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**Expert Group Meeting on the  
Implications of the Single European  
Market for Industrialization in  
Developing Countries**

**Vienna, 18-20 March 1992**

## THE FOOTWEAR SECTOR

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## PREFACE

*The creation of the European Single Market is the most significant step in economic integration so far taken. The creation of a single economic area in which capital and labour, goods and services all move freely is the target set by the countries of the European Community to be achieved by the end of 1992. Given the size and strengths of the Community, the changes under way may be expected to have significant impacts beyond its borders.*

*UNIDO, with financial support from the Government of the Netherlands, is holding an Expert Group Meeting to examine the main implications of this process for industrialization in developing countries. The expected growth effects of the Single Market will have implications for the world economy, including changes in trade and investment patterns. Other associated EC policies, especially in the areas of regional policy, competition, technology, environment, energy and technical standards will also affect a wide range of industrial sectors, and thus the prospects for industrialization in developing countries. The Expert Group Meeting will review the implications in terms of key industrial sectors: food, textiles and clothing, footwear, steel, chemicals, and electronics.*

*The present paper deals with one of these key sectors, the footwear sector. It reviews trends in the world industry and examines the implications of the Single Market and European Community policy for the footwear sector in developing countries.*

*The paper was prepared by the Regional and Country Studies Branch of UNIDO, with Anthony Clothier, United Kingdom, as UNIDO consultant.*

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## I. SUMMARY AND OVERVIEW

### Introduction

This report is structured so as to consider how the world trade in footwear has developed in the past and what influence the policies of the European Community have had on this; then to look at the changes that the introduction of the Single Market are likely to bring about; and finally to take a look at some possible future changes.

Looking back on the development of the world shoe trade over the last 25 years gives an overwhelming impression of an industry whose development has been influenced mainly by economic factors. The influence exerted by the EC Commission's policies and actions has up to now been very small indeed. It is certain that developing countries' governments have had more influence on their own country's prospects than the EC has had on the prospects of the shoe industry in its member states.

The main question is whether the new policies adapted for the single European market are likely to have a greater influence, or whether economic factors will continue to predominate. At first sight it seems as if, in spite of all the apparent importance of the 1992 changes, there will actually be little real change because the shoe trade has already achieved a free internal European market. However, deeper study shows a number of changes which will affect the developing countries' prospects. Most of these effects are favourable to the developing countries.

It is also important to look at some further changes that are likely to take place in the next five to ten years as these may have a very significant effect, which may not be as favourable.

### The Basic Economics of the Footwear Trade

The production of footwear is labour intensive and the number of operations involved is considerable. Today footwear can be produced with reasonably sophisticated numerically controlled equipment but even now labour intensive methods can be competitive provided labour costs are low and this has certainly been the case during the past 25 years.

The overwhelming reason for relocation of the world shoe industry in the last 25 years has been labour cost. Availability of attractive raw material at economic prices has been an influence but a relatively minor one compared with labour cost. One reason for this has been that most shoe making materials are traded internationally at international market prices except where market distortion has occurred as in the case of the MultiFibre Arrangement or where governments have tried to restrict the export of raw skins or finished leather.

There has, therefore, been an inexorable pressure to relocate large sections of the footwear industry away from countries with high labour costs (and often labour shortages) such as Western Europe and North America to the low labour cost countries in, most importantly, the Pacific basin but also in South America.

The degree to which this has taken place has been controlled by the category and market needs of the various footwear types. Basic (commodity) footwear which does not involve large numbers of models and which changes only slowly from season to season is now largely made in low wage cost countries.

High quality, high fashion footwear in spite of its high labour content continues to be made in some industrialized countries because quality, variety, service and speed of response are vital.

In between lie groups of shoes where a compromise solution is often adopted, ie making the labour intensive upper in a low cost country and finishing the shoe in an industrialized country.

### The Influence of the European Community's Policies

We now need to consider whether the EC's policies have in the past had any influence in either changing the direction of these economic pressures or in accelerating or decelerating the rate of change. The overriding impression is that, in spite of considerable pressure by EC shoe manufacturers, the EC Commission has done very little to slow down the rate of transfer of the industry to developing countries. It does not seem to have wanted to do much and it is questionable whether realistically it could have done much even if it had wanted to.

In terms of trade policy for the footwear industry, there has been no effective action at the Community level in the last 25 years. Such restrictions as have been effective have been national ones giving some protection to individual national shoe industries. These restrictions dated back to pre EC days or to rules which continued to allow national restrictions to be made.

The forms that these restrictions took were regulations on state trading countries and Voluntary Restraint Agreements (VRAs).

The action against state trading countries applied in the past to the former Communist states in Eastern Europe and to China. The VRAs mainly involved China (Province of Taiwan) and the Republic of Korea. In addition anti-dumping actions were sometimes mounted but this was a long winded and difficult to prove process. The threat was often more effective than the actual procedure.

The EC policy would seem to have been to accept the economic inevitability of the run down of large sections of the footwear industry, and to allow as free access as possible to the so-called poorer developing countries. From time to time it tried to prevent the Newly Industrialized Countries ("NICs") from disrupting too brutally the patterns of trade by huge surges of export into particular market segments.

Although it does not directly affect the developing countries a major part of the European shoe makers' efforts, together with that of the Commission, was to try and open up, or hold open markets for higher priced European made shoes. This provided the European shoe industries with opportunities to compensate for the losses they were suffering in the medium and lower priced segments. This led to particular efforts on the Japanese market but also to efforts to try to ensure that NICs with substantial middle class populations opened their markets to European products.

Tariffs and duties have not had much effect. The common external tariff on leather footwear of 8 per cent was really no deterrent and the way that the GSP system was operated meant that the 20 per cent duty on plastic and textile uppered footwear was only activated after very substantial pairages had been reached. The general consensus in the shoe trade is that duties need to be 20 per cent or above to have any real effect.

In most other areas EC policy would seem to have had little or no effect. The EC's own technological assistance policy has been very limited and has had little influence up till now for two main reasons:

- (1) It has as an objective the building up of cross border linkages and this has made many of the projects difficult and expensive to manage.

- (2) It has emphasized "pre-competitive" research on projects which are a long way back from the market place.

There have been very few, if any, EC investment grants available to the existing shoe industry to help install new equipment. There were in the past one or two national schemes but these are now largely ruled out by internal competition policy. There are also one or two useful national schemes to aid the first company that adopts a new technology.

The question of regional assistance is more problematical. There is no doubt that Portugal has built up a very substantial shoe industry in the past 10 years. There is no doubt that the European Social Fund gave very significant assistance to the development of the shoe industry in Northern Portugal in terms of infrastructure grants, capital equipment grants and training grants (amounting to at least 25 per cent of start up costs).

Against this one must set the following facts:

- (1) The main pull of Portugal was its wage rates which were around 25 per cent of those of Germany.
- (2) The rise in Portuguese shoe output brought about a substantial decline in Italian shoe production.
- (3) If Portugal had not been there as a "close in" source of low cost labour would the transfer of production from Germany and the rest of the EC have taken place at all? Would it have gone to Turkey or Tunisia instead? It is unlikely it would have gone to India or Indonesia because most of the production transferred required short lead times.

In general it can be said that in the past other EC activities have been insufficiently developed to have much influence in the development of trading patterns. For example, there were no European footwear standards and no real effect from environmental legislation.

So the conclusion is that up till now the laws of economics and cost have reigned supreme, that the EC did not try very hard to mitigate the effects and what action it did take had little effect.

Has the coming of The Single European Market made any difference?

