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Annual Report on the Textile and Clothing Industry

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Annual Report on the Textile and Clothing Industry

INTRODUCTION

This report on the Community's textile and clothing industry follows on from that of November 1988.

There has been little major change since then and this report, although updating some data, is aimed more at enlarging, from an industrial perspective, on certain subjects touched upon in the previous report but not studied in any great depth.

In dealing with a number of key issues concerning the European industry's changing structures and opportunities, this paper raises fundamental issues and shows what the Commission's trade and industrial policy has accomplished.

1. RECENT STRUCTURAL CHANGE IN THE INDUSTRY

1.1 Market situation

1. After increasing substantially in 1986 and still further in 1987, consumption of textiles and clothing fell slightly in 1988, picking up again in 1989 (see Table 1 in Annex).

The pattern of rising clothing consumption, which for four years has paralleled that for all textiles (22-23%), was as follows: it was down in 1987 on 1986, and although in 1988 and 1989 consumption did not actually fall, growth was slower.

For its part, the Community's textile industry took advantage of the years of growing internal demand to slightly increase production (at a rate much lower, however, than that of increasing consumption) and, to some extent, make good the slumps of the past.

This is particularly true of the carpet and soft furnishings sectors, which have in the last two years experienced relatively strong growth because of sustained demand from the property sector.

In clothing, a 23% increase in consumption failed to prevent a further 9% drop in production. Import and export trends also contrasted strongly during the four years in question. Their scale can be directly related to the prices of leading competitors whose currencies largely followed the depreciation in the value of the dollar.

2. The extent of the fall in import prices was one reason for the European industry subsequently reducing its own prices in intra-Community and export trade, as unit price trends reveal (see Annex, Table 2); this has severely affected European firms' profitability over the past two years.

The remarkable sustained growth in textile and, still more, clothing exports during the last four years bears witness to the Community industry's renewed competitiveness in certain areas of production,

at least vis-a-vis its competitors in the other industrialized countries, which are the destination for half of all MFA textile products (48% in tonnage, 53% in ecus) and over three quarters of exports of MFA clothing products (76% in tonnage, 79% in ECU).

The trends described for the Community as a whole mask a great diversity of situations in individual Member States, where there are considerable disparities in production and external-trade trends for both textiles and clothing (see Annex, Tables III and IV).

3. Some of these differing trends can be easily explained by historical reasons: it is normal that imports from outside the Community should increase more rapidly in the more recent Member States, whose markets were previously closed to such imports, just as it is evident that growth in imports from outside the Community should be slower in Member States where such imports already hold a greater share of the market.

The differences between some Member States' recent production and export trends also show the very clear influence of macroeconomic factors, e.g. wage differences, changes in the national currency's value against the ecu and changes in purchasing power.

4. However, the abovementioned factors alone do not fully account for differing trends in the Member States. Other factors must also be taken into account: the degree of restructuring achieved by firms, their strategies, their type of production and the segments of the market served by them.

Thus, the fact that, despite high wages, the Netherlands, Belgium and Germany were able to sustain high levels of production between 1985 and 1988 (see Annex, Table III) can be linked to the modernity of their plant, to which levels of current investment per employee attest.

Similarly, the fact that the volume of growth in Italian, German and French exports was not significantly impaired by the rising unit prices of Community clothing exports between 1985 and 1988 illustrates the wisdom of strategies to offset rising wage costs by manufacturing more up-market products. These strategies are also reflected in the fact that these countries also have the highest average unit prices in Intra-Community sales.

Success at the top end of the market requires that producers cut the costs attached to the flexible production structure needed in segments of the market where the volume and specifications of demand are prone to change. This can be achieved by strategies to minimize the fixed costs of a firm's flexible plant by expanding the range of products manufactured and relocating some processes, or the manufacture of some products, in lower-wage countries.

This is also possible where the local market structure permits fluctuations in demand to be covered by subcontracting some production stages to smaller firms.

The aspects mentioned above lead on to discussion of industrial trends.

1.2 Industrial situation

1.2.1 Structural data

5. Overall, jobs have been lost faster than production has grown, both because of pressure from competitors outside the Community and firms' own efforts to modernize (see Tables V and VI); closer study of the structural data for the textile sector in 1988 (data for the clothing sector on most of these indicators is only available for 1987, thereby limiting the interest of the data available) enables certain interesting points to be raised:

(a) The constant decline in the number of firms employing more than twenty people (down 16% since 1980), against a 4% rise in the total number of

firms, shows the growing fragmentation of production in sectors such as knitwear and the increasing concentration occurring upstream.

This phenomenon is borne out by employment figures, which are down by 5% for firms employing over twenty people and 3% overall.

(b) The proportion of turnover reinvested is rising all the time, reaching almost 5% in 1988. This overall figure (NACE 43 also covers knitwear) is influenced by the smallest firms, whose investment is less significant; many firms are in fact reinvesting more than 10% of turnover, putting the sector at the forefront of modernization.

(c) Disparities between structural adjustment in the Member States will be dealt with later on. Taking investment as an example, 53% of the Community total is shared by Germany and Italy, which have the highest level of investment per employee outside Benelux. However, the corresponding figures for the two most recent Member States are significantly lower than the Community average.

6. It must also be emphasized that textile production is holding up best in those countries where the industry's adjustment to external constraints is most advanced, i.e. where the industry has abandoned those types of production and those segments of the market most vulnerable to outside competition (mass production of simple finished goods or unsophisticated semi-finished products for the clothing industry).

Any conclusions drawn from this structural data should be accompanied by a brief study of phenomena linked to firms' strategies and the institutional framework, in terms of competitiveness, concentration and the degree to which national industries have adjusted.

