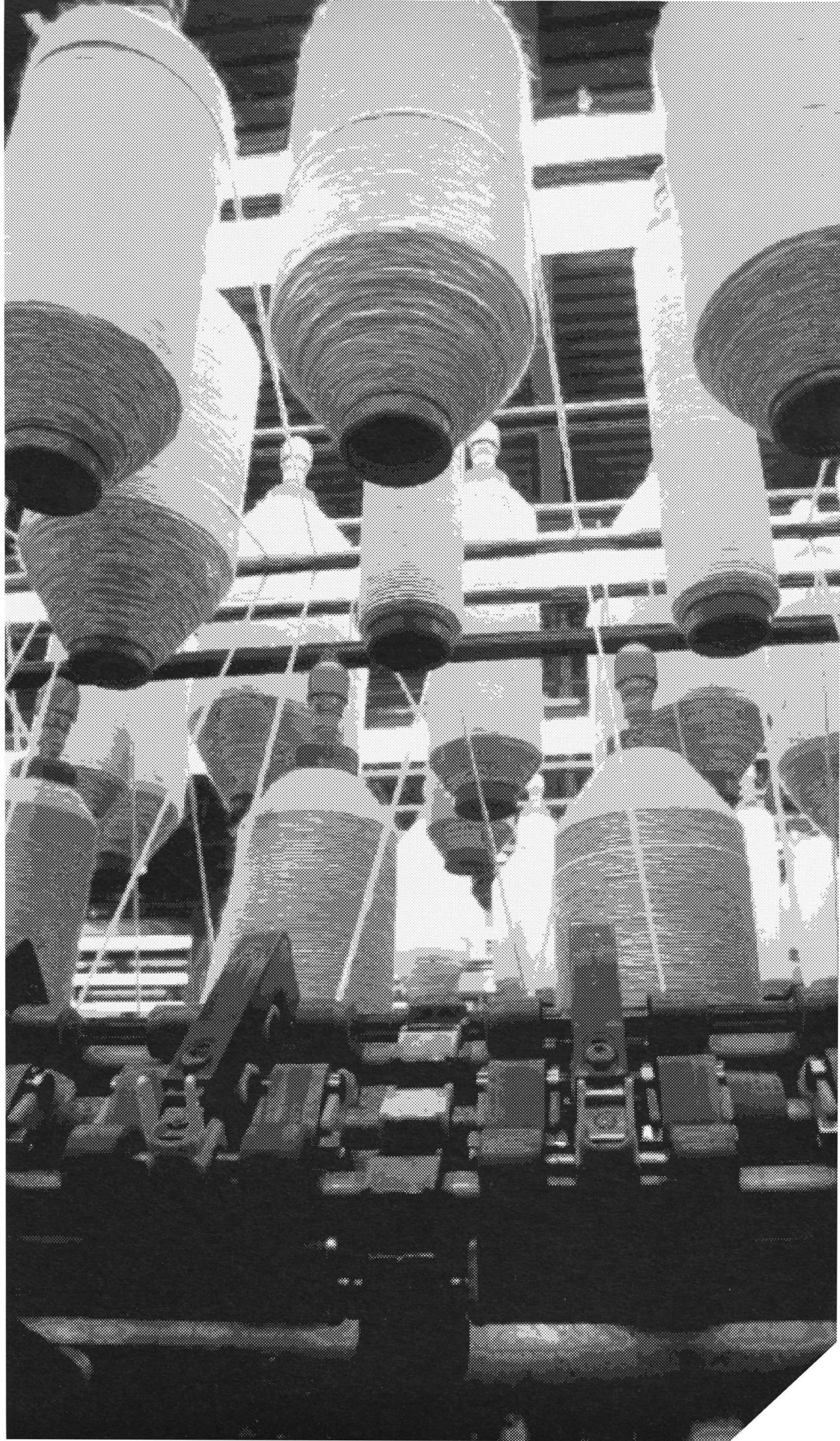


Textiles, leather, clothing and footwear



In response to stagnant demand and growing competitive pressure, the EC textile and related industries have had to restructure considerably in order to survive. This restructuring has taken the form of capacity reduction and increased concentration, investment in labour saving techniques and a shift of production towards higher value added goods.

The economic importance of the industry in the EC economy

In 1989, the production value of textiles, clothing, leather and footwear amounted to 158 billion ECU. With a workforce of 2.7 million, these sectors employ 2% of the total EC active population and 7% of the industrial workforce. These figures do not include clothing firms with less than 20 employees (where employment is unofficially estimated to be around 300 000).

The textile, clothing, leather and footwear industries are relatively more important in the Mediterranean countries: they account for 27% of manufacturing added value in Portugal, 23% in Greece, 16% in Italy, and 11% in Spain. France and the UK come next with 7%; followed by Belgium (6%), Denmark (5%), West Germany (4%), Netherlands (3.5%) and Luxembourg (1.6%) (No updated figures are available for Ireland).

In the 1980s, the share of manufactured added value declined in all member Countries with two remarkable exceptions: Portugal, where it increased by 4% since 1980 and Italy, where it remained stable.

Added value declined most in Spain and France. Final consumption of clothing, leather accessories and footwear in the EC reached 188 billion ECU (1988) and represented 7.8% of household consumption. Annual per capita expenditure amounted to 580 ECU, a considerably lower figure than for the USA (640 ECU) and Japan (670 ECU).

Description of the industry

This chapter covers:

- ❖ NACE 43 (Textile) and 453 (Clothing), the textile industry is further subdivided into wool ((NACE 431), cotton (432), silk (433), linen and hemp (434), jute (435), knitwear, socks and stockings (436), finishing (437), carpets and other floor coverings (438), and other textile industries (439);
- ❖ the leather industry (NACE 44), is divided into tanning and dressing of leather (NACE 441) and manufacture of products from leather and leather substitutes (442);
- ❖ the footwear industry (NACE 451). NACE 452, 454, 455 and 456 are not covered here.

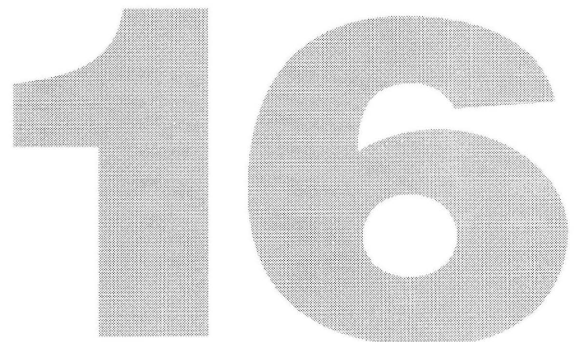


Table 1
Textiles, leather, clothing and footwear
Main indicators, 1986-90

	1986	1987	1988	1989	1990
Production (million ECU)					
Textiles	83 862	84 984	89 630	93 467	93 900
Clothing (*)	36 156	35 854	36 128	37 761	38 100
Leather	6 945	7 133	8 288	8 308	8 474
Footwear	16 577	19 957	15 988	18 000	N/A
Total	143 540	147 928	150 034	157 536	N/A
Index	100	103	105	110	N/A
Employment (x 1000)					
Textiles	1 605	1 571	1 552	1 518	1 500
Clothing (*)	842	832	778	752	733
Leather	77	75	71	70	69
Footwear	371	366	348	333	342
Total	2 895	2 844	2 749	2 673	2 644.0
Index	100.0	98.2	95.0	92.3	91.3
Net exports (million ECU)					
Textiles	472	- 510	- 789	- 249	N/A
Clothing (*)	- 2 837	- 4 389	- 5 313	- 5 725	N/A
Leather	238	263	239	402	283
Footwear	2 008	1 053	516	1 022	N/A
Total	- 119	- 3 593	- 5 347	- 4 550	N/A

(*) Enterprises with 20 or more employees.

(*) Excluding Portugal.

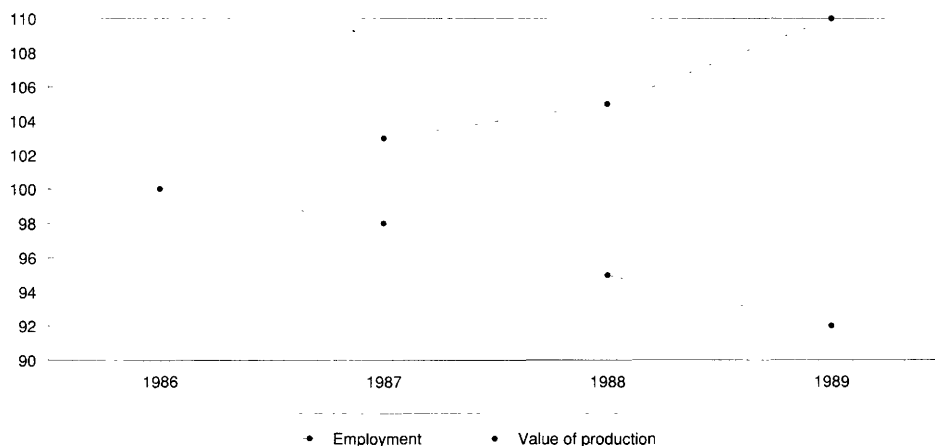
Source: Comitextil, Cec, Cotance, Eurostat, AIEH.

Current situation

Textiles production value amounted to more than 93 thousand million ECU in 1989, and the sector employed a workforce of 1.5 million. Clothing and footwear figures (55 761 million ECU and 1.085 million employees) need to be adjusted in order to take into account data

referring to clothing firms with less than 20 employees. The leather industry had, in 1989, a production value of 8 308 million ECU and a workforce of 70 000 workers. Despite different NACE codes, the textile and clothing industries are strongly interrelated. Together they employ 2.3 million people (2.6 million if unofficial estimates of

Figure 1
Textiles, clothing, leather and footwear
Employment and value of production at current prices, 1986-89



Source: Prometeia, Comitextil, Cec, Cotance

firms with less than 20 employees are taken into account) and have a production value of more than 131 billion ECU.

Industry structure and production trends

Industry structure The textile, clothing, leather and footwear industries were considered as "declining" industries in the 1970s, doomed to disappear as an EC major industrial sector and underwent profound restructuring during the 1980s. Labour saving investments brought about a radical increase in productivity, and product strategy lead to a specialisation in higher value added and technology intensive products. In the clothing industry, restructuring implied strong product differentiation through quality enhancement, fashion and brand image (this strategy was particularly successful in Italy) and a shift in the location of production to low wage cost countries. Industrial structure is very fragmented because of the lack of technical economies of scale and the virtual absence of barriers to entry, primarily as subcontractors, in many subsectors (e.g. knitting and clothing). Firms with less than 20 employees account for 1/3 of total employment. The proportion of small firms is higher in Mediterranean countries, reaching 45% in Italy, 40% in Portugal, 27% in Spain and lower in northern member Countries (18% in UK and West Germany). The current increase in subcontracting has led to the creation of small firms, thus further fragmenting the EC sector at the lower end of the scale. Against this fragmented background, there have been a considerable number of mergers and acquisitions since 1988 at the higher end of the scale. These operations led to the creation and/or the

strengthening of large industrial groups competing on a European, and in most cases on a Global scale.

Among the most significant operations, there are:

- ❖ Italy: the acquisition of Lanerossi by Marzotto; those by the groups Polli, Cantoni, Tacchella; that of the world leader in ski boots, Salomon, by Benetton;
- ❖ France: the acquisition of the American Cluett Peabody by group Bidermann; that of DIM by the American Sara Lee; that of Adidas by the group B.Tapie; that of Kookai by the group André; the agreement between DMC and the Italian Fintrusardi and Fincom for future acquisitions in the textile field;
- ❖ United Kingdom: the ongoing merger project between the giant firms Coats Viyella and Tootal; the acquisition of the French Georges Rech by Courtaulds;
- ❖ West Germany: the acquisition of Group Boss by Leyton House; of the Italian Ragno by Schiesser; the purchase of 49% of Puma by the Swedish Aritmos.

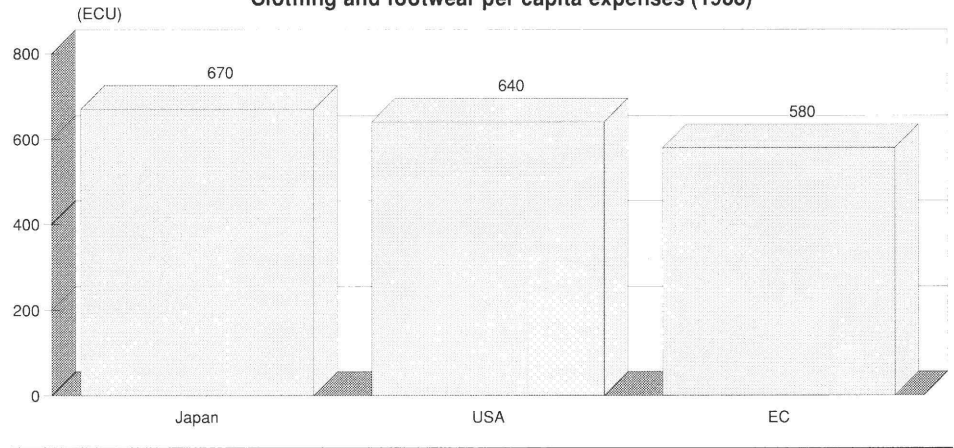
Two main factors can explain this consolidation trend:

- the difficulty to grow by "internal expansion" within a stagnating and mature market;
- the need to locate productive and commercial units which are closest to the markets coupled with the high entry cost of a "green-field" investment in markets where product differentiation and segmentation is very high.

