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## R E P O R T

drawn up on behalf of the Committee on External Economic Relations

on the footwear industry

Rapporteur: Mr Manuel PORTO

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A Series: Reports - B Series: Motions for Resolutions, Oral Questions - C Series: Documents received from other Institutions (e.g. Consultations)



= Consultation procedure requiring a single reading



= Cooperation procedure (second reading) which requires the votes of a majority of the current Members of Parliament for rejection or amendment



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At the sitting of 11 December 1989 the President of the European Parliament announced that he had forwarded the motion for a resolution by Mrs Muscardini and Mr Rauti, on the European footwear industry (Doc. B3-445/89), pursuant to Rule 63 of the Rules of Procedure, to the Committee on External Economic Relations as the committee responsible and to the Committee on Economic and Monetary Affairs and Industrial Policy for its opinion.

At its meeting of 2 February 1990 the Committee on External Economic Relations decided to draw up a report and appointed Mr Porto rapporteur.

At its meeting of 28 September 1990 the committee decided to include in its report the following motion for a resolution which had been referred to it:

- B3-1163/90; author: Mr ZELLER; subject: the European footwear industry; announced in plenary sitting: 11 September 1990; responsible: Committee on External Economic Relations; opinion: Committee on Economic and Monetary Affairs and Industrial Policy.

At its meetings of 25 June 1990, 28 September 1990 and 31 October 1990 the committee considered the draft report.

At the last meeting it adopted the motion for a resolution unanimously.

The following took part in the vote: De Clercq, chairman; Stavrou and Moorhouse, vice-chairman; Porto, rapporteur; Braun-Moser, Chabert, Coimbra Martins (for Junker), da Cunha Oliveira (for Benoit), de Vries, Elles (for Spencer), Hindley, Izquierdo Royo (for Bird), Lenz (for Estgen), Peijs, Pronk (for Gallenwi), Rossetti, Titley, Tomlinson (for Sainjon), Tsimas and Visser.

The opinion of the Committee on Economic and Monetary Affairs and Industrial Policy is attached to this report.

The report was tabled on 5 November 1990.

The deadline for tabling amendments will appear on the draft agenda for the part-session at which the report is to be considered.

A

**MOTION FOR A RESOLUTION**

on the footwear industry

The European Parliament,

- having regard to Council Regulation (EEC) No. 288/82 of 5 February 1982<sup>1</sup> on common rules for imports,
  - having regard to Commission Regulation (EEC) No. 1735/90 of 21 June 1990<sup>2</sup> introducing prior Community surveillance of imports of certain types of footwear originating in South Korea and Taiwan, amended by Council Regulation (EEC) No. 3050/90 of 22 October 1990<sup>3</sup>,
  - having regard to the Commission Communication<sup>4</sup> on 'the Community footwear industry (a Community approach to ease adjustments to the Single Market)',
  - having regard to the motions for resolutions by Mrs Muscardini and Mr Rauti (Doc. B3-0445/89) and by Mr Zeller (Doc. B3-1163/90) on the European footwear industry,
  - having regard to the report of the Committee on External Economic Relations and the opinion of the Committee on Economic and Monetary Affairs and Industrial Policy (A3-0276/90),
- A. having regard to the serious difficulties experienced by the Community footwear industry, characterized by a fall in production, employment and exports;
- B. whereas the completion of the Single Market and changes in international competition will necessitate structural adjustments to the Community industry,
- C. whereas a basic element of such adjustments must be an increase in the competitiveness of the Community industry through higher productivity levels (in particular, by means of more advanced technology) in the context of an open world market, based on unambiguous and effective rules within a strengthened GATT system,
- D. whereas the Community must therefore promote policies which can achieve this result both within its territory and in its external relations,

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<sup>1</sup> OJ No. L 35, 9.2.1982

