



Regional Commentary: Southern Europe

Southern Europe has had a leather industry for at least two millennia, as the discovery in Rome this summer of an ancient tannery, with 97 intact tanning pits, indicates. These centuries of tradition have produced, across this part of the continent, an industry that is intensely proud of what it has achieved. And, as proud people often do, they have reacted defensively to the threat to their strength, their dominance and their future that has arrived in recent years from Asia.

Something to defend



Photo courtesy: IFEMA, Spain

Ask any leather professional in Spain, Italy or Portugal the reason for their reaction and they will tell you that it's because they genuinely have something to defend, something, like the archaeologists' recent Roman discovery—whose future is under threat because it's blocking progress on a high-speed rail-link between the Italian capital and Naples—that they feel is worth preserving.

The path most tanners have pursued has been to continue to produce the highest quality leather from the hides and skins of lamb, pig, cattle, buffalo, goat, deer, and all the other animals that graze on southern European pastures. Quantity seems less important. They accept that the cheaper, volume end of the market may be lost to them, and they are concentrating instead on leather that will go into high value-add footwear, furniture and leathers, much of which is boosting export statistics.

Take Italy. It's true that sectors such as leather, footwear, furniture and textiles still feel "at risk" from Asian competitors, but in the first half of 2007, the value of exports from these areas of the Italian economy increased by around €300 million.

Last year the Italian government

appointed one of the country's (and one of Europe's) most prominent politicians, Emma Bonino, to the role of international commerce minister. On hearing the most recent half-year figures, she said progress on exports since 2006 and the start of campaigns to promote the 'Made in Italy' concept, had been "more than positive".

Spanish tanners want to present a similar image, offering leather of the highest quality and, naturally, a higher price than buyers might be able to find elsewhere in the international market. Their industry association, Acexpiel, recently teamed up with some of Spain's hottest design talents to promote the country's fashion expertise and the local industry's Entrefino shearling, nubuck, nappa, suede and other leathers.

The aim is to keep hitting the high end of the market. One of the recent statistics that Emma Bonino has highlighted is that Italian export increases (across the board) are most impressive of all to countries that are becoming newly wealthy. Exports to Russia, for example, are up by 33% in the first six months of the year.

Thirty years ago, when Acexpiel was formed, Spain, Portugal and Italy were the lower-cost economies to which much of the leather, footwear and other

leathergoods production of northern Europe moved. If they now face similar competition from emerging economies in Asia, you could say that it's just the way of the world. But southern Europe has no intention of giving up without a fight. To survive there, the leather industry wants to stay at the upper end of the market. It will be smaller, but perhaps just as prosperous and prestigious as before.

Intellectual property headache

One of the toughest challenges facing tanners and manufacturers of footwear and other leathergoods in southern Europe is how to cash in on the caché they have earned in the global marketplace without surrendering their intellectual property and the value of the brand-names they have worked so hard to build up.

At the same time, to achieve the growth that shareholders and bank managers crave, most have had no choice but to venture into new markets too. At the start of 2007, the organisers of the APLF event in Hong Kong criticised Italian and Spanish footwear brands for choosing not to exhibit at the event, saying they were missing out on contact with highly lucrative Asian markets. The counter-claim

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from the Europeans was that they were worried about exposing themselves to imitation and possible brand-infringement from Asian competitors.

Tanners and finished leather suppliers, although fewer in number, have faced a similar dilemma, none more so in recent times than Arzignano-based tanning group Mastrotto. It set up a new facility in Indonesia in 2005, hoping to carve out a healthy opportunity for itself in that part of Asia by making quality leather for manufacturers in all the markets of the region.

However, after a long-running battle, the courts in Jakarta told the Mastrotto Group in July that it could not use its own brand name in Indonesia. A local firm had taken out a patent on the Mastrotto name first and the authorities there decided not to listen to the Italian tanner's protests. Even the intellectual property of its brand-name has been taken from it.

Mastrotto has confirmed the facts of this story to *World Leather*, but has refrained from giving further comment at this time.