Production trends From 1986 to 1989, production value of the textile, clothing, leather and footwear industries stagnated in real prices although it grew by 10% at current prices.

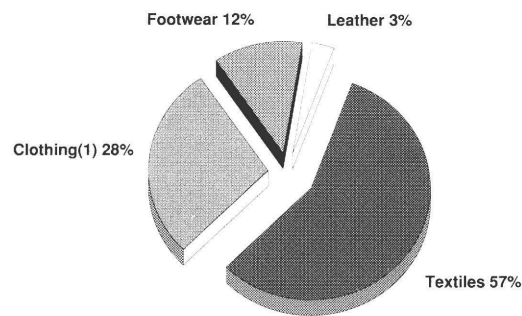
The increase in 1989 was 5% at current

Figure 2
Textiles, clothing, leather and footwear
Clothing and footwear per capita expenses (1988)



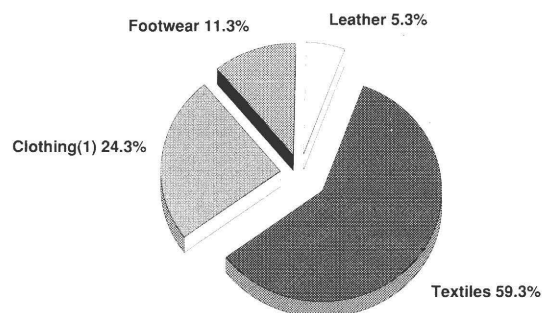
Source: Prometeia

Figure 3A
Textiles, clothing, leather and footwear
Composition of the industry, employment, 1989



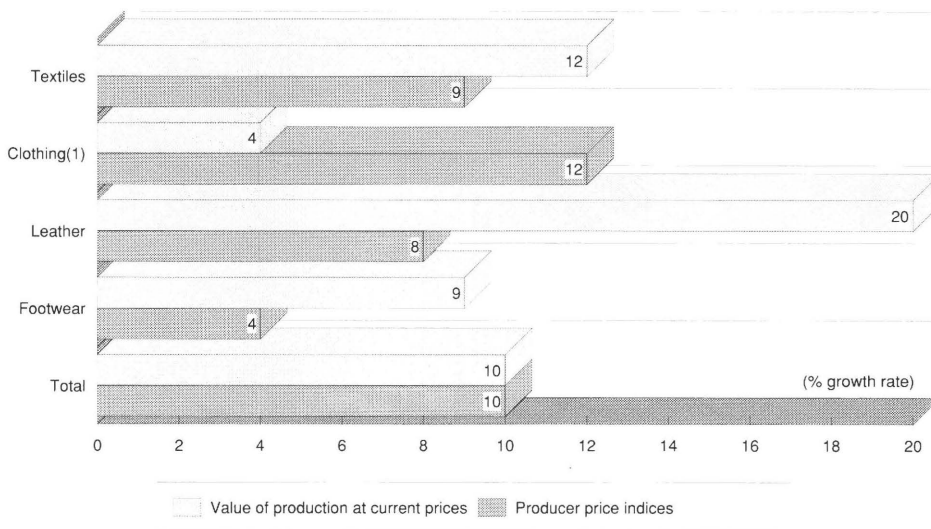
(1) Enterprises with 20 or more employees
Source: Prometeia, Comitextil, AIEH, Cec, Cotance

Figure 3B
Textiles, clothing, leather and footwear
Composition of the industry, value of production, 1989



(1) Enterprises with 20 or more employees
Source: Prometeia, Comitextil, AIEH, Cec, Cotance

Figure 4
Textiles, clothing, leather and footwear
Value of production and producer prices, 1986-89



(1) Enterprises with 20 or more employees
 Source: Prometeia, Comitextil, AIEH, Cec, Cotance

prices and 1.5% at constant prices. Clothing (+4.5% at current prices) experienced a fall in real terms while prices grew very fast. At current prices, the footwear industry outperformed other sectors (+12%); however, it has not been able to recover fully from the 1988 considerable production decline. Leather was stable (+0.2%) and textiles recorded a 4.3% increase.

Stagnation of production coupled with an increase in productivity led to a general reduction of employment. From 1986 to 1989 employment fell by 8%. With a reduction of 2.8% in 1989 alone. The clothing and footwear industry suffered the greatest loss (-11% and -10% respectively), and -3.3% and -4.3% in 1989 alone. Employment in textiles declined 5.4% over the last three years and by 2.2% in 1989. In the leather sector, the cumulated decrease was 9.1% and 4.3% for 1989.

Trade

Whilst the EC industry now appears more able to compete internationally, its future will inevitably depend on the continued improvement of its competitiveness on global

markets and on the trade protection it is afforded through an extension of the Multi Fibre Agreement, or its replacement. In particular, the extent to which automation will improve the competitiveness of EC industries will be crucial in determining their ability to hold on to domestic market shares and exploit the new growth markets of developing countries.

In the textile industry, three out of the five main world exporting countries, are OECD members (FRG, Italy and Japan), followed by China and Hong Kong (for the latter, however, 70% of exports are actually re-exports of imported products). The EC share in world textile exports is 43%. The world leading importers are FRG, Hong Kong, the United Kingdom, USA and France. In the clothing industry, the biggest world exporter is Hong Kong (also with significant amounts of re-exports), followed by Italy, South Korea, West Germany, and China.

The EC share of world exports amounts to 34% (in value terms). The world's largest importing country is the United States, alone accounting for 1/4 of world imports. During

the 1980s, EC imports increased (+8.8% per annum between 1982 and 1988) faster than exports (+7.4% per year), leading to a trade deficit of 5 347 million ECU in 1988. In 1989, EC exports (17%) increased more than imports (11%). This improvement in EC terms of trade led to a 800 million ECU trade deficit reduction.

As concerns footwear, some restrictions on imports have been imposed by EC countries, usually in the form of Voluntary Export Restraints from Eastern Europe, South Korea and Taiwan. In 1990 for the first time, the EC imposed restrictions for the EC-12 on footwear imported from South Korea and Taiwan.

World exports of leather and footwear products amounted to a little less than 40 billion ECU in 1988; EC exports accounted for about 15% of the total. South-East Asia exports almost 1/5 of world exports and has the most active footwear and leather industry. Footwear and leather exports account for less than 2% of total EC exports.

The US and EFTA countries are the largest export markets for EC firms, each of them accounting for about 30% of total extra-EC exports.

EC imports increased fast throughout the 1980s (an average +12% per annum between 1982 and 1988). The highest growth rates were recorded for imports from South-East Asia (over 35% between 1986 and 1988) which now account for 29% of total EC imports.

Outlook

Prospects are affected by the fierce competition from low labour cost Countries. As the decade progresses, the competitive edge gained by EC producers as a conse-

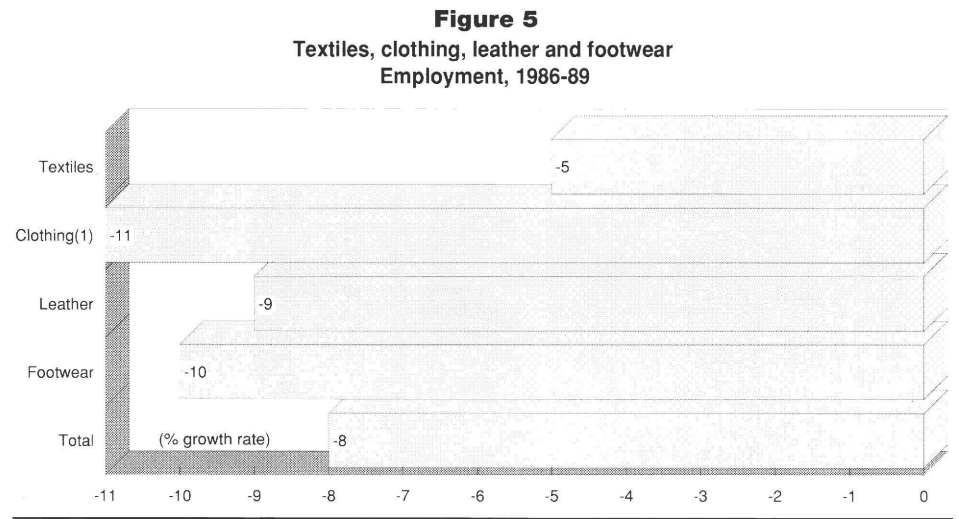
quence of the restructuring and internationalisation strategies pursued during the first half of the 1980s appears to be shrinking. Of late, the competition among extra-EC producers has increased in market niches which used to be the stronghold of European producers.

The sector is expected to face a stagnant period. A WEFA study suggests that industrial production in the textile sector is expected to increase by 0.7% in 1991 and no more than 0.9% during the 1989-

1999 period. Prospects for production and employment, however, would substantially worsen if the outcome of GATT talks were unfavourable to EC producers.

On the other hand, the forecast for leather producers are conditioned by the stagnation of domestic market and by the international protectionism on both finished leather and raw materials. Japan, the largest potential export market for EC leather, is still virtually closed by a tariff/quota system and countries with large sources of raw material are obstructing world price levels and raw material supply by practising export restrictions.

The footwear market is undergoing re-organisation. Challenged by a stronger competition from South-East Asian and other low-cost countries, EC producers are shift-



(1) Enterprises with 20 or more employees
Source: Prometeia, Comitextil, AIEH, Cec, Cotance

ing to high quality and fashion products. The supply structure, size and number of firms are also changing. Mergers, acquisitions and commercial as well as production agreements aiming at rapid penetration into new areas and more efficient distribution systems will gain momentum.

Changes in Eastern Europe are causing concern in some sectors of the industry. The optimists see the opening of Eastern economies as an opportunity to reach new consumers. The pessimists see the region, which according to one estimate, has twice as much textile capacity as Western Europe, as yet another source of low cost competition.

The industry within the EC is already or-

ganised on a European-wide level in line with international comparative advantage and companies are subject to considerable competitive pressure both internally and from non-EC companies. The impact of 1992 is therefore expected to be limited. The main effect will be the fiscal harmonisation (VAT) which will alter the relative price pattern in some countries (e.g. Italy) where reduced VAT charges exist for textile, clothing and footwear.

Written by: Prometeia Calcolo Srl..

Overall production in the textile industry increased in 1989, thus reverting the 1988 decline. Recovery was mainly due to an improvement of the export/import ratio although performances varied widely from country to country. However, these figures are not expected to repeat themselves in 1990, as shown by the provisional indicators at hand. Demand and prices remain depressed in many sub-sectors and employment is continuously decreasing. The trends which have prevailed in the sector for a decade remain much the same. Despite a marked reduction of the EC trade deficit, the increase in domestic demand was met by a growth in imports. Prospects are not encouraging, however, and in the best of cases, textile production is expected to stagnate for the 1989-1994 period.

Sector definition

According to NACE classification (43), the textile industry appears as a strongly heterogeneous group. Its productive activities, linked by a complex system of interrelations are differentiated according to the kinds of products, market structure, length of productive process and trend cycle characteristics. NACE 43 includes both final consumption goods (knitwear, carpets) and intermediate goods. Intermediate goods are bound for other production cycles of the textile-clothing sector or for areas "external" to the sector itself (automobile industry, construction, etc.). In addition, there is an area exclusively for services (finishing industry). Some production techniques are capital intensive (yarn, knitting, finishing industry), while others are labour intensive (knitwear). Products also differ ac-

ording to fibres used (wool, cotton, silk-system), and according to product quality and fashion importance.

Current situation and developments in the industry structure

During 1989, the textile industry recovered from the 1988 productive decline and saw its production level grow rapidly. Production growth was mainly due to an increase in foreign demand resulting from the opening of foreign markets (i.e. Japan and NICs) to European imports. The domestic market share, on the other hand, remained static, as the increase in EC demand was met by a growth in textile imports.

The textile sector is undergoing important structural changes. Despite its high level of fragmentation and competition, the tex-

Table 1
Textiles
Main Indicators, 1980-90

(million ECU)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 ⁽³⁾
Apparent consumption ⁽¹⁾	61 305	62 229	66 866	71 686	77 992	82 125	83 390	85 492	90 419	93 716	N/A
Net exports	- 1 243	- 180	- 318	- 382	166	365	472	- 510	- 789	- 249	N/A
Production ⁽¹⁾	60 062	62 049	66 548	71 304	78 158	82 490	83 862	84 982	89 630	93 467	93 900
Employment (thousands) ⁽²⁾	1 949	1 845	1 761	1 724	1 696	1 633	1 605	1 571	1 552	1 528	1 500

⁽¹⁾ 1989 estimated for Ireland, Hellas, Portugal and Nederland.

