



Confédération Européenne de l'Industrie de la Chaussure
European Confederation of the Footwear Industry

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The European footwear industry 2005

1. Executive summary

The footwear industry in the EU has all chances to maintain 10 % of the world production¹, if:

- the EU has access to world markets;
- imports at dumping prices are banned;
- the fashion collection can be spread at the specific areas of Europe;
- R & D can improve the competitiveness of the industry (6th FP²) and a 7th FP is prepared;
- Environmental and health regulations of the EU are respected and controlled
- Customized shoes can become wide spread

One issue is critical and problematic: the influence and power of the industry stops where the European institutions should take care of fair trade, reciprocity in market access and an equal treatment between EU products and imports. This is not the case and constitutes the main problem. It is linked to member countries and EU institutions.

Export markets remain closed at 70 % for EU footwear. The Commission never showed sufficient engagement to open the markets which interest the confederation and to free export markets from TB's and NTB's.

Health and environmental regulations are not respected by imports in the EU. The control should be increased.

If Europe is not taking the action with the trade instruments they are given, it will be their legal, social and political responsibility in front of the Parliament and the member states.

It will further destroy the image of Europe, it will further destroy employment. The job of 1 Million workers are at stake (direct + indirect employment). Can Europe afford this social and industrial blame after the no's on the constitution?

2. Introduction

Actual situation of the European footwear industry

The footwear sector in Europe recently enlarged with ten new countries has been undergoing modernization and restructuring for a number of years under pressure due to increasing international competition, technological changes, fashion trends and the abolition of the quota system which allowed China to increase imports which disturbs the market.

It is certainly a misunderstanding to consider Europe as a producer of more diversified, fashionable, quality products with higher added value, or to consider that the low end of the market is reserved for cheap imports from Asia. Europe wants to be competitive in every segment of the market due to the unique combination of fashion and

¹ A complete statistical overview can be found in annex 1.

² [Http://www.cec-made-shoe.com](http://www.cec-made-shoe.com) Custom, environment and comfort made shoe is an Integrated Project under the 6th Framework Program with 54 partners. See website for more information.

competitiveness. *But at the end, no-one can compete against products which are sold on the EU market on prices which do not even cover the cost of the material.*

Trade aspects are directed by exchange rates, by social and fiscal legislation, by environmental legislation, by market access tariff and non-tariff barriers (TB's and NTB's) and by unfair practices. These are clearly governmental or EU Commission responsibilities.

The actual situation is the *result of unbalanced governmental and commission governance* for the EU footwear: the ever more opened EU market without any counterpart of bilateral market access is forcing the EU industry to throw the glove, since no fair chances are offered in the international market. Lets once more remind that at least 70 % of the world population has no free access to EU footwear, while the internal EU market is overwhelmed by import products which are forcing EU footwear out of the market (75% of import penetration).

Although the Union has made the issue of improved market access a priority in its international trade policy, and this since years, not many tangible results were achieved³. A recent initiative from the Commission⁴ lacks any concrete action plan and can not foresee in any quick result. We quote: "as of 1 January 2005, the EU has been providing virtually unimpeded access to its market. EU tariffs are amongst the lowest in the world, whereas some of the largest and most competitive exporters in the sector maintain tariffs of up to or over 30 %. Many countries, including the largest footwear exporters in the world and the EU's key markets, maintain very significant non-tariff barriers, blocking access to their markets".

Production

The result is that the EU production in 2004 is dropping with 10% compared to 2003 and the loss of companies is - 1,2% % to reach 12.400 companies and 290129 direct workers or a drop of 7 %. The total direct employment⁵ is for 2004 290124 workers. Including Turkey, Russia, Tunisia and Norway we count 526.000 workers. If 1 worker gives work on 1 supplier, we can count direct and indirect employment as around 1 Million or workers.

In table 1 you will see the EU footwear production, our exports, imports, apparent consumption and the EU market share since 1998 until 2004. 2001 has been the second year in which the production decreased below 1 billion pairs. 2001 has been the first year in which imports in the EU exceeded EU production. Since 1998 years, production dropped 442 Mio of pairs. Imports have been doubled.