Fair play

Fortunately for us, Emma Ormond, a leather and footwear trade expert at PricewaterhouseCoopers, has a lot to say on the subject. She is less than keen on any trade-distorting moves that get in the way of global trade, and fears further anti-dumping measures such as the one the European Commission imposed on leather footwear imports from Vietnam and China in August 2006. She has described the current position as something of "a lull before the storm".

Perhaps the indignation in Indonesia that Mastrotto has suffered will bring the storm closer, although Ms. Ormond doesn't think so. She says there have been similar cases previously, particularly involving consumer products, and particularly in China.

"What incidents like this one do, though, is feed the suspicions of the industry in Europe," she says. "And that's particularly true when they involve China. They allow the European industry to complain that market access and IP rights

are not being respected. This then makes it harder to fight actions [such as the anti-dumping measure mentioned above] against such countries. It also allows the European industry to make sweeping generalisations about the region as a whole, which is not helpful."

She would like people to stick to the rules of the game and for trade to flow problem-free from continent to continent, but she acknowledges that this is more of an ideal than a realistic goal in today's world.

For example, that same anti-dumping measure to control leather footwear imports into Europe—argued for and supported most strongly by Spain, Italy and Portugal—has resulted in a huge surge in imports from Hong Kong, Macao, Cambodia and Malaysia. The European Commission is in the process of launching what Ms. Ormond calls "anti-circumvention action" against Macao to stop Chinese exporters from getting round the ban simply by shipping shoes made in China from the former Portuguese ➤

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colony instead of from its own ports.

The PricewaterhouseCoopers expert says a number of leather footwear companies (Timberland is one of the most recent) have cited the anti-dumping measure as a reason for poor financial performance. "Companies have tried not to increase retail prices," she explains, "which has hit margins very hard." She says there are "all sorts of rumours" of similar action on other product groups, with textiles, perhaps, the next in line.

The calls for companies everywhere to play fair and keep to the rules of world trade would probably find support with most southern European exporters of leather and footwear. They have the quality and the craftsmanship, the style and the savoir-faire. Also, and in spite of Mastrotto's experience, their confidence in their ability to win the market-share and the profit margins their work deserves in the global economy—buoyed by recent positive export statistics—is as high as it has been for the whole of this decade so far.

A flair for design secures Spain's position

The leather industry in Spain has suffered the same fate as it has in other European countries in recent years as a significant portion of production has been moved offshore to lower-cost countries. However, far from giving in, Spain has gone on the offensive in the international market. In the 'designer-label-hungry' society of today it is now trying to take advantage of its Spanish flair for design to secure its position in the global arena and make its mark in new markets ... and not without a certain degree of success.

Although recent times have been dominated by further consolidation within the industry, Spain, like Italy, is now aiming for quality rather than quantity, exploiting its cultural heritage, implementing quality standards, and focusing on high-end goods. And this strategy produced some promising results in 2006 as growth in the leather sector surpassed that of other industries. According to figures published by the



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Spanish footwear market Comparative figures 2005/2006 (mill. prs)

	2005	2006	Variance
Output	126.32	118.32	-6.3%
Exports	96.41	94.61	-1.9%
Imports	247.31	295.71	+19.6%
Retail sales	277.11	319.01	+15.1%

Source: Spanish Customs Department

Spanish Association of Manufacturers of Leather Goods, Travel Items and Related Products (ASEFMA), leathergoods exports rose 14% to reach €362.2 million.

Moving in the right direction

This impressive upswing in the volume of Spanish goods being sold abroad could be largely attributed to the higher consumer and tourist spending power now evident in new markets such as Russia, South Africa, Turkey, Poland, Venezuela, Austria and Cuba. However, it has by no means abandoned hope in its traditional markets. France still remains the main export market for Spanish leathergoods, accounting for some €120 million worth of the country's export value—a third of the €362.2 million market. Spain's southern European neighbour Portugal is the second largest consumer, accounting for an export value of €48 million, followed by the UK and Japan.