1.2.2. The sector's competitiveness

7. The restructuring carried out in recent years by the European textile and clothing industry, entailing substantial investment in productivity, creativity, and better marketing and management policies has enabled it to maintain or regain its competitiveness. In other words:

(a) The initial production stages (production of synthetic fibres, spinning, weaving, etc.) are becoming more and more capital-intensive. Today, investment in one open-end spinning work-station can total ECU 3 million and, under optimum conditions, keep labour costs to 6% of total production costs.

The significant increase in the proportion of turnover reinvested, which has risen from 3% to nearly 8% in the last ten years, shows how hard Community firms in these branches of industry have worked to restructure. As Annex VII shows, the spinning and weaving production stages can now call upon plant which is being modernized much faster than that of other major textile-manufacturing countries, comparable to the most productive high-technology sectors of world manufacturing industry.

(b) Further downstream (knitwear, made-up goods), firms are increasingly using state-of-the-art computer-aided methods of making up models, automating cutting and managing production. However, a lack of more advanced technology means that making-up and stitching are still labour-intensive. In 1988, moreover, investment per employee was three times greater in the textile industry (including knitwear) than in clothing.

The impact of modernization on the structure and scale of costs, particularly in the initial production stages, has restored some of the competitiveness of producers in the industrialized world.

8. Stagnation in the Community's textile sector in 1988, however, made clear the need to entrench this still relative competitiveness and highlighted:

(a) specific problems such as the rigidities associated with high-performance equipment in terms of products, capacity use and economies of scale;

(b) the need to achieve costs comparable with those of outside competitors, not only for factors such as labour but also for raw materials and semi-finished products (risks of distorting competition);

(c) the combined effects of pressure from imported finished textiles and relocating production of fashion garments, which are increasingly depriving the textile industry of outlets.

9. Thus, for much of the textile industry, the return to lasting competitiveness hangs on the establishment of the conditions for normal competition and on the future of the European clothing industry, which has yet to prove that its competitiveness is structural by substantially changing its cost structures; this could be achieved once methods for organizing production and stocks, and automating most making-up and stitching operations have been fully mastered. Unfortunately, in view of the effects of specialization and the scale of clothing firms, robotization seems out of the question for most firms in the short and medium term.

However, higher wages do not necessarily impair competitiveness in clothing manufacture if the industry is able to offset the resulting higher manufacturing costs. The main ways of doing this are:

(a) Concentrating local production on market niches where a smaller proportion of the total costs is represented by tasks suitable for unskilled or semi-skilled labour (or, in other words, aiming for production where a greater proportion of costs are attached to creativity - fashion design and/or skill - quality control and the buying of the products used in manufacture). Firms of a certain size often combine this strategy with relocating of some manufacturing operations, or indeed the manufacture of certain products in their range, in low-wage countries.

(b) Improving the structure of relations with distributors, thereby cutting the costs of storage and unsold goods by a production cycle which is more responsive to fluctuations in demand; exploiting the full potential of such strategies generally requires better-organized links with upstream production stages (spinning, weaving, finishing).

1.2.3 Relocation and concentration: the industry's response

10. The partial relocation of production by firms has been increasing in recent years owing to factors such as wage levels, marketing strategies, the stability of markets outside the Community, the scale of firms and geographical proximity.

Although no global figures are available, this trend gained momentum in 1988 and 1989, primarily in the area of outward processing trade from countries which had previously had little recourse to it, e.g. Italy, whose internal production costs are still very competitive owing to a unique type of relocation within its own industrial system.

11. The past year has seen a growing trend towards concentration in the form of specialization (controlling new activities and new brands in the strongest areas of the market, e.g. DMC, Miroglio, Zannier), and vertical integration, from the semi-finished to the finished product (e.g. Polli, Marzotto), or complementary accessories and self-distribution (e.g. Benetton-Nordica).

The unmistakable growth of these phenomena is not unrelated to the internationalization of trade, and debate within the industry about the import rules which will be applied to textiles and clothing at the close of the Uruguay Round, but owes more to firms' own industrial strategies.

This trend will quite probably continue, in view of the increasing number of subsidiaries set up in recent months by the major groups (Boussac, Prouvost, UCO) and recent takeovers by large new, mainly Japanese, operators (e.g. the takeover of ex-Courtaulds continuous spinning plants).

1.2.4 Disparities in structural adjustment: a constraint and a necessity

12. There remain significant disparities between individual companies' performance throughout the Community and between the level of adjustment attained by national industries.

In the new Member States the industry began to change later, where wage levels and the relative openness of their markets had not already subjected them to the same pressures to readjust as those experienced by other countries of the Community.

13. Although lower wages still give these countries a cost advantage over producers in other Member States, it should be noted that in the past two years they have seen the price of this factor increase at a rate far above the Community average. Moreover, in 1988 investment and per capita productivity in the textile sectors of these new Member States were far below levels for the Community as a whole (less than half); these two factors threaten to limit the medium-term competitiveness of these countries and make more difficult the restructuring which competition from both inside and outside the Community will make more and more urgent in the years ahead.

1.3 Institutional framework

1.3.1 The internal market

14. The phenomena associated with the reorganization of firms (concentration, integration, mergers) dealt with in the last section arise more from the quest for optimum industrial scale by the more effective or cash-rich firms than from any particular desire to make firms more international in anticipation of completion of the large internal market.

