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FEASIBILITY AND MARKET STUDY ON THE ESTABLISHMENT OF THE LEATHER PRODUCTS INDUSTRY,

ETHIOPIA . (1975).

(IS/ETH/73/015/11-01/06)

Project findings and recommendations

Report prepared for the
Government of Ethiopia

by

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Explanatory Notes

Dates divided by a slash (1960/61) indicate a financial year. References to dollars ($) are to US dollars unless otherwise indicated. Three dots (...) indicate that data are not available or are not separately reported.

During the period of the project the value of the Ethiopian dollar ($Eth) in relation to the United States dollar ($US) was $US 1 = $Eth 2,05.

The following abbreviations are used in this document:

EEC	European Economic Community
EFTA	European Free Trade Association
f.o.b.	free on board
OECD	Organization of Economic Co-operation and Development
PVC	polyvinyl chloride
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organisation
USAID	United States Agency for International Development

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INTRODUCTION

Ethiopia has a large livestock population estimated at 27 million cattle, 18 million sheep and 17 million goats. The annual production of hides and skins is estimated at 2,7 million cattle hides, 7 million sheepskins and 7 million goatskins. The majority of the available hides and skins are exported in the raw state. There are five major tanneries answering the demand of about twelve large shoe factories, of which five employ over 100 workers. Factory production of the factories does not satisfy local demand, and there is no regular export of shoes or other leather products.

The importance of the leather sector is evident in the multilateral assistance already given to this industry. The World Bank has approved a major loan for a livestock and products marketing project that includes the improvement of hides and skins, and assistance in tanning of leather is provided by a training project sponsored by the International Labour Organization (ILO) at the Centre for Entrepreneurship and Management, and by a leather technologist expert from the United Nations Industrial Development Organization (UNIDO). Studies by the Food and Agricultural Organization of the United Nations (FAO) and UNIDO have been carried out on different aspects of the leather sector.

A new government-owned tannery at Edgersa is under construction and is scheduled to start production during the second half of 1975. The planned annual capacity of this tannery is 330,000 hides, 75,000 sheepskins and 600,000 goat skins, equal to an estimated 15 million square feet of leather that could be used in the manufacture of shoes, leather garments and other leather products. With this planned growth the available hides and skins already being produced acquire added value.

The Government, with the Agricultural and Industrial Development Bank (AID Bank), Ethiopia, as the executing agency, is fully committed to establishing the new tannery, which will result in the expansion of the leather products industry and possibly lead to greater export activity.

The request for assistance under the Special Industrial Services (SIS) funding was submitted by the Resident Representative at Addis Ababa to UNIDO on 6 September 1973. The project data sheet was signed on 9 November 1973 with a contribution from the United Nations Development Programme (UNDP) of $ 30,000. The experts began their assignment on 25 June 1974 for a six-months period. However, an extension of one month, as of 25 December 1974, was granted at the request of the Government. The project was completed on 17 January 1975.

K. Trcka (Yugoslavia) was responsible for the economic section of the study, while R. Ledger (United Kingdom) was responsible for the technical section. Their objectives included the study of possible domestic and foreign markets for various leather products (leather foot-wear, leather goods, leather garments, etc.) to examine and make recommendations on the feasibility of establishing plants for the manufacture of these leather products in Ethiopia.

1. MARKET RESEARCH

International trade in foot-wear

The traditional role of individual countries in the international foot-wear trade has changed considerably in recent years. Many erstwhile exporting countries, among them the Federal Republic of Germany, have become large importers; countries with less dynamic industrial potential have specialized in this field and have become major exporters (Italy); and many of the developing countries have successfully begun to produce and export foot-wear (Brazil, India, Yugoslavia).

The international trade in foot-wear began to develop shortly after the Second World War and mushroomed in the 1960's, when Italy became the world's largest exporter. Soon other countries began to follow Italy's example. Though all of the major consuming countries produce their own foot-wear, most of them have to supplement this production with imports. Belgium, the Federal Republic of Germany, France, Luxembourg, the Netherlands, Sweden, Switzerland, the United Kingdom of Great Britain and Northern Ireland, and the United States of America are the world's biggest foot-wear importing countries. They imported about $ 1,986 million worth in 1972, equal to 88,6 per cent of the total imports of the member countries of the Organization of Economic Co-operation and Development.

The foot-wear industry in the world is not progressing at a uniform rate, however, in many developed countries it is declining, while in others it is growing, with corresponding increases in exports. Much depends on the creative spirit of the national industry and on the amount of effort put into maintaining its competitiveness. France and Italy are holding their own and even increasing production and volume of exports whereas the Federal Republic of Germany, Sweden, Switzerland, the United Kingdom and the United States are continuously reducing their production. Table 1 shows figures for the main foot-wear producing OECD countries from 1950 to 1972.

Table 1. Production of leather foot-wear in selected OECD countries, 1950 - 1972

Countries	- Thousands of pairs -					Ratio		
	1950	1954	1966	1970	1972	1972: 1970	1972: 1966	1972: 1950
France	60900	61000[a]	127000[b]	86000	98100	114,1	77,3	161
Federal Republic of Germany	56487	70552	117315	116508	108248	92,9	92,3	192
Italy	21000	20700	166000	264700	265850	100,4	160,1	1266
Netherlands	13034	16140	24536	16300	14110	86,6	57,4	108
Sweden	9945	9919	8216	5475	4352	79,5	53,0	44
Switzerland	6355	7637	11700	10177	8876	87,2	75,9	140
United Kingdom	100221	99228	119566	98206	94664	96,3	79,2	106
United States	...	...	535936	441966	418240	94,6	78,0	...

Sources: OECD, The Hides, Skins and Foot-wear Industry in OECD Countries, 1955, 1967-1968, 1970-1971 and 1972-1973 (Paris)

a/ Including foot-wear with part of uppers of textile material (except hand-made foot-wear).

b/ Figures could not be compared with those of previous years.

The foot-wear industry in Italy has developed remarkably from a yearly production of 21 million pairs in 1950 to almost 266 million pairs in 1972. The secret of the success of the Italian foot-wear industry is its creative, artistic spirit and its organized drive for new and bigger markets. Italian stylists are making or influencing the trend of fashion in the world. Their tanneries are following the trends and providing all the leather and auxiliary materials needed by the foot-wear industry.

Progress and development in Spain is similar to that in Italy. Spain has good raw material, excellent tanneries and the necessary skilled labour. It is exporting not only cheap foot-wear, but quality and fashion merchandise.

Brazil, Greece, India, Yugoslavia and many other developing countries are mobilizing their efforts and assets to develop their resources and to organize export-oriented foot-wear industries. They are making remarkable progress on this angle. However, the new footwear industries in the developing countries cannot immediately expect to find the doors to the international markets wide open and the customers waiting with thick order books. The big buyers already have their regular suppliers. They will stay with them as long as their regular and successful business is dependent on the creative ability of their suppliers. The manufacturers of foot-wear for export must prove at every occasion to the buyers that they can produce the wanted shoes at a competitive price and deliver them in time.

Nevertheless, the examples of Brazil, India, Pakistan and Yugoslavia prove that the developing countries are capable of producing and exporting foot-wear. There are a number of reasons

why this should be so:

(a) Most developing countries produce their own good quality raw hides, skins and leather for their foot-wear industry. The developed countries have to import the raw hides and skins and often the leather;

(b) The creative spirit in many developing countries is reflected in the fashionable and good quality shoes they produce and this is appreciated in the developed countries;

(c) Foot-wear production, in spite of the introduction of mechanisation remains a fairly labour-intensive industry. Because of the high labour costs in the developed countries, the prices of their shoes are very high and cannot compete with the imported shoes from the developing countries, where labour is cheaper and readily available;

(d) In many developed countries, manufacturers are abandoning foot-wear production and switching over to industries with bigger profit possibilities;

(e) The move to world trade liberalization, under the guidance and support of the United Nations Conference on Trade and Development (UNCTAD), is encouraging the development of the foot-wear export industries in developing countries. It is expected that the developed countries will maintain the present trend of liberalisation of import from the developing countries.

Major Importers

United States of America

The United States is the world's biggest single importer of foot-wear with leather uppers. In 1970, imports amounted to $ 429 million, or 41,8 per cent of the imports of the OECD countries. In 1971, imports reached $ 497 million, or 40,7 per cent of OECD countries' imports, and in 1972 the figure reached $ 636,9 million, or 40,9 per cent of the total imports of OECD countries. 1/

Owing to the very high labour costs in the United States, almost unlimited possibilities exist for the import of foot-wear from the developing countries. If the quality, style and price are accepted by the customers, the sales possibilities are encouraging. At the same time, however, the American foot-wear market is the most difficult one to enter. The trade does not tolerate any business advantages based on cartel, dumping or similar actions, and the customers are very comfort-, quality- and price-conscious. American feet vary greatly, also from the narrowest to the widest range. Shoes for the American market have to be produced, therefore, on specially made lasts, in different widths. It is worth noting here that the majority of the customers in most cases to not actually need new shoes when they buy, they simply wish to have a change of foot-wear. The shoe for the United States, therefore, must be special and different if it is to create demand.

With respect to imports of foot-wear to the United States from the developing countries, the generalised system of tariff preference agreed upon in UNCTAD is not applied. The import duty is 10 per cent.

1/ OECD, The Hides, Skins and Leather Industry in OECD Countries, 1970, 1971 and 1972 (Paris).

The Italians are exploiting this business opportunity. In 1970 they exported to the United States foot-wear with leather uppers valued at $ 253 million, or 54,13 per cent of the total foot-wear with leather uppers imported to the United States in that year. In 1971, the figures are for $ 262,4 million and 46,12 per cent, and in 1972 they were $ 306 million and 44 per cent.

Spain's exports of foot-wear with leather uppers to the United States have developed remarkably. In 1970 the country exported $ 76,2 million worth; in 1971 the figure was $ 118,5 million - an increase of 39 per cent over 1971, or compared to 1970 an increase of over 116 per cent.[2/]

Brazil's biggest export market for foot-wear with leather uppers is the United States. In 1970 its exports to this market were $ 6,2 million; in 1971 $ 23,2 million, and in 1972 $ 42 million.[3/]

There are many channels to the United States market:

(a) Importers, which sell the imported shoes to the retailers;
(b) Big department stores, which import through their own importing organization;
(c) Big specialized chain stores, which import direct for their own retail shops;
(d) Shoe producers, which import shoes for their own shoe shops, to supplement their own production.

The trade in the United States is very business minded, insisting on strict adherence to the contact once it is drawn up. Deviations from the contract terms during the contract period should be avoided or negotiated in advance. One-sided deviations can be very costly.

2/ OECD, Foreign Trade Statistics Bulletin, series C (Paris, 1971 and 1972)
3/ Ibid.

Buyers in the United States, especially if they are shoe factories, are usually very co-operative. In most cases they offer some form of assistance, furnishing know-how, lasts, models, and, if necessary, machines.

Before any serious business activities are initiated in the United States market, however, a very thorough market research should be carried out. Contacts and consultations should ensure the proper start. It is quite customary for major banks to supply information about the financial and commercial status of a prospective buyer, or for serious importers to offer samples, price information etc. An agent with good contacts could be very helpful.

The European Economic Community (EEC) member countries

The EEC as an economic group represents the world's second largest importer of foot-wear. In 1972 this group imported foot-wear with leather uppers worth $ 645,5 million, or 36,36 per cent of the world total import of foot-wear with leather uppers. Some $ 467,7 million or 72,45 per cent of the total was imported from its own member countries, and $ 126 million or 19,51 per cent from the countries of the European Free Trade Association (EFTA). From all other countries, the EEC countries imported hardly 9 per cent of their total import.4/

The EEC countries are fairly homogeneous and complement each other's foot-wear industry as a tradition. Quality shoes from France and Switzerland always find customers in Belgium, the Federal Republic of Germany, Luxembourg and the Netherlands, etc. Italy, the big supplier to the world, is also the big supplier to the EEC countries of fashion and seasonal casual shoes.

4/ OECD, Foreign Trade Statistics Bulletin, series C (Paris, 1972); and
OECD, The Hides, Skins and Leather Industry in the OECD Countries, 1972 (Paris).

The import duties in six foot-wear consuming member countries are:

20 per cent ad valorem for leather foot-wear, and

8 per cent for foot-wear with leather uppers.

The taxes are as follows:	Per cent
Belgium	18,62
France	23
Federal Republic of Germany	11
Italy	9
Luxembourg	10
Netherlands	14

Source: Data supplied by Dragan Trifunović Institute for Foreign Trade, Belgrade.

Member countries do not pay import duties on their exports to other member countries. Based on the UNCTAD agreement in effect since 1972 (the generalized system of tariff preferences) the developed countries - including the EEC countries - grant preferential treatment to imports from developing countries. All countries pay the existing taxes.

The Federal Republic of Germany

Foot-wear production in the Federal Republic of Germany does not cover the demand. Table 2 shows the production-consumption figures for the years 1970-1972.

Table 2. Federal Republic of Germany: Production, trade and consumption of foot-wear with leather uppers, 1970 - 1972

	1970	1971	1972	Ratio 1972: 1970
	- Thousands of pairs -			
Production	116508	112830	108248	92,9
Import	51115	64568	74210	145,18
Export	12351	11210	11215	90,8
Apparent Consumption	155272	166188	171243	110,28
Apparent Consumption	- per capita -			
	2,52	2,71	2,78	110,3

Sources: OECD, The Hides, Skins and Foot-wear Industry in OECD Countries 1970, 1971 and 1972 (Paris).

The foot-wear industry in the Federal Republic of Germany is declining and is gradually giving up a part of the local market to the foreign foot-wear industry. With the country's fairly liberal attitude towards the import of foot-wear, and with the growing demand, the German foot-wear market is a sound and prospective one for the foot-wear export industry of the rest of the world.

The Federal Republic's biggest imports of foot-wear are from the EEC countries; the EFTA countries have a smaller share. However, other countries, including the East European countries and the developing countries, are increasing exports to the Federal Republic of Germany. The development of foot-wear imports from 1960 to 1972 is illustrated in table 3.

Table 3. Federal Republic of Germany: Imports of foot-wear with leather uppers, 1960 - 1972

(Thousands of pairs - percentage in parentheses)

Imports	1960	1964	1966	1970	1972
Total	9438	22031	34868	51115	74210
From EEC countries	8103	19288	30693	44614	57801
As percentage of total	(85,85)	(87,55)	(88,03)	(87,28)	(77,89)
From EFTA countries	500	947	1352	1317	2907
As percentage of total	(5,30)	(4,30)	(3,88)	(2,58)	(3,92)
From other OECD European countries	61	100	233	1108	5805
As percentage of total	(0,65)	(0,45)	(0,67)	(2,17)	(7,82)
From all other countries	774	1696	2590	4076	7697
As percentage of total	(8,20)	(7,70)	(7,42)	(7,97)	(10,37)

Source: Data supplied by Dragan Trifunović Institute for Foreign Trade, Belgrade.

