- Quality control is carried out in West Germany.

Otto Versand

- Sells 800-900,000 packs per annum - its retail packs usually hold 3 pieces. The value of the sales is around DM 30 m. The company finds that its business is usually unaffected by fluctuations in the economy.

- Most products it sells are standard style and white. The main construction is one x one single jersey of 28 gauge. The other important construction is one x one rib.

- The main source of supply is the Far East. Its suppliers are reliable in terms of quality, workmanship and adherence to delivery schedules. These are fundamental considerations. The company sources in Germany only when it has a quota problem. For instance, fashion T-shirts and long underpants both have to be purchased locally.

- Order for two catalogues, Spring/Summer and Autumn/Winter. The initial order is in May for delivery in December and the second order in November for delivery in May. Deliveries vary according to the size of the order: a small order can come in one shipment while larger orders will be delivered monthly.

- As indicated, its retail packs hold 3 pieces. For shipping it has a special carton holding 12 packs. Shipments are alsays containerised.

- Asked if it would be prepared to buy from NTC, the company said it would not as it had no experience of them. These were particularly reliant on their suppliers and would never be the first importer to try an unknown producer.

It is interesting that, of the major importers interviewed, only Otto Versand thought that the volume of its business was largely unaffected by fluctuations in the level of general economic activity, all others claiming adverse effects. This seems to contradict the statistical evidence considered above, but AeSL believes that, whereas sales are not markedly depressed in volume terms by periods of economic recession, consumers do show a tendency to move down-market which could well reduce the overall value of sales. This tendency was remarked by a number of sources. As it concentrates on supplying the cheaper end of the market, Otto Versand would, of course, tend to be less affected by such movements than its rivals.

Although Hans Meyer, a wholesale importer, denied importing cotton knitwear from Ethiopia, it was discovered during interviews with German shipping agents that in fact the company had imported from this source about 3 years ago. It was said, however, that Meyer had rejected the consignment because of its poor quality.

5.1.2.4 Prices: Most German importers prefer to buy on a basic cif Bremen, Hamburg or other EEC ports. Large firms like Hertie and Kaufhof, however, prefer to accept fob port of shipment in order to save costs. Schiesser's cif price range was DM 2.3-6.25 for mens underwear. For all underwear items, Quelle's cif price range was DM 1.4-7.6. Mark-ups for wholesalers and retailers for cotton underwear averaged 60 and 90-120 percent respectively. Table 19 below gives an idea of retail prices for cotton underwear.

TABLE 19

RETAIL PRICES OF COTTON UNDERWEAR, 1984-1985

		DM	
1.	Karstadt	3.5-20.0	(men only)
2.	Hertie	2.0-50.0	
3.	Kaufhof	2.0-10.0	(womens panties only)
4.	Quelle	3.5-11.0	(womens panties only)
	Quelle	8.0-13.9	(womens vests only)
	Quelle	5.0-13.5	(mens underpants only)
5.	Mey	9.5-39.0	(womens only)
	Quelle	7.5-15.0	(mens vests only)
6.	Schiesser	7.0-19.0	(mens only)

Higher-priced items tended to have a strong fashion element and exhibit higher quality while the cheaper items tended to be of standard style, lower quality.

Payment was normally made by letter of credit or cash against documents. Discounting for prompt payment was common eg 2 or 3 percent for settlement within 10 days. Certificates of origin were only needed for shipments originating in Hong Kong or Macao.

Table 20 below analyses the cif values for the main categories of imports of cotton underwear in 1979 to 1984. It suggests a steady growth of import prices in these years - of 4.8 percent (annualised average) for T-shirt and 7.3 percent for mens/boys underpants. Even if the effects of inflation are discounted, therefore, this suggests that the prices being paid by importers increased over the period. As already noted, this did not seem to affect the steady growth in demand for imported underwear in the period under review. It is interesting that the demand for T-shirts, where the price increase was less marked, grew faster than that for underpants, but there is no reason to suppose that these two factors were related: it is likely that demand for T-shirts is more influenced by considerations of fashion and personal preference than that for underpants meaning that the market tends to be more volatile.

TABLE 20

GERMAN CIF VALUES FOR MAIN CATEGORIES OF

COTTON UNDERWEAR 1979-1984

(DM/kg)	1979	1980	1981	1982	1983	1984
T-shirts	28.9	32.6	37.5	39.2	40.6	42.7
Mens/Boys Underpants	21.3	22.0	23.4	27.6	27.5	29.1

Unit cif values for the EEC, OECD Europe and non-OECD Far East were, respectively, US $16.1/kg, US $15.2/kg and US $13.3/kg.

The non-OECD Far East, therefore, is the cheapest source. As already noted, however, most imports were sourced in OECD Europe or the EEC, mainly because of quota problems. It was also said by some sources that the quality of the material from these regions was more reliable.

5.1.2.5 Packaging: Normal transport was by ship container. Inside were outer or export cartons which would hold 250-300 pieces depending on the size of the item or the order. Inner cartons hold 10-30 pieces for the same reasons. For T-shirts, the export carton normally holds 100 pieces.

Retail packs for underwear were single piece polythene bags, stiffened with card to facilitate packing and storage. Cheaper items, however, were either retailed 'loose' or in poly bags without card. Most consumers prefer to buy packaged items since they tend to regard 'loose' items as being 'on offer' or inferior. Younger age groups, however, prefer the cheaper styles in 'loose' form and the dearer fashionable ones in packages. Essentially, packaging enables a consumer to choose for himself. (95 percent of Hertie's underwear is retailed in packaged form). Quelle is obliged to package all its goods, being dictated by the very nature of a mail order firm.

The country of origin of the goods normally hosts the packaging operations but under the buyer's instructions. Containers are usually 20' long and too large for the normal requirements of a single buyer. So agents who can buy in bulk may be used or containers can be shared with other buyers. Where larger firms like department stores bring in their goods by air, the packaging pattern still remains the same.

5.1.3 The Market for Grey Yarn

5.1.3.1 Supply and Consumption: German production of grey yarn increased fairly sharply in the period 1979-84, the fall-off in 1981 being wholly recovered in 1982. Imports also grew significantly, although, in this case, the fall-off in 1981 was not made up until 1983 The increase in gross supply over the period was, however, largely taken up by growing exports and apparent consumption, while responsive to fluctuations in general economic activity, tended to grow more modestly than the supply data might otherwise suggest.

The increase in production of yarn in Germany reflects the success of the German industry in improving the efficiency of its operations in recent years. The opportunities for this in the case of a fairly capital-intensive operation such as

spinning are, of course, significantly greater than they are in the case of the more labour-intensive production of knitted garments. Nevertheless, the growth in imports suggests that German manufacturers of yarn are still undercut by overseas producers and that import levels would have been much greater had this not been prevented by the operation of quotas. Even so, the evidence indicates that domestic production has only been maintained and increased because of Germany's success in finding export markets for its surplus output. These are located mainly within the EEC, the import quota levels in other member states being much more limited than in Germany.

Yarn is, of course, a raw material used in the manufacture of woven and knitted fabrics and, to a lesser extent, sewing thread. As will be indicated in the following section, German production of woven fabric has increased in recent years; that of knitted garments has declined sharply which explains the modesty of the upward trend in yarn consumption.

TABLE 21

SUPPLY OF GREY YARN, 1979-1984

(Tonnes)	1979	1980	1981	1982	1983	1984
Production	103,119	111,725	99,010	116,042	124,208	134,828
Imports	107,391	127,590	114,810	114,523	126,702	146,818
Exports	15,226	14,734	15,495	20,744	24,862	52,399
Apparent Consumption 1/	195,284	224,581	195,325	209,821	226,048	229,247

1/ Production + Imports - Exports
Source: Eurostat, Federal Statistical Office, OECD.

The importance of import sources in total supply in the period reviewed in Table 21 will have been noted. Table 22 below analyses these imports in more detail and indicates that by far the greatest proportion was sourced from the developed economies of Western Europe, members of the OECD. In 1981 1/ 67.3 percent of the total by volume arose from this area and in 1984 71.8 percent. The other main sources were the less developed economies of Central and South America. In 1981 these accounted for 14.7 percent and in 1984 13.3 percent. It is significant that the unit cif values of material from these latter countries tended to be higher than for that emanating from the OECD member-countries in Europe. The main individual sources of supply were Greece, Turkey and Brazil, all of which offer subsidies on export sales.

1/ The advanced industrial economies which are members of the Organisation for Economic Co-operation and Development are:

Europe: Austria, Belgium, Denmark, Finland, France, German Federal Republic, Greece, Iceland, Ireland, Italy, Luxemburg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom.
Americas: Canada, USA.
Oceania: Australia, New Zealand.
Asia: Japan.

TABLE 22

GERMAN IMPORTS OF GREY YARN, 1981-1984

		1981	1982	1983	1984
Total	(Tonnes)	111,810	114,523	126,702	146,818
	(US $000)	382,387	376,308	426,110	509,925
EEC	(Tonnes)	40,509	38,278	42,994	45,502
	(US $000)	154,861	145,800	166,613	189,311
OECD Europe	(Tonnes)	75,280	77,833	85,421	105,476
	(US $000)	261,500	262,427	302,607	377,399
Non-OECD	(Tonnes)	16,431	21,473	20,705	19,514
Americas	(US $000)	53,241	63,424	59,477	62,074

Source: OECD

The main types of yarn imported are single and multiple/cabled 14-40s and 40-80s. In the period 1979-1984, these were imported in the tonnages as indicated in Table 23.

TABLE 23

IMPORTS OF MAJOR TYPES OF GREY YARN, 1979-1984

(Tonnes)	1979	1980	1981	1982	1983	1984
18-40s						
Single	40,216	38,494	35,906	34,809	38,738	49,187
Multiple	12,956	12,120	10,992	11,300	10,317	10,087
40-80s						
Single	36,685	40,594	34,034	35,222	37,040	40,912
Multiple	9,151	8,075	7,500	7,503	8,916	9,417

Source: Eurostat

In the period under consideration, the import composition has remained constant with single 14-40s as the most important imported grade. In 1980 and 1982, however, single 40-80 was the dominant import.

5.1.3.2 Market Preferences: Subjective evidence gathered by AeSL in its interview programme confirmed the statistical evidence as to the types of grey yarn most in demand:

(i) Single 14-40 - Heavy cloths like canvas, duck fabric for tarpaulin, bedsheeting, industrial use.

(ii) Single 40-80 - Lighter cloths, fashion clothing, bedsheeting, industrial use.

(iii) Multiple/cabled 14-40 - Clothing, industrial use.

(iv) Multiple/cabled 40-80 - Clothing, industrial use.

A list of main specifications is shown below. It was provided by Carl Weiske, probably the largest wholesaler in the country with at least 800 weavers and knitters to service. Consequently, the specifications are perhaps typical in the German weaving and knitting industry.

1. 100 percent cotton yarn raw white, normal usage turns for weaving, good resistance of 13-14 Rkm, on cones 915 and 5'57 or 4'20 with tail-ends:

   Combed: Ne single/doubled 6, 8, 10, 12, 16, 20, 24, 30, 36, 40
   Combed: Ne single/doubled 30, 36, 40, 50, 60
   Single 47

2. 100 percent cotton yarn raw white, waxed (paraffinated) for knitting on cones 5'57 with tailends (right tubes with velvet-like surface) - if need also on cones 9'15 with tailends:

   Combed: Ne single 20, 24, 30, 36
   Combed: Ne single 24, 30, 36, 40

3. Diameter of cones if possible 18 cm, packing in good export - cartons gratis net of yarn, make-up of cartons and tubes completely neutral if possible.

4. Knitters prefer cleaner, waxed yarns.

5. Twist (S or Z) or number of turns per inch is important.

5.1.3.3 Distribution: Much of the grey yarn manufactured in Germany is consumed captively by the spinners in subsequent weaving/knitting processes. That which is sold, together with imports, is either purchased directly by end-users or by wholesale merchants who service the smaller processors.

The main wholesalers were understood to be:

- Carl Weiske*
  8670 Hof
  Postfach 3325
  Wolbattendorfer Weg 73

- Hans Mehr*
  Ernst-Merck-Strasse 12-14
  2000 Hamburg 1

- Bunge*
  Baumwollborse
  Postfach 106827
  2800 Bremen 1

- Musso & Parker*
  Baumwollborse
  2800 Bremen 1

- Kasseler Woll Gesellschaft*
  Willhelmsuhrallee 1
  Kassel 3500

Direct purchasers for their own use included:

- Vermop Salmon GmbH
  D-6980 Wertheim
  Kiesweg 4-6

- Schiesser AG
  7760 Radolfzell am Bodensee
  Schutzenstrasse 18
  Postfach 1520

- Mey
  Albstadt Lautlingen
  Postfach 15

- Hertie
  6000 Frankfurt-am-Main 71
  Lyoner Strasse 15

The main details of these companies are:

Carl Weiske

- Sells more than 1,000 tonnes of grey yarn per annum, mostly in West Germany, to weavers and knitters.

- The main sources of supply are Brazil and Taiwan. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These are fundamental considerations.

- Buys throughout the year, normally one count at a time. Buying agents and quality controllers reside only in West Germany. Despite strict adherence to delivery schedules, the company is more flexible than many others because it holds stocks. These amount to 4,000 t at any one time. Whether it is shipped or trucked, the yarn is wound on cones. These, in turn, are packed into special or export cartons before being containerised.

- Asked if it would be prepared to buy NTC yarn, the company said it would if quality and delivery schedules met requirements. Lower quality yarn would be imported only if it was bleached.

Hans Mehr

- Sells large quantities of grey yarn in West Germany to weavers, knitters and converters.
- The main sources of supply are Brazil and the Far East. Its suppliers are reliable in terms of quality and adherence to delivery schedules, fundamental considerations for buyers.
- Buys all year round. Buying agents and quality controllers reside in the Far East. For shipping, it has a special export carton. Shipments are always containerised.
- Asked if it would be prepared to buy NTC yarn, the company said it would if quality and delivery schedules were acceptable.

Bunge

- Sells large quantities of grey yarn in West Germany, mainly to knitwear manufacturers.
- The main sources of supply are Brazil and Turkey. Its suppliers are reliable in terms of quality and adherence to delivery times. These are fundamental considerations.
- Buys all year round. Buying agents and quality controllers are resident in Brazil.
- For shipping, a special or export carton is used. Shipments are always containerised.
- Asked if it would be prepared to buy NTC yarn, the company said it would if quality and delivery schedules met requirements. Quota problems presented the company from importing more yarn from Brazil.

Musso and Parker

- Sells large quantities of grey yarn in West Germany to weavers, knitters and converters.
- The main sources of supply are Brazil and Turkey. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These are fundamental considerations.
- Buys all year round. For shipping, a special or export carton is used. Shipments are always containerised.
- Asked if it would be prepared to buy NTC yarn, company said it would if quality and delivery schedules were acceptable.

Kasseler

- Sells more than 6,000 t of grey yarn per annum in West Germany to weavers and knitters.
- The main sources of supply are Egypt, Sudan and the Far East but in 1983 they were Turkey and the Far East. Supply sources change with changes in relative prices and qualities. These are fundamental considerations, besides delivery schedules.
- Buys throughout the year. Buying agents and quality controllers reside only in West Germany. A special or export carton is used for shipping. Shipments are always containerised.
- Asked if it would be prepared to buy NTC yarn, the company said it would if quality and delivery schedules matched requirements. It had already purchased samples of yarn from Ethiopia about one year ago but these were rejected. When asked why, the company said it could not remember.

Vermop

- Does not sell yarn. It buys at least 500 t per annum to manufacture kitchen floor mops for the German market.
- The main sources of supply are Italy, Spain and Yugoslavia. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These are fundamental considerations.
- Buys all year round. Buying agents and quality controllers are resident in West Germany.
- For shipping, a special or export carton is used. Shipments are always containerised.
- The company said it would [illegible] prepared to buy NTC yarn if quality and deliver[illegible]dules met requirements. In fact, it has [illegible]dy approached the Ethiopian Consulate in West Germany in this regard, but has been held up, apparently by administrative problems.

Schiesser

- Sells no yarn. It buys around 4,500 tonnes per annum for the manufacture of knitted underwear mainly for the domestic market.
- The main sources of supply are Greece, Switzerland and Italy. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These are fundamental considerations.
- Buying operations occur throughout the year. Buying agents and quality controllers are not resident in supplying countries.

- For shipping, a special export carton is used. Shipments and truckloads are always containerised.

- The company said it would be prepared to buy NTC yarn if quality and delivery schedules were acceptable.

Mey

- Does not sell yarn. It buys around 500 tonnes per annum for the manufacture of ladies underwear mainly for the domestic market.

- The main source of supply is Peru. Its suppliers are reliable in term[illegible] quality, the most important consideration, [illegible]d by adherence to delivery schedules.

- Buys all the time. Buying agents unlike quality controllers are not resident in supplying countries.

- For shipping, a special export carton is used. Shipments are always containerised.

- Asked if it would be prepared to buy yarn from NTC, the company said it would if quality and delivery met market requirements. It added that it had a preference for yarns spun from whiter raw cottons since this facilitated bleaching and the consequent manufacture of a 'white' knitted fabric- essential in the German underwear market.

Hertie

- Imported yarn is imported by Hertie for processing on a contract basis since the company has greater purchasing power than smaller converters. This probably gives better control over the finished product.

- The main sources of supply are Austria, Hungary and Yugoslavia. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These are fundamental considerations.

- Buys monthly. Buying agents and quality controllers are resident in West Germany.

- For trucking, a special or export carton is used. Truckloads are always containerised.

- Asked if it would be prepared to buy yarn from NTC, the company said it would if quality and delivery met market requirements.

5.1.3.4 Prices: Most German buyers prefer to pay on a basis cif Bremen, Hamburg or other EEC ports, but larger firms like Hertie prefer fob port of shipment in order to save costs. For 30s single carded yarn from Brazil, the

cif price at Hamburg was US $2.60/kg. This compares with a cif value of US $2.65/kg in 1984 calculated from trade statistics as shown in Table 24 below. For coarse to medium count yarns imported from the Far East, the freight rate charges were US $1,200-1,500 per 8 ton container, according to one trade source. The 14s cif prices for these yarns were US $2-6/kg.

TABLE 24

UNIT CIF VALUES FOR MAIN CATEGORIES OF IMPORTED GREY YARN, 1979-1984

(DM/kg)		1979	1980	1981	1982	1983	1984
Single	14-40s	5.3	6.1	6.3	6.2	6.8	7.8
	40-80s	6.8	8.1	8.3	8.3	8.6	9.8

Source: Calculated from Eurostat data

Payment was usually by letter of credit or sometimes by cash against documents. Adherence to delivery schedules was strict, especially for firms that kept minimum stocks or none at all. Certificates of origin were needed for Brazil.

Trade sources were generally reluctant to release information about prices or mark-ups. However, Table 24 gives cif values calculated from trade statistics for imports of single 14-80s yarns. Even when allowing for inflation, it indicates a rising trend in price for these yarns, albeit with year-to-year fluctuations. The latter are probably to be expected since grey yarn is essentially a raw material subject to any of the influences in the world market.

It will be noted that the rising trend in yarn prices suggested by the table did not prevent a general increase in consumption of the grades reported there. This would seem to confirm trade information that demand is relatively price inelastic.

Table 25 below analyses average unit cif values by source for all categories of grey yarn. It indicates that non-OECD America is a cheaper source than OECD Europe probably because the former region has lower production costs or exports mainly lower quality yarns.

TABLE 25

AVERAGE UNIT CIF VALUES FOR ALL CATEGORIES OF GREY YARN ACCORDING TO SOURCE, 1981-1984

(DM/kg)	1981	1982	1983	1984
OECD Europe	7.8	8.2	9.0	10.2
Non-OECD America	7.3	7.2	7.3	9.1
All Sources	7.7	8.0	8.6	9.9

5.1.3.5 Packaging: Yarn is normally wound on cones which in turn are contained in export cartons. The latter vary in size depending on the cone size, and the type and end-use of yarn. One trade source indicated a preference for cones with sizes of 9'15, 5'57 and 4'20, a diameter of 18 cm and with tailends. Transport was normally by ship container, of standard 20' length. 10' or 40' containers were used occasionally.

5.1.4 The Market for Grey Cloth

5.1.4.1 Supply and Consumption: German domestic production of grey cloth increased fairly steadily in the period 1979-84, although there was a downward movement in 1981 which was not wholly recovered until 1983. The pattern of output shown by the figures coincides with that of grey yarn consumption considered in the previous section. Imports tended to decline, however, not only as a proportion of total supply, but even in absolute terms. To a large extent, the reduced import levels reflect the effect of import quotas rather than a free market decision by end-users. Nevertheless, the efficiency of German production has increased in recent years and German industry sources now claim that it is only the export subsidies given by many countries which enable importers to compete successfully in the German market. This is to some extent confirmed by a cost comparison carried out by the International Textile Manufacturers' Federation in 1985, summarised in Table 26 of Section 8.2 below, which suggests that on an EEC cif duty-paid basis, German costs are significantly lower than those of other major producers.

The upward trend in exports also serves to indicate the improved efficiency of the German industry. It is instructive to note, however, that the great bulk of these imports are to Germany's EEC partners where imports are restricted even more severely than they are in Germany.

TABLE 26

SUPPLY OF GREY CLOTH 1979-1984

(Tonnes)	1979	1980	1981	1982	1983	1984
Production	42,290	47,253	37,495	44,621	47,270	52,541
Imports	44,565	39,276	31,911	35,408	36,807	42,543
Exports	21,882	18,609	18,738	23,469	26,306	27,676
Apparent Consumption	64,973	67,920	48,235	51,139	57,771	67,408

Source: Eurostat, Federal Statistical Office, OECD

Table 27 below analyses imports in more detail and indicates that the greatest proportion was sources from the Far East. In 1981 45.9 percent of the total by volume came from this area and in 1984 43.7 percent. The other main sources were the developed economics of Western Europe, members of the OECD. In 1981 these accounted for 29.7 percent and in 1984 25.2 percent. The unit cif values of material from these latter countries tended to be higher than for that emanating from the Far East. The main individual sources of supply were Brazil, India, France, Czechoslovakia, China and South Korea.

TABLE 27

GERMAN IMPORTS OF GREY CLOTH (>85% COTTON), 1981-1984

		1981	1982	1983	1984
Total	(Tonnes)	31,911	35,408	36,807	42,543
	($'000)	136,252	143,031	143,312	169,272
Far East	(Tonnes)	14,637	14,358	15,544	18,607
	($'000)	55,758	54,084	57,450	69,652
OECD Europe	(Tonnes)	9,491	11,128	10,075	10,725
	($'000)	49,161	53,192	46,394	52,873

Source: OECD

The main types of cloth imported are as follows:

- 115-165 cm, 130-200 gs/m²
- >85 cm, >200 gs/m², not plain weave
- 85-115 cm, 130-200 gs/m²
- 85-115 cm, 130 gs/m², from single yarn <55

Of these the first tended to increase in relative as well as absolute importance during the period under review and accounted for 33.7 percent of the total in 1984 (See Table 28). The others, however, tended to decline in both relative and absolute importance.

TABLE 28

MAIN TYPES OF GREY CLOTH IMPORTS 1979-1984

(Metric tonnes)	1979	1980	1981	1982	1983	1984
115-165 cm, 130-200 g/m²	8,822	8,749	6,294	7,504	10,224	14,323
>85 cm, >200 g/m², not plain weave	10,100	7,346	7,107	4,053	5,070	4,053
85-115 cm, 130-200 g/m²	8,384	6,784	4,880	5,411	4,547	3,728
85-115 cm, 130 g/m², from single yarn <55	2,526	3,112	1,859	2,628	2,634	3,816

Source: Eurostat

5.1.4.2 Market Preferences: Trade sources proved unwilling or unable to provide specific data about the breakdown of grey cloth consumption. The major consumers were said to be manufacturers of bedsheets, home textiles and all types of clothing. The main uses for the most important imported grade, 115-165 cm, 130-200 g/m², are shirting, printing, piece dying, single bedsheeting, garment dying and ladies outerwear. It was not possible to find out more about the specifications required by the purchasers.