Where intra-Community trade in textile and clothing is concerned, the general picture (for both finished and intermediate products) shows markets to be geographically integrated to a satisfactory level, non-tariff barriers having only a limited effect on prices and product distribution.⁽¹⁾

Generally, the White Paper's measures to improve the general business environment (company law, financial services, etc.) can, as elsewhere, only benefit this sector of the economy. However, this sector's particular structure (multitude of SMEs, specific regional situations) requires the opportunities afforded by the large market to be backed up by adequate flanking measures at public and private-sector levels.

15. One area demanding particular attention, to be dealt with in greater detail in a later paragraph, is the probable impact on textiles and clothing of trends upstream and downstream. There is no overlooking the growing concern with which part of the industry views certain distribution trends, e.g. vertical or horizontal concentration and specialization, which could ultimately change the functions of each section of the industry, with major repercussions on where products are bought.

(1) See in the report "The cost of non-Europe" the section on the textile and clothing sector.

1.3.2 Structural aid

16. The textile and clothing sector will have no option but to continue adjusting to the new industrial and commercial situations which are on the horizon. Such change is the responsibility of the firms themselves.

Specific aid by the Member States for the textiles and clothing sector is guided by Community communications in 1971 and 1977 to the Member State governments in the letters of 30 July 1971 and 4 February 1977. As for aid for the synthetic fibres sector, a more restrictive framework was introduced in July 1977 and prolonged several times - the last time in 1989 of which the Member States were informed in the letter of 6 July 1989.

The important role of Community guidance in the return to a certain equilibrium and in the maintenance or re-establishment of a real market economy is well known. However, the sector is still vulnerable particularly to international competition which is still intense. Also, the Commission estimates that any uncoordinated intervention by the Member States would be against the Community interest, particularly as this could seriously compromise past and present efforts by Community producers in the textiles and clothing sector to adapt to changing market conditions. That is why the Commission still attaches the same importance to the respect of the above-mentioned guidelines for the Member States.

There are only three specific aid schemes in force in the textiles and clothing sector. These are:

(1) In France, aid, financed by parafiscal taxes, to the Committee for the Development and Promotion of Textiles and Clothing (CDPTH). This scheme finishes on 31.12.90;

(2) In Belgium, aid can be granted to the national Institute of textiles and clothing until 31.12.90;

(3) In Portugal, the Commission has authorised an aid scheme in favour of the wool industry. The main aspects of this measure also finish at the end of 1990. It should be noted that this scheme is mainly aimed at the restructuring of existing obsolete production capacity.

Both general and regional aid schemes can also be applied in the textiles and clothing sector as they can be elsewhere. So as to ensure maximum clarity of the overall effect of this type of aid on the sector in question, it would be necessary to have available a sectorial breakdown which should be provided by Member States. Because of a certain reticence on the part of some Member States, such an exhaustive analysis of state aid in the textiles and clothing sector has so far not been forthcoming.

The reform of the structural Funds, introduced in early 1989,⁽²⁾ provides a new frame of reference in terms of resources and proposal and selection procedures for Community aid.

(2) Council Regulation (EEC) No 2052/88 of 24 June 1988.

In terms of geographical scope, it should be stressed that many areas where the textile and clothing industry is now concentrated are eligible for aid from the structural Funds; the Commission will also ensure that future developments in the industry are taken into account in the periodic reviews of geographical eligibility for assistance from the structural Funds.

However, it remains essential that all such aid form part of a coherent framework for the whole industry. It has therefore been agreed that, when the ERDF is financing investment in production in sensitive sectors, including the textile and clothing industry, ex post data would be included in the annexes to the annual reports on implementation of the operational programmes.

2. OPPORTUNITIES

The background to changes in the markets and the industry provided by the last paragraph shows a production apparatus in the throes of change and an industry which is, for the most part, determined to rise to the challenge of international competition, on the condition that it is fair and they have effective access to their competitors' markets.

The organization of the European economic system, existing know-how and market niches offer, if properly exploited, interesting opportunities for the Community industry.

2.1 Technological development

17. Reducing manufacturing costs and improving quality are impossible without constant, across-the-board improvements to plant.

It is not enough to replace an existing process with a moderately or highly capital-intensive process, it is also necessary to improve the firm's logistics and optimize links between the different production stages and quality control.

This entails applying a vast range of enabling technologies, including robotics, software, mechanical engineering and new materials.

The potential of the Community's technological heritage and industrial know-how have not yet been fully tapped. There are two main reasons for this:

(a) The fragmented structure of firms typical of some branches of the industry makes it difficult to properly identify their needs, to estimate a potential market's demand for innovation and conduct a dialogue with those developing and supplying technology;

(b) A possible oversight on the part of the authorities when promoting joint programmes targeted on clearly stated objectives. This is one consequence of the thinking which, when R&D programmes are being set up and resources allocated, has penalized supposedly "mature" sectors such as textiles and clothing to the advantage of others deemed more "strategic", without really considering the former's potential for progress.

18. The trend should be reversed by promoting a dialogue between concerned parties and by improving awareness of the technology available and its potential applications in new sectors of industry. Where robotics and automation, in particular, are concerned, there is reason to doubt whether, when studying operations specific to clothing manufacture, an adequate inventory has been drawn up of technologies already in use in other sectors of industry, which could after reasonable adjustment be applied to certain cutting and making-up operations.

This principle could provide a basis for planning and action in the future and requires industrial users to participate more than they have in the past. It is in the interests of equipment manufacturers too to cooperate because they risk losing their current positions on the market; the penetration by overseas, particularly Japanese, competitors, who are currently producing less textiles but exporting the bulk of their textile-machinery production (up to 80%), gives cause for reflection.