<sup>2</sup> OJ No. L 161, 27.6.1990

<sup>3</sup> OJ No. L 292, 24.10.1990

<sup>4</sup> SEC(90) 443 final, 9.3.1990

#### As regards the internal market

1. Recognizes that technological innovation is the principal factor in restoring the competitiveness of the Community industry; the industry's productivity must therefore be improved by promoting
  - research and technological development,
  - improved efficiency of production, management and marketing,
  - vocational and management training schemes;
  - forms of association for production, the provision of services and purchasing;
2. Stresses the importance of strengthening Community programmes aimed at supporting such measures, and calls on the Commission to ensure that the footwear industry can benefit sufficiently from the funds available in the programmes already in progress (BRITE/EURAM, VALUE, SPRINT, COMETT II/EUROTECNET and CRAFT) and the FORCE programme (continuing training) for which it is seeking approval by the Council;
3. Points out that assistance from the structural funds is important but that the geographical coverage of the ERDF does not correspond to the footwear industry's areas of concentration;
4. Considers that the small size of the average Community undertaking is making it particularly difficult to mobilize the investments required for the aforementioned adjustments and means that appropriate and swift Community action is all the more necessary;
5. Regrets the excessive compartmentalization of the internal market, due in particular to divergent trade policies on the part of the Member States, and stresses that the completion of the Single Market will require the adoption of a common policy in this sector;

#### As regards external aspects

6. Notes the significant difficulties facing Community exports in gaining access to many markets, owing to both tariff and non-tariff barriers;
7. Considers that significant export opportunities on the Japanese market are obstructed by a combination of high duty levels and inadequate tariff quotas; notes that South Korea, while applying duties of only 20%, is succeeding in virtually preventing imports from entering the country by means of administrative measures and social pressure on retailers;
8. Believes that it is contrary and harmful to the Community industry's interests to export rights relating to new models and new technology to those countries (principally Japan, South Korea and Taiwan) which block Community exports of finished products and are imposing their presence on the Community market;

9. Notes that some developing countries (e.g. Brazil, Bangladesh, China, Thailand, India and Pakistan) are applying a de facto embargo on footwear imports;
10. Notes also that many countries (in particular Argentina, Brazil, China, Egypt, India, Korea, Pakistan, Taiwan and Uruguay) are imposing major restrictions on or preventing exports of raw materials necessary for higher value-added production (leather); this creates problems not only for the Community footwear industry, but also for other sectors, especially tanning;
11. Draws attention to the size of 'the market' in other developing countries, in particular in the Middle East, whose revenues have become such as to necessitate a more open multilateral trade system;
12. Points out that even certain industrialized countries (Australia and New Zealand) have maintained a high tariff level, together with restrictive import licensing arrangements;
13. Calls on the Commission, in the context of the Uruguay Round negotiations, to take due account of the needs of the European footwear industry, in particular with regard to negotiations on
  - tariff reductions and the abolition of quantitative restrictions,
  - the application of the safeguard clause,
  - the revision of the anti-dumping/anti-subsidy codes,
  - anti-fraud measures and protection of intellectual property,
  - the guaranteeing of exports of raw materials from third countries,
  - application of ILO standards;
14. Endorses the Commission's decision, as published in Regulation No. 1735/90, to introduce prior surveillance of imports of footwear from South Korea and Taiwan, but regrets the Council's undermining of this measure; calls for a further investigation to be carried out promptly to establish that there is considerable dislocation of imports into the Community because of imports from Asia; calls in general for the Community's decision-taking processes to be speeded up, with a view to effective management;
15. Supports the allocation of special funds in the 1991 budget to measures to promote Community footwear exports;
16. Instructs its President to forward this resolution to the Commission, the Council and the governments of the Member States.

EXPLANATORY STATEMENTGENERAL INTRODUCTION

1. The footwear industry is an extremely important economic sector of the Community economy, employing over half a million persons (directly employed: 360 000 workers; indirectly employed, including persons working at home, ancillary industries and marketing: 140 000).

The Community is also a major producer of footwear since the 1 050 000 pairs produced in 1988 represented approximately 25% of world production. Community production was broken down as follows:

<u>1988</u>	
Italy	41.4 %
Spain	15.6 %
France	13.2 %
United Kingdom	11.6 %
Portugal	7.7 %
Germany	6.9 %
	<hr/>
	96.4 % (in volume terms)

The six other Member States of the Community therefore account for only 3.6 % of total footwear production.

The sector is characterized by the extremely fragmented nature of production, spread over 15 000 undertakings, each employing an average of 24 workers. As regards its regional breakdown, there is a high concentration around a large number of centres (Italy: the Marches, Veneto; France: Pays de la Loire; Spain: Alicante; Portugal: north coast; United Kingdom: East Midlands). The sector is also heavily dependent on international trade since in 1989 approximately 25% of production was exported while 43% of the Community market was supplied by non-Community imports.

