

# Industry feels the impact of economics and imports

The Bank of France has forecast growth of 0.2% for 2003, well short of the modest 0.5% target set by the government. France's government is hoping that its new budget, which couples increases in diesel tax, hospital fees and tobacco duty, with cuts in income tax and corporate charges, will spur economic growth by boosting consumer confidence.

However, the government, led by Jean-Pierre Raffarin, finds its popularity at an all time low, with Mr Raffarin's personal approval rating having sunk by 12 points, to 37%, since taking office in May 2002. The French government is confronted by increasing protests sparked by economic and labour reform. The new budget for 2004 unveiled by Francis Mer, the finance minister, on September 25, exceeded the 3% limit imposed by the European Stability pact for the third year.

As a result, France was moved to the next stage in the EU's 'excessive deficit procedure' and awaited the recommendations of the European Commission. As we now know, France together with fellow transgressor Germany, escaped serious consequences following the meeting of Europe's 12 finance ministers on November 25. Instead of hefty fines and action to reduce the budget deficits, the Eurozone's finance ministers agreed on a set of proposals of their own, drawn up by the Italian finance minister, Giulio Tremonti. France will cut its structural deficit by 0.8% of GDP next year, Germany by 0.6%. In 2005, both will bring their deficits below 3%, economic growth permitting. Nothing will enforce or guarantee this agreement except France and Germany's word.

The European Central Bank (ECB) was alarmed at this outcome, the commission was dismayed, and the smaller Eurozone countries that opposed the deal were apoplectic: as *Le Figaro* put it, treaty law was giving way to the 'Franco-German

*By Longchamp, one of the largest producers of leathersgoods, a handbag in soft metallised leather decorated with Swarovski crystals.*

steamroller'. This anger may well sour European politics and may influence negotiations on a proposed EU constitution. Having thrown their weight around, France and Germany may find other, smaller members more reluctant than ever to give ground in the negotiations on the document. The European Commission is also considering retaliation. It claims that the finance ministers' fudge does not have 'an appropriate legal basis' and it may yet consider challenging the decision in court.