2.2 Market access

19. Modernizing production and introducing new products will not be enough to prevent Europe's output of textiles and clothing declining significantly if the Community's firms fail to develop new niches, improve the structure of links with distributors and increase exports.

European producers could be much more dynamic in this last area and achieve better results on traditionally open markets.

Unfortunately, the export figures of Community firms still fall far short of their potential owing both to difficulties in gaining access to non-Community markets and to the inflexibility of many European firms' strategies, which are inadequately geared to the needs of new markets or short on innovation.

20. High tariff barriers and the constraining or deterrent effect of non-tariff barriers in many textile-exporting countries hamper or prevent Community exports; in these countries, market segmentation is often accompanied by aid to investment or production, which thereby expands or preserves sectors regardless of comparative advantages and often leads to dumping.

The Community, therefore, regards opening up markets as one of the major issues in the Uruguay Round negotiations.

The Commission is all the more convinced that this process would benefit all in the long term (as will be shown later) and that there has been real progress in markets which are gradually opening up because the European industry has shown itself capable of strategic adjustment.

21. The Japanese market is a case in point. This market's scope for further opening-up, coupled with European firms' more aggressive, better

conceived policies, has enabled the latter to substantially increase sales there in 1989. The average value of Community exports during the first ten months of 1989 rose by 42% while that of Japanese imports was up by 38% overall.

For some European firms, Japan is now one of the world's largest markets, especially because they expect future growth rates comparable to the past year's.

The strategies developed by these firms involve establishing objectives and clear policies, thorough knowledge of the target markets and the development of the requisite sales departments, aspects which are all too often inadequately handled.

At the same time, it is vital to enhance the ability to meet delivery dates and the training of sales staff (even at local level), and to establish local services to meet the specific needs of small and medium-sized firms in particular.

2.3. Links between production and distribution

22. The relationship between production and distribution was mentioned in Chapter 1 of this report.

The distribution system for textile and clothing products is probably one of the key factors behind production changes.

Distribution is becoming a very capital-intensive, high-technology activity. Moreover, the economies of scale which can be achieved through buying models, system analysis and good management are probably unparalleled in the production of consumer non-durables.

The consequences of this include:

- the formation of large retail groups with sophisticated management systems and considerable financial resources;
- the increasing influence of such groups on the consumer market, including the range of products on offer and their lifetime;

- growing pressure from distribution on prices charged by producers;
- a trend amongst distributors to tailor their buying policies to the nature of demand for various products.

23. Although Member States' distribution structures differ greatly, the overall trend is towards concentration. Structural differences can affect Intra-Community trade and imports from outside the Community in a number of ways: as a rule, the more concentrated the distribution structure, the greater the penetration by imports.

There are signs that this phenomenon is likely to be accentuated in the coming decade and that there will be more internationalization of distribution than of production.

Although imposing constraints on production, this change in the sales structure also provides unexpected opportunities.

A business strategy to minimize costs by getting the right product to the right place at the right time entails reducing the intervals between the different industrial and marketing stages. It might include specifications which non-Community competitors would find difficult to match and provide new niches for European firms able to make the necessary adjustments; this point will be enlarged upon in the next paragraph.

The increasing use of techniques such as "quick response" and "delivery on time", whose development constitutes a challenge at once technological, organizational and industrial, is one of the opportunities now becoming available to our industrial apparatus.

2.4. Links between different stages of the textile chain

24. The increasing expansion of fashion to ever more consumer goods and, more recently, the accelerated rate at which fashions change require different solutions at the distribution and production stages, which could transform the European industry's competitiveness vis-à-vis that of less developed countries in a large area of the market.

Distributors and those further upstream can no longer carry large stocks of fashion goods, particularly those subject to rapid change, because the risk of being left with unsold goods is too great.

25. Producers who can respond quickly to specific changes in demand now have the advantage.

The greater production flexibility needed to do so entails extra equipment and labour costs. It requires either multi-purpose and therefore more expensive plant, where technically feasible, or immediate access to the necessary alternative equipment, i.e. a bigger pool. Operating such plant also requires a more highly qualified workforce and more supervisory staff.

26. The extra costs caused by more flexible plant do not necessarily reduce the competitiveness of the industrialized world's producers. On the contrary, flexible production does not correspond with the comparative advantages of less developed countries where, by definition, capital, skilled labour and good management are scarcer: the less developed countries therefore have little to gain from targeting this niche. It must be added that, from distant countries, meeting short delivery deadlines entails quite considerable communications and transport costs.

The essential advantage of more flexible plant at each production stage is that, at every stage of the chain down to distribution, the economies made on the costs of holding stock or unsold goods are much greater than they might initially seem.

27. The difficulty of establishing a more flexible system probably owes less to communications problems between successive production and distribution stages than to contention about apportioning the profits (which are greater further downstream) and costs (which, by contrast, are concentrated at the intermediate stages) of such a system.

Optimizing the potential economies of a more flexible production system probably requires the formation, between technical units at each production and distribution stage, of a range of networks which are integrated either horizontally or vertically and have a structure and/or dimension allowing them to negotiate as equals with other networks.

The formation of such horizontally or vertically integrated networks of industrial and commercial operators is inherently complex, if only because, in addition to changing fashions and the general or short-term uncertainties referred to above, much demand, particularly for fashion products, is seasonal.

It could be in the interests of the integrated networks to include the manufacture of some products which are less susceptible to changes in fashion, thereby minimizing risks and optimizing production.

28. There is a clear trend towards this in the increasing vertical and horizontal regrouping of firms, but there is probably still a long way to go before the degree of structural reorganization needed to reestablish European producers' competitiveness through greater flexibility is achieved.