5.1.4.3 Distribution: Grey cloth produced in Germany itself is usually processed by the same companies that weave it so that, on the whole, it does not come onto the open market. Imported grey cloth is mainly purchased by wholesale merchants who then distribute it to smaller users such as converters and finishers (dyers, bleachers and printers) or garment-makers. A number of department stores, however, buy grey cloth directly for further processing before retail sale as finished fabrics.

The main wholesalers are:

- Hans Meyer
  Ernst-Merck-Strasse, 12-14
  2000 Hamburg 1

- Unicot
  Baumwollborse
  Postfach 105452
  2800 Bremen 1

- Bunge
  Baumwollborse
  Postfach 106827
  2800 Bremen 1

The largest department store groups were:

- Karstadt AG
  Hauptverwaltung
  Theodor-Althoff-Strasse 2
  PO Box 102164
  4300 Essen 1

- Kaufhof AG
  Leonhard-Tietz-Strasse 1
  5000 Koln 1

- Hertie AG
  6000 Frankfurt-am-Main 71
  Lyoner Strasse 15

The main details of these companies are:

Hans Meyer

- Sells large quantities of grey cloth, mostly in West Germany to finishers, converters and garment manufacturers.

- The main sources of supply are Brazil, Malawi and Madagascar. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These are fundamental considerations.

- Buying operations are carried out throughout the year. For shipping, the cloth is baled in units of 200-300 kg depending on the specifications. Buying

agents and quality controllers reside in West Germany.

Unicot

- Sells large quantities of cloth, mostly in West Germany, to finishers and garment manufacturers.
- The main sources of supply are South Korea and Taiwan. Its suppliers are reliable in terms of quality, a fundamental consideration.
- Buys all year round and cloth is shipped in bales of 200-300 kg. Buying agents, like quality controllers, reside in West Germany.
- Asked if it would be prepared to buy cloth from NTC, the company said it would if quality was acceptable.

Bunge

- Sells substantial quantities of cloth mainly in West Germany.
- The main source of supply is Brazil. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These are fundamental considerations.
- Buys all year round. Shipping, cloth is baled in weights of 200-300 kg. Buying agents and quality controllers are resident in supplying countries.

Karstadt

- Under Karstadt's management and instructions, imported grey cloth is processed by another party into home fabrics or garments. These are then retailed in Karstadts own outlets.
- Sells 'finished' cloth - 15 m metres, including synthetic, per annum - directly to the final consumer. Most sales are domestic.
- The main sources of supply are India, France and China. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These are fundamental considerations.
- Buys all year round. Buying agents and quality controllers are resident in supplying countries.

Kaufhof

- Has special arrangements with other firms to process its imported cloth into clothing and home textiles. These items are finally sold in Kaufhof's retail outlets mainly in West Germany.
- The main sources of supply are Italy and Hong Kong. Its suppliers are reliable in terms of quality

and adherence to delivery schedules. Indeed, orders must arrive on fixed days. These are fundamental considerations.

- Buys all year round. Buying agents and quality controllers are resident in Hong Kong.

Hertie

- Has imported cloth converted by other parties under Hertie's management.

- The main sources of supply are East Germany and India. Its suppliers are reliable in terms of quality and adherence to delivery schedules with orders having to arrive on fixed days. These are fundamental considerations.

- Buys monthly. Buying agents and quality controllers are resident in West Germany.

All these companies declared their willingness to consider NTC as a source of supply, but insisted that it would have to demonstrate its ability to meet their quality requirements - by which it is understood they mean that it would have to deliver goods which are consistantly to specification with minimal faults - and to maintain delivery schedules.

As already noted, however, imports are limited by quota - all sources were agreed that they would be very much larger otherwise - which means that the market is extremely competitive. For this reason NTC might find it very difficult to persuade importers to abandon suppliers of proven reliability in its favour. On the other hand, the preferential status Ethiopia enjoys as a member of the ACP Group associated with the EEC under the Lome III Convention does give NTC some advantage over suppliers not in this group. (See section ..... below).

5.1.4.4 Prices: AeSL found trade sources very reluctant to discuss prices for grey cloth. Unicot reported a price range for material from the Far East of DM 0.7-3.5/m. It is likely that the great bulk of its purchases were at less than DM 1.0/m. Cif values for imported materials of given constructions and widths are indicated below. It is not possible to measure these values objectively against the prices of locally-manufactured fabrics, although it seems likely that imports would tend to be significantly cheaper, comparing like products with like. As suggested above, this is largely a consequence of the export subsidies granted by many of Germany's larger suppliers.

The figures in Table 29 suggest that in most cases there was a fairly steady build up in price levels over the period 1979-84, although the average unit cif value of that first listed - 85-115 cm, >130 g/m^2, from single yarn <55, also the most widely used of the imported varieties - fell significantly in 1984. It should be borne in mind, however, that the picture presented by the table is probably somewhat distorted by the operation of the quota limitations which have tended to limit the volumes that can be taken from the cheaper sources. The downturn noted in the case of the main imported fabric in 1984 was largely a factor of the significant upturn by 70 percent in volume arriving from Mainland China, by far the cheapest source of supply.

TABLE 29

GERMAN CIF IMPORT VALUES FOR MAIN CATEGORIES OF GREY CLOTH, 1979-1984

(DM/kg)	1979	1980	1981	1982	1983	1984
85-115 cm, >130 g/m², from single yarn <55	8.8	9.3	11.1	10.7	12.3	8.0
85-115 cm, 130-200 g/m²	6.3	6.6	7.0	8.1	8.4	9.0
115-165 cm, 130-200 g/m²	6.8	7.3	8.3	8.6	9.1	10.3
>85 cm, >200 g/m², not plain weave	9.0	9.3	9.3	13.3	9.3	10.7

Source: Calculated from Eurostat data

Most German importers prefer to pay on a basis cif German ports. Hertie and Kaufhof, however, find it more economic to organise their own shipping and pay fob port departure. Payment can be made in the form of a letter of credit, open terms or cash against documents.

The two major sources of grey cloth imports are OECD Europe and non-OECD Far East. According to Table 30 below, OECD Europe is a dearer source for grey cloth than the non-OECD Far East probably because the latter region has a cost advantage in production or exports lower qualitites.

TABLE 30

AVERAGE UNIT CIF VALUES FOR TOTAL GREY CLOTH IMPORTS BY SOURCE, 1981-1984

(DM/kg)	1981	1982	1983	1984
OECD Europe	11.7	11.6	11.7	14.1
Non-OECD Far East	8.6	9.2	9.4	10.7
TOTAL	9.7	9.8	9.9	11.3

5.1.4.5 Packaging: Bale sizes vary from 600 m (6 x 100 m pieces) to 2,000 m (20 x 100 m pieces) depending on the supplier. In terms of weight, bales range from 200 to 300 kg depending on the construction and types of yarn. The average weight is 200 kg since heavier bales are more difficult to load and unload. Bales themselves are shipped or trucked in standard 20' containers.

5.1.5 Future Trends in Demand

Germany has followed the usual pattern of developed industrial economies in that expenditure on clothing as a proportion of total consumer expenditure has tended to decline as the nation got richer. This trend, which indicates both a general reduction in the price of clothing relative to income levels and a tendency for individuals not to increase their expenditure in this area on their income increases, can be expected to continue in the next few years.

The study of past trends in the demand for knitted cotton underwear suggested that there had been a steady upward trend which was apparently unaffected by fluctuations in general economic activity. One factor which was noted as underlying this upward trend was the continued inroads made by cotton products into those produced from synthetic or mixed fibres. Demand for these latter has been now reduced to such an extent that significant further growth as a result of this factor cannot be expected. This means that, given, as noted above, that individual consumers do not appear to increase their expenditure on these items as their income increases - likely to be particularly in the case of such utilitarian items as underwear - the only factor likely to secure continuing growth in the next ten years is growth in population.

The demand for cotton grey yarn and fabric is influenced by the demand for clothing, but is also subject to other factors, in the case of yarn, to the extent to which fabrics are woven and garments are knitted in Germany as opposed to being imported and, in the case of grey fabric not captively consumed, to the extent of fabric processing in the country. The preceding historical studies of the markets for these products suggested that spinning and weaving has been maintained at artificially high levels in Germany by Government policy when the free operation of market forces would have produced:

(a) a decline in German production of yarn and increased imports insofar as textile fabrics continued to be made in the country;

(b) a decline in the production of grey cloth in Germany in favour of imports of fabrics in this form for further processing or of ready-processed fabrics and made-up textile products.

This comment takes into account the relative technical efficiency of the German textile industry in the EEC context.

Germany is committed to allowing increased imports of textiles and textile products both as a result of its accession to the Multi-Fibre Arrangement of the GATT (MFA) and its agreements with the African, Caribbean and Pacific countries under the Third Lome Convention. In view of the concern of the Government about levels of unemployment and the importance of the textile industry as an employer of labour, it is, however, difficult to foresee any significant decline in current levels of production of either of these products in the next decade except temporarily as a result of fluctuations in general economic activity.

In the case of grey yarn, consumption is mainly dependent on local production of textile fabrics. Given this, whereas it is reasonable to suppose that the protection given to the German industry and its increasing international competitiveness will ensure that the output of woven fabric continues to grow,

the expected decline in knitted garment output should mean that consumption of yarn will increase only modestly. A simple extrapolation of the trend between 1979 and 1984 as this related to GDP suggests that in 1990 demand will be in the region of 250,000 tonnes and in 1995 269,000 tonnes, i.e. an annualised rate of increase of 1.6 percent over the whole period.

With regard to grey fabric, the recent historical record does not suggest that there is a dynamic market for cloth for conversion, processing and finishing, these being processes not so conducive for capital-intensive operation as spinning and weaving, where the German industry has made undoubted advances in efficiency. The expectation must be, therefore, that demand will continue at a fairly static level in the next few years.

5.2 ITALY

5.2.1 Economic Background

Total retail sales by value of all goods and services increased by 20.4 percent in 1984 from the 1983 level. For the components food and drink, and textile clothing, sales increased by 23.9 percent and 14.4 percent respectively as a result of Italy's emergence from the recession in 1983. Unlike previous recoveries, this movement did not stimulate domestic inflation. Indeed, inflation of consumer prices and industrial wages fell to 10.6 percent and 11.6 percent respectively in 1984 from 15.0 percent and 15.2 percent in the previous year. This was due in part to government policies of wage restraint and close control of monetary and credit aggregates.

TABLE 31

RETAIL TRADE, 1983-1984

Retail Trade (by Value)	1980 = 100 1983	1984	% Change
Total Sales	167	201	+ 20.4
Food and Drink	180	223	+ 23.9
Textile Clothing	146	167	+ 14.4

TABLE 32

WAGE AND PRICE INFLATION 1982-1984

	1980 = 100 1982	1983	1984	% Change 1983/82	1984/83
Consumer Prices	138	159	176	+ 15.0	+ 10.6
Industrial Wages	149	172	192	+ 15.2	+ 11.6

Private consumption in 1983 suffered from the negative impact of the 1982-83 tax measures. Nevertheless, in early 1984 it registered positive growth of 2 percent as shown in Table 33 below, stimulated by the fall in the level of inflation and increase in disposable income, despite the rising level of unemployment and strict control of aggregate demand growth.

TABLE 33

SIGNIFICANT ECONOMIC INDICATORS 1982-1984

	1983/82	1984/83
Private Consumption	-0.5	2.0
Industrial Output	-4.5	3.2
Real GDP	-0.4	2.6

In 1984 import levels increased to $79.0 bn, up 5.1 percent on the 1983 level of $75.2 bn. Investment also grew due to higher spending on plant and equipment under the government's new programme of industrial rationalisation and modernisation.

The upturn in economic activity in 1984 noted above was accompanied by significant increases in production of cotton textiles and textiles and clothing generally - by 7.0 percent in the former case and by 3.9 pc in the latter. This is understood to reflect an upturn in the domestic market for clothing and other textile goods and was not directly stimulated by export d . It should be noted, however, that the demand for textiles and clot in Italy is not altogether a factor of consumer spending. In fact, expenditure on clothing alone as a proportion of total consumer expenditure declined e year between 1980 and 1983. It is likely that expenditure on non-fashion item such as knitted cotton underwear is even less intimately dependent on the general level of consumer spending than is that on clothing as a whole, including shion items. This has certainly been the pattern of development in all other advanced industrial economies.

Subjective evidence gathered during AeSL's visit to Italy confirmed the impression made above that Italy had recovered from the recession with positive steady growth whil sales fluctuated with changes in economic performance.

5.2.2 The Market for Grey Yarn

5.2.2.1 Supply and Consumption: Italian production of grey yarn increased in the period 1981-84 despite a slight downturn in 1982 and a rather more pronounced downward fluctuation in 1983. Imports also increased significantly throughout the period, reflecting, partly, more flexibility in import sources, and, partly, quality and price considerations. Exports, again, tended to rise despite a substantial fall in 1982 that was probably related to very low levels of world demand. Consumption, therefore, indicated by calculations of apparent consumption, rose fairly steadily during the period.

The increase in consumption is indicative not only of the extent to which weaving and knitting operations are still being carried out in Italy itself, but also of the growing demand for pure cotton products. It should be noted, however, that a

significant component of this demand is generated outside Italy, mostly in other EC countries. Italian demand for knitted cotton underwear - an important yarn end-use - has been following a downward trend in the period reviewed as described in the last section of this report. The downturn in consumption and production in 1983 probably result from cycles in overall economic activity.

TABLE 34

SUPPLY AND CONSUMPTION OF GREY YARN, 1981-1984

(Tonnes)	1981	1982	1983	1984
Production	160,478	159,241	149,959	164,632
Imports	50,089	65,713	69,475	97,944
Exports	13,070	8,800	10,073	14,209
Apparent Consumption	197,497	216,154	209,361	248,367

Source: Eurostat, OECD, Italian Cotton Association

The importance of import sources in total supply has increased in recent years. Table 35 below analyses these imports in more detail and indicates that by far the greatest proportion was sourced from OECD Europe. In 1981, 79.3 percent of the total by volume originated from this region and in 1984 81.7 percent. The main sources were Turkey and Greece and, in 1984, Germany. The other main sources were the countries of non-OECD America. In 1981, these accounted for 8.2 percent and in 1984 5.9 percent. It is significant that the average unit cif values of grey yarn from these latter countries tended to be higher than for that emanating from OECD Europe, except in 1983.

Of yarn produced domestically, the most popular count by far is 30s, followed by 24s, 20s and 8s. For imported yarns, the main types are single 14-80s. In the period reviewed, these were imported in the following tonnages:

TABLE 36

IMPORTS OF MAIN TYPES OF GREY YARNS 1981-1984

(Tonnes)		1981	1982	1983	1984
14-40s	Single	28,163	29,445	30,009	40,262
	Multiple/Cabled	994	1,806	1,644	2,829
40-80s	Single	12,279	21,370	25,307	37,355
	Multiple/Cabled	4,298	5,939	5,312	7,266

Source: Eurostat

TABLE 35

ITALIAN IMPORTS OF GREY YARN, 1981-1984

		1981	1982	1983	1984
Total	(Tonnes)	50,089	65,713	69,475	97,944
	(US $000)	161,644	209,654	223,942	327,285
EEC	(Tonnes)	9,632	21,751	19,577	41,367
	(US $000)	40,946	79,682	73,619	149,716
OECD Europe	(Tonnes)	39,701	51,317	55,031	79,987
	(US $000)	125,608	161,689	178.528	264,760
of which:					
Turkey:	(Tonnes)	29,817	27,883	32,940	35,091
	(US $000)	82,078	75,700	96,085	101,214
Greece	(Tonnes)	8,357	16,186	14,718	21,493
	(US $000)	29,226	56,581	52,167	78,512
Yugoslavia	(Tonnes)	3,639	4,333	3,470	4,308
	(US $000)	10,708	12,131	10,044	13,660
W. Germany	(Tonnes)	564	3,335	2,521	13,995
	(US $000)	2,527	9,908	7,750	45,099
Non-OECD Americas	(Tonnes)	4,103	6,931	6,240	5,795
	(US $000)	14,427	22,388	19,568	20,987
of which:					
Brazil	(Tonnes)	2,110	4,452	3,374	2,690
	(US $000)	6,456	12,472	9,287	9,206
Non-OECD Far East	(Tonnes)	749	71	-	3,114
	(US $000)	2,062	600	-	9,867

Source: OECD

For yarns with counts 14-40, imports represented about one-third of domestic production, suggesting perhaps that domestic capacity for yarn production is insufficient to meet demand. For counts 40-80s, however, imports represent a much larger proportion of domestic production and this probably indicates that the Italians are importing what they do not produce themselves. The relative and absolute importance of these grades was maintained in the period.

Regarding the relative importance of carded and combed yarns in domestic production, they are produced in more or less equal proportions, as shown in Table 37 below. For counts 24 and 30, however, combed yarns are more important suggesting that cleaner yarns are more in demand. This would be consistent with the relative importance of the Italian knitting and shirting industry. Indeed, this is confirmed by trade sources. The relative importance of carded and combed yarn in imports, however, could not be fully ascertained but trade sources suggested a preference for combed yarn.

TABLE 37

THE MOST COMMONLY PRODUCED YARN TYPES, 1984

(Tonnes)

Count (Ne)	Carded		Combed		Total	
30	8,712	(11.0)	16,945	(19.9)	25,657	(15.6)
24	5,630	(7.1)	9,470	(11.1)	15,100	(9.2)
20	9,222	(11.6)	5,860	(6.9)	15,082	(9.2)
8	13,472	(16.9)	328	(0.4)	13,800	(8.4)
12	10,853	(13.6)	311	(0.4)	11,164	(6.8)
16	9,441	(11.9)	949	(1.1)	10,390	(6.3)
40	181	(0.2)	9,730	(11.4)	9,911	(6.0)
50	-		4,783	(5.6)	4,783	(2.9)
Other Counts	22,005	(27.7)	37,051	(43.5)	58,745	(35.7)
All Counts	79,516	(100.0)	85,116	(100.0)	164,632	(100.0)

( ) = Proportion of Total (%)

Source: Italian Cotton Association

The main types of exports and their volumes are shown in Table 38 below. The relative importance of the main grades has also remained in the period under consideration. The most important by far was single <14s.

TABLE 38

EXPORTS OF MAIN TYPES OF YARN, 1981-1984

(Tonnes)	1981	1982	1983	1984
Single < 14s	4,714	4,996	4,663	6,834
Single 40-80s	1,168	1,412	717	1,470

Source: Eurostat

5.2.2.2 Market Preferences: Trade sources indicated a preference for the following types of grey yarn:

	Count No.		
Rank	Carded	Combed	Total
1	8	30	30
2	12	40	24
3	16	24	20
4	20	20	8
5	30	50	12

This information is in line with the pattern of import trade considered in Section 5.2.2.1 above.

One authoritative source claimed to detect a growing tendency amongst importers to buy the coarser types of yarn. Against this, however, at least one major importer, Ragno, claimed that it would buy only mercerised material.

Major end-uses include finishing, the manufacture of sewing thread, weaving and knitting. Knitters had a general preference for the finer, cleaner yarns while weavers were content with coarser material. The manufacture of shirting, however, was one significant exception to this latter rule.

5.2.2.3 Distribution: Only a very small proportion of the grey yarn manufactured in Italy is consumed captively by the spinners in subsequent weaving/knitting operations. That which is sold, together with imports, is either purchased directly by end-users or by wholesale merchants who service the smaller processors.

The main wholesalers were understood to be:

- C. Itoh E Co. Italiana SpA
  Via Hoepli Sala Longobardi 2
  20121 Milano

- Associated Traders SpA
  Corso Venezia 2
  20121 Milano

- Filcotton Sas di R. Paganardi e & C.
  Via Manzoni 43
  20121 Milano

- Sunex di Isaac Asco
  Piazza Missori 3
  20123 Milano

- Carcano L.V. snc
  Via Fieno 1
  20123 Milano

Direct purchasers for their own use included:

- Cucirini Cantoni Coats SpA
  Via Petrarca 20
  20123 Milano

- Bemberg SpA
  Via Brera 21
  20121 Milano

- Cotonificio Pozzi-Electa
  Viale Serra 6
  20148 Milano

- Zucchi Vincenzo SpA
  Via Tiziano 9a
  20145 Milano

- Legler
  Ponte San Pietro
  Near Bergamo

- Ragno
  Via Correggio 19
  20149 Milano

- Benetton
  Via Chiesa 24
  Ponzano
  Near Treviso

- Cotonificio Bresciano Ottoline SpA
  Via Carducci 9
  20123 Milano

- Scotland House SpA
  Via Guilio Uberti 37
  20129 Milano

The main details of these companies are:

C. Itoh E Co. Italiana

- Sells significant quantities of grey yarn to weavers, knitters and converters in Italy.
- The main source of supply is S.E. Asia. Its supplies are reliable in terms of quality and adherence to delivery schedules. These factors are fundamental.
- Buying follows seasonal pattern. Buying agents and quality controllers reside mainly in S.E. Asia. For shipping, it has a special export carton. Shipments are always containerised.
- Asked if it would be prepared to buy NTC yarn, the company said it would not since it is a Japanese - Italian joint ventures with import sources reserved solely for suppliers in S.E. Asia.

Associated Traders

- Sells large quantities of grey yarn in Italy to weavers, knitters and converters.
- The main sources of supply are the Far East, Egypt and South America. Its supplies are reliable in terms of quality and adherence to delivery schedules. These are fundamental considerations.
- Buys all the time. Buying agents and quality controllers reside in Italy. The yarn is wound on cones, packed into export cartons and then shipped by container.
- Asked if it would be prepared to buy NTC yarn, the company said it would if quality and delivery schedules met requirements. Quota problems prevented the company for importing more yarn, so, presumably, it would consider favourably a non-quota-controlled source.

Filcotton

- Sells $3 mn worth of grey yarn each year to weavers and knitters in Italy.
- The main sources of supply are Egypt, Peru, Pakistan, India and Turkey. Its suppliers are reliable in terms of quality and strict adherence to delivery

times. These are fundamental considerations. The ability to supply in bulk was also very important.

- Buys all year round. Quality controllers and buying agents reside in Italy. For shipping, a special export carton is used. The yarn is would on cones and shipments and truckloads are always containerised.

- Asked if it would be interested in buying NTC yarn, the company said it would if quality and delivery matched requirements.

Sunex

- Sells small quantities of grey yarn to spinners and weavers in Italy.

- The main source of supply is Turkey. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These factors are fundamental.

- Buys all year round. Buying agents and quality controllers reside in Italy. The yarn is wound on cones which are then packed in a special export carton. The latter is containerised and taken by truck.

- Asked if it would be interested in buying NTC yarn, the company said it would if quality and delivery met requirements.

Carcano

- Sells 20-30 m lira worth of yarn each year to furriers in Italy.

- The main source of supply is the USA. Its suppliers are reliable in terms of quality and adherence to delivery times, fundamental factors.

- Buys all year round. Buying agents and quality controllers are resident in Italy. For shipping, a special or export carton is used. Shipments are always containerised.

- Asked if it would be prepared to buy NTC yarn, the company said it might if quality and delivery schedules met requirements.

Cucirini Cantoni Coats

- Sells no yarn. It imports around 12,000 tonnes per annum for the manufacture of sewing thread for the Italian market.
- The main sources of supply are West Germany and Austria. Its suppliers are reliable in terms of quality and adherence to delivery schedules, fundamental considerations.
- Buys all the time. Buying agents and quality controllers reside in Italy. Yarn is wound on cones which are then packed in export cartons. These are containerised and trucked.
- Asked if it would be prepared to buy NTC yarn, the company said it would if quality and delivery times were acceptable.

