



# Sector Futures

## Textiles and leather in Europe: the end of an era or a new beginning?

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*The textiles and leather sector, which also includes clothing and footwear production, employs millions of people in the European Union (EU). It has a combined turnover of more than €200 billion. Over the last decade or so, more than a million jobs have been lost, partly through modernisation, but mainly as a result of international competition from developing countries. This competition is set to intensify with the abolition of import quotas in 2005, leaving the EU industry facing an uncertain future. This feature article, the first of three devoted to the EU textiles and leather sector, explores some of the main trends and drivers affecting the sector over the coming decade.*

## **Introduction**

The textiles, clothing and leather industry (TCF) is an important industrial sector in the EU. The sector includes four distinct sub-sectors: the production of textiles, the manufacture of clothing, the production of leather, and the manufacture of footwear. While all these areas are covered in this article, little attention is given to the manufacture of carpets and other household fabrics, industrial textiles, and other leather goods besides footwear (e.g. handbags, leather coats, etc).

Over the last 15 years, the European textiles, clothing and footwear sector has undergone large-scale restructuring. Modernisation of the industry has progressed considerably, productivity has increased, and production has been reoriented towards high-quality articles with a greater accent on innovation. However, this restructuring has also entailed a reduction of approximately one-third of the workforce. Further developments likely to affect these industries over the coming decade include EU enlargement, increased competitiveness resulting from innovation, research, skills, quality and creation, and, most significantly, the elimination of import quotas in 2005 and the challenges and opportunities of a new round of multilateral negotiations.

## **Overview of the sector**

The EU 15 textiles and clothing sector employs over two million people in 177,000 enterprises, producing a turnover of approximately €200 billion. EU enlargement will see the employment figure rise to 2.7 million after 2004. According to the latest European Commission figures, the total number of people employed within the EU footwear industry amounts to around 260,000 in 12,600 enterprises, while the EU leather industry employs around 55,000 workers within 3,000 companies. Textile companies tend to be large concerns, employing high-tech machinery. Clothing manufacture is more labour-intensive and tends to be performed in smaller firms. The footwear industry is organised in even smaller companies, employing on average 20 persons per location. However, the actual number of employees in each location fluctuates significantly, with Spanish and Italian enterprises employing around a dozen people, and French and German businesses employing around 100 people.

All these sectors now face the challenge of maintaining and improving their position in the market in the face of increasing international competition and advances in technology. These pressures mean that the modernisation of production processes, already underway for the past few years, is imperative. International competition from non-EU countries, particularly developing nations with lower labour costs, has resulted in the relocation of some production facilities. Many EU enterprises have also chosen to make use of lower labour costs outside the Union, sub-contracting labour-intensive tasks to these cheaper locations (especially Eastern Europe, Turkey, and North Africa). For many companies, such sub-contracting has played a major role in sustaining their competitiveness, but it has entailed a reduction of approximately one-third of the workforce in these sectors. The past few years have also seen a growing emphasis on high-quality products, i.e. those with a greater added value (European Commission, 2003a, p. 7). The industry has therefore undergone considerable restructuring in terms of technological processes, changes in the location of production facilities, and the quality of products produced.

## Trends

### Trade

The past four decades have witnessed trade in textiles and clothing increase by over 60 times (from \$6 billion in 1962 to \$342 billion in 2001), and it currently represents 5.7% of world exports. Trade in the clothing sector has increased far more rapidly than that of textiles, accounting for 57% of world trade in the textiles and clothing industry. This difference is explained by the fact that the clothing industry is more labour intensive than textiles, with labour-abundant developing countries enjoying a comparative advantage. Since the largest clothing markets are in Europe and the US, garments are mostly exported from developing countries, thereby increasing the trade figures. The EU stands out as the world leader in the textiles and clothing trade: it is the world's largest exporter of textile products and the second largest exporter of clothing. The growth rate of EU imports has been steadily increasing with the gradual increase in the level of quotas under the World Trade Organisation (WTO) 1995 agreement on Textiles and Clothing (European Commission, 2003b, p.2)

