



Regional Survey: Europe

Challenging and changing times for European leather industries

The leather and allied industries are where we have to look to understand much of modern business management. From Nike as the original example of a “virtual company” through Malcolm Gladwell using the 1990s revival of Hush Puppies as a prime example of a ‘tipping point’ to more recently Keen Footwear as one of the fastest growing ‘instant companies’ leather, footwear and leather goods businesses are shown to be continuously re-inventing themselves.

More importantly the industry, over many centuries, has highlighted aspects of disintermediation—cutting out the middle man in the supply chain—re-intermediation, and segmentation as it has moved around the world seeking raw materials or more efficient production. Certainly today any discussion of the European leather industry requires a global analysis, as the European finger of exports, production, joint venture and importation reaches every corner of the world.

The linkage of leather and footwear

No issue has affected the industry more than the so-called Chinese shoe dumping situation. Here the EU has decided that there is clear evidence of dumping of footwear from China and Vietnam into the European market and provisional anti-dumping duties have already been implemented. This has split Europe between north and south. The north has largely lost its footwear manufacturing and imports, while southern countries such as Italy are keen to hold on to the significant capacity they still retain.

Within a few days of the Brussels announcement that the EU intended to impose duties, the Minister of Economic and Business Affairs from Denmark wrote to the Financial Times, “In my view anti-dumping policy should not be used to counteract globalisation and increased competition.... It has been a fact for decades that a large part of EU production has been outsourced to external producers in third countries. By outsourcing, our

shoe producers have been able to maintain and expand their business and increase EU employment in the added-value area of design, innovation, logistics, sales and marketing.” Working on the basis of a 40% import duty he argued that for each €1 gained by the EU producers from trade protection, EU consumers and user industries would have to pay almost €10. In writing this letter he will have been very aware of the ongoing investment of Danish shoemaker ECCO in wholly-owned footwear manufacturing and tanning facilities in China.

At the southern end of Europe the astronomic rush of imports during 2005 created a panic, causing concerns that the same sort of ‘tipping point’ that brought Hush Puppies back into fashion would work in reverse and see the total closure of factories in places such as Italy, Spain and Portugal. Already in a 2005 report on Chinese footwear Anthony Clothier noted that the infrastructure of suppliers that made the Italian shoe “cluster” so unique was disintegrating and that the systems in

place in south China were superior.

The impact can be considerable. Santa Maria de Feira and Felgueiras in northern Portugal have, for some decades, relied on the footwear industry for employment. But, in the last five years, brands such as Clarks and ECCO have exited these areas and relocated to Asia or Eastern Europe, leaving large levels of unemployment in these small towns.

France’s manufacturing has been largely relocated to North Africa, especially Morocco and Asia, Germany has rushed to Eastern Europe and Asia, while Italy and Spain have tried harder to hang on. Now, under the huge pressure of Chinese imports in the last fifteen months, things are changing even in these two countries. The chemical and the machinery industries that support the tanning sector have already been largely established overseas, in places such as Brazil, India and China. Tanners and shoemakers in Italy have also looked overseas with Eastern Europe as a popular location thanks to its close proximity. For those based in the north of



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Italy, countries such as Albania are a tempting move as senior management can stay on site yet travel home easily for weekends. However, this has not been successful for all of them and the Italians are on the move again to China.

Illegal imports

At the same time Eastern Europe and North Africa have also had to face the onslaught of Chinese footwear production, albeit these tend to be unbranded. One of the issues of the global footwear industry highlighted in 2005 by the Brazilian footwear industry consultant Enio Klein is that informal distribution in many countries encourages under-invoicing, piracy, and smuggling, especially through porous borders. While readers of *World Leather* are well aware of the excellent tanneries and shoe factories that are linked into the export of branded footwear for the US and Europe, they may not perhaps be so well-informed about the huge volume of footwear reportedly moving into world markets through places such as Moscow and Dubai.

While the argument may go on about the legitimacy of duties against branded footwear from China and Vietnam there can surely be no argument that this black market development is causing a huge amount of harm world-wide. In Europe the problem appears to be causing the greatest damage in Eastern countries, but in the rest of the world the problem is greatly affecting the footwear industries of Latin America and Africa.