DEVELOPMENTS AND SOURCES OF CONCERN

2. Community footwear production has been falling since 1979, with an acceleration between 1986 and 1989 (- 15%), declining to the current level of 1 050 million pairs.

This trend has affected all the Community countries, with the exception of Ireland (whose production has nevertheless dropped considerably) and Portugal (1982 - 1988: + 100%).

In the aforementioned period consumption rose slightly (1980 - 1988: + 14%), reflecting varying trends in the different sectors (stable in the case of leather, a slight increase in the rubber sector, a more significant increase in the textile sector and a sharp reduction for synthetic footwear (- 14.5%) and slippers (- 4.8% between 1985 and 1988)). A high level of investment was recorded in the same period, with a particularly high percentage increase in the United Kingdom and a substantial increase in real terms in Italy and France. The two factors concerned (fall in production and increase in capital intensiveness) gave rise to a marked reduction in employment: - 8% between 1985 and 1988. Only in Spain (+ 3.7%) and Portugal (+ 1.2%) did the number of jobs rise. The principal job losses were in the Federal Republic of Germany and France (fall of 23% between 1985 and 1988). According to the data available, the downward trend in employment continued in 1989.

### FOREIGN TRADE

3. In addition to the difficulties concerning production and employment, there has been a deterioration in foreign trade over the last few years. While exports fell by 10% between 1986 and 1989 to a figure of 260 million pairs (25% of Community production), imports rose in the same period from 300 - 500 million pairs (approximately 43% of the Community market).

The increase in imports mainly concerned products from the following countries:

#### 1985 - 1988 (in quantitative terms)

Thailand	+ 354.7%
Brazil	+ 206.1%
South Korea	+ 133.3%
China	+ 106.6%
Taiwan	+ 50.4%

As regards the high-value-added sector, i.e. leather footwear, the figures were as follows:

#### 1985 - 1988 (in quantitative terms)

China	+ 660.0%
South Korea	+ 649.0%
Taiwan	+ 314.0%
Brazil	+ 234.0%

However, these percentage increases concern countries with very different shares of the Community market: Brazil and Thailand accounted for 1.7% of the Community market in 1988 whereas Korea accounted for 7.2%, Taiwan 8.2% and China 12.3%.

4. The Community footwear market is extremely compartmentalized owing to the variety of restrictions applied by Member States. These restrictions concern different countries and categories of products and therefore make it necessary to carry out checks on intra-Community trade and, in particular, cause France, Ireland, Italy, the United Kingdom and Spain to apply Article 115 EEC.



State-trading countries have been subject to special restrictions, which have now been abolished in the case of Poland and Hungary (except by Spain and Portugal) and are in the process of being abolished by most other State-trading countries.

In view of the problems facing the Community industry and at the request of the Italian and French authorities, the Commission, after carrying out the investigation provided for in Council Regulation No. 288/82, established, on 29 February 1988 and 30 June 1988, rules governing import authorizations applicable to imports into Italy and France of footwear from South Korea and Taiwan. These rules took account of the undertaking made by the Korean authorities and Taiwan producers' organizations to comply with certain maximum levels of imports into France and Italy. When the regulations lapsed on 30 June 1990, they were replaced by Regulation No. 1735/90 of 21 June 1990<sup>5</sup> introducing prior Community surveillance of imports of certain types of footwear originating in South Korea and Taiwan. The regulation refers to the deterioration in the situation of the Community footwear industry and points out that 'the collapse of Community production was directly linked to the increase in imports from South Korea and Taiwan'<sup>6</sup>. Moreover 'the pressure of low-price sales compromised the success of efforts to restructure the industry'. The Commission stated that, although imports of footwear originating in Brazil, China and Thailand had a negative impact on the situation of the Community industry, it had not established any damage to the industry within the meaning of Regulation No. 288/82.

The Commission accordingly considered that it was in the Community interest to ensure that the Community industry was protected against the danger of a further increase in imports from Korea and Taiwan.

As the Korean authorities and the Taiwan Footwear Manufacturers' Association had undertaken to respect the quantitative limits for exports of footwear to the Community until 31 december 1992, the Commission introduced the aforementioned prior surveillance scheme, under which the release for free circulation in a Member State of footwear from the abovementioned countries is subject to presentation of an import document issued by the competent authorities of the importing Member State.