Bemberg

- Sells around 2,500 tonnes per annum of cuprammonium filament yarns to weavers and knitters in EEC, mainly Italy. These yarns are made from chemically-processed cotton linters.
- The main sources of supply are the USA and West Germany. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These are fundamental factors.
- Buying operations occur throughout the year. Buying agents and quality controllers do not reside in supplying countries. For shipping, a special export carton is used. Shipments and truckloads are always containerised.
- Asked if it would be prepared to buy NTC cotton linters, the company said it would not because of doubts about quality.

Cotonificio Pozzi-Electa

- Sells vast quantities of grey yarn manufactured by itself to weavers and knitters in Italy. The company does not buy yarn.

Zucchi

- Sells no yarn. It buys large quantities of weaving yarns for the manufacture of home textiles, especially towels, bedsheets, napkins and tablecloths, for the domestic market.

- The main sources of supply are Turkey, Greece and Brazil. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These are fundamental considerations.

- Buys all year round. Buying agents and quality controllers are resident in Italy. Shipments and truckloads are always containerised and special export cartons are used.

- The company said it would be interested in buying NTC yarn if quality and delivery schedules were acceptable.

- Zucchi is virtually integrated from the spinning to the making-up stage and imports yarn because it cannot meet demand with existing capacity.

Legler

- Said to be the largest importer and processor of cotton yarn in Italy, the company was unwilling to co-operate with AeSL in the interview programme.

Ragno

- Sells no yarn. It buys around 1,850 tonnes per annum for the manufacture of knitted underwear mainly for the domestic market.

- The main source of supply is Italy. Its suppliers are reliable in terms of quality and adherence to delivery schedules, fundamental factors.

- Buying occurs 2 or 3 times a year for delivery in specified quantities per month throughout the year. Yarn is wound on cones and trucked from the spinning to the knitting centres.

- The company said it does not usually import yarn because of quality considerations, but it might be interested in doing so if it found a source suitable in terms of delivery schedules and quality.

Benetton

- Sells no yarn. It imports large quantities of grey yarn for the manufacture on a contract basis of knitted outerwear, mainly for the Italian market.

- The main sources of supply are Egypt and South America. Its supplies are reliable in terms of quality and adherence to delivery schedules. These are fundamental considerations.

- Buying occurs all year round. Buying agents and quality controllers reside in Italy. For shipping, a special export carton is used. Shipments are always containerised.

- Asked if it would be prepared to buy NTC yarn, the company said it would if quality and delivery schedules were acceptable.

Cotonificio Bresciano Ottoline

- Sells large quantities of yarn, mostly manufactured by itself, to weavers and knitters in Italy.

- The main sources of imported yarn are Turkey and Yugoslavia. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These are fundamental considerations.

- Buying operations occur throughout the year. Buying agents and quality controllers reside in Italy. Yarn is wound on cones, packed in special export cartons and trucked or railed in containers.

- Asked if it would be prepared to buy NTC yarn, the company said it would if quality and adherence to delivery schedules matched requirements.

Scotland House

- According to a secondary source, this company is a major user of grey yarn, but it was not willing or able to discuss its operations with AeSL.

5.2.2.4 Prices: Italian buyers prefer to buy on a basis cif Trieste or Genoa. According to the Italian Cotton Association, average market prices for various types of yarns in 1984 were as follows:

TABLE 39

AVERAGE MARKET PRICES FOR MAIN CATEGORIES

OF IMPORTED GREY YARN IN 1984

Yarn			Price (Lira/kg)
USA	combed	24/1	7,650
USA	carded	24/1	6,600
USA	open-end	12/1	4,525
Egypt	combed	60/1	12,750
Sudan	combed	36/1	10,100

Source: Italian Cotton Association.

These prices are lower than the average cif import prices shown in Table 40 below but combed yarns usually command a higher price than carded yarns. Besides, Table 40 only indicates average prices for specific ranges of count. For single 14-40s for example, the average cif import price of 4,973 lira/kg in 1984 conceals variations in quality, processing and transport costs within this category. In short, the two tables are not necessarily inconsistent.

TABLE 40

ITALIAN AVERAGE CIF VALUES FOR MAIN CATEGORIES

OF IMPORTED GREY YARN 1981-1984

(Lira/kg)		1981	1982	1983	1984
Single	14-40s	3,032	3,442	4,050	4,973
	40-80s	3,790	4,501	5,130	6,216
Multiple	14-40s	3,916	4,104	4,860	5,526
	40-80s	4,295	4,898	5,400	6,354

Source: Derived from Eurostat

According to one trade source, the freight cost for coarse to medium count yarns imported from the Far East were US $1,200-1,500 per 8 tonne container. Payment was usually made by 50 or 90 day letter of credit, sometimes cash against documents. Delivery times ranged from 1 week to 2 months depending on the source. Certificates of origin were needed for Greece.

Trade sources were generally reluctant to release information about prices or mark-ups. However, Table 40 above gives cif values calculated from trade statistics for imports of single and multiple 14-80s yarns. It indicates a rising

trend in price for the yarns, even when allowing for inflation. This is probably to be expected in a world commodity market. It should be noted that the trend suggested by the table did not prevent a general increase in rising consumption of the grades reported there.

Table 41 analyses average unit cif values by source for all categories of grey yarn. It indicates OECD Europe to be a cheaper source than Non-OECD America, except in 1983. This is probably because wage costs in OECD Europe, although generally higher than those in Non-OECD America, represent a much larger share of total manufacturing costs, coupled with much higher levels of productivity. Caution is required, however, in analysing aggregated trade and price data for textiles because the latter are heterogeneous. Furthermore, a given country may have a wide range of productivity levels depending on which particular production plant is studied.

TABLE 41

AVERAGE CIF VALUES FOR MAIN TYPES OF GREY YARN

ACCORDING TO SOURCE, 1981-1984

Yarn Type and Origin		(Lira/kg) 1981	1982	1983	1984
Turkey - of which:					
Single	<14	2,715	2,976	3,761	4,434
Single	14-40	2,958	3,410	4,104	4,770
Single	40-80	3,543	4,117	4,853	5,531
Multiple	14-40	3,459	3,797	4,795	5,376
Multiple	40-80	4,085	4,654	5,494	5,854
Greece - of which:					
Single	40-80	4,601	5,061	5,670	6,562
Multiple	14-40	3,705	4,529	5,123	6,064
Brazil - of which:					
Multiple	40-80	-	4,200	4,738	6,233
All types and sources		4,076	4,223	4,351	4,617

Source: Derived from Eurostat

5.2.2.5 Packaging: Yarn is normally wound on cones which in turn are contained in export cartons. The latter usually hold 20-30 cones. Transport was usually by truck or ship and containerised. The standard container was 20'. 10' or 40' containers were sometimes used.

5.2.3 The Market for Grey Cloth

5.2.3.1 Supply and Consumption: Production of grey cloth increased fairly steadily in the period 1981-84 despite a downward fluctuation in 1983. Imports

also demonstrated a fairly modest upward trend which was not affected by the recession of 1983, but also increased hardly at all in 1984 at a time when domestic production rose very sharply after the 1983 recession. Over the period under review there was no evidence that imports were increasing their small share of total supply.

Exports expanded significantly, but remained relatively unimportant throughout the period. The evidence suggests that while improvements in efficiency - coupled with strict import quotas - were enabling the Italian manufacturers to protect their own domestic market share they were not, unlike the German producers, a major force in export markets even in the EEC context. This could reflect, of course, the tendency in Italy to further process grey fabric before it is exported. Subjective evidence gathered by AeSL is the cause of its research suggests that such processing and garment-manufacture is much more dynamic in Italy than Germany. Certainly, consumption increased markedly in the period under review whereas in Germany it moved hardly at all.

TABLE 42

SUPPLY AND CONSUMPTION OF GREY CLOTH CONTAINING AT LEAST 85% COTTON, 1981-1984

(Tonnes)	1981	1982	1983	1984
Production	145,738	150,206	147,547	164,934
Imports	39,267	42,927	46,365	46,367
Exports	2,220	2,170	2,657	4,494
Apparent Consumption	182,785	190,963	191,255	206,807

Source: Eurostat, OECD, Italian Cotton Association.

Table 43 below analyses imports in more detail and indicates that by far the greatest proportion was sourced from OECD Europe. In 1981, 44.4 percent by volume came from this area and in 1984 47.7 percent. The other main sources were Non-OECD Far East and America. In 1981 and 1984, these regions accounted for 28.3 and 10.4 percent respectively. The unit cif values of cloth from Non-OECD America and Far Eastern sources tended to be lower than for that emanating from OECD Europe. The main individual sources of supply were Brazil, West Germany, Thailand, France and Pakistan.

The main types of cloth imported are as follows:

- 115-165 cm, 130-200 g/m^2, plain weave.
- >115 cm, >130 g/m^2, from single <55s yarn.
- >165 cm, >130 g/m^2, plain weave.
- 85-115 cm, 130-200 g/m^2, plain weave.
- >200 g/m^2, not plain weave.
- <200 g/m^2, not plain weave.

TABLE 43

ITALIAN IMPORTS OF GREY CLOTH (>85% COTTON), 1981-84

		1981	1982	1983	1984
Total	(Tonnes)	39,267	42,927	46,365	46,367
	($'000)	183,701	187,423	195,615	197,468
EEC	(Tonnes)	15,381	16,588	18,972	18,733
	($'000)	76,155	74,335	83,081	83,980
OECD Europe	(Tonnes)	17,428	20,611	21,965	22,127
	($'000)	91,650	98,127	102,312	103,275
of which:					
France	(Tonnes)	7,050	7,294	8,277	8,499
	($'000)	36,286	34,901	39,138	39,892
West Germany	(Tonnes)	5,069	4,553	6,143	5,166
	($'000)	24,370	19,922	25,053	22,065
Yugoslavia	(Tonnes)	3,276	3,022	2,807	2,514
	($'000)	11,691	11,171	10,000	9,144
Non-OECD America	(Tonnes)	4,075	6,061	5,750	4,840
	($'000)	16,698	21,949	20,843	17,972
of which:					
Brazil	(Tonnes)	2,479	4,258	2,510	2,862
	($'000)	10,035	14,678	8,291	9,602
Non-OECD Far East	(Tonnes)	9,682	9,041	10,250	11,026
	($'000)	41,445	37,192	38,989	42,443
of which:					
India	(Tonnes)	2,359	1,567	1,792	2,631
	($'000)	8,764	5,389	6,361	8,618
Pakistan	(Tonnes)	2,281	2,385	1,910	2,425
	($'000)	8,822	8,026	6,112	7,953
Thailand	(Tonnes)	1,045	1,490	2,249	1,989
	($'000)	5,787	7,478	9,792	8,042

Source: OECD

The relative and absolute importance of these grades was maintained in the period reviewed.

TABLE 44

VOLUMES OF THE MAIN TYPES OF CLOTH IMPORTS, 1981-1984

(Tonnes)	1981	1982	1983	1984
115-165 cm, 130-200 g/m², plain weave	7,387	10,089	12,216	12,741
>115 cm, >130 g/m², from single yarn <55s	4,242	4,964	5,673	5,612
<165 cm, <130 g/m², plain weave	6,839	7,050	7,548	4,746
85-115 cm, 130-200 g/m², plain weave	3,159	4,335	3,949	3,878
>200 g/m², >85 cm, not plain weave	3,977	4,244	5,955	3,453
<200 g/m², >85 cm, not plain weave	3,413	2,271	2,472	3,131

Source: Eurostat

For exports, the main types and volumes are shown in Table 45 below.

TABLE 45

VOLUMES AND MAIN TYPES OF CLOTH EXPORTS, 1981-1984

(Tonnes)	1981	1982	183	1984
<85 cm, not for bandages	698	718	694	1,633
115-165 cm, 130-220 g/m²	160	211	308	890

Source: Eurostat

5.2.3.2 Market Preferences: Information collected from trade sources during AeSL's interview programme suggested that at least 60 percent of Italian grey cloth consumption is accounted for by clothing manufacturers, 30 percent by home textile producers and 10 percent by industrial users. Selaco, one of the largest importers of cloth in Italy, finds the best selling constructions to be:

Threads* and Picks**/Inch	52	52	76	76	76	76
Count	20	20,	68	68,	30	30

These constructions are sold by Selaco to a large number of different users in Italy and are, or therefore, perhaps typical requirements of the Italian market. For widths and counts, preferences were 38"-120" and 20-60s respectively.

* Normally a single warp (vertical) yarn.
** Normally a single weft thread in a cloth as woven.

Obtaining more detailed information about major end-uses and specifications was not possible.

5.2.3.3 Distribution: A small proportion of grey cloth woven in Italy itself is usually processed by the same companies that weave it and, therefore, does not come onto the open market. Imported grey cloth is mainly purchased by wholesale merchants who then distribute it to smaller users such as converters and finishers (dyers, bleachers and printers) or garment-makers. A number of firms, however, buy grey cloth directly for further processing.

The main wholesalers were:

- C. Itoh E Co. Italiana
  Via Hoepli Sala Longobardi 2
  20121 Milano

- Selaco SpA
  Via Senato 11
  20101 Milano

- Associated Traders SpA
  Corso Venezia 2
  20121 Milano

- Filcotton Sas di R. Paganardi e & C.
  Via Manzoni 43
  20121 Milano

Direct purchasers included:

- Gruppo Finanriario Tessile (GFT)
  C. Emilia 6
  Torino

- Scotland House SpA
  Via Giulio Uberti 37
  20129 Milano

- Cotonifico Pozzi-Electa
  Viale Serra 6
  20148 Milano

- Benetton
  Via Chiesa 24
  Ponzano
  Near Treviso

The main details of these companies are:

C. Itoh E Co. Italiana

- Sells around 12 m metres of grey cloth per annum to finishers in Italy.
- The main sources of supply is S.E. Asia. Its suppliers are reliable in terms of

quality and adherence to delivery schedules. These are fundamental considerations.

- Buys all year round. Buying agents and quality controllers are resident in supplying countries. Shipments are in bales of 200-300 kg and containerised.

- Asked if it would be prepared to purchase NTC cloth, the company said it would not because if prefers to source from suppliers in S.E. Asia with which its Japanese venture partner has well-established relationships.

Selaco

- Sells $20 m-worth of cloth each year to finishers in the EEC with at least 200 clients in Italy.

- The main sources of supply are India, Tawian and South Korea. Its suppliers are reliable in terms of quality and adherence to delivery times. These factors are important.

- Buys all year round. Buying agents and quality controllers are resident in Italy. Cloth is baled in weights of 200-300 kg or in lengths of 600-2,000 m depending on the country of origin. Shipments are always containerised.

- The company said it would be prepared to buy NTC cloth if quality and delivery times were acceptable.

Associated Traders

- Sells at least 2 m metres of grey cloth each year to finishers and converters in Italy.

- The main sources of supply are the Far East, Egypt and South America. Its suppliers are reliable in terms of adherence to delivery times and quality, fundamental factors.

- Buys all year round. Quality controllers and buying agents reside in Italy and cloth is baled in 200-300 kg units. Shipments are always containerised

- Asked if it would be prepared to buy NTC cloth, the company said it would if

quality and times of delivery met market requirements.

Filcotton

- Sells at least $3 m worth of grey cloth each year to finishers and converters in Italy.
- The main sources of supply are Egypt, Pakistan and Brazil. Its suppliers are reliable in terms of quality, strict adherence to delivery schedules and, more importantly, provided in bulk. These are fundamental considerations.
- Buys all round. Buying agents and quality controllers reside in Italy. Cloth is baled in 200-300 kg units depending on specifications. Shipments are always containerised.
- Asked if it would be prepared to buy NTC cloth, the company said it would if quality and adherence to delivery times were acceptable.

Gruppo Finanriario Tessile

- Said to be one of the largest consumers of grey cloth in Italy, according to a secondary source. It was not possible to obtain more detailed information.

Scotland House

- According to unoffical sources, this company is said to be a large consumer of grey cloth. More information was not made available.

Cotonificio Pozzi-Electa

- Sells large quantities of grey cloth, of which a significant proportion is manufactured by itself, to finishers and converters in the EEC, USA, Venezuela, Japan and Singapore.
- The main sources of supply are Ireland and France. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These factors are fundamental.
- Buys all year round. Buying agents and quality controllers reside in Italy. Cloth is baled in 200-300 kg units and shipments and truckloads are always containerised.
- Asked if it would be prepared to buy NTC cloth, the company said it would

not but it might be interested in importing raw cotton if quality and delivery schedules matched requirements.

Benetton

- Sells no cloth. It consumes large quantities of grey cloth through manufacturers contracted to produce around 25 m garment pieces each year for sale in its own retail outlets in the EEC, especially Italy.

- The main sources of supply are Egypt and South America. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These are fundamental factors.

- Buys all year dound. Buying agents and quality controllers reside in Italy. For shipping, the cloth is baled in units of 200-300 kg depending on specifications. Shipments are always containerised.

- Asked if it would be interested in buying NTC cloth, the company said it would if quality and adherence to delivery times were acceptable.

5.2.3.4 Prices: AeSL found trade sources very reluctant to discuss prices for grey cloth. Data published by the Italian Cotton Association gave the following average market prices:

TABLE 46

AVERAGE MARKET PRICES FOR SELECTED TYPES OF GREY CLOTH IN 1984

Cloth	Prices (Lira/m)
US 30/30 - 30/27, 166 cm	2,275
US 30/30 - 30/27, 248 cm	3,325
US 16/16 - 24/24, various m^2	2,125

Source: Italian Cotton Association

Table 47 below gives average unit cif values for the most important grades of grey cloth in the period under consideration. However, since this data gives prices per kg, it is not possible to compare it with the table above where prices are quoted in lira per m. Nevertheless, it does seem likely that imports would tend to be significantly cheaper than locally-manufactured fabrics.

TABLE 47

AVERAGE UNIT CIF VALUES FOR SELECTED CATEGORIES OF IMPORTED GREY CLOTH, 1981-1984

Cloth	(Lira/kg) 1981	1982	1983	1984
<130 g/m², <115 cm from yarn <55s, plain weave	5,179	5,428	6,075	7,045
<130 g/m², >165 cm, plain weave	5,937	6,619	7,290	8,426
>130 g/m², <200 g/m², 85-115 cm plain weave	4,042	4,501	5,130	6,078
130-200 g/m² 115-165 cm plain weave	4,548	5,030	5,940	7,045
>200 g/m², >85 cm, not plain weave	6,316	7,943	7,975	7,874
<200 g/m², >85 cm, not plain weave	4,924	5,295	5,400	6,769

Source: Calculated from Eurostat

The figures in the table above also suggest that there was a fairly steady build up in price levels over the period 1981-1984. It should be noted, however, that the operation of quota limitations has probably tended to limit the volumes that can be taken from the cheaper sources, thus distorting slightly the picture presented by the table.

Table 48 below gives the average cif values for all types of imported grey cloth according to source. It indicates Non-OECD America to be a cheaper source than the Far East which is, again, cheaper than OECD Europe, the main source. Brazil and France were, respectively the cheapest and dearest sources respectively in 1984. It should be noted that many Third World countries subsidise their textile exporters to enable them to compete economically on the world market. Cif prices for 24/24 - 24/24 cloth from Ethiopia and Turkey were, according to one trade source, $0.56/m² and $0.45/m² respectively.

Duties on imported grey cloth were 10.7 percent in 1985 and total additional costs over and above cif price borne by import agents averaged 15 percent. Mark-ups for import agents ranged from 2-12 percent.

Italian importers prefer to pay on a basis cif Italian ports. Payment can be made in the form of a letter of credit.

5.2.3.5 Packaging: Bale sizes vary from 600 m (6 x 100 m pieces) to 2,000 m (20 x 100 m pieces) depending on the supplier. In terms of weight, bales range from 200-300 kg depending on the construction and types of yarn. The average weight is 200 kg since heavier bales are more difficult to handle. Bales are shipped or trucked in standard 20' containers.

5.2.4 The Market for Knitted Cotton Goods

As agreed with UNIDO, less emphasis was given to knitwear than to grey goods in the field-research carried out in Italy. The following represents the results of the attenuated survey undertaken.

TABLE 48

AVERAGE UNIT CIF VALUES FOR GREY CLOTH (>85% COTTON)

ACCORDING TO SOURCE, 1981-1984

(Lira/kg)	1981	1982	1983	1984
EEC	6,254	5,932	5,911	6,193
OECD Europe	6,643	6,303	6,288	6,447
of which:				
France	6,502	6,334	6,384	6,484
West Germany	6,073	5,793	5,501	5,900
Yugoslavia	4,508	4,894	4,810	5,024
Non-CECD America	5,177	4,793	4,893	5,129
of which:				
Brazil	5,113	4,563	4,432	4,635
Non-OECD Far East				
of which:				
India	4,210	4,645	5,381	5,746
Thailand	6,275	6,779	6,600	7,093
Pakistan	4,382	4,545	4,851	5,753
Total Sources	5,909	5,780	5,695	5,883

Source: Derived from OECD

TABLE 49

AVERAGE UNIT CIF VALUES AND SOURCES FOR MAIN TYPES OF GREY CLOTH, 1981-1984

Cloth Type (Source)	(Lira/kg) 1981	1982	1983	1984
<130 g/m², <115 cm from yarn <55s plain weave				
(Pakistan)	4,603	4,723	4,792	5,592
(Thailand)	-	-	-	5,548
<130 g/m², <165 cm plain weave				
(France)	6,150	6,648	7,322	8,536
>130 g/m², <200 g/m², 85-115 cm plain weave				
(India)	-	-	-	4,033
130-200 g/m², 115-165 cm plain weave				
(Brazil)	4,302	4,420	4,802	5,781
<200 g/m², >85 cm not plain weave				
(West Germany)	5,395	6,754	7,503	7,216
>200 g/m², >85 cm, not plain weave				
(We Germany)	5,174	5,156	5,389	7,468
All Types and Sources	5,909	5,780	5,695	5,883

Source: Derived from Eurostat

5.2.4.1 Supply and Consumption: Italy supplies most of its own requirements of pure cotton knitted underwear, domestic production accounting for over 90 percent of gross supply throughout the period 1981-84. To a large extent this reflects the protection afforded by the Italian weavers by the EEC quota system. Italy is not a significant exporter of these goods although shipments did increase substantially in relative terms during the period under review.

TABLE 50

SUPPLY AND CONSUMPTION OF PURE COTTON KNITTED UNDERGARMENTS, 1981-1984

(Tonnes)	1981	1982	1983	1984
Production	31,004	30,527	28,796	28,970
Imports	2,941	1,760	2,723	2,283
Exports	2,938	3,346	4,406	4,831
Apparent Consumption	31,007	28,941	27,113	26,422

Source: Italian Cotton Association, OECD, Eurostat.

The data in Table 50 suggests a downward trend in consumption which was confirmed by trade sources. This is largely an effect of a switch in preference to synthetic and mixed-fibre and away from cotton stemming mainly from considerations of fashion rather than prices - although it is not possible to determine what effect import quotas have had by excluding cheaper producers from Italy. Trade sources were of the opinion that this movement to alternative fibres was a declining trend which might even be reversed in the coming decade, but AeSL is uncertain how far this prediction is based on a rational assessment of the market.

Table 51 below indicates that T-shirts are the only significant import and, even in this instance, the volumes involved declined markedly in 1981-84.

TABLE 51

MAIN TYPES AND VOLUMES OF PURE COTTON KNITWEAR IMPORTS, 1981-1984

(Tonnes)	1981	1982	1983	1984
T-shirts (not for babies)	1,930	721	1,753	1,369
Mens/boys underpants and briefs	55	40	49	54
Mens/boys jerseys[1/]	522	205	407	309
Womens/girls/infants jerseys[2/]	41	103	122	185

1/ Including pullovers, slip-overs, waistcoats, cardigans.
2/ Including pullovers, slip-overs, waistcoats, cardigans, twin-sets, jumpers, bed jackets.