⁽²⁾ Hellas and Ireland 1988 estimates; Belgium/Luxembourg 80-89 more than 20 employees only.

⁽³⁾ 1990 Estimated.

Source: Comitextil.

tile industry saw a considerable number of mergers and acquisitions in 1989 not only amongst larger companies but also amongst medium-sized companies. There was also a considerable number of cross-border agreements between European manufacturing companies, thus reinforcing the "European Image" of the sector. The internationalisation process is expected to be further accelerated with the opening of Eastern European economies.

Production trends

The 1989 overall production increased by 2.1% in volume for the twelve member countries. Growth primarily took place during the second half of 1989. The 1989 index recorded the best performance since 1984 and offset the 0.8% loss recorded in 1988. However, production growth took place with weak demand and prices and performances varied widely from country to country. Growth was strong in

some of the major textile producing countries (Italy +6,7%; Spain +4,8%, Belgium 4.0%), moderate in others (West Germany +1,4%, France +0,2%) and negative in the UK (-4,2%).

The low price dynamics restrained the growth of production value (+4.3% at current prices). Moreover, the strong depreciation of the pound against the ECU in 1989, biased UK production value data (in ECU, -15%) exaggerating the actual fall in UK production value and adversely affecting EC data.

Consumption trends

EC consumption of textile intermediate goods and of knitted garments rose moderately (+3.6% at current prices in 1989) and was increasingly satisfied with extra-EC imports. In 1989, the value of extra-EC imports increased to 17% of the total value of domestic demand, two percentage points

more than the previous year. In terms of value, however, this figure is not representative of the true impact of imports on EC producers as import prices are generally very low, and the penetration rate in volume terms is markedly higher. The renewed increase in import penetration after a stabilisation during the period 1985-1988 reflects a return to the trend which prevailed during the first half of the 1980s. The entry of Spain and Portugal in the EC contributed to the further integration of the EC market and to the increase of intra-EC trade. During 1989, the share of domestic consumption satisfied by intra-EC imports was over 32%, a 2% and 5% increase compared to the 1987 and 1986 data, respectively (29.8% and 27.7%).

Trade trends

After two years of decline, the export/import ratio improved in 1989 when exports, boosted by growing demand from Japan

Table 2
Textiles
Industry structure

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	
Number of enterprises (more than 20 employees)	17 365	16 345	15 530	15 193	14 857	14 417	14 044	13 729	13 322	13 297	
Employment (thousands) ⁽¹⁾	1 949	1 845	1 761	1 724	1 696	1 633	1 605	1 571	1 552	1 528	
Employment (enterprises with more than 20 employees)	1 619	1 512	1 409	1 348	1 324	1 279	1 239	1 229	1 179	1 144	
Investment (million ECU) ⁽¹⁾	2 355	2 135	2 327	2 764	3 083	3 474	3 958	4 174	4 158	4 446	
Turnover (million ECU) ⁽¹⁾		58 348	60 504	65 107	69 373	77 205	83 433	88 828	87 596	93 223	101 824

⁽¹⁾ 1989: Hellas and Ireland estimated.

Source: COMITEXTIL, employment in enterprises with more than 20 employees: Eurostat.

Table 3
Textiles
EC trade in current value

(million ECU)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Exports extra-EC	7 778	9 015	9 468	10 325	12 676	13 915	12 871	13 141	14 066	16 037
Index	56.0	65.0	68.0	74.0	91.0	100.0	92.0	94.0	101.0	115.0
Imports extra-EC	9 021	9 196	9 785	10 708	12 510	13 549	12 399	13 651	14 855	16 286
Index	67.0	68.0	72.0	79.0	92.0	100.0	92.0	101.0	110.0	120.0
X/M	0.86	0.98	0.97	0.96	1.01	1.03	1.04	0.96	0.95	0.98
Trade intra-EC	12 525	13 682	14 838	16 146	18 676	20 696	23 129	25 440	27 216	30 071
Index	61.0	66.0	72.0	78.0	90.0	100.0	112.0	123.0	132.0	145.0
Share of total (%)	63.8	62.0	62.3	62.4	61.1	61.3	64.4	65.5	65.7	64.5

Source: Comitextil

and NICs, increased (+14% in value) more than imports (+9.6%), allowing for a marked reduction of the EC trade deficit: from -789 million ECU in 1988 to -249 million ECU in 1989. As in previous years, the commercial balance was positive for intermediate goods (yarn, fabrics) and negative for knitwear (-1 814 million ECU). In spinning and weaving, the EC's main client is the USA, followed by Switzerland, Austria, Japan and Yugoslavia. The three main EC suppliers are all industrialised countries (Switzerland, Austria and USA) while China and Turkey come respectively in fourth and fifth place. In the knitting sector the four major suppliers are Hong Kong, Turkey, South Korea and Yugoslavia, the five major importers are industrialised countries (Switzerland, USA, Austria, Sweden and Japan).

Employment

Employment declined by a further 1.5% (24 000 positions). However, the decline rate was far below last decade's average. This is explained by the fact that imports have been reduced by the upswing of production and exports during 1989. The hourly cost of labour grew by 7.5%, and increased particularly in Italy and in the United Kingdom.

Investments

According to Comitextil estimates, investment flows remained high in 1989 (about 4 500 million ECU, or 5% of the sector turnover), thus leading to a 300 million ECU increase over the previous year. As far as investments in machinery are concerned there are two important sectors: in the yarn sector, the number of new spindles and O-E rotors installed in 1989 was one of the highest in the decade - even though lower than the 1988 exceptional figure; in the weaving sector, the number of new looms installed reached the highest point since 1980. The sector's degree of modernisation is therefore high: in the yarn sector, 30% of

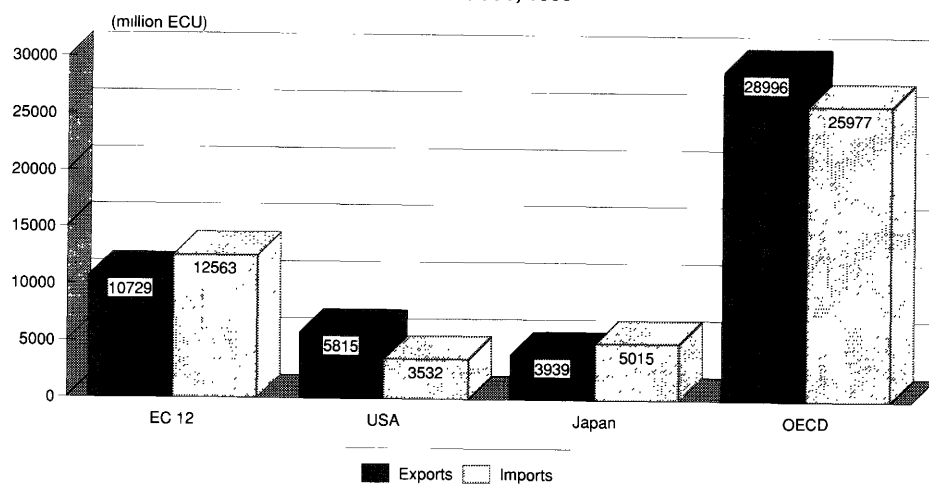
spindles and nearly all the O-E rotors installed have been bought in the past 10 years; in the textile sector, the percentage of installed looms in the same period amounts to 82% according to ITMF.

Production trends by sector

The wool industry (NACE 431) After a stabilisation in 1988, production decreased again in 1989 for the third time in 4 years. The fall in production reflected a fall in domestic demand, even though demand for EC exports experienced a moderate increase. There are two exceptions to this fall in production:

- ♦ combing, where production rose by +0.6% although it grew less than in 1988

Figure 1
Textiles
External trade, 1989



Source: UNSO COMTRADE

Table 4
Textiles
Production and Investment

(million ECU)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Production at current prices										
EC ⁽¹⁾	60 062	62 049	66 548	71 304	78 158	82 490	83 862	84 982	89 630	93 467
Index	73.0	75.0	81.0	86.0	95.0	100.0	102.0	103.0	109.0	113.0
USA ⁽²⁾	28 687	37 648	40 756	50 480	59 840	60 150	48 607	45 660	45 896	N/A
Index	48.0	63.0	68.0	84.0	99.0	100.0	81.0	76.0	76.0	N/A
Japan ⁽²⁾	24 698	32 680	32 688	37 331	42 819	44 950	43 321	41 619	45 626	N/A
Index	55.0	73.0	73.0	83.0	95.0	100.0	96.0	93.0	102.0	N/A
EC Production Index	101.0	97.0	95.0	95.0	98.0	100.0	102.0	104.0	103.0	106.0
Investment ⁽³⁾	2 355	2 135	2 327	2 764	3 083	3 474	3 958	4 174	4 158	4 446
Index	68.0	61.0	67.0	80.0	89.0	100.0	114.0	120.0	120.0	128.0

(¹) 1989: Hellas and Ireland estimates.
(²) Census of Manufactures and Eurostat estimates.
(³) Excluding Hellas and Ireland.
Source: Comitextil, Eurostat.

(+3%) because of a fall in exports;
❖ woollen spinning, which is still on the road to recovery (+1.1%) after the 1986-1987 recession.

The situation of the hand-knitting yarn sector is overall still difficult: in the last few years output halved and in 1989, it dropped by 20%.

Despite the good performance of exports (+3.9%) and the decrease in imports (-3.9%), production of industrial worsted yarn is falling slightly. As concerns the production of fabrics for clothing, steady exports (+0.9%) were not sufficient to compensate for the weakness of domestic demand and production registered a slight fall (-1.6%).

The cotton industry (NACE 432)

The sector's turnover increased by more than 5% in 1989 after a three-year stagnation period (in 1988 turnover was 4.5% lower than in 1985, according to Eurostat data). This was mainly due to a 12% increase in foreign demand. In volume terms, cotton fabric and cotton yarn exports increased by 24% and 7.7% respectively.

However, it should not be assumed that the stagnation period has come to an end. In fact, while production increased by 2.8% in volume terms in the weaving sub-sector, thanks to a rise particularly in exports demand, spinning did not improve on its 1988 performance because of a domestic market demand drop of 3%.

The fall in domestic demand of yarn depressed imports (-3.6% cotton yarn imports in volume terms) while in weaving imports of cotton fabrics increased substantially (+10.4% in volume). A 46.6% share of EC cotton fabrics exports goes to mediter-

ranean countries most of it related to subcontracting practices. The stagnation of production coupled with the decrease in productive capacity were insufficient to eliminate the surplus capacity. This, coupled with the intense price competition of imports from multiple origins and to some extent with insufficient worldwide demand were reflected in depressed yarn prices. In addition, it led to a drop in profitability also due to the steady growth of raw cotton prices. The turnover growth can be mostly explained by the following factors:

Table 5
Textiles
Main european textiles firms, 1988

	Country	Turnover (million ECU)	Employees
Coats Viyella	UK	2 791	41 300
Chargeurs	FR	2 248	22 126
Courtaulds ⁽¹⁾	UK	1 506	35 200
DMC	FR	1 179	14 490
Benetton	ITA	960	N/A
Marzotto	ITA	946	6 600
Prouvost	FR	829	16 750
Tootal	UK	686	8 200
Freundenberg ⁽¹⁾	GER	620	4 429
Coloroll	UK	561	N/A

(¹) Textiles turnover
Source: Prometeia calculations on TEXTIL WIRTSCHAFT.

Table 6
Textiles
Forecasts

	1989 (million ECU)	1990 (million ECU)	1991 / 90 (pctg.change)	1992 / 91 (pctg.change)	1994 / 89 (pctg.change)
Production at constant prices	93 467	93 900	0.4	1.6	1.0

Source: Prometeia

- ❖ a redefinition of the productive mix which favoured products of greater unitary value (more fabrics with the same amount of yarn, more cotton fabrics and less synthetic ones);
- ❖ a decrease in stocks of yarn, which are still considerably higher than in 1987 (although fabric stocks rose slightly).

The linen and jute industries (NACE 434 and 435)

In the linen industry the recovery phase which followed the decline in 1986, came to a halt in 1989. Output was 20% lower than in 1988, showing a consistent fall both in spinning and weaving, and production levels fell lower than in 1984-85: 40% for spinning and 50% for weaving.

In the jute industry, on the other hand, production remained stable. The increase in weaving and the moderate fall in spinning resulted in a 1% overall production increase.

