



Regional Commentary: North Africa

The Maghreb and Egypt have not prospered as well as they might

As the rush to globalisation continues, the last few years have not been easy for the North African leather industry. Some reports have indicated that textile and leather industry capacity utilisation at times fell below 40%. This is curious, as proximity to Southern Europe should have given the industry an opportunity to develop as countries such as Italy, France, Spain and Portugal sought lower cost manufacturing in locations where they could exercise easier control over quality than in Asia or Latin America.

The Maghreb countries bordering the Mediterranean have an ancient tradition of producing high quality leather. Successive influences of first Roman and then Islamic technology only served to enhance this reputation. Indeed, much of Europe's leather technology stems from the period when Islam had its western capital at Cordoba in Spain, between the 8th and 15th Centuries. So, with good traditional skills, a plentiful workforce and good quality local sheep and goatskins, one might have expected the region to have found a profitable niche market in Europe. However, it did not. For a long time the footwear industry did well out of Libya and, when sanctions closed that market, a clear replacement strategy failed to appear.

Initiatives

There have been various initiatives—many funded by the EU—aimed at seeing people in gainful manufacturing employment in North Africa, rather than in refugee camps around Europe. Some excellent work has been done on a cut-make-and-trim or CMT basis with footwear and retail brands in France, Italy and Spain, but little has led to any sustainable production at the correct value levels.

The region could never take on China on a cost basis and can also be expensive compared with both Brazil and India. It therefore needs to find higher value positions where its special skills, as well as access to top quality European materials

and designs, might make a difference. In some regards, the CMT business has been a distraction as the only task required is that of assembly, which means the brand or retailer supplying the components can easily move to Eastern Europe or Asia if the economics change.

The essential infrastructure that the industry needs includes design, training, testing and component manufacture. Morocco—one the best countries in the region—does have a good college and some domestic component production but, for testing, it is reliant on an ongoing CTC project to build and establish a facility over the next two years based on grant aid.

The fact that so much of the industry works on this CMT approach, using pre-approved materials, etc., means the domestic volume of manufacture requiring testing is not sufficient to attract an organisation such as SATRA or CTC to invest in its own right. The need to build a better infrastructure or local clusters of expertise is the focus of a US Aid project that is currently on-going in Ethiopia and, on a smaller scale, in Egypt. It is these areas which need to be addressed if real progress is to be made in North Africa.

