

# The European Community textile industry

## European File

The European textile and clothing industry, which played a pioneering role in the industrial revolution, has faced serious difficulties in recent years. The very grave position of the industry today calls for a concerted response. An industry which employs more than 9% of the Community's manufacturing workforce cannot be allowed to collapse.

### 1973-81: a period of decline

Over the past ten years, the textiles sector has been affected by a structural crisis and a collapse of the market, resulting in a fall in Community production (-5.9% in textiles and -6.3% in clothing since 1973), factory closures and a sharp increase in unemployment.

- European companies now face increasingly fierce competition on their traditional markets both inside and outside the Community, from a growing number of Asian, African and Latin American countries, which can offer similar products at much lower prices, since they frequently produce their own raw materials and have a ready supply of cheap labour. Between 1973 and 1980, the share of European consumption taken by non-Community imports rose from 21% to 44%. The Community's external trade balance, in deficit for clothing since the 1960s, became negative for the whole sector in 1975 and the deficit is growing year by year.
- Faced with overseas competition, the European industry has to adapt to market changes and to new technological developments: restructuring certain production

processes, modernizing plant, switching to other industrial activities, etc. Rationalization of production, the closure of less competitive firms and concentration on certain products have led to an increase in productivity of 4% per year for textiles and 3.5% per year for clothing. But the severity and persistence of the general recession has slowed up restructuring programmes, if not frozen them altogether. The economic crisis has affected the relative costs of factors of production (labour, energy, capital, etc.) and has discouraged investment. The decline in economic growth has also weighed heavily on demand: the annual rate of increase in demand is currently 1%, compared with 3-5% before 1975. This decline has in turn led to a fall in production and a worsening of the financial situation of textile firms.

The result of these difficulties has been a continual drain on employment. Between 1973 and 1980, 15% of the Community's textile firms closed and 512 000 jobs in textiles and 333 000 jobs in clothing (-28% and -26% respectively) were lost. The total workforce fell from 3.1 to 2.3 million (an average loss of 115 000 jobs a year). The problem is all the more serious in that it primarily affects one category of workers, women, particularly in some of the poorest regions of the Community. This makes the outlook for creating alternative employment in a period of general economic recession particularly gloomy. Social considerations like unemployment have sometimes played a key role in slowing down restructuring programmes.

The textile and clothing industry covers a range of manufacturing processes, which face a variety of problems and have varying prospects:

- the man-made fibres industry (100 000 workers) is highly concentrated (13 companies account for 90% of Community production). It still suffers from surplus production capacity, despite restructuring programmes. The industry has been hard hit by competition from US producers, who have for some years benefited from the weakness of the dollar and preferential prices for raw materials;
- the spinning and weaving industries (700 000 workers) like man-made fibres, face high investment costs per worker. Companies' financial difficulties have slowed down restructuring programmes despite labour cost savings gained from modern machinery. A number of insufficiently specialized spinning firms have closed. Big European producers are caught between the low wages paid in developing countries and the up-to-date technology used in large-scale factories in some industrialized nations;
- finishing (150 000 workers in about 1 800 companies) covers dyeing, bleaching, printing, etc. This highly diversified sector has been seriously affected by fluctuations in other areas of the textile industry, upon which it depends. It also suffers the high costs of pollution prevention and of energy, of which it is a major consumer;
- the clothing industry (knitting: 450 000 workers, clothing: 940 000) is particularly affected by competition from low-wage countries, especially for traditional, non-fashion products. This labour-intensive industry, with hundreds of small and medium-sized firms, often uses outward processing traffic, which involves having part of its production made up in low-wage countries.

## **Handicaps, but assets too**

The European textiles and clothing industry has to cope with more than just the effects of international competition and the general economic crisis; it also faces a number of specific handicaps, which often most affect small and medium-sized family businesses:

- an often insufficient knowledge of the economic environment prevents companies from operating production and marketing strategies that would offer them the opportunity to expand;
- management has often been old-fashioned, with too little thought for the future and innovation;
- large investments, normally loan-financed, have imposed very heavy financial burdens (while in developing countries similar investments are often subsidized);
- plant has been used in a less intensive way than in rival industrialized countries or in developing nations (5 700 hours per year average in the Community, compared with 7 000 hours per year in Asia) and this has led to higher production costs;
- research and development into manufacturing processes and materials remains insufficient to re-establish the competitiveness of European firms.