Source: Eurostat

The main sources of imports are the advanced industrial economies of Western Europe followed by the Far East in which the most important single source is Mainland China. This pattern is undoubtedly a consequence of the quota limitations on imports from non-European sources. The cif cost of items from the Far East is very significantly lower than those from European sources and considerations of quality and fashion alone would almost certainly not guarantee equivalent sales volumes in a free market situation.

TABLE 52

IMPORTS OF PURE COTTON KNITWEAR, 1981-1984

		1981	1982	1983	1984
Total	(Tonnes)	2,941	1,760	2,723	2,283
	($'000)	50,414	38,807	44,785	34,150
OECD Total	(Tonnes)	2,371	1,187	1,452	1,246
	($'000)	41,213	29,782	29,052	23,795
OECD Europe	(Tonnes)	663	781	726	1,005
	($'000)	24,324	25,172	21,233	21,284
of which:					
France	(Tonnes)	336	308	233	203
	($'000)	16,379	14,189	10,555	8,223
West Germany	(Tonnes)	136	119	100	138
	($'000)	3,467	3,656	2,817	3,131
Switzerland	(Tonnes)	113	134	123	260
	($'000)	1,971	2,236	2,107	2,049
Non-OECD Far East	(Tonnes)	439	465	454	486
	($'000)	7,056	7,844	6,274	5,811
USA	(Tonnes)	1,584	404	667	222
	($'000)	14,671	4,583	7,483	2,428
China	(Tonnes)	113	132	155	160
	($'000)	895	1,007	1,216	1,217
India	(Tonnes)	91	128	117	63
	($'000)	1,833	2,505	1,874	991
Djibouti	(Tonnes)	-	-	489	25
	($'000)	-	-	6,641	256
Peru	(Tonnes)	-	29	179	195
	($'000)	-	238	1,298	1,938
Brazil	(Tonnes)	2	-	-	232
	($'000)	30	-	-	1,498

Source: OECD

The export data in Table 53 below suggest that Italy has enjoyed some success in increasing sales of women's underwear. The main growth in exports, however, has been in items of outer wear such as jerseys, pullovers, slip-overs, waistcoats, cardigans etc for both men and women, but particularly for women. This suggests that Italian manufacturers are strongest in these areas where their reputation for design and high fashion can be most readily expressed rather than in the case of more prosaic products.

TABLE 53

MAIN CATEGORIES OF KNITWEAR EXPORTS, 1981-84

(Tonnes)	1981	1982	1983	1984
Men's/boys' jerseys, pullovers etc	5,554	3,167	4,480	7,089
Women's/Girls' jerseys, pullovers etc	2,188	2,648	3,951	6,746
Women's Panties	979	1,304	1,214	1,721

Source: Eurostat

5.2.4.2 Market Preferences: It was the universal opinion of trade sources approached by AeSL that there was an increasing preference in the Italian market for knitted cotton underwear as compared to that manufactured from mmf or mixtures. However, in absolute terms, the latter were preferred. The declining growth in consumption of pure cotton items tended to slow down and this was said to reflect the increasing awareness of the superior comfort and hygienic properties of cotton as well as the developments in recent years to improve its easy-care qualities.

Styling was said to be conservative. Most sales of underpants were of the classic jockey-briefs, fairly generously cut while women preferred the fuller cut panties. The main colour was white. Black or sky-blue were also purchased. Favourite knitting constructions were 1 x 1 and 2 x 1 rib made on single jersey circular machines. The preferred type of vest was the sleeveless singlet as opposed to the T-shirt, white again being the usual colour.

5.2.4.3 Distribution: There were two main types of retail outlet for underwear in Italy:

- specialist boutiques and haberdashers which were usually individual establishments and together dominated retail sales; and

- the department store - generally multiple chains spread throughout the country.

The smaller retailers, by far the most important in terms of their share in national sales, were generally reliant on wholesale producers and importers while department stores tended to buy directly from suppliers on a centralised basis. The main wholesalers were said to be:

- Cagi Maglierie SpA
  Viale Cassala 46
  20143 Milano

- Ragno
  Via Correggio 19
  20149 Milano

- Brivio G. e C. SpA
  Via di Vittorio 51
  20068 Peschiera Borromeo
  (Milano)

The largest department store group was:

- La Rinascente
  Piazza Duomo
  Milano

The main details of these companies are:

Cagi

- Sells large quantities each year - its retail packs usually hold 1 or 3 pieces. The company finds that its business is usually affected by fluctuations in the economy in terms of value of product sold, but not so much in volume.
- Most products it sells are standard style and white. Black and sky-blue were popular too. The main construction is one x one and two x one rib made on a single-jersey machine.
- This company is a leading manufacturer of underwear in Italy and does not import these items.
- Sells mainly in Italy to small retailers in the medium to high price market.
- Asked if it would be prepared to buy from NTC, the company said it would not because of doubts over the quality of imported items.

Ragno

- A leading manufacturer of underwear whose annual retail sales in Italy average $18 m. Its shares of the branded and unbranded markets are 50 percent and 7 percent respectively. Retail packs usually hold 1 to 3 pieces. The company finds that its business is usually affected by fluctuations in the economy, but, again, more in terms of value than volume.
- Most products it sells are standard style and white. The main constructions are 1 x 1 and 2 x 1 rib knitted on a single jersey circular machines.

- The company does not usually import.

- It sells to small retailers in the medium to high price market mainly in Italy.

- Asked if it would be prepared to buy from NTC, the company said it would if quality and delivery met the required standards.

Brivio

- This company has recently entered into an agreement with NTC to manage the marketing of its cotton knitwear.

- Sells around 9.4 m items of underwear each year. They are either retailed loose or in packs holding 1 or 3 pieces. The company finds that its business is usually affected by fluctuations in the economy.

- Most products it sells are standard style and white. 1 x 1 and 2 x 1 rib constructions made on single jersey circular machines are preferred.

- The main sources of supply are Ethiopia, India, Pakistan, China and Mauritius. Its suppliers are reliable in terms of quality and adherence to delivery schedules. These are fundamental considerations.

- Sells mainly to 11 distributors in Italy for the lower price market.

- Buying occurs throughout the year. Buying agents reside in Italy but quality controllers live in supplying countries.

- For shipping, it has a special export carton. Shipments are always containerised.

La Rinascente

- The management was unwilling to co-operate with AeSL. The floor staff however were more co-operative when talking about market preferences which have been discussed earlier.

5.2.4.4 Prices: Italian buyers prefer cif at Trieste, Genoa or other EEC ports.

Cagi's retail price range for pure cotton underwear was 3,000-7,000 lira and 2,000-8,000 lira respectively for men and women. For Ragno, the retail price range for men's vests and briefs was 14,000-15,000 lira and 10,000 lira respectively.

Higher-priced items tended to have a strong fashion element and, unsurprisingly, exhibit higher quality while the cheaper items tended to be of standard style and lower quality.

Payment was normally by letter of credit or cash against documents.

Table 54 below analyses the cif values for the main categories of imports of cotton underwear in 1981-1984. It indicates a steady growth of import prices in these years, albeit with a downward fluctuation in 1983, of 14.6 percent (annualised average) for T-shirts and 20.5 percent for mens/boys jerseys and similar clothing. As already indicated, however, it is considered that the main factor holding down import levels was the quota system rather than price.

TABLE 54

AVERAGE UNIT CIF VALUES FOR SPECIFIC CATEGORIES

OF ITALIAN COTTON UNDERWEAR, 1981-1984

(Lira/kg)	1981	1982	1983	1984
T-shirts (not for babies)	12,380	19,195	18,899	19,616
Mens/boys jerseys	19,200	32,433	26,054	34,949

Source: Calculated from Eurostat

Unit cif values in 1984 for OECD Europe and non-OECD Far East were respectively 29,255 Lira/kg and 16,517 Lira/kg. The non-OECD Far East therefore is the cheapest source. Most imports, however, were sourced in OECD Europe partly because this region produces higher quality items but, in the main, because of quota limitations.

5.2.4.5 Packaging: Normal transport was by ship container. This would hold export cartons which in turn would hold 250-300 pieces depending on the size of the item or the order. Inner cartons hold 10-30 pieces for the same reasons.

Retail packs for underwear were single piece polythene bags stiffened with card or single piece cardboard boxes.

TABLE 55

AVERAGE UNIT CIF VALUES FOR IMPORTS OF PURE COTTON KNITWEAR ACCORDING TO SOURCE, 1981-1984

(Lira/kg)	1981	1982	1983	1984
OECD Total	21,957	33,214	27,009	26,380
OECD Europe	46,344	42,665	39,481	29,255
of which: France	51,576	60,984	61,151	55,956
West Germany	32,202	40,670	38,027	31,341
Switzerland	22,032	22,090	23,124	10,887
Non-OECD Far East	20,303	22,331	18,655	16,517
USA	11,700	15,017	15,145	15,108
China	10,004	10,100	10,590	10,507
India	25,444	25,906	21,622	21,729
Djbouti	-	-	18,333	14,145
Peru	-	10,864	9,788	13,728
Brazil	18,948	-	-	8,920
Total	21,653	29,188	22,202	20,663

Source: Derived from OECD

5.2.5 Future Trends in Demand

The usual pattern of the declining share of expenditure on clothing in total consumer expenditure as developed economies become richer has been followed by Italy. This trend, which indicates both a tendency for individuals not to increase their expenditure on clothing as their income increases and a general reduction in the price of clothing relative to income levels, is expected to continue in the next few years.

An analysis of past trends in the demand for knitted cotton underwear suggested that there had been a steady downward trend, albeit at a declining rate, which was unaffected by fluctuations in overall economic activity. Since population and economic activity had not declined, the fall in demand for knitted cotton underwear was probably due to increasing consumption of items made from synthetic or mixed fibres, namely a substitution effect. However, given that the degree of substitution is limited, that the demand for cotton knitwear is falling more slowly and that individual consumers do not appear to increase their expenditures on these items as income increases, the only factors likely to secure continuing growth in the next ten years is growth in population and a reverse in the substitution process. The latter appears likely according to some trade sources. AeSL could find no ground for such confidence.

For cotton yarn and fabric, demand is influenced mainly by the demand for clothing. It is, however, also subject, in the case of yarn, to the extent to

which fabrics are woven and garments are knitted in Italy as opposed to being imported and, in the case of grey fabric not captively consumed, to the extent of fabric processing in the country. The preceding studies of the markets for these products suggested that spinning and weaving have been protected by government policy.

Although Italy is bound by its membership of the MFA and the Third Lome Convention to allow increased imports of textiles products, there is no reason to suppose that there will be a significant upset in the present pattern whereby the country continues to weave most of the grey cloth required by its dynamic and sophisticated processing industry - albeit using increasing volumes of imported yarn for this purpose. It seems reasonable, therefore, to postulate a continuation of historical growth trends. This suggests yarn consumption of around 281,500 tonnes in 1990 and 320,000 tonnes in 1995. The equivalent figures for cloth consumption are 290,000 tonnes and 317,000 tonnes respectively.

5.3 REGULATION OF ETHIOPIAN TEXTILE IMPORTS INTO GERMANY AND ITALY

5.3.1 Third Lome Convention

Textile imports into Germany and Italy are regulated on a common EEC basis. In the case of Ethiopia the governing instrument is the Third Lome Convention between the African, Caribbean and Pacific (ACP) group of countries on the one hand and the EEC member states on the other. Lome III was signed on 8th December 1984, but the textile regime under the Convention merely extended that already in force unde Lome II which it succeeded. The Convention secures to ACP exporters of textiles and textile products duty-free access into EEC markets without any of the quantitative restrictions which limit imports from countries signatory to the Multi-Fibre Arrangement under the General Agreement on Tariffs and Trade (MFA) and other suppliers enjoying preferential access to the EEC. There is, however, a reserve mechanism enabling the EEC to take measures to safeguard its markets against disruption should imports from ACP suppliers expand too quickly.

5.3.2 Criteria of Origin

All imports of textiles and textile products from ACP countries have to be accompanied by a EUR I Movement Certificate bearing a declaration by the exporter that the goods conform to the appropriate criteria of origin and can so be deemed to originate in the ACP country in question. This is intended to ensure that third country suppliers do not ship textiles through ACP countries in order to increase their imports into the EEC above the levels established in their quota agreements with the EEC - see below. The criteria for the products presently under consideration are set out below in Table 56. As NTC goods are usually manufactured from raw cotton they should have no trouble in conforming to this requirement. It would not, however, be permissible to export grey yarn from China or any other source to an EEC destination as being of Ethiopian origin. Fabric women from imported yarn might also not qualify for originating status.

TABLE 56

ORIGIN CRITERIA FOR CERTAIN COTTON GOODS

Tariff No.	Description	Working or Processing of non-Originating Materials that Confer the Status of Originating Products
55.05	Cotton yarn, not put up for retail sale	Manufacture from materials of heading Nos. 55.01[1/] or 55.03[2/]
55.09	Other woven fabrics of cotton	Manufacture from materials of heading 55.01[1/], 55.03[2/] or 55.04[3/]
60.04	Undergarments, knitted or crocheted, not elastic nor rubberised, obtained by sewing or by the assembly of pieces of knitted or crocheted goods (cut or obtained directly to shape)	Manufacture from yarn

1/ 55.01 = cotton, not carded or combed
2/ 55.03 = cotton waste (including pulled or garnetted rags), not carded or combed
3/ 55.04 = cotton, carded or combed

Source: The Third APC - EEC Convention (signed at Lome on 8th December 1984).

5.3.3 The Benefits Conferred on ACP Textile Exporters

5.3.3.1 Duty-free access: That the remission of duty on imports into the EEC of textiles and textile products confers a very substantial competitive advantage on ACP exporters can be seen from Table 57 below, which indicates the tariffs applicable on imports from other MFA signatories. In the case of grey fabric, the calculations of the International Textile Federation and the NTC presented in Table 7 of Annex 3 below suggest that, as a result of this preference, the cost of Ethiopian material cif German ports is brought below that from a number of the major suppliers, notably Brazil, although it is still not competitive with material from sources such as India and South Korea. Furthermore, there are no data on the cost of fabric from Mainland China: there is substantial evidence to suggest that Chinese suppliers can now undercut all others.

TABLE 57

RATES OF DUTY APPLICABLE TO IMPORTS OF CERTAIN TEXTILES AND TEXTILE PRODUCTS ON ENTERING EEC MARKETS

Product Tariff No.	Description	Tariff Germany	Tariff Italy
55.05	Cotton yarn	10%	10%
55.09	Woven fabric other than gauze or terry-cloth	17%1/	17%1/
60.04	Knitted or crocheted undergarments	21%	21%

1/ For cloth containing <85 percent cotton, the import tariff is 19 percent

Source: Customs

5.3.3.2 Unrestricted Physical Access: Under the Convention, imports of textiles and textile products from ACP sources are in general terms subject to the provisions of Article 131 (1) under which EEC members give up their sovereign rights to impose quantitative restrictions on imports of most categories of goods or to introduce any other measures having similar effect. This renunciation is, indeed, qualified by the so-called Safeguard Clause in Article 139 which allows one or more of the member states to introduce appropriate quantitative restrictions - preferably in consultation with the ACP states - if the free-trade regime results in serious disturbances to an economic sector. Textiles are recognised as one of the groups of products potentially at risk and, for certain categories of textile products judged to be particularly sensitive to import competition, the EEC has set up quantitative guidelines on levels of imports at which it might consider it necessary to take action under the Safeguard Clause.

Of the products presently under consideration, cotton yarn, cotton fabrics and T-shirts and other knitted shirts are regarded as sensitive. Guideline maxima have, accordingly, been established - these allow for a degree of annual growth - and each member state being allocated a share of the total according to their historical imports of the products in question. Table 58 below indicates these maxima for the years 1984 and 1986. Other cotton underwear is not subject to a specific guideline, but it is always open to the EEC to determine that imports of a non-specified product have become disruptive and to establish new maxima.

It will be seen from Table 58 that France has been allocated by the far the greatest share of the EEC maxima for yarn and woven fabric. The allocation to Germany and Italy in the case of yarn is relatively insignificant, but is more substantial in the case of woven fabric as far as Germany is concerned - although still small in the case of Italy. In the case of the knitted garments in Category 4, Germany is allocated by far the largest share of all the EEC member states, but again Italy's share is fairly small.

TABLE 58

EEC IMPORT CEILINGS FOR CERTAIN COTTON TEXTILE PRODUCTS FROM MFA, OTHER PREFERRED SUPPLIER AND ACP SOURCES in 1984

Product and Source	EEC Ceiling ( )	Regional Distribution (%) Germany	France	Italy	Benelux	UK	Ireland	Denmark	Greece
Cotton Yarn:									
MFA	54,770	37.4	12.1	17.5	20.5	4.2	4.5	2.6	1.3
Other Preferred									
Total[1/]									
ACP (1984)									
Cotton Fabric:									
MFA	141,931	20.87	10.3	13.6	7.7	40.3	2.2	4.1	1.0
Other Preferred									
Total[1/]									
ACP (1984)									
T-Shirts and Knitted Shirts:									
MFA									
Other Preferred									
Total[1/]									
ACP (1984)									

1/ Totals of direct imports only. Does not show quotas for re-imports of goods exported from EEC members for processing and re-importation. (Outward Processing Trade).

Source: EEC Report

The EEC is at pains to stress that the ACP Line is not a quota as such. It has, for instance, tended to be set at such generous levels that, during the period of Lome II, it was exceeded only twice and only once was action taken - in the case of sweaters from Mauritius. There is, indeed, a genuine willingness to see imports of textiles from ACP countries increase as a means of fostering economic development in those countries. It is possible, however, to take the more cynical view that the EEC can afford to adopt this liberal stance because the ACP countries have been, by and large, insignificant suppliers. It will also be seen that the ACP Line is not generous compared with the import quotas established for MFA countries. There is obviously no intention on the part of the EEC of allowing imports from ACP countries to expand to an extent that threatens a substantial increase in overall import levels.

As already intimated, the EEC ceilings set for MFA suppliers differ from those set for ACP suppliers in that they are intended to have a deliberately restrictive effect on imports. Under the system, individual supplying countries enter into bilateral arrangements with the EEC for a period of years under which they are allocated a share of the ceilings set for sensitive products and for any other products where they have shown a particular propensity to penetrate EEC markets on the basis of their historical record. Within these EEC quotas they are granted quotas for the member states on a pro rata basis according to the regional breakdown for the total quota indicated above. The setting of regional ceilings for each EEC member state has the practical consequence of ensuring that no supplier can ever fill his EEC quota for any one product within the global ceiling set for that product.

The effect of this system on the pattern of supply in Germany and Italy has already been discussed. Broadly speaking it has limited imports from the Far East, the cheapest source, in favour of those from EEC member states and other European countries and also ensured that those materials which do arrive from the Far East are of the more expensive categories because the opportunities for high volume sales of lov value products are restricted. Far more so than the USA system - considered in Section 6 below - it can be said to have exercised a deliberately distorting influence on the EEC markets.

6.0 THE USA

6.0 THE USA

6.1 US TRADE IN COTTON GOODS

6.1.1 Knitted Cotton Goods

The USA is an important market for all main categories of knitted cotton goods as these are defined by the Organisation for Economic Co-operation and Development (OECD) in their trade statistics. In the case of outer garments, the value of its imports is usually less than that of those imported by Germany as Table 59 indicates. In the case of men's shirts, however, it is incontestably the major importer of all the OECD member countries, although its imports of other undergarments were of less value than those of Germany in 1983 - see Table 60.

TABLE 59

US IMPORTS OF COTTON OUTERGARMENTS COMPARED WITH THOSE OF OTHER MAJOR OECD MARKETS, 1983

(US$ '000s)

	Cotton Jerseys etc	Cotton Dresses etc	Others
OECD Total	792,429	150,269	176,187
USA	87,007	18,229	61,121
EEC	527,371	109,557	58,934
Germany	331,038	47,638	NA

Source: OECD

TABLE 60

US IMPORTS OF COTTON UNDERGARMENTS COMPARED WITH THOSE OF OTHER MAJOR OECD MARKETS, 1983

(US$ '000s)

	Shirts	Others
OECD Total	518,565	1,378,733
USA	320,766	309,994
EEC	127,426	933,199
Germany	66,954	401,695
Japan	37,878	49,924

Source: OECD

The trend in US imports of knitted cotton garments - whether knitted from pure cotton or from cotton with small mmf admixtures - was markedly upwards in the period 1981-84 and particularly in 1984, as Tables 61-65 below indicate. All main categories of such garments - Jerseys and Pullovers; Dresses, Skirts, Suits etc; Other Outer Garments; Men's Shirts; and Other Undergarments - were affected by this trend. Undergarments retained their relative importance as compared to outergarments - certainly in volume terms -and, within this broad category, the growth of imports of shirts and that of other knitted cotton undergarments, was uniformly impressive.

For all the period under review, the Far East was the main source of supply - although it declined somewhat in relative terms in more recent years. Hong Kong was usually the largest individual supplier, followed by Taiwan. Mainland China was not yet a major force in this area. The dominance of the Far East was usually a factor of price - in general the unit c.i.f. value of imports from this area is below those of imports from all sources. The prejudice against Hong Kong and other suppliers as, essentially, producers of cheap and shoddy goods seems to be dissipating and there is a realisation in the market place that companies such as East Ocean Textiles are capable of output fully comparable with that of any producer in the West. (East Ocean, for instance, produces men's shorts under the prestigious Van Heusen label).

The increase in imports of knitted cotton garments, which are paralleled by those of other categories, has however done much to fuel the demand for protectionist measures which in recent years have been a dominant influence in shaping US trade policy in this area - c.f. section 6.2. below.

TABLE 61

US IMPORTS OF COTTON JERSEYS, PULLOVERS ETC. 1981-84

		1981	1982	1983	1984
Total	(Tonnes)	1,659	2,852	3,473	5,081
	(US$ '000)	44,708	68,065	87,007	142,269
of which:					
Far East	(Tonnes)	1,500	2,667	3,207	3,899
	(US$ '000)	37,908	60,556	76,188	100,147

Source: OECD

TABLE 62

US IMPORTS OF COTTON DRESSES, SKIRTS, SUITS ETC. 1981-84

		1981	1982	1983	1984
Total	(Tonnes)	416	539	750	1,500
	(US$ '000)	11,891	13,980	18,229	39,477
of which:					
Far East	(Tonnes)	336	455	635	1,123
	(US$ '000)	8,629	10,896	13,006	25,374

Source: OECD

TABLE 63

US IMPORTS OF OTHER OUTERGARMENTS 1981-84

		1981	1982	1983	1984
Total	(Tonnes)	4,897	4,992	6,755	10,242
	(US$ '000)	61,214	74,963	100,804	160,702
of which:					
Far East	(Tonnes)	2,968	3,622	4,691	6,776
	(US$ '000)	39,535	55,216	69,121	103,625

Source: OECD

TABLE 64

US IMPORTS OF MEN'S COTTON SHIRTS 1981-84

		1981	1982	1983	1984
Total	(Tonnes)	12,673	13,619	17,011	21,654
	(US$ '000)	258,523	257,504	320,766	434,878
of which:					
Far East	(Tonnes)	10,079	11,418	14,364	17,783
	(US$ '000)	185,960	210,462	263,518	346,000

Source: OECD

TABLE 65

US IMPORTS OF OTHER UNDERGARMENTS 1981-84

		1981	1982	1983	1984
Total	(Tonnes)	12,147	14,906	17,538	21,289
	(US$ '000)	217,585	272,801	309,994	393,900
of which:					
Far East	(Tonnes)	9,567	12,603	14,200	16,537
	(US$ '000)	161,618	222,042	241,375	291,359

Source: OECD

6.1.2 Grey Goods

US imports of cotton yarn as a whole are small and those of unbleached yarn are understood to be negligible.

