

Fighting the flood

The flood of low-priced imports from China and other Asian countries continues. They are also becoming ever more aggressive in their pricing, so the problem is becoming progressively worse for Europe's footwear industry. It is particularly bad for Germany as the statistics for 2004 will show.

Output falls

Revenue for the German footwear industry fell by 5.5% from €2.98 billion in 2003 to €2.82 billion in 2004. Sales to domestic customers declined slightly less at 3.2% from €2.08 billion to €2.02 billion. The major loss occurred in exports, which were down a massive 10.9% from 899 million in 2003 to €801 million in 2004. In the nine months from January to September, output of men's shoes with leather uppers fell by 12.0%, women's shoes with leather uppers by 3.0% and children's with part leather uppers by 4.1%.

Not surprisingly, the number of companies and employees directly involved in footwear manufacture also fell. In the case of companies, 12 closed their doors during the year to leave a total of only 102. The number of employees went from 14,376 in 2003 to 13,523 in 2004. What is significant is that 9.2% of these job losses were from actual production rather than administration.

Imports rise

Imports increased 7.6% over 2003 to a record total of 412 million pairs of all types. However, the actual value fell by 2.1%. This translates into an average price per pair of €9.17 against €10.08 in 2003. This is a staggering 9% reduction and reflects the aggressive foreign pricing referred to above. The source of all this, in one word, was once again China. ➤

Germany in brief

Population (2004 est.)

The total population is 82,424,609 with 67% in the productive 15-64 age group split roughly 50/50 male/female and with an average age of 41.7 years. Religion is also split 50/50 between Catholic and Protestant Christians. Population growth rate is low at 0.02% and some 8.5% of people are immigrants with a high proportion from Türkiye who now comprise 2.5% of the total population of the country.

Environmental issues

Being heavily industrialised, a major problem is air pollution and acid rain from sulphur dioxide emissions, which are damaging the country's considerable forests. Industrial effluents in the rivers of the former East Germany and hazardous waste disposal are further concerns. The government proposes to end the use of nuclear power over the next 15 years and is working to meet EU commitments on nature preservation. The country is also a party to a large number of international agreements covering all aspects of the environment.

Economy

Germany's affluent and technologically powerful economy is the fifth largest in the world. It has also become one of the slowest growing economies in the entire euro zone and a quick turnaround is not anticipated. Growth in 2001-03 fell short of 1%. The modernisation and integration of the eastern German economy continues to be a costly long-term process, with annual transfers from west to east amounting to roughly \$70 billion. Germany's ageing population, combined with high unemployment, has pushed social security spending beyond employee taxed contributions. Strong trade unions have won strict regulations on redundancy and the setting of wages on a national basis, which have made unemployment a chronic problem. Restructuring of companies and growing capital markets are creating foundations that could allow Germany to meet the challenges of economic integration and globalisation, provided labour market rigidities are resolved. The government is also starting long-needed structural reforms designed to revitalise the economy. In the meantime, the fall in tax revenues and rise in expenditure has raised the deficit above the EU's 3% debt limit.

GDP:

Purchasing power parity	—	\$2.271 trillion
Real growth rate	—	-0.1%
Per capita	—	\$27,600

Investment:

Gross fixed	—	17.7% of GDP
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Inflation:

	—	1.1%
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Unemployment:

	—	11.3%
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Budget:

Revenues	—	\$1.079 trillion
Expenditure	—	\$1.173 trillion
(inc. capital expenditure)	—	NA
Public debt	—	64.2% of GDP

Industry:

Growth rate	—	0.2%
Exports	—	\$696.9 billion
Imports	—	\$585 billion
External debt	—	NA (2000 est.)

2003 estimates



WORLD FOOTWEAR

China increased its footwear exports to Germany from 84 million pairs in 2003 to 116 million pairs in 2004. That is an increase of 30 million pairs or 39.1%. Chinese imports now comprise 28% of all footwear imports, so one in every four pairs of shoes walking around in Germany is now Chinese. And all the time their prices are coming down. During 2004, they fell 13.7% from an average of €5.36 per pair to €4.63. It is little wonder that German shoemakers are despondent.