A global perspective comes from France

Along with the other northern European countries the leather industry in France has been largely restructured—a process which has had more to do with closure on a wholesale scale rather than much else. The final ending of Costil was probably the completion of the process. France now has some 24 tanneries remaining, with a strong representation in world class box calf, and a reasonable position in clothing and glove leather. The remaining few heavier leather plants have all found their niche roles for the future. 85% of French cattle hides—some 3.8 million pieces—are exported per annum and with red meat consumption declining steadily at a rate of between 1-1.5% per annum, we cannot expect hide supply to increase.

Yet France continues to punch above its weight, not as a result of its tanning capacity but rather because of its personalities. Both Marc Folachier of CTC

Morocco – the hidden extension of Europe

More or less attached to southern Spain and within two days driving of Paris, Morocco is perfectly placed to help the southern European leather industry with its relocation solution. The list of brands from Spanish Camper through Italian Geox to France's Decathlon is already indicative that many Europeans have already decided that Morocco is the place to be. Both Decathlon and Eram maintain large permanent teams in Casablanca to monitor and manage their production in a large number of plants.

From January 1, 2005, all duty on leather, leather products and footwear was ended between Morocco and the USA and since similar goods can move freely into the EU, Morocco has certainly become a useful location.

Within Morocco there are some 350 plants in all – 53 tanneries, 242 shoe factories, 44 leathergoods, and 18 clothing producers. The country produces about 1.5 million hides, mostly under 25 sq.ft. and of medium quality. Its sheepskin production of a low density wool sheep type is of excellent quality. Annual production is about eight million with approximately another four million, which are slaughtered during the Eid festival, finding their way into the craft tanning sector, such as is found in the old towns of Fez and Marrakech. It is originally from these centres that modern European tanning and leather craftsmanship was developed, although today's exporting plants are primarily located around Casablanca and Tangier.

Tanneries such as Nouvelle Somatan and Mohamedia are good examples of the more modern sector of the local industry and are awaiting the opportunity to move to a centralised location outside Casablanca within the next three years, where there will be a

central effluent treatment plant. The French testing house CTC is currently equipping a new laboratory to allow full testing of leather and leather products to international standards and shoemakers have the support of significant local component production including lasts and cutting knives. However, many of the shoemakers and other leather product producers are taking advantage of the country's proximity to Europe to bring in top quality components, including leather and accessories, from the best European producers.

Consequently makers of top quality welted footwear such as Benson now manufacture their shoes out of Belgian sole leather and French box calf and do excellently in their concessions in professional cities such as Brussels. On the other hand Primavera makes its Goodyear welted and casual footwear using local materials and is able to reach a lower price segment in the European market.

For those not wishing to be totally dependent on China, we can anticipate increased investment in Morocco from all those who require medium-sized runs, high levels of quality and craftsmanship, with top European materials or their equivalent, all just a short flight away and in the same time zone. Morocco is not in Europe, but it is certainly part of it.



(and also president of the IULTCS) and Pierre Bonefant ➤ of ICHSLTA (International Council of Hides Skins and Leather Traders Associations) are bringing a strategic approach to their new responsibilities that look likely to have a wide impact around the world.

Observers of the famous institutions of the 20th century leather industry, which were all essentially European, have been wondering about their future as their membership and influence have steadily declined. At a time when the industry needs strong voices to balance the power of the



retailers and big brands, and counter some of the claims of animal rights activists, it has been distressing to see these institutions lose their relevance. However, at the recent APLF in Hong Kong, both Marc Folachier and Pierre Bonefant established positions which gave direction to their organisations and pointers to the wider industry as a whole.

ICHSLTA clearly recognises that for its contract to have a future it has to be used world-wide and for this it needs an even wider membership. So a determined recruitment drive, intended to get all major and minor players in the industry back and involved, was started in Paris. ➤



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Marc Folachier told *World Leather* that IULTCS now has to look to Asia and it needs to be recognised that there is a strong commercial element to technology that needs to be optimised. With these aspects in mind he addressed the AGM of the ICT (International Council of Tanners) and requested that the two organisations come closer together. He reminded the ICT of the close collaboration that has existed between the organisations in the past in the fields of physical and chemical testing, and environmental issues. "All the work of the IULTCS is now considered as ISO standard," he said, and as such the ICT now has the IULTCS at its disposal to support the leather industry. He emphasised the need for the industry organisations to "defend the leather world in front of the users of leather" and made a number of suggestions:

1. to renew the connection between the ICT and the IULTCS to have some better idea of what the ICT does.
2. to create an economic round table with the ICT during the Washington 2007 IULTCS meeting.
3. to ask the ICT to prepare some guidelines and priorities for the research industry, given that one-third of IULTCS members represent research institutes.