US imports of grey, unmercerised, woven fabric containing at least 85 percent of cotton, but excluding terry towelling and other terry fabrics and pile fabrics, except uncut weft pile, are indicated in Table 8 below. It will be seen that in the period 1981-84 there was no overall trend; imports fell away markedly in 1982, recovered somewhat in 1983 and then increased very substantially in 1984. It is obvious from the sheer scale of imports that this trade is very well established. Without a detailed review of the situation, which is beyond the scope of the present study, it is difficult to determine whether the increase in 1984 represented a reaction to an upturn in the US market or whether there was also an element of imports displacing domestic production. AeSL's understanding, however, is that both factors were at work to produce this result.

The main source of these imports over the whole period was the Far East. Within that region, Mainland China, Taiwan and Hong Kong were the major sources, but by 1984 Mainland China was by far the largest single supplier while the others had declined in importance. Again, the dominance of the Far East in the US market seems to be a factor of the relatively low prices of material emanating from this area.

The USA is by far the largest single importer of this category of products. In 1983, the latest year for which data are available, it accounted for 31.1 percent of the total imports of the advanced industrial economies in the Organisation for Economic Co-operation and Development (OECD). Western Europe as a whole accounted for 57.3 percent in the same year, but none of the individual consumers in that area were in any way comparable with the USA. The only other significant consumer in the OECD group was Japan, accounting for 9.8 percent.

TABLE 66

US IMPORTS OF GREY CLOTH 1981-84

		1981	1982	1983	1984
Total	(Tonnes)	123,783	92,137	116,934	164,193
	(US$ '000)	429,254	322,542	370,855	588,453
of which:					
Far East	(Tonnes)	97,292	74,329	95,839	130,794
	(US$ '000)	342,430	263,378	306,163	473,276

Source: OECD

6.2 THE REGULATORY FRAMEWORK

6.2.1 Duties

AeSL was informed by US Customs that Ethiopia does not qualify for any remission of duty on its exports of textiles and clothing products into the USA.

Table 67 at the end of this sub-sectiongives details of existing tariffs on the goods of interest to this survey. It should be noted that Mainland China, Taiwan and Hong Kong, the main suppliers of these products, are all exempted from these duties.

6.2.2 The Multi-Fibre Arrangement

The US domestic regulations governing its imports of textiles and textile products are, ostensibly, governed by the Multi-Fibre Arrangement (MFA) of the General Agreement on Tariffs and Trade (GATT). The proclaimed purpose of the MFA is to establish a framework in which developing countries can increase their exports of textiles while developed countries can take measures to ensure that this trade grows in an orderly manner, not disrupting their domestic markets. As is the way of these things, the USA, like other developed countries, has been more concerned with the orderly growth provisions of the Arrangement and the protection of its domestic industry than with the expansion of its imports, but, as has been indicated, imports have, in fact, grown very rapidly and - according to US trade sources - very disruptively in recent years which has fuelled the demand for more effective protection.

Ethiopia is not a signatory of the MFA, but in August 1984 the US Department of Commerce gave the following answer to a question from the UK Department of Trade and Industry as to whether newly promulgated R s of Origin for imports of goods subject to the MFA applied to countries not pa y to the MFA:

> Under authority delegated by Congress, the President (of the USA) has the power to promulgate regulations governing the entry of textiles and textile products which are subject to a multilateral international agreement, regardless of whether that merchandise emanates from an agreement country, in order to effectuate the purposes of that agreement. In short, the answer is yes.

From this it is clear that imports from Ethiopia are subject to US regulations governing textile imports made within the framework of the MFA.

6.2.3. US Controls

The US has, in recent years, attempted to regulate the growth of imports of textiles and textile products by means of bilateral agreements which it has negotiated with all significant supplying countries. These agreements, which are governed by the provisions of Article 4 of the MFA, set limits to imports of products or groups of products[1/] with allowances for specific measures of annual growth. They also, invariably, provide for consultations on all other products so that if, during the life-time of the agreement, any such product begins to grow at a rate which, in the opinion of the US Government's Committee for the Implementation of Trade Agreements (CITA), either disrupts the domestic market or threatens to disrupt it, the US Government can decide to 'call' the partner to the agreement to discuss the situation and, if disruption or the threat of disruption is determined, to agree the imposition of quotas on the offending product.

1/ The USA distinguishes 104 categories of textiles and textile products, of which 39 are for cotton fibre products. These may be singled out in an agreement either for separate treatment or for treatment in defined groups.

TABLE 67

US DUTIES ON IMPORTS OF SELECTED TEXTILE AND GARMENT CATEGORIES

AS THESE WOULD APPLY TO GOODS OF ETHIOPIAN ORIGIN

Category No	Description			Rate of Duty
Men's and Boys' Wearing Apparel, Not Ornamented, Knitted Cotton				
379.39	Coats, suits, vests (jackets), trousers, slacks and shorts jackets			18%
379.40	Shirts and sweaters			21%
379.41	Other 1/			12.3%
Women's, Girls' and Infants Wearing Apparel, Not Ornamented, Knitted Cotton				
383.27	Blouses, shirts and sweaters			21%
383.28	Coats, suits, trousers, slacks, jackets and shorts			18%
383.29	Dresses			15%
383.30	Other 1/			12.3%
Yarns, Wholly of Cotton, Not Bleached, Not Mercerised, Not Coloured, Not Combed, and Not Plied				
301.01	Of number	1 or coarser	(300)	3.2% ad val.
301.02	Of number	2	(300)	3.4% ad val.
301.03	Of number	3	(300)	3.4% ad val.
301.04	Of number	4	(300)	3.6% ad val.
301.05	Of number	5	(300)	3.7% ad val.
301.06	Of number	6	(300)	3.9% ad val.
301.07	Of number	7	(300)	4.1% ad val.
301.08	Of number	8	(300)	4.1% ad val.
301.09	Of number	9	(300)	4.3% ad val.
301.10	Of number	10	(300)	4.4% ad val.
301.11	Of number	11	(300)	4.6% ad val.
301.12	Of number	12	(300)	4.7% ad val.
301.13	Of number	13	(300)	4.8% ad val.
301.14	Of number	14	(300)	5% ad val.
301.15	Of number	15	(300)	5.1% ad val.
301.16	Of number	16	(300)	5.3% ad val.
301.17	Of number	17	(300)	5.4% ad val.
301.18	Of number	18	(300)	5.5% ad val.
301.19	Of number	19	(300)	5.6% ad val.
301.20	Of number	20	(300)	5.7% ad val.
301.21	Of number	21	(300)	5.9% ad val.
301.22	Of number	22	(300)	6.1% ad val.
301.23	Of number	23	(300)	6.2% ad val.
301.24	Of number	24	(300)	6.3% ad val.
301.25	Of number	25	(300)	6.4% ad val.
301.26	Of number	26	(300)	6.5% ad val.
301.27	Of number	27	(300)	6.7% ad val.
301.28	Of number	28	(300)	6.8% ad val.
301.29	Of number	29	(300)	7% ad val.
301.30	Of number	30	(300)	7% ad val.
301.31	Of number	31	(300)	7.2% ad val.
301.32	Of number	32	(300)	7.3% ad val.
301.33	Of number	33	(300)	7.4% ad val.
301.34	Of number	34	(300)	7.6% ad val.
301.35	Of number	35	(300)	7.7% ad val.
301.36	Of number	36	(300)	7.8% ad val.
301.37	Of number	37	(300)	8% ad val.
301.38	Of number	38	(300)	8.1% ad val.
301.39	Of number	39	(300)	8.2% ad val.
301.40	Of number	40	(300)	8.3% ad val.
301.41	Of number	41	(300)	8.5% ad val.
301.42	Of number	42	(300)	8.6% ad val.
301.43	Of number	43	(300)	8.7% ad val.
301.44	Of number	44	(300)	8.8% ad val.
301.45	Of number	45	(300)	8.9% ad val.
301.46	Of number	46	(300)	9.1% ad val.
301.47	Of number	47	(300)	9.3% ad val.
301.48	Of number	48	(300)	9.3% ad val.
301.49	Of number	49	(300)	9.5% ad val.
301.50	Of number	50	(300)	9.5% ad val.
301.51	Of number	51	(300)	9.7% ad val.
301.52	Of number	52	(300)	9.9% ad val.
301.53	Of number	53	(300)	10% ad val.
301.54	Of number	54	(300)	10.1% ad val.
301.55	Of number	55	(300)	10.2% ad val.
301.56	Of number	56	(300)	10.3% ad val.
301.57	Of number	57	(300)	10.5% ad val.
301.58	Of number	58	(300)	10.6% ad val.
301.59	Of number	59	(300)	10.7% ad val.

1/ Includes underwear

TABLE 67 (Cont)

US DUTIES ON IMPORTS OF SELECTED TEXTILE AND GARMENT CATEGORIES

AS THESE WOULD APPLY TO GOODS OF ETHIOPIAN ORIGIN

Category No	Description			Rate of Duty
301.60	Of number	60-69	(300)	3c per lb. + 10.9% ad val.
301.70	Of number	70-79	(300)	3c per lb. + 10.9% ad val.
301.80	Of numbers	80-89	(300)	3c per lb. + 10.9% ad val.
301.82	Of numbers	90-99	(300)	3c per lb. + 10.9% ad val.
301.84	Of numbers	100-109	(300)	3c per lb. + 10.9% ad val.
301.86	Of numbers	110-119	(300)	3c per lb. + 10.9% ad val.
301.88	Of numbers	120-139	(300)	3c per lb. + 10.9% ad val.
301.92	Of numbers	140-159	(300)	3c per lb. + 10.9% ad val.
301.94	Of numbers	160-179	(300)	3c per lb. + 10.9% ad val.
301.96	Of numbers	180-199	(300)	3c per lb. + 10.9% ad val.
301.98	Of numbers	200 or higher number	(300)	3c per lb. + 10.9% ad val.
	Woven Fabrics, Wholly of Cotton, Other than that Suitable for Making Typewriter Ribbon, Not Fancy, or Figured, Not Bleached, and Not Coloured			
320.01	Of number 2/	1 or coarser		5.4% ad val.
320.02	Of number	2		5.5% ad val.
320.03	Of number	3		5.6% ad val.
320.04	Of number	4		5.8% ad val.
320.05	Of number	5		6% ad val.
320.06	Of number	6		6.2% ad val.
320.07	Of number	7		6.3% ad val.
320.08	Of number	8		6.4% ad val.
320.09	Of number	9		6.5% ad val.
320.10	Of number	10		6.7% ad val.
320.11	Of number	11		6.9% ad val.
320.12	Of number	12		7.1% ad val.
320.13	Of number	13		7.2% ad val.
320.14	Of number	14		7.3% ad val.
320.15	Of number	15		7.5% ad val.
320.16	Of number	16		7.7% ad val.
320.17	Of number	17		7.8% ad val.
320.18	Of number	18		7.9% ad val.
320.19	Of number	19		8.1% ad val.
320.20	Of number	20		8.2% ad val.
320.21	Of number	21		8.4% ad val.
320.22	Of number	22		8.6% ad val.
320.23	Of number	23		8.7% ad val.
320.24	Of number	24		8.8% ad val.
320.25	Of number	25		9% ad val.
320.26	Of number	26		9.2% ad val.
320.27	Of number	27		9.3% ad val.
320.28	Of number	28		9.4% ad val.
320.29	Of number	29		9.5% ad val.
320.30	Of number	30		9.7% ad val.
320.31	Of number	31		9.9% ad val.
320.32	Of number	32		10% ad val.
320.33	Of number	33		10.2% ad val.
320.34	Of number	34		10.3% ad val.
320.35	Of number	35		10.5% ad val.
320.36	Of number	36		10.6% ad val.
320.37	Of number	37		10.7% ad val.
320.38	Of number	38		10.8% ad val.
320.39	Of number	39		11% ad val.
320.40	Of number	40		11.2% ad val.
320.41	Of number	41		11.3% ad val.
320.42	Of number	42		11.4% ad val.

2/ Average yarn number of yarns contained in fabric. In computing the average yarn number, the length of yarn is considered to be equal to the distance covered by it in the fabric in the condition as imported, with all clipped yarn being measured as if continuous, and with the count being taken of the total single yarns in the fabric including the single yarns in any plied yarns. The weight shall be taken after any excessive sizing is removed by boiling or other suitable process. Any one of the following formulae can be used to determine the average yarn number for tariff purposes:

$$N = \frac{BYT}{840} \quad \text{or} \quad \frac{24T}{352'} \quad \text{or} \quad \frac{2BT}{1052} \quad \text{or} \quad \frac{3ST}{70}$$

when

N is the average yarn number
B is the breadth (width) of the fabric in inches
Y is the yards (linear) of the fabric per panel
T is the total single yarns per square inch
S is the square yards of the fabric per pound
Z is the ounces per linear yard of fabric and
Z' is the ounces per square yard of fabric.

TABLE 67 (Cont)

US DUTIES ON IMPORTS OF SELECTED TEXTILE AND GARMENT CATEGORIES

AS THESE WOULD APPLY TO GOODS OF ETHIOPIAN ORIGIN

Category No	Description		Rate of Duty
320.43	Of number	43	11.6% ad val.
320.44	Of number	44	11.8% ad val.
320.45	Of number	45	11.9% ad val.
320.46	Of number	46	12% ad val.
320.47	Of number	47	12.1% ad val.
320.48	Of number	48	12.3% ad val.
320.49	Of number	49	12.4% ad val.
320.50	Of number	50	12.5% ad val.
320.51	Of number	51	12.7% ad val.
320.52	Of number	52	12.9% ad val.
320.53	Of number	53	13% ad val.
320.54	Of number	54	13.2% ad val.
320.55	Of number	55	13.3% ad val.
320.56	Of number	56	13.5% ad val.
320.57	Of number	57	13.6% ad val.
320.58	Of number	58	13.7% ad val.
320.59	Of number	59	13.8% ad val.
320.60	Of number	60	3.1c per lb. + 13.7% ad val.
320.61	Of number	61	3.1c per lb. + 13.8% ad val.
320.62	Of number	62	3.1c per lb. + 14% ad val.
320.63	Of number	63	3.1c per lb. + 14.2% ad val.
320.64	Of number	64	3.1c per lb. + 14.3% ad val.
320.65	Of number	65	3.1c per lb. + 14.4% ad val.
320.66	Of number	66	3.1c per lb. + 14.6% ad val.
320.67	Of number	67	3.1c per lb. + 14.7% ad val.
320.68	Of number	68	3.1c per lb. + 14.9% ad val.
320.69	Of number	69	3.1c per lb. + 15.1% ad val.
320.70	Of number	70	3.1c per lb. + 15.2% ad val.
320.71	Of number	71	3.1c per lb. + 15.3% ad val.
320.72	Of number	72	3.1c per lb. + 15.5% ad val.
320.73	Of number	73	3.1c per lb. + 15.7% ad val.
320.74	Of number	74	3.1c per lb. + 15.8% ad val.
320.75	Of number	75	3.1c per lb. + 15.9% ad val.
320.76	Of number	76	3.1c per lb. + 16.1% ad val.
320.77	Of number	77	3.1c per lb. + 16.2% ad val.
320.78	Of number	78	3.1c per lb. + 16.4% ad val.
320.79	Of number	79	3.1c per lb. + 16.6% ad val.
320.80	Of number	80-89	3.1c per lb. + 16.8% ad val.
320.82	Of number	90-99	3.1c per lb. + 16.8% ad val.
320.84	Of number	100-109	3.1c per lb. + 16.8% ad val.
320.86	Of number	110-119	3.1c per lb. + 16.8% ad val.
320.88	Of number	120-139	3.1c per lb. + 16.8% ad val.
320.92	Of number	140-159	3.1c per lb. + 16.8% ad val.
329.94	Of number	160-179	3.1c per lb. + 16.8% ad val.
320.96	Of number	180-199	3.1c per lb. + 16.8% ad val.
320.98	Of number	200 or higher numbers	3.1c per lb. + 16.8% ad val.

It should be noted that, even if the USA does not have a bilateral agreement with a textile exporting country, it can still 'call' such a country to consultations under Article 3 of the MFA if it considers that that country's exports of particular categories are disrupting or threatening to disrupt its domestic market. This provision would, presumably, apply to Ethiopia if it should succeed in developing its exports to significant levels.

In December, 1983, the US Government established criteria for addressing import increases in products not currently controlled which, if met, would establish a presumption of market disruption or threat thereof. This was done "to ensure that appropriate action regarding market disruption was taken on a more timely and predictable basis". The criteria were:

- Total growth in the imports of the product or product category in question by more than 30 percent in the most recent year, or a ratio of total imports to domestic production of the product or product category of 20 percent or more and;

- Imports from an individual supplier equal to 1 percent or more of the total US production of the product or product category.

It should be noted that both criteria have to apply before there is a presumption of market disruption or threat thereof under the provision. Furthermore, practice seems to suggest that even if the criteria are met it does not necessarily result in a call to consultation if the US considers that there are other circumstances to be taken into account. (For instance, Jamaica was not 'called' in 1984 even though its exports of, inter alia, woven cotten shirts, met both criteria. Ethiopia would, presumably, be ill-advised to rely on similar benevolence.

6.2.4 Further Protectionist Measures

The regulatory structure outlined above was, essentially, established in the light of the MFA, interpreted as favourably as possible to the interests of the US textile industry, indeed, but still broadly governed by the the trade development objectives of that Arrangement. As has been already intimated, however, the measures have failed to prevent a very rapid growth of imports of textiles and textile products. This has led to a rapid upsurge in protectionist feeling, especially since the middle of 1983.

In general, the US Administration is sympathetic to the free trade aspirations embodied in the GATT and the MFA and has resisted pressures to impose greater restrictions on imports. It has not, however, been able to ignore completely the immediate interests of the 7 million or so voters who either work in the US textile and garment industries or who are dependants of those who do so. As is often the case, it has proved more difficult to organise consumers, retailers, importers etc. whose interests are in the maximum availability of goods at the lowest possible price, into a politically effective instrument against the protectionist lobby. Thus, the Administration has felt obliged on the one hand to make gestures of sympathy to the textile industry which, in fact, do not impose any additional restrictions on imports - the 30:20:1 measure referred to above is an example - and to tighten up on the administration of existing controls - as by introducing new Rules of Origin to prevent countries subject to quota arrangements circumventing their quotas by

shipping to the USA through third countries in which some minimal value is added to the products.

In March, 1985, however, the protectionists introduced identical Bills in both Houses of Congress with the objectives of:

(i) Preventing further disruption of the United States textiles and textile products market, damage to United States textile and apparel manufacturers and loss of jobs by United States workers by providing for orderly and non-disruptive growth of imports of textiles and textile products; and

(ii) Implementing the objectives of the Multi-Fibre Arrangement by requiring the effective enforcement of import levels of textiles and textile products contemplated by the Multi-Fibre Arrangement.

The Jenkins Bill - so called after the Representative who introduced it into the Lower House - sought to realise these objectives mainly by rolling back imports from major exporting countries[1/], such as Hong Kong, Taiwan and South Korea. To this end its major provisions were:

(i) To restrict imports in 1985 from each major exporter to 101 percent of the aggregate quantity of imports that would have entered in 1984 if the annual growth since 1980 had been restricted to 6 percent per annum or, where a bilateral agreement had had the effect of producing a growth rate of imports between 1980 and 1984 of less than 6 percent per annum, to 101 percent of the 1984 imports, whichever is the lesser.

(ii) In the case of other supplying countries, to restrict imports to an aggregate equivalent to 115 percent of 1984 imports of all categories not import sensitive[2/] plus 101 percent of import sensitive categories.

(iii) If in any calendar year after 1984 a country which is not a major exporter exports an aggregate volume of textiles and garments equalling or exceeding 1.25 percent of US Imports of such products in that year it was from henceforth to be considered a major exporter.

(iv) Growth in years after 1985 was to be confined to 1 percent per annum for each category for major exporters and to 6 percent for non-import sensitive categories and 1 percent for import sensitive categories.

(v) Minimum import quotas were to be 1 mn square yard equivalents (SYE) for yarn, fabrics, made-ups and miscellaneous products (other than wool) and 700,000 SYE in the case of apparel with growth rates as prescribed.

1/ 'Major Exporting Countries' are those countries other than Canada, the EEC and countries benefitting from the Caribbean Basin Initiative from which the USA Imported in 1984 an annual aggregate quantity of textiles and textile products of all categories that equalled or exceeded 1.25 percent of all such imports in that year.

2/ 'Import Sensitive' defines those categories of imports for which the ratio of imports to domestic production equals or exceeds 140.0 for the preceding calendar year.

(vi) Import licences were to be a condition of entry for each shipment. The licence fees are to be sufficient to cover the cost of administering the licence system.

If it were to pass into law, this Bill would seem to violate the MFA in a number of ways, e.g. by:

- rolling back existing import levels in the case of a number of countries;

- eliminating the concept of negotiating mutually acceptable agreements with supplier countries, mandating instead unilateral action without time limits;

- eliminating the concept of demonstrating market disruption for specific products from specific countries;

- mandating minimal overall growth in imports on a unilateral basis, instead of requiring case-by-case justification.

It was on these grounds that the Administration attempted to resist the passage of the Bills through the Legislature. Such was the strength of the Protectionist Lobby, however, that the measure was, in fact, passed with substantial majorities in both Houses of Congress. The President then used his powers to veto the Bill when it came for his assent and, because of the Republican majority in the Senate, Congress is unlikely to be able to over-ride this. Nevertheless, it seems likely that the Administration may have to defuse the situation by taking additional measures to curb imports, especially from major suppliers.

6.3 OTHER FACTORS LIKELY TO IMPEDE ETHIOPIAN EXPORTS

A principal factor considered likely to impede the development of Ethiopian exports of textiles and garments to the USA is the country's geographical remoteness, combined with the lack of any regular air or sea freight links - at least according to the Commercial Section of the US Embassy in Addis Ababa. This would represent a substantial limitation considering the competitive nature of the market and the importance of timeliness in deliveries. It might be possible to organise a regular sailing or flight for this purpose, but the cost/benefit of this would need to be considered carefully, given the fact that importers usually require deliveries to be spread evenly throughout the year, partly in order to reduce their own inventory costs, partly because CITA prefers this.

It might be argued that the success of NTC in selling shirts from the Augusta Garment Factory demonstrates that the freightage problems are not insuperable. AeSL does not know a great deal about this trade, but understands that it concerns an 'ethnic' product particularly aimed at the self-consciously 'Black' segment of the US market - particularly those influenced by the Rastafarian cult - and it not certain that the arrangements made in that case would be suitable for standard retail items such as underwear or for raw materials such as unbleached yarn and grey cloth.

Another consideration to be taken into account in the light of the technical analyses of NTC's production capabilities undertaken elsewhere in this report

is the unlikelihood that Ethiopian supplies could compete with those from Mainland China and Hong Kong, the main suppliers, either on price or on consistency of quality. The price disadvantage would probably remain whether or not the problem of high freight costs could be overcome. The technical failings identified are susceptible to remedy - indeed, there are recommendations to this end in Section 7 below - but a decision has to be taken to implement the necessary measures and it seems unlikely that Ethiopia will become a supplier as consistently reliable technically as the Chinese countries for a number of years.

Another factor that has to be taken into account is the current relationship between the US Administration and the Government of Ethiopia which might impede the negotiation of a reasonable bi-lateral trade agreement between the two countries under the MFA should this become desirable.

6.4 CONCLUSIONS

The USA must constitute a very attractive market for any exporter of cotton products such as the NTC if only because of its sheer size and apparent propensity to import. It must therefore remain in the forefront of any long range planning for NTC. But, AeSL hesitates to recommend that it should be the subject of a more detailed market survey at the present time, primarily because of the present wave of protectionism, the inadequacy of existing freight links, and doubts about its inability to compete with existing suppliers of very standard products on grounds of either price or consistency of quality.

