Trends and drivers of change in the European textiles and clothing sector: Mapping report
Introduction

The textiles and clothing industry represents a significant sector of economic activity in world trade and also within the European Union (EU). It is a highly diverse and heterogeneous industry which covers a wide variety of end products ranging from hi-tech synthetic yarns to wool fabrics, cotton bed linen to industrial filters, or nappies to high fashion. This diversity of end products corresponds to a multitude of industrial processes, enterprises and market structures.

Over the past decade, in particular since the abolition of trade quotas in the sector on 1 January 2005, the European textiles and clothing sector has undergone significant changes to keep abreast of competition in the global market. The sector has also been facing increased competitive pressure due to technological changes affecting production processes, as well as end products themselves. As a result, in order to remain competitive, the industry has had to restructure and modernise itself, as well as to relocate its production to lower wage countries within and outside the EU.

Today the competitive advantage of the European textiles and clothing sector lies in its focus on quality and design, innovation and technology, and high value-added products. This, in turn, also requires adequate education and industry-specific training programmes for a generally low-skilled workforce. One of the challenges that the sector is currently facing concerns the growing shortage of qualified human resources, which is most acute in the field of higher education graduates in textiles engineering.

This mapping report is part of a follow-up study of initial research on the textiles and clothing sector which was carried out in 2004 and commissioned by the European Monitoring Centre on Change (EMCC). It is part of a broader sectoral study including four company case studies and two cluster studies, as well as four scenarios projecting a possible future development of the textiles and clothing sector in Europe. The aim of this mapping report is to provide a comprehensive insight into an industry in transition, highlighting also good practice examples at local, regional, national and European levels to alleviate the negative employment effects of restructuring in the sector.

Definition and value chain in textiles industry

According to the statistical classification of economic activities in the European Community revision 1.1 of 2002 (Nomenclature statistique des activités économiques dans la Communauté européenne, NACE Rev. 1.1), the European textiles and clothing sector is defined by NACE codes DB 17 ‘manufacture of textiles’ and DB 18 ‘manufacture of wearing apparel; dressing and dyeing of fur’.

Since 2007, NACE Rev. 2 has succeeded NACE Rev. 1.1. and, according to this new statistical classification system of economic activities, the textiles and clothing sector is defined as NACE 13 ‘manufacture of textiles’ and NACE 14 ‘manufacture of wearing apparel’ (for a detailed description of the specific NACE codes, see Eurostat RAMON server at http://ec.europa.eu/eurostat/ramon/nomenclatures/).

However, as most of the relevant data used in this analysis will be based on the NACE Rev. 1.1 classification and not on NACE Rev. 2, the statistical mapping of the sector in this report will be based on the NACE Rev. 1.1. classification system.
Table 1: Relevant NACE codes for the textiles and clothing sector

<table>
<thead>
<tr>
<th>NACE Rev. 2 13 and 14</th>
<th>NACE Rev. 1.1 DB17 and DB18</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>DB17</td>
<td>Manufacture of textiles</td>
</tr>
<tr>
<td>13.1</td>
<td>DB17.1</td>
<td>Preparation and spinning of textile fibres</td>
</tr>
<tr>
<td>13.2</td>
<td>DB17.2</td>
<td>Weaving of textiles</td>
</tr>
<tr>
<td>13.3</td>
<td>DB17.3</td>
<td>Finishing of textiles</td>
</tr>
<tr>
<td>13.9</td>
<td>DB17.4 and 17.5</td>
<td>Manufacture of other textiles</td>
</tr>
<tr>
<td>14</td>
<td>DB18</td>
<td>Manufacture of wearing apparel</td>
</tr>
<tr>
<td>14.1</td>
<td>DB18.1 and 18.2</td>
<td>Manufacture of wearing apparel, except fur apparel</td>
</tr>
<tr>
<td>14.2</td>
<td>DB18.3 (part)</td>
<td>Manufacture of articles of fur</td>
</tr>
<tr>
<td>14.3</td>
<td>DB17.6 and 17.7</td>
<td>Manufacture of knitted and crocheted apparel</td>
</tr>
</tbody>
</table>

Source: Eurostat, RAMON Metadata Server, 2007

Although the two NACE classification systems largely correspond, an important difference between the two classifications is that the NACE Rev. 2 classification does not include dressing and dyeing of fur (DB 18.30) in either NACE 13 or NACE 14. Instead, this specific activity is included in NACE 15 ‘manufacture of leather and related products’. Therefore, the statistical mapping of the sector which is based on NACE Rev. 1.1 data will overestimate the sector’s figures in relation to employment, number of companies, production output and turnover.

A mere focus on manufacturing activities would introduce a bias regarding statistical information about the sector towards underestimating the socioeconomic importance of the textiles and clothing industry. This is mainly because activities such as research and development, design, wholesale and retail in relation to textiles and apparel, although likely to be of importance, are not included in the statistical mapping of the sector since they are categorised under other NACE codes.

The value chain in the textiles and clothing sector comprises several subsectors as illustrated in Figure 1.

Figure 1: Production and application value chain in textiles and clothing sector

Source: Adapted from EMCC, 2004, p. 1
Sources of information
Data for this mapping report are based on information and reports from various sources, including the European Monitoring Centre on Change (EMCC), European Apparel and Textile Organisation (Euratex), European Commission (EC), European Trade Union Federation of Textiles, Clothing and Leather (ETUF:TCL), World Trade Organization (WTO), International Labour Organization (ILO), Organisation for Economic Co-operation and Development (OECD), as well as national and international research institutions and scientific journals. A complete list of references is provided at the end of this report.

Overview of the sector
The textiles and clothing industry is one of the most international sectors in the world. The sector is most notable for having a predominance of small and medium-sized enterprises (SMEs) and a high proportion of female workers.

Table 1 summarises the key economic figures of the textiles and clothing sector in the 25 Member States of the European Union (EU25 – the former EU15 and the new 10 Member States (EU10) that joined the EU in 2004) prior to enlargement in 2007.

Table 2: Key economic figures, EU25

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>% change 2005–2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employment</td>
<td>2,089,382</td>
<td>- 4.9</td>
</tr>
<tr>
<td>Total no. of companies</td>
<td>146,563</td>
<td>- 5.7</td>
</tr>
<tr>
<td>Turnover (€ billions)</td>
<td>192</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Source: Euratex, 2006

Production and employment in the sector are characterised by a high degree of regional concentration (Figure 2).
Figure 2: Regional concentration of employment in the sector

In terms of production, the manufacturing of textiles and the manufacturing of clothing are very different. For instance, the manufacturing of textiles requires major capital investment, while the manufacturing of clothing requires significant human resources.

**Importance to the European economy**

When comparing the textiles and clothing sector with other sectors of the economy, such as the food and beverages, and automotive sectors, Figure 3 shows that, in 2004, the textiles and clothing sector created only 3.5% of added value in the manufacturing sector as whole in the 27 European Member States (EU27 – the EU25 and the two new Member States, Bulgaria and Romania, that joined the EU in 2007). Its share of added value declined from 4.2% in 2000. In terms of value added, the textiles and clothing sector in Europe is relatively small.

Figure 3: *Share of value added in manufacturing (NACE D), EU27, 2004*

Source: Eurostat, 2007

In terms of turnover, the economic importance of the textiles and clothing sector in Europe, when compared to other sectors in manufacturing, is also limited. The sector’s proportion of turnover in the manufacturing sector as a whole amounted to 3.2 % in 2004 (Figure 4).

Figure 4: *Share of turnover in manufacturing (NACE D), EU27, 2004*

Source: Eurostat, 2007
The picture changes slightly when it comes to employment: in 2004, the textiles and clothing sector’s share of employment in total manufacturing amounted to over 8% (Figure 5).

Figure 5: Share of employment in manufacturing (NACE D), EU27, 2004

Production
The total production output of the European manufacturing sector has increased in the last decade. However, over the same period, production output in the textiles and clothing sector has declined. Since 2000, in the EU27, the production of textiles showed a 20% decline and that of clothing a 30% decline.

Turnover
Eurostat data show that the turnover of the EU25 textiles and clothing sector has been steadily decreasing between 2000 and 2003 (Figure 6). However, in 2004, the sector experienced a slight increase in turnover and generated almost €194 billion.

Figure 6: Turnover of textiles and clothing sector, EU25, 2000–2004 (€ billion)
Unfortunately, no Eurostat data are available for the years 2005 and 2006. Nonetheless, Euratex estimates that, in the EU25, the sector generated a turnover of €190 billion in 2005 and €192 billion in 2006. Although the Euratex figures are slightly lower than those provided by Eurostat, they indicate a slight increase in turnover between 2005 and 2006.

