The European Community and the textile industry

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19/85
December 1985

Textiles and clothing are still at the forefront of European industry. They employ 2.5 million people in the European Community, more than 10% of the industrial workforce. And yet, in the last 20 years, the number of jobs in this sector has been halved. Output may be 15% up on the early 1960s but it has fallen dramatically from its 1973 peak.[1]

Developments world-wide

The textile and clothing industries convert natural or man-made fibres mostly in to finished products ready to use for clothing, household purposes or finishing. They also produce a smaller proportion of semi-finished products for use by other industries. From the first to last stage of production, textile-related industries are bound by a common economic interest. The major customer at each level of production stands upstream in a 'chain of textile activity'. It is therefore justified to consider the sector as a single group of activities. In broad terms the sector remains handicapped by the cost of the labour required in relation to the added value of the finished product. Two separate areas of activity can, nevertheless, be defined:

- The production of intermediate commodities (fibres, fabrics or materials) and finished goods for domestic or industrial use, which is more or less capital intensive,

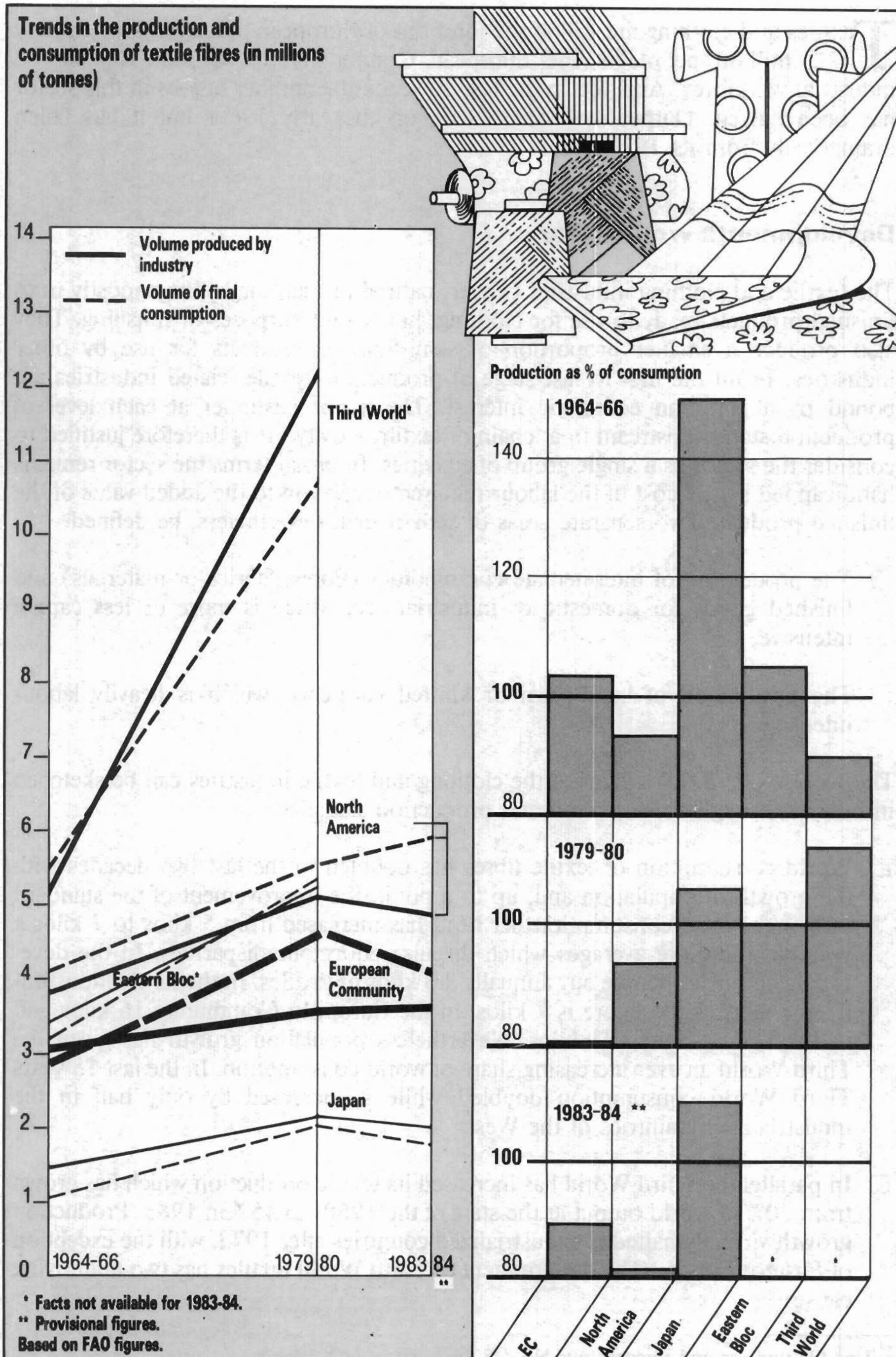
- The production of hand-sewn or knitted garments, which is heavily labour intensive.