Whilst exports climb, the downside of operating in an open market is that imports have also continued to increase and in spite of the 'renaissance' of Spanish leathergoods abroad and the increasing income of Spaniards, Indian and Chinese products continue to dominate in the domestic sector. Spanish firms remain unable to compete on price in the lower-end market. Hence manufacturers are also targeting the medium-to-higher-end segment at home, with the focus on design and branding, and the associations which represent the leathergoods sector are doing all they can to assist. Leather companies are now implementing continuous training programmes for their employees to ensure that they are up-to-date with all of the latest technology and design trends. Where companies are not in a position to establish a brand, associations such as ASEFMA are working to assist them in doing so.

Stepping into new markets

Spain's footwear industry is also taking steps to improve its position in the globalised market of the 21st century and according to the Federation of Spanish Footwear Industries (FICE), the sector is

moving in the right direction, citing sales of 319 million pairs worth €1,978 billion in 2006, up 15% in terms of volume and 4% in terms of value compared with 2005.

But, while FICE exudes confidence in the success of the industry, other official figures released by the Spanish Customs Department (INE) show a slightly less rosy picture, at least as far as manufacturing is concerned. According to the INE data, the industry has shrunk and will no doubt continue to do so as weaker companies are unable to compete. However, once again, as the number of manufacturers falls (-2.5% to 2,283, according to INE) the focus is again shifting to the production of smaller-volume, higher-priced, branded goods.

Spanish footwear companies that have successfully established brands, designs, and innovative footwear do appear ready to take on the global market, even to the extent of seeing countries such as China, India and Brazil as potential targets. And although manufacturing output may have fallen 6.3% last year, exports slipped a mere 1.9%. This is largely the result of the industry selling the 'Spanish' brand to overseas markets. Much like the 'I Love Italian Shoes' campaign launched by the Italian National Association of Footwear Manufacturers (ANCI), FICE's Zapatos de España (Shoes from Spain) campaign has been widely credited for pushing the 'Spanish' brand abroad. Launched at the beginning of 2006, in conjunction with the State Company for Design and Innovation Development (DDI) and the regional governments of Valencia, Castile-La Mancha, La Rioja, the Balearic Islands and Aragón, the objective of the campaign has been to raise awareness of Spanish footwear, the place it occupies in world markets and its reputation for fashion and design. The success of this has been mirrored in the volume and value of leather footwear exported.

Although the INE figures show that export pairage fell slightly from 2005, FICE says that value at €1.72 billion was up 6%. Leather footwear accounted for 54.7% in terms of pairs, a figure that increases to 75.2% in terms of value, a rise of almost three percentage points compared with the previous year. The average price of these items came to €25 per pair or an increase of 4% over 2005.

Combining the old and the new

As with the leathergoods segment, new markets such as Taiwan, South Korea, Hong Kong, Singapore, China and Japan, followed by South Africa, and Russia ➤

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were the main markets for Spain's highest-priced footwear, demonstrating how producers are offsetting shrinking export pairage by increasing unit value in key markets, and are moving from being volume producers to maximum added value. What is maybe more significant, according to FICE, is the growth witnessed in traditional markets such as Italy and the USA, which had weakened in recent years. In fact, sales in the USA—Spain's fourth most important market in terms of value—actually increased for the first time in years (6%) in 2006, which is all the more impressive in view of the euro's strength against the dollar. Once again, the EU as whole still accounts for 81% of export pairage and although this is slightly lower than in the past, the average price has marginally increased.

In spite of this move towards the luxury market, FICE does, however, feel that Spain's position in the world footwear market is not fully appreciated and in this it may well have a fair point. It does produce some well-designed, high quality footwear; it is also the second most important producer and exporter of footwear in the EU after Italy. A successful policy of the better-known brands is to have self-owned retail outlets in major cities around the world devoted exclusively to Spanish products. There are in fact eleven in Paris, eight in London, seven in Istanbul and Beijing, six in Dubai and Moscow, four in Shanghai and three in New York, Tokyo, Milan and Athens. More are due to open across Asia in the course of this year.

An unconvinced audience

With a population of approximately 40.5 million and domestic consumption at a remarkable 7.9 pairs per person, the prospects for the industry should be bright. However, in spite of the country's manufacturers shifting towards higher-end products and launching new marketing campaigns, with an average selling price of only around €6.2, it appears that some Spanish consumers remain firmly entrenched

in a 'quantity not quality' mindset at present. It will come as no surprise that the vast majority of these cheaper shoes are imported from the Far East.