Italy has the biggest share of the Federal Republic's foot-wear import market. In 1972 Italy exported to the Federal Republic of Germany foot-wear with leather uppers worth $ 231,4 million, or 61,19 per cent of the Federal Republic's total imports. Italy is supplying the German market with fashion and casual shoes which the German customers like and prefer, and at a competitive price.

The second largest exporter of foot-wear with leather uppers to the Federal Republic of Germany is France, whose exports amounted to $ 41,8 million in 1972. Spain follows with $ 29 million. The young Yugoslav foot-wear industry is the fourth largest, with exports to the Federal Republic of Germany of $ 12,9 million in 1972.

The country's largest importers of foot-wear are the big department stores and the foot-wear industry. They are very co-operative and helpful in their business attitude. Samples, know-how, and other facilities are offered to new suppliers when needed.

The production of foot-wear in the Federal Republic of Germany is expensive because of the high cost of labour. For that reason, next to the fashion shoes, popularly priced foot-wear, which the German shoe manufacturers cannot produce, represents the bulk of the foot-wear imports. These include all sport-type shoes, casuals, children's shoes and sandals, and workman's boots.

Belgium and Luxembourg

As foot-wear production in Belgium and Luxembourg does not cover domestic demand, these are also net importing countries. Table 4 shows production-consumption figures for 1970 - 1972.

Table 4. Belgium and Luxembourg: Production, trade and consumption of foot-wear with leather uppers, 1970 - 1972

	1970	1971	1972	Ratio 1972: 1970
	- Thousands of pairs -			
Production	10333	9923	9252	89,5
Import	11091	13299	15090	150,90
Export	2560	3175	3248	129,87
Apparent consumption	18964	20047	21094	111,23
	per capita			
Apparent consumption	1,95	2,00	2,10	107,69

Sources: OECD, The Hides, Skins and Foot-wear Industry in OECD Countries, 1970, 1971, and 1972 (Paris).

The foot-wear industry in Belgium and Luxembourg is also declining and shortages have to be made up through imports. The traditional exporters to Belgium and Luxembourg are the other member countries of the EEC. Table 5 shows imports from other EEC countries between 1960 and 1972.

Table 5. Belgium and Luxembourg: Imports of foot-wear with leather uppers from the EEC countries, 1960 - 1972
(Thousands of pairs - percentages in parentheses)

	1960	1964	1966	1970	1972
Total imports	3242	6909	8482	11091	15090
Imports from EEC countries	2793	6254	7693	10421	13068
As percentage of total	(86,15)	(90,50)	(90,70)	(93,96)	(86,60)

Source: OECD, The Hides, Skins and Foot-wear industry in OECD Countries, 1960, 1964, 1966, 1970, and 1972 (Paris)

The non-traditional exporters have a chance to enter this market only by exporting cheap and/or special quality shoes, e.g. shoes with plated uppers. Spain, some Eastern European countries, and many developing countries are competing to enter the market of Belgium and Luxembourg.

The Netherlands

The Netherlands is importing large quantities of foot-wear as its foot-wear industry is also declining. The major part of the imports to the Netherlands come from the EEC member countries. The general trend is as shown in tables 6 and 7.

Table 6. Netherlands: Production, trade and consumption of foot-wear with leather uppers, 1970 - 1972

	1970	1971	1972	Ratio 1972: 1970
	- Thousands of pairs -			
Production	16701	16600	14110 a/	84,49
Import	12863	15151	16542	128,60
Export	3994	4220	3935	98,50
Apparent consumption	25570	27531	26717	104,49
	per capita			
Apparent consumption	1,93	2,08	2,00	103,63

a/ Not final figures

Source: OECD, The Hides, Skins and Foot-wear Industry in OECD Countries, 1970, 1971, and 1972 (Paris)

Table 7. Netherlands: Imports of foot-wear with leather uppers from the EEC Countries, 1960 - 1972

(Thousands of pairs - percentages in parentheses)

	1960	1964	1966	1970	1972
Total Imports	1874	5975	8181	12863	16542
Imports from EEC countries	1634	5671	7366	11135	12806
As percentage of total	(87,19)	(94,91)	(90,03	(86,57)	(77,42)

Source: OECD, The Hides, Skins and Foot-wear Industry in OECD Countries, 1970, 1971 and 1972 (Paris)

The shoe factories are also big importers of foot-wear to the Netherlands. They supplement their own production either with special fashion and quality shoes or with cheap shoes. Spain, some Eastern European countries, and many developing countries are trying to penetrate the market of the Netherlands.

France

France is the third largest foot-wear exporting country in Europe. Its production of leather foot-wear is growing as is its exports. Imports are considerable, but come mainly from the EEC countries. Tables 8 and 9 show the development of the industry in France in recent years.

Table 8. France: Production, trade and consumption of foot-wear with leather uppers, 1970 - 1972

	1970	1971	1972	Ratio 1972: 1970
	- Thousands of pairs -			
Production	86000	91760	98100	114,07
Import	11895	12614	15635	131,44
Export	25763	28138	29624	114,99
Apparent consumption	72132	76236	84111	116,61
	per capita			
Apparent consumption	1,42	1,49	1,63	114,79

Source: OECD, The Hides, Skins and Foot-wear Industry in OECD Countries, 1970, 1971 and 1972 (Paris)

Table 9. France: Imports of foot-wear with leather uppers from the EEC countries, 1960 -1972

(Thousands of pairs - percentages in parentheses)

	1960	1964	1966	1970	1972
Total Imports	1260	4683	7149	11895	15635
Imports from EEC countries	724	5581	5391	10090	11145
As percentage of total	(57,46)	(76,46)	(75,40)	(84,82)	(71,28)

Source: OECD, The Hides, Skins and Foot-wear Industry in OECD Countries, 1960, 1964, 1966, 1970 and 1972 (Paris)

The import of shoes from non-EEC countries, mainly Spain, Eastern European countries and the Far East, is growing.

France is a net exporting country, but with high labour costs it cannot produce the variety of shoes needed, especially cheaper shoes. For many developing countries there is a chance of exporting to France. The department and specialized shoe chain stores are the main customers.

The EFTA countries

Shoe imports of the EFTA countries are smaller than those of the EEC or the United States. Nevertheless, all these countries import shoes, and the majority of them are net importers. Only the United Kingdom and Austria export more than they import.

The biggest exporters of shoes to EFTA are the countries of the EEC group. The mutual trade between the EFTA countries is not as intensive (nor nearly exclusive) as that between the EEC countries. The share of the developing countries in the EFTA import market, especially in the United Kingdom and Sweden, is promising.

The United Kingdom

The production of foot-wear in the United Kingdom is decreasing and imports are necessary to meet consumer demand. These imports are fairly diversified. Since January 1972, the United Kingdom has been applying the generalized system of tariff preferences agreed upon in UNCTAD. Under this system the United Kingdom grants preferential treatment to imports from developing countries.

Table 10 and 11 illustrate the situation with regard to the market for shoes with leather uppers in the United Kingdom.

Table 10. United Kingdom: Production, trade and consumption of foot-wear with leather uppers, 1970 - 1972

	1970	1971	1972	Ratio
	- Thousands of pairs -			
Production	98206	98127	94664	96,39
Import	15436	19428	20987	135,96
Export	11862	11725	9982	84,15
Apparent consumption	101780	105830	105669	103,82
	per capita			
Apparent consumption	1,82	1,90	1,89	103,84

Source: OECD, The Hides, Skins and Foot-wear Industry in OECD Countries, 1970, 1971 and 1972 (Paris)

Table 11. United Kingdom: Imports of foot-wear with leather uppers, 1960 - 1972

(Thousands of pairs - percentages in parentheses)

Imports	1960	1964	1966	1970	1972
Total	10045	12040	13065	15436	20987
From EEC countries	7713	5781	5779	4895	7154
As percentage of total	(76,78)	(48,01)	(44,23)	(31,71)	(34,09)
From EFTA countries	250	484	559	2491	2388
As percentage of total	(2,50)	(4,01)	(4,28)	(16,14)	(11,38)
From other OECD European countries	1124	1789	2007	2925	3779
As percentage of total	(11,19)	(14,86)	(15,36)	(18,95)	(18,01)

Table 11 (Cont.)

Imports	1960	1964	1966	1970	1972
From all other countries	958	3986	4720	5124	7666
As percentage of total	(9,53)	(33,12)	(36,13)	(33,20)	(36,52)

Source: OECD, The Hides, Skins and Foot-wear Industry in OECD Countries, 1960, 1964, 1966, 1970 and 1972 (Paris)

The British importers are looking for the typos of shoes that the domestic shoe manufacturers cannot produce: light fashion shoes from Italy and Spain, and cheap shoes from the Eastern European countries and from the developing countries.

Sweden

The production of leather foot-wear in Sweden is declining at a considerable rate. High labour costs and the lack of inventiveness on the part of the Swedish shoe industry are the biggest reasons for the decline and the resultant rise in imports.

Table 12 illustrates the situation of the Swedish leather foot-wear market.

Table 12. Sweden: Production, trade and consumption of foot-wear with leather uppers, 1970 - 1972

	1970	1971	1972	Ratio 1972: 1970
	- Thousands of pairs -			
Production	5475	4098	4352	79,5
Import	11375	10130	11607	102,0
Export	746	715	1103	148,0
Apparent consumption	16104	13513	14856	92,0
	per capita			
Apparent consumption	2,0	1,70	1,83	91,5

Sources: OECD, The Hides, Skins and Foot-wear Industry in OECD Countries, 1970, 1971 and 1972 (Paris)

The EEC countries are the biggest exporters of leather-uppered foot-wear to Sweden. With its equal import policy, however, Sweden has also opened the door for imports from other countries.

The Swedish foot-wear import market is shared by exporting countries as shown in table 13.

Table 13. Sweden: Imports of foot-wear with leather uppers, 1960 - 1972

(Thousands of pairs - percentages in parentheses)

Imports	1960	1964	1966	1970	1972
Total	4038	6415	7738	11375	11607
From EEC countries	3448	4535	5348	6376	5222
As percentage of total	(85,39)	(70,70)	(69,11)	(56,05)	(44,99)
From EFTA countries	172	997	1192	3451	3981
As percentage of total	(4,26)	(15,54)	(15,40)	(30,34)	(34,30)
From other OECD European countries	48	108	101	354	1025
As percentage of total	(1,19)	(1,68)	(1,31)	(3,11)	(8,83)
From all other countries	370	775	1097	1194	1379
As percentage of total	(9,16)	(12,08)	(14,18)	(10,50)	(11,88)

Source: OECD, The Hides, Skins and Foot-wear Industry in OECD Countries, 1970, 1971 and 1972 (Paris)

Swedish customers are interested in importing foot-wear that the domestic industry cannot produce. In principle, all good quality and popularly priced quality shoes are in demand.

Switzerland

Foot-wear production in Switzerland is fairly stable, but it is not increasing. Nevertheles, the export trade is growing, with the result that it is becoming increasingly necessary to import to meet the demands of the home market. In 1972 the country imported 10,3 million pairs of foot-wear with leather uppers for $ 61,3 million.5/

The biggest exporters to Switzerland are the EEC and EFTA countries. Because of the high standard of living and of conservative habits, Swiss imports consist mainly of quality and fashion shoes. Swiss customers usually remain with their regular suppliers; it is not easy for a new exporter to enter the Swiss market. Good quality, reasonable prices, good reputation and exact execution of the orders are the qualities Swiss customers expect from their suppliers.

Norway, Denmark and Austria

The import of foot-wear with leather uppers of these countries is relatively small. In 1972 Norway imported 4,8 million pairs, Denmark 4,4 million pairs, and Austria 4,0 million pairs. The main suppliers are the EEC and EFTA countries.

Norway imports from these countries nearly 96 per cent, Denmark 87 per cent and Austria 93 per cent. The Eastern European countries have the biggest part of the remaining market.

The USSR and other Eastern European Countries

The official data available for the production, export and import of foot-wear in the USSR and other Eastern European countries

5/ Source: OECD, The Hides, Skins and Leather Industry in OECD Countries, 1972 (Paris)

are meagre. In the past, the foot-wear industry was nearly neglected in these countries, preference being given to the development of other industries. In recent years, however, the development of the production of consumer goods, including foot-wear, has been getting more attention.

Czechoslovakia is traditionally a big producer and exporter of foot-wear. This country exports large quantities of medium- and low-priced foot-wear all over the world, but mainly to the USSR. In 1972 Czechoslovakia exported to the OECD countries $ 20,2 million worth of shoes with leather uppers. Exports to the USSR were far bigger.

Romania, Poland and Hungary have also developed their foot-wear industry in recent years and are exporting. In 1972 their exports to the OECD countries were $ 17,2 million, $ 13,3 million and $ 6,6 million, respectively.

With the exception of the USSR, all the Eastern European countries import relatively small quantities of foot-wear, mostly of quality and style not produced by their own industries.

The USSR is a very important foot-wear importer, as can be seen from table 14.

Table 14. USSR: Imports of leather-uppered foot-wear from selected countries, 1960 - 1970

(Thousands of Pairs)

Exporting Country	1960	1966	1968	1970
Austria	340	860	1209	979
Bulgaria	1004	556	1133	975
Czechoslovakia	13250	14115	16771	18542
France	-	5	2572	2990
Federal Republic of Germany	34	559	1064	349
Hungary	1932	4048	6766	6282
India	494	2047	624	1391
Italy	-	551	1461	1897
Poland	-	4333	7150	9914
United Kingdom	-	1037	2431	1390
Yugoslavia	612	3105	5924	3661

Source: Data supplied by Dragan Trifunović Institute for Foreign Trade, Belgrade.

Imports of foot-wear from selected OECD countries, 1970 - 1972 are shown in table 15.

Table 15. USSR: Imports of foot-wear from selected OECD countries, 1970 - 1972
(Thousands of dollars)

Country	1970	1971	1972 (Jan/June)
Austria	3936	3182	1796
Finland	2089	3134	2588
France	10855	7977	7340
Federal Republic of Germany	2796	702	321
Italy	10141	10638	2384
Japan	7328	2552	909
Netherlands	3853	2119	1568
United Kingdom	8908	10208	1691

Source: OECD, Foreign Trade Statistics Bulletin, Series C (1970, 1971 and 1972, Paris)

Customers in the USSR are very quality minded. They buy and import standard types of good quality foot-wear for the summer and winter seasons. A very important item is ladies' booties with fur lining (not necessarily natural fur). Though the customers do not concentrate on very high fashion shoes, they do not buy shoes that are out of date.