**Employment situation**
Employment in the European textiles and clothing sector has been declining for several decades. The latest available figures from Eurostat confirm that this has not changed in the last few years. In 2004, the number of people employed in the sector amounted to 2.2 million. In 2006, Euratex claimed that the number of people employed in the textiles and clothing industry was 2.1 million.

Figure 7: *Number of persons employed, EU25, 2000–2004*

In many economies, the decline in textiles and clothing employment has occurred against the backdrop of falling employment levels throughout the manufacturing sector and intensified globalisation of industrial activities.

Increasing global competition is often cited as one of the major causes for this decline, but research indicates that other factors could also affect sectoral employment levels. In a literature review analysing the effects of international trade on the US labour market, Blanchflower concluded that ‘globalisation did not appear to be the main, or even one of the major, causes of the labour market changes that occurred in the United States or elsewhere since the 1970s’ (2000, p. 54). Other influential factors included technological change shifting the skills demand away from low-skilled jobs and reductions in the supply of higher educated workers, according to a 2004 OECD publication entitled *A new world map in textiles and clothing – Adjusting to change* (p. 98).

**Profile of the workforce**
In its report on *Recent developments in the European Sectoral Social Dialogue*, the European Commission stated that, in 2004, 88% of the workers in the EU25 textiles and clothing sector had an employee status and full-time work was predominant in the sector. In terms of the gender distribution, some 67% of these workers were women (European Commission, 2006, p. 89). It should be noted, however, that different parts of the sector show different gender patterns in terms of employment. In the UK, for example, mainly men work in the shoe repair trade, while women are more prevalent in clothing manufacturing (Skillsfast, 2007).
Close to 60% of the sector’s workers were between 30 and 49 years old in 2005 (Eurostat, 2006, p. 69). In terms of educational profile, 92% of the workforce has a low or intermediate educational level (European Commission, 2006, p. 89). However, the profile of the industry is changing, with manufacturing moving to other locations outside the EU and management occupations remaining in Europe. As this trend continues, the need to recruit and train personnel in higher-level posts will grow, particularly in areas such as technical development, management, administration, sales and marketing, and research (Skillsfast, 2007).

In some European countries, the textiles and clothing sector is a major source of employment for people from ethnic minorities. For instance, in the UK, the manufacturing and servicing elements of the sector employ about 38,000 people with an ethnic minority background. In addition, ethnic minority-owned companies account for a significant proportion of the sector’s business base. For those who speak English as a second language, the difficulty of accessing training materials in an appropriate language, as well as finding training providers with an awareness of cultural issues, can be a barrier to developing skills and attaining qualifications (Skillsfast, 2007).

**Productivity**

After some positive developments in 2000–2001, apparent labour productivity in the textiles and clothing sector has been stagnating at €24,300 per person employed in 2004.

**Structure of the sector**

The sector is a diverse and heterogeneous industry which covers a wide variety of products from hi-tech synthetic yarns to wool fabrics, cotton bed linen to industrial filters, and nappies to high fashion products. This diversity of end products corresponds to a multitude of industrial processes, enterprises and market structures (European Commission, 2007).

In 2004, 234,606 companies were operating in the EU27 textiles and clothing sector, most of which were SMEs. Consequently, less than 1% of the companies employ more than 250 staff, while 80% of the companies only employ between 1 and 9 workers (Eurostat, 2007a).
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Figure 9: Distribution of textiles and clothing companies, by size, EU27, 2004

Note: N = 219,675 companies
Source: Eurostat, 2007 (author’s own calculations)

External trade

Textiles and clothing have always represented a significant sector in world trade, and also within the European Union. By WTO estimates, in 2004, world exports of textiles and clothing amounted to €566 billion, which represented more than 6% of total world exports. The clothing sector takes the lion’s share with €322 billion (European Commission, 2006b).

Several factors – such as consistent investment, emphasis on upmarket products and being the world leader in the fashion industry – have all contributed to the fact that Europe has become the world’s largest exporter of textiles and the second most important exporter of clothing. The EU is also the world’s second largest importer of textiles and clothing goods, just behind the US (European Commission, 2006c).

Table 3: EU import and exports in textiles and clothing, EU25, 2005 (€ million)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Imports</th>
<th>Exports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles and clothing</td>
<td>76,218</td>
<td>37,637</td>
<td>-38,581</td>
</tr>
<tr>
<td>Textiles</td>
<td>30,464</td>
<td>23,121</td>
<td>-7,343</td>
</tr>
<tr>
<td>Clothing</td>
<td>45,754</td>
<td>14,516</td>
<td>-31,238</td>
</tr>
</tbody>
</table>

Source: Eurostat, 2006

The European textiles and clothing sector has been losing ground in recent years. Although the value of the textiles and clothing goods’ exports has been increasing, the sharp rise in imports following the liberalisation of textiles trade in 2005 has resulted in a significant widening of the EU25 trade deficit. This widening trade deficit is probably due to an increase in the deficit for textile products amounting to €7,343 million in 2005 and a rapid increase in the rate at which imports from China arrive in the EU (Eurostat, 2006).

The European textiles and clothing sector represents an important economic sector in Europe despite competition from China and India. In fact, data on exports provide some ground for optimism (European Commission, 2006d). Moreover, for the first four months of 2006, total imports of textiles and clothing goods into the EU from the world declined by
4%, compared with the same period in 2005. Chinese textiles and clothing imports showed a decrease of 9% in volume coupled with increases in import prices for both categories under quantitative limitations and the most liberalised ones. This reduction in imports can be attributed partly to the transitional quantitative limitations introduced for the 10 most sensitive categories of goods and partly because the corresponding period of 2005 showed a surge of imports from China and other developing countries in the context of the long-announced trade liberalisation (European Commission, 2006b).

**Trends and drivers of change**

While trade liberalisation, increasing competitive pressure from countries outside the EU, demographical developments, new technological developments and the introduction of new regulatory requirements certainly bring change to the European textiles and clothing sector, these changes also affect society as a whole.

For instance, when a company decides to relocate manufacturing activities to Asia, or when companies boost their global competitiveness through clustering or through innovative use of new technologies, these developments have a direct effect on the job situation of workers in the region where the company is located. This, in turn, generates positive or negative welfare effects for the society. In other words, the textiles and clothing sector does not exist in isolation but is part of a socioeconomic system where it both drives change and is affected by change.

Figure 10: *Change in the textiles and clothing sector*

Source: *Danish Technological Institute, 2007*

Understanding change in the textiles and clothing sector is a vital first step in ensuring that companies, workers and legislators at European, national and regional levels are prepared to meet the many challenges facing the sector.

**Identifying the trends and key drivers of change**

A range of drivers exist affecting the European textiles and clothing sector. Figure 11 highlights some of the most important trends and drivers of change.
Policy drivers and regulation

Policy developments

The European Commission has been analysing developments in the European textiles and clothing sector and proposing actions in order to strengthen the sector’s competitiveness in the global market. In October 2003, the Commission adopted the Communication on The future of the textiles and clothing sector in the enlarged European Union (COM (2003) 649 final)\(^1\), which outlined the main challenges faced by the textiles and clothing sector in the EU. As a result of this Communication, the Commission set up a High Level Group for textiles and clothing\(^2\) for the period 2004–2006 in order to stimulate debate and to consult with the industry’s stakeholders before translating ideas and suggestions into concrete actions. The High Level Group was co-chaired by the Commissioners for Enterprise and Industry, and Trade; it comprised representatives from the governments of France, Germany, Greece, Italy and Portugal, European Parliament members, industrialists, retailers and distributors, as well as representatives from European trade associations, trade unions and local textile and clothing associations.

On 30 June 2004, the High Level Group endorsed its first report entitled The challenge of 2005 – European textiles and clothing in a quota free environment which contained some 36 recommendations in the following fields:

- competitiveness, and internal regulatory and market issues;
- education, training and employment;
- intellectual property rights (IPRs);
- regional aspects;
- research and development, and innovation;
- trade policy.

\(^1\) http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52003DC0649:EN:HTML

\(^2\) http://ec.europa.eu/enterprise/textile/high_level_group.htm
In response to the requests and issues raised by the High Level Group, the Commission in October 2004 proposed seven actions to enhance the competitiveness of the European textiles and clothing industry. In December 2004, the High Level Group resumed its work to continue the debate on unfinished issues and monitor the situation of the sector in 2005. A follow-up report was adopted by the High Level Group in 2006 containing an assessment of the implementation of the 2004 recommendations, a vision for the future, as well as further recommendations.

