

Any overview of the current state of Europe's footwear industry must, of necessity, be taken against the background of the anti-dumping debate that is currently raging. The two sides have become entrenched and there appears little room for compromise on either side at present. While this survey does not intend to take any sides in the issue, it will quickly become clear just how serious the effect of China's assault on the world's footwear industry has been for EU manufacturers.

Startling imports

The first available figures for 2005 show some startling results and all this has taken place in only twelve months. The overall EU shoe market in 2005 was put at 2.5 billion pairs.

While China is complaining bitterly over the new duties, EU exporters have long faced barriers in certain other countries. Japan, for example, still has a world-wide quota for leather non-sports footwear and a high tariff. The USA and Canada have tariff peaks up to 84% in some instances. EU tariffs are amongst the lowest in the world, whereas some of the largest and most competitive exporters elsewhere maintain tariffs of up to or over 30%.

Vulnerable manufacturing

The EU's footwear industry is largely composed of small- and medium-sized enterprises, most of which are located in regions with few other sources of employment. It is therefore extremely

Europe in turmoil

vulnerable to competition from low cost producers such as China and Vietnam. Recognising this fact, the industry has undergone an extensive restructuring in recent years by concentrating production on more upmarket products. These now represent approximately 85% of the EU's output. This restructuring has entailed a marked reduction in capacity and the number of people employed. Nevertheless, the industry continues to lose output and market share due to imports. 2005 saw the closure of no less than 915 footwear factories.

The impact of China's aggressive exporting of footwear has affected the rest of the world far more than was originally envisaged and the balance has now tipped permanently in its favour. Whatever your views on the anti-dumping debate—and it has naturally stirred intense feelings as a whole industry is now under threat—it is clear that Europe's footwear industry is in a state of turmoil. The end result of all this will not become clear for at least another year or two but, in the meantime, some things are becoming evident.

All sections of the industry are contracting, including tanners and machinery suppliers. Those of the latter—who are able to—are looking at other markets and industries. Tanners are also

facing the problems of the EU's REACH laws with regard to chemicals and many will simply cease trading. Shoemakers have already tried to make fundamental adjustments, but now find they are fighting other countries that have lost out too. The WTO pebble has created more of a tsunami than a ripple in the pond of world industry and the EU is suffering.

Creating future problems

Surveys in EU member countries show an alarming percentage of children are wearing shoes that are either too small or have other fitting problems that are likely to lead to a long-term impact on foot health. This was a central theme at the Spring GDS. The exclusion of children's shoes in the recent decision on import duties has therefore raised further concerns regarding children's foot health.

The Commission's reasoning has been that measures on children's shoes would disproportionately affect families with young children. This completely overlooks the fact that it is precisely these cheap imports—that are bought without any fitting advice—that are the root cause of the fitting problem. Imported children's shoes often come in whole sizes only and therefore do not take into account the finer size differentiation that growing children's feet require.

A further bone of contention is that many Chinese and Vietnamese producers are not able to provide the same guarantees in terms of the quality of the materials used as the Community's industry must. Community producers require a quality certificate from the leather supplier with regard to the chemicals used in its manufacture. There is no such certification demanded for imported shoes, a fact of which parents buying shoes are mainly unaware.

Statistics show that since 2000, imports of Chinese and Vietnamese shoes of less than 24cm in size have increased steadily. Between 2004 and 2005, imports from these two countries alone increased by 61% in volume and fell by 7.65% in value. While parents no doubt appreciate the price advantage, they are not necessarily doing their children any favours in terms of their well-being. 

