Regional Cotton & Textile Executive Summit

Regional Policy Platform Case Study COTONA

Kenya, April 28th 2005

SUMMARY

- COTONA Presentation
- 2004/05 COTONA Cotton Needs
- Cotton Sourcing difficulties
- Quality Issues

THE CONTEXT

Brief History of the Malagasy Textile Sector

The origin of the Malagasy Textile Sector goes back to the early sixties.

A certain number of textile units were created and operated successfully on a relatively protected local market (ans especially from the seventies). The leading firm Cotona held a
50% market share. The other firms were :

Sotema,Fanavotana,Samaf,Somacou,Tisma,Sumatex, Sobama..

The opening up of the Malagasy economy at the end of the eighties created a sea change for the Local Textile sector :

-A dramatic increase in imports and more particularly fraudulous imports
-Imports of second hand clothing also responding to the desire of local malagasies to dress at a cheap price
-A new direction taken by certain textile operators to address the Export Market

At the initiative of the Malagasy Government, a free trade zone was set up in the mid nineties allowing the quick scale up of Garment assembly capacities and also offering existing textile firms to sell “export fabric”. In the span of 7 years about 100 000 jobs were created in the sector

The Malagasy Textile Industry : The Present Situation

- The Textile sector currently consists of only 3 players :

  - Cotona
  - Somacou
  - Samaf

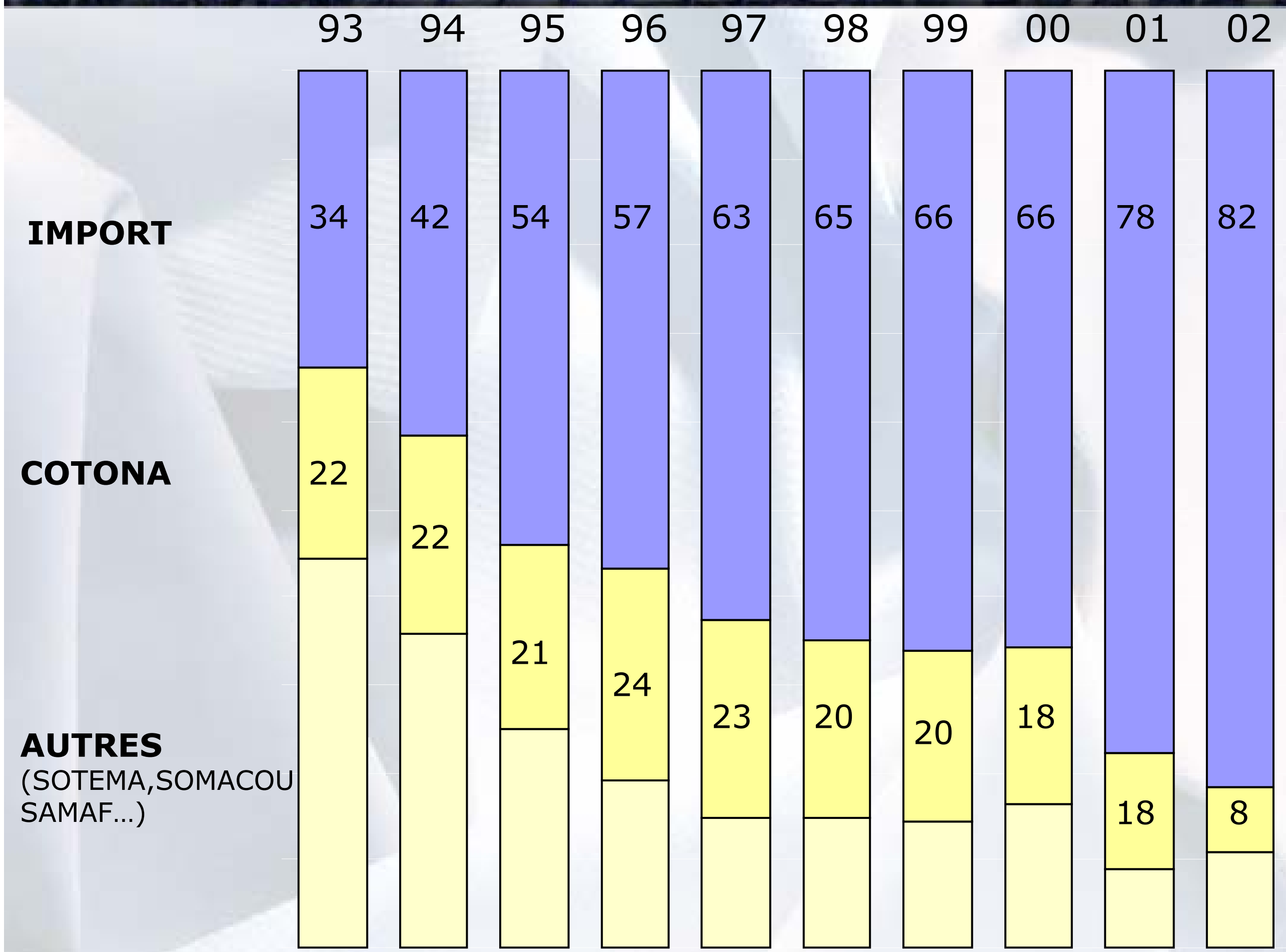
- All the units have closed one after the other not being able to adapt to the new market liberalisation. The lack of competitiveness of the units that closed down and the dramatic surge of uncontrolled textile imports are the two major contributors to the closures