The two strategies, i.e. optimizing the system's flexibility and reducing manufacturing costs by substituting capital for expensive labour are not in principle incompatible.

Furthermore, forming networks which are individually more resistant to market fluctuations and outside competition would probably improve conditions for individual firms planning long-term technological adjustment.

2.5 Sectoral niches to exploit: technical textiles³

29. A breakdown by product category of the Community's balance of trade shows that technical textiles are the subsector where the export cover of imports is highest (158% in 1988), Community exports totalling about ECU 2 000 million.

The world market in textiles for technical purposes is of a very specific nature:

- * Demand is growing rapidly, by between 8 and 15% p.a. according to estimates. Consumption is put at 700 000 tonnes p.a. in Europe and about 900 000 tonnes p.a. in the USA. Its share of European textiles consumption is estimated to have risen from 11 to 18% between 1980 and 1986.
- * The products and their fields of application are many; new products and/or new markets are emerging quickly owing both to the development of new products and to expansion of the areas of application of existing basic products.
- * Many products are beginning their lives and have many potential applications in a great number of different fields. Textiles science has now developed to the point where a product's properties can be deduced from its molecular structure.
- * Investment is considerable, sometimes exceeding 10% of manufacturers' turnover.
- * Cooperation between manufacturers of fibres and textiles, universities and the industry's research institutions is increasing at every stage of R&D and the application of research.

30. These features are characteristic of the strengths of industry and research in the Community; the features of the world market (long-term projections see technical textiles taking up 30% of capacity) are such that if current trends in demand persisted and if markets could be effectively opened up, the Community industry could find major outlets on the world market, including some non-member countries which are currently amongst the Community's chief suppliers.

3. THE ROLE OF THE COMMUNITY

The Community industry will only be able to seize many of the opportunities outlined in Part 2 only in an improved institutional environment where conditions of normal competition prevail and allow it to develop suitable strategies.

The Community's role is to ensure that optimum industrial and trading conditions are achieved so that the industry can continue its restructuring on a sound economic footing.

³ geotextiles, textiles for medical applications, etc.

3.1 Technology

31. The new programme of R&D (1990-1994), whose adoption is foreseen during 1990, will allow all the challenges detailed in 2.1 to be met to a more satisfactory degree than in the past. But it also presents a challenge to the Community and Industry. While reducing the number of programmes and extending their current scope provide many new possibilities for more strategic thinking, they also transform their content and administrative framework.

The concept of "enabling technologies" involves abandoning a sectoral perspective and leads to many sectors combining their technological development efforts; however, it also requires a new approach from the participants and industrial federations concerned. The latter will be called upon to make a greater effort than in the past to quantify their needs and establish better coordination between different programmes.

32. As to the mechanisms, the option to take part in programmes now to be offered to multidisciplinary consortia provides a firmer basis for presenting and preparing complementary projects and for improving overall awareness of different projects. The institutional environment lends itself to this; the entry into force of the Economic Interest Grouping (EIG) provides a new and promising way of taking part in programmes.

Sectors such as textiles and clothing, which are characterized by their diffuse structure (at both subsectoral and regional level) should henceforth benefit from more favourable conditions for their participation than in the past.

The new R&D framework programme offers two more new opportunities:

* A project to promote technology and joint research has been set up to support particularly innovative technical projects falling outside the scope of other projects. This will assist the solution of technical problems experienced by groups of SMEs without research facilities of their own.

* There is now the option of presenting integrated projects, pooling a range of generic technologies so as to establish operational specifications for users. These projects will have specific objectives and unite suppliers and users in a systemic approach which will facilitate the participation of SMEs.

33. The potentialities provided by the new framework programme should, if properly exploited, provide an effective response to other countries' more sectoral approach, e.g. Japan's "automated sewing system" project or its "automated factory" which should, if all goes to schedule, be completed in a few months. Although it is too soon to make any final judgment on the commercial viability of the results, certain of the findings of the working party carrying out the programme seem technically promising at this stage.

Under this programme the multidisciplinary consortium formed at MITI's behest and grouping representatives of every stage of the textile and clothing process together with equipment manufacturers and software experts organized its work on the basis of complementary but independent modules.

Each operation was subjected to in-depth analysis based on technological and industrial requirements and the end result, through synergies, permits work to be concentrated and the resources available to be optimized (about ECU 70 million).

3.2 Market access

34. The last section highlighted the importance of, and the stakes involved in, market access. The Commission along with most of the industrial world is convinced that the generalized opening-up of markets must be among the Community's chief objectives for textiles and clothing in the multilateral GATT negotiations.

The Council's decisions of 24 April last year and the Community's official statement to the GATT textiles negotiating group on 20 July pursued this matter, hoping that it would be tackled globally (an approach covering tariff and non-tariff barriers and strengthening rules and disciplines) and linked to talks on introducing temporary rules for bringing trade in textiles back under the general GATT rules.

35. To provide a detailed and useful frame of reference for these negotiations and for implementing their results, the Commission employed a consultant to study barriers to trade in textiles and clothing and the potentialities of effectively opening up markets in a sample group of 22 countries.

This study has enabled priorities to be established in terms of barriers to be eliminated and products likely to be exported, and highlights the following aspects or trends:

- The elimination of an individual barrier does not guarantee real long-term results: it has to be integrated into a continuous review and systematic verification procedure for which resources are not currently available.
- Trends in the balance of trade with the various countries and subsectors covered show that in some of the latter (e.g. fabrics and technical textiles) the Community industry is already, competitive on the world market, and becoming more so. It is essential that the Community's industry should not have to confront closed markets or unfair trading practices when attempting to maintain or improve its position on the world market. This principle underlies the communication presented by the Community to the GATT Textiles Negotiating Group last July.