5. The Community exports approximately 25% of its production (of which 70% consists of leather footwear): the leading market is that of the United States (26% of exports), followed by Austria, Sweden and Switzerland. Developments over the last few years have not been favourable (1985: 292.1 million pairs; 1986: 274.3; 1987: 243.5; 1988: 262.8) even though a certain recovery was recorded in 1988 and 1989.

Community exporters have experienced considerable difficulty in gaining access to markets in certain industrialized countries (Australia, New Zealand and Japan), the so-called newly industrialized countries (in particular South Korea and Taiwan) and most developing countries. The obstacles encountered consisted of either extremely high duty levels (up

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<sup>5</sup> OJ No. L 161, 27.6.1990

<sup>6</sup> Ibidem, p. 16

to 200%) or non-tariff barriers, in particular through import or distribution licences.

Among the markets with the greatest potential for Community exporters, Japan is a special case. This is in fact a market of 122 million persons, with considerable purchasing power and a high level of consumption. At present imports are subject to a 60% duty, with a tariff quota of 27% for imports up to 3 580 000 pairs. Such restrictions help maintain Community imports at an extremely low level (2.8 million pairs).

Despite having a relatively low level of customs duties (20%), in actual practice South Korea continues to apply a virtual embargo on imports (approximately 46 000 pairs), while it exports 340 million pairs. This is due, in particular, to the pressure exerted at the administrative and distribution stages so as effectively to discourage imports.

Certain developing countries, such as Thailand, Pakistan, India and Brazil, in addition to their customs tariff, apply a total blockade on footwear (in particular leather footwear) imports and various restrictions on leather exports, thus creating problems for the Community footwear industry, but also for other industries, especially tanning.

As regards the other developed countries, the main obstacles are to be found in Australia and New Zealand which, in addition to applying fairly high customs duties (50 and 41% respectively), impose restrictive import licensing arrangements. The situation has considerably improved with regard to Canada and the United States, although the US customs classification of imported goods is often criticized.

#### NECESSARY MEASURES

6. In its communication of 9 March 1990 on 'the Community footwear industry (a Community approach to ease adjustments to the Single Market)',<sup>7</sup> the Commission states that a series of measures are necessary to help the sector to adjust to an integrated and open Community market. These measures concerned the following areas:

- (a) research and technological innovation
- (b) improved efficiency of production
- (c) training measures
- (d) measures in the field of international competition.

(a) Research and technological innovation

This is the most effective way of strengthening the Community industry's competitiveness. Those aspects of greatest interest to the footwear industry are the CAD-CAM production technologies (computer-aided design and computer-aided management).

However, research calls for considerable investment which can hardly be financed solely by an industry in the throes of a profound structural crisis. The Community will therefore have to step up its contribution to technological research in this sector, in particular

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<sup>7</sup> SEC(90) 443/fin.

through the following programmes: SPRINT (eight technological centres in eight Member States), the new 'European Shoe Programme on Instant Response' (ESPOIR), BRITE/EURAM (industrial technologies and materials), VALUE (dissemination of results), EUREKA (project on 'flexible automated system for footwear production').

In the new framework programme (1990-1994), priority must be given to programmes developing technologies which can rapidly be disseminated.

(b) Efficiency of production

In this connection, adjustment to the market, financial management and cooperation between undertakings are extremely important. The Community could use the structural funds to help finance certain projects in this area, in particular through the regional development policies.

(c) Training

This is another key factor in restoring the sector's competitiveness. The Community has a number of instruments at its disposal to support measures in this sector. The COMETT II/EUROTECNET programmes on continuing training are particularly important in this respect; the Community action programme for the development of continuing vocational training (FORCE) also represents an important instrument in this sector and ERDF and ESF assistance should have a significant impact.

One particular problem is the fact that a large proportion of the undertakings and workers (88% and 60% respectively) are situated in the Mediterranean Member States (Portugal, Spain, Italy, France and Greece). These regions do not all have the same access to ERDF aid and the 'geographical coverage' does not coincide with the industrial adjustment needs identified in this sector.

(d) International action

This aspect specifically concerns the Committee on External Economic Relations and therefore merits more thorough consideration.

## ACTION OUTSIDE THE COMMUNITY

7. Reference has already been made to the present compartmentalization of the Community internal market, based on both 'grey area' agreements and protective measures introduced on the basis of Regulation No. 282/82. The Commission regulation establishing prior surveillance introduces general application of quantitative limits and also raises again the problem of the selective nature of protective measures and the question of whether they are admissible within GATT.

