

# COMMISSION OF THE EUROPEAN COMMUNITIES

SEC(90)443 final

Brussels, 9 March 1990

## **THE COMMUNITY FOOTWEAR INDUSTRY**

(A Community approach to ease adjustment  
to the single market)

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(Commission communication)

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## 1. INTRODUCTION

At its meeting on 14 November 1989, the Council on Industry held a policy debate on the Community footwear industry and the approach of the single market on the basis of a Commission staff paper.<sup>1</sup> Following an analysis of the difficulties facing the industry, which are reflected mainly in a drop in activity and employment, three areas were identified in which a process of adjustment could help overcome the problems. They are:

- production structures, which are undergoing profound technological change;
- world market structures, characterized by the penetration of traditional markets by new competitors, while new, potentially profitable markets are not accessible;
- competition within the Community market, where the pressure of imports from third countries, in particular of South East-Asia, has greatly increased during the last few years and caused considerable disruption.

In this light, the Commission was requested to prepare proposals for a Community approach that would improve the competitive situation of the industry and help it adjust to the single market.

This communication presents proposals for action based on the conclusions of these debates, relating mainly to the improvement both of the industrial environment of the sector (training, R&D) and the commercial situation (access to markets in non-Community countries, protection of intellectual property).

The proposals were drawn up following consultation of the relevant circles, and take account of the three key factors governing the current situation of the industry.

### (1) International competition

A Community survey has been launched to determine whether the circumstances surrounding the growth in imports from certain non-Community countries justify taking temporary safeguard measures at Community level. The Commission will immediately enact the decisions it takes on this matter, which is not considered in this paper. At all events, the time

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1 Doc. SEC(89)1901.

available to the industry to make the necessary adjustments will be limited, so that they must be implemented quickly, the objective being to achieve by the end of 1992 a competitive industry growing in a market open and integrated.

(II) Completion of the single market

The industrial consequences and the effects of removing Article 115 controls were examined in conjunction with the Heads of Industrial Policy Departments. A global approach to the problems posed by these adjustments was outlined, and the main findings have been integrated in this communication.

(III) Corporate strategy in the industry

The industry has entered into dialogue with the Commission to discuss and specify the measures it intends to take. Account is taken in the following of the information and analyses resulting from this process.

## 2. REVIEW OF THE FOOTWEAR INDUSTRY

### 2.1 State of the footwear industry

Community footwear production has declined by 15% since 1986 and currently amounts to about 1 050 million pairs. This decline is primarily due to increasing penetration of imports from non-Community countries, which have risen from about 300 million pairs in 1986 to over 500 million pairs at present, i.e. an increase of 73% in volume terms and a surge in the penetration rate from 26% to 43%.

Exports outside the Community amount to about 260 million pairs, a reduction of 10% since 1986, while intra-Community trade has remained relatively stable at 440 million pairs.

The industry currently employs 360 000 people directly, and when account is taken of indirect employment (out-workers) and ancillary activities (tanneries, manufacturers of footwear components and equipment, subcontractors) the total number of jobs can be put at almost half a million.

The sector is above all characterized by its fragmentary structure, with large numbers of small businesses (there are over 15 000 businesses in the Community, with an average of 24 employees per firm), labour-intensive production and regional concentration of firms.

## 2.2 Competitiveness

Assuming open markets, the Community footwear industry is capable of disposing of a considerable volume of its production on export markets.

In the domestic market, it has lost market share owing to price undercutting by imported products, and to the high proportion of low-price articles among these imports, which have replaced dissimilar Community products.

The Community industry is preparing to meet this challenge by adopting technologically more efficient production and management structures to improve competitiveness. Investments remain steady, so that, if the right conditions are created, the sector will develop towards a more capital-intensive structure.

The European industry, which on the whole is technologically advanced and in the forefront with regard to creative design and quality, has developed a defence strategy that enables it to face the future with confidence, in spite of a certain cost disadvantage which cannot be entirely eliminated.

## 2.3 Prospects

While implementation of the consolidation strategy is already producing conclusive results in some cases, its extension to a wider section of the industry is running into problems. These are due to the fragmentary nature of the industry as described, and the fact that action has to be taken quickly and involves considerable investment. Many firms do not have the necessary financial resources to modernize their production equipment, nor the qualifications to improve their operational logistics; in some cases, size strictures physically limit technological development. In spite of the favourable outlook, it would be unrealistic to presume that all the businesses will survive; however, if awareness-raising schemes are developed to put them in the picture about what needs to be done, most of them have the ability to survive in a suitably stimulating environment.