The easiest way to initiate business contacts with customers in the USSR is to contact the commercial attaché of the nearest USSR embassy. They are usually very helpful.

Competition from man-made materials

Canvas-rubber and plastic foot-wear have their distinct markets and customers: people who cannot afford to buy leather shoes (or foot-wear for special use). The production of canvas-rubber and plastic foot-wear is developing parallel with that of leather shoes.

Rubber and plastics are replacing, in considerable volume, the sole-leather in the production of shoes. The production of shoes with leather soles is in constant decline, as illustrated in table 16.

Table 16. Production of shoes with leather soles in selected countries, 1960 - 1973 (Percentage)

Country	1960	1966	1970	1971	1972	1973
Italy	83	71	67	67	-	-
Spain	49	50	42	51	47	-
Sweden	47	10	7	9	2	-
United Kingdom	25	9,6	6,3	6,2	6,2	4,8
United States	-	-	-	-	16	17,2

Source: British Foot-wear Manufacturers Federation, Foot-wear Industry Statistical Review, 1973; and

The Hides, Skins and Foot-wear Industry in OECD Countries, 1971, 1972, and 1973 (Paris); and

Pratt's Report, 27 March 1973.

Non-leather soles have very successfully replaced leather in many types of foot-wear, for example in heavy workmen's boots, children shoes, and all-weather shoes for cold climates. The production of shoes with non-leather soles is cheaper, and simpler, and the sole lasts longer than the leather one. These are the big advantages of non-leather soles.

For light-weight leather shoes, the leather sole will remain in use. The shoe with a leather sole is more comfortable to wear, especially for sensitive feet. Italy and Spain are the largest producers of leather-soled shoes. They are also the largest exporters of leather shoes to the developed countries. A shoe with a leather sole is still considered a quality shoe and it is in demand on the market. If their prices are not exagerated, leather-soled shoes will always find customers.

More serious competition could come from the production of foot-wear with non-leather uppers. Table 17 illustrates the decline of production of foot-wear with leather uppers in the United Kingdom.

Table 17. Decline of production of shoes with leather uppers in the United Kingdom

	production of shoes		percentage of leather uppers
	with leather uppers - million pairs -	with upper from substitute	
1962	117,0	62,4	65,2
1966	123,0	70,8	63,5
1970	98,0	92,3	51,5
1973 (prov.)	84,0	103,3	44,9

Source: British Foot-wear Manufacturers Federation; Foot-wear Industry Statistical Review, 1973.

In the big mail-order stores, the sales of shoes of man-made materials are increasing. In the 1974 catalogues from the mail order stores in the United States and the Federal Republic of Germany, about 30 per cent of the shoes and boots offered were produced from man-made materials.

The big increase in foot-wear produced from man-made materials in the past was due to the very high price of leather and the relatively low price of synthetic materials. However, 1974 saw a sharp decline in the prices of raw hides and skins and a correspondingly sharp increase in the price of synthetics. Production of shoes from synthetic materials may not continue to increase, therefore synthetic shoes will remain a permanent hazard to the leather shoes industry.

One solution to the problem might be the production of leather shoes in the developing countries. The available raw material and the fairly low production costs offer a sound basis for producing in these countries.

The Leather foot-wear industry in Ethiopia

The leather foot-wear industry in Ethiopia has been growing at a moderate rate as may be seen from table 18.

Table 18. The growth of the leather foot-wear industry in Ethiopia, 1967 - 1974
(Number of pairs)

	1967	1968	1969	1970	1971	1972 a/
Major establishments	549728	578915	640469	606124	745608	1050000
Others	218882	143985	585013	762776	450092	540000
Total	760610	722900	1225582	1368900	1195700	1590000

Source: AIDB (Agricultural and Industrial Development Bank)
The leather shoes industry in Ethiopia.
a/Own survey and appraisal

The growth of the industry has been based only on the actual demand of the Ethiopian market. No substantial export industry has been developed and the high import duties have practically stopped all imports of leather foot-wear.

The largest part of the foot-wear is produced in small- and medium-sized factories. The production of hand-made shoes is limited as the shoemakers do not have enough good-quality leather, their lasts and styles are out of date, and their workmanship is poor. The shoemakers produce mainly medium and cheap quality shoes. They are located mainly in or near to the markets. The country people are their usual customers.

The number of leather foot-wear factories has not changed substantially in the past 10 years. The large factories have remained large and the small factories have remained small. No individual growth has emerged.

The growth of the industry has been due mainly to the inadequate supply of leather for shoe production. Of the three major tanneries, two belong to the major leather shoe factories. These two tanneries do not plan to expand their production to meet the growing demand of other leather foot-wear producers, because they think that by doing so they would support their own competitors. Thus, the production of leather is limited.

The price of leather on the Ethiopian market is high, by any standards. The local price in August 1974 for corrected smooth grain sides were (in Ethiopian dollars): 2,21 for grade A; 2,06 for B; 1,88 for C; 1,55 for D; 1,33 for E; and 1,11 for F. Prices in the United States (one of the most expensive markets) at the same time were (expressed in Ethiopian dollars): 1,57, 1,62 and 1,66 for large smooth sides HM selection. Prices in Ethiopia for sole leather croupon at the same time were 6,72 for grade A; 6,25 for B; and 5,71 for C. In the United States the prices for medium-weight bends were 4,36 and for lights 4,96 (again in Ethiopian dollars).6/ The prices of other types of leather were in the same unfavourable relation.

Under such conditions the production of leather foot-wear cannot develop in accordance with the actual possibilities offered by the growing demand for foot-wear in the Ethiopian market. Nor have the possibilities of exporting leather foot-wear been seriously considered and tried by the Ethiopian foot-wear manufacturers. The small producers do not have enough and adequate leather at a reasonable price to be able to enlarge their production for export. The big shoe factories have a very lucrative and protected home market for their production and the competitive export market does not tempt them.

6/ Weekly Bulletin of Leather and Shoe, 10 August 1974 (Boston)

Radical changes and improvements are expected with the production of leather in the new Ethiopian Tannery S.C. at Edgersa. The yearly output of over 9 million square feet of bovine leather and over 6 million square feet of sheep and goat skin leather will offer more than cover the demands of the foot-wear producers. The prices of finished leather from the new tannery are expected to be competitive, thus offering manufacturers the possibility of producing a wider range of products. With cheaper and more leather in the market, cheaper shoes in a wider choice can be produced, and home consumption will increase, and regular exports of shoes can be developed.

When such favourable conditions come into effect, two more leather foot-wear factories can be set up in Ethiopia.

II. ESTABLISHMENT OF TWO NEW LEATHER FOOT-WEAR FACTORIES IN ETHIOPIA

The first shoe factory should produce low- and medium-priced foot-wear with leather uppers and rubber soles for men, women and children. The primary aim of the first new factory should be to produce leather foot-wear at a price 10 to 30 per cent lower than the present prices, mainly for the domestic market. With new types of shoes and lower prices, new customers would be obtained for leather shoes on the home market. The consumption of leather foot-wear would be increased and the standard of living improved. With cheaper leather from the Ethiopian Tannery S.C. and with modern machinery and construction methods, the aim of the new factory could be achieved. It is estimated that the production of the first new factory would be, for the first year, 360000 pairs, and from the second year on 480000 pairs annually.

The second new shoe factory which would go into production two years after the first one, should be oriented mainly towards the export market and have a capacity of 480000 pairs per year, 240000 pairs of medium-priced popular quality shoes with leather uppers and polyvinyl chloride (PVC) injected soles and 240000 pairs of medium-priced shoes with leather uppers and leather or resin soles. The leather soles would give the shoes a special attraction for the export market.

About 80 per cent of the production of the first factory will go to meeting the rising demand of the home market, the rest will be exported. Only 10 per cent of the second factory's production is programmed for the home market, the rest for export. Further development of the foot-wear industry in Ethiopia is possible, but only for export. The home market will be covered by the existing and proposed production.

The production of leather in the new Ethiopian Tannery S.C. will be enough for the manufacture of approximately 5 million pairs of shoes. This will provide a sound basis for the further development of the shoe industry in Ethiopia.

Sources of raw materials

The following materials will be required for the two new shoe factories production programme of 960000 pairs of shoes per annum.

Uppers	1 750 000 Square feet
Linings	1 000 000 "
Insole (vegetable tanned)	125 000 kg
Soles (vegetable tanned)	150 000 kg

Other material

Unit rubber soles	480 000 pairs
PVC (for 240 000 pairs)	222 000 lb
Resin sheets	200 000 square feet
Boxes and cartons	
Textiles and laces	
Counters and toe puff	
Findings (eyelets, cement, thread, polish etc.)	

Leather

The leather will be produced in the Ethiopian Tannery S.C. The capacity of the tannery is 9 million square feet of bovine upper leather, 3,6 million square feet of sheep skin leather for garments, gloves and linings, and 2,4 million square feet of goat leather for the production of shoes, garments and linings.

The factories will consume about 20 per cent of the production of bovine upper leather and 60 per cent of the lining leather, which will be low-grade bovine leather or splits. The upper leather to be used in the first shoe factory will be embossed no. 1, with a Hair-cell pattern. In the second factory, smooth corrected grain

or patent leather will be used. For safari boots, casuals and sports shoes hunting suede should be available from the tannery.

In the second factory vegetable tanned sole leather will be needed, insoles for both factories will require vegetable tanned bottom leather. Initially, the new tannery had not programmed this type of leather, but when the necessity for it was brought to the attention of the management, they agreed to consider producing it.

Other materials

The Rubber + Canvas Shoe Co, S.C. is already producing and selling unit soles and resin sheeting. It may be necessary for the company, however, to introduce new capacity for unit soles in order to cater for the production of the new factory.

If 240 000 pairs of shoes are to be bottomed with PVC, it will be necessary to import the raw polymer for the process. Around 220 000 lb will be needed in a full year. At present the price in the United Kingdom f.o.b. is £ 0,18 per lb.

Cotton drill will be used for the linings of the vamps. Cotton laces will also be used. These are produced locally and are available on the home market.

Counters and toe puffs which will be imported, will cost about $Eth 0,20 per pair.

Boxes and cartons are available from Ethiopian sources.

Findings (eyelets, cements, thread, polish etc.) will have to be imported. The average value of the materials used in the pro-

duction of one pair of shoes is around $Eth 5,34 of which about $Eth 4,83 is Ethiopian; imported material accounts for $Eth 0,86 or 16 per cent. As both the leather and the rubber unit soles are obtainable from local sources they are treated in this report as wholly raw material.

First Shoe Factory

Location

In determining the location of the first of the new shoe factories, it was found that, for a number of reasons, the site alongside the Rubber + Canvas Shoe Co. S.C. at Nefas Silk, Addis Ababa was best suited for the purpose.

The rubber and canvas shoes business is largely owned by the Agricultural and Industrial Development Bank, Ethiopia, which makes substantial profits on its operations. Established in 1967, it is very efficiently operated by a first class management team.

It is proposed that the general manager of Rubber + Canvas, who has successfully operated that company for the past seven years, also be given over-all charge of the new shoe factory, thereby ensuring efficient top management for the new concern. This arrangement would also allow for joint use of the following already-existing services: administration (wage and salary control); warehousing (bulk raw materials and finished goods); costing control; purchasing control; canteen facilities; and electric power (sub-station).

If the two large warehouses at present used by Rubber + Canvas to store raw materials and finished goods are properly fitted with racks, there will be ample space for both factories for some years to come.

Production

The capacity of the plant will be 1,600 pairs per day. The uppers, including linings, will be cut on the clicking machines.

Each operator should cut 400 pairs per day. The use of Satra-Eatough conveyers will ensure that all operators are kept fully busy at all times. This will guarantee maximum productivity in the department.

In the lasting making room, the capacity of the conveyers is set by the operators on the pull-toe lasting machines. Each of the two machines has a capacity of 1,000 pairs per day and the other machines have been geared to the production of these machines.

Lighting

Continuous rows of dual 40 watt fluorescent lamps will provide an average illumination of 85 foot-candles in the manufacturing areas. Supplementary lighting should be used in working areas, either small fluorescent lamps (1 foot) on the clicking presses and benches, or additional general lighting. It is vital that an extra dual fluorescent unit fitted with colour matching tubes be provided over the skin room table in order that coloured leathers can be properly matched. The use of colour matching fluorescent tubes in the clicking department helps operators to match cut parts when cutting coloured leathers.

In addition to the general lighting, "Singer" type lamps fitted to all sewing machines, which can be switched on and off by the operator, helps to ensure that an adequate level of illumination is available at the working point. This will assist the operators to maintain a proper level of quality in their work.

For store rooms, toilets, etc. 30 watt fluorescent lamps are adequate. All passage ways must have adequate lighting to help prevent accidents.

Fire precautions

Double fire exit doors should be included in the sides of the building. These should be fitted with panic bolts on the inside and marked in letters not less than 7in high: fire exit. On the inside of the doors fitted with panic bolts, there should be painted in letters not less than 4in high: push bar to open.

Staff fire drills, including evacuation of premises should be carried out at regular intervals and recorded. Roll calls should be taken and a responsible official should be in charge of all fire/safety operations.

Recruitment and training of personnel

It is unlikely that it will be possible to recruit skilled workers for this project, as the few shoe factories already in business are unlikely to make it easy for a new factory to entice their skilled workers away from them.

A recruitment and training programme should therefore be put into effect as soon as possible. Recruitment and training of operatives should commence at least two months prior to the opening of the factory.

Five young Ethiopians should be recruited as soon as possible and sent abroad for training. It will also be necessary to have outside assistance for the initial months to help the general manager, factory manager and foremen to get the factory into production. This assistance should be as follows, department by department:

Cutting (clicking) room. An experienced leather man familiar with modern methods of cutting upper leather and with a knowledge of scientific leather measurement. 3 months.

Closing (stitching) room. A person who has managed a closing department and has completed a "Satra" instructors course for closing room techniques. Six months.

Alternatively, an Ethiopian with experience as a foreman or underforeman in the department could be recruited and sent on a "Satra" training course in analytical methods of teaching stitchers, plus the short advanced instructors course, 4 months United Kingdom.

Bottoming department. An experienced foreman from abroad capable of running the department and instructing on machines. He would assist the factory manager and the potential foreman to organise the labour and the flow of work through the departments. 6 months.

In addition, if the vulcanizing unit is to be used, an experienced operator of vulcanising machines should supervise production for the first two or three months to ensure that the foremen and operatives become absolutely familiar with the correct methods, temperatures, etc. required.