In the Uruguay Round negotiations, the Community's position is to support the possibility of introducing selective protective measures on the basis of Article XIX of GATT; however, this position is not shared by a majority of the contracting parties, in particular by developing countries, which fear that this will leave the way open for the major trading powers to discriminate against less influential partners. In future, therefore, the Community is unlikely to be able to protect its own sensitive industries by restricting imports from specific countries.

However, the most significant aspect of the Uruguay Round negotiations will probably be the possibility of guaranteeing genuine access to third country markets for Community exports. The aforementioned Commission communication highlights the fact that this situation is unsatisfactory as regards both industrialized third countries and the newly industrialized countries while various countries are extremely tolerant as regards the protection of intellectual property.

The Commission also points out that the globalization of the market calls for more stringent rules to eliminate distortion of competition. Anti-dumping and anti-subsidy standards must therefore be made more effective.

A serious problem is caused by distortions resulting from restrictions on exports of raw materials (leather): various countries (Argentina, Brazil, China, Egypt, India, Pakistan, Korea, Taiwan and Uruguay), by preventing such exports, artificially subsidize their own producers and at the same time impose higher costs on foreign producers; such action adversely affects other Community industries, such as tanning, which also need to be suitably encouraged.

Another specific problem is the failure to apply the minimum standards defined by the ILO regarding working conditions: the European Parliament has repeatedly called for the inclusion of a 'social clause' in the GATT text to take account of these factors.

8. The above problems will therefore have to be tackled properly within the GATT negotiations and through bilateral agreements to ensure that the sector develops in an orderly manner. The restructuring of the Community industry called for by the growth of international competition will therefore need to be sustained by ancillary measures, and in this context the prior surveillance measures adopted by the Commission seem totally justified.

Measures to open up the international market must also be strengthened by developing export promotion schemes, such as trade missions; appropriate resources must be found in the Community budget for this purpose.

## CONCLUSION

9. The Community footwear industry is clearly faced with two challenges: the need to withstand competition from countries with substantially lower production costs (in particular wages) without resorting to protectionist measures which are liable to cause a deterioration in the international climate, penalize consumers and, above all, delay the process of modernizing production and management technologies that is vital to restoring a competitive margin.

Conversion to capital-intensive production and management technologies in higher-value-added sectors will however entail serious problems regarding investment, training and employment. The industry's high regional concentration is a further source of concern.

In this context, Community trade policy must pursue two aims:

- to ensure, in particular through the GATT negotiations and bilateral negotiations with our trade partners, easier access to the world market for Community exports and compliance with international trade standards;
- to ensure, through safeguard or other measures taken in compliance with international trade standards and practices, that the Community industry's conversion process is not jeopardized by a drastic increase in the level of imports.

MOTION FOR A RESOLUTION  
by Mrs MUSCARDINI and Mr RAUTI  
pursuant to Rule 63 of the Rules of Procedure  
on the European footwear industry

The European Parliament,

- A. whereas Community imports of shoes from third countries rose from 27% of the overall total in 1986 to 41.7% in 1988,
- B. whereas overall imports from Taiwan and South Korea have increased dramatically, reaching a figure of 180.7 million pairs in 1988,
- C. whereas the European footwear industry, which employs over 500,000 people in areas where there is no alternative employment, has seen the loss of some 13,320 of these jobs in the first half of 1989,
  1. Calls for the completion of the protection éasures so as to graduate the increase in imports from Taiwan, South Korea, India, China and Brazil for a limited period;
  2. Calls for genuine access for European footwear to the markets of those countries which, while taking advantage of free access to Community markets, have imposed major restrictions on imports of footwear from the Community;
  3. Instructs its President to forward this resolution to the Council and Commission.