Imports have now surpassed €1.64 billion and some 296 million pairs of shoes—an 18% increase in terms of value and 20% in volume. However, although the rate of growth in imports has fallen quite noticeably, so has the average import price which has slipped a further 1.3% to €5.50. China leads the way at almost 211.5 million pairs and although anti-dumping legislation does appear to have had some effect as far as direct imports are concerned, those from other Asian export hubs, as suggested above, have taken up some of the slack on China's behalf.

Imports into Spain from Hong Kong, for example, increased by no less than 250% last year according to FICE, whose president, Rafael Calvo (left), is also the current president of the European Footwear Association.



Eye on Italy

In spite of Italy's positive figures for the start of this year, 2006 will be remembered as a year of transition, especially for the country's footwear industry. The markedly negative trends of the previous five years finally began to dissipate and the signs of a potential reversal that we have seen this year began to emerge. The negatives that refuse to go away include a continuing fall in pairage produced and exported, even if prices have risen. This is evident in the most recent full-year figures available.

Output totalled 244 million pairs, down 2.5% on 2005 but 3.2% up in value at €7.20 billion. The number of manufacturing companies also fell 2.5% and now stands at 6,657. Over the same period, 2,862 jobs were also lost to leave the total down 3% at 94,143. Exports including purely marketing and sales-related activities totalled 243.6 million pairs, 2.2% and €5.4 million less than in 2005. Value, however, rose 6.3% to €6.48 billion based on an average price increase of 8.7% which, in turn, led to slightly improved results for some better quality manufacturers.

Italy's footwear exporters are not yet completely out of the woods however and there are still some causes for concern. EU markets in particular are very mixed, with Germany (-11.5%), France (-5.4%) and the UK (-10.7%) all down on volume for the year. The USA also bought nearly

Portuguese footwear market Comparative figures 2005/2006 (mill. prs)

	2005	2006	Variance
Output	72.3	71.7	-0.9%
Exports	64.3	63.8	-0.9%
Imports	39.2	41.2	+5.1%
Retail sales	47.2	49.1	+4.0%

Source: APICCAPS

9% fewer pairs than in the previous year. On the other hand, Spain (+19.3%), Switzerland (+5.0 %), Benelux (+2.2% overall) and Greece (+13.2%) were all up.

As in many other areas, Eastern Europe provided much needed growth and, led by Russia (+8.7% for the full year, up even higher in the first half of 2007 as we have seen) and Ukraine (+34%). These are emerging as key markets for Italian manufacturers.

The chairman of ANCI, Rossano Soldini, remains confident and believes that the industry is pulling through. His optimism owes much to a combination of manufacturers determined to survive at all costs and the promotional support ANCI is supplying at important fairs world wide.

Prestige in Portugal

Until the 1970s, Portugal had always been a relatively small footwear producer as it lacked the leather-producing and working traditions of its much larger neighbour to the east. A massive expansion occurred following the fall of the Salazar-Caetano regime in the so-called Carnation Revolution of 1974. The new socialist-leaning government encouraged lending to former employees of bankrupted footwear factories, allowing them to set up new businesses to provide employment and export revenue.

These businesses set up principally in the region around Oporto. They proved successful as major buyers, from France, Germany and the UK in particular, began to use Portuguese factories as a cheap source of footwear. This worked well for both parties. Buyers simply told factories what to produce and how much they were prepared to pay. The factories did not have to worry about range building and selling, merely controlling production costs which, at the time, was quite easy as wage-rates were low. Costs gradually increased as Portugal's economy grew until inevitably, buyers started to look elsewhere in order to keep prices down.

Italian footwear market Comparative figures 2005/2006 (mill. prs)

	2005	2006	Variance
Output	250.2	244.0	-2.49%
Exports	249.0	243.6	-2.17%
Imports	331.7	363.6	+9.59%
Retail sales	187.0	188.2	+0.61%

Source: ANCI

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The Arzignano cluster

Italy's "leather triangle" is located in the Chiampo Valley near Vicenza (north-east Italy) around the towns of San Pietro, Chiampo, Arzignano, Trissino, Montorso, Zermeghedo and Montebello. In an area inhabited by nearly 90,000 people, leather manufacturing absorbs some 8,500 workers and contributes disproportionately to the local economy. The district is composed of some 750 enterprises, over a third of which are handicraft workshops.