**Liberalisation of international trade**

Since 1995, quotas on international textiles trade have been progressively phased out in the EU, US and Canada. On 1 January 2005, the last quotas for textile trade under the Agreement on Textiles and Clothing (ATC) disappeared, and all WTO members, especially the developing countries, had then unrestricted access to the European, American and Canadian markets.

However, in the months that followed the opening of the market, many European producers expressed concern over the sudden increase in Chinese textiles and clothing exports to the EU. To solve this problem, the EU and China drew up an agreement in June 2005, which was set to expire at the end of 2007. The aim of the agreement was to manage the growth of Chinese textile imports to the EU by limiting the rate of imports on 10 product categories, while also allowing fair and reasonable growth for Chinese exports (European Commission, 2005).

The continuous liberalisation of trade in textiles has considerably affected the European textiles and clothing sector. From 1995 to 2005, employment levels in the sector in the EU25 countries decreased by one million to 2.7 million workers and further job losses are anticipated in the years to come, according to a report by the Institute of Manufacturing of the University of Cambridge in 2006.

**European integration process**

With the European integration process, the EU has welcomed 12 new Member States since May 2004, bringing the total number of Member States to 27. The group of candidate countries currently includes Croatia, Turkey and the former Yugoslav Republic of Macedonia, while other Western Balkan countries such as Albania, Bosnia and Herzegovina, Montenegro and Serbia including Kosovo are potential candidate countries.

The enlargement process and the gradual building up of the internal market is increasing competition in the sector and providing an opportunity for retailers to source manufacturing activities to low-wage countries in central and eastern Europe. The new Member States also represent interesting markets for textiles and clothing companies.

**Establishment of the Euro-Med Free Trade Zone**

In the 1995 Barcelona Declaration, the Euro-Mediterranean Partners agreed on the establishment of a Euro-Mediterranean Free Trade Area (EMFTA) by the target date of 2010. This free trade area is to be achieved by means of the Euro-Mediterranean Association Agreements negotiated and concluded between the European Union and the Mediterranean partners, together with free trade agreements between the partners themselves. Together with the European Free Trade Association (EFTA) comprising Iceland, Liechtenstein, Norway and Switzerland, the free trade zone will include some 40 countries and between 600 and 800 million consumers. It will thus become one of the world’s most important trade entities.

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3 [http://ec.europa.eu/external_relations/euromed/free_trade_area.htm](http://ec.europa.eu/external_relations/euromed/free_trade_area.htm)
On 3 October 2003, in Rome, under the Barcelona process, the Mediterranean partners and the European Commission approved the creation of a dialogue group on industrial policy and cooperation. The purpose of this dialogue was to encourage and facilitate exchanges of experience and good practices between both sides of the Mediterranean. In view of the textiles and clothing sector’s economic significance in the area, the progress and outcome of this dialogue is particularly important for the sector.

The objective of the dialogue on the future of the textiles and clothing sector in the Euro-Mediterranean area is to foster exchange regarding industrial strategies, with a view to promoting the competitiveness of the textiles and clothing sector in the area by policies on education, R&D and technological innovation. Another aim of the dialogue is to encourage and facilitate exchanges of experiences and good practices (European Commission, 2006e).

**New regulation**

New international standards and regulatory issues are likely to affect the development of the textiles and clothing sector in the future. The main areas where new regulation has been or will be introduced include consumer protection, labelling, environmental protection, use of chemicals such as the European Community’s REACH regulation, and health and safety in the production of textiles and clothing.

**Intellectual property rights and the fight against counterfeiting**

One of the main threats to growth and innovation in the textiles and clothing sector relates to the illegal copying of products. Innovation and creation are key to a sustainable existence and success of the industry. Therefore, it is vital for the industry that IPRs are protected in the global market. This is a major challenge for SMEs in the sector, as they often lack the necessary resources to protect themselves; for instance, SMEs do not have the financial resources to legally pursue counterfeiters. As a result, counterfeiters have free rein over SMEs’ intellectual property.

**Consumer affairs and public health**

In recent years, the interest in public health and consumer protection has been growing in the textiles and clothing sector. Clothing and textiles manufacturers have responded to the pressures for enhanced consumer protection with increased scrutiny of the chemicals that they use in their products.

**Funding for the textiles and clothing sector**

Textiles and clothing do not fall under the framework of specific sectoral EU programmes, but they can benefit from numerous horizontal funding programmes at European level. These include the structural funds, the globalisation adjustment fund and the Competitiveness and Innovation Programme (CIP). The European Commission’s Framework Programmes for Research also provide an opportunity for companies in the sector to strengthen their competitiveness.
Economic growth

According to the European Central Bank (ECB), global economic activity remains resilient, supported in particular by robust economic growth in emerging economies. Consumer price inflation eased in industrialised countries and cost inflationary pressures recently diminished. However, the recent rise in oil and commodity prices signals a possible renewed increase in global inflationary pressures in the near future. Key risks to future economic growth include the potential for a broader impact from the ongoing reappraisal of risk in financial markets, concerns about protectionist pressures and possible disorderly developments owing to global imbalances, as well as further increases in oil and commodity prices.

Growth in Europe is currently characterised as ‘robust’, although inflationary developments differ in the European Member States. A range of countries outside the EU have experienced tremendous growth rates, and these countries constitute major market opportunities for high-value added products. In Asia, particularly in China, economic activity continues to expand at a rapid pace. In Latin America, economic activity remains sustained, albeit with some heterogeneity in the growth and inflation performances of major economies (ECB, 2007). Economic growth and an increased purchasing power of people in countries outside the EU constitute a growth opportunity for European companies. However, global expansion is very challenging for many companies – not least for SMEs.

Textbox 1: NetFinTex – fostering innovation among Europe’s textiles and clothing companies

NetFinTex is a European research project addressing the needs of textiles and clothing companies, as well as the challenges that they face of financing innovation. The project aims to:

- analyse the textiles and clothing sector’s specificities in innovation financing;
- develop tools and guidance material for companies;
- establish a network of experts in textiles and clothing innovation financing;
- set up a European database of funding sources.

The ultimate goal of NetFinTex is to facilitate the access to financial resources for textiles and clothing companies, so that they are able to exploit their innovative business ideas.

NetFinTex was launched in November 2005 by a consortium of eight European partners, coordinated by the sectoral European employer organisation Euratex and financed by the European Commission’s 6th Framework Programme for Research.

Source: Europe Innova website

http://www.europe-innova.org/index.jsp?type=page&lg=en&from=child&classificationId=5037&classificationName=NetFinTex&cid=5326&parentClassificationId=4960&parentClassificationName=Financing&parentContentId=5116
Increased purchasing power of young people

The purchasing power of young people has significantly increased over the years. In some cases, this situation has undermined the exclusiveness of certain brands in the sector, for example, of Mulberry and Thomas Hilfiger.

Global sourcing of activities and internationalisation of research and development

Several aspects such as trade liberalisation, an increasing international division of labour and the resulting ‘fragmentation of production’ are leading to considerable changes in the value chain of the textiles and clothing sector (Jones and Kierzkowski, 2001; Jones et al, 2005), as has already been witnessed over the past decades. Production is increasingly split into separate fragments and generally located in areas where a comparative advantage exists for companies.

Different elements of the value chain are currently located in different regions within and outside the EU25: basic manufacturing processes are increasingly based in China, India and other developing countries, while the completion of textile products takes place in several countries of the EU25 and increasingly in the new Member States. The design, research and development (R&D), and innovation in relation to textiles and clothing occur to a great extent in relatively high-wage and high-cost regions and locations showing a high level of human capital.

The globalisation of the value chain requires improved communication and better coordination between the different parts of the value chain, thus driving stakeholders’ efforts in terms of a horizontal integration in the value chain (EMCC, 2008).

The globalisation of the supply chain also entails certain risks for companies in the sector, as they are required to monitor working conditions and manufacturing practices in all parts of the value chain, including those at subcontracting companies. If a company or its subcontractors are not complying with regulation or ethical standards, the image of the company can be damaged.

A recent example of a company which faced criticism due to problems in the supply chain is the high street fashion retailer Gap. The company has a factory-monitoring programme and a clear policy on child labour, stating that if Gap discovers that a contractor uses children to manufacture its clothes, the contractor must remove the child from the workplace, provide it with access to schooling and a wage, and guarantee the opportunity of work on reaching a legal working age. All of Gap’s suppliers and their subcontractors are required to guarantee that they will not use child labour to produce garments. In recent years, Gap has made efforts to rebrand itself as a leader in ethical and socially responsible manufacturing, after previously being criticised for practices including the use of child labour. Despite its policy on child labour, in October 2007, the company once more had to face severe criticism as a sweatshop was revealed in India where 10-year old children produced Gap garments under slave-like conditions (**The Observer**, 28 October 2007).