In order to be certain that the general manager can successfully organise production control, quality control, material control and an eventual piece-work system, as well as oversee the work of the factory personnel, a UNIDO footwear expert should spend 9 to 11 months assisting them.

Private profitability

From the view point of the investor, the establishment should earn moderate profits each year. The internal rate of return for the plant will be about 9 per cent before taxes (income tax relief

for five years) and about 5 per cent after the reduction of income taxes. This rate of return is not very high; but the project's contributions to the country's economy are expected to be substantial. (See tables 19 and 20.)

Table 19. First shoe factory: Projected cash flow, 1975/76 - 1985/86 (Thousands of Ethiopian dollars)

Year and quantity (pairs) of production	1975/76 –	1976/77 360000	1977/78 480000	1978/79 480000	1979/80 480000	1980/81 480000	1981/82 480000	1982/83 480000	1983/84 480000	1984/85 480000	1985/86 480000
Capital outlet											
Paid-up capital	2000	–	–	–	–	–	–	–	–	–	–
Loan	500	1000	–	–	–	–	–	–	–	–	–
Investment cost											
Buildings and civil engineering	558	–	–	–	–	–	–	–	–	–	–
Machinery and equipment	1321	–	–	–	–	–	–	–	–	–	–
Vehicles	130	–	–	–	–	–	–	–	–	–	–
Training of Personnel	43	100	–	–	–	–	–	–	–	–	–
Stocks of materials and goods	400	1000	–	–	–	–	–	–	–	–	–
Sales income	–	3500	4270	4270	4270	4270	4270	4270	4270	4270	4270
Production expenditures	–	3084	3715	3695	3655	3615	3595	3595	3595	3595	3595
Material cost	–	1976	2565	2565	2565	2565	2565	2565	2565	2565	2565
Wages and salaries	–	397	445	445	445	445	445	445	445	445	445
Other costs	–	286	290	290	290	290	290	290	290	290	290
Interest	16	119	120	100	60	20	–	–	–	–	–
Excise tax	–	306	295	295	295	295	295	295	295	295	295
Gross income	–	416	555	575	615	655	675	675	675	675	675
Depreciation	–	86	172	172	172	172	172	172	172	172	172
Amortization	–	28	29	29	29	29	–	–	–	–	–
Gross profit	–	301	354	374	415	454	503	503	503	503	503
Income Tax	–	–	–	–	–	–	201	201	201	201	201

Table 19. (contd.)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
Net profit	-	301	354	374	415	454	302	302	302	302	302
Dividends	-	-	-	160	160	160	160	160	160	160	160
Remaining profit	-	301	354	314	255	295	142	142	142	142	142
Cash flow											
Carried forward	-	32	419	945	831	758	725	1039	1353	1667	1981
Remaining profit	-	301	354	214	255	295	142	142	142	142	142
Depreciation	-	86	172	172	172	172	172	172	172	172	172
Total cash flow	-	419	945	1331	1258	1225	1039	1353	1667	1981	2295
Repayment of loan	-	-	-	500	500	500	-	-	-	-	-
Cumulative cash balance	32	419	945	831	758	725	1039	1353	1667	1981	2295

Table 20. First shoe factory: Calculation of internal rate of return (Thousands of Ethiopian dollars)

Year of project	Costs: Investment: Initial fixed	Working capital	Loan repayment	Total	Operating: Annual operating	Excise Tax	Depreciation, interest and amortization	Total	Revenue: Domestic sales	Exports	Total	Net revenue before income tax	Income tax	Net revenue after income tax
0	2052	448	-	2500	-	-	-	2500	-	-	-	2500	-	-2500
1	-	1000	-	1000	2659	306	233	4198	3382	118	3500	698	-	-698
2	-	-	-	-	3300	295	321	3916	3443	827	4270	354	-	-354
3	-	-	500	500	3300	295	301	4396	3443	827	4270	-126	-	-126
4	-	-	500	500	3300	295	260	4355	3443	827	4270	-85	-	-85
5	-	-	500	500	3300	295	221	4316	3443	827	4270	-46	-	-46
6	-	-	-	-	3300	295	172	3767	3443	827	4270	503	201	302
7	-	-	-	-	3300	295	172	3767	3443	827	4270	503	201	302
8	-	-	-	-	3300	295	172	3767	3443	827	4270	503	201	302
9	-	-	-	-	3300	295	172	3767	3443	827	4270	503	201	302
10	-	-	-	-	3300	295	172	3767	3443	827	4270	503	201	302
11	-	-	-	-	3300	295	172	3767	3443	827	4270	503	201	302
12	-	-	-	-	3300	295	172	3767	3443	827	4270	503	201	302
13	-	-	-	-	3300	295	172	3767	3443	827	4270	503	201	302
14	-	-	-	-	3300	295	172	3767	3443	827	4270	503	201	302
15	-	-	-	-	3300	295	172	3767	3443	827	4270	503	201	302
16	-	-	-	-	3300	295	172	3767	3443	827	4270	503	201	302
17	-	-	-	-	3300	295	172	3767	3443	827	4270	503	201	302
18	-	-	-	-	3300	295	172	3767	3443	827	4270	503	201	302
19	-	-	-	-	3300	295	172	3767	3443	827	4270	503	201	302
20	-	1000	400	-	3300	295	172	3767	3443	827	4270	503	201	302

Note: The general procedure adopted here is that costs and revenues occur as lump sums at the end of each year. Using the project year of zero allows the initial investments to be counted as occurring at the beginning of each year.

The internal rate of return is derived by selecting that rate of interest for discounting future benefits and costs which equates the net present worth of all negative and positive cash flows. For example, by discounting at an interest rate of 9 per cent the present rate of costs exceeds that of revenues by $Eth 146000; whereas at 8 per cent the present worth of revenues exceeds that of costs by $Eth 193000. By interpolation, the internal rate of return is found to be 8,13 per cent. The net present worth of revenues equals that of costs at an interest rate of 5 per cent.

Social Profitability

An analysis of the social profitability of the shoe factory was carried out to determine whether the establishment of the enterprise would constitute good use of the resources of the country. The project was analysed from the point of view of the opportunity cost of productive factors, to find out whether those resources would not be better employed in other projects. The main criterion was the domestic resource cost of foreign exchange saved.

Domestic resource cost caluclations

This method involves the adjustment of all production cost in a given year so that they reflect the social costs of production. These are then divided into tradable and non-tradable components. Calculations are also made on the alternative assumption that the products are imported rather than produced in the country. The calculations assume that during the first year the plant will produce 360000 pairs of leather shoes, and from the second year onwards 480000 pairs per year.

360000 pairs per year

At the output level the total social cost of local production would reach $Eth 3,1 million while it would cost the country $Eth 7,2 million to import the equivalent amount. Since no shadow prices exist for foreign exchange, no adjustment has been done on this angle. As far as foreign exchange saving is concerned, the production of 360000 pairs of shoes would require $Eth 387000 in foreign exchange, whereas to import the equivalent quantity of shoes would require $Eth 7,1 million; thus local production would save about $Eth 6,7 million of foreign exchange. The domestic resource cost per dollar of saved foreign exchange is about 0,38:1.

480000 pairs per year

At the output level, the total social cost of domestic production would be $Eth 3,9 million, whereas equivalent imports would require

$Eth 9,6 million.

Domestic production would require $Eth 540000 of foreign exchange as compared to a foreign exchange cost of $Eth 9,4 million for importing the equivalent quantity of shoes. The net foreign exchange saving would be about $Eth 8,9 million while the domestic resource cost ratio would be about 0,35:1.

Source of financing and repayment possibilities

As it is anticipated that the first new factory will be attached to the existing Rubber and Canvas Shoe Co. as an extension of the existing establishment, new additional shares should be issued to raise the necessary capital of $Eth 2 million. Dividends should be payable from the third year after the start of production.

Contribution of the first shoe factory to the national economy

Although the factory will be much more mechanized than the existing shoe factories in Ethiopia, it will be labour-intensive and its contribution to the employment of urban labour very high. About 188 persons will be employed as skilled, semi-skilled, supervisory and managerial personnel.

The establishment of the plant should increase the net national income by $Eth 719000 during the first year, when the plant will operate at 75 per cent capacity. As of the second year, the factory will work at full capacity and its contribution will grow to $Eth 759000.

The project will save a substantial amount of foreign exchange. At 75 per cent production capacity (360000 pairs per year), a net saving of foreign exchange of about $Eth 6,7 million will be achieved. At full capacity (480000 pairs per year), which will be reached in the second year, the net foreign exchange saving will be about $Eth 8,9 million.

Second shoe factory

The prosperity of the second shoe factory will depend entirely on its performance in the export market. The changing moods of fashion and the constant development of new production techniques for leather and shoes indicate the necessity to reconsider the types of shoes and material proposed for manufacture before a final decision is taken. Because of the rising price of synthetic materials, and because of the differences in climatic conditions, the use of PVC soles should also be reconsidered before a final decision is made.

The production of shoes with leather soles has the best chance of withstanding changes. Vulcanized rubber soles as well as unit-rubber soles are also good prospects for survival.

Location

It is proposed locating the second factory on a site adjacent to the large tannery belonging to the Ethiopian Tannery S.C. at Edgeresa. There are obvious advantages in having a shoe factory adjacent to a tannery. The advantages would be even greater if the factory and the tanners had common ownership and/or management. The availability of upper and sole leather on the seat would reduce transportation costs.

The electric sub-station on the site is quite adequate for both enterprises and housing; transportation and recreational facilities for the employees could be shared.

Another possibility is to build the second shoe factory alongside the first one. Many quite obvious advantages could be gained from this. Common administration, warehousing, storage of

components, and interchange of personnel (especially engineering staff) would help to reduce overheads. A common marketing department should also be envisaged. Attaching the new business to one that is already established and operating successfully would be of tremendous importance to the efficient operation of the new factory.

A campaign to export shoes from either factory alone would be expensive, but if both factories were on the same site and shared a common management, the promotion of exports could be a joint effort. This would be preferable both from the point of view of organizing sales personnel and from the financial angle. In fact, it is doubtful that one factory alone could afford the expense involved in a sustained export campaign of worthwhile proportion.

Recruitment and training of personnel

The first and most important person to be recruited is the general manager. In considering applicants for this position, ability in the following areas should be of primary importance:

(a) Operating the business at a predetermined level of profit and reducing and controlling costs;
(b) Recognizing the market, its needs, and how to meet them; delivering on time;
(c) Achieving the quality standards required, providing a product that gives value for money;
(d) Innovating new designs and methods to meet future market needs, and helping to develop new products within the framework of the business;
(e) Motivating all employees and stimulating good industrial relations;
(f) Manufacturing a product that will give the business a good public image.

As these are also the objectives of a good factory manager, the same criteria, in addition to technical knowledge and experience, can be used in his selection.

There are certain basic requirements in any management post: a positive attitude; integrity; ability to get the job done; ability to make decisions; and readiness to accept change when necessary. As the shoe business in Ethiopia is limited, with very few large concerns, it is unlikely that many, if any, experienced personnel will be recruited locally. Most of the employees, at management as well as operative level, will have to be trained. As training at all levels is a costly business, the proper selection of potential employees is essential. The aim should be to select the right person for the right job. Whoever is doing the selecting should bear in mind the two main questions involved in choosing the correct candidate:

(a) How capable is he? Will he be able to do the job after proper training?
(b) Has he the right attitude to work?

To get the best possible person for the job, it is first necessary to know what the job is. It is necessary to make out a job description and a personnel specification and then match the applicant to this ideal.

Staff members who would benefit from training abroad are:

Factory manager:	Two-year full-time course in shoe manufacture and management
Shoe engineer:	As above

Purchasing officer (Leather): One-year full-time course in principles of tanning, and one-year course in purchasing procedures

Head of production: One-year course in shoe technology.

The potential factory manager should have a good educational background and be fluent in English as well as Amharic. His aim should be to attain a City and Guilds certificate in shoe making, or the equivalent. He should also study, possibly in the evenings, for a diploma in works management.

The shoe engineer should also aim at the City and Guilds. He should major in pattern cutting as his practical subject. Most courses provide practical as well as theoretical training, and the City and Guilds examinations require the ability to make a pair of shoes to a good standard using modern machinery provided in the colleges. Students usually major in one department, where they are required to reach a good standard of workmanship.

It is obvious that the purchasing officer must have expertise in leather technology and while he does not need to be an expert tanner, he must know how to judge every type of leather for quality, and be familiar with the leather market.

The production planning officer should understand all aspects of shoemaking in order to do his job properly. He must also be aware of the latest techniques in factory planning, e.g. "Focal point planning" if he is to install the best system in the new factory.

The model cutter must have a sound background of shoemaking allied to ability to create new designs and to cut proper models for his styles.

Full-time courses in shoe manufacturing are conducted in a number of colleges of technology in the United Kingdom, but either

Cordwainers College in London or Strode College in Street, Somerset (allied to Clarks of Street) are probably the best for the purpose.

Leather technology courses are conducted in the Leather Sellers College at Leeds, and at Northampton College of Technology. Northampton College also runs courses for purchasing officers leading to membership of the Institute of Purchasing Officers.

Shoe technology for the model cutter can be studied at any of the above colleges or at Leicester College, where there is a department of fashion and design. He would be well advised, after studying shoemaking, to attend the six-months practical course in shoe design and model cutting at the Ars Sutoria school, Milan, Italy.

In view of the fact that the suggested factory may be sponsored by the Government of Ethiopia, a Government department, possibly the Ministry of Commerce and Industry, should recruit potential applicants for these jobs some two years before the actual opening. It should then send them on the suggested courses, so that they will be ready to begin work when the factory opens. Investigation into the possibilities of obtaining United Nations fellowships and/or British Council scholarships should be carried out well in advance.

A number of experienced shoemakers will be needed to guide the new factory management during the first year of operation, and UNIDO could be approached to provide experts on, say, nine-month missions. The guidance of experts such as the following would be invaluable in the early months of the factory's life: an experienced shoe factory executive to work with the general manager; a technician to assist the factory manager; a marketing expert to guide the marketing manager; and a short-term expert to help set up production control, purchasing control and quality control.

It is understood that the company providing the machinery will give instruction in this operation and train the engineers to keep it in running order. At least one engineer from the lasting/making/finishing section should be sent to the machine company for three months, and one to the sewing machine company, for intensive instruction in maintaining the machines properly; they can then train their helpers in various aspects of the work.

The training of stitchers for the closing room is a special technique. An experienced machinist should be instructed in the analytical method of training new machinists. The United Nations experts might provide this instruction, otherwise it may pay to send the teacher abroad (e.g. to SATRA in the United Kingdom) for a short course.