- For all their limitations, the results of a cautious five-year simulation exercise suggest that the potential growth of Community exports could match its current trade deficit.
- Where different markets are concerned, it should be emphasized that two thirds of the potential growth in Community sales would be focused on the USA, Japan and Canada which are already the major outlets.

In the other countries studied, the potential increase in imports from Europe was smaller because other trading partners would become more competitive in the market for the most sought-after basic products.

- Future increases in world trade, according to the simulation exercise described, would also greatly benefit other trading partners (both industrialized and developing countries): 80% of the potential growth in textile sales and 91% of that in clothing sales to the 22 countries studied would benefit countries outside the Community. This suggests that many of the latter might be interested in a generalized opening-up.
- The fact should also be stressed that growth in world trade would normally be exponential; slow to begin with, this process would speed up as more cautious countries reached a certain degree of development and further opened their own markets.

36. Of course, to achieve these goals, decisions taken in the Uruguay Round will have to be acted upon, for which the necessary resources must be made available.

This will also require improved coordination of the Community's domestic policies and the implementation of original solutions, e.g. in the context of operations carried out by trading companies organized to represent SMEs on markets where access is most difficult.

3.3 Links between producers and distributors

37. To try to provide an initial reply to the range of questions raised in the last chapter, the Commission has launched a study to set the scene for the large market in 1993: it deals with relations between producers and distributors in the consumer-goods sector (textiles and clothing in particular) and examines ways of promoting and internationalizing new forms of cooperation.

Where textiles and clothing are concerned, the study will start by analysing (taking in all situations within the Community) the development to date of production, distribution and the links between the two. In view of the sector's complexity, a suitably large number of product areas (about ten) will be individually analysed.

38. This initial phase will be followed by a second, in which, on a country-by-country basis, the most probable scenarios for each product area will be mapped out.

Particular attention will be given to possible trends in links between producers and distributors; the study of other major markets such as the US and Japan (from the point of view of similarities and dissimilarities with the Community) will provide vital data on both distribution and production.

Apart from analysing the gamut of these complex links, the study has very precise objectives:

- to verify whether, and if so to what extent, developments in the procedures by which distributors order supplies can, if properly used by producers, in turn become a way of improving the latter's competitiveness;
- to establish a range of issues and options so as to stimulate a constructive debate between all involved.

The Commission intends to carry out this study in close liaison with the national authorities and the trade federations concerned.

3.4. A special niche: technical textiles

39. The Commission is currently launching a study to take stock of the current situation and prospects of this sector throughout the Community. One of the study's principal objectives is to highlight the movement towards subdivision into specialization (from existing subdivisions) which could bring to light activities for the future. The following tasks were performed in each subsector:

- * analysis of the Community's industrial structure (size, turnover, relations with SMEs, technological resources, etc.) and market analysis (extent, development, competitiveness on international markets, etc.);
- * analysis of firms' cost structures and strategies;
- * examination of constraints imposed by the institutional and regulatory framework (standards, certification, etc.)
- * shedding light on possible flanking measures (standardization, protecting of intellectual property, developing research programmes, organizing technology transfer, opening up of public sector purchases, etc.).

In doing so the Commission intends to cooperate closely with the authorities concerned and discuss with them the conclusions of this study.

3.5 Setting up a Community observatory for the textile and clothing sector

40. As has been shown more than once in this report, it is particularly difficult to gain an overview of the textile and clothing sector because

its structure is highly diversified in terms of production units, products, processes, speed of change, the impact of trade trends and the existence of regionally specific situations.

41. The statistical and economic data, both quantitative and qualitative, currently available at Community level is not sufficient to enable recent developments or future trends in this sector to be satisfactorily identified. External trade figures apart, statistical data is almost exclusively macroeconomic or very general and, if not incomplete, then poorly collated and transmitted too late for decision-making.

These deficiencies mean that the authorities and industrial and trade circles lack the knowledge of the textile and clothing sector, which would enable the former to optimize the various instruments and flanking measures needed and the latter to carry out essential structural adjustments within a coherent industrial framework.

There is so much at stake for the Community, its industry and trade, that it is imperative that this matter be given due consideration.

42. Today the formulation and implementation by firms of strategies to meet the challenges of the large market and competition from outside the Community, and the formulation and implementation of the policies providing the framework for the development of the textile and clothing industries require more detailed analysis of the state and trends in development of the sector's structures and markets.

The Council called for a more in-depth approach and the Commission considered how this might best be achieved. It contracted a consultant to carry out a feasibility study in order to ascertain whether it would be useful to establish a structure specifically for monitoring the textile and clothing industry and its environment, which would act in close liaison with the Commission, the authorities in the Member States and trade federations.

On the basis of this study and the reactions of Member States as evident from discussions in the Council, the Commission will study the most appropriate procedures to respond to the needs established.

CONCLUSION

The overview given by this report of changes, trends, opportunities, stakes and risks in the textile and clothing industry shows a sector where organization and structures are undergoing radical change, a sector which is ready to rise to future challenges.

In other words, the Community's textile and clothing sector is gradually shrugging off the image that had been thought to encapsulate it, that of a "mature sector" now in decline.

However, the Community industry remains vulnerable under the present circumstances. Realizing the the sector's potentialities depends on certain conditions:

- Government structural aid should keep in mind the coherence of the industry as a whole so that aid enhances the comparative advantages of Community firms on open markets.