Table 1

1000 Pairs	1998	1999	2000	2001	2002	2003	2004
Production	1.147.271	1.030.320	996.857	970.013	883.187	782.280	705.090
Exports (world)	234.220	205.564	213.930	209.842	194.054	167.845	166.702
Imports (world)	836.096	931.368	995.161	1.049.304	1.140.833	1.333.034	1.628.139
Apparent consumption (1)	1.749.148	1.756.125	1.778.088	1.809.475	1.829.966	1.947.469	2.166.527
EU produces market share (%)	52	47	44	42	38	32	25

(1) Apparent consumption = production + imports - exports

The normal standard should be *that EU is maintaining 10% of the world production and sales*, which should be around 1.2 billion pairs a year - this is not a big request - easy to realise and to keep in a balanced way as long as the real market access for EU exports exists.

³ See later on the tables on reciprocity in market access

⁴ Market Access Action Plan DG Trade

⁵ See annex 1 : total employment in EU 25, Turkey, Russia, Tunisia and Norway

The abolition of the EU quota system since the beginning of this year against certain Chinese imports is disturbing the whole market. **All the necessary conditions are fulfilled to justify anti dumping measures under the existing WTO rules. During the 2 first months of 2005 the average value of imports from China of leather footwear has decreased with 27,8% (from 10,96 to 7,91 Euro in 2005).**

The lack of any real and tangible market access in China⁶ makes further negotiations less useful.

The EU footwear industry consist of a large number of small companies and can be typically assessed as a SME industry, most of which are located in regions with a low degree of industrial diversification. This geographical concentration of the sector, its labor-intensive character, and its considerable degree of price sensitivity with regards to low-priced and dumping priced imports results to a situation where that leads to social and economical damage, besides regional repercussions. In addition, the impact of closed factories affects the governments of the member states in such a way that radical measures must be taken to save the sector.

One of the other big concerns is the quick development of the non-declared production and trade. Third countries, not at least China, are developing an increasing volume of production and trade which is non official. In certain countries, up to 60 % is "black circuit".

Exports

The exports show an decrease of -0,7% in 2004 with 167 million pairs (USA: 54 million pairs, Switzerland: 22 million pairs, Russia: 10 million pairs, Norway: 7,5 million pairs and Japan: 7 million pairs). These are the main EU partners.

Table 2 – Exports EUR25

1000 Pairs	1998	1999	2000	2001	2002	2003	2004
World	234.220	205.564	213.930	209.842	194.054	167.845	166.702
USA	85.638	84.546	88.307	79.162	71.421	55.981	54.050
Switzerland	25.546	24.043	24.391	24.730	22.179	21.233	22.226
Russia	15.366	5.585	8.39	10.062	9.219	8.866	9.957
Norway	9.282	8.436	7.570	6.973	7.435	7.497	7.422
Japan	10.441	11.150	10.341	10.798	8.355	7.599	7.081
Canada	10.957	11.374	11.656	11.012	10.033	7.951	6.879

CEC is since ever not requesting protection but an open and fair trade. The corrections to unfair traders should give equal chances to EU producers and the market access will give free way to EU entrepreneurs to sell their footwear in a globalised world. As far as globalisation does not stand for dumping and destroying markets at any price.

Globalisation is not frightening to the EU producer, as it creates more possibilities than ever before if, of course, the trade game is a fair one by the official involved authorities, the EU and third countries and by the transparency and honesty of trade accounts.

CEC's attitude and position

CEC is and has always has been in favour of a free and fair trade with equal chances on a reciprocal basis. This attitude must increase and develop the global footwear market in a globalised market.

However, year after year, numerous parts of the industry have been destroyed due to unfair competition, closed export markets and high social costs. Nevertheless, CEC is convinced that it can at least maintain its EU production if we can sell our footwear in new - and for the moment closed - markets.

⁶ See table 5

Improved market access and further liberalisation of world trade must be a powerful tool to promote development and strengthen prosperity in the European footwear industry.

3. Market access

Market access is the major problem for Europe's footwear. The industry does no longer want to live in an open internal market and with closed export markets. A wide range of tariff as well as non-tariff barriers are still preventing EU producers from fully exploiting our export potential.

CEC defended and will continue to encourage the free trade idea. On the long term, protectionism kills business creativity and competitiveness. CEC supports DG Trade in their tentative for an increasing and reciprocal market access all over the world, if tangible results on the short term can be achieved. Too much attention goes to the DDA where possible results will come too late. As some other trading partners, bi-lateral agreements should solve the market access issue on the short run.