To help it to reply to the challenges facing it, the European textile and clothing industry has a number of significant assets:

- direct access to a European market of 270 million consumers, whose standard of living is continuing to improve, albeit at a slower rate;
- a tradition of creativity which has enabled the industry to maintain a dominant position in certain areas and to shift production to meet newly emerged needs elsewhere;
- the existence of a complete textiles 'chain' which allows the various component links to escape dependence on firms outside the Community for their supplies or outlets;
- a qualified workforce which ensures the best returns and permits the use of highly sophisticated machinery; this technological advantage is particularly noticeable in the manufacture of products whose quality rather than price attracts the consumer.

## **Community action**

The problems facing the Community textiles industry are unlikely to ease in the immediate future. Everything must therefore be done from now on to help the industry overcome its inherent handicaps and make optimum use of its assets. The vitality of textile companies and their industrial dynamism constitute the driving force for change

in the sector. But they need public support both at Community and national level. It is up to national governments to bring in tax, financial, social, information and training measures to help companies improve their industrial strategies. The most obvious and fundamental task for the Community is to help coordinate national policies to make them more coherent and compatible. A concerted European response would mean increased effectiveness, particularly in relation to third countries. It would also avoid a ruinous growth in public aids and ensure the unity of the European market, which is vital to the textile firms (the tonnage of textiles and clothing trade between the Community Member States is 30% higher than imports from third countries).

The Community has already taken direct action in the textiles and clothing sector.

- It has renegotiated the Multifibre Arrangement (MFA) within the framework of GATT, the General Agreement on Tariffs and Trade. Following the extension of the MFA in 1977, bilateral voluntary restraint agreements were negotiated with 30 low-cost suppliers. Their imports rose by 23% between 1978 and 1980, compared with 75% between 1974 and 1977. About 13% of these imports benefit from the generalized scheme of preferences for Third World countries giving them a reduced customs levy. Since 1980, only countries which have agreed to limit their exports have qualified for the lower levy.
- The Community has made other arrangements with a number of other countries, mostly in the Mediterranean basin and linked to the EEC by preferential agreements. Exports from these countries represent around 20% of total Community textile imports and 25% of imports from 'low-cost' countries.
- Still in the field of external trade policy, the Community has a set of measures (safeguard clauses, anti-dumping procedures, applied mostly to US man-made fibre producers) which enable it to combat unfair competition and sharp disruptions of the market. But these measures can only be used with caution and in watertight cases. The Community, whose prosperity is closely linked with international trade can neither ignore the needs of the Third World, nor afford the luxury of fanning glowing European protectionist sparks, which would probably burn Community fingers first.
- In terms of State aids, the Commission has laid down guidelines since 1970 insisting that aid should be temporary and regressive. Community aid has been granted for restructuring in the man-made fibres sector (14 million ECU in 1980)<sup>1</sup> after the suspension in 1977 of national aids likely to create fresh surplus production capacity in the sector.
- Between 1975 and 1980, the European Regional Development Fund invested some 800 million ECU to improve infrastructures and safeguard jobs in regions where the textile and clothing industry provides more than 10% of total industrial employment.

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<sup>1</sup> 1 ECU (European currency unit) = about £ 0.56, Ir.£ 0.69, US \$ 1.02 (at exchange rates current on 16 March 1982).

- The European Investment Bank grants loans to help modernization and conversion, and helps create new industrial activities in regions where the economy is suffering because of the crisis in the textile industry.
- The European Social Fund has assisted workers in the textiles industry since 1972 and in clothing since 1978. In 1980, aid totalled 19 million ECU and helped retrain 17 500 workers in need of additional training either within the industry or to find other jobs.
- The Community also helps finance certain activities that benefit European textile firms: research and development programmes in various European laboratories and research institutes aimed at promoting technological improvements to restore competitiveness; a Textiles and Clothing Information Centre which supplies economic and statistical information on production levels, stocks and consumption in the different branches of the industry.
- Finally, in 1979, the European Commission set up a consultation system with representatives of the industry and European trade unions to help find joint solutions to problems.

### **Guidelines for the future**

Given both the delay in carrying out structural changes and the worsening of the economic climate (the growing intensity of external competition, the development of protectionist tendencies within the Community and persistent uncertainties about demand), the European Commission feels that much more has to be done. In July 1981, the Commission drew up a number of guidelines aimed at ensuring the efficient and timely introduction of the changes needed for the long-term survival of the European textiles and clothing industries.

