COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

on " The new terms of international trade

and modernization of the European textiles industry; the case of Greece".

1. In response to a request from the Council, the Commission submitted to the Industry Council meeting on 6 November 1995 a communication on the development of the Community textiles/clothing industry in the light in particular of international developments. The following conclusions emerged from the Commission's analysis:

(a) The Uruguay Round is a factor among others which will determine the future of this sector in Europe and, in particular, the rate of general growth in the economy, the difference in factor costs vis-à-vis low-cost exporting countries, changes in exchange rates, technological developments and the liberalization agreements with the countries of the Mediterranean Basin, the Central and East European countries and Turkey.

(b) Even if the Uruguay Round covers a large part of the sector, its actual influence only concerns a small volume of imports into the Union in terms of value.

(c) The outcome of the Uruguay Round will not affect the general trends in the sector. In general, competitiveness in the sector is expected to increase along with exports and imports, these rises being accompanied by falls in employment and production.

However, the effects of the changes may be felt differently from one region to another. At regional level, the impact will depend on the kind of production (top, middle or bottom of the range), the degree of specialization (labour costs, quality, added value) as well as the importance of the sector to the economy. On this basis, several countries were initially identified in which the textiles/clothing regions will be most affected. Particularly affected will be regions of Portugal and Greece. Similarly certain other regions of the European Union in which production is in direct competition with production in third countries with low labour costs and in which the sector accounts for a large part of the industry will also be affected. Nonetheless this preliminary analysis needs to be looked at in greater depth in order to obtain a more detailed picture of the regions most affected[1].

2. When the decision was taken on 6 March 1995 to establish a Customs Union with Turkey, the Commission agreed to look together with Greece at the problems which the new terms of international trade would raise for this country in the textiles/clothing sector and to put proposals forward later in the year. Furthermore, in a unilateral statement the Commission made it clear that, without prejudice to their content, its proposals would also take into account the problems and interests of the Community textiles/clothing industries as a whole and of any necessary restructuring in this sector.

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[1] The Commission also made the analysis of the consequences of the monetary fluctuations in five sectors including the textiles and clothing sector in its report to the European Council (*The impact of monetary fluctuations on the internal market*. Communication from the Commission to the European Council COM(95)503 final - 31.10.95 - Paragraphs 17 and 18).

This statement had been demanded by the Greek Government, which in May 1994 had submitted a programme for modernization of the country's textiles/clothing sector with a budget of ECU 1.7 billion together with a request for Community funding of ECU 459 million.

3. The Commission has examined the situation of the textiles/clothing industry in Greece and the impact of the new terms of international trade. The internal and external factors underlying the changes in this industry were analysed in order to make a better assessment of the strengths, weaknesses and needs. This examination was based on a number of studies carried out on behalf of both the Commission and the Greek Government and on information supplied by both the Greek authorities and economic operators in the country.

Up to the mid-80s, the sector displayed a broad capacity to adapt to market changes by drawing on its flexibility and ability to respond (due to the large number of small firms) as well as its relatively highly qualified, low-cost workforce. In addition, the local production of cotton (335 000 tonnes in 1994) provided an abundance of very high quality raw materials at fairly competitive prices when Community support is also taken into account.

Analysis of the main economic aggregates shows that the progressive weakening in the sector between 1988 and 1993 is more marked in Greece than throughout Europe as a whole as regards both the trade balance and production and employment. According to the figures available, the progressive loss of certain comparative advantages, the effects of which have been amplified by the economic recession in Europe (a market which absorbs 63% of Greek production of textiles and 43% of clothing), has resulted in a fall of 30% in Greek deliveries by volume to the Community since 1987. More particularly, deliveries of textile products by volume fell on average at an annual rate of 8% while deliveries of clothing remained stable (+ 0.2%), in particular thanks to subcontracting.