It also houses a large number of metalworking and chemical enterprises that supply the machinery and the chemicals which are required in leather production. Recently, the machinery producers established themselves as exporters within the European market, competing against German and French companies that have traditionally led the field. Arzignano accounts for nearly 40% of Italian leather production.

The earliest evidence of the leather industry in this part of Italy dates back to the 15th century. Significantly, one of the earliest documents relates to the regulation of water usage and to the environmental impact of leather manufacturing. The oldest among the enterprises which are still active in Arzignano were founded in the 1830s.

Many footwear manufacturers were left exposed as they had lacked both the incentive and foresight to invest in developing their own ranges and brands. There were of course notable exceptions, such as Fly London, which continues to be a fashion leader. Many of the others simply went to the wall and today's footwear industry is but a shadow of what it was 25 years ago.

More stability

According to the industry body Associação Portuguesa das Industrias de Calçado, Componentes e Artigos de Pele e seus Sucedâneos (APICCAPS), there were 1,150 companies employing 33,970 people producing footwear last year. This shows a minimal contraction against 2005's totals of 1,160 and 34,280 respectively. The industry does finally appear to have levelled out and, even though there was a slight fall in output, it was far lower than in Spain. However,

Portugal's total output is nearly 40% less than Spain's.

Portugal's export sales are almost all to fellow EU member states to the extent of making up 92.5% of the total number of shoes shipped outside the country. Furthermore, it is interesting to note that the three major players early on are still major customers.

Learning legacy

Portugal's footwear industry helped to build up substantial knowledge of the wider leather sector and that heritage is about to pay off for new leather professionals today, not just in Portugal itself, but across the whole of Europe. A two-year initiative to share knowledge and expertise across the whole of the European leather industry comes to an end in September.

The 'One Leather Training' (OLT) project began in October 2005 with funding from a European Commission programme called Leonardo da Vinci, which has the aim of supporting vocational education and training throughout the European Union.

OLT is part of a wider focus on traditional craftsmanship skills and has involved the leather technology centres of Germany, Greece, Italy, Poland, Romania, Spain and the UK, with Portugal's Centro Tecnológico das Industrias do Couro (CTIC) taking the lead.

The objective throughout the two years of OLT has been to gather information and expertise from all participating organisations and make it available to the industry on a single, multilingual, online platform to deliver training and skills development for workers and managers in tanneries. Training will also be available for people leaving school or college, or unemployed people looking for a job in the leather sector.

In the first phase, the combined expertise of all the partners went into preparing three modules. These will make self-service training material available to help people in three roles in the leather space: sales, sorting and grading, and management. A second phase of the project later added a module for raw materials purchasing managers. ➤

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Photo courtesy: IEEMA, Spain

The project management team also conducted a detailed user survey, gathering feedback from real-life leather professionals on how to make the content more relevant and more user-friendly.

The material the OLT project has amassed will be freely available to all

members of the Confederation of National Associations of Tanners and Dressers of the European Community (COTANCE), the Brussels-based representative body of the European leather industry.

COTANCE members at present are the national leather associations of Belgium,

Germany, France, Spain, Greece, Italy, Sweden, the Netherlands, the UK, Portugal, Hungary, Finland, Slovenia, Lithuania and Bulgaria. Their counterparts in non-EU member states Norway and Switzerland have associate-member status. Polish and Romanian tanneries—who, despite being in the European Union do not yet have COTANCE membership—will also have access to OLT material.

Lead organisation, CTIC, under its director, Dr. Alcino Martinho, is extremely pleased with the way OLT has gone. “This project has won praise from a number of international bodies because it works well, and its usefulness is beyond question,” CTIC says. “It has even been selected as one of the successful e-learning case-studies that will feature in a special conference on the subject in Sofia, Bulgaria, later this year, from November 5 to 7.”

Dr. Martinho's organisation feels that the success of One Leather Training reflects well on, and enhances the reputation of, CTIC as the project leader. 🌐

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