For many the ICT appears to have gone "absent" these last few years and this new set of proposals goes some way to setting a new agenda for the aging organisation. This was certainly the final thought of incoming ICT president Mike Parsons who hoped that this, along with the further moves towards free trade with Japan and India, might help get the Europeans back in the fold, and could create a new dynamic.

Haunted by China

The Chinese position haunted both meetings, with Chinese representatives making it clear that they considered the EU footwear tariffs improper and announcing that they were considering legal action against the WTO. A more confusing issue was the Chinese government's decision to introduce duty and a revised VAT approach to raw hides going into China on January 1 this year. The question as to whether it was already being implemented, and how it would be implemented were not truly clarified at either the ICT or ICHSLTA meetings but a number of points did become clear. Despite the fact that the proposal was worked through six Chinese Government

Standing by for change

We continue to talk about the speed of change and globalisation but there have been few able to view its impact on the leather trade as clearly as Ursula Mandenoff, who retired at the end of March 2006 after a long career with the French Leather Federation. Listening to her explanation of how the industry has evolved, and are still changing, is a stark reminder that events wait for no one.



One of Ursula's first tasks was to help with the creation of the European tanners association Cotance in the late 1960s. The French federation was a long standing member of ICT and she attended its meetings throughout the world during the 60s, 70s and 80s, before globalisation. She comments, "In those days it really was the annual meeting point for the leather industry. Now it is quite different, the world has changed very much and since the mid nineties everyone travels much more."

When Cotance began they were full of hope. "Between 1965 and 1975 things were not so bad for European tanners, but in 1975 the competition with developing countries began. India began selling leather jackets in France for the price of the leather alone. France began to seriously try to export, pushing footwear and garment side leather rather than leathergoods. There was a lot of success with Korea until the early 1990s when China moved up. That is now 15 years ago and China is supreme in the production of leather, shoes and garments. At the same time many closures were seen in Europe in the tanning and footwear sectors," she says. "It is not only the labour cost, but more structural things. In the tanning sectors not all companies went bankrupt, many old French tannery companies found their children did not want to continue, and some sole leather plants went [out of business] because the sole market declined."

She continues, "Now we are in a very difficult period. The EU is making more and more rules, especially environmental rules, and we have too many directives. It is as though we want to set the example of best practice and the developing world tanneries say "Yes. Yes we will do that" but they do nothing and so they have a huge advantage, leaving the tanners in Europe with nothing to fight back with."

But on a more optimistic note she adds that those European companies making high quality products will always have a market and says she hopes that China will also improve in terms of quality so that it will have to start importing. "So, I am relatively optimistic concerning European tanneries in general in spite of all the directives and rules we are obliged to apply," she says.

ministries it "caused great shock to the entire Chinese leather industry" according to Madame Zhang Shu hua who has established an appeal to "postpone or cancel this move". An answer is expected sometime in May 2006. The duty has been set at 5% and VAT at 22%, while the import tax on wet blue has been reduced from 8% to 7%. This latter is relevant to Europe as it seems that part of the thinking behind all this is a desire to slow development in the tanning sector and the pollution that the Chinese authorities consider comes with it.

Whilst receiving the APLF Technology Award for Mecil Leather, a modern development of the old metallic and embossed tannages developed in Cordoba, Silvino Navarro of Lederval in Spain thanked the judges on behalf of the European tanners, whom he said "were becoming an endangered species". Talking to *World Leather* he made it clear that

tanners in Europe have to work on new fashions and technical products and offer an outstanding service to those clients who remain in Europe. Beyond that the tanners must export, which today means to places such as India and China, as surprisingly Eastern Europe has not grown as quickly as expected. He identified the two current aspects for tanners in Europe to watch for as the impact of EU duties on Chinese and Vietnamese footwear and what he described as "China's strategic decision not to become a tanning country with the (new) import duty on raw hides so that there might be an opportunity for the European tanner". He shrewdly looks forward to the time when the Chinese market begins to absorb large quantities of shoes. "Perhaps the European tanners will have more chances to survive than some years back." But he does note that there is a vast difference between what the politicians decide and 'reality'.