Private profitability

As illustrated in table 21, the second shoe factory earns higher profits than the first one. A substantial increase in profits each year is noticed up to the sixth year, when the factory attains full capacity operation; from then on it earns constant profits. The internal rate of return taxes (income tax is payable after five years) is acceptable in view of the existing rate of interest, which is 10 per cent (table 22).

Social profitability

According to the social profitability calculations for the enterprise at its third year of production (full capacity operation), the following benefits are attained:

(a) Domestic resource cost: Without adjusting foreign exchange for which no shadow prices exist, the domestic resource cost per dollar of saved foreign exchange is about 0,42 : 1.

(b) Foreign exchange saving: The production of 480000 pairs of shoes would require $Eth 812000, whereas equivalent imports of shoes would require $Eth 9,4 million; thus local production would save about $Eth 8,6 million in foreign exchange.

Source of financing and repayment possibilities

It is anticipated that a share company with a capital of $Eth 2 million will be established for the financing of the second shoe factory. The estimated profit of this factory will ensure a dividend of 10 per cent on the capital.

Table 21. Second shoe factory: Projected cash flow, 1978/79 - 1988/89 (Thousands of Ethiopian dollars)

Year and quantity (pairs) of production	-	1978/79 360000	1979/80 400000	1980/81 480000	1981/82 480000	1982/83 480000	1983/84 480000	1984/85 480000	1985/86 480000	1986/87 480000	1987/88 480000
Capital outlet											
Paid up capital	2000										
Loan	500	1000									
Investment cost											
Buildings	603										
Machinery and equipment	1314										
Vehicles	114										
Training of Personnel	53	160									
Stocks of materials	380	840									
Sales income		3750	4085	4763	4763	4763	4763	4763	4763	4763	4763
Production expenditure		2201	2417	2859	2859	2859	2859	2859	2859	2859	2859
Material		548	603	603	603	603	603	603	603	603	603
Salaries and wages		309	319	320	320	320	320	320	320	320	320
Other costs		120	115	100	50	20					
Interest	16	42	42	42	42	42	42	42	42	42	42
Excise tax		530	589	839	889	919	939	939	939	939	939
Gross income		84	169	169	169	169	169	169	169	169	169
Depreciation		43	43	43	43	43					
Amortization							770	770	770	770	770
Gross profit		403	377	627	677	709	308	308	308	308	308
Income tax		-	-	-	-	-	462	462	462	462	462
Net profit		403	377	627	677	709	200	200	200	200	200
Dividends		-	-	180	200	200	262	262	262	262	262
Remaining profit		403	377	447	447	579	1564	1995	2426	2857	3288
Cash flow carried forward		20	508	1054	1070	1116					

Table 21. (Cont.)

-	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
Remaining profit	403	377	447	447	579	262	262	262	262	262
Depreciation	85	169	169	169	169	169	169	169	169	169
Total cash flow	508	1054	1670	1716	1864	1995	2426	2857	3288	3719
Repayment of loan	-	-	600	600	300	-	-	-	-	-
Cumulative cash balance	508	1054	1070	1116	1564	1995	2426	2857	3288	719

Table 22. Calculation of internal rate of return (Thousands of Ethiopian dollars)

Year of project	Costs							Total	Revenue	Net Revenue before income tax	Income tax	Net Revenue after income tax
	Investment				Operating							
	Initial fixed	Working capital	Loan repayment	Total	Annual operating	Excise Tax	Depreciation, interest and amortization					
0	2084	416		2500	-	-	-	2500	-	-2500		2500
1		1000		1000	3058	42	247	4347	3750	-597	-	-597
2					3339	42	327	3709	4085	337	-	337
3			600	600	3782	42	312	4736	4763	27	-	27
4			600	600	3782	42	262	4686	4763	77	-	77
5			300	300	3782	42	220	4354	4763	409	-	409
6					3782	42	169	3993	4763	770	308	462
7					3782	42	169	3993	4763	770	308	462
8					3782	42	169	3993	4763	770	308	462
9					3782	42	169	3993	4763	770	308	462
10					3782	42	169	3993	4763	770	308	462
11					3782	42	169	3993	4763	770	308	462
12					3782	42	169	3993	4763	770	308	462
13					3782	42	169	3993	4763	770	308	462
14					3782	42	169	3993	4763	770	308	462
15					3782	42	169	3993	4763	770	308	462
16					3782	42	169	3993	4763	770	308	462
17					3782	42	169	3993	4763	770	308	462
18					3782	42	169	3993	4763	770	308	462
19					3782	42	169	3993	4763	770	308	1862
20	400	1000										

III. ORGANIZATION OF DOMESTIC AND EXPORT MARKETS

Domestic market

Every shoe factory has its own sales organisation. There is no uniform pattern. In Ethiopia, only a few shoe factories have shops of their own. The majority of the shoes produced are sold to whole-salers who have a large network of buyers all over the country - the retailers.

Shoes are sold in different ways in different places. In the cities they are sold in specialized shoe shops. In market places and in the towns they are sold in shops or at the side of the road, together with other merchandise. This is particularly true in the case of non-leather foot-wear; it is cheap and is penetrating into the smallest market places in the interior of the country.

The shoe factories should popularise their own brandmark and make sure that the shoes are sold at the prices fixed by them. This could be achieved by organising a network of factory-owned depots, in the key market places, from which the markets in the interior could be controlled. Such intensive wholesale organisation would lead to the eventual establishment of factory-owned shops in the interior, increase sales and ultimately increase the per capita consumption of foot-wear in the country.

Small shoe factories cannot organise such intensive sales networks, however: it requires a number of trained personnel and a big capital investment. Rubber and Canvas Shoe S.C. and the proposed new factories should jointly organise a common sales organisation for the home market. The annual production of over 1,5 million pairs of canvas-rubber shoes and over 400000 pairs of leather shoes

(programmed for the home market) of the two new factories represent a solid basis for the establishment of a common intensive sales network on the home market.

The price of leather foot-wear in Ethiopia is high compared to the prices of raw hides and skins and considering the fairly low production cost of leather. Only a few styles of men's and ladies' shoes are sold below $Eth 20. Children's shoes are also very expensive.

With the cheaper leather from the new Ethiopian Tannery S.C. the two new leather shoe factories should be able to produce and sell their leather shoes for men at $Eth 15 to 18, for ladies at $Eth 14-18, and for children at $Eth 7-12.

The new products and prices should be advertised intensively. The public should be informed about the advantages the new factories are offering.

Export market

The new leather foot-wear industry of Ethiopia should be export-oriented and export-minded from the very beginning. However, it does not have a ready outlet for its products in the world market. Foreign buyers do not know either the Ethiopian products or the Ethiopian exporters.

Competition between exporters in the developing countries is keen. The established ones are endeavouring to hold onto their customers and markets and the new ones are trying to take them away. All are trying to seize the biggest share of the existing sales possibilities by offering better quality, cheaper prices, shorter delivery time, or creating new demands by offering new and special products (new styles, woven upper shoes, etc.) to the buyers.

The buyers in most cases give preference to the established suppliers. This is natural as their business depends on the punctual execution of their orders. New offers and sources of supply are usually welcome for consideration, but before a permanent business relationship is established, only small orders can be counted on. Large and permanent orders can be expected only after the initial small orders have been executed to the complete satisfaction of the buyer. This takes time.

The nature of foot-wear business does not allow production for warehousing and selling-exporting from stock. Styles are constantly changing, and for this reason production for export has to be based on fixed orders obtained before the shoes are produced. Synchronising exports and production in advance is the big responsibility of the exporter. This is not simple and takes time to organise. Intensive and permanent research on the international

foot-wear market has to be undertaken. The biggest and most adequate markets and buyers have to be found, as only such markets and buyers can absorb regularly the shoes produced for export.

As a rule, the foot-wear manufacturers in the developed countries are fully equipped to produce all the quantities and styles of shoes they need. But they import shoes which they cannot produce themselves at the price or in styles the other countries are offering. Based on such policy, a substantial mutual foot-wear export and import trade has developed between these countries. Italy and Spain export large quantities of fashion and attractive light shoes, while other countries export more quality and expensive foot-wear. The developing countries offer, and sell, cheaper types.

Foot-wear production in Western countries has become highly specialized with sales concentrated in shoe retail chain store organizations or big department stores. Many shoe manufacturers are importing shoes they are not able to produce economically but need in their shoe line. They are big buyers and programme their purchases ahead, as they do with their own production. The big specialized shoe retail chain stores and department stores also buy in large quantities and well ahead. These organisations should be the prospective buyers of shoes from the new Ethiopian foot-wear industry. They are buying individually or through joint purchasing organizations.

Besides the demand for new styles, good quality and other commercial conditions the decisive factor for the export business remains the price. The new Ethiopian foot-wear industry must be ready to meet the hard competition of the Western European markets.

Exports to the Western European countries could be developed in different ways. Agents could be appointed or direct contacts established with the important buyers. Aggressive agents with good

contacts can be very helpful in the establishment of permanent business relationships. In addition, the changing mood of the fashion-minded and very competitive shoe business calls for regular personal contacts with the customers. This should be the prime responsibility of the agents.

The situation in the Eastern European countries is different. Most of the purchasing is executed through one purchasing organisation. The simplest way to make the initial contact is through the official trade representative of the country.

The large foot-wear market in the United States is very delicate by nature and practice and protected against the importation of low-priced foot-wear (dumping) by duties and special legislations. The buyers have established suppliers who can meet their demands for different lasts and widths, high fashion and specific styles etc, which handicap a new supplier.

Before the new Ethiopian foot-wear industry can initiate an active sales programme for the United States market, active market research is necessary. The most likely buyer might be an American shoe factory that would buy Ethiopian shoes to complement its own production. The factory could supply the lasts and the models and select the type of leather to be used. In many other ways buyers from the United States could be co-operative and helpful.

Prices offered by American importers are low. The competition, nevertheless, is fierce. Every exporting country is trying to export to the United States and the importers are taking advantage of this. For these reasons, the export of shoes to the United States from the new Ethiopian foot-wear industry in the early years might not be feasible.

The new Ethiopian foot-wear industry has to find its place on the international markets with medium-priced quality shoes.

The production programme of the new factories should be based on the requirements of the Western European markets as well as on those of the Eastern countries. The programmed production in the new factories could be sold on both markets.

It is expected that of future exports of leather foot-wear from Ethiopia, one-third will go to the Western European markets (mainly the Federal Republic of Germany) and the rest to the Eastern European market (probably the USSR). Exports will be so divided because the Eastern European market offers more convenient conditions (better prices, larger quantities per unit, bigger volume etc.) than the Western European market at present.

At the same time, both markets have to be developed and cultivated. Preference should be given to the market that offers the best conditions but an active relationship with the second one should be maintained. The marketing research service should constantly follow the conditions on the markets and guide the export programmes.

When the Ethiopian foot-wear industry has been established on the world market and the confidence of the buyers acquired, the industry should strive for a closer and more regular form of co-operation with the buyers, in the form of a joint venture. The shoe factories that import shoes to complement their own production, especially factories in the United States and Western Europe, are interested in closer co-operation with new factories in the developing countries.

The progress and even the existence of the new Ethiopian foot-wear industry will depend on its successfully developing and maintaining an export trade.

IV. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

(1) The consumption of leather foot-wear in Ethiopia is very low, only 0,06 per cent pairs per capita, per year.

(2) This low consumption is due to the low per capita Gross Domestic Product and to the high prices of the foot-wear.

(3) The price of leather is also high and the supply is not adequate.

(4) The home market demand for medium-priced quality leather foot-wear, especially for children and youths, is not adequately met.

(5) The factories have not yet developed exports of leather shoes.

(6) The production of leather foot-wear in the developed countries is declining while demand and per capita consumption are increasing. The uncovered part of the demand has to be imported.

Imports by the largest shoe importing markets of the world (United States, Federal Republic of Germany, United Kingdom, France, Belgium and Luxembourg, Netherlands, Switzerland and Sweden) increased from $ 1,3 billion in 1970 to $ 2 billion in 1972 - an increase of 55 per cent. At the same time, the import of leather shoes from the developing countries by the same large importing countries increased from $ 165 million in 1970 to $ 379,2 million in 1972, or by 130 per cent.

The import of leather foot-wear by the countries of Eastern Europe is also increasing. Imports of leather shoes by the USSR from the OECD countries rose from $ 23,5 million in 1970 to $ 42,8 million in 1971, or by 82 per cent.

(7) The establishment and successful operation of the new Ethiopian Tannery S.C. at Edgersa should be the turning point in the development of the leather foot-wear industry in Ethiopia. Two new leather shoe factories will be established, based on more and cheaper leather produced in the new tannery.

(8) The production of the new factories will be used partly to cover the demand of the home market and partly for export.

(9) The export of leather shoes from Ethiopia to both the Western and the Eastern European countries is possible. Quality production and an efficient market research and export organisation have to be established.

(10) The investment and the return of the proposed new factories would be as follows:

	First factory	Second factory
($Eth)		
Investment Foreign exchange	1239000	1240000
Investment Local	770000	791000
Total	2009000	2031000
Sales (Pairs)		
Home market	380000	50000
Export	100000	430000
Total	480000	480000
Gross profit in second year $Eth	354000	377353

(11) The new factories will employ the following labours:

	First facotry	Second factory
Direct labour	157	182
Technical, administration and management	31	67
Total	188	249

(12) The success of the development of the leather foot-wear industry in Ethiopia will depend on the production of leather by the new Ethiopian Tannery S.C. and on the successful development of exports.

(13) The new factories could be financed by issuing new shares or by bank loan.

(14) More experienced personnel are needed.

Recommendations

(1) Onthe basis of the extensive production of raw hides and skins in Ethiopia and the production of 15 million square feet of leather annually from the Ethiopian Tannery S.C., leather shoe industry should be programmed and gradually developed in the country.

(2) As the first step in this development, two new shoe factories should be established.

The first factory, with a capacity of 480000 pairs of medium- and low-priced quality leather shoes, should be established alongside the Rubber and Canvas Shoe S.C. at Addis Ababa, with the primary aim of satisfying the growing demand of the local market for medium- and low-priced quality leather shoes.

The second factory, with a capacity of 480000 pairs of medium-priced quality leather shoes, should be established alongside the Ethiopian Tannery S.C. at Edgersa (or again alongside the Rubber and Canvas Shoe S.C. in Addis Ababa) with the aim of producing shoes mainly for export.

(3) The financing of the new factories should be effected by issuing and selling new shares in the value of $Eth 2 million for each of them.

(4) To facilitate and fasten the development of exports of shoes from the new factories, a common market research and export department should be established. The responsibility of this department would be to procure orders for export in advance, so that the factories could produce shoes based on firm orders and not for stock.