- particular effort must be devoted to technological development and industrial innovation without losing sight of the needs of the SMEs which are to this day the bedrock of the sector. This effort should give particular support to developing flexible production apparatus, and cover all stages of the textile and clothing chain, including distribution.

- that the reasons behind decisions concerning the future direction of the Community's commercial policy are clear, particularly in the context of negotiations in the Uruguay Round. The integration of the textile sector within the general GATT rules should be carried out progressively so as to allow industry time to gradually adapt its production and investment strategies and so as to help resolve social problems which could arise at regional and sub-sector level. In this respect, it is essential for the future of the Community's industry that the maintenance and improvement of its position in those areas where it can be competitive should not come up against closed markets and illicit commercial practices. It was with this in mind that the Community presented its communication to the Negotiating Group for Textiles of GATT in July 1989, in which it insisted on the necessity of reinforcing the rules and disciplines of GATT so as to reform international textile trade.

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¹ Textiles

² Clothing

Table 1

MFA PRODUCTS

% changes in volume compared with previous year

	APPARENT CONSUMPTION		PRODUCTION ²		COMMUNITY IMPORTS ¹		COMMUNITY EXPORTS ¹	
	T + C	C	T	C	T	C	T	C
1986	7,6	9,0	2,5	- 1,7	12,5	26,4	- 5,0	5,0
1987	9,3	5,5	1,1	- 5,0	22,0	25,6	2,5	5,4
1988	- 0,8	3,1	- 0,9	- 1,9	0,2	10,4	4,0	0,5
1989*	4,6	4,0	1,6	- 0,6	3,4	7,7	4,4	9,0

T = Textiles (excluding knitwear)

C = Clothing (including knitwear)

* = Estimate based on available data (6 to 9 months, depending on series and Member States)

Sources : 1 SOEC - COMEXT

2 CITH

UNIT PRICE (INDEXES = 100 in 1985)

	COMMUNITY IMPORTS		COMMUNITY EXPORTS		INTRA-COMMUNITY IMPORTS	
	T	C	T	C	T	C
1985	100	100	100	100	100	100
1986	86,8	88,3	97,9	95,0	99,5	95,9
1987	79,3	85,2	95,9	97,4	95,9	94,8
1988	84,0	84,1	95,4	102,4	98,0	96,0
1989*	(91,0)	(89,2)				

* First 9 months

T = Textiles

C = Clothing

Source : SOEC - COMEXT

Table III

CHANGES BETWEEN 1985 AND 1988 (Base 1985 = 100)

TEXTILES ¹						VALUE IN ECU OF NATIONAL CURRENCIES ²	HOURLY LABOUR COSTS IN SPINNING AND WEAVING IN SPRING 1989 ³ (US \$)
	PRODUCTION (INCLUDING KNITWEAR)	COMMUNITY IMPORTS (MFA PRODUCTS)	COMMUNITY EXPORTS				
			TONNES	ECU	UNIT PRICE		
EEC	102,8	137,5	101,4	96,7	95,4		
BELGIUM	100,9	154,5	91,3	90,4	99,0	103,4	13,42
DENMARK	92,4	96,2	98,7	95,0	96,3	100,9	14,08
GERMANY	97,3	122,4	101,9	106,3	104,3	107,7	13,17
GREECE	105,8	179,6	98,4	78,3	79,6	67,1	4,32
SPAIN	104,4	501,5	108,1	98,1	90,7	93,8	5,65
FRANCE	94,0	127,4	108,1	96,7	89,0	96,6	9,82
IRELAND	104,6	134,5	111,0	88,2	80,0	92,1	6,94
ITALY	108,9	143,9	105,6	92,6	87,7	94,1	13,03
NETHERLANDS	105,3	102,9	92,5	88,4	95,6	107,3	14,06
PORTUGAL	105,5	301,6	104,4	78,8	75,5	76,4	2,03
UNITED KINGDOM	102,1	148,0	100,4	91,5	91,1	89,6	8,18

SOURCES : (1) SOEC - COMEXT
(2) DG II
(3) Werner International

Table IV

CHANGES BETWEEN 1985 AND 1986 (Base 1985 = 100)

CLOTHING ¹						VALUE IN ECU OF NATIONAL CURRENCIES ²	HOURLY LABOUR COSTS IN SPINNING AND WEAVING IN SPRING 1985 ³ (US \$)
	PRODUCTION (INCLUDING KNITWEAR)	COMMUNITY IMPORTS (MFA PRODUCTS)	COMMUNITY EXPORTS				
			TONNES	ECU	UNIT PRICE		
EEC	91,7	175,4	111,2	102,7	96,4		
BELGIUM	91,4	226,4	107,1	106,1	99,1	103,4	13,42
DENMARK	70,5	203,5	85,9	83,5	97,2	100,9	14,08
GERMANY	91,9	148,0	102,4	114,5	111,8	107,7	13,17
GREECE	97,0	262,2	178,3	156,6	87,9	67,1	4,32
SPAIN	97,7	2237,1	177,3	184,9	104,1	93,8	5,65
FRANCE	86,5	212,8	102,8	107,1	104,1	96,6	9,82
IRELAND	91,1	194,5	96,6	80,8	83,6	92,1	6,94
ITALY	96,9	215,0	88,9	107,0	120,4	94,1	13,03
NETHERLANDS	90,6	163,1	107,8	107,0	99,3	107,3	14,06
PORTUGAL	110,0	452,8	132,7	122,1	92,0	76,4	2,03
UNITED KINGDOM	102,9	183,4	77,9	80,7	103,6	89,6	8,18