MOTION FOR A RESOLUTION

by Mr ZELLER

pursuant to Rule 63 of the Rules of Procedure  
on the European footwear industry

The European Parliament

- A. having regard to the great difficulties confronting the European footwear industry caused mainly by a shrinking workforce, a fall in production and booming imports leading to the decline and disappearance of traditional strongholds in the sector,
- B. whereas this situation is working to the advantage of the countries of south-east Asia, especially Taiwan and South Korea whose share of Community imports totalled 48% in 1988, i.e. 181 million pairs of shoes,
- C. having regard to the protectionist stance of these countries and of Australia, Japan, Brazil and the USA which place strict limits on footwear imports from the Community,
  - 1. Calls for the safeguard measures already in operation for France and Italy to be supplemented and extended to all the Community so as to limit imports from Taiwan and South Korea;
  - 2. Calls on the Commission to apply these measures also to the other countries to which Taiwan and South Korea are switching their operations, namely Thailand, the Philippines, Indonesia and the People's Republic of China;
  - 3. Urges the Commission to adopt a firm line in the GATT negotiations so that the European footwear industry can enjoy genuine access to these markets;
  - 4. Instructs its President to forward this resolution to the Commission and the Council.

## O P I N I O N

(Rule 120 of the Rules of Procedure)

of the Committee on Economic and Monetary Affairs and Industrial Policy  
for the Committee on External Economic Relations  
Draftsman: Mr CARVALHAS

At its meeting of 21 January 1990 the Committee on Economic and Monetary Affairs and Industrial Policy appointed Mr Carvalho draftsman.

At its meeting of 26 - 28 June 1990 and 19 - 21 September 1990, the committee considered the draft opinion.

At the latter meeting it adopted the conclusions unopposed with 1 abstention.

The following took part in the vote: Beumer, Chairman; Carvalho, draftsman; Peter Beazley, Bofill Abeilhe, Cassidy, Colom I Naval, Cox, De Donnea, Donnely, Fuchs, Herman, Metten, Patterson, Porto (for Visentini), Read, Rogalla, Roumeliotis, Siso Cruellas, Alex Smith (for Mihr), Speciale and van der Waal.



## 1. International structural changes

The geographic distribution of the footwear industry has changed substantially over the last decade.

The production of footwear is a relatively simple process and does not require complex technology: there has been a clear shift from the industrialized countries to the developing countries.

Asia has substantially increased its share of world production. Four countries in particular have greatly stepped up production: Brazil, China, Taiwan and the Republic of Korea, while Italy, Portugal, Thailand and Yugoslavia have also made substantial increases.

At the same time, there has been a marked drop in production in the USA, the FRG, France and the UK.

Labour costs have been an important factor in determining the redistribution of this industry, notably for sportswear which requires a number of different operations. For this reason the major sportswear plants have established almost all their production plants in East Asia.

Plants set up in countries with low labour costs normally concentrate on mass-produced articles of inferior quality and cutting and sewing operations. The Federal Republic of Germany has set up plants on the periphery of the Community such as Portugal; France has established plants in North Africa and the United States in Puerto Rico ...

As industrialization progresses and wages rise in some countries industrial plants are shifted elsewhere and traditional producers then concentrate on producing high-quality articles (this is what is happening in Taiwan and South Korea which are facing competition from Indonesia and Thailand).

## 2. Aspects of the Community footwear industry

The Community footwear industry is by no means uniform and there are significant differences between the north and the south.

Countries such as Denmark, Belgium and the Netherlands concentrate on leather shoes, notably in the middle and higher price ranges. Denmark also produces some rubber footwear. Belgium has traditionally produced relatively large quantities of slippers.

Both in Denmark and the Benelux countries the footwear industry has been substantially restructured. Denmark is now a major importer. In the Netherlands the market is dominated by large groups of importers.

In England and the Federal Republic of Germany production is relatively diversified and includes leather, rubber and synthetic footwear at reasonable prices. Production in Germany specializes in sports and orthopaedic footwear. All these countries have now shifted their footwear industries either to countries in the southern part of the Community or to North Africa and Asia. The UK imports substantial quantities from Brazil. Both in the UK and the FRG undertakings are relatively large. The FRG imports 45% of its

footwear from non-Community countries, a figure which has stabilized following its relocation of industrial plants in the southern part of the Community (notably Portugal).

Ireland has specialized in high quality footwear. It imports more footwear than any other EEC country.

Production in France and Spain covers practically all price ranges and sectors of the market. Production in France is in the hands of high technology undertakings and cottage industry units and plants have been relocated in North Africa, India and Pakistan. Cottage industry units are more extensive in Spain than in France. Over the last few years Spain has sought to create a distinct market profile for its footwear industry and has adopted its own marketing policy.

In Portugal and Greece the focus is on medium- or low-quality footwear. The footwear industry in Greece is backward compared to other EEC countries.