The first thing to consider is that it is not purely a question of what is happening as part of the introduction of the Single European Market that is important. It is the question of the whole build up of European legislation in a number of areas.

There are a number of areas where new EC legislation and activity will have a significant effect on the structure of the world footwear trade. They are:

- Trade Policy
- Industrial Product Standards
- Environmental Policy
- Regional Development Policy

In trade policy the allowing of free circulation of goods will effectively invalidate the protective power of the various barriers against state trading countries and will mean that VRAs will only have an effect if they can be negotiated on an EC wide basis as opposed to a country by country basis. This will be to the developing country's advantage.

The first European as opposed to National product standard is being introduced in 1992. It covers safety footwear which has hitherto been the subject of national standards though to some extent the German DIN standard has predominated. The various national standards have provided considerable protection against imports and this will mean that countries wishing to export to the community will only have to comply with one standard though there are differing standards for safety footwear for use in different industries. However, the standards are serious ones and will require a would be supplier to have access to proper testing facilities.

Although there is as yet no legislation it seems likely that the next area where Community standards may be laid down is in sports footwear where there is a move to specifying certain attributes in sports footwear designed for specific sports, ie mountain climbing or running. This would clearly affect a substantial part of the developing country's footwear production.

Environmental policy is not altered by the 1992 changes in themselves but it is an area which is likely to have very considerable effects in the future. This is a whole field where considerable and rapid tightening of standards is taking place and from an EC point of view the situation is somewhat out of control. This is because EC regulations (Article 100 of the Treaty of Rome) allow a country to have tougher standards than the EC norm. This means that the EC is always having to scramble to tighten its legislation to keep up.

From the point of view of the shoe trade one can divide the regulations into two types:

- (1) Regulations which can be applied to all footwear sold in the EC. Thus if the EC decides that its manufacturers are not allowed to make products which have sperm whale oil or PCPs in them that rule is likely to apply to supplies from outside the EC.
- (2) Regulations which increase manufacturing cost in the EC but may not affect the costs of developing countries unless they choose to adopt EC standards. The tannery effluent regulations are a good example of this where the cost of an old tannery within the EC complying is often sufficient to force it to close down. Another example is of new regulations on the use of solvents in adhesives. These can be surmounted by using water based adhesives, but these cost twice as much.

Obviously it is the second category which can prove a cost benefit to the developing countries provided they are not so worried about potential environmental or human damage or alternatively can develop lower cost solutions to the problems of UNIDO's programme on tannery effluent. However, the EC is not necessarily fully in control of public opinion and this can bring unanticipated pressure for change.

Regional Development Policy has more temporary and selective effects. We have seen what happened in Portugal where labour rates were low. The same effect did not happen in other parts of the EC. In time too Portuguese wages will rise and its competitive position will deteriorate.

However, should Czechoslovakia, Hungary and Poland join the EC then the situation will be different. The EC would presumably use similar methods to bring the economies of these countries up to the level of the rest and very substantial grants would be made available.



Grants would be heaviest in the poorest areas of these countries and also those areas most affected by the collapse of heavy industry. The shoe industry would be a natural beneficiary of this policy and one would see the re-creation of a low cost, well equipped footwear industry close to the markets of Western Europe. Once again this is more likely to be at the expense of Tunisia, Morocco and Turkey rather than China, Vietnam and Indonesia.

The cost advantage of this would once again be temporary, probably 10 years at the most.

There is another side to this argument; at the same time as Portugal was building its shoe industry the markets of Spain, Greece and Portugal were being opened to imports of lower cost footwear from the developing countries. This would also apply in the case of Czechoslovakia, Hungary and Poland.

### Conclusions

There is no doubt that the formal legal structures of the single European market should help rather than hinder the footwear exports of the developing countries to the EC. However, it would be unwise to expect the transfer of shoe manufacturing from the EC to the developing countries to continue at the speed which it has done in the last twenty years. There will be a point of equilibrium when the need for proximity to the market outweighs the advantages of pure low labour costs.

There are two factors which might upset this scenario which presents a relatively attractive picture for the developing countries:

- Restrictive actions based on public concern on environmental issues.
- A sharp improvement in the efficiency of capital as opposed to labour which would tilt the cost balance back more in favour of shoe makers in the EC. This was not the subject of this report and so has not been discussed. All one can say is that there may well be some redressing of the balance but it would appear unlikely to dramatically change the overall position.

## **II. THE DETAILED IMPACT OF THE SINGLE MARKET AND EC POLICY**

### **II.1. THE GLOBAL FOOTWEAR TRADE**

This section is intended to provide an overall view of the world footwear trade but with particular reference to the European Community and the developing countries. The development of the world trade in footwear will be described, covering both how it happened and the stage that it has reached today. Then an attempt will be made to forecast possible changes in the next ten years.

#### Historical (pre 1965)

It is worth remembering that global trade in footwear is mainly of quite recent origin. Italy was the first great world supplier of footwear and the Italian shoe trade did not start to export seriously until the mid 1950's. Italy's success did not depend mainly on low costs but an ability to make stylish shoes out of interesting materials. Of course there had been some trade in shoes going back into the 19th Century but it was mainly of the "Imperial" type where the mother country exported to the colonies. This died soon after the Second World War.

## The Last 25 Years

Annex table 1 shows the development of the world shoe trade in the last 25 years in tabular form. The pie chart in Figure 1 shows it even more graphically for the last 14 years. Annex table 2 shows it in another form for the 1980s. All this information is from different sources but the end result is the same. There have been enormous changes.

It is worth identifying a number of movements that have taken place during this 25 year period and seeing how they have affected the fortunes of different countries because it is important to understand that the force for change has not come from one direction. A number of different factors have had their influence.

### (1) Industry Growth Based on Superior Skills

It has been pointed out that the Italian industry grew because it produced an attractive product that other countries wanted. A number of other countries were in this category, for example Spain at a somewhat later period than Italy. Some sectors of the French industry also had the same experience.

The reverse of this was seen in countries which began to lose their shoe industries at a very early stage due to high labour costs, small domestic markets and lack of any particular shoe making specialization. Examples were Sweden, Norway, Denmark, Belgium and The Netherlands.

### (2) Early Movement of Very Basic Footwear to Low Labour Cost Countries

During the early 1960s and even before there was a move to transfer the manufacture of canvas footwear, rubber boots and other very simple products to low cost producers in countries such as Pakistan and Hong Kong. Initially these products had very long lead times. It is a curious fact that in the longer term this movement of rubber and plastic boots was not permanent as Western marketing companies de-commoditized the product into specialist niche markets for which production in Western Europe was more suitable.

### (3) The Great Athletic Movement

It was the great growth of athletic and sports related footwear which brought about the major alteration in the location of world footwear capacity. Suddenly there was a very large demand for a type of footwear for which production facilities did not exist elsewhere in the world. With the assistance of the Japanese trading companies it was possible to build up production rapidly in the Pacific basin. This caused a very large transfer of capacity from the EC and the USA to other countries.

It was not athletic shoe factories that closed down in the USA and Europe, it was factories who had made other products. Their customers now chose to wear athletic related shoes.

### (4) The Post Athletic Growth In South East Asia

The growth in demand for athletic footwear has now levelled off but the skills and capacity established in South East Asia have created a shoe making appetite that needs to be filled. Ideally it also needs to be filled with products which can be made on long lead times because this removes the main handicap of these areas. Ideally it also needs to be products which are

more often made of synthetic materials which are freely available locally. The Taiwanese trade in basic women's fashion shoes with synthetic uppers is an example of this.