Figure 1: Raw materials exports 1980-2002

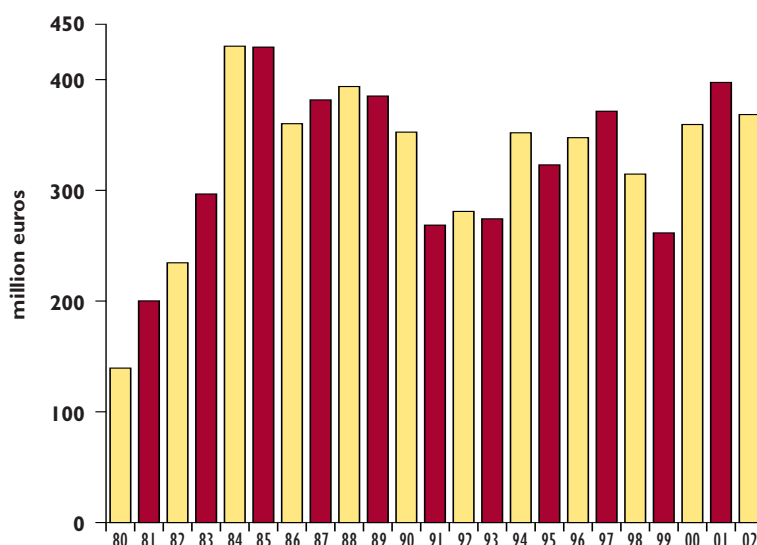
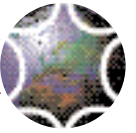
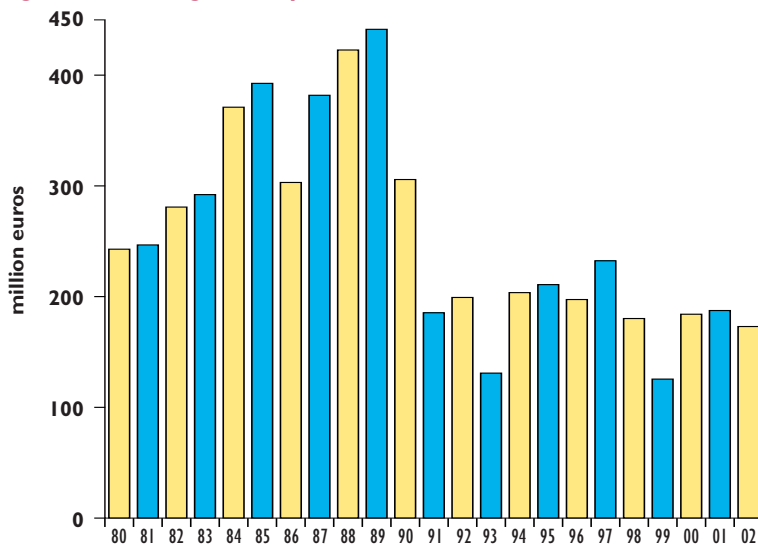
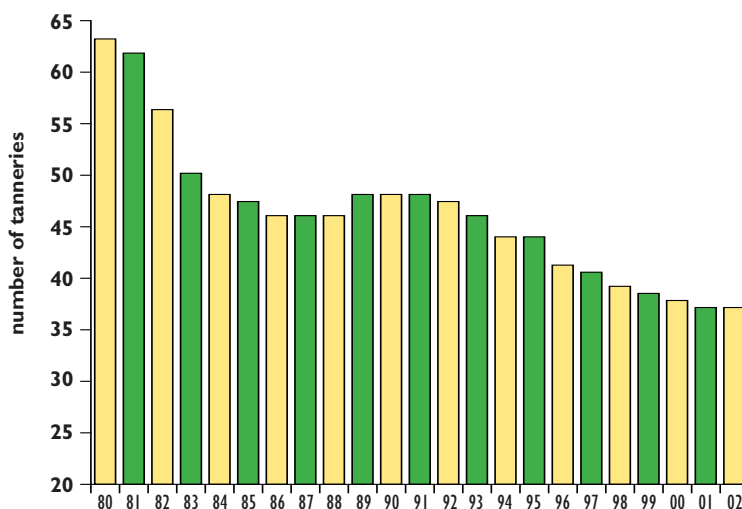
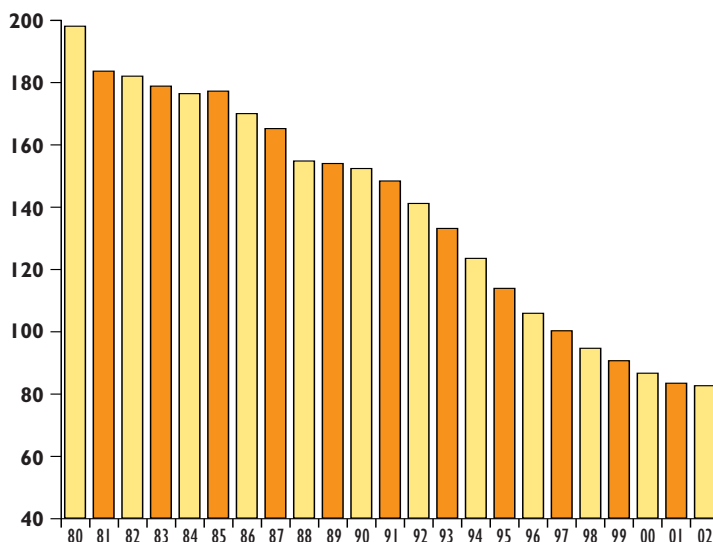


Table 1: Imports and Exports Hides & Skins

|                              | Imports €millions |               |              | Exports €millions |               |              |
|------------------------------|-------------------|---------------|--------------|-------------------|---------------|--------------|
|                              | 6 months 2002     | 6 months 2003 | % difference | 6 months 2002     | 6 months 2003 | % difference |
| <b>Raw hides &amp; skins</b> | <b>52.4</b>       | <b>43.2</b>   | <b>-18%</b>  | <b>188.7</b>      | <b>175.8</b>  | <b>-7%</b>   |
| of which:                    |                   |               |              |                   |               |              |
| Bovines                      | 12.0              | 10.6          | -12%         | 106.7             | 108.5         | 2%           |
| Calves                       | 8.7               | 5.9           | -32%         | 49.9              | 39.5          | -21%         |
| Sheep                        | 19.1              | 16.5          | -14%         | 25.8              | 24.5          | -5%          |
| Caprines                     | 0.6               | 0.3           | -50%         | 3.2               | 1.7           | -47%         |
| Reptiles                     | 10.7              | 8.7           | -19%         | 2.0               | 0.8           | -60%         |


**Figure 2: Leathergoods imports 1980-2002**

**Figure 3: Number of tanneries 1980-2002**

**Figure 4: Number of fellmongers 1980-2002**


Euroscepticism is also on the rise in France, fuelled by resentment at the way Brussels has handled the problem of Alstom, a large French heavy-engineering firm for which the government was attempting to engineer a financial bail-out. The original rescue package was rejected by Mario Monti, the EU's competition commissioner, and the French were forced to restructure its terms that were much less favourable to Alstom. In the wake of the controversy, President Jacques Chirac has softened his earlier promises that the European constitution would be 'ratified by the people' to a 'preference' for such a referendum.