(5) The experience and organization of sales of the Rubber and Canvas Shoe S.C. on the home market should be also used for the sale of shoes produced in the new factories. The establishment of retail shoe shops should be considered.

(6) The export of leather shoes should be directed primarily to the countries of Western and Eastern Europe and to the United States.

(7) The Government could assist by specifying the export of leather shoes in some trade agreements.

(8) The new foot-wear industry should follow the fashion trends and produce the types of shoes that are most wanted. Ethiopians should be trained as designers.

(9) The export of leather foot-wear from Ethiopia will not be able to support financial burdens such as export taxes.

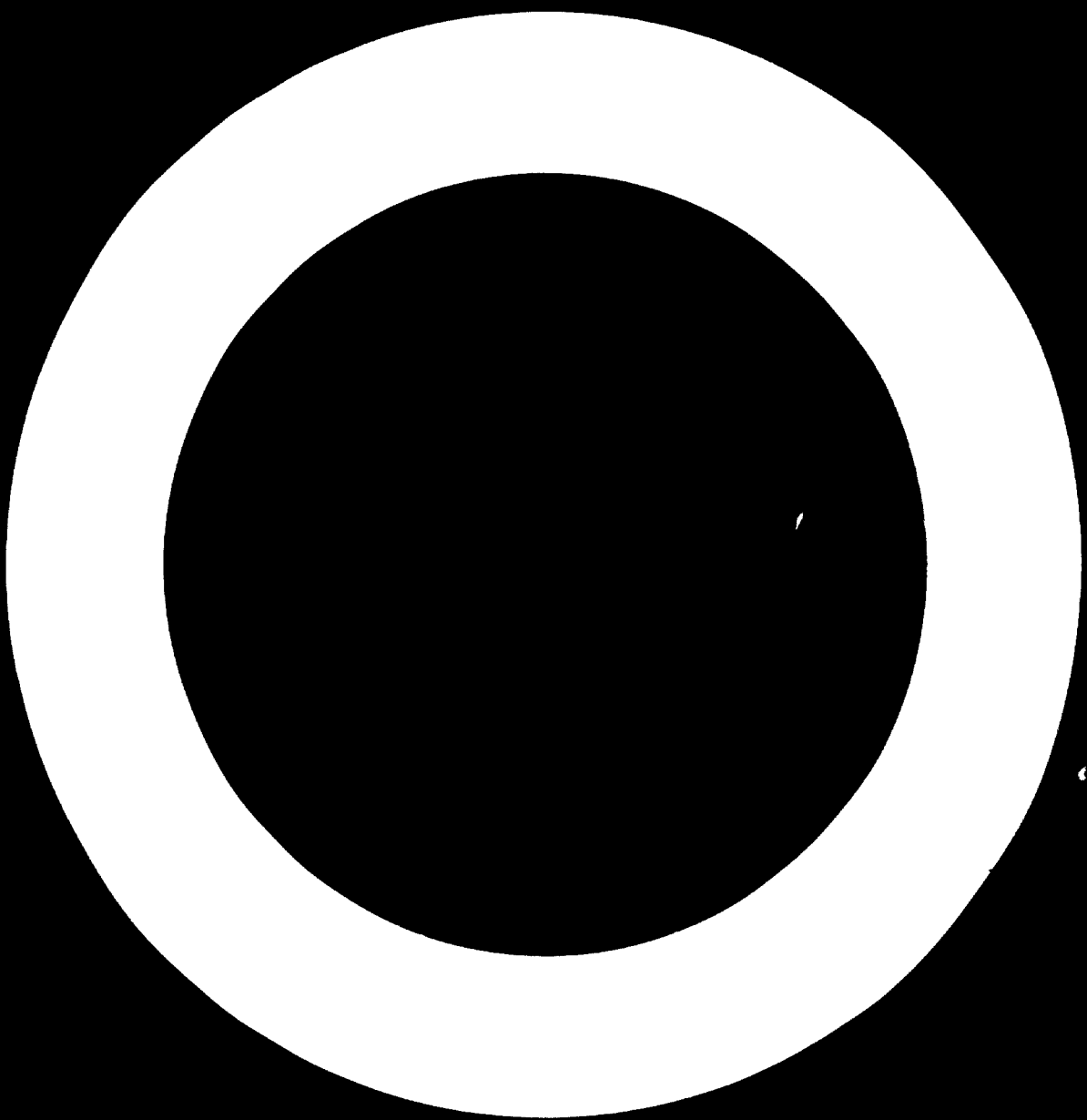
(10) For the co-ordination of production and export, a semi-official body, consisting of members of the industry, should be established. This body should be the link between the foot-wear industry and other official organizations.

(11) In the initial stages, the assistance of following United Nations experts is recommended (for 12 months each):

One expert in leather shoe production (including design), and
One expert in the marketing of leather shoes (for the home and export markets).

(12) Constant advertising should be programmed in order to promote sales on the home and export markets.

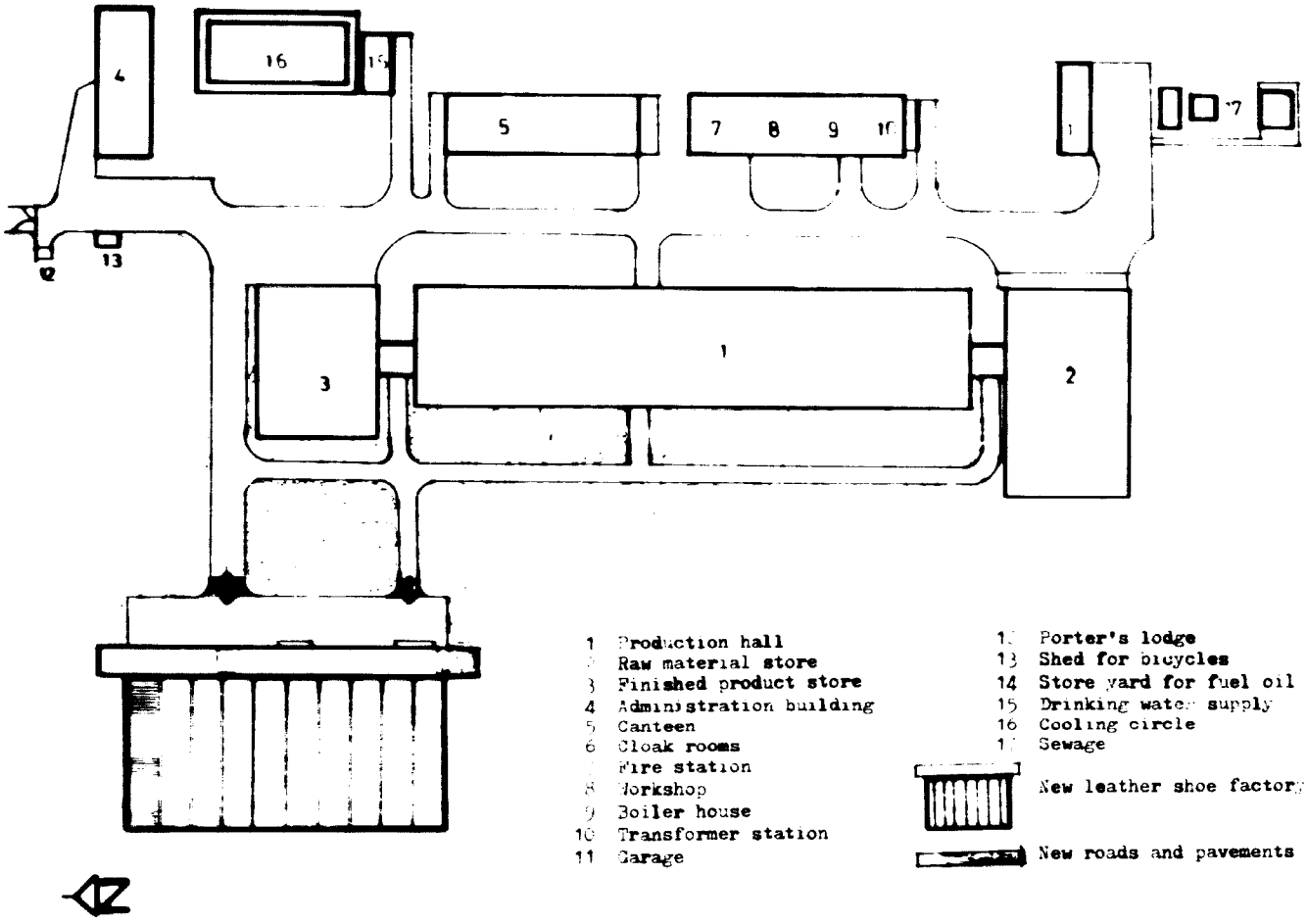
(13) Visits to and participation in specialized international fairs should be encouraged as a way of keeping aware of fashion trends, of making contacts with potential buyers and of promoting the brand mark of the new Ethiopian leather shoes on the world market.

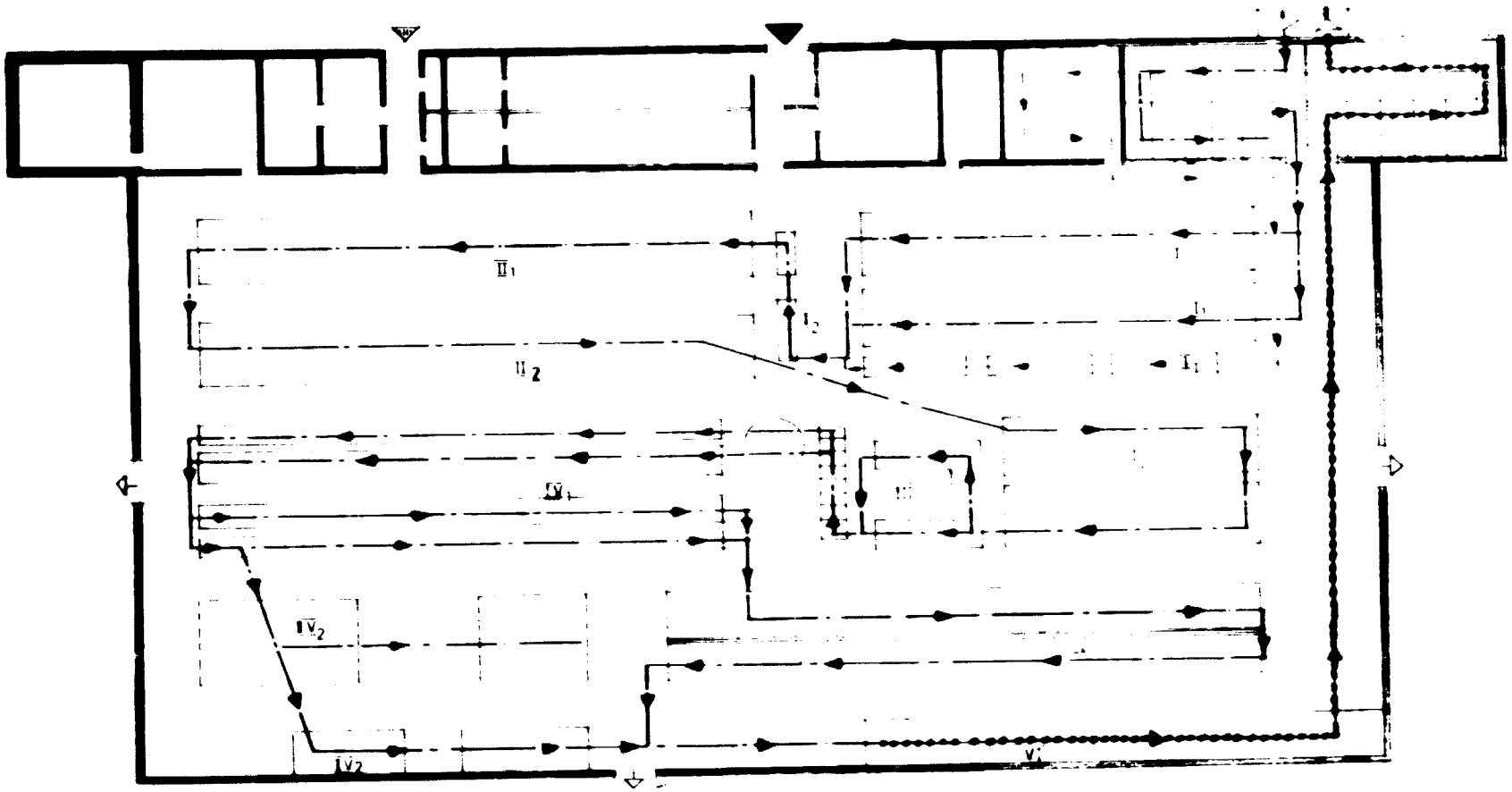


Annex I

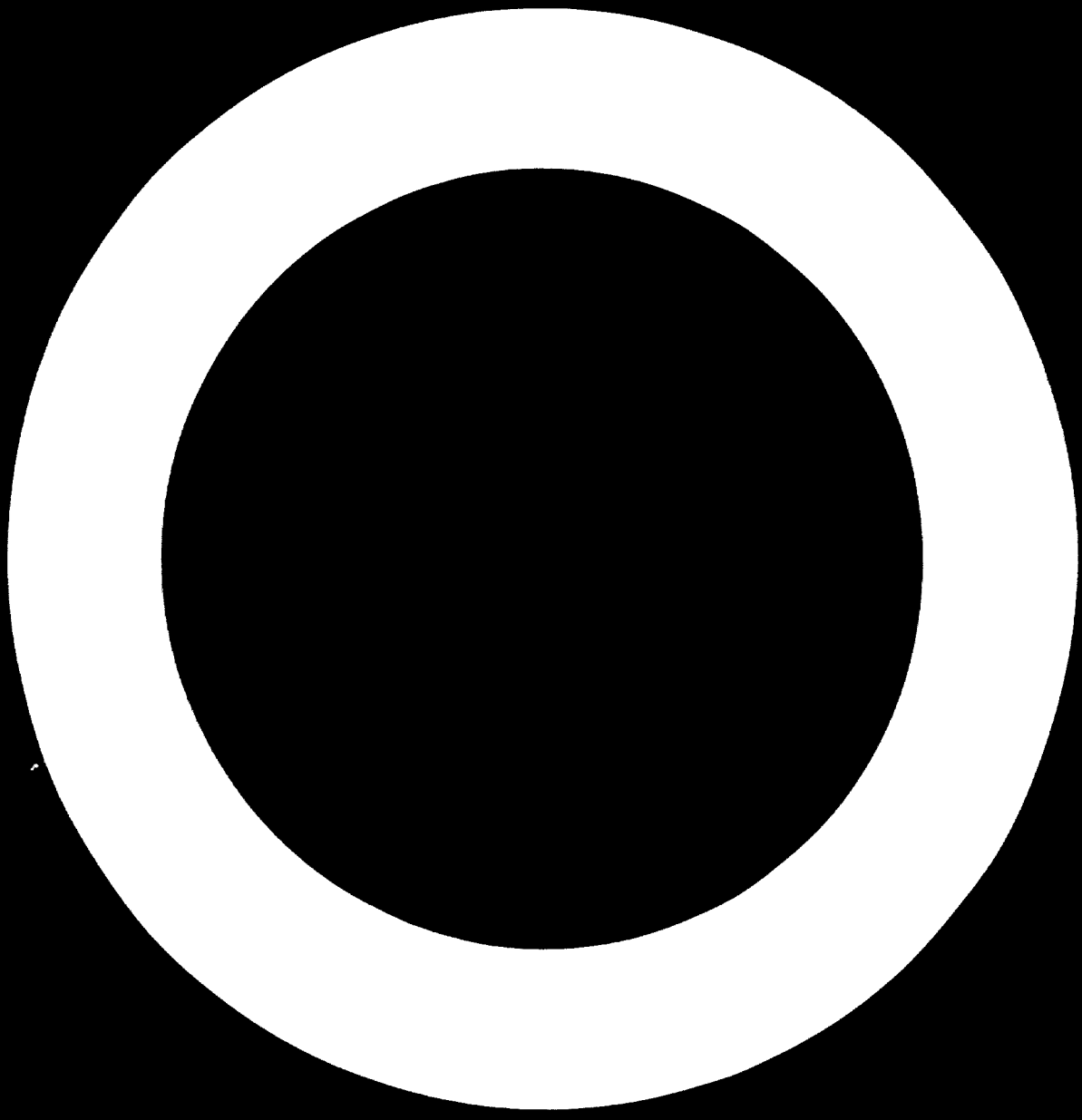
SITE PLAN, FLOOR PLAN AND FLOW CHART
SHOWING MACHINERY LAYOUT AND WORK FLOW

SITE PLAN (1:1,000)