SOURCE : (1) SOEC - COMEXT

(2) DG II

(3) Werner International

Structural data for the Community textile and clothing industry

	TEXTILE + KNITWEAR (NACE 43)				CLOTHING (NACE 453)			
	1986	1987	1988	1988:1986 (%)	1986	1987	1988	1987 : 1986 (%)
Total jobs	1.603.618	1.577.463	1.547.491	- 3,5				
Jobs (firms over 20 employees)	1.403.060	1.379.805	1.330.104	- 5,2	1.097.213	1.069.358	..	- 2,5
Number of firms (TOTAL)	78.161	78.305	78.307	+ 0,2				
Number of firms (+ 20 employees)	14.974	14.919	14.632	- 2,3	28.302	28.234	..	- 0,3
Investment (ECU million)	3.840	4.045	4.124,9	+ 7,4	1.052.825	1.096.995	..	+ 4,2
Turnover (ECU million)	87.107,5	86.177,4	88.763,7	+ 1,9	44.188,8	44.023,1	..	- 0,4
Value of production (ECU Million)	84.026	87.315	86.961,3	+ 3,5	42.770,9	43.471,4	..	+ 1,6
PRODUCTIVITY INDEX (Volume) 100 = 1985	102,5	103,6	102,8	+ 0,3	98,3	93,4	91,7	- 5

: EUROSTAT
COMITEXIL - AEIH

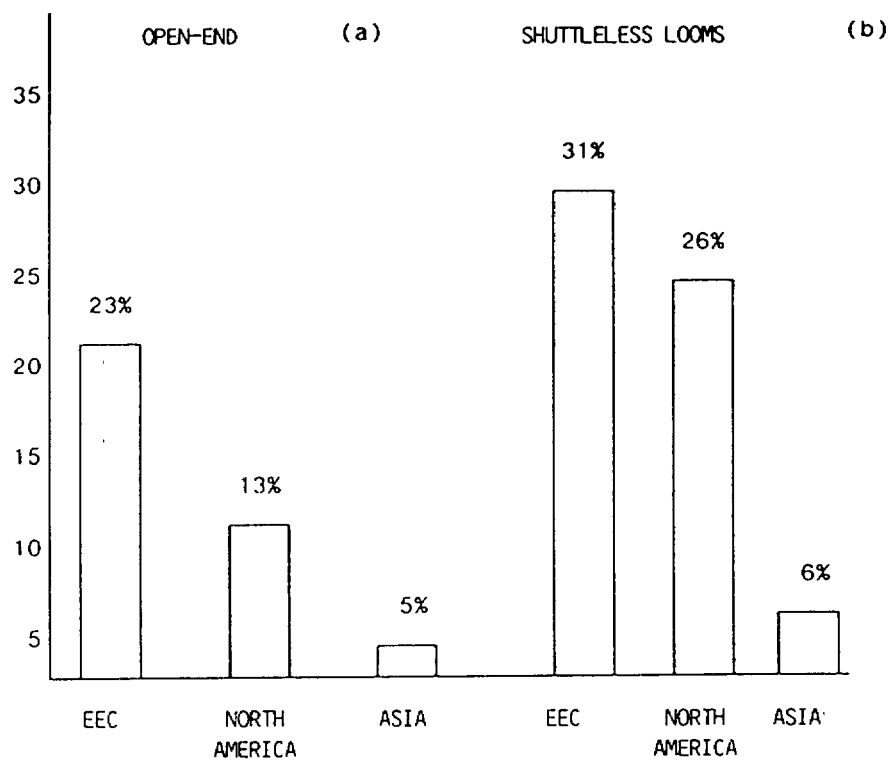
Structural data for the textile industry (including knitwear) in 1988

NACE 43

1988	(1)			(2)			(3)	(4)		
	Total jobs	%	1986 = 100	Investment	%	1986 = 100	Per capita investment (2)/(1) - ECU	Production (million ECU)	%	1986 = 100
D	218 100	14,1	95,8	867,9	21,0	107,4	3979	14960,7	17,2	97,0
F	193 160	12,5	88,8	589,5	14,3	103,4	3052	14232,0	16,4	98,5
I	449 348	29,5	98,0	1 326,0	32,1	111,0	2951	23555,5	27,1	111,5
NL	22 200	1,4	92,9	109,6	2,7	96,8	4937	1899,8	2,2	100,5
NEBELUX	53 011	3,4	99,0	298,3	7,2	129,7	5627	3769,4	4,3	93,9
UK	217 000	14,0	94,6	397,6	9,6	100,7	1832	11976,8	13,8	99,8
IRL	8 500	0,5	81,8	12,0	0,3	100,7	1412	801,1	0,9	113,5
DK	14 200	0,9	95,3	40,9	1,0	81,2	2880	959,0	1,1	98,4
GR (1986)	63 512	4,1	100,0	156,0	3,8	100,0	2456	4851,6	5,6	130,9
E	172 300	11,1	98,6	217,7	5,3	107,7	1263	6909,6	7,9	99,2
P	136 160	8,8	105,0	109,6	2,7	99,8	805	3045,8	3,5	109,5
CEE 12	1547 491	100	96,5	4125,1	100	107,4	2665	86961,3	100	103,5

Sources: National statistics
COMITEXTIL

SHARE OF OPEN-END ROTORS AND SHUTTLELESS
 LOOMS IN TOTAL SHORT-FIBRE SPINNING
 AND WEAVING CAPACITY



(a) Open-end rotor:

- production per rotor is 4 to 6 times greater than that of a traditional spindle

- investment per open-end spinning work-station: up to ECU 3 Million

(b) Shuttleless looms:

- investment per loom: up to ECU 3.5 million

ITMF 1988
 COMITEXTIL