- Only Cotona on the woven segment undertook the challenge to redeply its activities to the Export Market implying major investments in technology and a cultural revolution within the firm

- This redeployment assumed that there would be a gradual erosion of market share on the local market and a gradual phase in of the export market.

- In reality, fraudulous imports (under invoicing, sales without invoices…) grew at a very rapidly outpacing Cotona's ability to grow its Export business

Évolution du Marché Textile Malgache et des parts de marché COTONA 1993 à 2002



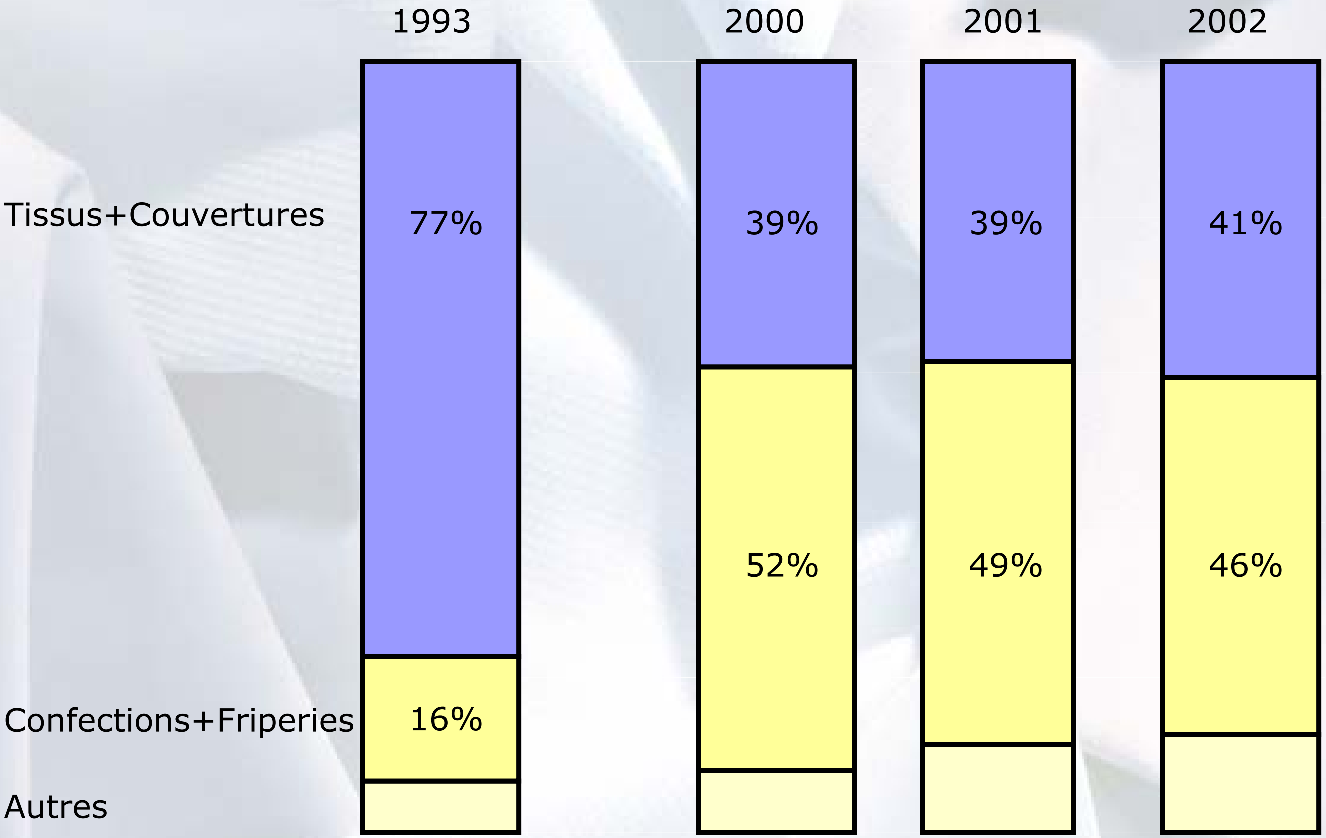
	93	94	95	96	97	98	99	00	01	02
TOTAL	100	100	100	100	100	100	100	100	100	100
TOTAL (Ktonnes)	13.4	13.4	13.0	13.1	16.4	15.6	17.6	16.0	18.0	11.1
Consommation En kg/hab/an	1.1	1.1	1.0	1.0	1.2	1.1	1.2	1.1	1.2	0.7 *