Internationalisation of research and development

Manufacturing and services have been ‘the usual suspects’ when it comes to outsourcing of activities. However, high-skilled business functions like R&D seem no longer protected from being outsourced and offshored. This trend has contributed to concerns about the future of the domestic knowledge base in the EU and the resulting impact on competitiveness, notwithstanding the fact that increased international R&D links can promote faster technological change and a broader diffusion of technological advances worldwide.

While most R&D internationalisation takes place within the OECD area, developing countries are increasingly attracting R&D centres, although these remain relatively small in a global perspective. Significant increases in foreign R&D investment in Asia, particularly in China and India, have attracted much attention in recent years. It can be expected that this shift will continue to some extent as these countries offer a combination of relatively low wages with a good education system, resulting in a large pool of well-trained researchers (OECD, 2007).
Increasing competition from non-European countries
The textiles and clothing sector is subjected to increasing competition from countries outside the EU, especially in labour-intensive activities such as manufacturing of clothes. In such activities, countries in Africa, Asia and Latin America are able to offer very low unit prices.

Competitors moving up the value chain
Competition from countries outside the EU is not limited to lower technology industries, but also include more and more high-technology industries. China in particular is moving up the value chain, and even though China’s trade surplus is still due to low-technology and labour-intensive industries such as toys, textiles and footwear, the country is developing its own technological capabilities. It has recently implemented a new policy which emphasises the development of domestic innovative capability. This has led to increased spending on R&D and a growing researcher base (OECD, ibid). An increase in the technological and innovative capability in China will increase competition in high-value added products and poses a serious threat to the future market position of European textiles and clothing companies.

Global expansion of non-European companies
More and more Indian countries are looking to acquire units in countries which will improve their margins and give them greater access to international markets. One such example is the purchase of the American textiles company Dan River by Indian-based Gujarat Heavy Chemicals (GHCL) in 2006. GHCL bought Dan River for $17.5 million and assumed its $80 million debt. After GHCL had taken over Dan River, it announced that it planned to close the company’s manufacturing operations in the US which resulted in the lay off of more than 500 workers. At that time, Dan River already outsourced more than 50% of its manufacturing, much of it to China, India and Pakistan (News-record.com, 14 January 2006).

Countries that have been considered sourcing destinations for manufacturing of textiles and clothing have started to set up manufacturing operations in countries such as Africa and China. In 2004, the Indian-based JCT set up a unit in Senegal, as the African Growth and Opportunity Act provides concessions for exports to the EU and the US. Other Indian companies, such as Eskay K’nit and Sabare International, are also starting operations in China (Textile intelligence, 18 January 2006).

Growing clothing markets
Women’s clothing still accounts for the greatest share of the fashion market. However, as fashion consciousness increases, the menswear and children’s wear subsectors are also expanding. This is partially due to the fact that the media is beginning to focus on these groups. Moreover, the market for niche clothing, such as clubwear and surfwear, for example, is also likely to continue expanding. Sportswear is also booming, not just through global manufacturers such as Nike and Adidas, but also through retailers. Meanwhile, the interest in ‘eco-friendly’ clothing seems to grow as well (AGCAS, Spring 2006).

In terms of global markets, the industry is concerned about market liberalisation in Asia. Regarding import tariffs for textiles and clothing, there is a need for a reciprocal liberalisation of the markets in Asia. Given import tariffs of 30% or more in Asia, they are still well above EU levels which are, on average, less than 10%. There is also a need for a faster dismantling of non-tariff trade restrictions in Asia. Such a move should significantly improve European companies’ sales prospects in Asia. European clothing labels have a strong reputation in these markets and the share of the population in Asia who can afford and wants upmarket European fashion is on the rise (Heyman, 13 July 2005).

Changes in clustering strategy
Globalisation and technological progress have led to a rethinking of the textiles and clothing industry’s clustering strategy. While still playing an important role for some activities, cooperation at local, district or regional level has
increasingly proved inadequate to ensure that the chain of production remains at close geographical proximity to the European market. Therefore, clustering of the sector’s highly diversified activities is now based on a wider geographical area, such as the Euro-Mediterranean zone (European Commission, February 2005b).

**Technology and R&D**

China and India are engaging Europe not in a race to the bottom, but also in a race to the top – where the goal is to become the fastest adopters of innovative technology and processes (Ederer et al, 2007). New technologies and the innovative use of existing technologies are key elements to fostering the competitiveness of the European textiles and clothing sector.

**Importance of innovation**

Innovation is vital for the future prospects of the European textiles and clothing sector. It can be driven by technological developments and/or new creative designs, and result in new products with a range of functionalities, also enhancing the quality of life. Innovation in the production process can contribute to raising the sector’s productivity, improving working conditions and promoting sustainable manufacturing.

In the clothing industry, new technologies will enable the EU industry to offer products tailored to the individual needs and wishes of a customer, while being manufactured in a mass-production system. Such mass-customisation, facilitating the production of tailor-made clothing at cheap prices, will provide the EU industry with a competitive advantage over mass-produced clothing.

**Textbox 2: Leapfrog – an EU research and innovation initiative**

Leapfrog is a joint research and innovation initiative of the European textile and clothing industry, led by Euratex, with the aim of achieving a technology breakthrough in the clothing industry. The initiative brings together a critical mass of European textiles and clothing companies, and research centres which will attempt to develop and implement new ways of optimal fabric preparation for clothing production, automated garment manufacture, virtual garment prototyping, supply chain integration and mass customisation.

The ultimate goal of Leapfrog is to achieve a step change in productivity and competitiveness of Europe’s clothing sector and to decrease its dependence on the labour cost factor.

Source: [Leapfrog website](http://www.leapfrog-eu.org)

**Intelligent textiles and smart materials**

The development of ‘intelligent textiles’ constitutes a major growth opportunity for textiles and clothing companies. Intelligent textiles represent the next generation of fibres, fabrics and goods produced from them. They include textile materials which use sensor technology, nanotechnology and ICT. Such materials adapt to changes in temperature, monitor peoples’ health condition or provide users with considerable convenience and even fun in normal day-to-day lives, for example, through the incorporation of electronic devices or special colour effects. Many intelligent textiles already feature in advanced types of clothing, mainly for protection and safety purposes (Intelligent Textiles website, 2007).

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5 [http://www.leapfrog-eu.org](http://www.leapfrog-eu.org)
Technological convergence and emerging technologies
The convergence between different technologies and knowledge systems offers new opportunities for innovation in the European textiles and clothing sector. The development of new materials based on, for instance, biotechnology, sensors and ICT is paving the way for new innovative products, such as biomedical clothing. New materials also contribute to multiplying the opportunities for using textiles in other industry sectors.

The industry must keep up with new and emerging technologies, in order to improve its innovative capabilities and stay ahead of the competition from outside the EU. To do so, the industry must develop its relationship with universities and technological institutes (European Commission, 2003a, p. 4).

European Technology Platform for the future of textiles and clothing
The European Technology Platform for the future of textiles and clothing was launched in 2004. The technology platform is a stakeholder forum which brings together the European textiles and clothing industry, its research and education community, representatives of related industry sectors and scientific disciplines, as well as public authorities. The aim of the platform is to develop and implement long-term industry visions and a ‘Strategic research agenda’ to improve innovation, competitiveness and the growth potential for this key industry sector in Europe.

The technology platform is based on three main pillars, reflecting each a crucial element of the long-term development of the textiles and clothing industry in Europe (European Technology Platform for the future of textiles and clothing, 2004, p. 15):

1. moving away from commodity fibres, filaments and fabrics towards specialty products from flexible high-tech processes;
2. establishing and expanding the use of textiles as the raw material of choice in many industry sectors and new application fields;
3. ending the era of mass manufacture of textile products and moving towards a new paradigm of customisation, personalisation, intelligent production, logistics and distribution.

Figure 12: Structure of the European Technology Platform for the future of textiles and clothing

Source: The European Technology Platform for the Future of Textiles and Clothing, 2004, p. 15
According to the platform’s 2006 Strategic research agenda, research and development work alone will not be sufficient to make the European textiles and clothing industry more innovation-driven and competitive. To increase the innovation level in the European textiles and clothing industry, several important preconditions are required, according to the European Technology Platform for the future of textiles and clothing (2006, p. 6):

- an innovation-friendly regulatory framework;
- an educational system to support industrial transformation;
- a financial system to accommodate textiles innovation;
- innovation-supporting standardisation;
- capacities for effective management of innovation and technological change.