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2003	Employment	Companies	Turnover (^{'000} €)	Export %	Production (^{'000} m ²) cattle/calf sheep/goat	
Belgium	131	2	23903	90.4	452.3	
Denmark	<i>the tanning sector has ceased activities</i>					
France	2019	74	274000	41	4200	3800
Germany	3000	40	575000	45	15000	500
Greece						
Italy	30563	2051	5343795	62	133824	33353
Ireland	<i>the tanning sector has ceased activities</i>					
Netherlands	500	21		75	3900	
Spain	6156	187	1086603	37	27473	16742
Portugal	2781	68	219062	30	6670	1470
UK	2800	33	480000	67	9100	2400
Sweden	425	4	89000	95	2400	
Finland						
Austria	2257	8		90		
EU-15	50632	2488	8091363	63.2	203019	58265
Norway						
Switzerland						
Hungary	207	3	13449	77	179	1300
Slovenia	430	6	92000	70	53	4339

COTANCE statistics (latest update as at 09/05)

Build your own brand

His view fits well with the reaction in Portugal where brands such as Eject from the small shoe company J. Sampaio & Irmão are starting to make a big impact both internationally and locally. Pulling away from a dependence on foreign brands, the indigenous sector of the footwear industry is showing some real spirit by developing their own brands and working in market segments where clever design, quick response and shorter runs make sense. Maybe we can expect to see more new brands rising throughout Europe to match the impact of Camper and Keen.

Italy already has a huge number of significant brands and while tanners there are not quite so optimistic even S.Croce in Italy is performing much better than in 2005. "Italy has found the bottom and is starting to recover," were the words of one major chemical company. Brands such as Geox and Tods continue to prosper and Geox footwear is being quietly manufactured in various places, including Morocco just over the water, where a lot of uppers for the top Italian footwear brands are now being produced to the highest specification.

Germany has a more upbeat feeling these days with its new government and more positive consumer sentiment, so the industry, small as it is, expects domestic market growth. What is significant is that as we look at 2005 the footwear industry was stable at 30 million pairs, leathergoods

declined by 4% yet the aircraft and automobile sector grew by 35%. Indeed the establishment of Eagle Ottawa's new Development Centre for Europe and South Africa near Stuttgart, Germany, has greatly strengthened its position in this market. Working on a similar basis to the ECCO centre in Holland, the Stuttgart plant designs and develops the new leathers and then decides where they will be produced.

As Moeller has now completely closed in terms of wet work, meaning there has been a major shift in wet blue production out of Germany, tanners now buy wet blue overseas or have it contract tanned in Eastern Europe. Reinhard Schneider, director of the German Leather Federation also notes that the energy costs in Germany are now the second highest in Europe, after Italy, and that the EU REACH legislation will place an extra burden on European tanners which he does not see as having any application for foreign importers.

More closures announced

The last twelve months have seen the closure of two more tanneries in the UK with the loss of 350 jobs, the most notable being the Leeds bovine plant owned by Pittards. The tanners that are left work essentially in niche products with high specification. The Scottish Group appears to have had an excellent 2005. Pittards is hoping that the second quarter of 2006 will see the conclusion of a financial

reorganisation which will allow the company to pass the burden of its pension liability over to the government, which, if implemented, will mean that existing shareholders will end up with less than 20% of the business and a new Swedish investor will take a majority position. Meanwhile, Pittards has added to its Ethiopian arrangement with a partnership and licensed manufacturing agreement with Taiwan-based leather maker Teh Chang. "We see the new arrangement as a marriage of the strengths of Pittards and Teh Chang which will bring real benefit to both parties," says Pittards Footwear Leather sales director Chris Sudborough. "Product development will continue to be driven from our UK manufacturing facility (which is being relocated to Yeovil from Leeds) which will become our long planned centre of excellence. Through our Asian partnership with Teh Chang, we will be producing premium category bovine leathers with all the unique technical advantages that have made Pittards the world leader in specialist leathers."

Establishing a major Asian partnership is one of the key elements in Pittards' long-term business plan which includes moves to reduce UK costs whilst offering a broader range of services to customers. Jonathan Muirhead advised the ICT meeting that in the UK there is now only one fellmongery, two dressers of wool-on skin left, and there are now no producers of sheepskin garment leather. 🌐



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Albania's footwear production soars ...an opportunity for modern leather technology to follow?

