Who's right in Europe's footwear anti-dumping issue?

In June of last year, the European Confederation of the Footwear Industry (CEC) confronted the vice president of the European Commission Franco Frattini and Commissioner Peter Mandelson (DG Trade) with alarming statistics on imports of Chinese footwear. The first four months of 2005 had shown an increase of 700% in volume and an average 28% decrease in price per pair. Simultaneously, more than 450 European shoe manufacturers from all over Europe offered the keys of their factories to the European Commission in order to stress the seriousness of a situation that could cost around 150,000 (52%) of jobs in Europe's footwear manufacturing sector over the next two years.

In November, the Footwear Association of Importers and Retailchains (FAIR), representing some 90 European footwear importers and retailers employing approximately 80,000 people and accounting for 40% of the EU's shoe imports, pleaded its case by saying that well over 10,000 jobs would be at risk if the EU's anti-dumping measures against China and Vietnam were enacted. They also claimed that European consumers needed such imports to avoid increased prices for essential purchases such as clothing and footwear. There is clearly a wide divergence of views as well as jobs at risk.

CEC has always accepted a degree of imports from lower labour cost countries and, indeed, its members have for some years outsourced many aspects such as upper stitching to Eastern Europe. The UK was at the forefront some decades ago with its highly developed system of obtaining cut and stitched uppers from India. They have, however, maintained the core of manufacturing within Europe and strived to remain the creative force behind the global footwear industry. Nowhere is this more true than in Italy. What is happening, however, is that the imports in question are often at prices commensurate with pure material costs for European manufacturers and hence the argument that this amounts to dumping.

This has been the Italian textile industry argument all along. Europe has created a huge integrated infrastructure for many industries and specifically for the leather and footwear industries during the last 50 years. It has the best and most innovative tanners. It has developed the sophisticated machinery to enable them to do this. It has been at the forefront of footwear fashion, design and technological development. And, at the same time, developed many of the raw

material advances and components that have led to the global industry being where it is today. If this is lost, as seems to be happening if Anthony Clothier is to be believed (see panel), it can never return and consumers worldwide will be the losers.

Importers, on the other hand, have nothing to lose. They have persuaded the consumer that it is the brand rather than the product that is all-important. Taking Western technology and having it produced in the lowest cost country possible has allowed them to finance the marketing this has involved while at the same time maintaining a substantial profit margin. Good business they will say, but what happens when this cycle comes to an end.

Politicians in the EU appear to believe that high consumer sales are vital for a strong economy, and certainly the American consumers' spending patterns have kept the world economy strong for the last decade. To help this, interest rates have been kept low and the euro has been allowed to appreciate, although there was little that could have been done about the latter.

Opponents to any measures against imports argue that Asian imports pose no real threat as only a handful of family-owned high quality or niche manufacturers still produce all of their output in Europe.

They also say that the European industry would be unable to make up for the production shortfalls that would result from the EU's envisaged anti-dumping measures, leading to reduced consumer choice in the short-to-medium-term and increases in retail prices.

It now seems likely that we will see the arguments on both sides played out as the year 2006 progresses with both China and Vietnam being subject to anti-dumping duties rising to 20%. Yet other questions remain? Perhaps more importantly is European youth being well enough educated and motivated to be able to add value in manufacturing or to hold and create more high paid service jobs?

Italy's Finance Minister Giulio Tremonti has said that he does not blame China for looking after its own interests and Europe should do the same. However, it is all rather late in the day. The implementation of a quota-free system by the World Trade Organisation (WTO) across the world was set in motion over a decade ago and in many of our industries—leather, textiles, and footwear—it was the supply sector of chemicals, machinery and raw materials that adapted their strategy to fit. Sadly though, by not adapting, the product assemblers have found that their "special" network has lost its security as their suppliers have opened fruitful dialogues with their overseas competitors helped by the ease of modern communications.

In just a few decades we have seen large parts of the world rush from an agrarian economy through an industrial one into the era of knowledge and information. It would be a tragedy if Europe were to get itself embedded in a battle to save elements of its industrial past via a protectionist policy while ignoring its needs to lead in the information and knowledge. Some sectors have understood. CTC, in Lyon has chosen the ground on which to fight with its international testing and consulting, with a European Campus for research and innovation. A similar process is going on at the University of Northampton where leather, fashion, 3D design, podiatry and business management are combined to establish a quite unique offering. Similarly textile and leather machinery in Italy looks set for the best to do well on the world scene, albeit life will become impossible for those not doing something special.

If the EU Commissioners would like to give meaningful help to industry perhaps they should have looked more closely at what they have unleashed with their REACH initiatives. The European chemical industry long since cleaned up its procedures and processing and all this new legislation will do is add additional costs which global competitors will not face. This will drive some of this useful and very innovative sector out of Europe, and it will certainly lead to a reduction in the size of industries like tanning with the unaffordable rise in unit chemical costs. Not only will Europe lose more skilled jobs, it faces the danger of losing the research and innovation jobs which it can least afford to do.

Italy versus China

In a recent UNIDO report on the Chinese footwear industry international footwear expert Anthony Clothier made some interesting comparisons between Italy and China which throw light on the situation today:

- The main shoemaking areas (in China) have a superb infrastructure of firms supplying all kinds of components and materials to the shoe industry. Only Italy has had a similar structure in the past and this is now breaking down. It is an advantage not possessed by China's rivals such as Vietnam, which is still dependent on Taiwan for certain supplies. The Chinese work well together to achieve common goals and this has accelerated its development of a closely linked industrial structure.
- During our investigations it has become clear that the Italian shoe industry is undergoing a major reduction in capacity and that this reduction is also destroying much of the comprehensive infrastructure network that was an important ingredient for the success of the Italian shoe industry.
- For many years the capacity of the Italian shoe industry was around 480 million pairs/year. Over the last seven years this has come down to around 350 million pairs/year. There is a strong and widely held view that this will collapse further and quickly to around just over 200 million. In recent years Italian companies have sourced a lot of production in Eastern Europe.
- We have been told that the decline in the Italian shoe trade has been due to the industry not concentrating on what it should concentrate on, which is providing quality fashionable shoes on short delivery dates. In fact it appears that with poorly managed Eastern European resourcing, quality has become unreliable and delivery slower than from Asia.
- The important point is that Italian shoemakers are still the best and if there was a major upgrading of management in the wider industry, then the Italians could regain a market share in the future.
- One of many advantages China has is continuing low wages, current hourly wages in China are about $0.59 whereas the total hourly cost in Italy is $7.80.

Extracted from: The Chinese Footwear Industry and its Influence on World Trade – Prepared by Anthony Clothier, UNIDO consultant in co-operation with Ferenc Schmél – UNIDO Song Wen Xian and Su Chaoying – CLIA.