Table 1: *Trade in textiles and clothing by EU Member State (mio €)*

| Member State       | 1995          |               | 2002          |               | % change 1995-2002 |            |
|--------------------|---------------|---------------|---------------|---------------|--------------------|------------|
|                    | Imports       | Exports       | Imports       | Exports       | Imports            | Exports    |
| Germany            | 15,903        | 7,609         | 18,640        | 9,671         | 17%                | 27%        |
| United Kingdom     | 6,563         | 2,621         | 14,198        | 3,711         | 116%               | 42%        |
| Italy              | 5,599         | 8,030         | 10,330        | 13,497        | 84%                | 68%        |
| France             | 5,805         | 3,888         | 8,867         | 5,544         | 53%                | 43%        |
| Netherlands        | 2,923         | 1,126         | 4,661         | 1,742         | 59%                | 55%        |
| Spain              | 1,330         | 1,259         | 3,606         | 2,150         | 171%               | 71%        |
| Denmark            | 1,003         | 518           | 1,699         | 822           | 69%                | 59%        |
| Sweden             | 1,123         | 379           | 1,590         | 617           | 42%                | 63%        |
| Austria            | 944           | 852           | 1,295         | 1,273         | 37%                | 49%        |
| Portugal           | 556           | 614           | 612           | 804           | 10%                | 31%        |
| Greece             | 308           | 374           | 593           | 777           | 92%                | 108%       |
| Finland            | 346           | 213           | 501           | 316           | 45%                | 49%        |
| Ireland            | 206           | 107           | 447           | 217           | 118%               | 102%       |
| Belgium-Luxembourg | 2,642         | 1,643         | 4,365         | 2,363         | 65%                | 44%        |
| <b>Total</b>       | <b>45,252</b> | <b>29,234</b> | <b>71,406</b> | <b>43,502</b> | <b>58%</b>         | <b>49%</b> |

Source: *European Commission, Textiles data, 2003*

The EU footwear sector remains highly competitive, both within and outside the EU market, despite many potential export markets remaining virtually closed. The fact that EU industry is still able to sell about one quarter of all footwear produced to third countries is mainly due to its considerable competitive strengths in areas such as quality, design and fashion. The US remains the largest importer of EU footwear products, accounting for over a third of all exports (European Commission data). As far as the leather sector is concerned, the EU continues to dominate the international marketplace for its tanning industry, although its share in the leather trade has decreased. The leather industry has relocated some production facilities to countries with lower labour costs, notably acceding countries due to join the EU in May 2004.

### Production

During the past twenty years, the distribution of textile production has undergone radical change. While EU output dropped by 32.4% over the period, the outputs of Asia and the US increased by 97.7% and 76.3% respectively. Figures show that Europe's share of world output fell from 53% in 1980 to 29% in 1995. This, when compared with Asia's share

of world output, rising from 27% in 1980 to 44% in 1995, shows a substantial change in the scope of production (ILO, 2000). The EU footwear industry has undergone a similar transformation in terms of decreasing production capacity. Between 1999 and 2001, production declined by 5.9%, falling by a further 9.1% in 2002. In light of the fact that consumption of footwear goods remained constant throughout this period, it is safe to suggest that the market share held by EU producers underwent a significant reduction (European Commission, 2004a).

### Employment

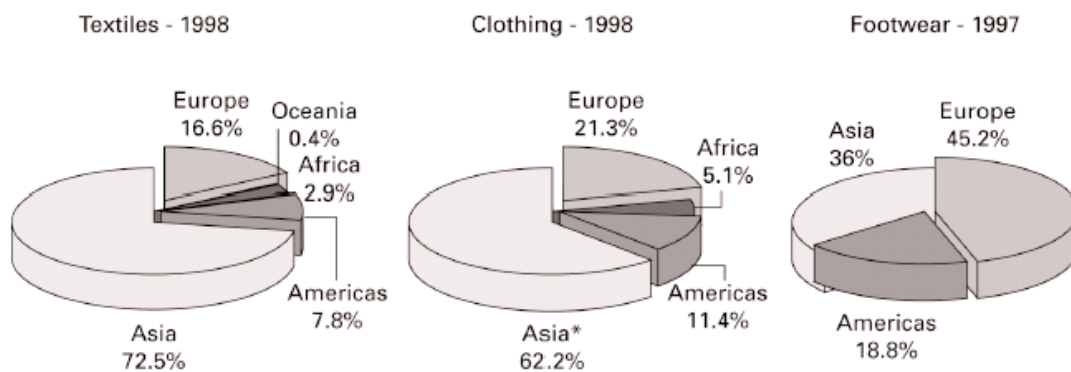
In recent years the prevailing trends in employment in the leather and footwear industries are very similar, with both sectors showing a gradual decrease in levels of employment. In 1990, the EU leather industry employed 63,000 people, this figure dropped to around 58,000 in 2000. Similarly (in terms of decline), the footwear industry accounted for 325,000 jobs in 1994, dropping to around 300,000 in 1999. This decline in the footwear industry has accelerated in recent years, as shown in table 2. Both sectors have instigated initiatives to improve work and training conditions within the industries, in an effort to combat declining employment figures.