While Albania is small in size, it is rapidly becoming one of the largest leather 'workshops' serving the Italian footwear industry. This little known country contains over 50 shoe factories—several built within the last five years—producing finished shoes and uppers for export. With a relatively young and growing workforce, the lowest labour costs in Europe and proximity to both Italy and Greece allowing next day delivery, Albanian footwear production looks set to increase.

Footwear production

Most of Albania's footwear industry is located within a triangle running from the capital, Tirana, west to the port city of Durrës, then north to Shkodra and back to Tirana. Famous Italian names including Filanto, Adelchi and Cofra operate their own facilities in this region and employ a further group of contract factories producing uppers and finished footwear.

Most footwear is all leather, with men's dress shoes, children's shoes and women's fashion boots predominating. There is also a growing move to high tech work and safety footwear. Companies throughout this production triangle produce waterproof membrane work footwear and uppers, completed to 90%. Another promising area of product specialisation is hand-sewn sports sandals, produced for some of the world's best known brands.

Accurate statistics on production and exports are difficult to obtain in developing countries but UN figures indicate Albania exported over \$170 million of footwear in 2004 and exports almost tripled between 2000 and 2005. This exceeds better-known Asian producers such as Bangladesh and Pakistan, and with a growth rate higher than almost any other country.

Finished leather

At present, the vast majority of finished leather and other components is imported, but the tanneries are developing.

Korce near the Greek and Macedonian border is home to two of the three Albanian finished leather tanneries. One is



Production at Berttoni

well-established and the other opened early this year. Sial Pel, Albania's oldest and largest finished leather producer was spun off from a state-owned company and has operated since 1994. Controlled by Pro Tan of Italy, most of its finished leather is exported to Italy with additional business throughout the Balkans. It purchases hides throughout the Balkan region and says that competition for the dwindling supply is fierce. The owner, Giuseppe Massacci, thinks that one day Albanian finished leather will be in a position to supply the exporting shoe factories but admits that this is not currently the case.

Angelo Leather in Korce is a brand new Greek partnership established to supply Angelo's footwear operation plus additional outside customers. Angelo's president, Petraq Dodi, focuses on nearby Greece and believes that increasing costs in its footwear industry hold promise for his footwear and leather operations. Experience in the Greek market and low production costs are his competitive advantages.

MR International, located near Durrës, is the other finished leather tannery in Albania and is owned by Lulieta Kucuqi. MR currently supplies finished leather to footwear producers in the expanding Albanian market, but has Italian tannery experts assisting in upgrading its products for export.

Hide processing

There are a dozen or so hide processing companies in Albania, ranging in size from small collectors to substantial operators that buy throughout the region, using modern methods to service the market and

provide year-round purchasing of hides from slaughterhouses and collectors. The largest is Euro's Conceria, based near Durrës and an Albanian-Italian partnership. It buys raw sheep and cattle hides to process and export to Italy. The freshness and quality of Albanian hides are preferred but the company buys throughout the Balkan region.

Pros and cons

The negative factors most mentioned with regard to Albania are lingering corruption issues, low worker productivity, a road system that doesn't compare well with the rest of Europe and a shortage of electrical power capacity.

The 2005 elections brought in a government that has promised to tackle these problems and blames the 2005 power outages on bad management by the previous regime. Albania's power is mostly hydro-generated and experts believe that with the growing economy electrical demand will continue to outweigh supply. Tanners say that, while hides in the region are of good quality, improvements in animal slaughter technique are necessary in order to improve yield and final quality.

Low costs may, however, outweigh the negatives. The owner of a Greek footwear company investigating the potential move of his production to Albania said, "For the cost of one worker in Greece, I can hire five in Albania and they are just as efficient. Although Albania is a neighbouring country, we know little about it."

Indeed, the biggest problem Albania suffers from is a lack of awareness by the outside world, brought on by years of communist control plus the famous pyramid scandal of the mid-1990s. Democracy and stability have been present for over ten years now, but the country lacks resources to promote its capabilities. Italian companies that have operated in Albania for years have kept their success a secret, even from other Italians. The country is now receiving some assistance via a USAID project to promote economic growth and opportunity in several promising sectors, including footwear. ☉