**E-commerce**

Today’s consumers shop more and more online. This rapidly expanding trend provides an opportunity for companies to introduce new business models which allow them to sell their products directly to customers, thereby limiting the influence of retailers on business decisions. Furthermore, companies also use the business-to-consumer (B2C) e-commerce interaction as a tool to gather information and data on consumer trends and market developments. B2C e-commerce also helps companies to develop a closer relationship with customers in order to gain their loyalty. In relation to the textiles and clothing sector, consumer preferences for trying on clothes – to ‘feel the fabric’ – before buying them could be considered a barrier to the use of B2C tools. Nonetheless, the technological advances in terms of 3D body measurement facilities, advanced computer-aided design (CAD) and personalised avatars could provide a solution to this challenge.

In addition, ‘business to business’ (B2B) solutions facilitate the use of digital transactions which are cheaper and less time consuming than traditional ways of buying and selling products to other businesses.

**Social and demographic developments**

**Demographic change**

Due to declining birth rates and improved health, European populations are reducing in size while growing older. At the same time, the changes in the demographic composition of European societies also mean that the labour force is declining relative to those depending on others for their subsistence. Hence, the tax base is declining. This trend is likely to reduce the financial resources available to governments and the pool of potential workers. In light of the reduction in the size of the European population, the European market for textiles and clothing is also shrinking as the consumer base is becoming smaller.

**Lack of succession for family business**

Young people are not taking over the family business when their parents reach retirement age. As a result, many company owners must either find someone else to take over the company or close down when they retire.

**Changes in consumer behaviour**

Fashion trends change instantly, making it vital for companies in the sector to have first-hand information about emerging trends in key consumer segments. In addition, the demand for clothes is also affected by other changes, such as increasing consumer concerns for production conditions in developing countries. Social trends such as individualism and the emergence of new subcultures add to the complexity, with which companies in the sector have to deal.
Health-aware society
The increasing health awareness among European citizens constitutes an emerging market for companies involved in healthcare and healthcare technologies. Products such as biomedical clothing constitute an opportunity for growth for companies in the sector.

Human capital base declining in CEE countries
According to a report by the Lisbon Council, an independent European think tank, the economic performance and rise in prosperity in central and eastern European (CEE) countries is threatened by adverse demographic developments and under-utilisation of human capital, as well as a persistent brain drain and inadequate investment in education and skills. These looming problems could lead to spill-over effects on western Europe and Europe’s position in the global economy (Ederer et al, 2007). In order to counter this threat, the CEE countries need to upgrade their skills base and combat the brain drain. The study recommends investing heavily in human capital, in particular for the ‘lost generation’ of people aged 45 years and older (ibid, 2007).

In 2006, the Lisbon Council set out to assess countries’ ability to develop and nurture their human capital. The assessment is based on four separate categories – human capital stock, human capital utilisation, human capital productivity and demographic outlook, assigning a score to each country in each category, thereby establishing a European human capital index for the countries surveyed. The overall ranking of the countries is based on each country’s scores in each of the four individual human capital categories, with ‘0’ being the best possible score and 48 the worst (Table 4).

Table 4: European human capital index for CEE countries

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Slovenia</td>
<td>22.3</td>
</tr>
<tr>
<td>2</td>
<td>Turkey</td>
<td>24.9</td>
</tr>
<tr>
<td>3</td>
<td>Lithuania</td>
<td>25.6</td>
</tr>
<tr>
<td>4</td>
<td>Czech Republic</td>
<td>26.3</td>
</tr>
<tr>
<td>5</td>
<td>Estonia</td>
<td>26.8</td>
</tr>
<tr>
<td>6</td>
<td>Latvia</td>
<td>28.2</td>
</tr>
<tr>
<td>7</td>
<td>Romania</td>
<td>29.9</td>
</tr>
<tr>
<td>8</td>
<td>Hungary</td>
<td>30.6</td>
</tr>
<tr>
<td>9</td>
<td>Slovakia</td>
<td>31.7</td>
</tr>
<tr>
<td>10</td>
<td>Bulgaria</td>
<td>32.7</td>
</tr>
<tr>
<td>11</td>
<td>Poland</td>
<td>34.0</td>
</tr>
<tr>
<td>12</td>
<td>Croatia</td>
<td>35.0</td>
</tr>
</tbody>
</table>

Note: The overall ranking is based on each country’s scores in each of four individual human capital categories; 0 is the best possible score and 48 the worst.
Source: Ederer et al, 2007, p. 3

Slovenia leads the ranking while Turkey is in second position due to its brighter demographic prospects compared with other CEE countries. Turkey can count on a young working-age population and does not need to fear failing pension systems. The country’s working-age population in the year 2050 will be almost as large as that of all other Mediterranean countries combined. Without the demographic component, Turkey would rank No. 9 on the list.
Recruiting third-country nationals

Recent stories in the European media indicate that the sector is facing a situation where companies, for different reasons, employ workers from outside the EU. In Romania, the Swiss clothing group, Wear Company, has recruited 800 workers in China due to a lack of workers in Romania. Many people from Romania have left the country to find better opportunities in other European countries. Italy and Spain are the most popular destinations for Romanian workers, where they usually perform manual labour – legally and illegally – and generally for lower wages than local people (New York Times, 11 April 2007).

It seems that some Italian companies have established sweatshops employing Chinese workers in Italy rather than outsourcing their production to low-wage countries. The underlying reason for setting up these sweatshops in Italy apparently relates to the fact that the companies concerned fear that outsourcing would undermine their ‘Made in Italy’ brand (Information, 18 October 2007). In both cases, concerns over working conditions for these migrant workers have been voiced.

Sustainability

Sustainable consumption is one of the main consumer trends in Europe. Most European citizens take into consideration the environmental impact of the products that they buy, as well as social matters such as working conditions and child labour. Key words are ecology, reuse of fibres, long-lasting clothing and sustainable manufacturing. Therefore, companies in the sector need to use ‘green technologies’ and monitor every part of the value chain in order to avoid corporate scandals that could harm their brand; for example, children working with dangerous chemicals to produce garments. Corporate Social Responsibility (CSR) and ethical sourcing are thus becoming vital elements of business strategies in the textiles and clothing sector.

A range of initiatives aim to ensure that companies avoid such scandals. The Business Social Compliance Initiative (BSCI)\(^6\) is one example in this regard: it is a business-driven platform with the aim of improving compliance with socially responsible acting in all supplier countries and for all consumer goods. The platform comprises more than 80 retailers, industry and importing companies from 10 countries. Through pooling efforts and resources, the members are promoting a common monitoring and factory development system. Another initiative is the United Nations (UN) Global Compact\(^7\) framework for businesses which are committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labour, the environment and anti-corruption measures.

Skills needs and training issues

Future skills needs

Changes in the textiles and clothing sector result in new skills needs. The use of new technologies will affect skills needs in manufacturing. In particular, the convergence between economic sectors and technologies will affect the skills needs in the future. However, several analyses of the sector highlight that there appears to be a limited recognition of the future skills and resources needed to exploit technological innovations; for instance, new ways of organising production such as a team-based work organisation require ‘soft skills’ like the ability to cooperate and communicate with other.

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\(^6\) [http://www.bsci-eu.org/content.php](http://www.bsci-eu.org/content.php)

\(^7\) [http://www.unglobalcompact.org/AboutTheGC/index.html](http://www.unglobalcompact.org/AboutTheGC/index.html)
The European textiles and clothing sector is an international sector which is reflected in the demand for management skills, including skills in areas such as languages, negotiation of contracts with international partners, supply chain management and legal issues like the protection of IPRs.

In the 2004 EMCC report on the textiles and leather sector, entitled *Trends and drivers of change in the EU textiles and leather sector: Mapping report*, a number of required future competencies were identified (EMCC, 2004, p.17–8):

- basic natural sciences skills, such as physics, chemistry, mathematics;
- materials science and engineering;
- electronics and informatics;
- nanotechnology;
- just-in-time philosophy, product, and process design;
- marketing textile technology;
- fibre science and engineering.

Softer personal and general skills include:

- personal and organisational ambition, and ongoing vision and strategy;
- inter-organisational skills;
- recognition that standard finance measures, strategy, and planning tools, are insufficient to manage change.

*Changes in the profile of the workforce*

The European textiles and clothing sector has undergone changes in terms of the composition of its workforce. An illustrative example is the UK apparel, footwear and textiles industry. Figure 13 shows that the composition of the UK’s apparel, footwear and textiles industry’s workforce has changed significantly and probably will continue to do so in the future. In particular, the number of operative workers has declined since 1994, while the number of managers, professionals and people working in sales and customer services has increased.
Training in the sector

Training in the sector is often carried out on an ad hoc basis, for example, when new equipment is purchased. Such training is usually specific in its technical focus and does not comprise any training in generic skills linked to the reorganisation of work processes following the implementation of new technologies.