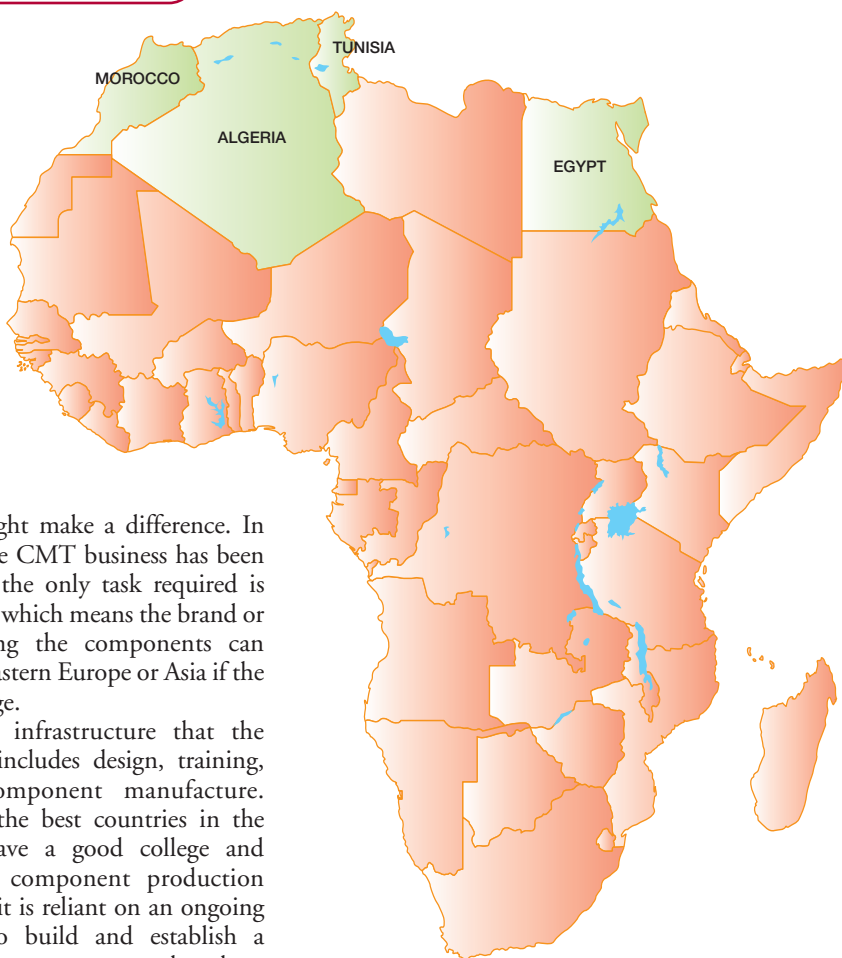
Opportunities

Relative to most of the rest of Africa, the Maghreb countries have still done well and, with increasing concern about global warming and the cost of shipping, should still be able to renew the battle for a share of Europe's markets. This is especially so, as the protection given for leather shoes from China is for a limited period only and surviving European shoemakers—who are mostly in the south—will need to make alternative arrangements quickly. If North Africa can attract tanners and footwear and component producers to move quality production across the Mediterranean, the short run, high value products can be made under close scrutiny with the advantage of

much reduced overall costs.

Creating this improved infrastructure should also help address the difficult volume US market, which has migrated wholesale to China for its supplies. For some in North Africa, the high volumes of the US have been too daunting while, for others, a dependence on French as a language of trade has made communication difficult. The current consolidation of the retail footwear business in the US means that finding niche businesses prepared to source outside of China requires a high level of entrepreneurship and determination.

US requirements in terms of labour conditions, banned substances, methods of manufacture, and speed and accuracy of delivery are very demanding and above those required in Europe. Finding an angle to deal with the US will not be easy but the skills needed there will be useful for doing better in Europe. Short lead times and smaller volumes have helped make companies such as Inditex (Zara) successful. A clever North African leather industry could surely be expected to suggest, support and possibly even lead alternate business models. Time is short however and if this window of opportunity is missed it may well succumb to increasing pressures from China and elsewhere.



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Egypt

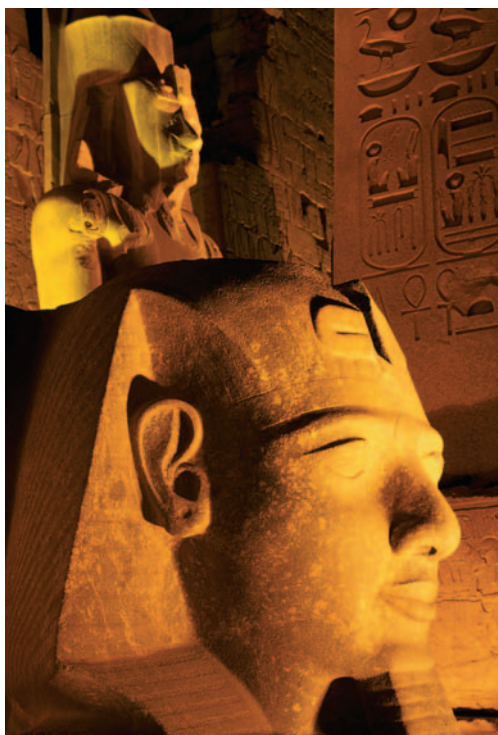
The manufacture of leather products was a thriving industry in Egypt at the time of the Pharaohs and images of leather workers are to be found on tombs from the period. The tradition has continued to this day and some 250,000 people are thought to be employed in tanning leather and producing footwear, leather goods and leather garments. The country also has a good supply of raw material for leather with an estimated availability in excess of 50 million sq.ft per annum.

The leather industry was barely mechanised until the 1960s, when trade agreements reached with the Soviet Union provided large export orders for footwear and a push for greater output from both tanners and shoemakers. Following the collapse of the Soviet Union in 1991, the industry once more turned in on itself and concentrated almost exclusively on the domestic market. As a result, and unlike its textiles, its leather is not well known internationally. Now that the Egyptian government is trying to improve industrial output and exports, this factor has proved a major drawback in attracting foreign customers. Egyptian tanners were also seen as being less efficient than those in India and Pakistan, both of which could produce better and cheaper finished leather.