The knitting industry (NACE 436)

After some years of moderate growth (+2.5% in 1988), the knitting and hosiery/sock industry increased by +4.5% at constant prices. Exports grew (9.4%) more than imports (8.4%), but trade balance worsened (from -1 719 to -1 814 million ECU). Perspectives for employment remain unfavourable: the fall in employment (-2%) was similar to that in 1988 (-10 000 employees). A fall in production was recorded in the knitted fabrics, outerwear (-4%) and underwear (-2%) sub-sectors, while the stocking and sock sub-sector showed an increase.

The silk industry (NACE 436) Productive activity has on the whole increased compared to 1988. The main areas of the silk industry (silk and chemical-silky fibres weaving) experienced, however, different trends. Production increase was entirely due to chemical fibres (+4% for weaving of synthetic, continuous yarn). Pure natural silk weaving, on the other hand, an activity almost exclusively concentrated in the northern part of Italy, showed a marked decrease (-6%). The negative trend for pure silk in the silk industry reflects an important, structural phenomenon besides marking a shift in taste and fashion. China's monopolistic situation in terms of supply caused strong instability and uncertainty in the sector due to its aggressive price policy for semi-finished goods and its rationing of raw materials supply. Even though the supply of raw material improved in 1989, producers have increasingly used other fibres (chemical, silky types) in the mix with silk.

Finishing (NACE 437), carpets (NACE 438), miscellaneous (NACE 439)

In the finishing industry there was a significant increase in activity (+5.2% for firms with at least 20 employees); the stronger increase in fabric printing than dyeing, was coupled with a price increase and led to a 10% increase in turnover. Production increase of carpets slowed down (+3.5%) in comparison with the 1986-88 period when the housing sector growth boosted demand. The trimming and lace industry also recorded a good performance (+14%).

Outlook

According to a survey carried out by the EC Commission among entrepreneurs, perspectives for 1990 are pessimistic. This was confirmed by estimated production indicators, with the only exception to the downward trend being the knitwear sector. In 1990, production value is not expected to be much higher than in 1989 (+0.5%). A WEFA study forecasts that production will remain stagnant in 1991 (+0.4) while a cyclical upswing is forecast for 1992 (+1,6).

In the longer term, prospects will be heavily influenced by the negotiations on commercial policy. It is not yet known whether the Multi-Fibre Agreement will be replaced or extended for one or two years and the outcome of multilateral GATT negotiations is still unclear. However, even the best of outcomes would not lift the textile industry above stagnation. Average growth of production for the period 1989-1994 is not expected to exceed 1%.

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The decreasing trends in volume production and employment in the clothing industry were confirmed in 1989. Despite an exceptional growth of exports, the sector's trade deficit worsened and imports gained a larger share of domestic demand.

In order to cut costs, companies are increasingly subcontracting parts of their production to cheap labour countries and this new strategy partly accounts for the massive growth of imports.

National and cross-border mergers and acquisitions and other forms of commercial cooperation are on the rise. One of the reasons for this is that national differences in consumer taste have lead companies to reinforce their presence in other EC markets by means of direct investments or agreements with local companies.

Sector definition

According to the NACE 453 definition, the clothing industry will be understood to mean the production of garments using industrial methods essentially with warp and weft fabric and leather. Knitwear is excluded and comes under NACE 436.

Production techniques are labour intensive and are suitable for subcontracting in small production units.

With the exception of foreign trade, data presented in table 1 refers to firms with at least 20 employees. Up-to-date information on the importance of smaller companies is not available. However, rough estimates indicate that firms with less than 20 workers employ a workforce of 250 to 300 000.

Current situation and developments in the industry structure

By pursuing specialisation and product differentiation strategies, coupled with flexibility and the use of outward processing, the European clothing industry has been able to maintain a high degree of international competitiveness. However, firms face a stagnant domestic market: The fact that many of these firms have specialised in the production of high quality and high priced goods, has further reduced the potential size of the market. There are two important consequences to this: since the EC domestic market is the most important for European firms, its stagnation has a sig-

Table 1
Main Indicators (1) Clothing, 1980-90

(million ECU)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Apparent consumption ⁽²⁾	24 562	24 253	26 314	28 941	31 492	33 741	36 993	40 253	41 441	43 486	N/A
Net exports	- 2 518	- 2 499	- 2 775	- 2 651	- 3 202	- 2 911	- 2 837	- 4 399	- 5 313	- 5 725	N/A
Production ⁽³⁾	22 044	21 754	23 539	26 290	28 290	30 830	34 156	35 854	36 128	37 761	38 100
Employment (thousands) ⁽⁴⁾	878 728	807 298	761 735	772 252	759 326	747 253	843 166	83 004	779 029	752 979	733 200

(1) 1980 EC 9; 1981-85 EC 10.

(2) Calculated as production of enterprises of 20 or more employees - total exports extra-EC + total imports extra-EC

(3) Enterprises with 20 or more employees; Nederland estimated; 1980-87 Ireland estimated.

(4) Enterprises with 20 or more employees; 1980-89 EC-12, Ireland and Nederland estimated.

Source: AEIH, Eurostat (Bise).

nificant impact on activity levels and therefore on employment. This negative effect is reinforced by the increasing use of outward processing in third countries. Consequently, companies are increasingly targeting new markets, particularly in industrialised countries (USA and Japan) and in NICs.

Another important characteristic of the EC domestic market is its high degree of integration. Cross-border integration is ultimately limited by the persistence of strong differences in tastes and "dressing culture" in different member states. Some companies have responded to this challenge by stressing the "European dimension" of production, management and distribution. This strategy was pursued by means of an acceleration in cross-border mergers and

acquisitions as well as an increase in commercial and productive agreements between European partners. Important deals include the acquisition of Baumler (FRG) by Gruppo GFT (Italy), the acquisition of three important German firms by Miroglio Group (Italy), that of Ragno (Italy) by Schiesser (FRG) and the acquisition of G.Rech (France) by Courtaulds (UK).

Production trends

In 1989, production value increased by 4.5%. Growth in the sector was the result of price evolution (+4% of the index of ex-fabrica prices) and of the shift of the product-mix towards products of greater value per unit. For the fourth consecutive year, the physical production index has decreased (-2.1%). This brings up the total decrease to 10% since 1986.

FRG, Italy, France, United Kingdom and Spain, together account for 90% of EC production. Spain achieved the best results recording a production growth of 5.6%; Italy and the United Kingdom saw their production fall slightly, -0.5% and -0.8%, respectively, whereas in FRG and France the decrease was more marked, -3.6% and -5.6%, respectively.

However, the negative trend steadily recorded in the past few years does not necessarily mean a weakening of the sector. It partly reflects the companies' growing use of subcontracting in countries outside the EC. The geographical variance of subcontracting is very high. Among major producers, FRG presents, by and large, the most internationalised subcontracting network, with subcontractors

Table 2
Clothing
Production

(million ECU)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
EC ⁽¹⁾	25 038	24 374	26 200	28 843	30 999	33 734	34 156	35 854	36 128	37 761
Belgique/België	863	898	903	907	925	944	987	984	889	978
Danmark	258	250	297	322	390	443	487	419	371	370
BR Deutschland	6 873	6 664	6 821	7 250	8 092	8 331	8 835	9 114	9 306	9 841
Greece	321	362	402	428	389	409	367	350	362	363
España	2 286	2 170	2 167	2 045	2 124	2 229	2 448	2 348	2 415	2 644
France	4 933	4 753	5 202	5 423	5 489	6 161	6 526	6 438	6 515	6 685
Ireland ⁽²⁾	193	188	201	222	239	259	262	257	277	287
Italia	4 642	4 653	5 218	7 240	7 743	8 508	8 146	9 635	8 964	9 529
Luxembourg	7	7	5	7	9	10	10	10	11	13
Nederland ⁽²⁾	171	187	222	205	234	269	314	346	364	435
Portugal	387	450	494	508	585	675	745	808	873	944
United Kingdom	4 104	3 792	4 268	4 286	4 780	5 496	5 029	5 145	5 781	5 672

(1) Enterprises with 20 or more employees.

(2) Estimated.

(3) 1980-87 estimated.

Source: Eurostat (Inde).

Table 3
The ten largest clothing importers from the EC, 1989

	1000 ECU	%
Total extra-EC	5 709 326	100.0
Switzerland	1 012 151	17.7
United States	952 756	16.7
Austria	735 369	12.9
Japan	625 320	10.9
Sweden	488 691	8.6
Norway	257 985	4.5
Hong Kong	204 673	3.6
Canada	167 342	2.9
Canary Islands	144 284	2.5
Finland	137 891	2.4
Others	982 864	17.2

Source: CITH.

mainly located in Eastern European Countries, Yugoslavia and Turkey as well as in Portugal. France subcontracts mainly to North African Countries while the UK has subcontractors mainly in Asia, and Commonwealth countries. Italy, on the other hand, has traditionally made limited use of international subcontracting. However, since 1988, important changes in major companies' strategies were recorded and an increasing number of subcontracting agreements, mainly with firms based in Mediterranean countries, were reported.

Consumption trends

Consumption trends (+5% of the apparent consumption in 1989) were marginally

higher than production. The increase was almost entirely due to an increase in real prices (+4.5% of the clothing consumption price index). After complete stagnation during the first half of the decade, and moderate recovery from 1986 to 1988 (+0.3% on the average per year at constant prices) domestic demand slumped back into stagnation in 1989. This reflects the reduction of the clothing share (including knitwear and footwear) in the household total consumption. The clothing share fell from 8.8% in

Table 4
Clothing
The ten largest exporters to the EC, 1989

	1000 ECU	%
Total extra-EC	10 673 662	100.0
Hong Kong	1 646 277	15.4
Yugoslavia	1 062 610	10.0
China	899 604	8.4
Turkey	763 103	7.2
South Korea	635 789	6.0
India	603 547	5.6
Tunisia	590 627	5.5
Morocco	540 914	5.0
Austria	329 337	3.1
Thailand	308 666	2.9
Others	3 293 188	30.9

Source: CITH.

1975 to 7.8% in 1988, even though it is still higher than in other industrialised countries (5.7% in USA, 6.2% in Japan). However, if we observe yearly per capita

Table 5
Number Clothing of enterprises, 1989.

EC	Number of enterprises
EC	18 864
Belgique/België, Luxembourg	454
Danmark	333
B.R. Deutschland	2 105
Hellas	1 200
España	2 605
France	3 047
Irland	350
Italia	3 010
Nederland	220
Portugal	1 000
United Kingdom	4 500

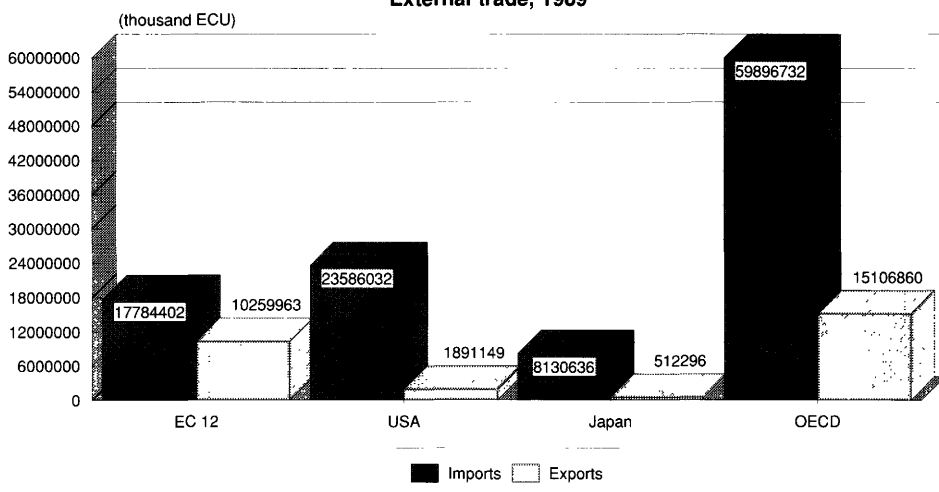
Source: CITH

expenses in clothing (at 1985 prices), the average per-capita consumption of the 12 member countries (580 ECU) is lower than that of the United States (640 ECU) and Japan (670 ECU). Within the EC, the highest per capita consumption is in West Germany (775 ECU), followed by Italy (725 ECU), and France (590 ECU). Portugal comes last with less than 250 ECU.