Observations **:**

- ***Part croissante des importations au détriment des opérateurs locaux (essentiellement à l'heure actuelle COTONA, SOMACOU et dans une moindre mesure SAMAF)***
- ***La part de marché de Cotona passe de 22 % à 8 % sur la période observée***
- ***Une relative stabilité de la consommation par habitant (entre 1.1 et 1.2 kg/an/capital)***

*** Chiffre en décalage par rapport aux années précédentes et sans doute le reflet du déstockage sur 2002**

Évolution des Importations Textile Malgache
Par segment de produits



	1993	2000	2001	2002
Total (tonnes)	4 450	10 545	13 459	9 093
PdM COTONA (tissus+couv.	23%*	31%	27%	15%

Observations **:**

- ***Substitution du tissus par l'importation de confection et de friperies***
- ***La part de marché de Cotona sur le segment tissus + couvertures se dégrade en 2002. On note une légère progression des parts de marché en 2000-2001 par rapport à 1993. Cotona n'a en réalité récupéré qu'une faible partie des parts de marché historique de l'ex-Sotema.***

* SOTEMA, principal concurrent de COTONA, opérant à l'époque sur le marché local

COTONA : Some numbers

- 5 500 TONS / YEAR OF OE, CARDED AND COMBED YARNS

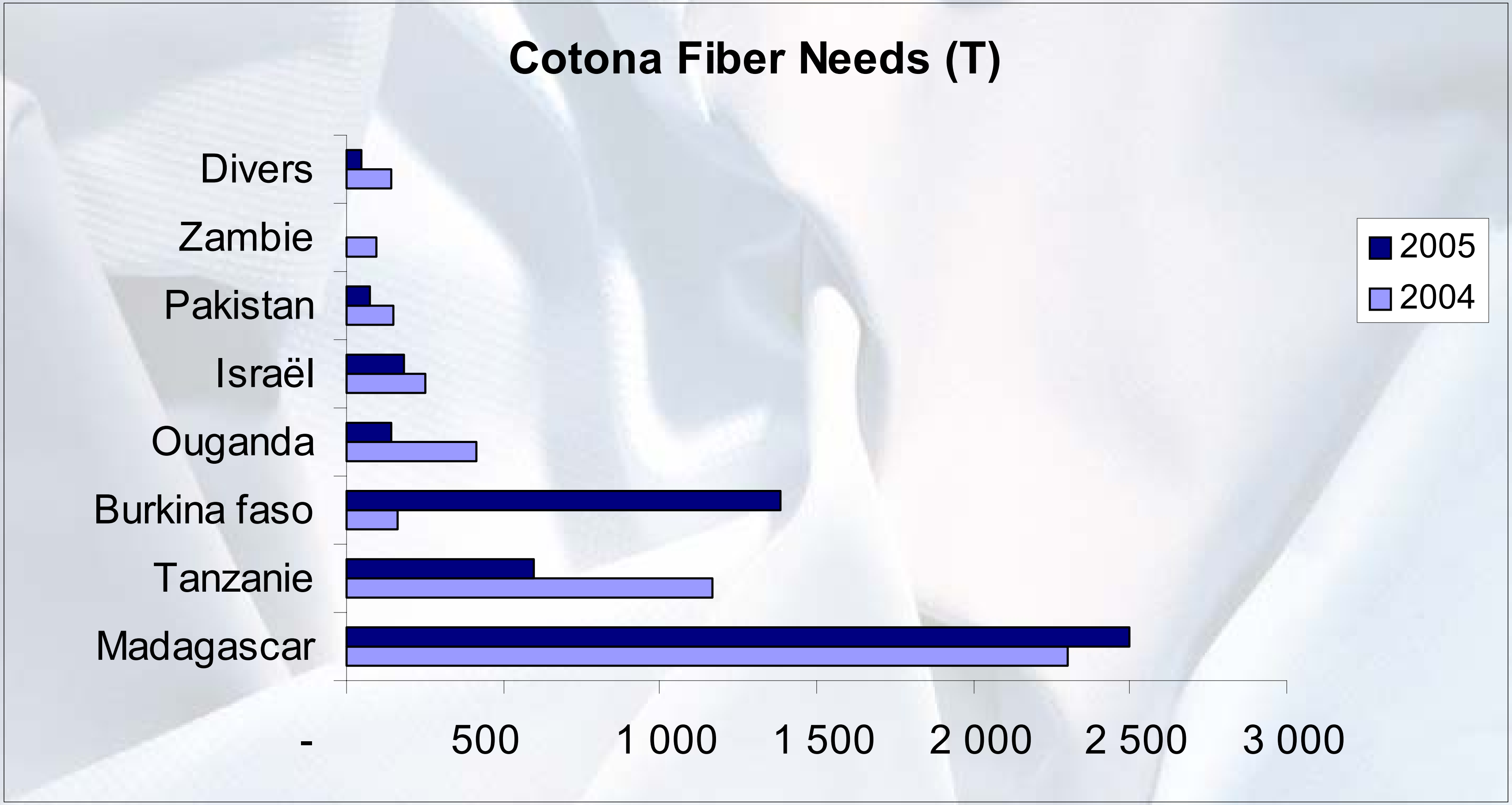
  (UP TO Ne 60)
- 22 MILLION SME / YEAR PRODUCTION OF PLAIN AND TEXTURED GREY FABRIC RANGING FROM 100 GRAMMES TO 300 GRAMMES PER SQUARE METER
- A COMPLETE FINISHING FACILITY CAPABLE TO PRODUCE 30 MILLION SME / YEAR OF BLEACHED PIECE DYED AND PRINTED FABRIC
- OVER 50 Million € INVESTED IN LAST TEN YEARS
- M&S AND DOCKERS ACCREDITED LABORATORIES