This difficult situation also manifests itself in a substantial fall in production (21.6% for textiles and 7.8% for clothing compared with the Community average of 4.7% for textiles and 6.4% for clothing) and employment (41% as against a Community average of 23%). The gap was even greater in 1995 as a result of the pressure from the fall in consumption in Europe and the rise in imports from third countries.

The direct pattern of trade in textiles and clothing between Greece and the Central and East European countries, Turkey and the countries of the Mediterranean Basin was relatively weak in both directions. Despite the sharp upward trend in Greek imports from third countries in recent years (the average yearly increase in the clothing sector since 1988 is 33%), the country's trade with these countries is weak and it is centred essentially on the European market. The opening up of the European Union for trade as a result of preferential agreements and the outcome of the Uruguay Round therefore mean that Greece will be faced with an increase in direct competition from third countries' exports to the Community market.

4. The changes in the sector in Greece are due in particular to the following specific factors:

(a) Throughout the 80s, the comparative advantages associated with the low labour costs deteriorated. Wage costs in dollars rose much faster (61.1%) than the Community average (34%). The only country which experienced a similar increase was Portugal, with a rise of 69%. This extremely rapid increase was not offset by a rise in productivity.

(b) The probable accession of China to the WTO, the agreements with Turkey and the countries of the Mediterranean Basin and the application of the outcome of the Uruguay Round will increase competition in mid-range and bottom-of-the-range products in the Community market, which is Greece's main outlet for its production of textiles/clothing. Greece (together with Portugal) will therefore be among the regions hit hardest by the application of these agreements.

(c) Capital costs have prevented companies, in particular in highly capital-intensive sectors such as spinning and weaving, from making the investments needed for modernization. The rate of replacement of manufacturing equipment is very low in these two subsectors, which are highly exposed to competition from the major countries that export to Europe (see attached Table). There is therefore a great need to modernize equipment, in order particularly to manufacture products with a greater added value. According to information from the Greek Manufacturing Companies' Association, the textiles sector lost about half of its capacity between 1988 and 1994 following the closure of several large factories in the country. The modernization process is also thwarted by the absence of modern finishing equipment which would support efforts to improve quality.

The knitting and clothing industries have already followed a policy of adjusting to the exigencies of the international market but they still need to be connected to the distribution and export networks, both on the Community market and on third markets, in order to organize their production on a rational basis and to improve staff training as changes are made. The country is specialized in the low and mid-range products and this type of production is threatened, in particular by countries nearby, but also by China.

4

(d)Greece's geographical isolation from the other countries of the European Union and the political problems in former Yugoslavia have prevented the country from drawing maximum benefit from the advantages of the completion of the single market. In addition, the crisis in former Yugoslavia has added to transport costs to the most important markets (Germany, France, Great Britain, Italy), which mainly affects subcontracting.

5.From an industrial viewpoint, the Greek textiles/clothing industry can be considered to be facing the same problems as the industry in Portugal (a technological gap, a particularly low rate of replacement of manufacturing equipment, rather bottom and mid-of-the-range production in direct competition with low-wage countries). In addition, in both of these countries the industry occupies a dominant position in industrial life. However, the socio-economic importance of the sector in Greece is smaller as a share of the economy (3.2% of GNP, while the corresponding figure for Portugal is 6% of GNP).

In its policy of modernizing the textiles/clothing industry, Portugal has decided to reposition the sector, given the new market conditions, by modernizing the viable part of the industry and converting the rest to more promising activities. The modernization programme adds up to ECU 884 million and has received Community aid of ECU 400 million. The aid schemes have complied with the horizontal frameworks existing in Portugal and no increase in the country's overall production capacity resulting from their implementation will be authorized.

The approach followed in the funding of the application by Portugal was to create a specific budget heading funded from the supplementary resources obtained from the revision of the budgetary perspective following the accession of Austria, Finland and Sweden. The possibility of doing this would seem to be difficult at the moment.