The events of late November have exposed the frailties of the stability pact and added to economic uncertainty for many French industries including the already beleaguered French leather industry.

The French leather industry in total comprises some 548 concerns dealing with all aspects of raw materials, leather production and leather manufacture.

It employed about 33,000 people in 2002 and produced a turnover of €3,500 million, this figure being approximately 7% down on that for 2001.

The first link in the industry chain is the raw hide and skin collectors and dealers who supply the tanneries. There were, in 2002, some 45 businesses with a turnover of €355 million and a manpower of 580.

Exports and imports were €368 and €103 million respectively with the downward trend from 2001 being -7% for exports and -8% for imports.

In the leather production sector there are 25 bovine tanneries employing some 1,400 people with a turnover of €191 million. French bovine tanneries are generally small companies of less than 40 employees with the largest four accounting for half the work force and half the turnover of the sector. They are situated all over the country with small clusters in Alsace Lorraine, Pays de la Loire and Rhone Alpes.

The bovine sector in France has shown a gradual decline in numbers over the past five years going from 35 to the present 25 tanneries.

The other important sector of French leather production has always been the numerous skin tanners. Twelve years ago there were 142 enterprises employing 3,500 people; by the end of the first quarter of 2003 this had gone down to 53 units employing 1,000 people. These concerns are mainly situated in the region Midi-Pyrenees in Mazamet and Graulhet.

This sector comprises mainly very small units with approximately three-quarters employing less than 20 people and very few with more than 40 employees. The small skin tanners of France are mainly situated in the Tarn district with the majority of the units in Graulhet and Mazamet. The weakness of the domestic market has concentrated efforts on exports and also moves downstream from pelts to finished leather, especially in sheepskins and goatskins.