The world-wide development of the clothing and textile industries can be sketched in outline through consumption and production statistics.

- World consumption of textile fibres has doubled in the last two decades with the growth of population and, up to a point, the improvement of the standard of living. World consumption per head has increased from 5 kilos to 7 kilos a year but these are averages which disguise enormous disparities. In the developing countries people buy annually 3.3 kilos of textiles. In the newly industrialized countries the figure is 7 kilos, in the European Community 16 kilos and in the United States 22 kilos. Nevertheless population growth has given the Third World an ever increasing share of world consumption. In the last 15 years Third World consumption doubled while it increased by only half in the industrialized countries of the West.

- In parallel the Third World has increased its textile production which has grown from 30% of world output at the start of the 1960s to 45% in 1983. Production growth virtually halted in industrialized countries after 1973, with the exception of Eastern Europe. The development of Third World textiles has two underlying causes:

[1] This file updates and replaces our No 7/82.



Trends in the production and consumption of textile fibres (in millions of tonnes)

* Facts not available for 1983-84.
** Provisional figures.
Based on FAO figures.

- The existence of craft clothing industries provided a base for industrialization of one of the most basic human needs.

- Many local and even European businesses have started factories in the Third World aimed specifically at the markets of the northern hemisphere. Manufacturing methods in some branches of the industry, notably clothing, have barely changed for decades. A large and cheap work-force offers considerable commercial advantages. In the Third World wages costs are often three-quarters less than in European countries.

The result has been that, although textile output in developing countries represented only 90% of their needs in 1965, it represents 115% of their needs today. During the 1970s Third World textile exports to industrialized countries doubled overall and quadrupled in the clothing sector. In newly industrialized countries like Korea and Hong Kong – where the manufacture of a run-of-the-mill dress can cost nearly 40% less than in Europe – the textile industry is producing two and a half times as much fibre as the domestic markets can absorb.

Community development

The loss of jobs in the European textile industry can be traced to:

☐ The rising tide of imports from the rest of the world and especially from developing countries. The tonnage of textiles exported by the Community rose by 24% between 1977 and 1984 but imports rose by 38%. It is estimated that during the last 20 years the share of the European market held by imports has grown from 20% to 45%.

The pressure of these imports on prices has forced European firms to increase massively their productivity through installing new plant requiring less labour. Since 1963 textile productivity has increased by 4%, compared to an average of 2.5% for all manufacturing industry. If new machinery had not been installed, there would have been more bankruptcies and even more job losses.

☐ The stagnation of European consumption in recent years. Consumption rose steadily until 1973 but fell back in 1974, in 1977-78 and after 1980. The 1984 figure was 10% below the all-time high in 1979 and only slightly above the 1973 level. Causes include the recession, the slowing down of wage growth, the tendency of consumers to spend less on clothes and demographic stagnation.

The figures quoted above do not include Spain and Portugal who join the Community in 1986. It is important to note that the decline of the textile industry has affected all the Northern Community countries, including France, but that the Southern countries – Italy, Greece, Spain and Portugal – still produce more textile fibres than they consume. In the Community of Twelve as a whole, the textiles balance of payments is in deficit by around 15% but Greece and Portugal have an export advantage of around 75%. Their situation is therefore more comparable to that of a number of newly industrialized countries. The introduction of free trade in textiles with Spain and Portugal must take these facts into account. The volume of trade in certain sensitive textiles products will therefore be subject to special statistical monitoring for three to four years. There will also be administrative cooperation to minimize the risk of market upheaval. Existing customs duites will, however, be phased out over seven years.

The European industry faces the challenge

In the face of this recession, the European industry has undertaken major efforts of adaptation and restructuring. It has also invested in new technologies. Figures prove the extent to which investment has taken off in the textile and clothing industries since 1982. The level of investment per employee is now substantially higher than it was in 1973. And yet this investment has, until now, largely been devoted to early stages of production – the production of yarn and fabric – which are capital rather than labour intensive. Comparatively less investment has gone to the later production stages, such as the clothing industry.

The technological advances made by Community firms which specialize in 'downstream' textiles activities have frequently allowed them to overcome their comparatively high unit labour costs and to recover their competitiveness, at least on the European market.