Trade trends

In 1989, after three years of stagnation, exports recorded an exceptional growth (+22% in value), higher than the increase of imports (+15%) and domestic demand (+5%). Despite the good performance of exports which superseded 6.200 million ECU,

Figure 1
Clothing
External trade, 1989



Source: OECD

Table 6
Clothing - EC-Trade in current value

(million ECU)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Exports extra-EC (1)	2 072	2 599	2 847	3 223	3 969	4 736	5 007	5 033	5 082	6 211
Index (2)	44.2	54.9	60.1	68.1	83.8	100.0	97.6	98.1	99.1	131.1
Imports extra-EC (1)	4 590	5 098	5 622	5 874	7 171	7 647	7 844	9 432	10 395	11 936
Index (2)	59.9	66.7	73.5	76.8	93.8	100.0	101.8	122.4	134.9	156.1
X/M	0.45	0.51	0.51	0.55	0.55	0.62	0.64	0.53	0.49	0.53
Imports intra-EC (1)	3 874	4 229	4 718	4 973	5 706	6 308	7 594	8 100	8 118	9 357
Index (2)	61.8	67.1	74.8	78.9	90.5	100.0	118.7	126.6	126.9	146.3
Share of total (%)	65.4	61.6	62.4	61.1	59.3	57.5	60.8	62.2	61.6	60.4

(1) 1980 EC 9; 1981-85 EC 10.
(2) Taking into account changes in EC membership.
Source: AEIH, Eurostat (Comext)

the foreign deficit rose further, from - 5.313 million ECU in 1988 to 5.725 million ECU in 1989. Exports to Far Eastern Countries, in particular to South Korea and Japan, have increased by more than 30% (Japan is now the 4th biggest EC client) mainly as a consequence of the progressive liberalisation of imports policy. A share of more than 40% of extra-EC imports is held by Hong Kong, Yugoslavia, China and Turkey. A considerable share of imports from Yugosla-

via and Turkey is related to subcontracting practices, which explains also the massive export flows to these Countries of intermediate textile goods (Yugoslavia ranks fifth among EC textiles clients). Intra-EC trade recorded a growth of +15.3%, and accounted for 60% of total exports of member states.

Employment

According to official estimates, covering only employment in firms with at least 20 employees, the UK is the main em-

ployer (24% of EC total), followed by FRG (19%), Italy (17%) and France (16%). However, unofficial estimates covering also firms with less than 20 employees, give a different picture. Italy comes out as the largest employer (23% of EC total), the UK ranks second (20%), followed by FRG (15%) and France (13%).

Employment decreased by about 25.000 units in firms with at least 20 employees or about 3% of the labour force. The falling employment trend prevailing in

Table 7
Clothing - Production, value added and Investment.

(million ECU)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Production at current prices										
EC	31 802	30 742	33 023	36 398	39 101	42 535	43 017	42 125	45 452	47 436
Index	74.3	72.3	77.6	85.6	91.9	100	101.1	99	106.9	111.5
USA (1)	24 827	33 756	41 410	46 445	53 241	53 998	42 590	25 947	25 836	29 679
Index	46	62.5	76.7	86	98.6	100	78.9	48.1	47.9	55
EC										
Production at constant prices (2)	34 551	31 213	30 892	32 188	32 162	33 222	33 034	34 101	33 240	33 138
Index	104	94	93	96.9	96.8	100	99.4	102.7	100.1	99.8
Value added at current prices	109.6	101	98.7	102.4	99.6	100	97.8	100.9	99	98.5
Index										
Productivity	89.9	92.5	96.2	98.2	97	100	100.3	104.7	109.9	113.2
Index										
Investment at current prices (3)	457	735	483	620	629	607	614	775	N/A	N/A
Index	75.3	121.1	79.6	102.1	103.6	100	101.2	127.7	N/A	N/A

(1) Census of Manufactures and Eurostat estimates.
(2) Excluding Ireland, Luxembourg and the Netherlands.
(3) Excluding Spain, Ireland, Luxembourg and Portugal; 1985-86 excluding Belgium; 1984-87 excluding Greece; 1985-87 excluding the Netherlands.
Source: Eurostat (Inde).

Table 8
Clothing industry
Main European clothing firms, 1988

(million ECU)	Country	Turnover
Benetton (1)	I	960
Adidas (2)	D	810
GFT Group (1)	I	810
Triumph Group (1)	D	791
Coats Viyella	UK	680
Stellmann Group	D	661
Tacchella Group	I	423
Bidermann (3)	F	398
Finmar Group (3)	I	313
Devanley Group	F	313

(1) Including knitwear
 (2) Including footwear
 (3) 1987
 Source: Textil Wirtschaft

the 1980's was confirmed, even if the fall was less marked than in previous years.

Productivity

Clothing industry products are highly differentiated and subject to frequent innovation. It is therefore quite difficult to estimate labour productivity according to quantitative parameters. Added Value per employee at constant prices grew by 3% in 1989 in the EC as compared with 5% in 1988. Amongst major producers, growth was particularly high in FR Germany, +8.5% as compared with +5.5% in 1988, and equal to the European average in France, +3% and +8.9% in 1988. In Italy, production grew by 2.5% whereas in 1988 it recorded a 10% growth. However, Italy remains the country where added value per employee is highest (22.000 ECU at 1985 prices).

Investment, technology, working methods

Unlike other sectors such as the textile industry, the evolution of the clothing industry during the 1980s was less influenced by important innovations in processing technologies. Now, however, quick response to market signals has become a strategic variable in a firm's behaviour. Although the spreading of technologies in

the field of electronic data interchange (EDI), warehouse and logistic automated management and of computer item design, is still limited, the introduction of technologies oriented towards quick response and flexibility has begun to produce important changes in the organisation of work. After the pioneering experiences in the United States, Europe, and especially West Germany, the United Kingdom and Italy are attempting to supersede the assembly line system with alternative systems such as team working.

Outlook

According to a survey carried out by the EC Commission among entrepreneurs, perspectives for 1990 point towards stagnation. The already weak prospects for the clothing industry will not improve with the recent economic events. On the demand side, the Gulf crisis may lead to an economic slowdown and higher interest rates, consequently depressing the rise of consumers' disposable income. On the supply side, it will provoke a price increase of raw materials, primarily synthetic fibres. Moreover, the weakness of the US dollar will adversely affect the production level of importing countries, since imported goods from South East Asian countries whose currencies are pegged to the US Dollar will become cheaper. A WEFA study forecasts a 0.7% growth of the clothing sector for 1991 and a slightly higher increase (0.9%) in 1992. For the 1989-90 period, overall growth is expected to reach 1.4%, thanks mostly to Italy (+2.8%) and Spain (+1.9%). In the longer term, prospects will be influenced by the outcome of GATT talks: however, even if a positive and fair agreement is reached, the average annual

growth rate of production for the period 1990-1995 is not expected to exceed 1%. Competition from third Countries will increase while no increase in demand is expected. The internationalisation of production bound to affect the sector's major companies will be detrimental to the majority of small national companies, particularly to subcontractors.

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Migration of client industries to lower labour cost countries and cheap, low quality imports continued to be the main factors for the decreasing number of tanneries and size of the workforce.

To cope with competition from developing countries EC industry has moved to higher quality products, increasing flexibility and adding new services to clients.

Trade restrictions in developed and developing countries seriously limit the growth of EC industry while distorting prices and competition.

Description of the sector

The leather industry defines leather production as the processes of treating raw hides and skins into semi-finished or finished leather. Leather manufacturing therefore includes companies involved in tanning, currying, dyeing and finishing of the raw material. Companies active in one or more of these processes are included in the sector. The fur industry is regarded as a separate industry since the animals' body hair is preserved after tanning. However, woollen sheepskins (double face) are included in the leather sector.

The NACE codes applicable to the leather sector are:

441 Tanning and dressing of leather;

441.1 Tanning and dressing;

441.2 Manufacture of imitation leather based on natural leather;

441.3 Currying, dyeing and finishing of leather (at independent workshops).

The NACE definition is very general and includes manufacture of imitation leather which does not possess the inherent qualities of leather as defined by the leather industry's organisations.

An emerging trend is also to define types of leather according to end-use such as leather for shoes, for leather goods, etc. However, statistics gathered according to end-use of leather are still scarce as some industry organisations and most public institutions still collect data based on the animal from which the leather is made.

Current situation

The EC leather tanning industry has a turnover of about 8.308 million ECU employing some 71.000 people. It consists of mainly family-owned small to medium size companies concentrated in traditional tanning areas where this activity often plays a fundamental social and economic role. Most of the companies are located in Southern Europe with Italy accounting for about half of the EC leather output.

The average sized EC tannery employs 19 people, though the tanneries in Northern EC member states tend to be bigger than their Southern EC counterparts. German tanneries for example, employ on average some 100 people, while the Italian average is only about 12 people. Employment in EC tanneries on average

Table 1
Leather tanning and finishing - Main Indicators, 1980-89

(million ECU)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 ⁽¹⁾
Apparent consumption	4 246	4 628	5 110	5 487	6 372	6 939	6 707	6 870	8 049	7 90	8 191
Net exports	- 31	82	9	91	191	301	238	263	239	402	283
Turnover	4 215	4 710	5 119	5 578	6 563	7 240	6 945	7 133	8 288	8 308	8 474
Employment (thousands)	83	83	81	81	80	78	77	75	72	71	69

(¹) Estimation

Source: COTANCE

has decreased by 2% annually since 1980.

The number of establishments over the same period decreased by 10%. It is mainly the biggest and the smallest companies that have accounted for this decrease.

Most EC member states have continued to decrease their production mainly because of the tanners' vulnerability to highly fluctuating raw material prices, fashion trends and the continued migration of client industries to low labour cost countries. Attempts by tanners to increase and diversify export markets may prevent the worst contraction of the industry in these countries, particularly in Northern Europe.

Availability of raw materials depend on farming policies such as the CAP in the EC, and restrictive trade practises implemented in many developing countries affecting raw material prices. Improved communications made the geographic loca-

tion of the industry become less important during the 1980's. However, location now seems to have a renewed importance for companies supplying predominantly domestic markets because of the emphasis that these companies put on added services such as just-in-time delivery, making prototype fashion leather at short notice, etc. EC trade balance has significantly improved since the early 1980's showing a surplus of 400 million ECU in 1989. Despite the tanning industry's long tradition in international trade, there is still little cross-national EC ownership structures.

Production and consumption trends

Turnover in 1989 amounted to 8 308 million ECU at current prices and 7 144 million ECU at constant prices 3.7% down from 1988, while in quantity terms, production in 1989 (300.3 million m²) stayed at 1988's level up about 13% from 1980

(266.2 million m²).

The difference in production and consumption in the various EC member states can be seen in the following Figure 1.

Production trends vary according to the different types of leather. In 1989 leather production for soles decreased by 3.6% compared to 1988, while leather from sheep and goat skins, mostly used for garments and leather goods, decreased by 1%. Both figures can partly be explained by increased competition from non-EC producers, and partly by fashion trends and several consecutive warm winters (particularly for double face sheep and goat leathers).

The production of cattle and calf leather (except cattle leather used as sole leather) registered an increase of about 1%. The main reason for the latter is the increased demand for this EC leather in Asia as well as an overall increase in the EC demand

Table 2
Leather tanning and finishing - Turnover (¹)

(million ECU)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Turnover at current prices											
EC Index	4 215.0 58.2	4 710.0 65.1	5 119.0 70.7	5 578.0 77.0	6 563.0 90.7	7 240.0 100.0	6 945.0 95.9	7 133.0 98.5	8 288.0 114.5	8 308.0 114.8	N/A N/A
USA (²) Index	1 309.0 60.8	1 728.0 80.3	1 789.0 83.1	2 114.0 98.2	2 299.0 106.8	2 153.0 100.0	1 615.0 75.0	1 614.0 75.0	1 850.0 85.9	2 228.0 103.5	N/A N/A
Japan (²) Index	633.0 55.3	820.0 71.6	737.0 64.4	817.0 71.4	988.0 86.3	1 145.0 100.0	1 172.0 102.4	1 139.0 99.5	1 258.0 109.9	1 340.0 117.0	N/A N/A
EC Turnover at constant prices Index	6 126.0 84.6	6 181.0 85.4	6 208.0 85.8	6 578.0 90.9	6 793.0 93.8	7 240.0 100.0	6 836.0 94.4	6 927.0 95.7	7 420.0 102.5	7 144.0 98.7	N/A N/A

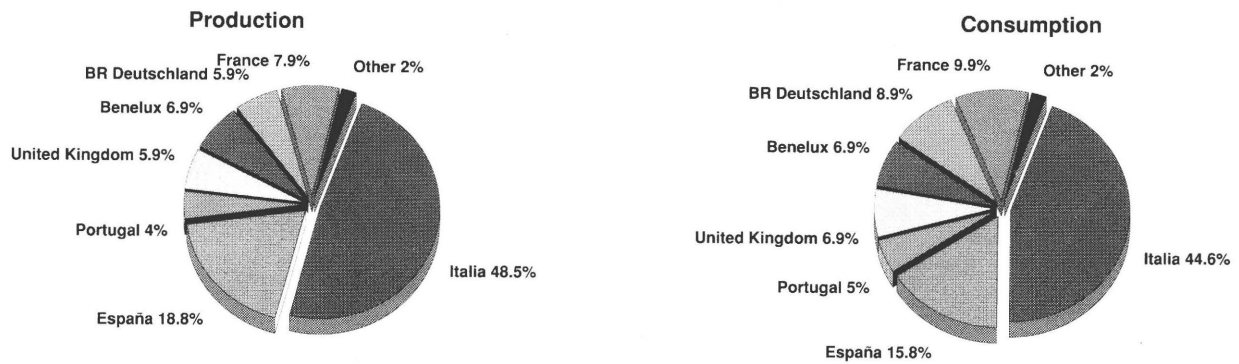
(¹) Excluding Portugal.