Also significant are the reductions in imports from European countries. Italy, traditionally the major supplier of quality ladies leather shoes, saw its sales to Germany fall by 10.3% from 52 million to 47 million pairs. Spain was down 14.9% at 18 million pairs and Portugal was hit worst of all with a loss of 20.7% to leave it with only 13 million pairs for the year. It is little wonder that all other European manufacturers are equally disheartened.

Exports also rise

Is this possible? Yes, German exports of footwear rose by 22.1% to 95 million pairs during 2004. Germany is in fact now one of the 10 largest footwear exporting countries in the world. How can this be? Simple, with actual production in Germany of only some 30 million pairs, the vast majority of this total has to be re-exports. Again, these are mostly of Asian origin for distribution throughout the EU.

At the head of the list comes Austria, which took 18 million pairs (up 18.5%), followed by The Netherlands at 10 million (up 18.9%) and France also with 10 million pairs but this was only a 3.6% increase over 2003. A strange anomaly was a 25.5% increase to Japan, but this only represented a total of 1.45 million pairs and was probably due to the recent upturn in the country's economic fortunes.

Domestic market

While production prices for footwear in Germany fell 0.4%, consumer prices fell by twice that amount, 0.8%. This development added to the enormous drop in the price of imports and allowed retail prices for footwear to be maintained at 2003 levels.

Private consumption in Germany amounts to around 60% of gross domestic product and consumer spending by private households only

increased by about 1.5% during the year. Widespread apprehension concerning economic conditions and job security—both of which are a new phenomenon in modern Germany—has frightened people into saving more and spending less. This is very much in line with what the Japanese have been doing until recently. Unfortunately, Germany's economic prospects show little sign of improving in the short term, so consumer spending is likely to continue at a reduced level.

European background

The fortunes of Germany's footwear industry must be seen against the background of the rest of Europe and that is not a rosy picture. Wherever you look, with the exception of some specialist or niche market products, Europe's footwear and leather industry is in full retreat—if not a complete rout. The inexorable march of the Asian footwear machine seems unstoppable and it must be accepted that much of European and German footwear manufacturing capacity will continue to shrink.

Germany's strength is technology

Where there is some hope is in the area of new technologies. Europe, and in particular Germany, is very strong in this regard. Almost all new fashion and technical concepts are European in origin. Germany has always produced good engineers and spin-off technologies from the aerospace and automotive industries are beginning to influence the design and construction of machinery for the footwear and leather industries.

Moulding machine producer Klockner Desma is a perfect example. The company is making great strides in the design of machines that are more energy efficient to both produce and operate throughout their working lives. To do this, it has adopted FEM (finite element method) and five axis milling techniques directly from the aerospace industry.

Specialist synthetic coater Hornschuch has developed a patented vacuum embossing system that can replicate the



Gabor

finest and most complex grain surfaces or designs to the highest standards to be found anywhere. It is no coincidence that they produce the equipment to do this themselves. Both of these companies were dealt with in some detail in the May/June issue of *World Footwear Magazine*.

Germany is also strong in chemicals and still has the largest chemical industry in Europe centred on the river Rhine, which is still a major transport artery for moving the bulk materials that the industry uses. Bayer MaterialScience and Elastogran are major producers of PU and TPR moulding compounds. Both are at the leading edge of technical development in this field. They are also closely involved with other industries such as automotive, so there is again a cross seeding of technology.

China still poses problems

However, the major market for both machinery and materials is Asia and in particular China. This gives rise to two problems. The first is distance and cost. Producing materials in Europe is more expensive than in China, plus, it costs a great deal of time and money to ship the finished product out there. So, in some instances we are now seeing the development take place in Germany and the actual manufacturing in China.