- Despite the difficulties caused by the comparative advantages that low-cost countries enjoy, particularly for products at the lower end of the market, the Community must keep all essential types of production on its own territory. If not, the trend towards specialization and interdependence of the different links in the textiles/clothing chain risks exporting entire sections of the industry.
- Firms must be able to take full advantage of the market of 270 million consumers. Barriers to trade which persist or which threaten to reappear between Community countries must be eliminated; and uniform rules must be applied to marks of origin to prevent differing national systems from continuing or springing up to create obstacles to free trade within the Community.
- Public aid to companies must be both more transparent and more coherent so as to do away with undercutting and guarantee fair competition between companies and Community Member States. The Commission plans to end production aids and proposes to define the types of aid (for technological innovation, environmental

protection, energy savings, etc.) which could be considered compatible with the common market. The drawing-up of an inventory of sectoral and general public aids (particularly regional) should lead to a coherent Community policy.

- Spending on investment and modernization of plant must be maintained and stepped up, particularly in areas such as spinning and weaving. Obstacles to investment must be lifted and general economic policy must encourage those risk investments too often passed up for more attractive deposits. Interest rates should be restored to a level compatible with normal industrial profitability.
- The textile companies, social partners and public authorities must agree on ways to make optimum use of plant and investment, possibly by introducing working in four or even five shifts, in acceptable social conditions. An effort must also be made to ensure that external competitors comply with International Labour Organization standards in order to equalize the intensity of plant use between the Community and its major rivals.
- Cooperation between firms should be encouraged. Although small and medium-sized companies sometimes gain an advantage from their flexibility at the production level, they should form groups to expand distribution networks and prospects for new markets and commercial investment.
- Exchanges of information must be broadened; the Textile and Clothing Information Centre should extend its scope to cover markets in third countries and different products, in order to help companies develop offensive and well-tuned market strategies. A Community data bank accessible to public authorities and companies should also be set up to collate fragmented existing information.
- Technological research and development should be encouraged; the Community should strengthen coordination between national research programmes, ensure wide publication of their results, complete the second European research programme and encourage experiments in automation in the clothing sector.
- The position of the European textile industry requires continuing caution with regard to trade. Community negotiation of the renewal of the Multifibre Arrangement (MFA) at the end of 1981 reflected concern. A consensus was reached, which takes into account Third World exporters' interests and those of the Community. For the Community, the major points were: a reduction in the share of the 'dominant suppliers' (Hong Kong, South Korea, Macao and Taiwan) of imports of the most sensitive products, so that in the current context of high unemployment and stagnant consumption, these imports can be stabilized and the interests of the poorest supplier countries safeguarded; control of sudden import 'surges' which could follow the under-utilization of permitted quotas; finally, the establishment of a link between the MFA, due to run until 31 July 1986 and the bilateral agreements currently being negotiated with the main supplier countries: if it proves impossible to reach satisfactory new agreements, the Community may find itself unable to continue participating

in the MFA. In addition, consultations with the preferential countries are planned with the aim of limiting imports likely to cause serious problems to the European industry.

- The Council has just approved a Commission proposal to harmonize the conditions under which the outward processing system (OPT) operates: temporary exports of unfinished products to third countries which re-export them after transformation helps Third World nations towards industrialization; although certain restrictions are necessary, the system allows an increased competitiveness which should be made available to all Community textile companies.
- European exports must be boosted in line with international trade agreements. The aim here must be to offset any increase in imports with a corresponding increase in exports. The Commission will try to persuade East European countries and the most advanced developing countries to eliminate or reduce import barriers; it will also try to ensure that no additional tariff barriers are added to existing custom duties imposed by other industrialized countries.
- Finally, the Commission wishes to expand the Community's role in the solution of social and regional problems. The restructuring necessary in the textiles sector and the low level of economic activity generally point to increased job losses for several years to come. The Community Regional and Social Funds could play a significant role in creating stable alternative employment in the regions affected. The resources of the Social Fund must be increased to allow it to respond to requests for aid for professional training, which are currently running at three to four times the level of existing resources. Regional Fund spending must be at least maintained at its current level, if not increased. This would allow special Community regional development programmes to be implemented in textile-producing regions worst hit by the crisis in the industry.

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These are the principal guidelines on which the European Commission plans to base the Community's response to the crisis in the textile industry. The aim is clear: to maintain a viable industry in the Community covering all sectors of textile and clothing production ■



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The contents of this publication do not necessarily reflect the official views of the institutions of the Community.

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