Imports into the EU (1,000 pairs)

	2004	2005	% change
World total	1,617	1,940	+ 19.9
China	794	1,250	+ 57.4
Vietnam	294	265	- 9.9
Romania	71	71	0.0
India	52	53	+ 1.9
Malaysia	43	11	- 74.4
Thailand	33	28	- 15.2
Macao	30	3	- 90.0
Brazil	27	31	+ 14.8

Source: Eurostat

Exports from the EU

	2004	2005	% change
World total	167,286	161,529	- 3.4
USA	54,140	41,766	- 22.9
Switzerland	22,333	20,200	- 9.6
Russia	9,968	12,188	+ 22.3
Norway	7,499	8,533	+ 13.8
Japan	7,090	7,124	+ 0.5
Canada	6,880	6,773	- 1.6
UAE	2,741	3,009	+ 9.8
Hong Kong	2,797	2,488	- 11.0

Source: CEC

EU Production (1,000 pairs)

	2002	2003	2004	2005
All types footwear	883,187	781,130	700,338	609,000

Source: Eurostat & CEC member federations

EU Employment

	2002	2003	2004	2005
All footwear	339,670	311,054	290,409	259,000

Source: National Federations, elaboration CEC

How are individual EU countries coping with the fundamental changes that are occurring? Germany, Italy and the Netherlands have their own agendas.

Different countries react in different ways

Germany subcontracts

Production within Germany remained stable at about 30 million pairs during 2005. However, its manufacturers subcontracted more than 100 million pairs to other EU countries such as Poland, Portugal, Slovakia and Hungary. If offshore production from Tunisia, Morocco, Indonesia, Vietnam, India and China is also included, the figure is nearer 200 million.

As a result, German footwear producers still managed to employ over 50,000 people across the EU. In Germany itself, 13,313 remained at the end of the year, showing a drop of only 1.7% on 2004. The number of companies remained at 102. This suggests German footwear producers have found answers to some of their problems and, by adapting to the changing circumstances, have managed to maintain a viable position.

The downside is that while the turnover of the German footwear industry as a whole remained stable at €2.82 billion and domestic sales increased by 1.7% to €2.07 billion, the value of exports fell by 5.1% to €751 million and imports rose by 12.6% to 464 million pairs. The average price per pair of imported footwear fell a further 8.2% to €8.42. In real terms, import prices have fallen by a staggering 28.8% since 2001 and Far East suppliers had extended their market share to 71.2% by the end of 2005.

So what of the future?

Philipp Urban, managing director of the German Footwear Manufacturers' Federation, feels that after years of poor domestic sales, as consumers have saved their money in the face of economic uncertainties, 2006 will see renewed confidence and spending. Production will remain stable, as will the number of

companies and employees.

However, he is under no illusion that the industry is in a tough position, not least because of the 3% increase in VAT that is due to come into force by January 1, 2007, raising it to 19%. The change aims to generate additional state income and it is the consumer who, in theory, should pay for it. As a result, it would appear that some retailers are already saying that they fear there will be a drop in sales and therefore would like to make their suppliers agree to reimburse the 3% due on any unsold stock for autumn/winter 2006 orders.

German companies are, as a general rule, both well-organised and well-run. They also have a reputation for good long-term strategic planning and this is evident in the moves that both footwear manufacturers and their suppliers have already taken. Machinery manufacturers have looked to innovation and expansion into other markets to support their continuing presence in the footwear industry. Material and component suppliers have followed the shoe manufacturers to their chosen subcontracting countries and there are now wholly-owned subsidiaries and partnerships flourishing in both Eastern Europe and south east Asia. Germany's footwear industry may well have already touched bottom and should now be able to survive in its new form.

Italy suffers

2005 was not a good year for Italian footwear companies. Exports suffered a further drop of 11.5% in volume and imports reached a new high. Domestic spending only increased by 0.3% due to economic uncertainties and for the fifth year in succession domestic footwear production showed a significant drop, resulting in factory closures and bad

debts. A further contributory factor was the continuing strength of the euro against the dollar, which once again hit exporters badly in their once prime market. Early indications for 2006 also lack promise, with orders weak and companies looking to further reduce output and employment levels.

Production and prices gloom

2005 saw production fall 11% over the year. Almost 50% of companies admitted a reduction in output exceeding 5%, with a mere 7% showing an increase over 2004. All product areas were affected, with those in the lower price brackets taking most of the impact of imports from the Far East. However, some 20% of companies have seen a slight improvement so far this year, with a further 41% foreseeing greater stability than in 2005. The remaining 39% remain very gloomy. Margins are extremely tight and domestic prices grew by less than 1%. Combining this with the fall in volume, it has been estimated that the Italian footwear industry suffered a loss in value of close to 9% during 2005, an alarming figure for one year.