(5) The Brazilian Phenomenon

Another major movement in trade was really based on only one country. Brazil had two natural advantages, low cost labour and a substantial source of medium grade leather which was suitable for women's semi dress shoes and men's dress shoes. It also had a managerial and capital structure which was capable of operating large well controlled plants.

This combination attracted some very successful American wholesalers who built up a large business with Brazil in the later 1970s. This source also proved attractive to European customers.

(6) Offshore Upper Sourcing

During the period from 1975-1980 a number of companies operating in high labour cost countries started to source shoe uppers in low cost countries because this gave them lower costs in the most labour intensive part of shoe making whilst not losing control of the shoe making process. It also gave them shorter lead times than if they had sourced the whole shoe offshore.

Upper sourcing was in three main types of area:

- (a) As close to the domestic finishing plant as possible. For Western European shoe producers this meant Portugal, Malta, Tunisia, Morocco, Yugoslavia, Hungary and Turkey.
- (b) Distant sources where there was an outstanding supply of raw material, e.g. India.
- (c) Distant sources without raw material, e.g. Thailand.

These then are the main forces for change that have been effective over the last period up till around 1988. Since then there have been further changes and we should now look at these.

The Last Three Years

Up to date statistical information is very hard to obtain and annual production fluctuates considerably but the following are some of the main changes taking place which do not necessarily show in available statistics.

- (1) A further very sharp fall in shoe production in the USA in spite of the enormous success of some of the American brands such as Timberland and Sebago.
- (2) A substantial drop in Italian shoe production due to a lack of competitiveness, particularly in the American market.
- (3) A further rise in Portuguese shoe production but which has now reached its peak.
- (4) The collapse of the economy of the former Soviet Union which has caused a sharp reduction in production in many of the former Comecon countries of Eastern Europe. This has also significantly affected a number of non-Comecon countries.

- (5) The emergence of Eastern European shoe makers as significant suppliers of normal grade footwear to Western Europe.
- (6) An acceleration of the tendency by Western European companies to move production of uppers and increasingly whole shoes to lower labour cost areas.
- (7) A rapid decline in Taiwan's competitiveness leading Taiwanese manufacturers to move a great deal of production to Southern Mainland China.
- (8) The emergence of Indonesia as a large scale export producer which is not merely taking pairage formerly produced by China (Province of Taiwan) and the Republic of Korea. Indonesia is producing certain types of footwear which up till now have been produced in western Europe, an example being ECCO's substantial commitment to this country.
- (9) Quite apart from the movement of Taiwanese production lines to mainland China there is China's own internally generated growth in shoe making.
- (10) The Brazilian shoe industry has stopped making progress. One of the main reasons has been Brazil's very restrictive import controls which are inhibiting technical development as far as the shoe industry is concerned.
- (11) India has continued to flourish as a source of shoe uppers but its progress as an exporter of whole shoes continues to be slow due to government policies that have been unhelpful to the shoe industry and a lack of infrastructure.

### The Future

Having looked at how the world footwear trade has developed over the last 35 years we now need to consider what is going to happen in the next ten years. There is no doubt that by far the greatest influence on the changing location of shoe making in the past has been economics: the fact that shoe production is labour intensive and will therefore, other things being equal, tend to gravitate towards low labour cost countries.

Figure 2, showing the cost of material, labour, capital etc in different countries and also the cost of making shoes with imported uppers as opposed to whole shoes in Germany, indicates just how strong the economic pressures are.

Against this economic pressure the efforts of the governments of the industrialized countries to protect their domestic shoe industries would appear to have had little effect. This applies also to the efforts of supra national bodies such as the EC.

On the receiving end the situation has been different. There is no doubt that countries that have opened their borders to foreign trading and investment companies have proved more successful than those that have not. The contrast between the Republic of Korea and India is particularly sharp.

With this background in place it is possible to say a number of things about the future.

- There is a limit to the extent to which the shoe industry can be entirely moved to low labour cost countries some way from the markets. It is very hard to see high fashion, high quality shoes being made in this way, since the problems of fashion change and detailed specification are too great. There is also the problem of the conflict between "Quick Response" attitudes to manufacturing and retailing and the rather long supply pipelines that exist from many Asian countries. The record of reliability of logistic systems from most Asian countries for quick replenishment is not encouraging.

- However, the cost pressures imply that European manufacturers and wholesalers will continue to seek out cheaper sources of whole shoes and uppers. The fact that this can be done without too much loss of flexibility by operating in one of the lower cost countries close to Western Europe means that there will be a continuing transfer of work to countries in Eastern Europe and around the Mediterranean.
- According to Satra by 1989 54 per cent of all the world's footwear was made in South East Asia. This proportion has probably increased in the last 2 years. To what extent will this go still further? It would appear that countries such as Indonesia will be able to capture some of the market for medium grade leather shoes but in other categories the region already has almost 100 per cent of world capacity. Satra's view is that the scope for South-East Asia to expand at the speed it has done in the past is limited.
- However, within the region we are likely to see substantial changes. The Taiwanese industry is already relocating because of cost pressures and this will continue. Thailand also looks vulnerable in the longer term. For some reason the Republic of Korea is holding on to its existing production level. Beneficiaries of the switch look like being China, Indonesia and Vietnam.
- India is likely to start solving its long term problems following the government's change in attitudes in a whole number of areas. In addition Indian manufacturers are making considerable efforts to sort out the infrastructure problems.
- One of the interesting features of the world shoe trade has been the fact that there is no significant production in Africa except in South Africa and some of the countries bordering the Mediterranean. The reason would appear to be that whilst labour costs are important a shoe industry needs a certain minimum level of infrastructure to succeed. Nor are labour costs in Africa as low as those in some Asian countries.
- In the Americas any movement to Free Trade in the Northern half of the Continent is likely to benefit Mexico considerably.
- In South America we are likely to see considerable development of an export shoe trade in countries other than Brazil. Some of them have excellent raw material sources and in an improved policy and administrative climate are likely to prove themselves to be successful suppliers.

### Technological Policy

The EC Commission has believed that it could offer support to research and development programmes without distorting competition among the member states. A number of projects have been carried out or are in process for the footwear industry. However, it is quite clear that the footwear industry has not benefitted more than any other industrial sector. For example in the BRITE programme 6 projects out of 300 concern footwear.

So far it is extremely doubtful whether EC assistance to research projects such as those in the BRITE programme have improved the competitiveness of the European footwear industry. This is partly because of the type of research that is being undertaken and partly because the original working method was slow, complicated and expensive though efforts are being made to improve this.

EC sponsored projects are at the fundamental end of the research spectrum rather than the market led and usually end with the building of a prototype piece of equipment or the establishment of a prototype unit. This generally leaves the problem of finding a company or organization capable of financing the much more expensive exercise of putting the idea into bulk production. As the EC

programmes have only been running for a few years in their new format (after the ineffective false starts of the 1970s) it is not surprising that they have not yet had any effects on the industry's competitiveness.

A key requirement of EC assistance is that organizations from more than one country must be involved and this naturally tends to slow things down, though not as badly as in the earliest EC sponsored projects in the 1970s when all member states had to be involved in the first footwear industry projects.

Another feature of the latest EC programmes is their insistence that Research Institutes must not be the major initiators and beneficiaries of research programmes. In most cases this is beneficial and an example that UNIDO might well follow in its aid programmes.