6.The analysis carried out suggests that the difficulties currently faced by the Greek textiles/clothing industry (see attached Table) call for a major effort to adapt to international competition. Such an effort lies mainly with the companies themselves. For the viable part of manufacturing, this should focus on shifting to production with a greater added value. In the textiles sector, company modernization is way behind and so the important investments that are needed now are not always able to be generated by the companies themselves. In the clothing/knitwear sector, a smaller amount of funding is needed in view of the nature of the requirements, which for the most part concern intangible investments (application of computer systems, rationalization of production, training, etc.). The Commission is not able to put an exact figure on the amount needed.

5

7. The Commission is ready to continue to provide technical support and advice to the Greek Government in the definition of the restructuring needs and priorities of the Greek textiles/clothing industry.

The Commission will consider any proposal by the Greek authorities to improve the industry's competitivenes in the context of the Community's Support Framework for the period 1994-1999. Furthermore, the Commission will examine whether greater flexibility of the Greek share of the reserve allocated under Community initiatives (RETEX, RECHAR, KONVER, RESIDER) and in the implementation of other Community actions (such as R&D programmes, programmes for the promotion of new information technologies, etc..) might be possible.

The Commission recognizes the difficult and deteriorating competitive conditions in the Greek textile industry and will analyse and monitor future structural developments, without prejudice to the question of the need, or not, for additional supporting measures and will make appropriate proposals if necessary.

In any case, the aid which might be awarded to the textile sector would have to comply with the horizontal (multisectoral) schemes which are already existing in the country or new schemes of the same type which might be established. In the latter case, the schemes in question first would have to be examined by the Commission on their compliance with Article 92 of the EC Treaty.

It should be recalled that the budgetary framework established by the Edinburgh European Council, which decided on the allocation of Community funds for the period 1994-1999, makes it difficult to finance new Community activities.

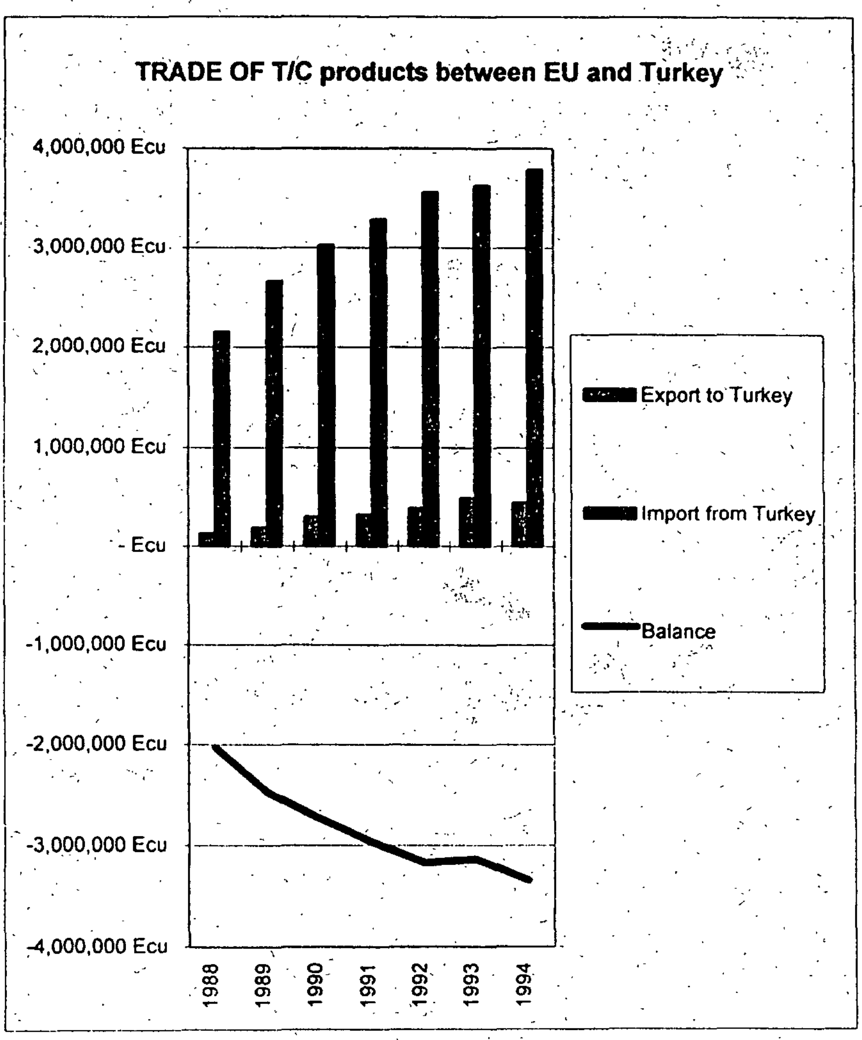
8. During bilateral consultations the Greek government made clear its views that these proposals do not respond to the restructuring and modernisation needs of the Greek textile sector. It considers that the competitive situation in the Greek textile industry is deteriorating and takes the view that additional funding for helping the sector to adapt is necessary.