Table 2: Number of firms and employment figures in the EU footwear industry (1999-2002)

|                          | 1999    | 2000    | 2001    | 2002    |
|--------------------------|---------|---------|---------|---------|
| <b>Number of firms</b>   | 13,180  | 12,967  | 12,722  | 12,573  |
| <b>Direct employment</b> | 283,232 | 279,020 | 273,916 | 260,486 |

The employment decline in textiles and clothing in the EU 15 has been even more dramatic and has been occurring over a longer period of time. Many jobs are, at best, semi-skilled, meaning that their transfer to other low-wage locations is relatively straightforward. There was a decline in employment levels of 31% between 1990 and 1995, with a further fall of 15% between 1995 and 1998. These figures translate into the loss of more than one million jobs in Europe. Asia, on the other hand, registered significant increases in employment during this period.

Figure 1: World employment in TCF industries (by region)



Source: ILO report on labour practices, 2000

The sector has suffered from a negative image, with many people still believing that dark, industrial age mills and arduous working conditions characterise the industry. It is a fact that sweatshops are often found in developing countries, and are still in existence in the EU, especially the southern part, but also in countries like the UK. These industries have, traditionally, been important employers for women and have generally been concentrated among persons with a low level of qualifications and, very often, in locations without alternative job opportunities. These factors have contributed

towards maintaining wages in these sectors at relatively low rates. Moreover, women earn significantly less than men when carrying out the same jobs in these sectors. According to the ILO report on labour practices:

*Whatever the share of female employment in total employment in these industries, one thing seems universal: women's wages in the TCF [textiles, clothing and footwear] industries are lower than those of men. It seems rather surprising that even in Europe, where there has been much discussion in recent years of equal pay for equal work, men in the TCF industries receive wages which are 20-30% higher than those for women. Women receive their relatively highest wages in the textile industry, followed by the footwear and clothing industries.*

(ILO, 2000, p. 23)

Under pressure for greater flexibility, employers are making increasing use of part-time workers, fixed-term contracts and temporary work arrangements. The search for flexibility tends also to increase the recourse to the informal sector (the sweatshops) and to homeworkers. The latter provides the best means of matching production to market fluctuations. But as the ILO has also pointed out:

*In the great majority of countries, homeworkers employed in the TCF industries have no legal status and no social protection, which puts them in a very precarious position and exposes them to potential abuses.*

(ILO<sup>1</sup>, 2002)

Child labour remains a problem, especially in developing countries, although instances are also found in clandestine operations that are to be found in some parts of southern Europe (ILO, 2000).

## Drivers of change

There are numerous drivers affecting the textiles and leather sector, and this article highlights some of the major ones. They include the abolition of import quotas, EU enlargement, globalisation, environmental regulations, new and emerging technologies, intellectual property rights (IPR), and consumer affairs and public health.

### Abolition of quotas

Under the WTO Agreement on Textiles and Clothing (ATC), EU quotas inherited from the Multifibre Arrangement (MFA)<sup>2</sup> are being phased out in a 10-year staged reduction plan that started on 1 January 1995. To date the EU has implemented all its obligations under the ATC, which requires it to gradually liberalise its trade regime in the run-up to the 2005 deadline. From this date onwards, there will be free competition for all suppliers of textile and clothing products to the EU. The abolition of quotas on 1 January 2005 is likely to have a serious impact on the textile and clothing industries, marking the beginning of even higher levels of international competition than at present, especially from countries such as China and India.

The increased competition is also likely to have a profound impact on the natural and human resources of non-EU countries. In an effort to keep up with international competitors, producers will need to increase production levels while decreasing production costs. This is likely to have a negative effect on both natural and human resources in those third countries which do not currently apply internationally agreed standards of social rights and environmental protection (European Commission, 2003a, p. 11).

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<sup>1</sup> [www.ilo.org/public/english/dialogue/sector/sectors/textile/flex.htm](http://www.ilo.org/public/english/dialogue/sector/sectors/textile/flex.htm)

<sup>2</sup> Quotas currently apply to imports of textile and clothing products from the following WTO Members: Argentina, China, Hong Kong, India, Indonesia, Macao, Malaysia, Pakistan, Peru, the Philippines, Singapore, South Korea, Thailand.