The Portuguese footwear industry is more developed and more geared to exports (it is the third major exporter in the Community); however it is fragmented in poorly equipped cottage industry units and is highly concentrated geographically so that in the event of a crisis in this sector the regions in question would be severely affected.

Italy is the largest European producer (it accounts for approximately 40% of production) and enjoys a high reputation both as regards the quality and style of its products.

Leather shoes account for the bulk of production. The best organized undertakings are based in northern Italy while in the south production is in the hands of small undertakings. (See Table II)

In 1988 Community production amounted to 1051 million pairs, i.e. just short of a quarter of total world production (4700 million).

Although all the Member States with the exception of Luxembourg are producers, Community production is mainly (approximately 80%) concentrated around the Mediterranean (Italy: 406 million; Spain: 181 million; France: 167 million; Portugal: 96 million).

Portugal, Spain, Italy and Greece account for 88% of undertakings in this sector employing 60% of Community footwear workers. Together with France they account for 91% of undertakings and 73 % of workers in the Community.

The footwear industry is not uniformly distributed within the Member States but concentrated in certain regions (notably in Italy and Spain); a decline in the footwear industry would therefore cause severe regional problems.

### 3. Social Framework

Competition for low labour costs leads to various forms of social 'dumping' and unacceptable working conditions: child labour, lack of protection for employees, outwork, long working hours and failure to respect minimum rules of hygiene and safety. Experience has also shown that both in the upstream industries and in the footwear industry proper black labour flourishes in these countries, infringing all standards and rules.

Social 'dumping' is thus a major side effect of free competition and the development of world trade.

### 4. The leather and tanning industry

The leather and tanning industry (one of the principal upstream industries) is undergoing the same development as the footwear industry.

Over the last two decades there has been a marked growth in this industry in the South and a corresponding decline in the industrialized countries, with the exception of Eastern Europe and the USSR.

In the South, Latin America and East Asia are the main producing regions and account for approximately 17% and 15% of world production respectively<sup>8</sup>.

### 5. New technologies

The industrialized countries are constantly seeking ways of checking the rising volume of imports from countries with low wages. This is far from simple. Special purpose or high quality footwear which generate high wage costs are, by their very nature, intended for a relatively limited market.

On the other hand, it is relatively easy to copy existing models. Attention has focused recently on the use of labour saving technologies and computer integrated production; however, they are not yet ready for use.

It is difficult to determine to what extent the new technologies make undertakings more competitive. Looking at the problem purely from the point of view of prices, it is doubtful whether the new technologies alone will be able to bridge the price gap between the FRG and the USA on the one hand and countries with low wage costs on the other.

The price advantage alone is not sufficient to attract investment in the new technologies. However, in a sector such as the footwear industry in which fashion is changing more and more rapidly the new technologies are attractive and viable not only because they reduce prices but also because they enable undertakings to satisfy orders more rapidly and to adapt to the market faster than their competitors.

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<sup>8</sup> Source: International statistics on leather and skins - FAO

Production in real time, better quality control, a reduction in waste, reduced stocks and smaller premises are some of the objectives which may be attained by the use of the new technologies (CAD/CAM and computer integrated operations). But much work remains to be done in this area.

The first stage which involves computer integrated production and establishing links between the CAD system and machinery is still being planned. The footwear technology centre in the United Kingdom is undertaking important research in this area.

## 6. The situation of the Community footwear industry

### Introduction

The Commission recently submitted a Communication (SEC(90) 443) on the footwear industry in which it records a discussion organized by the Council on the future of this industry in the context of the completion of the internal market.

Analyzing the problems facing the industry, and notably the fall in production and employment, it identifies three processes of change which offer means of overcoming these problems:

- production structures which are undergoing extensive technological change,
- the structures of the world market in which new competitors are penetrating traditional markets without a corresponding increase in new potential markets,
- competition in the Community market which has substantially increased over the last few years due to the pressure of imports, mainly from South-East Asia which are disrupting the market.

Taking these three processes of change as a starting point, the Commission has drawn up proposals for a Community approach with the aim of improving the competitive position of the industry and enabling it to adapt more easily to the single market.

### 7. Current situation

The Commission notes that Community footwear production has fallen by 15% since 1986 due to the accelerated penetration of imports from third countries which have increased from approximately 300 million pairs in 1986 to more than 500 million, i.e. an increase of 73% in volume and an increase in rate of penetration from 26% to 43%.