COMPARATIVE TABLE OF THE MAIN STRUCTURAL AGGREGATES OF THE TEXTILES/CLOTHING SECTOR IN SPAIN, PORTUGAL, GREECE AND THE EU	SPAIN	GREECE	PORTUGAL	EC 12	SOURCES
Percentage of T/C in the economy (percentage GDP)	2.00%	3.20%	6%	1.61%	Prognos SUISSE
Employment (1994)	294.555	71.609	296.509	2.294.713	OETH
Jobs as a percentage of employment in manufacturing (firms > 20 employees) 1994	9.0%	*23.5%	31.2%	8.5%	DEBA
Changes in employment between 1988 and 1994 (T+C)	- 21.0%	-41.0%	-6.0%	-23.0%	OETH
Wage costs in ECU/h 1993 (textiles sector)	6.42	5.79	4.70		FMI and MERCER
Wage costs in ECU/h 1993 (clothing)	5.18	4.96	4.02		FMI and MERCER
Changes in wages in $ (88-93)	41%	61%	69%	34%	WERNER INT
Average growth rate per annum in number of firms (88-92)	1.9%	-1.8%	2%	0.7%	OETH
Change in production 1988-93 T: (NACE 43 + knitwear) C: (453,454,455)	T-9.1% C-4.5%	T-21% C-7.8%	T-4.5% C+2.4%	T-4.7%C-6.4%	Eurostat
AV/employee in ECU (92) firms > 20 TEXTILES (constant prices 85)	14.882	10137	4.239	23.289	OETH
AV/employee in ECU (92) firms > 20 CLOTHING (constant prices 85)	20.772	7.831	1.819	17.962	OETH
Exports/production (92) (current prices)	T31.6% C11.8%	T63% C43.7%	T66.2% C38.3%		EUROSTAT estimate
Investment per employee 1992 and 1993 in ECU/p					
Textiles	1480(92) 1351(93)	1970(92)2164(93)	2390(92) 2195(93)	3018(92) 3000(93)	OETH
Clothing	628(92) 556(93)	714(92) 781(93)	1117(92) 1024(93)	1174(92) 1138(93)	OETH
Investment as a percentage of turnover (93)	2.64%	4.40%	7.40%	3.34%	OETH
Rate of replacement: deliveries 83-92/equipment installed in 91					
Open end	143%	69.0%	101.9%		ITMF
Looms without shuttles	138%	20.7%	46.4%		ITMF
Long-term interest rate (1994)	11%	24.90%	9.40%		OETH
Actual interest rate (1994)	5.80%	14.10%	4.70%		OETH
Foreign trade					
Imports (1994 in ECU million)	3151	1188	1678		OETH
Changes in imports 1988-94 (annual average in ECU million)	19.40%	12.20%	9.90%		OETH
Exports 1994 in ECU million	2349	1635	3638		OETH
Changes in exports 1988-94 (annual average in ECU million)	8.40%	7.20%	4.50%		OETH
*In some regions, this percentage rises to 50% (Thessaloniki, Central and Western Macedonia)					