The following are two typical examples of the kind of project that is involved:

**AUTOMATION AND INTEGRATION OF CUTTING  
AND STITCHING WORKSHOPS IN A FLEXIBLE SHOES  
MANUFACTURING SYSTEM**

Starting date: March 1988

Duration: 39 months

**OBJECTIVES**

The purpose of this project is to set up a flexible shoe manufacturing system for cutting and stitching workshops. It uses and improves upon existing state-of-the-art processes and techniques, its modules adapted to small and medium-sized shoe companies. The following operations are included: removal of cut pieces from the cutting workshop (water jet cutting), storage of pieces in boards, storage of boards in containers, containers, automatic container circulation and distribution to stitching stands, automatic supply of automated stands thanks to markings on the cut parts. An in-depth packaging study should reduce the size of the batches handled, permitting flexible production control in order to reduce the time involved in launching new models and completing current products.

**ACHIEVEMENTS TO DATE**

This project terminated in research models and prototypes which are installed in a test workshop at an experimental site PAIC-A in Bordeaux, France. Connected with a water-jet cutting machine (4 workstations), these experimental prototypes are: leather pieces conditioner (container and board), removal system of cut pieces with piece grip mechanism, board piece conditioning system, conveying system of containers, automatic feeding of stitching work station, pieces superposition work station.

**PRIME PARTNER**

SEPIC  
2 AVENUE HOCHÉ  
2 F-75008, PARIS

**OTHER PARTNERS**

ISIN	F
LABELLE CHAUSSURES	F
NOEL PORTUGAL	P
IRI	E
SUTEAU SA	F
CTC	F

**TOPSYS - TOOL PRODUCTION SYSTEM FOR DESIGN  
AND MANUFACTURE OF MODELS FOR HIGH QUALITY  
AND PROPERLY FITTING SHOES IN THE FOOTWEAR  
INDUSTRY**

Starting date: January 1991

Duration: 48 months

**OBJECTIVES**

The main objective of the project is the development of a computer-aided system for tool production in order to reduce production development periods and permit flexible production of high quality and properly fitting shoes. The model development period will be reduced from the average of 3 weeks necessary today to less than 1 week. This will enable shoe manufacturers to meet market demands within increasingly shorter product innovation cycles. In contrast to the main seasons per year, more assortments could thus be realized per year in shorter intervals. Due to the uncertain sales forecasts close to the time of sales, planning must include a large number of sample shoes which are made under great time pressure. Under the new system this large number should be reduced by at least half.

**ACHIEVEMENTS TO DATE**

The project is currently in the conceptual phase. Analyses of the processes in connection with development, construction and production of lasts and moulds are being made. High technology solutions of digitalising systems, CAD systems and NC-manufacturing systems are being studied, tested and evaluated. Information for the database specification regarding foot anatomy and fit as well as modelling applications have been collected.

**PRIME PARTNER**

A/S ECCOLET SKO  
DEVELOPMENT DEPARTMENT  
INDUSTRIVEJ 55  
DK-6261 BREDEBRO

**OTHER PARTNERS**

FAGUS	D
IFW	D
TEKNOLOGISK INSTITUT	DK

What the long term effect of these efforts will be is uncertain. Some of the projects are very relevant to the future of a more automated shoe industry. Will they go far enough to allow a production company to be able to take them on the next stage of bulk production?

What is certain is that today the majority of R&D work which benefits the European shoe industry is being carried out by European and American machinery and polymer, companies and also by Satra. It is interesting to note that:

- Many of the major suppliers to the industry refuse to take EC assistance.
- Not much research today is initiated by the big shoe manufacturing companies although was the case in the past.

This then is the situation with EC assistance for technology development. There has, however, in the past been a considerable amount of assistance given by national governments and even regional authorities because this could be done without infringing EC competition regulations. This is tending

to decline with more and more central concentration of the EC technology initiatives. The kind of project undertaken has ranged from continuous funding of projects put forward by national research institutes in particular CTC Lyon, PFI Pirmassens, Satra Kettering, and INESCOOP Elda to awareness programmes for new developments such as CAD. It should be remembered however that once one company in a country has bought, for example, a CAD system it is almost impossible for the government to subsidize or assist other entrants without appearing to favour the followers rather than the leader. Thus it is the existence of an innovative supply industry which is the key factor in technological innovation rather than large technical assistance programmes and grants.

Furthermore many regional, national and community grant schemes are perceived to be so hedged about with conditions and restrictions that many competent and well managed firms refuse to use them.

## II.2. TRADE POLICY

The European Footwear industry has felt that it was in a largely unprotected position over the last 15 years in that unlike the textile and clothing industry it had no MultiFibre Arrangement. The policy that it followed through its trade association in Brussels, CEC, was based on the assumption that it would not receive much help from the EC Commission on the import side. It tried to:

- (1) Keep as many markets for European products as open as possible, ie strong action when the USA threatened to restrict imports. (In this it was much helped by the Commission.)
- (2) Open new markets for higher priced European products, i.e. Japan and some of the "NICs".
- (3) Do nothing about imports from the poorer developing countries, knowing that this was a lost cause with the Commission favoured these and also that such imports could cause only small damage to the European industry.
- (4) Try to control imports from the countries which were capable of creating massive surges of imports into the Community and thus wiping out sections of the industry almost overnight. These countries were mainly deemed to be the Republic of Korea, China (Taiwan Province) and China.

The methods used were national VRAs and the Community State Trading Regulation 3420 Article 10.

The general consensus is that this EC action had some success as far as the USA and Japan was concerned and that national restrictions were partially effective for limited periods in the case of the NICs. Community restrictions on imports never really existed and had no effect.

Duty levels and other trade arrangements have never much inhibited the flow of footwear into the European Community. A great deal of footwear has entered duty free under the GSP system. This has not benefitted the poorer developing countries as much as the NICs, which have exported very substantial quantities of footwear duty free using this route.

The full duty level of 8 per cent for leather footwear is really no obstacle but the 20 per cent levied on footwear with plastic or textile uppers is more important, which is why the system has been so significant for the "NICs".



As far as special trading relationships with certain areas, e.g. the Mahgreb countries, are concerned, it seems that these have played no significant part in determining the patterns of trade between the EC and the rest of the world. The key factors have been distance and cost.

It is worth noting a number of points for the future:

- (1) The new single market arrangements will make a significant difference. Because:
  - (a) VRAs on a national basis will no longer be effective and the only ones which will work will be those made on a community wide basis (which will be difficult to set up).
  - (b) Action against state trading countries will also be more difficult though this obviously now really only applies to China following on the changes in Eastern Europe.

So officially the European market should be more open than it has been.

- (2) But there is a strong undercurrent of dissatisfaction within the shoe industry in Europe and its representative bodies which may be affecting the way national governments and the EC Commission thinks.

The condition under which the European shoe industry operates are not protectionist, unlike agriculture or the textile industry. There is considerable frustration with the GATT and the inability to open emerging markets to upmarket European products. Germany, one of the key free traders may be becoming more protectionist and this could swing the balance. The actions of some national governments if their industries were really threatened are not readily predictable. Within the European industry the situation is perceived as being one of giving everything and getting nothing in return. However, any new action resulting from these perceptions would not be directed against the poorer developing countries.

- (3) Rules of origin legislation are becoming steadily more liberal and there is no obligation to stamp the country of origin on any shoe sold in the Community. It is likely that this will continue to be done where the origin is prestigious, i.e. Italy. In industry circles in Europe there is a general consensus that a shoe of equal outward appearance marked "Made in India" would have to sell at 25-30 per cent cheaper than the equivalent product marked "Made in Italy".

### II.3. COMPETITION POLICY

The EC's competition policy can have quite dramatic effects in some sectors. However, in the footwear industry its effect is close to zero. This is because most shoe businesses are small to medium size enterprises and there are only a few larger groups. Few of the larger groups are transnational and most of them do not seem to be growing.