Good raw materials

However, the raw material obtainable from the country's cattle, sheep and goats is generally good due to the grazing and feed methods employed. Approximately 80% of hides and skins are exported semi-processed and the fact that Italy has been a major buyer indicates that overall quality is satisfactory. Egyptian tanners have found this easier than producing finished leather and so have made little investment at the finishing end. As a result, leather finished in Egypt is not always up to international standards and this has further affected the quality of finished footwear seeking those same markets.

Some 80% of finished leather products comprise footwear and a further difficulty manufacturers face is that of obtaining soles, insoles and other components of sufficient quality for export markets. It is again a case of insufficient investment since the socialist-inspired industrial policies of the Nasser era. There is clearly a demand for better components and the government is actively encouraging foreign companies



Images of leather workers are to be found in the tombs of the Pharaonic period

to invest in joint projects. As well as supplying the local industry, there are also opportunities to sell to other footwear producing countries in Africa, which often lack a component supply infrastructure.

The other problem that the industry has had to face is again a left-over from previous government policies. During the time when large volumes of footwear were exported to the Soviet Union prices were artificial, labour costs were not a major concern and companies were encouraged to employ more people. When this business was lost, labour laws prevented companies from shedding surplus employees. Add to this the fact that many factories then began operating at less than 50% capacity, and it is easy to see why the labour content of many of the shoes produced could be 20% for a not particularly good product. The last two or three years have witnessed some changes, with EU and UNIDO funded schemes looking at the overall industrial structure of the country, plus a willingness by the government to face the realities of 21st Century economics.

A changing economy

2005 proved to be a major turning point as economic and political reforms took effect and pushed Egypt's economy forward. Growth was led by exports and reached 5.1% compared with 4% in 2004. The World Bank expects it to reach 8% in

the coming three years, up from a previous target of 6%. The fastest growing sectors in 2005, however, were restaurants and hotels, Suez Canal earnings and petroleum. Exports grew by 32% due primarily to a 31% increase in non-petroleum exports to \$13.8 billion. Principal exports include petroleum, textiles and apparel, and processed food and plant products. While the current account is in surplus, the 2005 year-end figure was much lower than expected due to an upsurge in oil imports.

Egypt is finally attracting more foreign direct investment (FDI) and this reached \$3.9 billion during 2005, a \$900 million increase on the year before. While approximately \$2.6 billion of this went into the oil industry, the remainder was well spread and the government's privatisation programme brought in a further \$400 million from the sale of state-owned assets. The establishment of an effective formal inter-bank foreign exchange market has also helped to create a very liquid foreign exchange market. Furthermore, the country has also moved rapidly in regard to customs reform and has simplified documentation procedures and reduced the number of required customs approvals from 26 to five.

Footwear statistics (million pairs)

	2001	2002	2003	2004
Production	61.2	66.0	68.0	65.0
Exports	16.3	17.0	15.0	12.0
Imports	56.3	50.0	48.0	45.0
Consumption	101.2	99.0	101.0	98.0

Source: SATRA (all figures based on estimates)

The footwear industry, however, does not present a happy picture. Production and exports are falling, with the main markets staying close to home in Saudi Arabia, Algeria and Libya. Unusually, so are imports. Consumption is exactly where it was in 2000, which points to a falling standard of living for many people despite the rise in GDP. The Egyptian government clearly still has a long way to go in revitalising the economy to the benefit of its citizens and leather industry.

With investment to modernise the tanneries badly needed the strategic positioning of the Egyptian leather industry as a whole remains unresolved and, in many ways, represents the deep seated problem underlying the whole North African region. ►



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Tunisia

Tunisia has a diverse economy, comprising a mixture of agricultural, mining, energy and manufacturing. The latter is dominated by the textile and leather industries, accounts for 45% of all exports and employs approximately half the labour force in the manufacturing sector. So while the MVA of the leather business does not match the high level of Ethiopia it is one of the highest in Africa. Agribusiness, the second most important industry, includes flour milling, fish, fruit and vegetable canning, olive oil processing and sugar refining. The country is also one of the world's largest producers of phosphate fertilisers. An extensive handicrafts industry produces clothing, rugs, pottery, and copper and leather goods for both local and export markets.