TABLE 2

	TOTAL Textile and Clothing EU - Turkey		
	Export to Turkey	Import from Turkey	Balance
1988	135,349 Ecu	2,160,550 Ecu	**- 2,025,201 Ecu**
1989	194,022 Ecu	2,668,416 Ecu	**- 2,474,394 Ecu**
1990	302,452 Ecu	3,033,174 Ecu	**- 2,730,722 Ecu**
1991	322,804 Ecu	3,291,556 Ecu	**- 2,968,752 Ecu**
1992	390,326 Ecu	3,560,594 Ecu	**- 3,170,268 Ecu**
1993	494,776 Ecu	3,632,338 Ecu	**- 3,137,562 Ecu**
1994	447,901 Ecu	3,789,647 Ecu	**- 3,341,746 Ecu**

Source: Comitextil, CITH



In categories 1, 2, 4, 5, 6, 7, 8, [illegible] 12, 13, 15, 20, 26, 33, 83 Turkey is one of the major suppliers to the EU market. Their quotas are used at over 80%.

Table 3
Utilisation of the investment programme fonds according by sector

Aids according to law 2234

Bn Drachmas	Business plans	Special investments	Total
Textile/Clothing	18 (11.0%)	2.5 (8.4%)	20.5 (13%)
Industry total	127 (100%)	29.7 (100%)	156.7 (100%)

Aids according ot law1892/90 - advanced technologies

Bn Drachmas	1993	1994
Textile/Clothing	3.2 (10.8%)	0.4 (6.3%)
Industry total	29.6 (100%)	6.4 (100%)

Source: Ministry of Economics

Table 4
Regional concentration of textile and clothing companies

Attika	46.4%
Peloponnes	12.8%
Sterea Ellas	0.4%
Thessalien	7.2%
Ipiros	0.3%
Zentralmacedonia	32.2.%
Thrakia	0.6%
Islands	0.1%
Total	**100%**

Sources: Etakei and OETH

Table 5

OETH

La structure de l'industrie des textiles et de l'habillement 1988 - 1994

The structure of the textile and clothing industry 1988 - 1994

GRECE / GREECE

Industrie / Industry	Toutes entreprises	1988	1990	1994 (1)	Taux de croissance annuel moyen (%) / Average annual growth rate (%)	All enterprises
TEXTILES et HABILLEMENT	Emploi	123.035	113.417	71.609	-8,6	Employment
	Nombre d'entreprises	3.684	3.620	3.069	-3,6	Number of enterprises
(NACE 43+453-5)	Chiffre d'affaires	3.372	3.314	3.044	-1,7	Turnover
	Valeur ajoutée (c.f.) (2)	693,3	658,0	568,9	-3,2	Value added (f.c.) (2)
TEXTILES and CLOTHING	Investissement (2)	191	148	129	-7,5	Investment (2)
	Importations	667	1.202	1.188	12,2	Imports
(NACE 43+453-5)	Exportations	1.154	1.535	1.635	7,2	Exports

Table 6

Deliveries of T/C products from Greece to the EU market

Source: Eurostat

X 000ECU	1988	1989	1990	1991	1992	1993	1994
Germany	558233	701180	740,246	881,138	987,413	950,651	850,788
France	125853	164961	168,970	154,661	183,593	152,159	145,781
Italy	113655	143839	151,637	109,861	119,364	111,320	138,328
United Kingdom	111902	132059	120,770	123,684	151,484	112,234	123,121
TOTAL EU	1,005,191	1,263,690	1,289,050	1,385,687	1,559,617	1,459,894	1,408,623