A bi-lateral agreement between the EU and Japan that eliminates the quota of Japan on leather footwear (the EU export product) should be envisaged on the short term.

As described before in table 2, exports (in pairs) decreased since 1995. The US, one of our principal export markets (with tariff peaks up to 48%), is responsible for one third of all EU exports.

Table 3 Exports EUR25

1000 Pairs (2)	2002	2003	2004	Change 02/03	Change 02/04	Export share 2002 (3)	Export share 2003	Export share 2004
World	194.054	167.845	166.702	-14%	-14%	100%	100%	100%
USA	71.421	55.981	54.050	-22%	-24%	37%	33%	32%
Switzerland	22.179	21.233	22.226	-4%	0%	11%	13%	13%
Russia	9.219	8.866	9.957	-4%	+8%	5%	5%	6%
Norway	7.435	7.497	7.422	+1%	0%	4%	4%	4%
Japan	8.355	7.599	7.081	-9%	-15%	4%	5%	4%
Canada	10.033	7.951	6.879	-21%	-31%	5%	5%	4%

(2) Footwear codes 6401-6405

(3) Export share : share of individual country in total EU exports

In table 4, you can see that imports in the EU have been doubled between 1998 and 2004, without taking into account the first months of 2005 where the impact of the abolition of quotas is more than ever increasing the imports.

Table 4 Imports EUR25

1000 Pairs	1998	1999	2000	2001	2002	2003	2004
World	836.096	931.368	995.161	1.049.304	1.140.833	1.333.034	1.628.139
China	357.510	398.301	434.568	474.275	541.143	566.632	788.186
Vietnam	167.352	201.068	217.004	234.700	264.421	268.701	294.212
Romania	33.390	42.540	50.267	59.917	64.810	70.179	70.626
Indonesia	70.331	66.898	65.850	64.991	60.116	53.460	59.146
India	23.323	28.154	29.148	32.018	35.131	41.104	51.214
Malaysia	5.883	6.641	9.406	12.984	14.810	20.449	41.821
Thailand	39.252	35.285	36.427	35.519	36.468	34.451	31.992
Macao	6.203	9.428	14.557	15.850	18.504	22.387	29.710

Table 5
Import/export rate

1000 Pairs	Imports 2002	Exports 2002	Imports 2003	Exports 2003	Exports 2002 as % of imports 2002	Exports 2003 as % of imports 2003	Export share 2002 (4)	Export share 2003
China	541.143	538	566.632	784	0,10	0,14	0,28	0,47
Vietnam	264.421	111	268.701	73	0,04	0,03	0,06	0,04
Romania	64.810	1.895	70.179	1.679	2,92	2,39	0,98	1,00
Indonesia	60.116	151	53.460	82	0,25	0,15	0,08	0,05
India	35.131	139	41.104	252	0,40	0,61	0,07	0,15
Malaysia	14.810	84	20.449	84	0,57	0,41	0,04	0,05
Thailand	36.468	124	34.451	136	0,34	0,39	0,06	0,08
Macao	18.504	13	22.387	8	0,07	0,04	0,01	0,00

(4) Export share : share of individual country in total EU exports

EU exports to the Community's main suppliers (see table 5) remained marginal and dropped to unacceptable low levels. The Community's trade balance with the countries can be described as extremely negative (see export/import ratio's). Tariff and non tariff barriers (NTB's) do their work in other countries. Look in table 5 how closed these markets are. If market access can be assessed by the exports as % of imports, we come to % that is too low to mention.

Table 5 shows that major importers give a limited market access due to tariff and non-tariff barriers. The other countries have mainly the same attitude. This is very frustrating for the industry which experiences an everyday loss of market share due to the general trade policy which is not guaranteeing an equity in world trade rules.

If DG Trade due to the DDA can open new markets, CEC will not hesitate to introduce its fashion, lifestyle and trend-setting products into these markets. The Europe-made fashion has still a real added-value on a world scale.

It is obvious that the DDA can only be successful for EU footwear production if we can increase the export possibilities in new markets (a beginning market opening with a large market potential, directly or indirectly).

The imports from low wages countries, together with the closed markets and the high social costs in the EU, are destroying the **industry** as well as the promotion capacities of the EU firms. Our producers have to give priority to invest in markets with a quick return on investments. EU producers sometimes compete between each other in existing markets instead of with non-EU producers.