A skilled work force and relatively low wages have led an increasing number of European clothing firms to subcontract work to Tunisian factories, leading to a sharp increase in the country's exports of clothing. Footwear manufacture has seen a similar trend over the last few years, although on a much smaller scale.

Leather and footwear industries

Tunisia's leather industry has 289 companies with 10 or more employees, with 178 of these producing entirely for export. 128 have foreign involvement of which 82 involve 100% foreign ownership.

Sector breakdown

Activity	*TE	*OTE	Total
Finished leather	Zero	13	13
Footwear (inc uppers)	129	76	205
Leathergoods	38	14	52
Clothing	14	11	25

*TE – Export only

*OTE – Export & domestic

Source: Industry Promotion Agency

Total value for the sector in 2004 was \$149.4 million as against \$117 million in 2000. Investment in the same period, however, fell from \$4.97 million to \$3.46 million. The total number of people employed by companies with 10 or more employees was 25,430, of which 20,914 were in export-only factories. The average annual growth was around 7% over this five-year period.

Exports were valued at \$70.1 million in 2004 as against \$57.2 million in 2000, with export-only factories providing 90%



Roman amphitheatre

of the total. Complete footwear and footwear uppers made up 88% of goods exported, followed by leathergoods and clothing at 11%. Finished leather and hides contributed the remaining 1%. Italy is the main market and takes 40% of exports, followed by France at 38% and Germany at 10%. Imports, on the other

hand, were valued at \$29.2 million in 2004 compared with \$33.7 million in 2000. Italy and France were the two major suppliers.

UNIDO talks highly of the Tunisian industry noting that it has many existing contacts with Europe which could be exploited in the future.

Tunisia's leading tannery

Tanneries Mégisseries du Maghreb (TMM) is the largest producer of leather in Tunisia. Founded by Mr. Mzoughi Mzabi in 1976, the company is now one of the leading tanners in Africa and the Middle East. Leather tanning is an ancient tradition in Tunisia and knowledge has been passed down from father to son for generations. TMM took these traditional skills, mechanised the tanning process and built up a highly skilled technical workforce through a policy of in-house training.

The tannery covers 26,000 m² divided into two distinct production units. One is equipped to process calf and cowhide, while the other concentrates on sheep and goat. Total capacity is approximately three million sq.ft of finished leather for footwear, leathergoods, clothing and furniture. In order to maintain consistent quality, the tannery operates a management system certified to ISO 9002. It is also equipped with a large capacity effluent treatment plant that uses a combination of physical, chemical and biological processes.

Raw material is sourced from all over North Africa where the skins are characterised by their fine and silky grain side. Both chrome and semi-vegetable tanning is used and each section has a multi-capable finishing line, making it possible to offer a wide range of items ranging from classic to modern products and at a variety of price levels depending on customer requirements. Full grain anilines, pigmented corrected leathers, nubuck, oil painted and natural grain leathers such as buffalo, can all be produced.

The treatment plant has a capacity of 1500 m³ of industrial waters per day, which is equivalent to the liquid waste of a town of 30,000 inhabitants. As well as the standard treatment procedures, the plant also includes a unit for the treatment of chromium, sulphide and mud, and is equipped with a laboratory for chemical analyses (pH, volatile materials, chlorides, sulphides, oxygen, phosphorus, etc).

TMM exports a large part of its output all over the world. While much goes to relatively local markets such as France, Italy, Germany, Spain, Türkiye and the Middle East, good business is also generated in China, Hong Kong, Japan, Korea, and North and South America.

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Algeria

Algeria's manufacturers have been the section of the economy hardest hit by the various economic crises that have affected the country over the past 25 years. Successive devaluations of the Algerian dinar sent the import-dependent manufacturing sector heavily into debt during the '80s and, at the same time, dramatically reduced consumer spending. The political crisis of the 1990s also severely disrupted production and undermined domestic investment.