However, certain measures such as the opening up of non-Community markets and the protection of intellectual property are not within the industry's control, but depend on international negotiations.

The second part of this communication outlines possible courses of action by the Community that could help the sector to adjust more quickly and speed up the necessary changes in its environment.

### 3. ACTION TO EASE ADJUSTMENT OF THE SECTOR TO AN INTEGRATED AND OPEN COMMUNITY MARKET

In view of the direction in which the industry must evolve, the Community could take action in the following four areas:

- (I) technological research and innovation
- (II) production efficiency
- (III) vocational training
- (IV) international competitiveness.

#### 3.1 Technological research and innovation

The industry has already established that technological innovation must figure prominently among the measures to be implemented to improve its competitive position. The requisite research has been initiated in several fields. This development should be given proper backing, and the results actively disseminated, to ensure that their impact does not remain relatively restricted as at present owing to the fragmentation of the sector.

Several avenues of applied research and development have begun to be explored and have been shown to have potential. This concerns mainly:

- computer-integrated manufacturing (CAD/CAM);
- industrial technologies (production organization, improved flexibility, automation, just-in-time manufacturing, team-working);
- materials technologies (adaptation to new application procedures, assembly materials and footwear components);
- materials testing technologies (improvement and standardization of methods);
- development of systems for improving quality.

This review outlines the situation at present. There are doubtless many other lines of R&D that could be explored in addition to those already embarked on.

In this context, the Commission has entered into discussions with the relevant circles (industry, manufacturers of equipment and components, distribution) in order to take stock of the most promising new technologies, particularly in the field of the handling of flexible materials, with a view to obtaining a reference framework for the action to be taken or the Community support that could be granted.

This reference framework will help the footwear industry, including its suppliers and the capital goods manufacturers, to make more effective use of Community and national instruments in support of research, innovation and the dissemination of technology.

The available Community Instruments that can be used are:

- BRITE/EURAM(1), which co-finance research on industrial technologies and materials;
- VALUE(2), which helps finance programmes to disseminate and promote application of the results of Community research;
- SPRINT(3), which concentrates on boosting innovation by strengthening the links between economic operators and research institutes.

The footwear industry is already benefiting from these instruments through a variety of projects financed under the 1987-1991 framework programme.

This support will probably be stepped up under the new framework programme (1990-1994) through the areas of activity "information and communications technologies", "industrial and materials technologies" and "measurement and testing".

The emphasis that the new framework programme puts on "enabling technologies" should permit the footwear industry to benefit from more systematic research on technology applications that transcend individual sectors, and thus benefit from the synergies resulting from finding answers to problems common to several industrial sectors. That will require also, a sensitivity at different industrial levels of the trends to develop in this sphere and at the level of identification of technological requirements in common with other sectors to a much greater extent than in the past with the other participants in the chain (suppliers of equipment, specialised research centers etc.).

Since this sector is characterized by a large number of small businesses, particular importance should be attached to developing cooperative research in the area of "industrial and materials technologies"; such cooperative research could prove particularly interesting for small businesses that do not have the resources to carry out research on their own. It would be useful to synchronize national initiatives of the same type in these various fields. In this instance the Community initiative should provide a timely stimulus on the principle of substitution and take account of the specific requirements of the national programmes.

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- (1) BRITE/EURAM Basic Research in Industrial Technologies  
for Europe/European Research on Advanced  
Materials
  - (2) VALUE Valorisation and Utilisation for Europe
  - (3) SPRINT Strategic Programme for Innovation and  
Technology Transfer

### 3.2 Production efficiency: Introduction of new technologies and modernization

As already discussed, technological innovation is a key element in improving the competitiveness of the industry. However, technological developments are of value only if they can be applied in practice and improve productivity by making production more efficient.

Because of their small size, footwear businesses have problems in obtaining the financial resources to invest in equipment incorporating the new technologies.

The constraints of size normally go hand in hand with those of traditional management style which denies the business access to the financial circles and products that could facilitate investment.

These two factors, small size and management constraints, are also the root of a second problem which detracts from the potential of the businesses, namely marketing in the broader sense of adapting to markets, i.e. anticipation of demand, adequate response and timely distribution.