The second is one of intellectual property. It is all too simple for a company in China to purchase the latest technology and then to clone it. There is little or no legal protection for the designer or patent holder and while WTO allows Asia to swamp Europe with cheap products, no reciprocal offering is made to protect the originators of the technology that helped it to progress. There is therefore little incentive for many German companies to produce machinery or materials for the footwear market and so the industry is gradually being starved of this advantage as well.

It is very hard to paint anything approaching a rosy picture for Germany

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or its footwear industry. While WTO continues to operate in the way it does now, Asian footwear manufacturers will continue to expand and European ones contract. The total demise of Germany's footwear producing capacity within the next ten years is considered by some analysts as a distinct possibility.

German leather industry also has problems

The German leather industry has positioned itself with some success over the past few years by promoting special high quality leathers for automotive, aviation and furniture applications, as well as its traditional products of high quality footwear and luxury leather goods. However, a weak domestic economy plus a low dollar rate have finally caught up with Germany's tanners.

Declining world leather prices throughout 2003 led to some 50 companies closing with the loss of around 3,000 employees. The resultant reduction in capacity saw overall sales fall 15.7% to about 500 million in 2004 compared with 2003. Domestic sales fell even further by 18.7%. Exports comprised 47%, mostly focused on EU countries. Around 161.5 million square feet of plain leather was produced in total of which 70% went into automotive and furniture upholstery and 20% into shoe uppers and leather goods. The remaining 10% was distributed between clothing, equestrian sports and saddlery and top quality soling leather.

Germany is still, however, the third largest leather producer in the EU after

Italy and Spain. It is also a member the European Association of Tanners (COTANCE) as well as the International Council of Tanners.

Automotive remains stable

Automotive leather output is concentrated at the quality end of the market and premium makers such as Porsche, Mercedes, BMW and Audi. German leather is also used in the exclusive Rolls Royce and Bentley marques. The key factor here is the ability to supply leathers with high performance with regard to light and heat resistance, plus assured overall standards. Volume may have fallen, but quality has definitely not. Neither has efficiency and German tanners can be relied upon to meet the strict just-in-time demands of the car-makers.

While the car sector remained relatively stable in 2004, the German furniture industry did not. Save for very few exceptions, production declined under the steady downward pressure on prices. The biggest impact came from cheap ready-made leathers from South America. The International Furniture Fair in Cologne in January this year featured even more leather than usual—and at the expense of microfibres—however, with import prices the way they are, this was of little help to German tanners.

As if there weren't enough problems already, the EU chemical policy (REACH) is still there. This will cause enormous difficulties for all European tanners in terms of chemical availability and added cost, as the big suppliers delete the small volume specialist chemicals that tanners

use from their product lists. A further cause for concern is the risk that the development of new tanning products will decline as these companies set their sights on other markets. What has already hit German shoe and shoe machinery producers is now coming home to roost with the tanners.

Implications for the future

In addition, there is also no solution as yet to the question of how REACH will create a level playing field in regard to imported products. As things currently stand, there is no indication as to how it can ensure that the same regulations are applied to imported ready-made products as for those produced in the EU. European consumers will accordingly have less safety factors built into the products they buy. But will they care, since they cannot see the difference and, in any case, the imported product will be cheaper? Representations are being made to Brussels but, as with the rest of the leather and footwear industry, it is probably a case of too little too late.

However, the industry is not admitting defeat and is constantly searching for niche markets where it can exploit its technical and quality advantages to create new innovative products that distance it from competitors. It has one big advantage in its experience of producing top quality leather for the automotive industry. This is demanding in the extreme and the same principles applied to other areas could yield some interesting results.

It is also encouraging to find that there are still young people prepared to train as tanners and take over their parents' business. Around 35 apprentices are currently being trained per year and there is the capacity for more should they wish to apply. The perception from outside the industry is obviously not as positive as that from within.

Clearly there will be survivors who manage to find the right product and marketing package and who adjust their production in terms of size and efficiency to meet it. What still remains unanswered is the future movement of raw material prices and the full impact of WTO, of which Europe in general is just beginning to become fully aware. We must therefore also expect to see a further contraction among Germany's leather producers over the next few years. 



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