### II.4. INVESTMENT POLICY

This concerns general Community wide arrangements and does not cover regional grants which are dealt with under a separate heading.

There are no EC grants generally available to assist in the re-equipment or modernization of the shoe industry and it is very unlikely that they will be introduced.

In the past, up till about 1980, some national governments provided grants for the modernization of certain parts of the industry. An example was the 25 per cent grant offered in 1978 to British shoe makers to assist in the purchase of modern stitching machinery. Subsequent attempts by various governments to introduce schemes of this type fell foul of EC competition rules.

The French government runs a scheme to insure the manufacturer of new technologies and the first user of the equipment against the risks of total failure. It works like an insurance scheme for which a premium is payable and is a practical and effective system.

There are no community wide schemes to attract inward investment into the footwear industry and it is hard to see where it would be likely to come from.

Equally there are no EC restrictions on outward investment into the shoe industries of the developing countries but only a small number of companies have made such investments. European footwear companies have tended to prefer to invest close at hand, ie Portugal, Morocco, Tunisia, Turkey and now Eastern Europe rather than further away. There is a strong feeling among Americans and Italians in particular that it is unnecessary to make the long term commitment of an equity investment because most of the benefits of low cost sourcing can be achieved without this. This leaves the importing company free to move elsewhere should economic or political factors dictate. A number of other European countries have firms that are much more inclined to make long term commitments, e.g. Germany, Austria, Switzerland, France and the United Kingdom.

## II.5. INDUSTRIAL PRODUCT STANDARDS

Footwear is far too variable a product to be a prime case for industrial product standards. In some strongly centrally controlled countries attempts were made to introduce standards for children's footwear but these have largely collapsed. The main area where standards have existed for some time is in safety working footwear where the more advanced countries have developed a whole range of standards to cover the special needs of people working in different industries. It started out with miners' boots and construction workers' boots and has gone on to oil rig workers' boots and timber cutters' boots etc. These standards are real, they are generally properly supervised and the products do significantly reduce industrial injury.

However, the regulations have proved an excellent barrier to entry for imports. Each major European country has had its own standard and all of them were slightly different. The German DIN standard was probably the highest, the British BSI standard the hardest to comply with in that it required continuous sampling. It was thus extremely difficult for the shoe industries of developing countries to establish themselves in the market. However, a well organized Hungarian supplier has recently become a serious exporter to the EC.

During the last few years the safety footwear manufacturers within the EC have developed a common standard or European norm and this is coming into force within the next few months. Once this is done all safety footwear made to this standard will circulate freely within the Community. The standard covers the different specifications needed to meet the specific risks of differing industries. The test methods are all laid down.

Having one standard will make entry into the European market easier and it should not be difficult to arrange appropriate testing but it is a serious standard and should not be played around with. So it would be very unwise to get one sample past the test and then supply a much lower standard product in bulk. Many of the European safety producers work under the ISO 9000 certification system.

It is also questionable how much non official pressures exerted by bodies such as trade unions will still keep out imports.

There has been much discussion on what products would be the next to attract a European standard. At first it was thought it might be duty shoes for nurses and police but now it seems that it may be genuine sports footwear.

This would come in under the Personal Protective Equipment (PPE) directive and would require that sports footwear that is specified as being suitable for a particular type of sport should have certain measurable characteristics.

To give an example there are many casual shoes designed to look like yachting or boat shoes which would be catastrophic if used on the sloping wet deck of a yacht as they would not grip. A true "boat shoe" has to have anti slip locking on the sole in both forward and sideways directions.

Similar criteria for other sports are obvious.

This would serve to separate fashion sports look footwear from the real thing. If this regulation comes in it is likely to have more effect on the developing countries than the safety footwear standard as the sports footwear market is much larger and is dominated by the developing countries. However, it does not seem likely that it should form a serious barrier to trade.

#### Environmental and Employment Legislation and Attitudes

The word "attitudes" has been added very specifically because it seems that environmental issues are so emotive within the European Community that environmental legislation may well lag behind public expectation. Therefore one should also reckon with the power of environmental pressure groups to influence public opinion to alter purchasing decisions so as to exclude products which contain certain substances or which are produced under conditions which are thought to be damaging to the environment.

It should also be noted that the Secretary General of the European Shoe Federation believes that this will be his greatest area of difficulty in the coming years.

#### The Past

Up till recently environmental and safety legislation has not had a notable effect on the European shoe industry. Its effect on the tanning industry has been much more marked.

In the shoe industry safety legislation has been tightened gradually so that factory noise levels have been reduced, solvent vapours have been extracted efficiently and machines like cutting presses have been made more fool proof. These changes have been made at such a pace that both machinery manufacturers and shoemakers were able to cope quite comfortably and without incurring excessive expenses. There have been the odd concern about the harmful properties of chrome leather dust and so on but not enough to cause a great deal of problem for manufacturers.

There has not been in Europe the major problem that occurred in workers' compensation insurance in Australia over Repetitive Stress Injury (RSI) where it was possible for almost every stitching machine operative on an old machine to obtain \$10,000 compensation for RSI damage to the right wrist from handling the needle positioning wheel.

The other issue concerns chemicals in footwear and here there have been a few moves to exclude certain materials, e.g.:

- Sperm whale oil (used for softening leather) eliminated after pressure from Friends of the Earth to protect Sperm Whales.
- PCPs (Polychlorophenol). Not allowed in products entering Germany as it is thought to be carcinogenic.

The situation in the tanning industry has already proved altogether different. A traditional tannery not fitted with a proper effluent treatment plant is a highly polluting activity which can do immense damage to river life. There has, therefore, been pressure for at least 20 years now for tanneries to install increasingly sophisticated effluent treatment plants. This started with primary treatment which just removes all the debris and ends with tertiary treatment which should allow the water to be used for drinking. Also there is the whole question of chrome recovery.

Costs of the equipment are very substantial and in addition the plant requires a reasonable amount of space. In the past the problem has been solved by:

- Building large communal effluent treatment plants as in some Italian towns.
- Relocating tanneries out of town centres onto new sites and financing the effluent improvement plant out of property sales.
- Government aid.

What can be said today is that without one of these solutions it is virtually impossible for a small to medium sized tannery to afford to build an effluent treatment plant and the only other alternative is to go out of business.

### The Present and The Future

From a shoe factory point of view one of the biggest changes coming in is the move away from solvent based adhesives, indeed away from the use of solvents of all kinds. This is happening because solvents are seen as a health hazard and also it is considered wrong to vent solvent fumes into the atmosphere. The solution lies in using, for example, water based adhesives which have been available for some years now but have not been used because they cost twice as much as conventional solvent based adhesives.

There are also increasing doubts about the use of materials such as PVC for soles and some companies are seeking to eliminate these because they believe that long term there will be environmental pressures to do this. This is leading to renewed interest in newer processes such as double density moulded rubber which is considered environmentally nicer.

Similar pressures are leading to an interest in insole materials made from cotton fibre instead of cellulose. It will be seen from these examples that some of the changes are not overwhelmingly logical but in this area we are talking about public perceptions of what is environmentally friendly.

It is very important to understand that this is an area where the EC is not fully in control. Article 100 of the Treaty of Rome allows individual countries to have higher standards than the EC norm, and Germany, Holland and Denmark often do this. In many cases it is due to heightened public interest. In the case of Germany it is also due to a conscious decision to set higher standards and then

be able to take commercial advantage for its industries once other countries are forced to raise their standards to German levels. This situation is constantly leading to the EC having to tighten its environmental laws without being able to establish a logical long term strategy. Examples of the problem are the German packaging laws ( which would compel provision for recycling of packaging materials) and talk of eliminating chrome from leather without having identified a viable technical method.