(²) Production at current prices; Census of Manufactures and Eurostat estimates.

Source: COTANCE.



Figure 1
EC total finished leather
Production vs Consumption 1989



Note: all leather except sole leather
 Source: COTANCE

for upholstery leather (used in both furniture and cars). The breakdown of production of finished leather per type can be seen in table 3.

The main factors for the decrease of the number of operators in the EC leather industry during the 1980s are the migration of the client industries to lower labour cost countries and cheap, low quality imports from developing countries and NIC's. However, these factors and their importance vary according to the end-use of leather. The shoe industry consumption declined from 49% of total EC leather production in 1980 to about 40% in 1990. Technological innovation, automation and improved productivity in the EC shoe industry has not stopped this trend. With the exception of Portugal, continued contraction is forecasted to well into the 1990's.

The leather goods industry (wallets, handbags, suitcases, etc.) has faced much of the same developments as the shoe industry. Leather used for leather goods will represent less than 9% of total EC leather output in 1990 as compared to 16% in 1980. The European fashion houses still hold a considerable market share in the EC, but competition from NIC's in the higher volume and price sensitive segments is increasingly affecting the EC leather producers supplying these markets. Leather used for garments and gloves have also decreased considerably in the late 1980s. This development is mainly caused by fashion trends which have favoured other materials such as textiles or cheaper imported leather. In 1990, about 20% of total EC leather production was destined for the gloves and garments mar-

ket.

The upholstery leather production has continued to rise in importance as a major market for EC leather producers. In 1990, upholstery leather will account for 14% of total EC leather output compared to 9.3% in 1980.

In value terms, the upholstery leather market is even more important due to the overall higher production costs and quality requirements for this type of leather. The competitive environment has also been considerably different as the market has grown during the 1980's and overseas competition has been limited to the lower quality market segment. Higher transportation costs, lower labour costs as a percentage of total costs and the need for shorter delivery times will continue to give EC producers a competitive advantage.

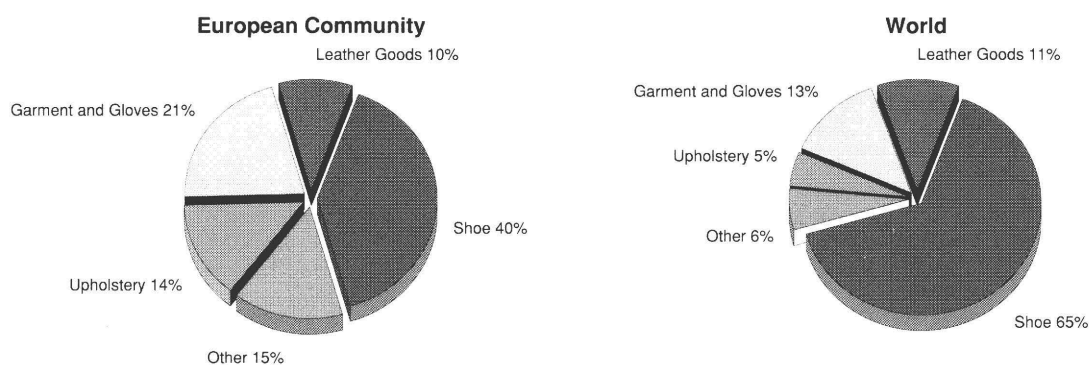
Table 3
Leather tanning and finishing - EC Production of finished leather

(million m ²)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 (*)
Cattle and calf	159.2	162.8	169.3	176.4	186.2	181.0	187.4	191.1	187.1	188.3	187.0
Sheep and goat	100.6	106.1	116.6	115.7	128.9	135.4	120.5	115.4	108.2	107.2	106.0
Others (2)	6.5	5.5	6.2	5.5	6.5	8.3	6.0	4.9	4.8	4.8	4.8
Sole (3)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	59.0	56.9	N/A

(1) COTANCE estimates
 (2) Excluding Germany
 (3) Leather measured in million kg.
 Source: COTANCE



Figure 2
Production of leather by end-use in
the EC and the world, 1990



Source: COTANCE

Consequently, the consumption trends benefit higher quality leather, upholstery leather and leather with particular fashionable features and unique designs. The lower quality and price sensitive markets are increasingly taken over by extra EC imported leather. However, higher quality and upholstery markets are already saturated in some countries as an increasing number of companies have been moving into these market segments and due to considerably longer product life cycle of higher quality leather. In Germany for example production of upholstery leather decreased by about 1 million square meters in 1989.

The world production for leather in

1990 was an estimated 1.200 million square meters. The developing countries increased their production by some 150% since 1965 and they now account for 43% of total production. The developed countries increased production by 26% since 1965 and now represents 57% of the global production. The EC alone accounts for about 20% of the global production in 1990. Since 1965, the developing countries have increased their production of sheep and goat leather by almost 170% from an annual output of 57 million square meters in 1965 to an estimated 155 million square meters in 1987. The developed countries produced almost 154.6 million square meters in 1987, an increase of 6% com-

pared to 1965. Production of bovine leather by developing countries increased by 150% in the same period while the same figure for the developed countries was 43%.

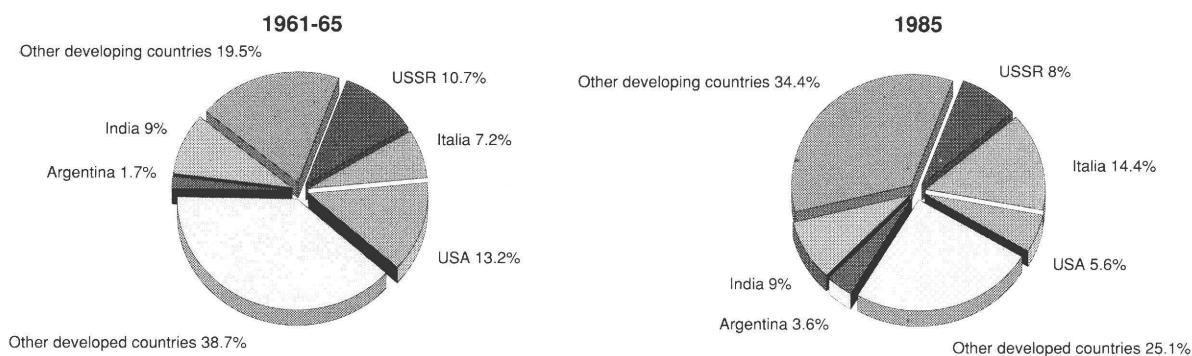
In the present global market situation there are indications of an oversupply of sheep and goat leather while the supply of bovine leather seems to match the demand.

Trade trends

Global trade The leather industry is considered one of the most trade-active sectors accounting for a global trade figure of some 17 billion ECU.

The expansion in output of footwear and leather goods in some developing coun-

Figure 3
World leather production
Average annual production



Source: FAO/COTANCE estimates

Table 4
Leather tanning and finishing - EC Trade in Current Value (°)

(million ECU)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 (°)
Exports extra-EC Index	411.0 40.6	473.0 43.5	531.0 48.9	639.0 58.8	896.0 82.4	1 087.0 100.0	936.0 86.1	1 057.0 97.2	1 053.0 96.9	1 344.0 123.6	1 350.0 124.0
Imports extra-EC Index	442.0 56.2	390.0 49.6	522.0 66.3	548.0 69.6	705.0 89.6	787.0 100.0	699.0 88.8	794.0 100.9	814.0 103.4	942.0 119.7	1 067.1 136.0
X/M	.93	1.21	1.02	1.17	1.27	1.38	1.34	1.33	1.29	1.43	1.26
Trade intra-EC Index	565.0 45.1	585.0 46.7	729.0 58.2	853.0 68.1	1 145.0 91.4	1 253.0 100.0	1 243.0 99.2	1 283.0 102.4	1 338.0 106.8	1 400.0 111.7	N/A N/A

(°) Excluding Portugal
(°) COTANCE estimates
Source: COTANCE

tries where the domestic tanning industry failed to increase capacity to meet domestic demand, influenced the patterns of global trade during the 1980s. These countries consequently became net importers of finished leather. Conversely, the production of leather in developed countries has exceeded the diminishing domestic demand and is increasingly being exported to developing countries, particularly NICs.

EC trade Extra-EC exports of finished leather increased by 28% from 1.053 million ECU in 1988 to 1.344 million ECU in 1989 and are expected to remain at about 1.350 million ECU in 1990. The most important export markets for EC leather was North America with 17% of total extra-EC exports, the EFTA countries with 15% and South Korea with 13%.

Intra EC trade of finished leather stayed stable in 1989 at a level of about 1.400 million ECU. However, this represents a doubling in current value terms since 1980 and there has been a considerable increase in trade of lower priced leather.

Extra-EC imports of finished leather increased by 16% from 814 million ECU in 1988 to 942 million ECU in 1989 and are expected to increase by only 6% in 1990.

The most important exporters to the EC in 1989 were India with 21% of total extra-EC imports, followed by the EFTA countries and Pakistan with 14% and 13%, respectively. Eastern European countries are not particularly strong exporters to the EC, representing only 57.8 million ECU in 1989 or half of Austria's leather exports to the EC. The degree of dependency upon trade vary considerably within the EC. Belgium, for instance, having lost most of its client industries, exports 80% of its leather output while Greece only exports 13%. There are also large differences and variations in extra-EC trade according to leather type. Total value of trade in semi-finished leather was about 10% compared to the value of trade in finished leather. However, trade in semi-finished leather registered a considerable increase in 1989 compared to 1988. The increase was particularly marked by intra-EC trade and extra-EC exports of crust which increased by 40% and 41%, respectively. The same figures for wet-blue also registered increases of 27% and 22%, respectively.

Employment

The number of employees in the tanning industry continued to decrease in 1989. The total number of workforce was about

71.200 which represents a decrease of more than 1.5% compared to 1988 and a decrease of 15% compared to 1980. The large majority of the employees in the tanning industry are blue collar male workers. Female employment is often limited to the more labour intensive production processes (such as cutting). Labour costs account for about 12 to 15% of the leather's sales price in most of the EC member states, though some variation exists according to the amount of added value needed and price of raw material (for exotic leathers labour costs can represent less than 5%). The main issue with regard to employment is the lack of qualified leather technicians throughout the EC. Technical staff for upholstery leather production is particularly scarce in Southern Europe e.g. in Greece, Portugal and Spain. Output per worker in the EC tanning industry has remained stable since 1988 with

Table 5
Leather tanning and finishing
Output per worker

(1000 ECU/employee)	1988	1989
EC	118	120
B.R.Deutschland	122	126
España	118	121
France	104	112
Italia	137	137
United Kingdom	159	152

Source: COTANCE

Table 6
Leather tanning and finishing - Productivity 1988

(m ² /hour)	Bovine	Goat	Sheep	Sole (1)
Brazil	16	17-18	20	6
Japan	38	24	24	19
FR Germany	35-40	30-40	40-44	18-20
Italy	50	23	42	38
Greece	22-25	20	20	12.5

(1) kg/hour
Source: ICT

an EC average of about 120.000 ECU/employee. Table 5 gives an indication of productivity in some selected EC Member States.

These figures take into account the number of effective hours worked per year. e.g. an average worker in a FRG tannery works 2 028 effective hours per year whereas his Italian counterpart works 1 717 hours per year.

Structural changes

The tanning industry is a traditional industry consisting of some 3.800 small and medium enterprises. There is also a strong identification between management and ownership structure.

Some leading companies in Member States are:

- ❖ Italy: Gruppo Mastrotto (Vicenza)
Gruppo Danieli (Vicenza)
Faeda e Valle Chiampo (Vicenza)
David Gruppo (Pisa);
- ❖ Spain: Grupo Colomer (Vic)
Grupo Lederval (Valencia)
Grupo Picusa-Vila (Barcelona)
Grupo Tipel (Barcelona);
- ❖ France: Costil Tanneries de France SA (Pont Audemer)
Tanneries d'Annonay SA (Annonay)
Tanneries Du Puy (Le Puy)
Tannerie Pechedo (Millau);
- ❖ FR of Germany: Lederfabrik C.F.Roser GmbH (Stuttgart)

Lederfabrik Louis Schweizer GmbH & Co (Murrhardt)

Freudenberg, Carl (Weinheim);

❖ United Kingdom: Pittard Garnar plc (Somerset)

Strong and Fisher Group plc (Northants)

The British Leather Co Ltd (Merseyside)

Scottish Tanning Industries Ltd (Renfrewshire);

❖ Portugal: Monteiro, Ribas Industrias Sarl (Porto)

Sociedade Industrial de Curtumes

Paulo de Silva Ramito Sarl (S.Mamede de Infesta).

Most of the structural changes that have taken place result from an increasing demand for flexibility, smaller batches with more colour, and different characteristics.