Three things could be done to tackle these problems:

#### (1) Attunement of businesses to the market

This could be done effectively by creating structures for cooperation between suppliers, manufacturers and distributors, which would make it possible to organize exchanges of market data, improve trade flows between these operators and facilitate contacts between Member States. These structures could range from marketing panels to the establishment of transmission networks linked to data banks. This would facilitate the introduction of production planning methods and improve flexibility of response, and would avoid diseconomies due to maladjustments, idle time or bottlenecks.

Pilot schemes should be developed and disseminated, and support made available to the bodies charged with managing the awareness campaign for the network participants.

For the networks to function, audits of the system of order transmission must be carried out and technical backing in the field of information technology will be necessary.

These networks would also contribute to market transparency, serving as a basis for the implementation of an awareness programme concerning the opening up of public supply markets.



In view of the regional concentration of the industry, regional product development and promotion centres could be set up; they could function as a services pool and provide access to modern design and quality control tools in particular.

- (ii) Familiarization with financial management and cooperation between businesses, in order to help the industry gain access to financial circles and learn financial engineering techniques.
- (iii) Modernization of production equipment to acquire a more advanced technological standard. It would be necessary in this field to support the businesses in their efforts to invest in innovation.

The Commission is examining what extent the structural funds can be used to finance some of these actions, either by an adjustment to the current programmes based on the community support framework or eventually through new initiatives.

Effective progress towards these goals can be made only in concert with national initiatives to improve the competitiveness of businesses.

### 3.3 Vocational training schemes

The new production methods and new technologies generally require a higher standard of qualification on the part of the workforce as a whole and of technical staff, supervisory grades and management. The action taken in the field of training will play a key part in the adjustment process.

The Commission has launched an analysis of this issue with both sides of the industry in order to ascertain the requirements and the problems. It emerges at this stage that they concern in particular the continuity of vocational training and the organization of in-plant training. In addition, it has been shown that training must be concentrated on the best technologies. Thus the question arises of extending the scope of training and the coverage of existing training structures, as well as of setting up support centres for in-plant training. A proper network needs to be set up in close collaboration with both sides of industry.

The Commission has various means at its disposal to support the substantial effort required in the field of training. The most appropriate in this case appear to be the COMETT II/EUROTECNET programmes with regard to the development of innovative continuing training/reskilling schemes, and the Community action programme for the development of continuing vocational training (FORCE), once adopted by the Council. In addition, some schemes can also be implemented under the action programme for SMEs and the centres financed through the FEDER and the training of people in SMEs by the structural Funds. The solutions will have to be chosen in the light of how well they respond to training needs in some areas not directly eligible for support from the structural Funds and in which the footwear industry has a strong presence.

### 3.4 International competitiveness

In order to achieve its optimum degree of development, the Community footwear industry needs to be sure of genuinely free access to non-Community markets, whether as a source of raw materials or as an outlet for its products. The situation is far from satisfactory in this field, as numerous non-Community countries, both industrialized and developing, have created various barriers to protect their industries (e.g. tariffs and quotas in Japan), or have a very lax attitude to protection of intellectual property. Consequently, an effort must be made to have the rules of international trade, as laid down in the GATT Agreement, respected or improved, in particular since the internationalization of the market means that more rigorous methods have to be taken to eliminate distortions of competition. This is true of dumping, for example, where the existing rules have proved to be ill-adapted to the reality of sectors such as the footwear industry. The Uruguay Round may, in this context, provide an opportunity to introduce a new measure of international fairness in both tariff and non-tariff areas.

The Community industry also believes that it is capable of operating on new markets that up to now have been closed off or little exploited. It is particularly interested in the markets of the Eastern bloc and of the Near and Middle East. The penetration of new markets calls for investments above all in marketing, the creation of a logistics infrastructure and the launch of trade missions. This poses a problem in view of the general financial constraints to which the businesses are subject. The resources available to the Community for export promotion could be developed to play a useful role here. The development of trade and cooperation with the countries of the Eastern bloc requires a special approach due to the nature of their economies. The Community could consider establishing a reference and support framework which would facilitate trade with these markets for the whole of Community industry.

#### 4. CONCLUSION

The Commission proposes to the Council that it:

- (i) confirm the need for the Community footwear industry to adjust in preparation for the single market and to meet the challenge of the rapid extension of international competition;
- (ii) acknowledge the importance and opportunities of developing actions - in respect of Community law and disciplines concerning competition and particularly state aids - to enable the necessary adjustments to be made, particularly in the fields of:
  - research and development
  - improving the efficiency of businesses, in particular through modernization
  - developing vocational training
  - defending the interests of the industry in the context of international competitiveness.