### The Effect on The Developing Countries

There is no doubt that anyone exporting to the EC will have to comply with internal EC laws which prohibit the use of certain chemicals which can be identified by analysis in the finished product. This should not be a serious problem.

However, things like the German Packaging Laws have the potential to be very protectionist and there will be others to follow.

In the field of tannery effluent and working conditions it would seem in theory rather difficult for the EC to lay down rules about the conditions under which products supplied to the EC are made. It would seem to be a matter for the developing countries to decide for themselves just what risks they want to take with their own environments and labour forces.

It depends whether pressures like those against the use of child labour can be extended to other areas. Suggestions have been made for example that the EC should have a mission to ensure that supplier countries do not ruin the global environment by running tanneries without effluent plants. One could see this as an extension of the kind of crusade such as that against using non renewable tropical hardwood.

### Conclusions

This is rather an uncertain area. In theory the regulations ought to benefit the developing countries. But the EC regulations are not everything and the national government's and consumers' behaviour cannot be predicted with certainty.

## II.6. REGIONAL DEVELOPMENT POLICY

The EC has an extensive system for supporting various regions which are perceived to have special needs. These are known as the CSF (Community Support Framework) of the European Social Fund. The CSF has five so called "objectives". We are concerned with Objectives 1 and 2 as these are the ones which have had or might have some effect on the shoe industry.

Objective 1 is concerned with improving various aspects in mainly the peripheral countries. Up till now that has meant Portugal, Ireland, Greece and certain parts of the United Kingdom. It covers basic infrastructure investment, investment in industry, skill training and education.

From the point of view of the shoe trade the main area of interest has been the very considerable assistance given to the footwear industry in Northern Portugal, though there have for example been loans for factory rebuilding in the North of Britain also. Whilst the growth of the Portuguese shoe industry may have peaked, and so this particular assisted expansion may be a thing of the past, we should note that if and when Czechoslovakia, Hungary and Poland join the EC it would be likely that the same policies would be used perhaps generally but certainly in the poorer and more peripheral areas to bring about a rapid improvement in the prospects of these countries.

The whole grant structure that applied in Northern Portugal was very substantial and had the effect of considerably reducing the financial risks of companies relocating there. The ESF grants are hedged about with many restrictions but even so companies have been able to make good use of them. Now that the support is being gradually cut off quite a number of the companies in Portugal that have been established recently are finding it difficult to survive.

Objective 2 of the CSF is to provide what is rudely known as "burial money". Its object is to alleviate the hardship caused in certain areas by the collapse of certain industries by assisting new industries to set up and providing retraining. A major example is what has been done in the former steel making areas. It could effect the shoe trade in two ways, firstly shoe companies setting up in an area of declining heavy industry could receive grants, secondly it could be used to assist areas where the footwear industry is under threat. Interestingly at present the ESF seems to think it will be more likely needed for the latter.

Superficially the grant system looks quite formidably supportive. However, it would appear that grants on their own are insufficient to secure the growth of a footwear industry in a region. Other things have to be in place principally low cost trainable labour, but also reasonable logistics.

## II.7. HUMAN RESOURCE DEVELOPMENT

There is no EC policy specifically directed towards the development and improvement of human resources in the shoe industry and there is unlikely to be one. Attempts have been made by the European Shoe Federation to develop cross border standards of training but these have not received widespread support.

Any training has, therefore, been based on:

- Initiatives by individual companies to develop their own apprenticeship schemes and in-house training of specialists.
- The availability of good technical colleges and specialized shoe industry training institutes.
- The development of distance learning techniques.
- Some initiatives by national industry training bodies.

Traditional apprenticeship training is particularly strong in Germany and this gives a broadly based understanding of the industry. Specialized operation training has developed a great deal and attempts have been made to solve the problem of how to train the one or two operatives on a particular machine in a given business which is situated a long way from businesses with similar needs. Distance learning technology is reasonably well established and Satra has developed microprocessor based methods of teaching stitchers how to enhance their performance.

Specialized technical training is generally well covered and glamorous topics like CAD are more than adequately catered for a number of institutes. In some countries there are probably more CAD workstations in research and training institutes than there are in actual factories!

Managerial training and general shoe making is well covered by a number of specialized courses which, of course, also take a large number of students from the developing countries.

## Conclusions

A free market free for all which does not leave too many gaps for too long.

### **II.8. THE EFFECT OF SPECIAL TRADING RELATIONSHIPS**

Discussions with industry experts confirm the view that special trading group relationships either current or historical in general have remarkably little influence on the footwear trading patterns. As far as the footwear trade is concerned there are three groups which may have received better treatment than they otherwise might have done.

- The Mahgreb. Particularly Morocco which was chosen by French shoe makers for satellite shoe factories, although they are now starting to look elsewhere. Tunisia is also important.
- In the very early days, the connection between the United Kingdom and Hong Kong.

Outside these groups it seems hard to talk of a special relationship.

## ANNEX

**Table 1: Footwear with leather uppers: Developments in production, trade and availability by economic zone over the past 25 years**

	Production			
	Average		Growth	Share of world output 1985-87
	1961-65 Million pairs	1985-87 Million pairs		
<i>World</i>	2,449.1	3,864.9	57.8	100.0
<i>Developing Countries</i>	539.8	1,527.9	183.0	39.5
Latin America	177.4	462.2	160.5	12.0
Africa	18.5	63.0	240.5	1.6
Near East	67.6	187.6	177.5	4.8
Asia and the Pacific	177.6	572.2	222.2	14.8
Asian centrally planned <sup>a/</sup>	98.7	242.9	146.1	6.3
<i>Industrialized countries</i>	1,909.3	2,337.0	22.4	60.5
North America	558.1	250.8	-55.1	6.5
Western Europe	625.5	881.5	40.9	22.8
Eastern Europe and USSR	638.6	1,094.7	71.4	28.3
Oceania	33.2	22.0	-33.7	0.6
Other industrialized countries	53.9	88.0	63.3	2.3
	Exports			
	Average		Growth per annum	Share of world output 1985-87
	1961-65 Million pairs	1985-87 Million pairs		
<i>World</i>	135.9	1,065.1	9.4	100.0
<i>Developing Countries</i>	11.5	435.1	17.1	40.9
Latin America	2.0	137.6	20.0	12.9
Africa	1.2	5.0	6.4	0.5
Near East	0.1	4.6	18.1	0.4
Asia and the Pacific	5.2	187.7	16.9	17.7
Asian centrally planned <sup>a/</sup>	3.0	100.2	16.5	9.4
<i>Industrialized countries</i>	124.4	630.0	7.3	59.1
North America	2.8	3.6	1.1	0.3
Western Europe	87.1	535.9	8.2	50.3
Eastern Europe and USSR	33.4	89.2	4.4	8.4
Oceania	-	0.3	-	-
Other industrialized countries	1.1	1.0	-0.5	0.1

<sup>a/</sup> Including Taiwan, China.