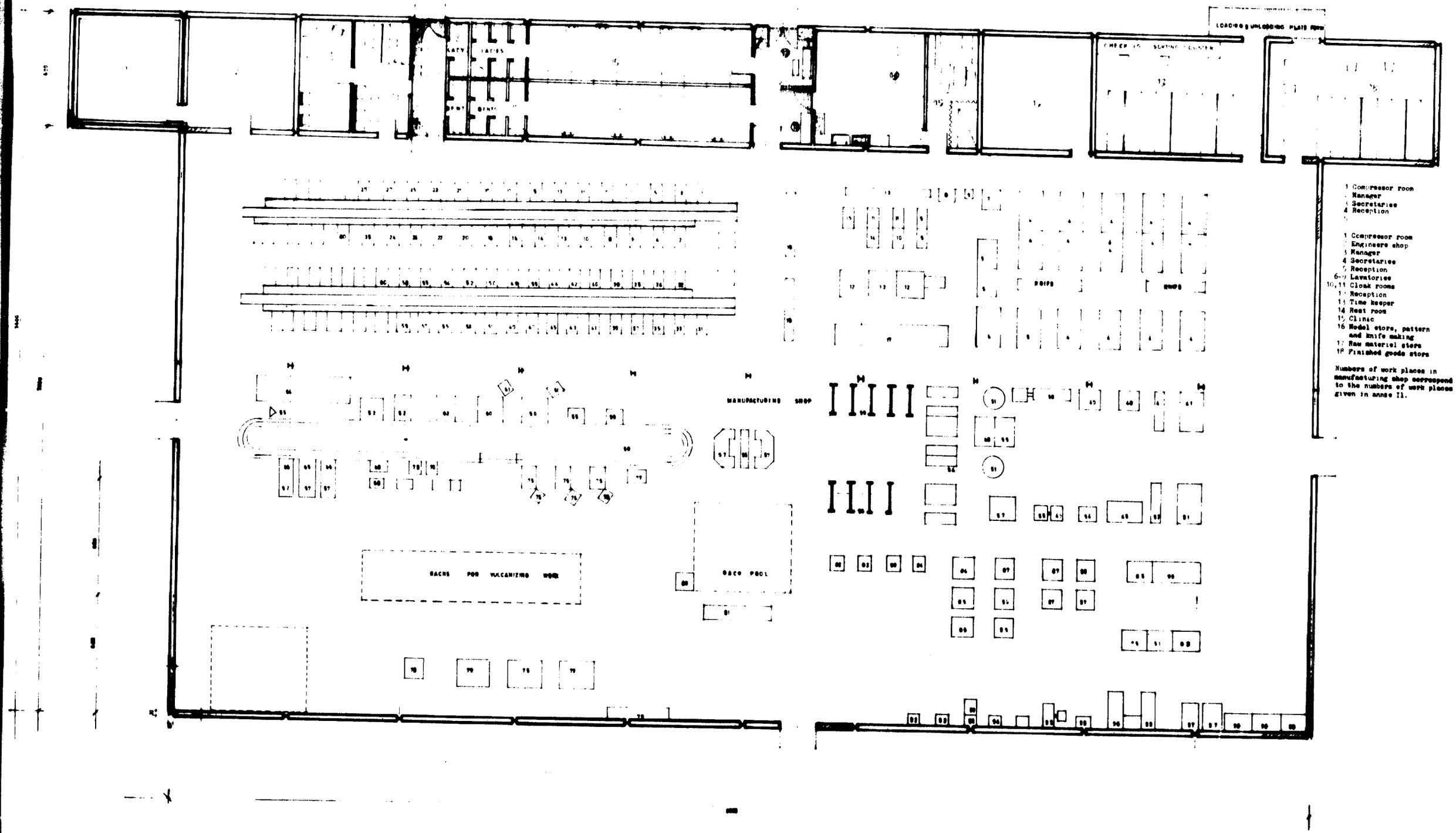




I_1	Clicking	———	Raw material
I	Closing room	▬▬▬	Finished goods
II_1	Fold edge	▶	Factory entrance
II_2	Flat stitching	▷	Administration entrance
III	Assembly	▷	Fire escape
IV_1	Lasting	▶	Finished goods outlet
IV_2	Vulcanizing	▶	Raw material inlet
V	Finishing		

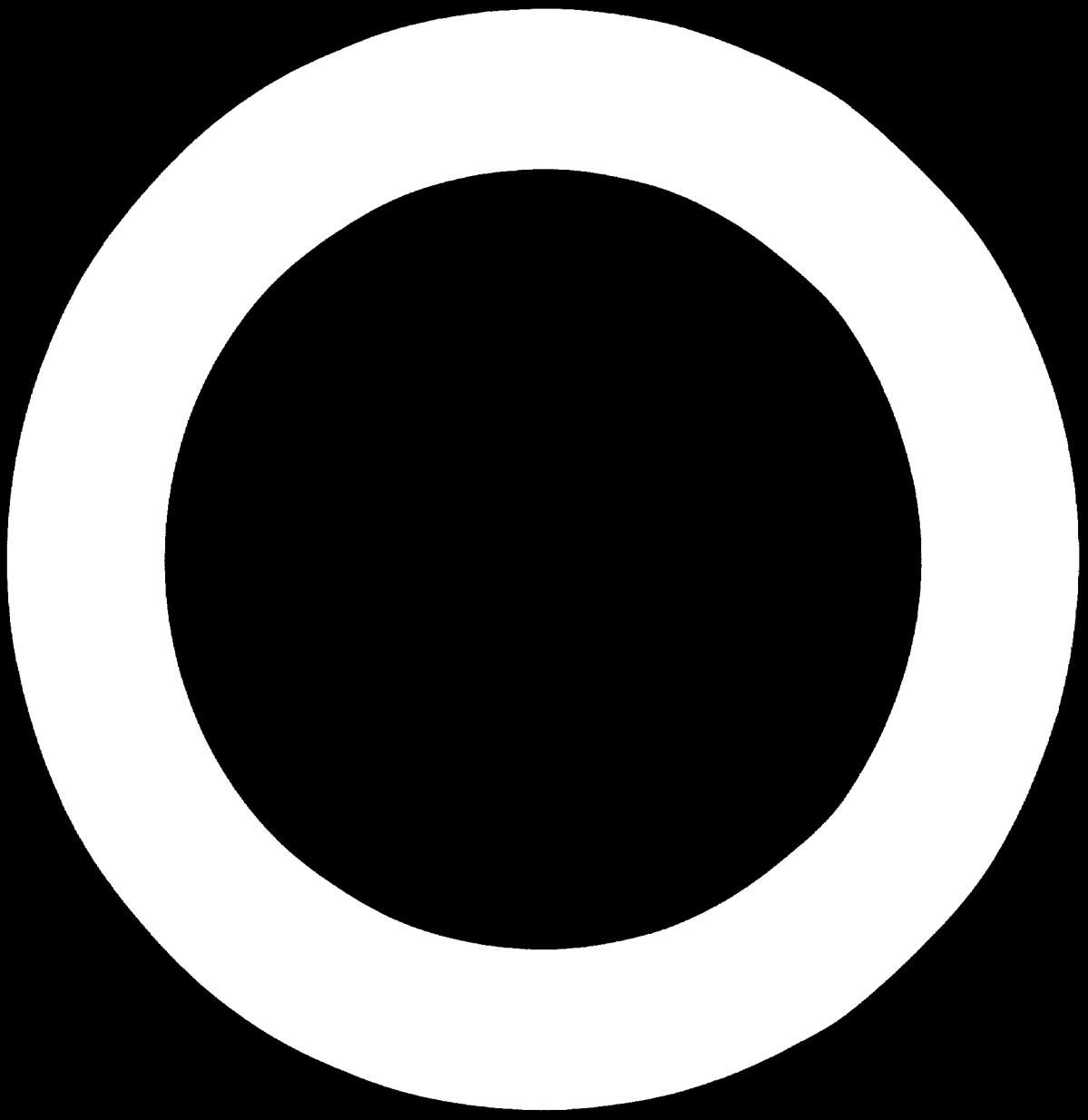


FLOOR PLAN (1:100)



1 Compressor room
2 Manager
3 Secretaries
4 Reception
5
6 Compressor room
7 Engineers shop
8 Manager
9 Secretaries
10 Reception
11-12 Lavatories
13,14 Cloak rooms
15 Reception
16 Time keeper
17 Rest room
18 Clinic
19 Model store, pattern and knife making
20 Raw material store
21 Finished goods store

Numbers of work places in manufacturing shop correspond to the numbers of work places given in annex II.



Machinery requirements for the first shoe factory (Output of 1600 pairs per day of unit sole cemented shoes; one 8-hours shift 2 lines

Number of work places a/	Operation	Machine or fixture	Machines needed	Price per unit	Total price
	Multiple cutting	**Travelling head press**	1	£ 3750	£ 3750
	CLICKING	**Pattern grading machine**		**$US 15000**	**$US 15000**
4	**Cut uppers and linings**	**Clicking machine**	14	£ 1616	£ 22624
5	**Hand cut samples**	**clicking bench**	2	$Eth 92	$Eth 184
6	**Sort uppers**	Bench	1	$Eth 80	$Eth 80
6	**Work in process**	**Bench**	1	$Eth 80	$Eth 80
7	**Split uppers**	**Band knife splitter**	1	£ 2505	£ 2505
8	**Preform and mull uppers**	Upper forming machine	2	£ 1776	£ 3552
9	**Condition vamps**	Contact-mulling machine	2	£ 579	£ 1158
10	**Stamp linings**	**Lining stamp machine**	1	£ 837	£ 837
15	**Stamp socks**	**Sock stamp machine**	1	£ 1751	£ 1751
13	**Marking dies**	**Brass sock stamps**		£ 50	£ 50
12	**Stitch marking**	**Stitch-marking machine**	3	£ 180	£ 180
11	**Piece marking**	Single row stamp machine	2	£ 750	£ 750
14	**Bench**	**Bench**	2	$Eth 80	$Eth 160
17	**Mail for lining stamp machine**	**Lining stamp machine**	1	$Eth 150	$Eth 150

First shoe factory (contd.)

Number of work places a/	Operation	Machine or fixture	Machines needed	Price per unit	Total price
	CLOSING ROOM				
18	Store uppers	Storage racks	1	$Eth 700	$Eth 700
	Skive uppers	Upper-skiving machine	5	£ 927	£ 4635
	Fold edges	Folding machine model C	3	£ 2299	£ 6897
	Tape and press seams	Seam-taping machine	2	£ 891	£ 1782
	Punch upper	Perforating machine	1	£ 1600	£ 1600
8,9	Laminate linings	Cementing machine	4	£ 566	£ 1132
		Bench	2	$Eth 85	$Eth 170
10-42	Back-seams, sides etc.	Zig-zag machine 107G253	2	£ 4740	£ 9480
11,12	Binding	Binding cylinder bed machine (196/A72)	2	£ 3277	£ 6554
13-16	Top stitch	Under trimming post machine (236G125)	4	£ 4183	£ 16732
		Transporter	2	£ 3500	£ 7000
37-39	Eyelet stay	Bench	3	$Eth 85	$Eth 255
	Eyeletting	Eyeletter Epoch # 2	2	£ 730	£ 1460
40-41	Hand lacing	Bench	2	$Eth 85	$Eth 170
43,44	Vamping	Twin needle post machine (238.G146)	2	£ 4183	£ 8366
17-30	Flat stitching(men's shoes)	Flat machine(196-301)	14	£ 1538	$ 21532
45-60	Flat stitching (ladies and children shoes)	Flat machine (331K116)	16	£ 1109	£ 17744

First shoe factory (contd.)

Number of work place[a]	Operation	Machine or fixture	Machines needed	Price per unit	Total price
	ASSEMBLY				
54	Upper storage	Carrying frames for closed uppers	600	£ 1,50	£ 900
53	Sole unit	Racks	12	$Eth 200	$Eth 2400
55	Insole unit	Racks	12	$Eth 200	$Eth 2400
53	Heel unit	Cubs	6	$Eth 200	$Eth 1200
55	Last storage	Peg shelving		$Eth 700	$Eth 700
57	Assemble	Bench	2	$Eth 85	$Eth 170
56	Insert counter	Backpart moulding	2	£ 5575	£ 11150
	Apply toe puff	Toe puff applying machine	1	£ 3162	£ 3162
	LASTING				
58	Transporting	Transporter (26 metre, 4 tier)	1	£ 6196	£ 6196
59	Tack insole and load	Hand bench	2	$Eth 85	$Eth 170
59	Tack insole and load	Air tacker	2	£ 750	£ 1500
60	Pull toe last	Toe laster (# 4)	2	£ 7443	£ 14886
61	Condition forepart	Steamer	2	£ 369	£ 738
62	Side lasting	Cement side laster	2	£ 1700	£ 3400
63	Last seat load heat setter	Seat bedding machine (# 5)	2	£ 6920	£ 13840
64	Heat setting	Heat setter	1	£ 2208	£ 2208
65	Unload heat setter	Bench	1	$Eth 80	$Eth 80

First shoe factory (contd.)