Although it could be argued that the provisions of the vetoed Jenkins Bill, if they were to pass into law in any recognisable form, would actually benefit new suppliers of textiles and garments, such as Ethiopia, firstly by giving them an aggregate minimum market of 1 mn SYE for yarn and fabric categories and 0.7 mn SYE in the case of apparel categories and, secondly, by allowing for 15 percent per annum growth on these bases. It should be remembered, however, that for 'import sensitive' categories of products, the aggregate increase must be calculated on the basis of one per cent per annum growth. All the categories covered by the study are 'import sensitive'.

The effect of the inadequacy of existing freight links or of taking action to remedy this could well be to increase markedly the landed cost of Ethiopia's exports in the USA. As noted earlier, the great bulk of US Imports of the categories covered by this study are from very low cost producers who succeed because they are able to supply the market with materials of consistent quality and specifications at prices which competitors cannot match. Even if it were to prove the case that freight costs would constitute only a small part of the total landed costs, the evidence of the technical assessment - cf Section 8 - suggests that Ethiopia could not match Hong Kong or Mainland China for price or - for some years at least - for quality either.

AeSL recommends that any decision as to whether a detailed assessment of the US market should be undertaken should await:

- Further clarification of the nature of the further protectionist measures likely to be introduced in the USA in the wake of the Jenkins Bill. This should not take very long to become apparent.

- Determination of the effect on unit landed costs in the USA of the establishment of a reliable freight service capable of delivering textiles, at the very least, on a quarterly basis and, probably, monthly.

- A definite decision to take action to remedy the technical defects in NTC operations identified in the technical assessments.

7.0 TECHNICAL ASSESSMENT

7.0 TECHNICAL ASSESSMENT

7.1 INTRODUCTION

The technical assessors associated with the AeSL team were given the following brief:

- critically to examine the present operations and output of the NTC mills concerned with the production of cotton knitwear and grey yarn and fabric;

- to recommend improvements in the design and quality of the articles presently produced which would make them more attractive to the international market. (Such recommendations would not be expected to involve NTC in significant capital expenditure, although the recruitment of additional technical personnel might be considered);

- to recommend other products which NTC might produce using its present equipment;

- to consider a programme of technical assistance designed to secure more fundamental improvements in the operational and commercial efficiency of the NTC operations under investigation and to prepare draft Terms of Reference for such technical assistance as an annex to the technical report, indicating the overall objectives, specific fields of activity and staffing and timing of the consultancy;

- to brief the Project Manager on the findings; to give the Project Manager the benefit of any market experience/expertise; and to prepare proper sections of the final report relating to his area of specialisation.

The following mills were covered:

Grey Yarn and Fabric	Cotton Knitwear
Akaki	Asmara Textile Factory
Adei Ababa	Erythrea Textile Factory
Bahr Dar	
Kombolcha	
Textile Mills Dire Dawa	

7.2 GREY YARN AND FABRIC

7.2.1 Summary and Conclusions

The National Textile Corporation (NTC) is the public sector organisation responsible for the overall management of all the factories visited. The bulk of its products are sold to another public sector organisation, the Ethiopian Domestic Distributing Centre (EDDC), which lacks the technical skills and equipment to monitor product specifications and quality. It is, therefore, a feature of the Ethiopian yarn and fabric industry that so far it has gained little practice in manufacturing to controlled specifications for construction and quality. The ease with which such practices can be introduced is obviously

greater in the case of a factory commencing operations, than is the case of one already operating and needing to re-educate its labour force in new techniques.

Machinery in the factories visited varied in its capacity to operate at standards consistent with a sustainable export policy. As might be expected, the condition of the textile working surfaces, the machine settings, the control of the working environment, and the stock of spare parts are all better in the newer factories than in the older. Within the limits imposed by existing plant capacities at Kombolcha and Mill 1 at Dire Dawa, however, the country does have the machinery resources to produce fabrics and yarns suitable for export sale.

On the other hand, the Ethiopian stock of skilled managers able to manage an operation capable of responding quickly to market changes is low. Throughout the visit, discussions with management revealed isolated examples of very good practice always being partially eroded by subsequent malpractices. Selection of a management and supervisory team to run an export-orientated factory will, therefore, require the utmost care, with particular emphasis being laid on individuals' ability to work in a disciplined manner on similar machinery, and to well-tried management systems. Concentration of good management and technical resources drawn from the existing industry as a whole is considered essential for such a factory.

Sections 7.2.3.2, 7.2.3.6 and 7.2.4.2 below, provide sound reasons for selecting the factory at Kombolcha as that most suitable for the production of export fabrics. Dire Dawa might also be considered for the production of export yarns.

It is recommended that export fabrics be confined initially to the plain woven market. Market Research data suggest that in Western European markets fabrics between 130 and 200 grams/square metre are most in demand, and Kombolcha is expected to be capable of meeting any fabric specification in this range relatively easily. Export yarns, it is recommended, should be limited to carded yarns in the range 18's to 36's Ne. This range is well within the limits to which the Ethiopian cotton can be conveniently spun, and again spans the bulk of the European import market. Counts lower than 18's Ne will throw any Ethiopian producer into competition with mills in Europe and the Far East with Open-End technology, and counts above 36's will require competition with Swiss and Egyptian producers at quality standards well above that anticipated in the best Ethiopian factory.

The limited amount of cost data collected during the visit is presented in Annex 3. From this data it appears that Ethiopian products will possess very little price advantage when compared to those from other exporters to Western Europe, from South America, India, and the Far East; particularly after import tariffs and transportation charges have been taken into account. Table A3.4, Costs of Grey Fabric Compared on a EEC cif Basis, illustrates the point. The comparison made in the table is not strictly on a like-with-like basis as theoretical figures for other countries are being compared with the actual values obtained in Ethiopia. The conclusion, however, is believed to remain valid.

Accurate identification of market requirements, quick communication of these requirements to the manufacturing factory, and an ability to alter existing production practices to meet the requirements are, therefore, imperative if the factory is to compete in export markets. Co-ordinating these activities is logically the responsibility of the NTC, but the identification of market requirements, and the development of an overall strategic programme for exports will need a considerable expansion of marketing staff, in Ethiopia as well as abroad, and finance to cover staff training and the establishment of overseas offices. With these resources available to it, NTC will be able to exploit both cost (marginal on the evidence so far, but likely to be better at Kombolcha where improved labour productivity is anticipated) and non-cost factors in the market.

AeSL wishes to draw attention in particular to the finding that many of the poor practices identified in the study either originate from or are aggrevated by pressures to meet financial targets or production schedules which are not established by operational departments or even, apparently, in adequate consultation with them. It is to be feared that unless reforms are made in the way prices are set and senior management accepts that quality considerations must always have priority over mere volume of production, any efforts to introduce better operational practices are likely to be undermined. This matter is, of course, outside the scope of the present exercise.

7.2.2 Critical Examination of Present Output

7.2.2.1 Manufacturing Machinery and Processes: The major production processes from raw material opening and cleaning to grey fabric weaving are listed for each factory in Tables 68 to 76. The make and age of machinery is also stated in the tables.

In determining the suitability of machinery for export products, the following two-stage approach was adopted:

- Firstly, the machinery was examined to confirm its technical capacity to manufacture products to the export standards discussed in Section 7.2.3.2 below. Machines could be failed at this stage if for example, they were technically obsolete or operating in some manner which prohibited attainment of the export standards.

- Assuming the machine passed the technical examination, then the management systems were examined to confirm that maintenance and quality control systems were adequate for the purpose.

Generally, only the recently equipped new mills, Adei Abeba No 2, Dire Dawa No 1, and Kombolcha, possess machinery which is capable of meeting export requirements. Other factories would require considerable (extensive and expensive) capital investment in order to rehabilitate the machinery.

7.2.2.2 Company Products: Table 77 gives approximate volumes of sales yarn, yarn for internal consumption and woven fabric for each of the factories visited.

Table 78 gives yarn counts and fabric construction offered by the factories, and an estimate of annual fabric production as indicated in current financial

TABLE 68

MANUFACTURING MACHINERY AND PROCESSES: Mill Akaki

	Machinery Maker	Year of Installation	Number of Lines or Machines	Number of Units per m/c	Typical Working Efficiency	Suitability* of standards for export	REMARKS
Opening and Cleaning	Howa	1958	3/-	-	-	YES	
Carding	Howa/Crosrol	1958/1969	120/12	-	95	NO/YES	Howa cards need rehabilitation to improve output standards
Pre-comber Drawing	Whitinaire	1970	4	2	80	YES	
Lap Preparation	Whitin	1970	1	-	80	YES	
Combing	Whitin	1970	6	2	85	YES	
Drawing	Howa	1959	16	12 or 14	80	NO	Obsolete design
Roving	Howa	1958/1969	24	124	80	YES	
Spinning	Texmasu/Marzoli	1958/1979	59/26	408	85	NO/YES	Texmaco machines fitted mainly with SKF drafting but machines need rehabilitation further
.ng	P.S.P.G.I.	1959	23	40	-	-	
Cone Winding	Sharer	1963/1979	10/10	100	52	NO	Clearings not functioning, mill not taking opportunity to up-grade yarn quality.
Assembly Winding	Kanmatu	1959	3	-			)Machines not pertinent
Twisting	Texmaco/Alma/Howa	1956-1972	12	400	-	-	)to enquiry
Beaming	Barber/Coleman/ Allen/Hacoba	1959-85	8		40-70	NO/NO/ YES	
Sizing	West Point/ Butterworth	1968-79/ 1959	3/5		50-55	YES/NO	Butterworth units inefficient and used only on lighter fabrics
Weaving 1.	Sakamoto	1959/1963	72		)65	NO	Fault rate in fabric excessive
2.	Ruti	1970	104		)	YES	
3.							
4.							
5.							

* The machines's capacity to manufacture products at standards suitable for export if maintained and operated properly.

TABLE 69

MANUFACTURING MACHINERY AND PROCESSES: Mill 1 Adei Abeba

	Machinery Maker	Year of Installation	Number of Lines or Machines	Number of Units per m/c	Typical Working Efficiency	Suitability* of standards for export	REMARKS
Opening and Cleaning	Marzoli	1961/79	2/-	-	-	YES	
Carding	Marzoli	1961/78	36/4	-	90	YES	The old factory building is in a bad condition, particularly the floor. This combines with a generally inadequate standard of housekeeping and bad machine settings to yield very poor yarn. Endbreaks are correspondingly high. Common to see 25% of spindles malfunctioning.
Drawing							
Lap Preparation							
Combing							
Drawing	Marzoli	1961/75	2/8	2	70	NO	
Roving	Marzoli	1961/75	4/1	110/100	85	NO	
Spinning	Marzoli/Polish	1961/75//69	18/5//4	400/408//384	85	NO	
Reeling	Italian	1961	18	80	50	-	
Cone Winding	Tessichmeccanica	-	3	82	30	NO	Machine condition poor. No clearing
Assembly Winding	Majed	1961	1	24		NO	Machine condition poor.
Twisting	Majed	1961	1	360	85	NO	Machine condition poor.
Beaming							
Sizing							
Weaving 1.							
2.							
3.							
4.							
5.							

* The machines's capacity to manufacture products at standards suitable for export if maintained and operated properly.

TABLE 70

MANUFACTURING MACHINERY AND PROCESSES: Mill 2 Adei Abeba

	Machinery Maker	Year of Installation	Number of Lines or Machines	Number of Units per m/c	Typical Working Efficiency	Suitability* of standards for export	REMARKS
Opening and Cleaning	Trutzschler	1980	1/-	-	90	YES	
Carding	Crosrol	1980	20	-	90	YES	Malfunctioning auto-levellers do not inhibit attainment of acceptable standards
Pre-comber Drawing	----- NONE	INSTALLED -----					
Lap Preparation	----- NONE	INSTALLED -----					
Combing	----- NONE	INSTALLED -----					
Drawing	Textima	1980	8	2	80	YES	
Roving	Textima	1980	8	72	75	YES	
Spinning	Textima	1980	32	360	89	YES	
Reeling	Italian	1980	15	40	65	-	
Cone Winding	Czech	1980	3	80	70	YES	Clearers not functioning correctly
Assembly Winding							
Twisting							
Beaming							
Sizing							
Weaving 1.							
2.							
3.							
4.							
5.							

* The machines's capacity to manufacture products at standards suitable for export if maintained and operated properly.

TABLE 71

MANUFACTURING MACHINERY AND PROCESSES: Mill Bahr Dar

	Machinery Maker	Year of Installation	Number of Lines or Machines	Number of Units per m/c	Typical Working Efficiency	Suitability* of standards for export	REMARKS
Opening and Cleaning	Marzoli	1961	2/-	-	85		No comment has been entered against the Suitability of standards for exports as the factory is about to begin a substantial programme of expansion and rehabilitation. This programme is expected to last 4 years.
Carding	Marzoli/Crosrol	1961/1977	-/84/7	-	80		
Pre-comber Drawing							
Lap Preparation							
Combing							
Drawing	Marzoli	1968/768	18	2	75		
Roving	Marzoli	1961/1968	15	88/92	75		Though the machinery is not technically obsolete, the proposed rehabilitation is essential if production efficiencies are to be raised to viable levels, and quality improved to standards acceptable in Western Europe.
Spinning	Marzoli	1961	50	400	76		
Reeling	Tessilizerlo	1968	12				
Cone Winding							
Assembly Winding	Savio	1961	6	100	-		Throughout the period it is anticipated that management will be fully stretched minimising disruption to existing programmes.
Twisting	Barmag	1974	1	224	-		
Beaming	Muzzi	1961/1963	3	-	65		
Sizing	Muzzi/West Point	1961/1977	2/1	-	40		
Weaving 1.	Gallileo 180 cm	1963	90	-			All manual pirn change
2.	Gallileo 130 cm	1963	72	-			52 fitted with working Unifil, other 20 manual pirn change
3.	Gallileo 120 cm	1963	198	-			All manual pirn change
4.	Ruti	1977	48	-			All manual pirn change
5.							

* The machines's capacity to manufacture products at standards suitable for export if maintained and operated properly.

TABLE 72

MANUFACTURING MACHINERY AND PROCESSES: Kombolcha Factory

	Machinery Maker	Year of Installation	Number of Lines or Machines	Number of Units per m/c	Typical Working Efficiency	Suitability* of standards for export	REMARKS
Opening and Cleaning	Textima	1985	6	-	-		The factory is currently
Carding	Textima	1985	52		90		in commissioning the machinery.
Pre-comber Drawing	Textima	1985	7		78		So far mechanical condition
Lap Preparation	Textima	1985	3		70		commissioning is incomplete,
Combing	Textima	1985	18		80		hence performance commissioning
Drawing	Textima	1985	18		77		is not even started. Though
Roving	Textima	1985	13		78		checks revealed some evidence
Spinning	Textima	1985	97		88		of bad machine settings it has
Reeling							little relevance at the moment. Potentially this factory has the machinery to produce high standard yarns and fabrics. No management quality maintenance or production control systems have yet been implemented.
Cone Winders	Czech 'Autosuk'		c 6	60	85		8 x 60
Pirn Winders	Scharer		18	10	90		
Assembly Winders	Czech 'Autosuk'		c 6	60	85		8 x 60
Twisting	Czech 'Volkmann'	1985	c 40	120	90		40 x 120
Beaming	Textima	1985	5		40		
Sizing	Textima/Zell	1985	2		50		
Weaving 1.	Czech 175 cm	1985	346		80		
2.	Czech 215 cm	1985	87		80		
3.	Czech Terry	1985	46		80		
4.							
5.							

* The machines's capacity to manufacture products at standards suitable for export if maintained and operated properly.

TABLE 73

MANUFACTURING MACHINERY AND PROCESSES: Mill 3 Dire Dawa

	Machinery Maker	Year of Installation	Number of Lines or Machines	Number of Units per m/c	Typical Working Efficiency	Suitability* of standards for export	REMARKS
Opening and Cleaning	Trutzschler	1984	1	-	88	YES	
Carding	Crosrol	1984	24	-	88	YES	Some converted 1955 cards
Pre-comber Drawing							
Lap Preparation							
Combing							
Drawing	Toyoda	1984	6	2	75	YES	
Roving	Toyoda	1984	6	108	75	YES	
Spinning	Toyoda	1984	38	456	91	YES	
Reeling	Kiyoritsu	1984	20	80	37		
Winding	Murata	1984	14	120	60	YES	

* The machines's capacity to manufacture products at standards suitable for export if maintained and operated properly.

TABLE 74

MANUFACTURING MACHINERY AND PROCESSES: Mill Dire Dawn Mills 2 and 4

		Machinery Maker	Year of Installation	Number of Lines or Machines	Number of Units per m/c	Typical Working Efficiency	Suitability* of standards for export	REMARKS
Pirn Winding	4.	Scharer	1985/86				YES	Under erection. Automatic
	3.	Schweiter	1971/75	1/1	12	65%	ON	Manual
	7.	KDA	1970/-76	18	24	65%	NO	Manual
	1.	Murata	1971/78	5/1	24	65%	YES	Automatic
Assembly Winding								
Conewinding								
Twisting								
Beaming		Schlafhorst/Baba	1959/1965/70	3/3		23%	YES	
Sizing		Sucker/Baba	1953/1966-71	2//4		50%	YES	
Weaving	1.	Toyoda	1966-71	648	-	55-60%	NO	Can improve efficiency if sufficiently motivated. On export fabrics the Toyola looms (54 looms only) reached average efficiency of 87%. But this value is achieved by selecting the best weavers to operate the looms and the best technicians to maintain them. NOTE: On the export quality of 29 of 30 sampled looms had the automatic shuttle change working. A much higher proportion than the 50% average.
	2.	Kovo	1958-64	398	-	70%	NO	
	3.	Ruti	1972-75	24	-	40%	NO	
	4.							
	5.							

* The machines's capacity to manufacture products at standards suitable for export if maintained and operated properly.

TABLE 75

MANUFACTURING MACHINERY AND PROCESSES: Mill 3 Dire Dawn

	Machinery Maker	Year of Installation	Number of Lines or Machines	Number of Units per m/c	Typical Working Efficiency	Suitability* of standards for export	REMARKS
Opening and Cleaning	Howa	1972	2	-	-	YES	
Carding	Toyoda	1972	11	-	90	YES	
Pre-comber Drawing							
Lap Preparation							
Combing							
Drawing	Toyoda	1972	4	4	85	NO	Machines are becoming technically obsolete. Quality of produce is poor. All subsequent processes are correspondingly penalised.
Roving	Toyoda	1971	4	96	83	NO	
Spinning	Toyoda/Platt	1972/50	16/19	400/408	95	NO	
Reeling	Miscellaneous	1915/1971	33	80	-	-	
Cone Winders	Murata	1950/1965	3	120	-	-	

* The machines's capacity to manufacture products at standards suitable for export if maintained and operated properly.

TABLE 76

MANUFACTURING MACHINERY AND PROCESSES: Mill 5 Dire Dawa

	Machinery Maker	Year of Installation	Number of Lines or Machines	Number of Units per m/c	Typical Working Efficiency	Suitability* of standards for export	REMARKS
Opening and Cleaning	Howa	1969	2	-		NO	Machines are becoming obsolete, and quality of produce is poor. The only combing required seems to be limited to Combed Broad but no more than 0.1 million square metres is to be woven in the current year.
Carding	Toyoda	1965-1970	94	-	85	NO	
Pre-comber Drawing	Howa	1969	1	4	-	NO	
Lap Preparation	Howa	1969	1	1	85	NO	
Combing	Howa	1969	6	2	70	NO	
Drawing	Toyoda	1965-1970	16	4	75	NO	
Roving	Toyoda	1965-1970	14	96	80	NO	
Spinning	Toyoda	1965-1970	75	400/408	95	NO	
Reeling							
Cone Winding							With better machine maintenance and better directed quality monitoring practices, standards could be improved. Under existing conditions the standards achieved are inadequate
Assembly Winding	Murata	1965-1970	7	100	35	NO	
Twisting	Toyoda	1965/68	11/2	400	95	NO	
Beaming							
Sizing							

* The machines's capacity to manufacture products at standards suitable for export if maintained and operated properly.

TABLE 77

SUMMARY OF FACTORY PRODUCTION ESTIMATES

Factory	Sales Yarn (Tonnes/Year)	Yarn for Internal Consumption (Tonnes/Year)	Grey Woven Fabric (Million square metres/year)	Potential (3) Production Available for Export
Adei Abeba	8,200	-	-	3,700 tonnes of Yarn
Akaki	1,000	6,900	26	
Bahr Dar	800	5,300	20	
Kombolcha	-	5,800	20	20 m sq metres fabric
Dire Dawa	1,000 + 273 (2)	7,400	28	2,215 Tonnes of Yarn (1)

NOTES:

1. Based on 303 working days/year.
2. Supplied to Asmara; 30's Ne for Knitting.
3. Assuming management control systems are available.

TABLE 78

FABRIC CONSTRUCTIONS

FABRIC DESCRIPTION	PRODUCING FACTORY	FABRIC WIDTH (ins)	WARP COUNT (Ne)	WEFT COUNT (Ne)	ENDS/ INCH	PICKS/ INCH	WEIGHT OF FABRIC	COVER FACTOR	ANNUAL PRODUCTION (100,000 q/m2)
Jeans	Bahr Dar	42	9	9	72	41	310	0.91	15.6
Jeans 1/3	Kombolcha		9	9	61	43	279	0.85	-
Army Twill	Dire Dawa	44	2/32	2/32	115	53	279	0.99	58
Twill 1/3	Kombolcha		2.30	2.30	117	56	273	1.02	-
Sanforized Twill	Akaki	45	16	13	100	52	253	0.93	35
TC Twill	Dire Dawa	44	2/34	2/34	107	52	250	0.94	5
French Twill	Kombolcha		2/21	2/21	61	43	244	0.81	-
Drill	Kombolcha		14	14	91	46	241	0.91	-
Sailcloth	Akaki	44	7	7	36	32	240	0.69	1.4
Dyed Drill	Akaki	29/41	14	14	80	40	211	0.84	34
Dyed Drill	Bahr Dar	36/42	16	13	89	38	209	0.85	
Printed Satin	Akaki	58	16	16	88	46	207	0.85	1.2
T-C Tussar	Dire Dawa	47.5	2/45	2/34	95	48	207	0.81	3
French Twill	Dire Dawa	37.5	2/24	2/20	57.2	43	183	0.77	9.0
CB Poplin	Dire Dawa	38.5	20	20	91	45	179	0.81	14.0
Mohamadi	Akaki	36	14	14	45	44	157	0.65	17.2
Bed Sheet	Kombolcha	36	21	21	71	53	146	0.72	-
Grey Sheeting	Akaki	36	14	14	40	40	141	0.60	
Standard	Dire Dawa	36	14	14	43.7	33	140	0.58	122
Bed Sheeting	Bahr Dar	63	21	21	70	46	136	0.70	9.1
Curtain Cloth	Akaki	54	21	21	72	44	136	0.69	7.5
Dyed Poplin	Bahr Dar	36	21	28	72	51	130	0.69	2.6
Combed Broad	Dire Dawa	38.75	c40	c40	132	70	129	0.83	1.0
New Sheet	Dire Dawa	38.25	21	21	53	50	126	0.63	
Broad	Dire Dawa	38	40	40	125	65	125	0.80	11.0
Combed Broad	Kombolcha		40	40	137	61	122	0.83	
Dyed Poplin	Akaki	36	21	21	52	44	113	0.59	22.9
Printed Poplin	Bahr Dar	36	21	16	55	28	108	0.55	17.1
Asnakech	Dire Dawa	45	30	30	68.6	68.6	119	0.68	
Men's Trousers PS P-S*	UK	58.5	2/18	2/18	44	42	235	0.78	
Men's & Ladies Coats Twill P-C	UK	61	2/40	2/40	100	50	185	0.99	
Rainwear: Poplin P-C	UK	59	20	20	96	52	183	0.90	
Rainwear: Gaberdine C	UK	60	2/80	2/80	178	104	174	0.99	
Sheeting C	UK	96	20	20	60	60	148	0.72	
Shirting: Poplin C	UK	42	36	32	122	70	138	0.83	
Printer C	UK		30	30	80	80	132	0.75	
Men's Pyjamas C	UK	42	c36	c46	124	70	122	0.82	
Shirting: Plain P-C	UK	42	40	32	90	75	113	0.77	

* C - Cotton
P-C Polyester Cotton
P-S Polyester Sarille

year targets. The traditional fabrics for the Ethiopian rural market, generally of an extremely open, lightweight structure, have been ignored.