### **EU enlargement**

Traditionally, there have been high levels of cooperation between the EU textile, clothing and footwear industries and their counterparts in the acceding and candidate countries. In recent years there has been a trend towards relocating production facilities from the EU to countries with lower production and labour costs. This trend is set to increase with EU enlargement on 1 May 2004. The relocation of businesses will, of course, have huge implications for Member States, particularly in terms of levels of employment.

By contrast, enlargement is expected to have a positive impact on the new Member States, at least in the short term, due to a rise in investment in new production facilities. However, relocation of mass production to third countries (e.g. the Mediterranean rim, Ukraine) is also taking place and this trend needs to be taken into account when examining the future prospects of the sector. Moreover, due to their reliance on sub-contracting, many companies in the acceding countries lack the necessary information and knowledge to compete on the global market. Thus, they are handicapped by the fact that they do not cover the whole production chain (European Commission, 2003a).

### **Globalisation**

Globalisation has taken many forms in the textiles and leather industry, most obviously in terms of the worldwide scope of the production chain, but also in terms of consumer preferences, which have been converging over the last decade through the influence of mass culture and global branding. There has also been growing consumer demand for more specialised products, casual clothing, and greater value products. Under pressure from evolving consumer demands and preferences, new markets for textiles and clothing products open up. This internationalisation of markets, combined with ever-increasing competition, leads to an increase in global companies as EU producers look to countries such as Africa and Asia for lower labour and production costs.

### **Environmental regulations**

The pressure on the EU textiles and clothing industry to comply with environmental regulations has intensified in recent years. The issues have to do with reducing waste water levels, as well as combating the amount of chemicals contained in this water. The industry faces a major challenge regarding its compliance with environmental legislation, not least due to a severe lack of trained individuals able to integrate these policies into the day-to-day running of the business (see NTT0, 2002, p.19).

### **New and emerging technologies**

The aforementioned drivers of change, particularly the abolition of quotas, low labour costs in third countries, and compliance with environmental regulations, mean that the textiles and leather industry must make use of new technologies if it is to remain competitive and survive. Most of the innovations are centred on the production process: for example, in the footwear industry, the European Commission has funded R&D programmes focused on developing automated and computer-based manufacturing systems. In the clothing industry, new technologies will enable the EU industry to offer products tailored to the individual needs and wishes of a customer, 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. Clearly, this is heavily dependent upon the efficient use of information and communication technologies (ICT).

But there is also a push towards using technologies to produce superior products. For instance, environmental concerns have had an impact not only on the production process, but also on the search for new, lighter materials that can be re-used. In general, qualitative improvements in products are heavily dependent on technological innovation. These include producing lighter products with the same strength and durability as heavier materials. Technical textiles have made massive inroads in the car industry for this reason. For example, the Smart car has 40% textile composition through which it can achieve substantial savings in fuel use. A further area of technological advancement are 'intelligent textiles',

which have the potential to monitor health, and, less spectacularly, to function in such a way as to maximise comfort according to conditions.

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

### Intellectual property rights

Today a genuine threat to the EU clothing and footwear industry exists in the shape of counterfeit products. Innovation and creation are central to the continued existence and success of this industry. However, it has been shown that many SMEs lack the resources necessary to protect themselves (in court cases and so on), thereby letting counterfeiters have free reign over their intellectual property. Protection from intellectual property theft must therefore be a major priority in order to ensure fair competition and the continuation of innovation and creativity within the industry.

### Consumer affairs and public health

In recent years, there has been growing interest in public health and consumer protection in the textiles, clothing, and leather industries. In the leather industry, the EU has introduced a variety of measures to ensure that the risk of diseases, such as BSE and its transmission to humans, is limited and contained. Clothing and textiles manufacturers have responded to the pressures for enhanced consumer protection with increased scrutiny of the chemicals present in their products.

### Summary

This short feature has highlighted some of the major trends and drivers at play in the textiles, clothing, leather, and footwear sector. It is clear that EU production levels will be difficult to maintain in the face of cheaper-to-run operations emerging in the developing world. EU firms are also contributing to this migration process, having little option but to move their labour-intensive operations to the developing world in order to maintain competitiveness. If social and environmental regulations are to be respected, then Europe will need to focus on producing high value-added goods and on process innovation. The EU may also insist on stricter regulations to be imposed on producers in other countries through multilateral agreements. The next article, which develops future scenarios for the textiles and leather sector, will focus on some of these possible future developments.

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<sup>3</sup> All links were accessed on 26 April 2004

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