Exports fall

Official ISTAT figures show that over the past five years direct exports have fallen by over 30%, a loss of more than 100 million pairs. At the same time, imports have increased by 70%, with a rise in absolute terms of approximately 130 million pairs. Compared with 2004, the first 11 months of 2005 saw exports drop by 11.5% in volume to 231 million pairs and by 1.7% in value to €5,685 million. The average price rose 11% but only due to the huge 30% drop in lower value products such as slippers and rubber or canvas shoes.

Imports surge

What is particularly noticeable here is that in the second half of 2005 there was a strong upturn in imports, belying any prediction of a slowing after the initial boom following the end of quotas.

Leather footwear from China grew an overall 184%, with huge increases for leisure footwear (307%), sandals (530%) and boots (660%). The average price of Chinese imports increased 40% to €3.31 per pair due to the greater overall weight of leather footwear rather than actual pricing. (Eurostat data shows the average price of Chinese leather footwear imported into the EU in 2005 to have decreased by over 20%.)

While everyone shouts about China, we must not forget the shoes offered for sale in Europe that are there as a result of triangulation schemes whereby imports enter via other countries. 7.3% of Italian imports, for example, came from Belgium which has no footwear manufacturing to speak of. In return, Italy only managed to sell 257,000 pairs to China during 2005.

Spending and employment

The Italian economy is in a mess. Growth has been consistently below that of the rest of the EU for 14 of the past 15 years and the EU's growth has been less than spectacular. Public debt is more than 100% of GDP and the government spends over 4.5% of it on paying the interest. Its share of world trade has fallen from 4.3% to 2.7% in a decade. It is no wonder Italian families are holding on to their spare cash rather than buying consumer goods.

The continuing strength of the euro is a further burden that Italian manufacturers must face during 2006.

The current crisis has affected not only footwear manufacturers but the whole leather and footwear supply chain as well. Data from the Italian Chambers of Commerce indicates that in 2005 the leather production chain in Italy lost 8,540 employees (down 4.7% on 2004), of which 6,300 were in shoe and component manufacturing. In the same period, 820 tanneries, leather producers, shoe and component manufacturers closed, 564 of which were in the latter category. In two years almost 1,700 companies and 16,000 jobs have been lost in the production chain altogether.

Where does Italy go now?

It is clear that the footwear industry has been knocked sideways and is struggling to clamber to its feet for the next round. However, putting all the shouting and complaining to one side, it has a unique strength in that nobody innovates or makes shoes like the Italians. And, no matter what the fall-out from the current crisis may be, the core of the Italian footwear industry will survive. Its strength is not the organisational ability of the Germans who have joined the Americans in becoming sourcers rather than manufacturers; the Italians still produce the best ideas in leather and conceptual design.

The demise of the industry's famed infrastructure of machinery and component manufacturers will be the hardest hit, but that is because much of their business relied on domestic manufacturers. The same will apply to some tanners and shoe manufacturers, but the strongest and most original will survive as they always do and the global industry will be all the richer for that simple fact.

In and out of the Netherlands

Nearly half of all shoes imported into the Netherlands come from China. The country imported 157 million pairs of shoes last year. 75 million were made in China as against 32 million in 2000, a rise from 24% to 48%. Asia as a whole accounted for nearly two-thirds of all shoe imports. During the same period, the share of EU-made shoes in Dutch imports fell from 42% to 32%.

The Netherlands is a small country with a population of only 16.5 million, so what does it do with all these shoes? Simple, it re-exports 60% of them. 96 million pairs of shoes were exported from the Netherlands in 2005, an increase of 11% over the previous year. Nearly all went to other EU countries, with Germany, Belgium and the UK taking the most with nearly two-thirds of the total. The direct import totals from the Far East for these countries are therefore not the complete story and footwear coming in via other EU countries must also be taken into account.

The Dutch have always been a trading nation and it was they who established the early spice trade from the East Indies (modern Indonesia) and maintained a considerable commercial presence there until the Second World War. Trading in shoes is not really very different.