In theory both carded and combed yarns can be supplied by Akaki and Dire Dawa, but for yarn quality reasons discussed in more detail below, it is recommended that any attempt to supply the export market be restricted to Dire Dawa. In order to facilitate export market penetration it is further recommended that the markets for carded yarns form the initial targets, and that the more specialised markets for fine counts is left until proven marketing and distribution experience is gained.

Table 78 lists the major fabric constructions ranked according to weight of fabric per unit area (grams per square metre) and for each construction a cover factor has been calculated. Cover factor is a measure of the fraction of total fabric area that is 'covered' by the component yarns. A number of such measures are available; the one used in the table being that based on work by Grosberg.

Towels to good European standards (constructions, weight etc) are expected from the Kombolcha factory. Other factories' towels however, suffer from too many fabric faults which are clearly visible and consequently make them unacceptable in most European markets.

7.2.2.3 Marketing and Selling: The National Textiles Corporation (NTC) is the public sector organisation responsible for the operation of all the factories visited. Consequently a number of operating and commercial characteristics are common, particularly the marketing and selling of manufactures from the five factories.

Generally, the factories obtain samples of yarns and fabrics, often from abroad, and, after determining the sample's construction, prepare tentative costings for manufacture and, hence, a selling price. The sample and its price are then offered to the Ethiopian Domestic Distributing Centre (EDDC) for a market appraisal. Occasionally the EDDC will originate an enquiry, asking NTC to determine the construction and likely manufacturing cost.

Once quantity and price have been agreed between factory, NTC, and EDDC, production commences. In order to achieve NTC's broader objectives, yarns or fabrics may be produced at a financial loss to the factory.

Production quantities may be adjusted to suit both EDDC and NTC objectives, but changes in product prices require the permission of the Ministry of Commerce. For political and social reasons product prices are adjusted infrequently.

For the reasons briefly stated above, the factories often find themselves under severe financial constraints and pressures. They respond to these pressures by:

(i) Adjusting fabric or yarn processing parameters in order to reduce manufacturing costs.

(ii) Maximising output at the expense of both product performance and quality considerations.

The EDDC does not possess the technical skills or equipment necessary to monitor changes in either fabric specifications or quality. It sells mainly to an undiscerning rural population. Urban purchasers however, do expect an acceptable standard of fabric and quality performance and, consequently, here there is a marked consumer preference for imported goods.

NTC factories sell the bulk of their output to the EDDC. The Textile Factory of Dire Dawa, probably the most successful of the NTC mills visited (when measured in terms of quality standards achieved), had in the financial year 1984/85 the following sales distribution, by value:

76% to EDDC
16% to Akaki Garment Factory for uniform and bed-sheet fabrics
3% to Gulheli Garment Factory
3% to Ethiopian Sewing Thread Factory
1% to Augusta Garment Factory which exports shirts/blouses to the USA
1% to other government organisations.

100%

All other factories visited (except Kombolcha which has yet to begin commercial operations) sell a higher proportion of their products to the EDDC.

Examples of yarn and fabric unit costs, compared with selling prices have been prepared by NTC for Akaki, Adei Abeba, and Dire Dawa textile factories. They are shown in Annex 3, Tables A3.1 to A3.3.

7.2.3 Operational Assessment

7.2.3.1 Process Research and Development: The quality of raw cotton produced in Ethiopia over the past two to three years has been variable. The quality deteriorated rapidly throughout the recent drought. Despite this, however, spinning parameters changed little to take account of both the drop in quality and the different characteristics of the fibre (mainly Chinese) which was imported to make up the deficiency of domestic supplies. In part this is a reflection of the overriding policy which seems to govern the operation of NTC factories; to provide the greatest volume of output.

More generally, NTC has a continuing investment programme which is gradually making available a range of modern machines capable of producing yarns and fabrics to compete in markets throughout the world. The need to operate these machines at optimal levels consistent with commercial (market, financial and quality) considerations requires that process research and development resources are made available now.

7.2.3.2 Process Testing and Quality Control: The effort directed towards monitoring factory quality standards varied greatly, as did the equipment available for such purposes. Once again the trend is encouraging however, as all the new factories, Adei Abeba Mill 2, Kombolcha, and Dire Dawa Mill 1, have access to a full range of equipment, attractively laid out, and able to operate in a controlled environment. Dire Dawa and Bahr Dar used the most extensive quality control programmes - no system has yet been drawn up for Kombolcha. At Akaki the testing programme is inadequate in both scope and application and its present general achievement in terms of fabric and yarn standards reflect the fact.

The quality systems used at Dire Dawa and Bahr Dar, complete though they are, generally fail to yield fabric to export standards. The reasons for this are:

(i) The programmes, though extensive and complete in their coverage do not include the rapid identification of off-standard machines. Rather they seek to determine overall standards for groups of machines.

(ii) The standards set for the groups of machines are often ill-conceived, relying on general achievement levels such as those published by Uster.

(iii) The reports on groups of machines do not prompt or identify specific actions to rectify problems. For example, at Dire Dawa a detected change in sliver count at the drawframe output, prompted a change in drafting ratios. This might be the correct response, but no actions were taken to check if the change in count was caused by a more likely change in feed sliver count. The machine was so adjusted four times in a 20-day period.

(iv) If specific machine faults are identified the systems used failed to include the "change - report back to QC - and check again" links so necessary for control purposes. This failure seems to reflect the structure of quality control departments in Ethiopian textile factories. Usually the departments are linked with a production planning function and report to the General Manager of the factory directly or through a Technical Manager. There is no strong link with departments responsible for machine maintenance, and at Bahr Dar it took two days for a pronounced periodicity in a drawframe sliver to be reported to the maintenance department responsible for its correction.

A major cause of poor fabric is the number of faults to be seen. In Table 79 Fabric Faults, some of the more common faults found in the Ethiopian factories visited are comparedf with typical values found in the UK. Too much importance should not be attached to the values shown. The Bahr Dar survey was carried out on an inspection frame which had no speed control and was running at a speed more suitable to plaiting fabric than to inspecting it. At Kombolcha and Dire Dawa more suitable speeds were used and are therefore more accurate recordings of the faults were possible. Even here, however, sample sizes are too small for confident prediction of fault rates. The general observation that cloth faults are too high is, nevertheless, valid.

Similar observations were noted for yarns. The occurence of thick and thin places and nep is too high and overall yarn evenness is poor. Yarn strength is satisfactory, but this property seems to be achieved with high twist levels leading in turn to yarns with very low elasticity. Tables 80 and 81 confirm the superiority in yarn evenness terms of the Kombolcha factory, even though it has yet to complete performance commissioning. Only when the management systems to monitor and control standards are in place, can a level of quality sufficient to meet West European yarn and fabric requirements be confidently attempted.

7.2.3.3 Machine Maintenance Control: This was considered with respect both to weaving and spinning.

TABLE 79

FABRIC FAULTS:
A COMPARISON BETWEEN UK AND ETHIOPIAN RATES(6)

TYPE OF FAULT	ETHIOPIAN FACTORIES			UK	
	Bahr Dar (1)	Kombolcha (2)	Dire Dawa (3)	(4)	(5)
Weaving:					
End down	280	12	20	25	39
Broken/double pick	98	123	40	19	15
Floats	12	-	20	2	3
Slough-off	98	6	60	3	-
Yarn:					
Slubs	24	12	200	138	392
Weft bar	12	-	40	5	2
Thick end	-	6	-	0	1
Thick pick	37	-	-	5	9
Fly	12	-	20	-	-
Miscellaneous:					
Starting Place	24	106	-	23	19

NOTES:

(1) 160 cm sheet
(2) French twill
(3) Asuakech
(4) Woven shirting
(5) Gaberdine woven rainwear
(6) Faults/1000 linear metres

TABLE 80

YARN EVENNESS IN ETHIOPIAN SPINNING FACTORIES

Factory	Yarn Count (Ne)	Evenness (U%)	Neps	Thick Places	Thin Places
Adei Abeba No 1	21	15.2	249	127	65
	14	15.2	171	128	9
Adei Abeba No 2	21	15.2	150	143	12
	14	17.7	160	338	57
Bahr Dar	21	16.0	196	271	9
	21	17.0	133	181	0
	21	15.0	172	245	17
	21	15.0	134	214	6
Kombolcha	21	11.0	107	0	1
	14	12.9	59	0	34
Dire Dawa	24	13.5-17.3	-	-	-
USTER 25%	**21**	**12.5**	**125**	**210**	**17**

TABLE 81

YARN EVENNESS: KOMBOLCHA COMPARED WITH USTER EXPERIENCE VALUES U%

	Kombolcha		USTER (21's Ne Yarn)		
Experience Values			25%	50%	75%
Card Sliver	4.6	3.3	3.2	3.6	4.1
1st Passage D/F Sliver	3.8	3.3	3.3	3.8	5.0
2nd Passage D/F Sliver	3.1	3.4	3.4	4.0	4.9
Roving	5.9	5.0	4.9	5.8	7.0
Yarn	12.9	11.0	12.5	13.6	15.2
Yarn Count (Ne)	14	21			

7.2.3.3.1 Weaving: All the factories visited - including Kombolcha - claimed to be operating routine maintenance programmes. In general such programmes identify the sequence and dates on which particular machines should be inspected, and reset. It was the opinion of the AeSL that inspection checklists, drawn up with the assistance of the machinery maker or in accordance with the machinery makers' handbooks, if they exist at all, are not followed conscientiously. The extent to which this fault arises from management's emphasis on output to meet production targets remains unclear; the predominant cause is more likely to be inadequately trained and motivated supervision.

The factory visits provided ample evidence of machinery running without essential parts, thereby prohibiting the achievement of acceptable fabric fault standards. Where parts are claimed to be readily available or attainable, often they are out of stock and no purchase order had been initiated -presumably in an attempt to achieve financial targets.

Both these factors combine at the weaving process to ensure low loom efficiencies. Loom stoppages are high not only as a result of generally poor yarn, but also because of bad loom maintenance.

7.2.3.3.2 Spinning: Parallel faults in spinning machinery were also detected. These included:

- parts not correctly mounted, eg rollers, cleaning combs etc;
- excessive roller vibration, particularly at the drawframes, was easily detected;
- excessive tape vibration which, when allied occasionally to high spindle vibration but more commonly to poor yarn path alignment between front drafting roller, guide and spindle, leads to excessive variation in yarn tension during spinning;
- machines being operated with covers open allowing fly to accumulate and thereby reducing yarn/sliver regularity;
- fly, which is a problem in most factories, accumulating on rollers and other critical textile surfaces.

Again, such faults will not be overcome until a stock of better trained supervision is available.

7.2.3.4 Work Study and Other Industrial Engineering Practices: There is a shortage of competent Industrial Engineers in the Ethiopian textile industry. The factory at Bahr Dar has made most progress in this management activity and regularly carries out snap reading surveys on looms to detect stoppage causes of loom stoppages and loss of loom efficiency. The procedures followed are such, however, as to raise the question of statistical confidence in the results, that is whether or not this is sufficiently high to initiate the corrective action claimed.

Bahr Dar operates an incentive scheme which reportedly includes both quantity and quality components. However, quality as suggested by the fabric

fault pro forma used in the inspection department is radically different to that seen in practice. Again a suitable scheme has been designed, but implementation does not match the design.

The snap-reading technique has yet to be extended to weaver's and spinner's workloads in other factories. Present incentive schemes are substantially unrelated to workload; a likely cause of relatively high operator turnover on some factory sites.

7.2.3.5 Supervisory Skills and Performance: Most effort by supervisors is directed towards organising labour and production within their individual fields of responsibility. Too little effort is directed towards monitoring performance, and communicating across fields of responsibility. Thus targets become objectives in themselves without consideration for their wider or longer term impact on the organisation as a whole.

For example, if a machine is known to be malfunctioning, then it is deemed better to allow it to continue in that mode and thereby achieve output targets, rather than stop, repair, and test the machine prior to recommissioning it. The fact that the product from the machine contributes to a subsequent machine's lower operating efficiency is ignored, that being another's problem. Finally it is widely known that the ultimate customer is unlikely to complain in any event.

Factory management structures are typical of most vertically integrated textile operations. Yet the effective implementation of management systems is poor. The systems are invariably well designed and have the apparent support of other members of the management team. However, the end result is that few such systems truly control the operations they are intended for. Repeated questioning of members of these teams failed to yield any widely agreed reasons for this. It is, therefore, concluded that the supervision lacks the essential familiarity with textile factory requirements necessary to understand the reasons and motivation for a highly disciplined and consistent approach to the management of textile resources. In short the 'artisan' rather than 'scientific' approach is typical. It can only be overcome by extensive retraining.

7.2.3.6 Operative Skills and Performance: Where training is recent (the newer mills) then operative skills are satisfactory. But this is probably due to both the recent training AND a more careful selection of operatives for manning the new machinery.

In Akaki, and the older mills at Adei Abeba and Dire Dawa, factory working conditions are poor (excessive fly and dust in spinning, poorly maintained, oily machines placed on uneven floors in weaving, and generally poor lighting and often malfunctioning air conditioning) a contributing factor to the higher than average labour turnover rates recorded in these mills.

Wage rates vary between the factories, but no correlation was detected between level of performance and average earnings.

Bahr Dar achieved one of the lowest labour turnover rates, whilst Dire Dawa had the highest. This is attributable to the fact that competition with other industrial employment is virtually nil at Bahr Dar and relatively high at Dire

Dawa (where the opportunity for private sector employment, which is widely believed to be much more rewarding, is at its highest because of the town's proximity to the port of Djibouti). Employment conditions in the Kombolcha region are predicted to be similar to those at Bahr Dar and consequently low labour turnover rates are anticipated.

7.2.4 Recommended Improvements to Design and Quality

7.2.4.1 General: Ring spinning and weaving, with their associated preparatory processes, are extremely flexible yarn and fabric manufacturing systems. In theory they can be tuned to manufacture a wide variety of relatively simple products. As such the technological capability of the machines installed in the Ethiopian factories can supply most yarn and woven fabrics. Exceptions to this rule are mainly due to the complexity of fabric constructions, and for this reason it is recommended that the following fabric types should NOT be considered for export:

- Terry fabrics generally (except towels from Kombolcha).
- Extremely heavy or dense fabrics such as canvases, fustians, corduroys etc.

All the mills lack the capacity to manufacture jacquard type fabrics.

7.2.4.2 Fabric Constructions: Generally fabrics from Ethiopian factories weighing more than 200 grams/square metre have constructions very similar to those found in Western Europe and once quality standards can be met, should have little difficulty, from a technical performance point of view, competing in West European markets.

In the case of lighter fabrics, however - and these seem most in demand in Germany and Italy - the relatively rapid drop in some factories' fabric cover factors (Kombolcha and Dire Dawa are the exceptions) means that constructions will need changing to increase their technical performance in the market place.

The improvements to quality standards that are necessary have been fully discussed in Section 7.2.3.2 Process Testing and Quality Control above. To introduce and sustains the standards necessary will not be easy anywhere in Ethiopia. But it can be achieved if supervisory and technical resources are concentrated at a single establishment. For the reasons discussed above, (Sections 7.2.3.2, 7.2.3.6 and 7.2.4.2 in particular) the factory at Kombolcha would provide a suitable location.

7.2.5 Identification of Other Products for Manufacture

Plain woven fabrics requiring yarns in the count range 14's to 40's Ne can be manufactured at Kombolcha. Any construction from yarns in this range can, subject to factory process balancing requirements, form a suitable fabric for export. It is emphasised however that a strict cloth specification should be written for each export fabric, with acceptable fault rates laid down, and the ultimate end-use identified. A strong link between purchaser and supplier should be maintained at all times. The implications such as policy holds for the marketing of Ethiopian products cannot be emphasised too greatly.

TABLE 82

1984 UK Woven Fabric Imports, Excluding Terry Fabrics 85% or more of Cotton Unblended and not Mercerised

	'000 Tonnes	%
By weight, plain weave		
Up to 130 g/m^2	11.140	19.5
Between 130 and 200 g/m^2	23.400	41.0
More than 200 g/m^2	9.800	17.0
Sub total	44.34	77.5
By weight, other weaves		
Up to 200 g/m^2	2.100	3.7
More than 200 g/m^2 - (1)	8.300	14.5
- others	2.400	4.2

NOTE: (1) drills, jeans, and gaberdines etc

TABLE 83

1984 UK Woven Fabric Imports, Excluding Terry Fabrics 85% or more of Cotton Unblended and not Mercerised

	'000 Tonnes	%
By fabric width		
All weaves less than 33.5 ins	3.4	9.0
Plain weave between 33.5 and 45.3 ins	6.26	16.5
between 45.3 and 71.2 ins	25.38	66.9
above 71.2 ins	2.90	7.6
Sub total	37.94	100.0

7.3 COTTON KNITWEAR

7.3.1 Summary and Conclusions

7.3.1.1 General: This report is based upon visits to the Asmara Textile Factory and the Erythrea Textile Factory between 23rd-25th September 1985. At the request of NTC, the AeSL expert curtailed his visit in order to attend a meeting in Addis Ababa on 26th September 1985. This meant that the inspection carried out was not as thorough as he would ideally have wished. He feels, however, that his main findings as reported below are, essentially, valid.

7.3.1.2 Main Findings: These were:

(a) Lack of technical expertise in knitting operations result in low levels of productivity and fabric which is unsuitable for most export markets.

(b) The dimensional stability of finished fabric was likely to be unsatisfactory because of the fabric being calandered wider than its natural width.

(c) The finished fabric was hard in handle.

(d) The organisation of cutting and making-up operations initiated against the production of large volumes of merchandise of a consistent quality.

(e) Pressing and packing appeared to be satisfactory, but ill-equipped to deal with any expansion of volume of manufacture.

(f) Quality control was considered quite inadequate. It was thought highly unlikely that the factories would be able to expand their production of export-quality knitted garments.

(g) The work force in general was judged to be unenthusiastic and ill-motivated.

7.3.1.3 Recommendations for Immediate Improvements: Little could be done in present circumstances to improve the production of export-quality garments. It was suggested, however that:

(a) Yarn twist should be reduced to produce softer fabrics of improved appearance. The present quality of the yarn was such, however, that any reduction in twist would still further reduce knitting efficiency.

(b) A more efficient fabric softener be used in finishing processes.

7.3.1.4 Technical Assistance: A programme of assistance should be initiated to address the graver problems identified during the visits. Certainly, until such a programme was implemented there should be no attempt to produce for export other than the basic items of bleached underwear already manufactured.

7.3.2 Critical Examination of Present Operations and Output

7.3.2.1 General Observations: Both factories visited are producing knitted cotton goods. The production sequences used at both mills are as follows:

(i) All yarn is wound from spinning packages onto cones during which process the yarn is cleared of faults (the yarn clearing device settings are relaxed which only gives an efficiency of 55-60 percent) and lubricated.

(ii) Knitting.

(iii) Examination of greige fabric.

(iv) Finishing.

(v) Making up.

(vi) Garment examination.

(vii) Pressing.

(viii) Packing.

There are however several important differences in operation between the two factories. They are as follows:

(i) Asmara Textile Factory (ATF) is equipped with relatively modern machinery to produce single jersey, rib and interlock fabrics. There are 30 interlock/rib machines of various diameters knitting rib from yarn count 20 Ne and interlock from 30 Ne count. There are also 8[1/] single jersey machines, all 30 gauge but with various diameters, knitting a yarn count of 30 Ne. All machines are relatively modern and are all fitted with positive feed.

The Erythrea Textile Factory (ETF) is equipped with older knitting machinery, principally single jersey, rib and interlock, but there are several basic jacquard machines and one plush fabric machine (see detailed list). Many machines at EFT are not fitted with positive feed.

(ii) The yarn used for knitting at ATF is spun on site, whilst that used by ETF is bought from other mills. All yarn used at ATF is in greige state whilst ETF produces large quantities of fabric from yarn dyed on site.

(iii) The principal garments made by ATF are vests, tee-shirts and pants whilst ETF (as well as producing the above produce childrens outerwear and towels).

(iv) Both factories finish their own fabric. The majority of fabric is scoured, bleached and dried and calendered. The ETF also dyes some fabric but it was noted that colour matching between dye lots was poor.

1/ Two new machines are to be delivered in the near future.

7.3.2.2 Technical Factors Influencing the Nature of Present Export Items: The production of knitted fabric at both factories is about 50 percent of their capacity, although knitting is reputedly 85 percent efficient.

Total Yearly Production Figures in Numbers of Garment Pieces in the last two complete years were:

	ATF	ETF
1983/84	2,885,240	2,239,590
1984/85	2,576,548	2,328,246

The breakdown of the ATF 1984/85 figures is as follows:

	Total Production	Export	Home Consumption
Rib	1,446,949	1,085,212	361,737
Jersey	505,242	378,931	126,311
Interlock	623,877	467,908	155,969
Net	480*	306	120
TOTAL	2,576,548	1,932,411	644,137

The fabric produced is felt to be of too inferior a quality to be used for most export markets. It is irregular in appearance and, in the case of interlock and plush, it is too heavy.

The principal reasons for the low production figure and irregular fabric are as follows:

(i) The yarn is very irregular and contains too many faults including thick and thin places, neps, slubs etc. Even after clearing these cause a high instance of machine stoppages. It must be pointed out that the machines are operated at 1/2 - 2/3 maximum speed to reduce fabric faults and needle breakages (needle breakages per machine are 20/25 per shift). The longer term yarn irregularity produces unacceptable thick and thin places in the fabric.

(ii) There are no effective quality control procedures in operation at either factory. The result is the production of fabric which is likely to vary in weight, appearance, stability and fault content.

(iii) There are no technical experts responsible for the knitting process (other departments not investigated, but it is suspected that they are all in the same position). The attached table provided by ATF is not clear, but when interviewed the only technical qualification was "on the job experience".

The effect of the complete lack of technical expertise is below standard efficiency, faulty fabric, manufacturing problems being unsolved and no quality control. There is also little or no development although there appears to be more versatility in machine usage at ETF.

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* Small quantity of string vest like fabric produced on one warp knitting machine (no other information).

7.3.2.3 Other Production Orientated Factors Influencing the Nature of Export Items: There are numerous examples of such factors, some of the more important are listed below:

7.3.2.3.1 Knitting: In this connection:

(i) At ATF 13 interlock machines were not operating as they were awaiting 30's Ne count yarn to be delivered from another mill. Several of these machines appeared to be broken down, but no attempt was being made to repair them. One single jersey machine was awaiting parts after a major breakdown.

(ii) The labour costs for knitting are unacceptably high, because bad yarn and unskilled operatives allow only 3 machines per operative for small diameter machines whilst for larger and faster machines 2 and sometimes one machine per operative are used. A reasonable ratio would be 3-6 machines per operative depending upon speed and size.

(iii) There is an imbalance between machine size and garment size resulting in inefficient cutting and high cutting waste.

(iv) All the single jersey fabric exhibited had a high degree of spirality because of the high twist factory of yarn used. It is suggested that the twist should be reduced resulting in improvement in spirality and the production of a softer fabric with an improved appearance. However, unless the spinning process is improved less twist would likely reduce the knitting efficiency still further.

7.3.2.3.2 Finishing: One of the greatest problems in the manufacture of knitted cotton underwear, is to obtain complete dimensional stability of the fabric particularly after domestic washing. Any instability usually results from the fabric being calandered wider than its natural width.

It is suspected that in order to produce as wide a range of sizes of garments from limited range of machine diameters (considering the number of knitting machines non-operative) some fabrics would be calandered outside their natural widths.