Table 1 (continued):

	Apparent consumption			
	Average		Growth Per cent	Share of world output 1985-87 Per cent
	1961-65 Million pairs	1985-87 Million pairs		
<i>World</i>	2,444.2	3,846.3	0.8	0.8
<i>Developing Countries</i>	540.7	1,124.3	0.2	0.3
Latin America	178.2	329.8	0.8	0.8
Africa	23.8	62.0	0.1	0.1
Near East	68.0	189.8	0.5	0.8
Asia and the Pacific	175.0	399.7	0.2	0.3
Asian centrally planned <sup>2/</sup>	95.7	143.0	0.1	0.1
<i>Industrialized countries</i>	1,903.5	2,722.0	1.9	2.2
North America	583.6	720.1	2.8	2.7
Western Europe	594.8	782.3	1.8	2.1
Eastern Europe and USSR	637.5	1,101.3	2.0	2.8
Oceania	34.4	25.6	2.6	1.3
Other industrialized countries	53.2	92.7	0.5	0.6

<sup>2/</sup> Including Taiwan, China.

Source: ILO, "Recent Development in the Leather and Footwear Industry", Geneva, 1992.

**Table 2: World footwear production by region and major producing countries  
(million pairs)**

	1981	1983	1985	1987	1988
<i>North America</i>					
Canada	43.4	39.1	44.3	38.8	33.9
United States	476.1	431.7	336.4	312.1	325.3
<b>TOTAL</b>	<b>519.5</b>	<b>470.9</b>	<b>380.7</b>	<b>350.9</b>	<b>359.3</b>
<i>Latin America</i>					
Brazil	654.2	629.5	601.2	666.9	625.3
Mexico	250.0	228.0	232.6	244.4	245.0
Other	330.7	275.3	307.2	342.8	347.3
<b>TOTAL</b>	<b>1,234.8</b>	<b>1,132.8</b>	<b>1,141.0</b>	<b>1,254.1</b>	<b>1,217.6</b>
<i>Western Europe</i>					
France	196.7	206.1	199.3	183.2	166.6
Italy	444.9	487.7	524.5	464.2	436.2
Spain	193.9	218.0	225.6	229.9	234.7
Other	374.7	365.7	375.4	378.0	361.6
<b>TOTAL</b>	<b>1,210.2</b>	<b>1,227.4</b>	<b>1,324.8</b>	<b>1,255.3</b>	<b>1,199.0</b>
<i>Eastern Europe &amp; USSR</i>					
Czechoslovakia	134.9	134.1	137.6	124.6	124.3
USSR	929.7	944.5	1,006.2	1,041.6	1,057.0
Other	507.9	537.2	565.0	565.2	558.7
<b>TOTAL</b>	<b>1,572.4</b>	<b>1,615.8</b>	<b>1,708.8</b>	<b>1,731.3</b>	<b>1,740.0</b>
<i>Asia &amp; Middle East</i>					
China	1,124.1	1,299.9	1,631.1	1,915.9	2,136.5
Japan	370.0	367.5	366.4	331.8	320.1
Rep. of Korea	323.0	371.0	391.0	534.0	572.0
Taiwan (China)	408.9	558.1	735.2	908.8	837.4
Other	1,038.6	1,070.6	1,152.2	1,305.7	1,381.3
<b>TOTAL</b>	<b>3,264.6</b>	<b>3,667.2</b>	<b>4,275.9</b>	<b>4,996.1</b>	<b>5,247.2</b>
<i>Oceania</i>					
<b>TOTAL</b>	<b>42.5</b>	<b>39.1</b>	<b>45.5</b>	<b>42.2</b>	<b>35.9</b>
<i>Africa</i>					
<b>TOTAL</b>	<b>282.0</b>	<b>309.0</b>	<b>317.0</b>	<b>283.0</b>	<b>284.5</b>
<b>WORLD TOTAL</b>	<b>8,126.0</b>	<b>8,512.2</b>	<b>9,193.7</b>	<b>9,912.8</b>	<b>10,083.4</b>

Source: Landell Mills Consultancy database.

# 1989 World Output by main region (m. prs)

Source: SATRA.

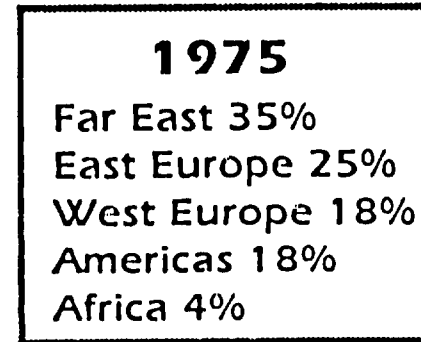
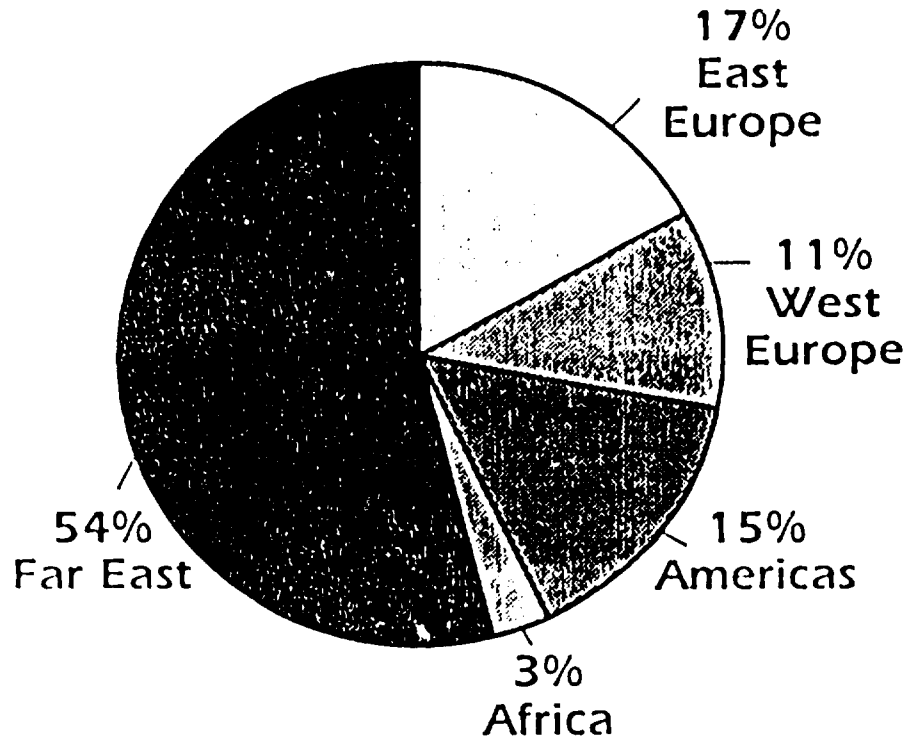
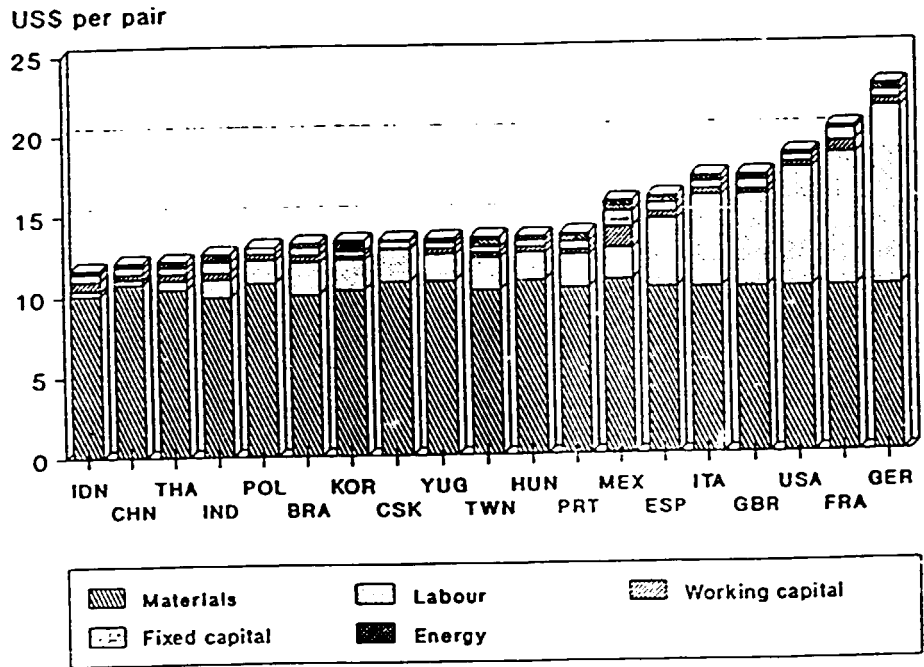