Most sector training is on-the-job. Considering future skills requirements and the need for innovation, the sector could benefit from a more structured, flexible and accessible provision for internal training which also permits wider access by customers and supply chain partners, thus driving innovation (EMCC, 2004, p. 17).

Since the industry structure consists of a large number of very small companies and SMEs, lifelong learning is not a particular concern of many companies in the sector. On the other hand, several examples show that national governments, representative organisations and training organisations are seeking to address lifelong learning through new qualifications and training courses in new forms of partnerships and with a specific sector focus.

Vocational training for textiles workers is offered in Belgium, for example, by Cobot, the training centre for employees in the textiles sector, and Cefret. In Denmark, the Danish vocational training college Teko has worked closely with the Danish high-end textiles sector to support innovations through a one-stop-shop approach, comprising vocational apprenticeship, tertiary level training and continuing education (ibid).
The social partners are working on the creation of a European observatory for training and employment. The observatory would also include the setting up of an information and media pool aimed at the development of educational material for teachers and common qualification standards, in order to facilitate mobility between countries, improve the image of the sector and attract young people.

Working conditions

One of the most significant outcomes of the textiles and clothing sectoral social dialogue committee is the 1997 code of conduct, in which the social partners call on their members to actively encourage companies and workers in their sector to comply with the ILO conventions dealing with the core labour standards. Within this framework, the social partners, together with the ILO, launched a training project in Turkey in 2004, targeting managers and workers of about 10 companies. The social partners are currently discussing the possibility of including, as signatories to the code, partners from non-EU countries and the possibility of extending the transposition of the code into national collective agreements (European Commission, 2006).

Textbox 3: Skills and training – main challenges for companies in Scotland

In a Scottish Employers Skill Survey (2004), a range of specific challenges were identified for the sector in Scotland. According to the survey, skills-related challenges were not those cited most frequently by employers in the textiles sector or other sectors of the economy. The challenges most often mentioned by textiles sector employers were:

- staff retention, training or other staff issues;
- keeping up with changes in technology.

Where skill gaps arise, textiles sector employers most frequently cite weaknesses in ‘soft’ skills, such as team work and customer handling skills. These responses are similar to those of employers in other economic sectors.

In terms of training and development, textiles sector employers are less likely to have funded or arranged training for their staff than employers in other sectors – 43% compared with 62% in other sectors. For those employers in the textiles sector who had not funded or arranged any training for their staff over the past 12 months, the main reason for not doing so was that no training was available in terms of the subject area. Considering off-the-job training only, textiles sector employers are significantly less likely to have provided or funded off-the-job training in the past 12 months, compared with employers in other sectors.

Source: Futureskills Scotland, 2006

The social partners are working on the creation of a European observatory for training and employment. The observatory would also include the setting up of an information and media pool aimed at the development of educational material for teachers and common qualification standards, in order to facilitate mobility between countries, improve the image of the sector and attract young people.

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SWOT analysis

Labour cost disadvantages are the most notable challenge to be overcome by the European textiles and clothing industry, if it is to retain its leading edge in global competition. Nonetheless, the industry currently faces a great number of other equally challenging conditions, including: trade barriers in certain important export markets; strict environmental and safety legislation imposed by European legislators which is not adequately rewarded by European consumer choice; a growing shortage of qualified human resources which is most acute in the field of higher education graduates in textiles engineering; the disappearing benefit of European industrial creativity and intellectual property through rampant illegal copying of designs and brands (The European Technology Platform for the future of textiles and clothing, 2006).

Positive developments in the sector are dependent on the ability of the sector’s companies to focus their efforts on innovation, technology content, quality and creativity, and niche markets such as technical and industrial textiles and non-woven products, as well as for high-quality garments with a high design content (European Commission, 2006).

Table 5 outlines the strengths, weaknesses, opportunities and threats (SWOT) facing the European textiles and clothing sector.

Table 5: Textiles and clothing sector SWOT analysis

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Opportunities</th>
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</thead>
<tbody>
<tr>
<td>Strong European brands, such as ‘Made in Italy’</td>
<td>Converging technologies</td>
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<tr>
<td>High level of creativity in the design phase</td>
<td>Demand for higher value added goods, such as high fashion clothing and innovative technical textiles</td>
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<td></td>
<td></td>
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<tr>
<td>Weaknesses</td>
<td>Threats</td>
</tr>
<tr>
<td>High labour costs</td>
<td>Skills needs and global competition for skilled and creative professionals – risk of ‘brain drain’</td>
</tr>
<tr>
<td></td>
<td>Extensive regulation imposes administrative burden</td>
</tr>
<tr>
<td></td>
<td>Increasing competition from countries outside the EU</td>
</tr>
<tr>
<td></td>
<td>Competitors are moving up the value chain</td>
</tr>
<tr>
<td></td>
<td>Trade barriers in important export markets</td>
</tr>
<tr>
<td></td>
<td>Shortage of qualified human resources with higher education, such as professionals in textiles engineering</td>
</tr>
<tr>
<td></td>
<td>Illegal copying of design and brands</td>
</tr>
</tbody>
</table>

Source: Danish Technological Institute, 2007

Restructuring in the sector

Restructuring is generally perceived as a challenge, and in Europe a different restructuring debate has taken place each decade:

- during the 1960s, ‘automation’ was the topical issue. The notion that machines would replace workers caused concerns over employment possibilities which may disappear;

- during the 1970s, the energy crisis and related recessions gave rise to a new round of discussions about restructuring. In this context, the ability of capitalist economies to create growth, employment and wealth was questioned;

- during the 1980s, the rise of the ‘Asian Tigers’ – namely, the rapidly growing economies in southeast Asia – caused concerns over the competitiveness of western countries and their ability to retain job opportunities.
However, there are good reasons to believe that restructuring is currently affecting European labour markets at a pace which has not been witnessed before. This has given rise to widespread concerns over structural change leading to permanent loss of employment opportunities in the EU (European Commission, 2006a).

Some of the main trends in the present restructuring processes include the rapid evolution of information and communication technologies (ICT) and a growing international division of labour, as well as a clear trend towards higher skills employment in Europe. Looking to the future, the continuing technological revolution and the expected entrenched liberalisation of trade at the global level will affect EU Member States and regions in different ways. Nevertheless, the overall structural trends point to a number of likely cross-cutting implications for economic restructuring. Likely implications include:

- production will be increasingly geographically fragmented;
- services will be increasingly important for European production;
- competition will intensify;
- the pace of restructuring will not decrease and may increase.

Governments and policymakers, the social partners and individual enterprises are facing a situation where rapid restructuring is a permanent feature of modern economies. This suggests that there are good reasons to move away from approaches and policies addressing restructuring as episodes and distinct events towards those addressing restructuring as an inherent characteristic of contemporary societies.

The textiles and clothing sector has been facing increased competitive pressure due to the globalisation of markets, trade liberalisation and technological change. Companies in the sector have improved their competitiveness by substantially reducing or ceasing mass production, as well as that of simple fashion products, and concentrating instead on a wider variety of products with a higher added value. Competitiveness has also been retained by subcontracting or the relocation of production facilities for labour-intensive activities, such as garment make-up, to companies in countries with lower labour costs. The competitive advantage of the textiles and clothing sector in the EU is currently its focus on quality and design of products, innovation and technology, and high value-added products (European Commission, 2005b).

As competitive pressure has led the industry to restructure and modernise itself, as well as to relocate several of its production sites to lower-wage countries, the employment situation of many workers in the sector has been affected. Figure 14 highlights data from the European Restructuring Monitor (ERM) on the impact of restructuring activities on job losses and job creation in the European textiles and clothing sector between 2002 and 2007. The data reveal that job losses related to restructuring activities in the sector outweigh job creation and that job losses related to restructuring activities mainly result from bankruptcy and closure of companies and internal restructuring rather than relocation or mergers.
Restructuring in the sector will continue. In the short term, this will often result in negative employment consequences affecting society as a whole. In the longer term, the restructuring of the sector and efforts aimed at strengthening innovation could improve the sector’s competitiveness and result in the creation of new jobs. However, the type of jobs created will differ from those that were lost. Training and further education of the sector’s existing and future employees will be required to bridge the competence gap.