A very important sector of the French leather



**Figure 5a: Footwear imports 1980-2002**

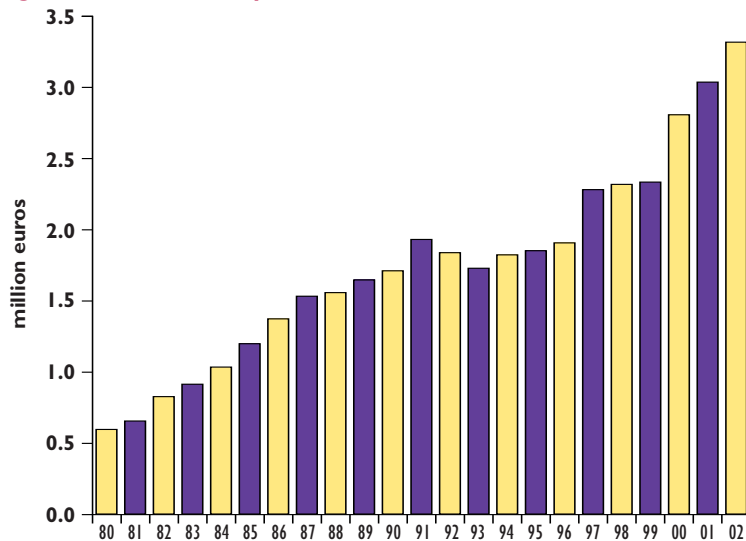


**Figure 5b: Footwear exports 1980-2002**

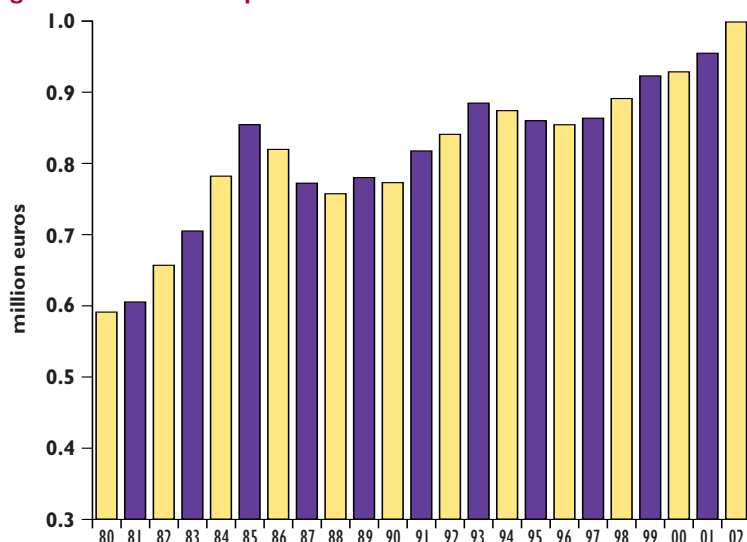
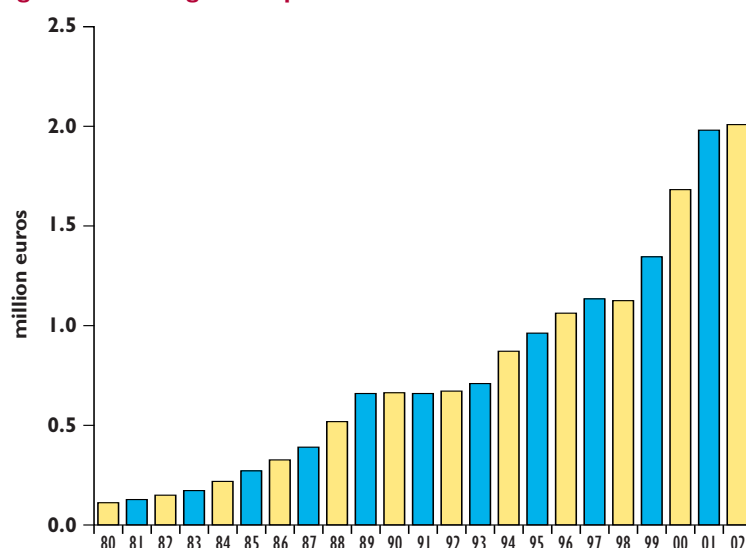


**Figure 6: Leathergoods exports 1980-2002**



trade is made up of those companies that consume leather, such as shoemakers, leathersgoods and gloving factories. There are some 425 enterprises producing in total goods to the value of €2,800 million.

The breakdown of turnover in the sector is 59% in shoes, 40% in leathersgoods and 1% in gloves.

The French Shoe sector comprises about 170 enterprises employing 17,500 people with a total annual production of approximately 75 million pairs of shoes and slippers.

The turnover of the shoe sector in 2002 was approx. €1,600 million; a fall of 6% compared with the previous year's figure.

Both exports and imports of footwear showed rises in value of 6% and 9% respectively.

The leathersgoods sector is a very valuable and successful part of the French leather trade. It comprises some 233 units employing almost 12,000 people, which is more than a third of the total for the whole industry.

The turnover for the full year 2002 was €1,100 million with relatively few larger companies contributing approximately 50% of the total turnover.

The leathersgoods sector has continued to enjoy a very healthy positive balance of trade since 1988 with current exports of €2,000 million and imports of €1,250 million. Leathersgoods exports have shown very healthy increases year on year since 1993.

The important export markets are Asia with 33% of sales and Europe with 23%. The largest individual export markets are Japan, Hong Kong and USA.

In the year to first quarter 2003, France exported 6.9 million handbags and almost one million items of small leathersgoods but both these figures showed a reduction compared with the same period in 2002.

The gloving sector of the French leather trade comprises 19 units with the majority directly employing less than 10 staff. As is usual with any gloving industry, the direct employment of the sector of some 415 people is supplemented by a large use of outworkers.

Turnover in the year to first quarter 2003 was €38 million and was made up of a production of 0.5 million pairs of fashion gloves and 3.1 million pairs of work gloves. The production of work gloves in this period showed a dramatic fall of almost 50% but fashion gloves staged a recovery of 22% to 0.5 million pairs.

The balance of trade remains strongly negative with imports to the value of €73 million and exports at €14 million. The main producers are China and India who account for almost 60% of French imports.

Overall the French leather trade continues to suffer from weakening demand and import competition but the strong performance of the leathersgoods sector is a ray of sunshine in an otherwise rather gloomy picture. ☀