So, different countries react to situations in ways that reflect their history and culture. The widespread problems in Europe's leather and footwear industries have been long awaited. Some have foreseen the consequences of China's inevitable rise and have accommodated themselves as best they can for the future. Others have not and are now wringing their hands and asking what they can do. For many of these it is unfortunately now too late. 



Tera

The superlative answer for distinctive decorative seams



As one appears so is one perceived. Meet Tera. Excellent breaking strength, outstanding abrasion resistance and problem free sewing. The result convinces, the appearance is good, durability is assured.

www.guetermann.com

Gütermann

Albania is not in the EU, yet it is becoming increasingly involved in Europe's footwear industry and is a good example of the East/West European link.

Albania's footwear production soars

While Albania is small in size, it is rapidly becoming one of the largest leather 'workshops' serving the Italian footwear industry. This little known country contains over 50 shoe factories—several built within the last five years—producing finished shoes and uppers for export. With a relatively young and growing workforce, the lowest labour costs in Europe and proximity to both Italy and Greece allowing next day delivery, Albanian footwear production looks set to increase. The downside is that the vast majority of finished leather and other components still have to be imported.

Footwear production

Most of Albania's footwear industry is located within a triangle running from the capital, Tirana, west to the port city of Durrës, then north to Shkodra and back to Tirana. Famous Italian names including Filanto, Adelchi and Cofra operate their own facilities in this region and employ a further group of contract factories producing uppers and finished footwear.

Most footwear is all leather, with men's dress shoes, children's shoes and women's fashion boots predominating. There is also a growing move to high tech work and safety footwear. Companies throughout this production triangle produce waterproof membrane work footwear and uppers completed to 90%. Another promising area of product specialisation is hand-sewn sports sandals produced for some of the world's best known brands.

Accurate statistics on production and exports are difficult to obtain in developing countries but UN figures indicate that Albania exported over \$170 million worth of footwear in 2004 and exports almost tripled between 2000 and



Production at Berttoni

2005. This exceeds better-known Asian producers such as Bangladesh and Pakistan, and is a growth rate that is higher than almost any other country.

Success through hard work and long-term relationships

One of the largest and most successful shoe companies is Berttoni. It was started by Paulin Radovani in the early 1990s just as Albania was emerging from an oppressive communist regime and before most Albanians had any idea of a free market economy.

The company prospered during the following years through hard work and by capitalising on the production expertise and low labour costs it could offer the Italian footwear industry, located just a ferry ride across the Adriatic. Success has come from forging close relationships with two major Italian footwear companies, initially with Adelchi and it is now Filanto's largest Albanian contractor. Berttoni has steadily expanded and now has over 900 employees and exports more than 80,000 pairs of shoes per month.

At an age when most men think of retirement, Radovani has also set up a small enterprise at Puka, in the north of the country, aimed at providing jobs for

local women in an area where few currently exist. He has refurbished a former chicken farm and is training women to hand stitch sports sandals. As electric power in the area suffers from regular disruption, the concept of producing a sought after product that can be made by traditional hand methods is a perfect marriage of old and new. The plan is to eventually employ 120 people for hand sewing and 50 for machine-based operations. The sandals will be exported through international brands as mentioned above.

Pros and cons

The negative factors most mentioned with regard to Albania are lingering corruption issues, low productivity, a poor road system and a shortage of electrical power capacity. The 2005 elections brought in a government that has promised to tackle these problems and blames the 2005 power outages on bad management by the previous regime.

Low costs may, however, outweigh the negatives. The owner of a Greek footwear company investigating the potential move of his production to Albania said, "For the cost of one worker in Greece, I can hire five in Albania and they are just as efficient."

The biggest problem Albania suffers from is probably a lack of awareness by the outside world, brought on by years of oppressive communist control. Democracy and stability has been present for over ten years now, but the country lacks resources to promote its capabilities. Italian companies that have operated in Albania for years have kept their success a secret, even from other Italians. The country is now receiving assistance via a USAID project to promote economic growth and opportunity in several sectors, including footwear. 