The Community footwear industry employs - directly or indirectly - approximately half a million workers: it is therefore an important industry both economically and socially.

From a structural point of view, the most striking characteristic of the Community footwear industry is its fragmentation (there are more than 15 000 undertakings in the Community employing an average of 24 workers per unit), its intensive use of labour and its concentration in certain regions.

## 8. Adaptation to the single market

The Commission has undertaken a Community survey in order to establish whether imports from third countries justified temporary Community protection measures.

However, it recognizes that the footwear industry has only a limited amount of time to make the necessary adjustments for 1992.

This situation is particularly alarming for peripheral regions in the south of the Community and notably the most recent Member States such as Portugal, Spain and Greece where the footwear industry plays an important role in the economy.

The only solution to this problem is to adopt technologically more advanced and more efficient production and management structures so as to benefit from creativity and quality.

However, this strategy of consolidating the footwear industry has to contend with a number of problems and notably its fragmentation, and the fact that many undertakings lack the resources and the qualifications necessary to improve logistical management.

## 9. Measures to strengthen the industry and changes in the factors of competitiveness

The proposals put forward by the Commission to strengthen the Community's footwear industry and improve its competitiveness are as follows: an improvement in entrepreneurial and financial structures in this sector, particularly as regards small and medium-sized undertakings and peripheral Community areas; innovative technologies and research, notably in the field of production techniques (CAM, CAD and CIM), industrial and materials technologies and the development of methods to improve quality; professional training measures, notably to adapt the workforce to new methods of production and new technologies; Community action to improve access to markets of third countries (for example, in respect of the tariffs and quotas applied in Japan, penetration in Middle Eastern markets); a tightening of the rules of GATT including more stringent provisions on intellectual property and commercial and social 'dumping'.

## 10. Conclusions

1. In view of the problems facing the footwear industry caused by the increasing flow of imports and the fact that new technologies are not yet operational in this sector, the Community should envisage a number of temporary and exceptional measures to protect the industry and enable it to adjust to 1992.

Such exceptional measures should be the subject of international negotiations, notably with those third countries which apply tariff and non-tariff barriers on the basis of the principle of reciprocity.

2. The Community should also envisage specific regional complementarity programmes to enable the industry to restructure and modernize and improve

its logistical management notably in the peripheral countries of the Community (Portugal, Spain, Greece, the UK and Italy) given the social and regional importance of the footwear industry in these countries.

3. A further essential point is to increase funds for modernization and vocational training, either through available Community instruments (BRITE/EURAM, VALUE, SPRINT) or within the context of the new framework programme (1990-1994) under the headings 'Information and Communications Technologies', 'Industrial and Materials Technologies', 'measurements and testing' and 'Enabling Technologies'.
4. Substantial Community aid should be provided for vocational training measures (COMETT II/EUROTECNET), including continuous training and retraining (FORCE).
5. Aid should be granted to develop research in 'Industrial and Materials Technologies', bearing in mind the large number of SMUs in this sector.
6. As regards the development of new technologies adapted to the footwear industry, technological centres should be given a special role taking into account the specific characteristics of each region and the need for versatility in this industry to enable it to respond rapidly to small orders with a broad range of models.
7. The Community should take measures to promote trade and establish trade missions, notably in third countries such as Japan, the countries of the Middle East, the USA and the Eastern bloc countries so as to allow a diversification of foreign markets.
8. The rules of GATT should be tightened and measures taken to ensure that they are more strictly adhered to, notably as regards commercial and social 'dumping', through the insertion of a minimum social clause to include the provisions of the ILO Conventions and the European Social Charter, the Uruguay Round being a useful opportunity to introduce more equitable working conditions internationally.
9. Measures to restructure and modernize the footwear industry should be integrated in regional development strategies owing to the high concentration of this industry in certain regions, regional centres should be set up to develop and promote design and establish quality controls and cooperation structures should be established between suppliers, producers and distributors.
10. Support measures should also cover upstream industries, and notably the tanning industry and the production of machinery for shoe leather tanning, as regards the production of raw materials, the training of skilled workers and the environmental effects of this sector.
11. Aid should be provided for undertakings to make innovative investment, to establish cooperation structures between undertakings as regards access to financial resources and marketing networks and to disseminate financial knowhow.