It was also felt that in general the finished fabric was hard in handle and it is suggested that a more efficient fabric softener is used during the finishing process.

7.3.2.3.3 Cutting and Making Up: The cutting and making up operations are not organised to produce sufficiently large volumes of merchandise of a consistant quality.

The lay was produced on a short table by hand and the cut garment components were assembled by hand into garment units, before being placed into boxes for transporting through the making up sequence. There is no conveyor system.

It is suspected that the sequence of making up operations is not as efficient as would be required for large volume throughput. An example of a fundamental variation from an accepted sequence of assembly operations for a vest is that

the sleeve is inserted on to a body already joined at the shoulders and sides. The usual technique which is both quicker and easier is to join the back and front body pieces at the shoulder then insert the sleeve and seam the underarm and body sides in one operation. (It must be noted that the latter sequence was successfully introduced by Madam Pradeyrol, a design expert assigned by UNIDO).

It must be considered that a further investigation might bring to light further anomalies.

7.3.2.3.4 Pressing and Packing: The present examination, pressing and packing operations appear to be satisfactory, but it must be appreciated that it is doubtful that they could cope with any increase in volume of manufacture.

7.3.2.3.5 Work Force: A general observation which is relevant to this report is the lack of apparent motivation and enthusiasm of the operative work force. It is suggested that a study is made in order to improve these areas. This will no doubt have a significant effect on the overall state of affairs of the total manufacturing process.

7.3.2.3.6 Quality of Merchandise: It is important that every aspect of the manufacturing sequence from knitting to complete garments, including the yarn, is controlled against a specification. It is evident from the lack of instrumentation, technical expertise and records that there is little control of specification. Using the knitting process as an example, no precise loop length measurements are made, no machine is checked for settings, and no detailed record of production is available. This means that it is possible for the fabric quality to vary from day to day between machines and therefore within garments.

7.3.3 Products Suitable for Export

The majority of the basic cotton underwear seen at both factories if representative of normal production were reasonable from the point of view of style and quality and would be acceptable for export. It must be appreciated that it is highly unlikely that this would be true if the volume of production was increased, unless an extensive programme of technical assistance is implemented.

In the meantime it would be wise only to offer basic products for export. These would include bleached white single jersey, rib and interlock vests, tee-shirts and pants.

7.3.4 Measures Needed to Improve the Design and Quality of Articles Presently Produced to Make them More Attractive to International Markets

Attention is drawn to the eventual report of Madam Paulette Pradeyrol, a designer assigned by UNDO to improve the design of articles at ATF, bearing in mind 7.3.3 above.

It is felt that Madam Pradeyrol is making a significant contribution to improving the range of products with many innovative ideas. It is unfortunate

that the timing of her work does not coincide with a wider assistance programme (see 7.3.4.1 below), so that all aspects of the manufacture of knitted underweat could be inter-related. It is feared that her isolated contribution will have no lasting effect, and that it would be prudent if she were reinvited to take part in any further assistance programme.

7.3.4.1 Outline of Technical Assistance Programme: A major contribution to improving the export potential of both ATF and ETF would be to assign technical experts in the following areas; spinning, knitting and dyeing and finishing with the following terms of reference:

(i) To study the production sequence and carry out such modifications to improve production and quality as appear appropriate.

(ii) To advise on the modification and updating of the present machinery in order to improve the production and quality.

(iii) To install a simple, but effective integrated quality control scheme. The team would advise on the basic instrumentation required before taking up the assignment so that it could be purchased in advance of the project commencement. To set up quality control circles.

(iv) To train at least two counterparts per expert. It is suggested that each counterpart need only have a fundamental knowledge of textiles but should hold high secondary education grades in English and technical subjects.

(v) The duration of the assignment should be four weeks and it would be advantageous for all experts to be in the field at the same time.

It is envisaged that the knitting expert would have the following particular responsibilties:

(i) Introduce a system of specification control, including loop length control.

(ii) Introduce a system of production control and fabric monitoring.

(iii) Advise on quality control problems related to knitting technology.

(iv) Advise on maximising machine efficiency.

(v) Train counterparts to carry out the above duties.

This visit would last initially for four weeks with repeated visits at two weeks duration at six monthly intervals for at least two years.

7.3.4.2 Further Training for Counterparts: It would be advantageous for the knitting counterparts to spend some time following a programme of instruction at the machine builder in order to obtain a detailed understanding of the machine construction and to be able to adjust the machines to knit the maximum range of fabrics relative to the machine.

TABLE 84

KNITTING MACHINES AT ERYTHREA TEXTILE FACTORY

Name of Machine	Type of Machine	Diameter	Gauge	No of Feeders	Yarn Count
Marchisio	Interlock	16	20	16	20 Ne
Marchisio	Interlock	18	20	18	20 Ne
Marchisio	Interlock	20	20	20	20 Ne
Marchisio	Rib 1/1	20	14	20	20 Ne
Marchisio	Rib 1/1	18	14	18	20 Ne
Marchisio	Rib 2/2	16	14	16	20 Ne
Marchisio	Rib 2/2	14	14	14	20 Ne
Marchisio	Rib 1/1	18	16	28	20 Ne
Marchisio	Rib 1/1	16	16	24	20 Ne
Singer	Jersey	30	17	40	28 Ne
Singer	Jersey	30	17	40	28 Ne
Singer	Jersey	30	17	40	28 Ne
Singer	Jersey	13	20	40	20 Ne
Singer	Jersey	9	20	28	20 Ne
Singer	Jersey	8	20	24	20 Ne
Singer	Jersey	14	20	40	20 Ne
Singer	Jersey	30	19	36	20 Ne
Singer	Jersey	15	20	40	20 Ne
Singer	Jersey	30	20	64	20 Ne
Singer	Jersey	30	19	36	20 Ne
Singer	Plush	30	19	40 x 2	24 Ne
Fouquet	Interlock	16	20	16	24 Ne
Fouquet	Interlock	18	20	18	20 Ne
Fouquet	Interlock	20	20	20	24 Ne
Fouquet	Interlock	18	20	18	20 Ne
Fouquet	Interlock	16	20	16	24 Ne
Fouquet	Rib 1/1	16	14	16	20 Ne
Fouquet	Rib 1/1	18	14	18	20 Ne
Fouquet	Rib 1/1	20	16	20	20 Ne
Fouquet	Interlock	30	16	24	20 Ne
Nishio	Interlock	18	41	24	20 Ne
Nishio	Interlock	18	14	24	20 Ne
Ihg Mayer	Interlock	20	20	40	24 Ne
Ihg II Mayer	Interlock	22	20	44	24 Ne

TABLE 85

ASMARA TEXTILE FACTORY

KNITWEAR MAINTENANCE WORKERS

	No of People	Date of Engagement	Education	Job Title
1	One	6/3/1970	7th Grade	Mechanical Foreman
2	One	17/4/1970	-	Maintenance Supervisor
3	One	21/9/1983	Technical School Graduate	Mechanic Trainee
4	One	15/12/1966	-	Mechanic
5	One	19/2/1985	10th Grade	Apprentice
6	One	25/8/1983	4th Grade	Apprentice
7	One	3/9/1971	6th Grade	Mechanic
8	One	15/5/1985	-	Apprentice
9	One	5/10/1985	10th Grade	Apprentice
10	One	20/5/1985	-	Apprentice

8.0 LIST OF SAMPLES OF KNITWEAR COLLECTED

8.0 LIST OF SAMPLES OF KNITWEAR COLLECTED

Item	Description	Price	Source
1.	Boys' Thermal Shirt by Carter's (USA)	KD 1.975	Union Trading Co Store, Kuwait.
2.	Singlet of Lebanese Origin	KD 0.550	Union Trading Co Store, Kuwait.
3.	Boys T-shirts by Carter's (USA)	KD 1.800	Union Trading Co Store, Kuwait.
4.	Assorted Boys/Mens/ Girls Briefs	Receipt Provided	Union Trading Co Store, Kuwait.
5.	Mens Briefs by Renown (Japan)	KD 1	The Grand Stores
6.	Aertex-type singlet by Renown (Japan)	KD 1	The Grand Stores
7.	T-shirt	KD 0.9	The Grand Stores
8.	Men's T-shirt by Jim (Fabrilmalla SA)	KD 2	Al Faisal Boutique - Moshref Souk
9.	Men's mini-slip by Wigaro	KD 7	Unknown - Off a stall in Abu Dhabi souk
10.	Men's briefs (Swan brand - China)	BD 0.5	Al Geezah Store - Al Sasa Road, Manama, Bahrain.
11.	Men's briefs by CV (S. Korea)	BD 0.5	Al Geezah Store - Al Sasa Road, Manama, Bahrain.
12.	Mens T-shirt by Gino Bellini (Hong Kong)	DH 18	Atallah Freij in Dubai
13.	Mens mini-slip by Gino Bellini (Hong Kong)	DH 15	Prince's Exhibition, Al Ain.
14.	Mens singlets and briefs by Kai Tai (Hong Kong)	DH 12	Tip Top Boutique, Ali Ibn Abe Talib Road, Dubai.
15.	Men's T-shirt by Min Ngai Enterprises (Hong Kong)	DH 8	Abu Dhabi, Souk
16.	Men's briefs mini-slip and singlet by Orly (France)	DH 46	Al Fajer, PO Box 1600, Dubai, UAE

Item	Description	Price	Source
17.	Polyester-cotton copy of Chemise La coste shirt (Taiwan)	DH 15	
	Polyester-cotton sweater by affection (Source unknown - probably Taiwanese)	DH 25	Nemati Sport, Al Ghurair Centre, Dubai.
18.	2 pairs men's briefs by King's (Hong Kong)	BD 1	Stall in Bahrain Souk
19.	3 pairs lady's briefs by Mey (West Germany)	[illegible].5 DM 7.5 DM 7.5	Mey factory Albstadt-lautlingen
20.	1 men's singlet 1 men's T-shirt 1 men's longjohns 1 men's mini-brief 1 men's jockey-brief	DM 13.90 DM 21.00 DM 30.00 DM 09.50 DM 13.90	Purchased in Hertie department store, Frankfurt-am-Main
21.	1 ladies' mini-slip 1 ladies' vest 1 men's singlet by Ragno (Italy)	Lira 5,600.00 Lira 14,900.00 Lira 7,900.00	La Rinascente, Milan

ANNEXES

ANNEX 1

VISIT SCHEDULE

ANNEX 1

VISIT SCHEDULE

Monday 21st October	Travel to Ethiopia
Tuesday 22nd October	Visit UNIDO offices and NTC Headquarters
Wednesday 23rd October	Visit Akaki Textile Factory
Thursday 24th October	Visit Adei Abeba Spinning Factory and NTC
Friday 25th October	Travel to Bahr Dar, arrive 1600 hrs
Saturday 26th October	Visit Bahr Dar Factory
Sunday 27th October	Travel to Addis Abbaba
Monday 28th October	Travel to Kombolcha and make initial visit to site
Tuesday 29th October	Visit to Kombolcha factory
Wednesday 30th October	Travel to Addis Abbaba
Thursday 31st October	Travel to Dire Dawa and make initial visit to factory
Friday 1st November	Visit Textile Factory of Dire Dawa
Saturday 2nd November	Travel to Addis Abbaba
Sunday 3rd November	Write draft report
Monday 4th November	Visit UNDP offices and NTC Headquarters
Tuesday 5th November	Travel to Athens
Wednesday 6th November	Travel to UK

ANNEX 2

DISCUSSION SCHEDULE

ANNEX 2

DISCUSSION SCHEDULE

Tuesday 22nd October	-	Kadres Vengatalhellum a brief introductory meeting at Africa House
	-	Bekele Alema, Project Officer to discuss administrative matters
	-	Fickre, NTC Assistant Director, to discuss visit schedule and meet marketing counterpart Christine Seyifu at NTC headquarters
Wednesday 23rd October	-	Alemayhu, Production Manager, Akaki Textile Mills
Thursday 24th October	-	Abdurhman, Spinning Manager, Mill 2 (the new mill) Adei Abeba Textile Mill
	-	Christine Seyifu at NTX to finalise liaison arrangements during the visits outside Addis Abbaba
Saturday 26th October	-	Yosef, Production Manager Bahr Dar Textile Mill
	-	Tkeste, Production Planning and Qulaity Control Department
Monday 28th October	-	Christine Seyifu at NTC to make further arrangements about information collected by her on behalf of AeSL
Tuesday 29th October	-	Ychanis, Technical Manager, Kombolcha
	-	Solomon, Weaving Department Head
	-	Yaregal, Spinning Department Head
Thursday 31st October	-	Teshome, Production Planning and Quality Control Department Head, Dire Dawa
	-	Girma, Technical and Production Manager
	-	(Ms) Tsehayi, Spinning Production Planning and Quality Control Head
Friday 1st November	-	Teshome, as above
	-	Minasse, Assistant Spinning Manager

Brief meetings were also held with the following throughout the visit:

Kifle, General Manager, Bahr Dar
Hilina, Commercial Department, Bahr Dar
Mulugeta, Technical Manager, Bahr Dar
Temamu, Administration Manager, Kombolcha
Nigatu, Finishing Department Head, Kombolcha
Bekel, Technical Services Department Head, Kombolcha
Tsegaye, Site Manager, Kombolcha
Sleshi, General Manager, Dire Dawa

ANNEX 3

TABLES

TABLE A3.1

AKAKI TEXTILE MILLS

GREY CLOTH UNIT COST SPECIFICATIONS

End Use:	Dyed Poplin	Unit of Measure:	Taka
Count:	21 x 21	Dimension:	36" x 30 yards
		Weight:	3.00 kgs

	1978 (1985-86)
Raw material cost	14.3160
Direct labour	8.2530
Manufacturers overhead	10.8810
Total manufacturing cost	33.4500
Add: Selling overhead (+ transaction tax)	2.1000
Add: Administrative overhead	2.8050
Total Cost	38.3550
Current Selling Price	32.3200
Profit (Loss)	(6.0350)

Yarn and Fabric prices have not changed for six years

TABLE A3.2

AKAKI TEXTILE FACTORY

UNIT COST FOR 21 NE YARN

Product:	Cotton Yarn	Unit of Measure:	kg
Count:	21's	Dimension:	-
		Weight:	1.00

	1978 (1985-86)
Raw material cost	3.7723
Direct labour	1.0317
Manufacturers overhead	1.4221
Total manufacturing cost	6.2261
Add: Selling overhead (+ transaction tax)	0.4200
Add: Administrative overhead	0.6175
Total Cost	7.2636
Current Selling Price	6.6600
Profit (Loss)	(0.6036)

TABLE A3.3

TEXTILE MILLS OF DIRE DAWA

GREY YARN UNIT COST SPECIFICATIONS

Product:	Market Yarn	Unit of Measure:	kg
Count:	21	Dimension:	-
		Weight:	1.00

	1978 (1985-86)
Raw material cost	4.2820
Conversion costs	2.6825
Total manufacturing cost	6.9705
Add: Selling overhead (+ transaction tax)	0.5507
Add: Administrative overhead	0.5576
Total Cost	8.0788
Current Selling Price	6.6100
Profit (Loss)	(1.4688)

TABLE A3.4

TEXTILE MILLS OF DIRE DAWA

GREY CLOTH UNIT COST SPECIFICATIONS

End Use:	Printed New Sheet	Unit of Measure:	Taka
Count:	21 x 21	Dimension:	36" x 30 yards
		Weight:	3 27 kg

	1978 (1985-86)
Raw material cost	27.8554
Conversion costs	32.2082
Total manufacturing cost	60.0636
Add: Selling overhead (+ transaction tax)	4.7450
Add: Administrative overhead	4.8051
Total Cost	69.6137
Current Selling Price	42.9600
Profit (Loss)	26.6537

Taka = /30 yards

TABLE A3.5

ADEI ABEBA YARN FACTORY

UNIT COST SPECIFICATIONS

Product:	Yarn (market)	Unit of Measure:	kg
Count:	21	Dimension:	-
		Weight:	1.00

	1978 (1985-86)
Raw material cost	3.8809
Direct labour	0.7824
Manufacturing overhead	2.0766
Total manufacturing cost	6.7399
Add: Selling overhead (+ transaction tax)	0.5257
Add: Administrative overhead	0.9435
Total Cost	8.2091
Current Selling Price	6.6600
Profit (Loss)	(1.5491)

TABLE A3.6

ADEI ABEBA YARN FACTORY

UNIT COST SPECIFICATIONS

Product:	Yarn on cone	Unit of Measure:	kg
Count:	14	Dimension:	-
		Weight:	1.00

	1974
Raw material cost	3.8809
Direct labour	0.5176
Manufacturing overhead	1.6783
Total manufacturing cost	6.0768
Add: Selling overhead (+ transaction tax)	0.4740
Add: Administrative overhead	0.8507
Total Cost	7.4015
Current Selling Price	5.7900
Profit (Loss)	(1.6115)

TABLE A3.7

Costs of Grey Fabric Compared on a EEC cif basis

(1985, US$/yard of fabric)

COUNTRY / COST ELEMENT	BRAZIL	GERMANY	INDIA	JAPAN	KOREA	U.S.A.	ETHIOPIA
WASTE	.019	.023	.016	.021	.021	.018	.033
LABOUR	.058	.204	.037	.126	.046	.197	.134
POWER	.027	.06	.071	.08	.071	.047	)
AUXILIARY MATERIAL	.044	.036	.053	.042	.056	.042	(.177
CAPITAL (Depreciation & Interest)	.341	.196	.199	.207	.151	.2	)
RAW MATERIAL (Cotton)	.262	.314	.225	.288	.29	.251	.426
TOTAL FABRIC COSTS	.751	.833	.601	.764	.635	.755	.77
FREIGHT/INSURANCE (to Germany from-)	.042		.034	.038	.038	.021	.034
E.E.C. DUTY	.085		.069	.086	.072	.083	
TOTAL CIF DUTY PAID COSTS	.878	.833	.704	.888	.745	.859	.804

NOTES Ethiopian estimates are based on Akaki cost data supplied by ~~Miss Soyifu~~.
Corrections have been made for fabric weight and width
Machinery depreciation, power, and auxiliary material are considered part of Manufacturing Overheads.
No local taxes are included.

Source: International Textile Manufacturer's Federation, June 1985

ANNEX 4

RECOMMENDED TECHNICAL ASSISTANCE PROGRAMMES

FOR SPINNING AND WEAVING ESTABLISHMENTS

ANNEX 4

RECOMMENDED TECHNICAL ASSISTANCE PROGRAMMES

FOR SPINNING AND WEAVING ESTABLISHMENTS

A4.1 OBJECTIVE

The objective of the technical assistance programme envisaged by AeSL would be to set in progress a series of measures designed to:

- secure fundamental improvements in spinning and weaving operation, enabling NTC to compete more effectively in world markets;
- supervise the initial stages of this programme;
- recommend and implement an associated staff training programme.

A4.2 SCOPE

A4.2.1 Process Research and Development

To establish, initially in the factories to produce export products, thereafter in other factories, a team of technicians to identify, implement and report to the Technical Manager on a programme of process research designed to identify spinning and weaving parameters to improve operational efficiency. Such teams would comprise between 2 and 3 technically trained staff (Bar Dahr Technical College, 3rd/4th year students for example, but with at least 5 years factory experience and headed by a person with supervisory experience).

Examples of the technical parameters from which the programme can be drawn are:

- machine settings, at carding; at the drawframe and drafting generally; at the loom;
- carding speeds;
- twist factors and their relationship with end-breakage rates in spinning and in subsequent processes;
- size composition and preparation times;
- evenness standards for sliver, roving and yarn and strength standards for yarn to reduce machine down-time and to optimise operating costs.

The Technical Consultant's role will be to agree with the factory's General Manager:

- the terms of reference for the team;
- access by the team to factory machinery;
- levels of communication between this and other management functions;
- overall priorities for the work.

He will also provide assistance in the initial selection of programmes and recommend administrative procedures to be followed.

No formal training role is envisaged for the Technical Consultant in this instance.

A4.2.2 Process Testing and Quality Control

Existing quality control practices found in the factories need to be based on a better understanding of statistics, and to be directed more specifically towards the identification of off-standard machinery in order to improve control. To this end it is recommended that formal training courses on this topic should be offered to supervisors and management as well as senior quality control technicians. Workshops based on known malpractices and deficiencies discovered in individual factories is the preferred method of teaching.

The role of the Quality Consultant would be to:

- discuss with NTC, in the light of their long term objectives, the factories to which these courses should be initially directed;
- identify practices in need of correction and improvement;
- and then to design and run a limited number of such courses in association with NTC staff or associates, who would then be responsible for the wider dissemination of the courses throughout the industry.

A selection of topics from which the courses might be drawn are:

- principles of quality control
- the use of standards
- graphical presentation of data
- measuring location and variation
- the need for adequate sampling
- relating the sample to the population
- control charts and interpretation
- blend analysis
- measurement fibre length and fineness
- testing of yarn dimensions and irregularity
- testing of yarn dimensions and irregularity
- testing fabric dimensions
- common fabric faults
- measurement of specific fabric properties
- analysis of fabric structure
- serviceability testing
- testing of different textile fabrics.

It will be noted that the proposed programme of technical assistance addresses only two of the areas out of the six in which serious operational deficiencies were noted in the course of the study. The reasons for this are as follows:

(i) The subject of the project is export manufactures. The Ethiopian industry already produces a wide range of textile products which are

designed and manufactured specifically for the home market. This market is immature in the sense that it accepts mainly grey fabric of varying weight, indifferent quality, and to an implied technical specification set by the manufacturer rather than the customer.

(ii) The manufacturing system described in (i) above, is an unsuitable foundation on which to build an export industry.

(iii) In an export oriented industry, factories will need to identify optimum processing parameters to meet customers' specifications, and then demonstrate that these specifications and parameters can be sustained over time. The undoubted inadequacies which exist in work study and other industrial engineering practices, in supervisory skills and in operative performance will, at least in part, be overcome if the operating parameters and quality are strictly controlled. By concentrating on these two aspects the ability which already exists will be allowed to develop to the benefit of the factories as a whole.

(iv) Subsequent improvement can therefore be considered as fine tuning, and implemented when the basic controls are established and seen working satisfactorily.

A4.2.3 Staffing

Three consultants are required to implement the above schemes. Two Technical Consultants, one specialising in spinning the other in weaving, and a Quality Consultant are recommended, each for a period of three months to carry out the work described.

All consultants must be fluent in the English language, and able to demonstrate experience at senior factory management level in their respective fields.

ANNEX 5

INTERNATIONAL TRADE FAIRS

ANNEX 5

International Trade Fairs
to be held in countries of the European Economic Community
in 1986

Textile Fairs

Approximate Date	Venue	Exhibition
January	Frankfurt	Trade fair for Home Furnishings (Hemitex)
April	Paris	Premier Vision
April 15-17	Frankfurt	Textiles for Clothing (Interstoff)
October	Paris	Premier Vision
October 23-30	Frankfurt	Textiles for Clothing (Interstoff)

Clothing Fairs

January	Florence	Men's Fashion Show (Uomo Italia)
February	Paris	Children's Fashion Exhibition
February	Paris	Men's and boys' wear Trade Show
February	Paris	Salon Internationale de la Lingerie
February	Paris	Women's Ready-to-wear Clothing
February	London	Imbex, Men's and boys' wear
March	Milan	Fashion show (Milanovendemonda)
March	Harrogate	Fashion Fair
July	Florence	Men's Fashion Show (Uomo Italia)
August	Cologne	Men's Fahsion Week
September	Paris	Children's Fashion Exhibition
September	Düsseldorf	Fashion Trade Fair
September	Cologne	Children and Young People
September	Paris	Men's and boys' wear
September	Paris	Women's ready-to-wear Clothing

Approximate Date	Venue	Exhibition
October	Milan	Fashion Show (Milanovendemonda)
October 5-8	Munich	International Fashion Week
November	Lille	All British Mail Order House Presentation