Number of work place[a]	Operation	Machine or fixture	Machines needed	Price per unit	Total price
	MAKING				
66	Rough upper	Upper-roughing machine	4	£ 1210	£ 4840
67	Remove dust	Dust control unit	2	£ 504	£ 1008
68	Attach shank and bottom filter	Hot melt cement pot or tacks bench	2	$Eth 80	$Eth 160
70	Hand cement bottom	Bench and pot	2	$Eth 80	$Eth 160
75	Active soles	Re-activating machine	4	£ 368	£ 1472
75	Cement sole	Attaching machine	3	£ 3245	£ 9735
78	Attach seat filler	Staple fastener	1		£ 1311
79	Mould men's industrial boots	High pressure vulcanizing machine complete with all electric and hydraulic control equipment for solid rubber	4	£ 2945	£ 11780
		Hydraulic press complete with pump, motor accumulator and all electric hydraulic equipment	1	£ 1485	£ 1485
		Moulds: sizes 6, 7 and 8;	4	£ 1000	£ 4000
		and sizes 8, 9, 10 and 11	4	£ 1000	£ 4000
	Preheating cabinets		2	£ 200	£ 400

First shoe factory (contd.)

Number of work place a/	Operation	Machine or fixture	Machines needed	Price per unit	Total price
	FINISHING				
81	Store heels	Rack	1	$Eth 500	$Eth 500
80	Attach heels	Model A heel attacher	2	£ 3443	£ 6886
82	Trim heels	Ultima heel trimmer	2	£ 1569	£ 3138
83	sharpen knives	Grinding machine	1	£ 1104	£ 1104
84	Scour heels	Heel scouring machine	2	£ 702	£ 1404
85	Trim edges	Edge trimming and jointing machine	3	£ 2120	£ 6360
86	Ink edges	Bench(hand)	2	$Eth 80	$Eth 160
87	Set edges	Edge setting machine	2	£ 982	£ 1964
88	Pad heels	Heel padding machine	2	£ 600	£ 1200
89	Bottom scouring	Bottom scouring machine	2	£ 2360	£ 4720
90	Paint bottoms	Bench	2	$Eth 80	$Eth 160
91	Polish and brush	Bottom polishing machine	1		£ 447
77	Slip lasts	Last slip machine	2	£ 788	£ 1576
	SHOE ROOM				
	Transport work	Track or racks	12	$Eth 200	$Eth 400
92	Sock lining	Hand bench	2	$Eth 80	$Eth 160
93	Storage	Rack for socks	1	$Eth 300	$Eth 300

First shoe factory (contd.)

Operation	Machine or fixture	Machines needed	Price per unit	Total price
Cleaning and treeing	Treeing equipment	2	£ 501	£ 1002
Spray	Gun and booth	2	£ 519	£ 1038
Repair	Bench	4	$Eth 80	$Eth 320
Examine and pass	Bench	4	$Eth 80	$Eth 320
Lacing and bows	Bench	3	$Eth 80	$Eth 240
Label and box	Bench	3	$Eth 80	$Eth 240
	Spare parts for one year			£ 8452
	Cupboard with sliding doors in skin room	1		$Eth 845
	Leather rack in skin room	1		$Eth 462
	Sorting table in skin room	1		$Eth 174
	Grading machine	1		$US 15000

a/ Corresponds to the number of work places in manufacturing shop given in the floor plan in annex I.

Machinery requirements for the second shoe factory (Output of 1600 pairs per day; one 8 hours shift)

Number of work place a/	Operation	Machine or fixture	Machines needed	Price per unit	Total price
	CLICKING				
4	Cut uppers and linings	Clicking machine	14	£ 1616	£ 22624
5	Hand cut samples	Clicking bench	2	$Eth 92	$Eth 184
6	Sort uppers	Bench	1	$Eth 80	$Eth 80
6	Work in process	Bench	1	$Eth 80	$Eth 80
7	Split uppers	Band knife splitter	1	£ 2505	£ 2505
8	Preform and mull uppers	Upper-forming machine	2	£ 1776	£ 3552
9	Condition vamps	Contact-mulling machine	2	£ 579	£ 1138
10	Stamp linings	Lining stamp machine	1	£ 837	£ 837
15	Stamp socks	Sock stamp machine	1	£ 1751	£ 1751
13	Marking dies	Sock stamps		£ 50	£ 50
12	Stitch marking	Stitch-marking machine	3	£ 180	£ 540
11	Piece marking	Single row stamp machine	2	£ 750	£ 1500
14	Bench	Benches	2	$Eth 80	$Eth 160
17	Foil for lining stamp machine	Lining stamp machine		$Eth 150	$Eth 150

Number of work place a/	Operation	Machine or fixture	Machines needed	Price per unit		Total price		
	CLOSING ROOM							
18	Store uppers	Storage racks	1	$Eth	700	$Eth	700	
	Skive uppers	Upper-skiving machine	5	£	927	£	4635	
	Fold edges	Folding machine(model C)	3	£	2299	£	6897	
	Tape and press seams	Seam-taping machine	2	£	891	£	1782	
	Punch uppers	Perforating machine	1	£	1600	£	1600	
	Laminate linings	Cementing machine	4	£	566	£	1132	
8/9	Bench work	Bench	2	$Eth	85	$Eth	170	
10/42	Seaming	Zig-Zag machine (107G)	2	£	4740	£	9480	
11/12	Binding	Binding machine (196)	2	£	3277	£	6554	
13/16	Top stitch	Under trimming post machine (236G 125)	4	£	4183	£	16732	
	Transporting	Transporter (Satra-Eatough type)	2	£	3500	£	7000	
37/39	Eyelet stay	Bench	3	$Eth	85	$Eth	255	
	Eyeletting	Eyeletter (Epoch # 2)	2	£	730	£	1460	
	Hand lacing	Bench	2	$Eth	85	$Eth	170	
	Mocasin	Sweing machine	1	DM	3159,84	DM	3159,84	

Number of work place a/	Operation	Machine or fixture	Machines needed	Price per unit		Total price	
43/44	Vamping	Twin needle post machine	2	£	4173	£	8366
17/30	Mens flat machining	Single needle flat machine	14	£	1538	£	21532
45/60	Women's flat machining	Single needle flat machine	16	£	1109	£	17744
	ASSEMBLY						
54	Upper storage	Carrying frames for closed uppers	600	£	1,50	£	900
53	Sole storage	Racks	12	$Eth	200	$Eth	2400
54	Insole storage	Racks	12	$Eth	200	$Eth	2400
53	Heel storage	Cubs	6	$Eth	200	$Eth	1200
55	Last storage	Peg shelving	1	$Eth	700	$Eth	700
	Apply toe puff	Toe puff machine	1	£	3162	£	3162
56	Insert counter	Back part moulding machine	2	£	5575	£	11150
57	Assemble	Bench	2	$Eth	85	$Eth	170

Number of work place a/	Operation	Machine or fixture	Machines needed	Price per unit	Total price
	LASTING				
58	Transporting	Transporter (26 metre, 4 tier)	1	£ 6169	£ 6169
59	Tack insole and load track	Hand bench	2	$Eth 85	$Eth 170
59	Tack insole and load track	Air tracker	2	£ 750	£ 1500
60	Pull toe Last	Toe Laster (# 4)	2	£ 7443	£ 14886
61	Condition foreparts	Lasting heater	2	£ 369	£ 1476
62	Side lasting	Cement side laster	2	£ 1700	£ 3400
63	Last seat and load heat setter	Seat bedding machine (# 5)	2	£ 6920	£ 13840
64	Heat setting	Heat setter	1	£ 2208	£ 2208
65	Unload heat setter	Bench	1	$Eth 80	$Eth 80
	MAKING				
66	Rough upper	Upper-roughing machine	4	£ 1210	£ 1840
67	Remove dust	Dust control unit	2	£ 504	£ 1008
68	Attach shank and bottom filler	Hot melt pot or tacks bench	2	$Eth 80	$Eth 160
70	Hand-cement bottom	Bench and pot	2	$Eth 80	$Eth 160
76	Activate soles	Reactivating machine	4	£ 368	£ 1472
75	Cement sole	Attaching machine	3	£ 3245	£ 9735

Number of work place a/	Operation	Machine or fixture	Machines needed	Price per unit		Total price	
	FINISHING						
81	Store heels	Pack	1	$Eth	500	$Eth	500
80	Attach heels	Heel attacher	2	£	3443	£	6886
82	Trim heels	Ultima heel trimmer	2	£	1569	£	3138
83	Sharpen knives	Grinding machine	1	£	1104	£	1104
84	Scour heels	Heel scouring machine	2	£	702	£	1404
85	Trim edges	Edge trimming machine	3	£	2120	£	6360
86	Ink edges	Bench (hand)	2	$Eth	80	$Eth	160
87	Set edges	Edge setting machine	2	£	982	£	1964
88	Pad heels	Heel padding machine	2	£	600	£	1200
89	Bottom scour	Bottom scouring machine	2	£	2360	£	4720
90	Paint bottoms	Bench	2	$Eth	80	$Eth	160
91	Polish and brush	Bottom polishing machine	1	£	447	£	447
77	Slip lasts	Last slip machine	2	£	788	£	1576

Number of work place[a]	Operation	Machine or fixture	Machines needed	Price per unit		Total price	
	INJECTION MOULDING[b]						
	Injection moulding	Sole master injection moulding machine	4	£	17221,6	£	17221,6
		Mould sets					
		Men's		£	7200		
		Women's		£	5600	£	18400
		Children's		£	5600		
				£	18400		
	SHOE ROOM						
	Transport work	Racks	12	$Eth	200	$Eth	2400
92	Sock lining	Bench	2	$Eth	80	$Eth	160
93	Storage	Rack for socks	1	$Eth	300	$Eth	300
	Cleaning and treeing	Treeing equipment	2	£	501	£	1002
	Spray	Gun and Booth	2	£	519	£	1038
	Repair	Bench	4	$Eth	80	$Eth	320
	Examine and pass	Bench	4	$Eth	80	$Eth	320
	Lacing and bows	Bench	3	$Eth	80	$Eth	240
	Label and box	Bench	3	$Eth	80	$Eth	240
		Air compressor	1	£	3000	£	3000

a/ Corresponds to the number of work place in manufacturing shop given in the floor plan in annex I.

b/ Two 8-hours shifts.

ANNEX III

POTENTIAL TRADE LINKS

Austria

Verband der Schuhindustrie
Bauernmarkt 13
1011 Vienna

Czechoslovakia

Exico
Panska 9
Praha 1

Denmark

A.S. Th. Wessel Og Vett
Kgs. Nytorv 13
1050 Copenhagen

Daells Varehus A/S.
Nørregade 12
1165 Copenhagen

Skofabrikantforeningen
i Danmark
Nørre Voldgade 34
1358 Copenhagen

Federal Republic of Germany

Grossversandhaus Quelle
8510 Fuerth

Hauptverband der Deutschen
Schuhindustrie e.V.
605 Offenbach a/M
Aliceplatz 7

Kaufhof A.G.
Leonhard Tietz Strasse 1
Köln

Kaufring Gemeinschaftseinkauf GMbH.
Mülheimer Strasse 183
605 Offenbach a/M

Neckermann Versandhaus KG
6000 Frankfurt a/M 1
Hanauer Landstrasse 360-400

Puma Sportschuhfabriken
Rudolf Dassler K.G.
8522 Herzogenaurach
Würzburger Strasse 13

Ruwina-Schuhfabrik
Wilfried Walter
6909 Malschenberg üb. Wiesloch
Friedhofstrasse 29

Salamander A.G.
7014 Kornwestheim
Stammheimer Strasse 10

Verband Deutscher
Schuhgrosshändler e.V.
6000 Frankfurt a/M 1
Telemannstrasse 12

France

Galeries Lafayette
Rue Mogador
75 Paris

Grands Magasins au Printemps
64, boulevard Haussmann
75 Paris 9

Groupement d'Achats des Grands
Magasins Indépendants
89, rue d'Amsterdam
75 Paris 8

Société Parisienne d'Achats
en commun
102, rue de Provence
75 Paris 9

Hungary

Tammimpex
Vorosmarty 35
Budapest

Netherlands

Federatie van Nederl...
Schoenfabrikanten
Reitseplein 1
Tilburg

Licona B.V.
Kloosterstraat 7
Loon op Zand

...
Stationsstraat 29
Waalwijk

Norway

Norski Skofabrikkere
Landsammenslutig
Haakon VII' gt 2
Oslo 1

Poland

Skorimpex
22 Lipca 71
Lodz

Romania

Romano Export
Strada Doamnei
Buckarest

Sweden

EPA Turitz + Co. A.B.
Gamlestadsvegen 3
Goteborg 3

Gyllene Gripen
Malmo

Kooperativa Forbundet
Stadsgarden 6
Stockholm

...land

... + Co. AG
...0 Stein am Rhein/Thurgau

...gazine zur Weintraube A.G.
...
...

...
...
...0 Porrentruy - Bern

A.I.S.
...strasse 20
8001 Zurich

...n Soviet Socialist Republics

"...export" Vsesojuznoje Objedinenije
...
...6

..." Vsesojuznoje Objedinenije
...Chersenski Pereulok 15
Moskva K-9

...Kingdom of Great Britain and Northern Ireland

...ish Shoe Co. Ltd.
...r

... A. Modes
...th ..., ... Arch
...n W1

... Co. Ltd
...
...orsland

...wick Shoe Co. Ltd.
...rwich
...olk NOR 32 A
St. George's Plain

Marks and Spencer Ltd.
Michele House, Baker Street
London W1

United States of America

Allied Stores Corp.
401, Fifth Avenue
New York, N.Y. 10016

Brown Shoe Company
8300 Maryland Avenue
St. Louis, Missouri

Edison Shoe Stores
St. Louis, Missouri

Genesco
Nashville, Tennessee

International Shoe Co.
1500 Washington Street
St. Louis, Missouri

J. C. Penny
1301, 6th Avenue
New York, N.Y.

Macy's
Manhattan Herald Square
New York, N.Y.

Mutual Buying Syndicate, Inc.
11 West 42nd Street
New York, N.Y. 10036

Sears Roebuck Overseas Inc.
360 West 31st Street
New York, N.Y. 10001

The May Department Stores Co.
50 West 44th Street
New York, N.Y.