As economies of scale cannot easily be achieved in the tanning industry, the bigger companies are faced with surplus capacity and production units not adapted to the present market requirements. Some companies have therefore sought to obtain specialisation in different market segments dedicating a plant entirely for production of one leather type.

Most economies of scale still take place in the purchasing of raw material and marketing of finished leather rather than in production.

Mergers and acquisitions are not common features in the tanning industry. This is

mainly due to the size of companies in the industry and the management-ownership structure. However, this situation is changing partly because of new market requirements and families selling out their majority stakes. Another reason for a potential increase in mergers and acquisitions relates to environmental factors. In regions where pollution control increasingly becomes a politically sensitive issue, it prevents tanners from expanding or building up new tanneries to increase output.

The Southern European tanneries, notably the Italians, have developed a tradition of forming consortiums and other cooperation agreements for purposes relating to waste treatment, raw material purchasing, leather production and sales.

There have been some attempts to integrate vertically from client industries, notably shoe and furniture manufacturers.

In the shoe industry, Ecco of Denmark has established its own department for re-tanning, dyeing and finishing of leather due to difficulties in obtaining good and uniform quality leather at the right time.

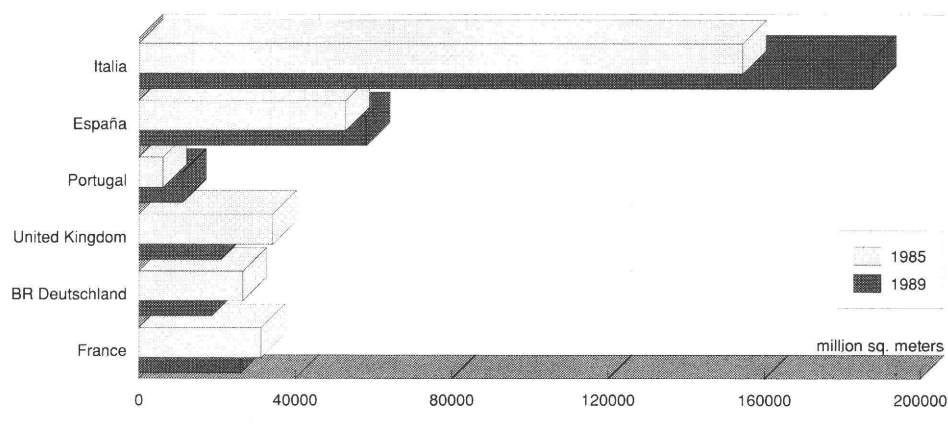
The furniture manufacturers that have tried to integrate vertically, such as Ital Design, Natuzzi, Himolla and Hukla, actually own or have ownership interests in tanneries, mainly for the same reasons as the shoe industry and in order to guarantee future furniture prices to the retailer.

This situation, combined with examples of meat companies processing their hides to crust or wet blue, can marginalise the tanners.

Geographic variance

Most of the leather industry is based in Southern Europe, with Italy being the biggest leather producing country employing 46% of all EC tannery workers and ac-

Figure 4
EC finished leather. Production trends



Source: COTANCE

counting for about half the industry's total production. The second biggest EC leather tanner is Spain accounting for 19%.

The leather industry in northern Europe underwent a severe contraction over the last 20 years, mainly due to migrating client industries in search of lower labour costs. Companies in Southern Europe have enjoyed a more stable environment. However, the 1980's was a decade of overall stagnation for leather tanners, apart from Portugal which has benefited from its cheap labour force and an increase in investment by the shoe industry.

Another difference is that Northern European tanneries are relatively specialised both with regard to the type of raw material they use and to which market the final product is sold. In Southern Europe, many tanners still produce a wide variety of products made from different types of animal skins and destined for several different markets (shoe, garment, leather goods, etc.).

Special issues

Raw materials Hides and skins are by-products of stock breeding. Supply therefore depends on farming policies. The raw material typically represents 50% of the final price of the leather.

In that respect, the size, weight and degree of uniformity of the hides and skins are very important for the industry. In North America, Oceania and some Latin American countries, cattle and sheep are raised on good pasture land by advanced techniques and slaughtered at large scale meat-packaging plants. These hides are relatively homogeneous while the EC hides and skins tend to be less homogeneous due to a large number of smaller farms. Increasing raw hide prices may encourage more efficient techniques in the prevention of damages to hides during and after slaughter.

An increasing number of developing countries such as Argentina, Algeria, Bangladesh, Brazil, China, Egypt, Ethiopia, India, Kenya, Republic of Korea, Mexico, Morocco, Pakistan, Turkey have implemented export restrictions on this raw material, as well as export subsidies on finished leather in order to build up their own domestic leather industry. These trade restrictions can give companies located in these countries a considerable price advantage. Such trade practices have, for example, enabled the leather producers in Argentina to undersell EC tanners by 20%.

The present situation is that 24% of the world's production of bovine hides and 22% of the production of sheep skins were under protectionism in 1990. All of Latin-America, the major part of the South-East Asian countries and some African states implement export restrictions on its raw material. However about 18% of raw material supply accounted for by Eastern European countries could soon be subject to liberal trading practises.

With a view to the Uruguay Round, the EC has negotiated the removal of all remaining quantitative restrictions in the trade of raw hides and skins with Eastern European countries.

The EC has reduced its tariff considerably in the leather sector in previous GATT rounds and tariffs are presently down to 3-7% on finished leather. However, such liberal trading practices have not been pursued to the same extent by other developed countries (notably Japan).

The high price fluctuations in the raw material exacerbates the difficulty of pricing policies for tanners and their clients. The last major price increase reached its maximum in 1988 when prices were almost double the 1985 level. Considerable price increases in raw materials such as that experienced in 1986-87 results in a price increase in finished leather and consequently in an increased turnover for the industry overall.

Potential export markets Target export markets for EC leather are OECD countries. The Japanese market is virtually closed as EC leather producers are confronted by a discouraging tariff-quota system.

The Japanese regime is due to expire in 1991 but Japan has made an exception of

leather and shoes in the current GATT negotiations, announcing its reluctance to make any concession in market access for leather and shoes.

A possible opening up of the Japanese market, which today is limited to an estimated 1.2% of Japanese leather production, represents considerable business opportunities for EC leather, particularly in the high quality segment of the market. Another emerging export market can be found in the opening-up of Eastern European countries. Their lower labour costs appear as an incentive for client industries (shoe and leather goods) to invest in these countries but lower productivity, lower quality, environmental problems and lack of market orientation will inevitably require considerable investment costs. Net consumption of leather shoes in Eastern Europe represents a considerable market with about 2 pairs of shoes consumed every year by each person, a figure half that of the EC.

The EC Internal Market 1992 The impact of the completion of the Internal Market by 1993 is likely to have both direct and indirect effects on the EC tanning industry.

Direct effects will occur in areas such as:

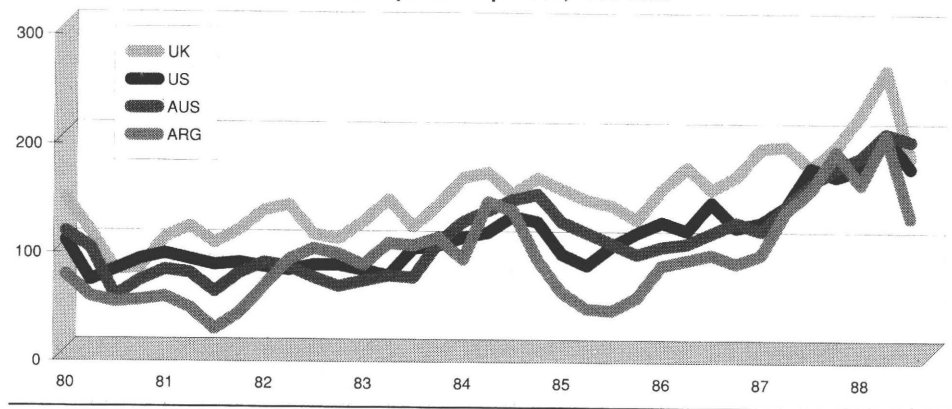
- ❖ harmonisation of environmental legislation;
- ❖ company law;
- ❖ social legislations;
- ❖ standards and technical regulations and;
- ❖ corporate taxation.

Indirect effects felt mostly through supplying as well as client industries include:

- ❖ labelling (shoe and leather goods);
- ❖ machine safety;
- ❖ certification and;
- ❖ free movement of capital.

However, 1992 will have a limited impact

Figure 5
Leather tanning and finishing
World hide price comparison, 1980-1988



UK 22.5-26KG Ox Second Clear
US Chicago Packer Butt Branded Steers
Australian 25KG Ox Green Ex Meatworks
Argentinian W/S Stall Packer 23/24KG Ox
Source: Datastream, Leather Industries of America, Chaffer, British Leather Confederation, CICA

on trade in the EC leather tanning industry. Its patterns of trade are not likely to change significantly in the short term, but harmonisation in the business environment's will continue to increase competition among leather producers and their clients throughout the EC.

Environmental issues The leather industry is becoming increasingly aware of environmental issues. These pan-European concerns largely derive from the EC environmental policy and its regulatory implementation. The EC environmental legislation based on the polluter pay principle imply investment costs which increase the price of EC leather. In some EC countries, these costs already amount to 6% of the tanners turnover.

In addition, the EC tanners are also faced with constraints in waste management and environmental technology. This problem can, for example, be seen in the lack of facilities authorised to handle the disposal of sludge, a problem which can increase sludge disposal costs considerably. The client industries are consequently faced with higher EC leather prices which have to be recuperated at the retail level,

unless they choose to buy cheaper imported leather from countries where environmental legislation or polluter pay principles are less severe.

Proper labelling of leather produced according to strict environmental laws has therefore emerged as a major issue in the tanners environmental policy. Future attempts by the tanners to deal with these issues will therefore focus on educating the price-sensitive EC consumer.

Meanwhile, savings on pollution control costs would probably be achieved by industrial restructuring and there are signs of this happening in Denmark, France and Germany where chilled green hides are now being traded in increasing quantities. Surprisingly few European hide producers have followed the meat packers in North America who are now selling wet-blue rather than salted hides and in so doing reducing total environmental pollution.

Outlook

During the 1980's the EC leather sector has gone through a period of stagnation and prospects for the 1990's are not much better. Turnover in 1990 is expected to increase by 2% compared to 1989 at current

prices whereas employment is expected to decline further to 69 000.

The tanners market is becoming increasingly segmented. All client industries are faced with demands from the end user which require a higher degree of diversity in price levels, special features (design, smell, etc.) and fashion (colours, softness, etc.).

On a global level, the EC tanners are still faced with international protectionism on both finished leather and raw material.

The biggest potential export market for EC leather, Japan, is still virtually closed by a tariff/quota system and countries with waste sources of raw material are obstruct-

ing world price levels and raw material supply by practising export restrictions. Without major improvements in the conditions for free trade in leather (access to raw materials and access to export markets), the growth potential for EC leather production will be severely limited.

In the EC, a significant trend in the tanning industry is the constant increase in trade, particularly trade in semi-finished leather. This trend seems to favour bulk production of semi-finished leather such as wet blue and crust and is foreseen to continue well into the 1990's. Tanners are forced to get smaller, more flexible and increasingly specialised in a few market seg-

ments where they offer added services. However, with client industries continuing to move to lower labour cost countries, the EC tanners producing low to medium quality leather or less fashion oriented leather are increasingly forced to look for non-EC export markets.

COTANCE: Confédération des associations nationales de tanneurs mégissiers de la CE./Confederation of national tanners' association in the EC, Address: Rue Belliard 3, B-1040 Bruxelles; tel: (32 2) 512 77 03; fax: (32 2) 537 21 37

Reviewed by: European Research Associates

The downward trend in EC footwear production was further confirmed in 1990 by a 11% fall in production volume compared to 1986. Extra EC imports, however, remained similar to last year's, thus stabilising the growing imports penetration of previous years.

Despite an improvement in the terms of trade, the EC industry still complains that market access in the main importing countries is hindered by high tariff or non-tariff barriers and views the opening of these markets as a major element in the GATT negotiations.

In order to overcome both internal and external competition from developing countries, the European footwear industry will have to focus either on medium and high-quality products or on developing a "just in time" production system for specific market niches.

This strategy should be followed by improved and more efficient production and distribution. Some large firms have in fact already taken steps in these directions, so as to reinforce their presence in the market.

Description of the sector

The following products are manufactured by the footwear industry:

- ❖ outdoor footwear (dress and sport shoes, as well as shoes for leisure, walking, hunting and work, NACE 451.1);
- ❖ indoor footwear (slippers, NACE 451.2);
- ❖ special types (dance shoes, military shoes, etc, NACE 451.3);
- ❖ hand-made footwear (including orthopaedic shoes, NACE 452).

Although footwear products are divided according to the material they are made of, such as leather, synthetics, rubber, textiles, and others, all these subsectors will not be

dealt with in detail. Leather is the material most commonly used by European footwear manufacturers, followed by synthetics (polyurethane).