Figure 1:

Figure 2: Men's shoe - base case assumptions



Athletic shoe - base case assumptions

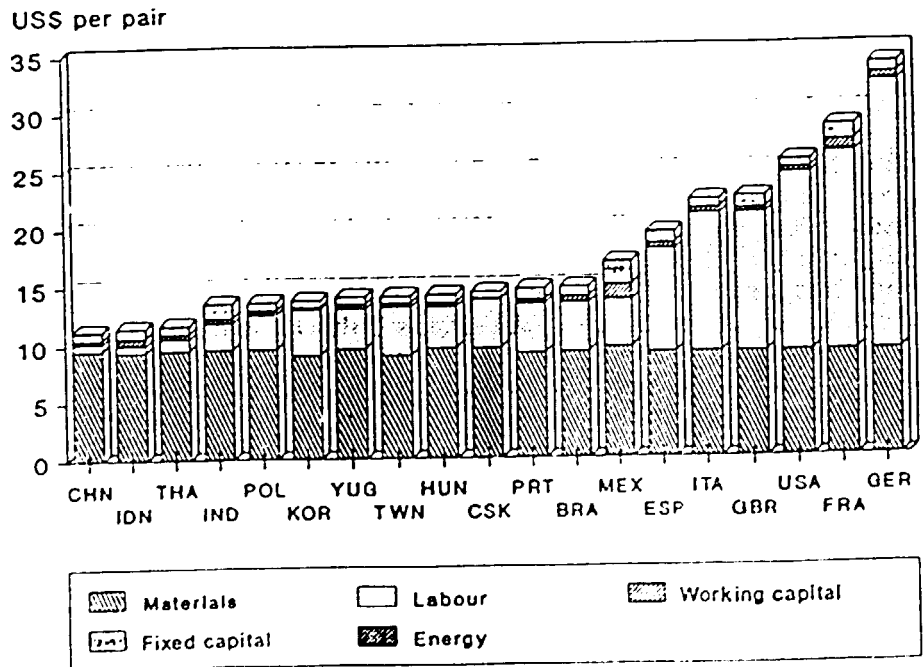
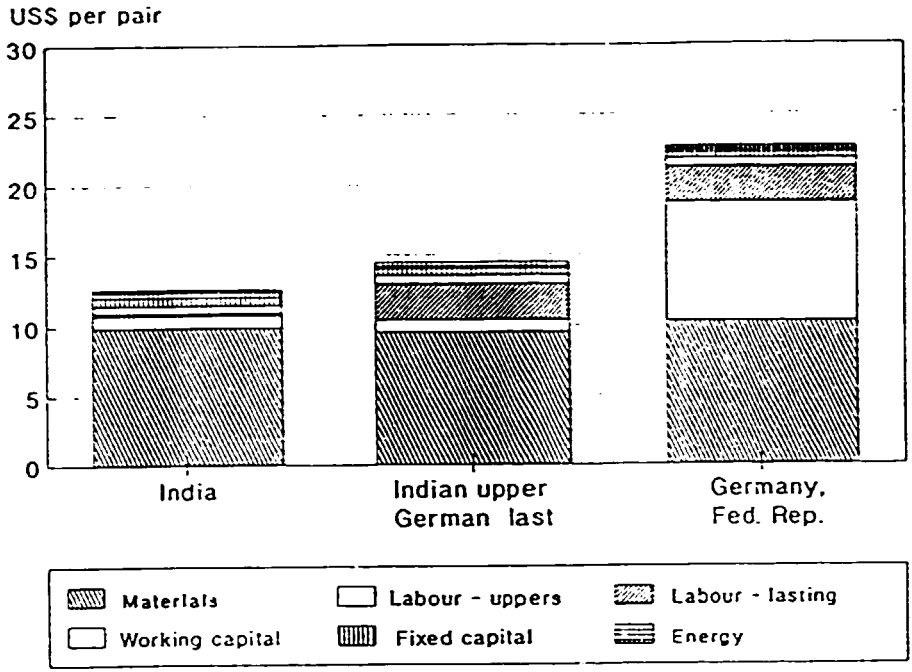
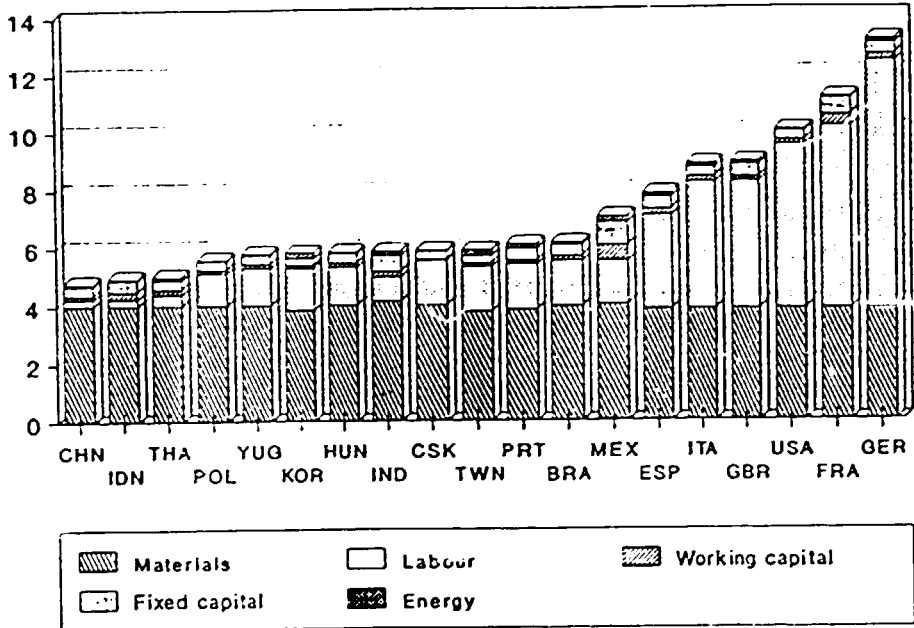


Figure 2 (cont'd): Alternatives for manufacture of men's leather uppered footwear



US\$ per pair, Women's shoe - base case assumptions



- Abbreviations:
- |                                  |                         |
|----------------------------------|-------------------------|
| BRA - Brazil                     | ITA - Italy             |
| CHN - China                      | KOR - Republic of Korea |
| CSK - Czechoslovakia             | MEX - Mexico            |
| ESP - Spain                      | POL - Poland            |
| FRA - France                     | PRT - Portugal          |
| GBR - United Kingdom             | THA - Thailand          |
| GER - Germany (Federal Republic) | TWN - Taiwan(China)     |
| HUN - Hungary                    | USA - United States     |
| IDN - Indonesia                  | YUG - Yugoslavia        |
| IND - India                      |                         |

Source: ILO, "Employment and Working Conditions and Competitiveness in the Leather and Footwear Industry", Geneva, 1992.