- FULLY AGOA COMPLIANT

COTONA : Cotton Fiber Sourcing After 2002

- The crisis of 2002 nearly wiped out Cotona and a the garment free trade zone.
- Since Cotona was the only client of HASYMA the local Cotton company, The crisis of 2002 was even more serious for Cotton growers.
- The immediate impact was the diminishing of cultivated surfaces
- On paper the local production would have been enough to supply Cotona if Hasyma had not taken initiatives to sell part of it to export customers

- Therefore, Cotona had to go to the regional market to fill the gap.

2004/05 COTONA Cotton needs (1/2)



2004/05 COTONA Cotton needs (2/2)

Volume (T) Origine	2004	Forecast 2005	*Evolution*
Madagascar	2 300	2 500	*8,7%*
Tanzanie	1 169	597	*-48,9%*
Burkina faso	160	1 384	*765,5%*
Ouganda	411	141	*-65,7%*
Israël	253	181	*-28,4%*
Pakistan	151	75	*-50,2%*
Zambie	96	-	*-100,0%*
Divers	146	50	*-65,7%*
Total	4 685	4 927	*5,2%*

Sourcing Difficulties

- Shipment often delayed without warning
- For example, Cotton shipment was delayed of 2 weeks because of the necessity of a SGS control

➡ **COTONA was out of stock of cotton during 2 days in June 2004**

➡ **COTONA had in 2004 more than 10 different cotton blends**

Quality Issues

- Tanzanian quality of the fibre was lower than the samples (strength, length, grade)
- Ugandan cotton was a good fibre but too contaminated
- Only Burkina Faso cotton was conform with the samples

➡ On the whole, there is a lack of reliability with the cotton importation from Africa

So far 2005 imports are far better than 2004

THANK YOU