The country's economy has, until relatively recently, been run on socialist lines with a large public sector under government control. Since the millennium, however, there has been a sea-change in government thinking as it finally faced up to the failure of previous policies. Various far-reaching economic reforms have been introduced since 2000 but, unfortunately, they have merely exposed a serious lack of competitiveness in public sector manufacturing in general. They have also put an end to easy credit from a compliant banking sector.



The Sahara: the country is over 80% desert

The result has been a steady decline in public sector output despite some \$22 billion being spent on restructuring efforts up to the end of 2004. This has been most severe in manufacturing industries, which have faced negligible foreign market outlets, a continued economic slump depressing domestic demand, and competition from both imports and private sector industry. Attempts at privatisation have mostly failed due to a combination of management inertia and fierce opposition from labour unions. Unemployment is almost 20% in some areas and, as it mostly affects the young, has been a further brake on consumer demand.

The textile and leather industry has faced strong import penetration from countries such as Türkiye, Egypt, Pakistan and the United States and any revival seems unlikely without further privatisation and the foreign involvement that has proved so successful for the leather industry in neighbouring Tunisia. This is unlikely to take place while the country is seen by many outsiders as still being politically unstable. While there is some export of wet blue, tanners suffer from the export of raw material direct from the abattoirs, reputedly by Turkish and Syrian traders. This perhaps explains comments that in autumn 2005 the leather sector in Algeria was only working at 29% capacity. ►

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Morocco

Leather tanning, as previously mentioned, is a very old activity in Morocco. In the past, finished leather formed an important part of its trade with other countries and 'Morocco' was widely used for book binding due to its attractive grain and resistance to wear. The country's close proximity to Europe meant strong commercial ties and those, with France in particular, have continued up to the present day.

Morocco is similar to Tunisia in regard to the availability of hides and skins, and the skilled labour needed to process them. Domestic sheepskins—other than those killed during religious festivals—are of excellent quality. The country's leather industry covers all aspects of production, from basic tanning right through to finished footwear, leathersgoods, clothing and components. Besides the traditional small scale artisan tanners and leather workers, the sector today includes 363 modern tanneries and factories with up-to-date equipment and manufacturing techniques, employing some 17,000 people.

The principal export markets for all four product areas are predominantly in Europe. For leather, France takes around 41%, Italy 30% and Tunisia 14%. China also appears at 4%. Some future investment in the tanning sector is needed to secure the industry and this may come as tanners relocate near the new Casablanca effluent facility over the next five years. Many would like to export wet blue but the government remains uncertain as to whether this should be permitted.

France at 47% again leads in regard to footwear, as many French brands have used Morocco for low cost off-shore production



Kasbah Ait-Benhaddou

Leather sector breakdown

	Tanneries	Footwear	Leathersgoods	Clothing
Number	57	243	42	20
Employees	1,812	12,946	1,623	632
Output	64.06	178.35	17.58	20.10
Added value	17.96	69.71	7.16	4.02

Output & added value (2003) in million dollars
Source: MICT

for a number of years. Spain comes next at 24%, followed by Germany with 14% and Italy 9%. There has been some recent development in footwear capacity although plants are generally medium to small in size and the price of land continues to persuade those near Casablanca to invest in less efficient multiple floor units.

France is also the number one market for leathersgoods at around 50%, followed by Switzerland at 20% and Spain at 11%.

Exports (2004)

	\$ millions	Percentage
Finished and semi-finished leather	13.82	6
Footwear	167.05	73
Leathersgoods	25.12	11
Leather clothing	23.86	10

Source: MICT

Leather clothing sees a change whereby Spain buys 70% of all pieces exported. The Netherlands takes 10%, France 9% and Italy 6%.

FEDIC

Morocco has a combined trade association for all sections of the leather industries called FEDIC, which includes vocational training in its activities at sites in Casablanca, Tangier and El Jadida. It has also recognised that global changes mean the leather sector must become more competitive and is spearheading institutional and economic reforms in this direction. It has therefore developed a strategy aimed at upgrading companies with regard to both technology and the use of human resources. An English language website further reflects its concern to improve the production and marketing of leather products. 🌐



Riding boots for French motorcycles being made in Morocco. These bespoke boots retain traditional welted technologies.