Wider socioeconomic effects of company restructuring

While restructuring processes will affect workers employed by a company, such processes will also affect secondary workers – for example, those who produce zippers for trousers – and tertiary workers – those who are employed by restaurants and retail stores in the community where the producers are located. The latter workers provide goods and services to primary and secondary workers and their families but not directly to the industries for which they work. If a community’s economy is highly dependent on a certain company or industry, as well as the input necessary for its production, the adjustment burden will also be felt by local workers in retail sales and other services. In addition, the loss of a large manufacturing plant can erode a community’s tax base, thereby leaving no one untouched by the closure (OECD, 2004).

Notes: Since data include the leather sector, the figures tend to overestimate the amount of job reductions and job creation in the textiles and clothing sector. It should be noted that due to the data collection method used by the European Restructuring Monitor (ERM), data have to be analysed with caution.

Source: European Restructuring Monitor (ERM), 2007

http://www.eurofound.europa.eu/emcc/erm/index.php
Social dialogue in the sector
The European textiles and clothing industry was one of the first sectors to establish social dialogue at the European level. Today, the sectoral social dialogue committee for textiles and clothing meets about every four to six months to discuss ongoing issues. The topics discussed mainly concern the modernisation of work organisation, anticipation of structural changes and measures to accompany restructuring processes, adaptation of the contractual framework that allows the development of new employment forms, and access to training.

The two main organisations in the textiles and clothing sector – namely, ETUF:TCL and Euratex – have been working together in an informal way since 1992. At present, both organisations participate in the European sectoral social dialogue committee for the textiles and clothing sector which was established in 1999. As already mentioned, one of the main achievements of the EU sectoral social dialogue in the textiles and clothing sector is the creation of a code of conduct in 1997, in which the social partners call on their members to actively encourage companies and workers in their sector to comply with the ILO conventions in relation to core labour standards.

Recent activities of the EU sectoral social dialogue committee in the textiles and clothing sector include:

- the publication of a guide to best practice on equal opportunities in 2002;
- the publication of a handbook on public procurement in 2004;
- since 2004, involvement of the social partners in the work of the High Level Group for textiles and clothing;
- in 2004, the launch of a training project in Turkey by the social partners and the ILO, targeting managers and workers of about 10 companies;
- in 2005, the launch by the social partners of a joint capacity building project for the social partners from the new Member States and candidate countries;
- in 2006, the organisation of a high level conference to discuss restructuring and management of change in the textiles sector;
- in 2006, the initiation by the social partners of a joint research project aimed at better anticipation and management of restructuring processes in the textiles, clothing and leather sector (for further information, see ETUF:TCL, Restructuring in the TCL sectors 10);

Activities in the EU sectoral social dialogue committee currently focus on vocational training, enlargement and restructuring. The committee also discusses industrial and social measures with the aim of improving the competitiveness of the sector while emphasising the implementation of the recommendations of the High Level Group as a follow-up to the Commission’s Communication on The future of the textiles and clothing sector in the enlarged European Union (European Commission, 2003).

Furthermore, as mentioned earlier, the social partners plan the creation of a European observatory for training and employment, including the setting up of an information and media pool aimed at the development of educational material for teachers and common qualification standards. The aim of such an information pool is to facilitate mobility between countries, improve the image of the sector and attract young people to work in the sector (European Commission, 2006).

10 http://www.etuf-tcl.org/index.php?s=3&rs=home&uid=265&lg=en
Situation of small and medium-sized enterprises
A key restructuring issue is the particular situation of SMEs in the sector. While the closure of large companies in the sector will often attract a lot of attention and spur actions which aim to counter the negative effects of such closures, the closure of small enterprises will most often remain unnoticed and not lead to any initiatives to deal with the knock-on effects. Moreover, the closure of large companies will affect many subcontractors which are not necessarily part of a scheme aimed at supporting the restructuring process.

As a result, a lot of small companies in the sector and in local communities will slowly disappear over time and redundant workers will often have to cope with the situation on their own without any specific schemes set up to help them to find other employment opportunities. Some workers who lose their jobs may have to live without a salary for several weeks or months while trying to find new jobs. In addition, depending on their skills and experience, they may have to accept jobs at lower salaries. The mere threat of moving production facilities overseas is often used as a means of keeping wages low and reducing workers’ health insurance and pension benefits (OECD, 2004).

In fact, whole districts with a predominant activity in the textiles sector and consisting mainly of SMEs are at risk of disappearing without any type of measures in place which aim to support a sustainable transformation of the area. The workers left behind, as well as whole communities, may experience a particularly difficult time due to the negative socioeconomic effects of restructuring.

Restructuring in the new Member States
Many companies and trade unions in the new Member States do not have sufficient experience with social dialogue. Hence, there is a need to build capacity for social dialogue and managing restructuring processes in these countries. The capacity-building initiatives in Bulgaria launched by the Italian-based Miroglio Group constitute a good example of how companies in the sector can contribute to the positive development in this area.

Like most large groups in the textiles and clothing sector, the Miroglio Group has engaged in the restructuring of production units that are unable to outperform those located in the Asian economies. When the group had to close down manufacturing sites in Italy and Germany, company management began negotiations with workers’ representatives in an attempt to find mutually acceptable social solutions. Such negotiations, however, did not take place in Bulgaria where several of the group’s production units which were also facing restructuring are located. This led the Miroglio Group to launch a training programme for the management and staff representatives of its Bulgarian undertakings which covered all aspects of their social responsibilities.

One of the training programme’s outcomes was the negotiation of a collective agreement on trade union consultation and involvement in 2001. The agreement set out the trade unions’ role in the management of problems related to issues such as flexibility, productivity or restructuring. Since then, the Miroglio Group has organised a series of training courses for the Bulgarian trade union representatives, including a course module on the ‘Right to information and consultation: knowledge is for sharing’ and the ‘Right to information and consultation in the restructuring processes of multinational companies’. These training programmes were financed by the European Commission and implemented in partnership with Euratex, ETUF-TCL and the Association of Bulgarian Industries. The project was also subsidised by Bulgaria’s Ministry of Labour and Social Policy, its federation of light industries which is affiliated to Bulgaria’s Confederation of Independent Unions and the ‘Podkrepa’ Confederation of Labour (MIRE, 2007).
Measures taken to counter restructuring

Various examples of measures exist which aim to alleviate the negative employment effects of restructuring for workers, in particular for low and medium-skilled personnel, in the European textiles and clothing industry.

In 2004, the MIRE (Monitoring Innovative Restructuring in Europe) project was launched. The project has gathered case examples of good restructuring practice in several industry sectors, including the textiles and clothing sector (see MIRE website). These company cases have been taken into account concerning the actions outlined in Table 6.

Table 6: Main actions to alleviate negative employment effects of restructuring

<table>
<thead>
<tr>
<th>Issues to be addressed</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiatives on the diversification of regional economies dominated by the textiles industry</td>
<td>• Entrepreneurship support programmes</td>
</tr>
<tr>
<td></td>
<td>• Regional and local planning, including industrial sites, enhancement of infrastructures and multisectoral programmes</td>
</tr>
<tr>
<td></td>
<td>• Sectoral programmes, including development of other labour-intensive industries</td>
</tr>
<tr>
<td></td>
<td>• Promotion of proximity services</td>
</tr>
<tr>
<td>Relocation of employees</td>
<td>• Relocation systems, including job search assistance with inter-regional and international scope</td>
</tr>
<tr>
<td></td>
<td>• Functional versatility promotion and specific training programmes</td>
</tr>
<tr>
<td></td>
<td>• New professional profiles development initiatives</td>
</tr>
<tr>
<td></td>
<td>• Best education and (re)training practices</td>
</tr>
<tr>
<td></td>
<td>• Image and communication campaigns</td>
</tr>
<tr>
<td>Other actions at EU, national, regional, local and stakeholder levels</td>
<td>• Common skills and qualification standards</td>
</tr>
<tr>
<td></td>
<td>• Corporate Social Responsibility (CSR) coherent workforce reduction programmes</td>
</tr>
<tr>
<td></td>
<td>• Social security coverage programmes specific to the sector, including early retirement schemes</td>
</tr>
<tr>
<td></td>
<td>• Incentives for companies in other economic sectors to hire redundant textiles workers</td>
</tr>
</tbody>
</table>

Source: Danish Technological Institute, 2007

Diversification of regional economies

Tuscany

In 2003, the Tuscan regional government launched a three-year integrated pilot project in the areas of textiles, clothing, shoes, leather and jewellery. This initiative sought to strengthen the competitiveness of SMEs in the fashion field, by supporting innovation, as well as the organisational and financial strength of these companies. The initiative was based on a strategic regional plan and involved business associations, trade unions, local government and chambers of commerce.