Current situation

According to the Confédération Européenne de l'Industrie de la Chaussure (CEC), the 1989 approximate turnover for the EC12 footwear industry amounted to 18 billion ECU, (a +12.6% increase from 1988) and the production volume reached 1 066 million pairs of shoes (a -1% decrease from 1988). These figures are slightly different from those provided by ANCI (volume production of 1.108 million

Table 1
Footwear
Main Indicators, 1980-90 (1)

(million pairs)	1980	1981	1982	1983	1984	1984(*)	1985	1986	1987	1988	1989	1990(*)
Apparent consumption	1 090	1 068	1 103	1 083	1 140	1 246	1 141	1 270	1 371	1 352	1 356	1 259
Net exports	- 155	- 141	- 128	- 161	- 184	- 53	- 12	- 87	- 234	- 283	- 279	- 198
Production	935	927	975	935	535	1 193	988	1 192	1 137	1 077	1 066	1 061
Employment (thousands)	346.5	342.7	328.1	311.4	294.6	378.3	371.2	371.0	366.1	348.4	333.0	342.0

(1) 1980-84 EC10

(*) EC12; Spain and Portugal estimated by Eurostat

(†) Estimated

Source: CEC, Eurostat (Comext)

pairs in 1989). If the latter figure is taken into account the Community's share in the world-wide production of footwear (9 435 million pairs of shoes) amounts to 11.7%. The other major producing countries are China (2 054 million pairs, 21.8% of world-wide production), Russia (1 054 million pairs corresponding to a production share of 11.2%), Taiwan (671 000, 7.1%) and Brazil (600 000, 6.4%). The terms of trade for the EC improved over the past year. From 1988 to 1989, the volume of the Community's extra-EC exports increased by 5% and the value of exports rose by 23.2%. Moreover, in 1989 the number of shoes imported from outside the Community decreased by -1.8% although their value increased by 11.1%. The penetration rate of extra-EC imports was

Table 2
Footwear - Apparent consumption of footwear in EC - 1989

(million pairs)	Total	Per capita
EC	1 356	4.3
Belgique/Belgie		
-Luxembourg	47.3	4.8
Danmark	22.5	4.4
BR Deutschland	299.0	4.9
Hellas	27.0	2.7
España	88.3	(†) 2.3
France	321.2	5.8
Irland	16.4	(†) 4.6
Italia	174.0	3.0
Nederland	55.0	4.0
Portugal	33.6	3.3
United Kingdom	267.0	4.7

(†) estimated

Source: CEC

therefore slightly lower than in 1988 (37.2% instead of 38.0%). In 1989 employment fell by 4.3% in the European footwear sector, thus confirming the negative trend of the last five years. According to CEC, in 1989 the number of firms increased by 1 000 units thus taking to 16 000 the number of companies operating in the EC12 footwear sector.

Consumption and production

In 1989 the EC footwear market represented a sales volume of 1 356 million pairs of shoes, thus making the Community the world's third largest consumer after China (with a demand level of 1.7 billion pairs of shoes) and the USA (1 359 million pairs). The fourth largest consumer is the USSR (1 176 million pairs). In terms of per capita overall consumption, the Community, comes second after the USA (5.5) with 4.2 pairs per capita. In the last five years, the European market volume increased at an annual rate of 1.6% on average. The analysis of the levels of consumption by country shows that France is the largest consumer both in terms of total, and per capita demand of footwear (322 million and 5.8 pairs, respectively). Other important markets are Germany (299 million pairs in total and 4.9 per head), the UK (267 million and 4.7 pairs

per head) and Italy (174 million and 3.0 pairs per head). Together, these countries account for more than 75% of total EC footwear consumption. As for production, the number of shoes supplied by EC manufacturers amounted to 1 067 million pairs in 1989, according to CEC. Since 1984, when production accounted for 1 193 million pairs, the number of shoes manufactured in the Community has decreased at an average annual rate of -2.2%. An analysis of the EC volume of production by country shows that Italy is the main producer, accounting for 37.6% of European production in 1989. Other important suppliers are Spain (production share 17.0%), France (15.7%), the UK (10.7%), Portugal (9%) and Germany (6.5%). The analysis by country of the 1989 turnover of the EC footwear industry shows that Italy accounts for 38% of it, Germany for 15.9%, followed by Spain (12.9%), France (12.6%), the UK (10.1%) and Portugal (6.8%). If individual production trends are considered, it emerges that over the last five years, the volume of shoes manufactured has decreased almost everywhere: -19.2% in Italy, -5.5% in Spain, -17.3% in France, -10.4% in the UK and -25.1% in Germany. Only in Portugal did the level of production double. However, since 1986, the turnover at current prices, esti-

Table 3
Footwear
Production trends in the Community

(x 1000 pairs)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 ⁽¹⁾
EC	958 035	1 122 510	1 001 894	959 269	962 222	987 958	1 192 305	1 137 679	1 076 682	1 066 196
Belgique/België-Luxembourg	6 296	5 979	6 311	6 020	5 837	5 339	5 000	4 343	3 916	3 810
Danmark	6 698	6 686	8 361	7 204	7 351	6 912	6 300	6 000	4 917	4 485
BR Deutschland	106 452	97 987	95 672	94 048	92 105	87 000	86 600	78 531	71 674	68 697
Hellas	28 000	30 000	18 300	18 000	17 800	18 000	22 900	18 800	16 610	12 856
España	N/A	N/A	N/A	N/A	N/A	N/A	170 605	165 253	163 017	181 263
France	206 387	196 676	202 372	206 074	201 809	198 116	194 800	183 210	166 596	168 061
Ireland	4 300	4 700	4 131	3 990	3 842	2 923	2 500	2 200	2 000	2 000
Italia	451 743	468 692	531 300	487 718	496 198	524 509	499 300	464 581	436 162	401 868
Nederland	12 130	11 086	10 856	10 598	9 600	9 449	9 300	8 555	7 927	7 267
Portugal	N/A	N/A	N/A	N/A	N/A	N/A	66 000	80 000	81 000	96 010
United Kingdom	136 029	128 704	124 591	125 617	127 680	135 710	129 000	126 206	122 863	114 899

⁽¹⁾ Provisional figures
Source: CEC

mated by CEC, has increased in Italy, Spain, the UK and Portugal, and has decreased in Germany and France, only.

Employment and industry structure

In the Community as a whole, some 333 000 people were employed in the footwear industry in 1989. Between 1984 and 1989 the number of jobs in the sector fell by an average of 2.5% a year. The drop in employment was particularly marked in Germany and France. Sixteen thousand companies were involved in the manufacturing of shoes in the Community in 1989. Since 1986, the number of firms in the footwear sector has fluctuated, increasing by 7.2% over the whole period. The analysis of the number of firms by country reveals that, in 1989 55% of them (8 827 enter-

prises) were located in Italy. In this country, the footwear sector hosts many small businesses and this is proved by the fact that 64.1% of Italian firms, involved in the manufacturing of shoes, employed less than 9 people in 1989. This has occurred since 1986 in spite of a reduction of 8.6% in the number of Italian enterprises, mainly small businesses. Spain and Portugal also have a large number of firms in the footwear manufacturing sector, 2 520 and 1 015, respectively, and they account for 15.8% and 6.3% of the total number of enterprises operating in the European footwear sector.

Trade

In 1989 extra-EC imports accounted for a significant share of the apparent footwear consumption in the EC. This share

increased from 30.8% in 1984 to 37.2% in 1989 and corresponds to a 60% increase in the volume of extra-Community imports since 1984 (average annual rate 9.8%).

The value of imports at current prices has also increased since 1984 at an annual average rate of 5.5%.

The main footwear exporters to the EC are China, Taiwan, The Republic of Korea and Hong Kong. Within Europe, the most important suppliers are Yugoslavia and Austria. Germany accounts for 35.8% of the total demand of extra-EC imports in 1989, followed by the UK (18.8%), France (17.4%) and Italy (11.9%). Trade flows within the EC amounted to 470 million pairs in 1989, almost as significant as external imports.

Since 1984, intra-Community trade volume

Table 4
Footwear
Comparative European Production Trends by Materials (%)

(%)	1980	1981	1982	1983	1984	1985	1986	1987	1988
Leather	59	60	60	63	63	63	64	64	69
Synthetics	18	19	20	18	19	19	19	19	N/A
Textile	8	7	6	7	5	4	3	4	N/A
Rubber	1	1	2	2	1	1	1	1	N/A
Other	N/A	N/A	N/A	1	1	N/A	N/A	N/A	N/A
Slippers	14	13	12	10	12	12	13	12	10
Total	100	100	100	100	100	100	100	100	100

⁽¹⁾ EC10
Source: CEC

has increased by 2.2% a year (8.6% a year in value terms) although the market share of intra-EC imports has not changed considerably. The main consumers of EC imports are: Germany, with 36% of the total value of intra-Community imports, France (20.5%), the UK (15%), and the Netherlands (9.1%). Since 1984, the volume of EC external exports has decreased by -8.7% of a total volume of 241 million pairs of

shoes, although their value has increased by 30%. Italy is the largest exporter so far, accounting for almost 53.7% of the Community's external exports value. Other important exporters are Germany (13.3%), Spain (13.2%) and France (8.3%). As for intra-Community trade, the main exporting countries are Italy, accounting for 53.3% of the value of intra-EC flows of shoes, followed by Portugal (12.8%), Spain (10.7%) and Germany (7.2%). Italy is the EC's major footwear exporter and, according to ANCI, its export volume has decreased by -13.6% since 1984, whereas its current value increased by 19.3% over the same period.

EC policy

EC manufacturers argue that the sector's

Table 5
Footwear
Number of enterprises in the footwear sector

	1986 (*)	1987	1988	1989
EC (2)	14924	15658	15000	16000
Belgique/Belgie-Luxembourg	70	66	66	60
Danmark	18	27	23	21
BR Deutschland	249	230	273	252
Hellas	2 320	2 080	2 080	(*) 2 080
España	1 456	1 466	1 418	2 520
France	397	372	339	320
ireland	22	22	22	12
Italia	9 531	9 423	9 094	8 827
Nederland	115	105	106	106
Portugal	N/A	1 000	1 000	1 015
United Kingdom	750	766	766	798

(*) Ireland: 1985
(*) Estimated
Source: CEC

survival depends on its ability to export freely to third countries and that this has been hindered by protectionist measures, including tariff and non tariff barriers, adopted by some countries. In response to these demands, the Commission adopted, in June 1990, a series of surveillance measures for the EC12 on footwear originating from South Korea and Taiwan. Additionally, in December 1990, anti-dumping measures were taken against espadrilles imported from China.

Investment

For Italy, France, the FR of Germany, the United Kingdom, the Netherlands, Belgium

and Denmark, investments in the footwear industry increased from 301 million ECU in 1982 to 408 million ECU in 1986. This represents an increase in value of 7.9% a year on average. A very similar rate is observed in Italy, France and the FR of Germany: investments by UK firms increased faster, by 19% a year in value, but its starting level was significantly lower. Furthermore, UK investments have been mainly directed towards new technology. Fifty-three per cent of total investment took place in Italy, 19% in France and 16% in the FR of Germany.

Table 6
Footwear
EC Trade in Volume

(million pairs)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Exports extra-EC (*)	155.2	177.4	180.7	188.1	203.7	225.9	274.3	243.0	231.3	242.6	209.0
Index (*)	72	86	83	84	91	100	90	84	81	83	72
Imports extra-EC (*)	307.7	321.6	315.9	357.7	384.0	379.9	349.8	482.8	514.6	507.0	407.0
Index (*)	86	94	87	96	104	100	114	159	168	165	134
X/M (*)	0.59	0.67	0.70	0.64	0.84	0.95	0.75	0.50	0.46	0.48	0.51
Trade intra-EC (*)	343	387	333	322	342	365	460	474	456	470	N/A
Index (*)	78	88	87	87	94	100	103	106	103	104	N/A
Share of total (%)	62.4	57.8	57.9	56.5	54.7	53.0	57.3	60.5	61.5	58.4	N/A

(*) 1980-82 EC9; 1983-85 EC10; 1986-89 EC12; 1988 Greek figures are estimated
(*) Taking into account changes in EC membership
Source: CEC, Eurostat (Comext)

Outlook

In 1991, EC footwear production should follow the decreasing trend and reach 1061 million pairs of shoes. This situation can be explained by the low projected rate of population growth. The footwear market is undergoing a restructuring phase. Challenged by harder competition from South-East Asian countries, as well as Brazil and China, EC production is shifting from mass products to 'higher quality' products, and targeting the higher end of the consumer scale. At the same time, efforts in improving distribution and the development

of brand names should limit the relative decline of the sector.

Furthermore, the industry is trying to improve competitiveness by developing niche oriented marketing, consumer oriented information, by introducing new technologies, and making more use of Computer Aided Design (CAD).

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