EU producers remain extremely vulnerable to Chinese imports, their growing EU market share and the price gap between imported (especially Chinese) and EU footwear.

3. Request from the footwear sector to the EC

- ✓ CEC wants the support of the EC and members states on anti-dumping measures. Footwear is imported on prices not covering the cost of the material, the market is disturbed due to massive imports
- ✓ CEC wants a bi-lateral agreement between the EU and Japan. In Japan, the leather non sports footwear is under (world) quota and at a special high tariff. CEC insists that through a bi-lateral agreement, Japan will be treated as

first priority to increase market access. The tariff should come down to the EU level for leather footwear (8%), but also the quota should be abolished⁷

- ✓ An identical bi-lateral agreement should be negotiated between the EU and the US/Canada. Tariff peaks could be eliminated immediately
- ✓ CEC wants to have a mandatory, compulsory "Made IN" for products imported in the EU for reasons of: information towards the consumer, integral part of the branding, respect of EU directives and regulations on environmental issues (PCPs, Nikkel, ...), protection of employment
- ✓ Referring to the made in, CEC wants a review of all directives or regulations related to environmental issues in the sense that by non-respect the footwear should be stopped at the border for the sake of the consumers
- ✓ CEC reconfirms its commitment for further tariff liberalisation, but any progress in this area should not be pursued without simultaneously addressing non-tariff barriers to trade. It should be mentioned that certain trade partners remain tariff peaks at unacceptably high levels. The EU footwear industry wants to exploit its comparative advantages in the world markets
- ✓ CEC asks the European Commission to remove all trade barriers that constitute clear infringements of WTO commitments and to negotiate free trade agreement that do not contain quota's, nor other rules of origin, nor additional requests. Since many years the Commission and the industry has been listing these barriers. It is urgent to take appropriate action with tangible results as a consequence. Tangible results are not paper work but increased exports. The market access action plan should be linked with market data. It shows you clearly where the bottlenecks are and it gives the Commission the needed argumentation to request for reciprocity on market access (even without proof!). Despite a common industry position, the document is missing a roadmap from the Commission indicating priorities, timing and ways to achieve and to improve market access. Maybe it should be envisaged to limit the actions to specific requests/priorities from the industry to get quick RoI. FTA's should solve NTB's during the negotiations and not afterwards like the Mexico FTA. If Mercosur has the same approach, the added value of the agreement will be low.
- ✓ CEC wants to the support from the Commission on a Technology platform for footwear.

The general position of CEC for the DDA remains:

1. We do not oppose the lower tariffs

under the following conditions:

2. The tariff dismantling has to be applied in a simultaneous way with the other WTO countries, which means: first, those countries which have higher tariffs should come down to the EU tariff level and then we go together and simultaneously to the lower tariff (no distinctions or exceptions are foreseen). It is unacceptable that there are still WTO countries with higher tariffs than the ones of the EU.

The European Commission should focus, concerning tariff peaks, on the following countries which are a priority for CEC given the high percentage that these countries represent today in the total EU exports : The United States, Japan and maybe Canada on few items and Australia.

Indeed, the economical circumstances of these countries are quite similar compared with these of the EU and no objective reasons exist for not abolishing totally the customs tariffs between these countries and the EU, like they have been abolished for other industrial sectors at high social cost such as the car and aircraft industry.

Concerning new and future markets, the efforts of the European Commission should also focus on China, India, Vietnam (not WTO member) and Mercosur as examples who protect their market for some

⁷ Japan is one of the richest markets of the world, looking for high quality leather footwear. The total Japanese consumption for footwear is estimated around 450 million pairs a year. It has a world quota for leather non sport footwear of 12.5 million pairs a year. The EU is exporting 7 million pairs a year. Compared to the yearly consumption 450 million pairs a year, and the demand, the EU export could offer our industry a new export possibility if the quota is abolished and the tariffs come down to EU level.

products (especially leather products) by high tariffs while competition becomes difficult due to the huge differences in social cost.

3. Transparency and elimination of non-tariff obstacles, more specifically financial, environmental and health regulations: there should be no specific possibility to set up such barriers; rules should be global.
4. CEC is in favour of a multilateral approach with rules and engagements to be respected by all WTO-partners, but at the same time, bi-lateral agreement must be envisaged if tangible results can be achieved on the short term like e.g. Japan.

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