Initiatives in nine Spanish regions

Nine Spanish regions followed the Italian example and elaborated strategic plans providing for territorial and sectoral policy tools. The Spanish members of the Association of European Textile Collectivities (ACTE) and representatives of the Spanish Textiles Council (Consejo Intertextil Espagnol) participated in the project, which was completed in June 2005. The project has resulted in various specific initiatives across these regions, notably: the Integrated Services for Textiles (SIT) of the Mataro City Council facilitating the relocation of textiles workers and occupational training; a
project entitled ‘Strategic vision for the textiles cluster Sabadell and Terrassa’ promoting collaboration in the textiles sector and with the aeronautics and railways sectors to produce high value-added products; the establishment of the Anoia Textile Observatory; and the support plan for the textiles and clothing sector initiated by the Spanish Ministry of Employment and Industry (High Level Group for textiles and clothing, 2006).

Province of Łódź

Another good example of how to successfully manage restructuring processes is the transformation of the textiles and clothing sector in the province of Łódź in central Poland. The city of Łódź has been dependent on its textiles industry for more than 1,500 years. During the former communist regime, some 60% of all textiles employees in Poland worked in the province of Łódź and produced about 40% of the national manufacture of cotton and silk fabrics, and 33% of wool fabrics. However, when the Soviet Union collapsed and the sector was suddenly exposed to international competition, the industry as well as the whole community faced a major challenge with many companies going bankrupt and unemployment rising dramatically. At the beginning of this decade, the unemployment rate in the region stood at about 20%, which affected all aspects of life in the community. The political leadership of the city tackled this challenge by creating investor-friendly conditions and providing incentives for local entrepreneurship. With the assistance of external consultants, politicians developed a business plan for the city of Łódź, identifying three priority branches of economic activity: managing offshoring business processes, logistics and manufacturing of household appliances. The key focus of these three areas of activity is the introduction of new technologies. The objective of this business plan is the creation of 25,000 new jobs by 2010 and 40,000 new jobs by 2015.

The implementation of the business plan is already showing some results: the unemployment rate was down to 12% in April 2007 and a range of large companies, including Philips, General Electrics, Polish Telecom, DB Schenker and Dell, have set up business in the city.

However, Łódź has not abandoned its textiles and clothing industry, but has instead engaged in a transformation of the industry from a labour-intensive to a research-intensive industry. The initiatives in this respect include the establishment of different research consortia involving the Łódź Technical University with its centre for human-friendly advanced textiles technology ‘Pro Humano Tex’ and rebuilding bonds between research institutions and entrepreneurs by establishing a Polish Industry Platform. This platform is headquartered at the Department of Textiles Engineering and Marketing of the Łódź Technical University. It supports the development of the Łódź textiles and clothing cluster, as well as cluster-wide initiatives which aim to promote innovation. As a result, the city of Łódź has managed to retain its role as a textiles and clothing producer.

A key aspect of the transformation of the Łódź province has been the focus on community development. This process included transforming old buildings into new and interesting places to work and live, engaging in urban development projects and creating a positive and forward-looking culture among the city’s inhabitants.

Relocation of employees

The relocation of employees who have been made redundant – either within the same company or to other companies in the area or those located outside the area – constitutes an important element of sustainable approaches to company restructuring.

Restructuring of Trèves and Damart

The restructuring processes of two French-based textiles companies, namely Trèves and Damart, are good company case examples of how to approach restructuring in the sector. In the case of Damart, which mainly serves the market of thermal wear for people aged 50 years and over, the restructuring plan was announced several years before the production unit in question was actually closed down. The group undertook to internally reclassify all shop-floor staff...
in new jobs, mainly in logistics or sales activities. To trigger motivation for mobility among the older, often poorly-skilled members of staff, for whom reclassification meant going back to study, the company first carried out a test phase among volunteers. About 40 female workers were reclassified in new jobs, which often were different from their previous occupations, following training and a follow-up period enabling them to cope with the demands of the new job. Over 18 months after the reclassification, all remaining 120 staff members were monitored in similar conditions before the workshop was completely closed down.

The French textiles group, Trèves, which mainly serves the automotive market, introduced a prevention-based strategy for the company to initiate the forward-looking management of jobs and skills. While the company prepared a restructuring process which was likely to involve the loss of about 800 jobs across several sites over a two-year period, management began a series of negotiations with the company’s various trade union federations. A first agreement between the two parties resulted in the creation of a joint working group for the exchange of information and negotiation; the working group comprised representatives of the trade unions and staff of the main sites scheduled for restructuring.

The negotiations which took place within the working group resulted in three further agreements outlining the underlying terms and conditions of the restructuring process: one agreement provided for the information and consultation of staff representative bodies of the various companies concerned, a second one for the social measures associated with the restructuring plan and a third for the implementation of the forward-looking management procedures governing employment and skills. All of the trade union federations signed these agreements, the aim of which is to limit the social consequences of restructuring and to safeguard the future of the sites and staff.

**Nord Pas-de-Calais – a regional plan preparing workers to relocate**

The Regional plan for textiles and clothing (PRTH) in the Nord Pas-de-Calais region in northern France represented a forward-looking initiative involving public authorities and social partners. The plan was launched at the beginning of the new millennium and specifically addressed the issue of workers’ mobility, by preparing employees in textiles and clothing to change jobs either within the sector or move to other sectors of the economy.

The plan’s primary objective was to monitor industrial change in the sector in that region and, in particular, the monitoring of information and training provided to the sector’s workforce. The former translated into the creation of a job and qualifications observatory and the latter into the design and creation of training courses primarily for blue-collar workers, thus leading to qualifications, diplomas and the validation of acquired experience (VAE) schemes. The observatory has taken steps to carry out a study of workers’ abilities, knowledge and trends in the various sector trades. In parallel, programmes for training and the validation of acquired experience have been set up to satisfy two priorities: the development of skills required for the sector’s trades and support for possible transfers to trade occupations in other sectors.

The skills acquired through the exercise of a textiles or clothing trade are partially transferable and can be put to good use in other trades. Qualifications-based training courses have therefore been designed to develop skills suited to new trade activities in the sector, while certificate courses and VAE activities have been designed to provide interdisciplinary diplomas. The VAE system involves examining the diploma courses available, on which the workers concerned could enrol by taking into account their existing skills. For this purpose, workers can have one or several personal interviews to help them position themselves appropriately and draft their application. Workers may also be tested by an organisation experienced in establishing competence assessments and, if required, any additional course modules will be included to fill in gaps in an applicants’ curriculum vitae (CV), thus providing all participants with a good chance of successfully completing the selected course programme.
Other actions at EU, national, regional, local and stakeholder levels

The involvement of all of the industry’s stakeholders – namely, trade unions, employers and public authorities – in restructuring processes is key to ensuring the successful adjustment of the industry to current and future challenges. An interesting, although not sector-specific example, of a national initiative concerns the job security agreements in Sweden. Job security agreements are branch-level agreements initiated by a joint working group and designed to help manage the reclassification of redundant workers. The so-called ‘job security foundations’ are jointly driven and subsidised by a monthly contribution deducted from workers’ salaries and paid by the companies within the relevant branch; if necessary, these contributions are supplemented by public authorities. The job security foundations are organised on a regional basis and offer financial support – particularly in the form of indemnity allowances – and personalised assistance in job seeking. They intervene on the announcement of a restructuring plan.

The intervention of the job security foundations is designed to take place in a spirit of cooperation, involving both the employers and trade unions whenever redundancies are scheduled and, subsequently, the department of employment. The workers concerned are individually advised of their redundancy from the moment the restructuring notice is issued and they receive support throughout the notice period – that is, the period preceding the premature termination of their employment contract. Following an initial meeting with their adviser, they are given practical advice in seeking employment or they are directed towards a retraining programme or assisted in setting up their own business.

The reclassification results in Sweden are impressive: in general, 70% of a company’s workforce are reclassified before the end of the notice period, which usually covers three to 12 months depending on the branch and a worker’s length of service, and only 10% of redundant workers would still be jobless after 18 months (MIRE website, 2007).

Most OECD countries have already established programmes to deal with the effects of trade liberalisation on national labour markets. Besides unemployment insurance systems, training is probably the second most prevalent aspect of direct or active labour market adjustment programmes in OECD countries. In countries like Germany, providing training to unemployed workers is part of a comprehensive policy in relation to training and vocational programmes. Other countries have implemented a mix of private and public training schemes.

Such training programmes fall into two broad categories: providing basic skills in language and mathematics to those with low educational attainment, and providing training in specific job-related skills. Deficiencies in basic skills are particularly common among workers in traditional low-skill manufacturing jobs, for example, in the textiles and clothing industries, where many workers have less than a secondary school education. The lack of basic skills places an added burden on an already difficult adjustment process when such workers face the need to find a new job (OECD, 2004).

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