Community textiles firms have also been able to make the most of certain other advantages – to varying degrees in differing sectors – such as scale of production, degree of specialization, the skills of work-force and management, knowledge of market, middle-men and consumer tastes, inventiveness and ability to create new styles, and shorter delivery periods and reduced transport costs because of the proximity of the market.

A number of acute problems nevertheless remain:

- ☐ Recent developments have not been so favourable for companies 'downstream' in the textiles chain. In the yarn and cotton weaving sectors technological innovations have rapidly been taken up by the competition. A growing number of Third World countries (China, Pakistan, Brazil, India, etc.) have installed modern plant. They compensate for the relative lack of skills, and therefore reduced productivity, of their workforce by low wage levels.

- ☐ In the medium term, the downstream industries will not be able to keep up a sufficient level of activity if their client companies in the finished products sector (especially clothing which uses half the fibres made in the Community) do not also return to competitiveness. In this area some European companies have been able to rely on the quality and good name of their products to hang on to their share of the market, despite selling prices higher than that of their competition. But this privileged position applies only to a handful of 'up-market' products and cannot, in any case, be guaranteed to last forever. To reduce manufacturing costs, technological changes, robotization in particular, must be introduced in the 'upstream' industries which are the most labour intensive. Jobs will inevitably be lost but the alternative is increasingly fierce competition from third countries in the market for finished products, especially clothing. The consequence would not only be reduced Community output of finished goods but also reduced demand for semi-finished goods from European yarn and fabric manufacturers.

Community action

Company vitality and industrial dynamism must provide the principle motivation for the changes needed in the textile industry. Governments have nevertheless a duty to create the fiscal, financial, social, information and training background which will help businesses to mount a successful industrial strategy.

The European Community, for its part, has a triple role to play: the maintenance of a unified European market and the trade and economies of scale which are vital to textile firms (the tonnage of textiles traded within the Community is still 50% greater than that imported from outside); the coordination of national policies to ensure that they are coherent and compatible; the conduct of a common external trade policy, which gives European countries greater bargaining strength than individual negotiations. The importance of the Community to the textile industry is brought clearly into focus by its competence to deal with external trade, its common customs tariff and its exclusive right to negotiate trade agreements with third countries.

Community policy has, therefore developed, in three main areas:

☐ Competition policy: to avoid disastrous rivalry between the levels of aid offered by member governments, the Community laid down in 1970 guidelines setting ceilings on State subsidies and insisting that they must be temporary and degressive. In addition, since 1973, the Community has asked its Member States to cease to subsidize developments which might increase production in the synthetic fibres sector, which is in a state of chronic over-supply.

☐ Support for modernization and restructuring:

- The European Commission, through many studies and contacts with the industry, has drawn up a framework of likely textiles developments at Community-level.

- The Community co-finances textiles-related research, especially through the Brite programme, which aims to encourage the development and diffusion of new technologies in traditional industries. One area of the programme is specifically devoted to the manufacture of fabric from 'supple' materials. This concerns especially the clothing industry which must undergo a veritable technological revolution if it is to compete with the Third World and continue to provide a demand for the products of industries back down the textile manufacturing chain. Between 1985 and 1988 the Community will devote 25 million ECU [1] supporting 50% of the costs of industry-led research in areas defined by mutual consent (automation of the garment-making process, mechanical cutting and 'three dimensional' construction of clothes according to designs created on computers).

- Finally, the modernization of the textiles industry and the economic restructuring of the areas it once dominated are supported by grants from the European Regional Development Fund and long-term loans on the best market terms available from the European Investment Bank and the New Community Instrument (95 million ECU in 1984). Finance provided in this way is directed towards the development of new technologies and investment in small and medium-sized businesses. The European Social Fund can also co-finance the re-training of workers who need skills to retain textiles jobs or find new jobs in other industries (29 million ECU in 1983).

☐ External trade policy: the Community cannot close its borders to imports from the rest of the world. As the largest trading bloc in the world, its prosperity is closely bound to international trade. It can neither ignore the needs of the Third World, which is quite properly trying to build up its industries, nor encourage ever-present protectionist tendencies which would first and foremost damage the Community itself. Nonetheless, the Community has had to respond to the surge of textile imports from low-pay countries which threatened to overwhelm completely its own textiles industry. Its response was to opt for the negotiations of moderate import growth to allow the European industry a breathing space in which to restructure and modernize and regain its competitive edge. The Community has therefore:

- Negotiated a Multi-fibre Arrangement (MFA) under the auspices of the GATT, the General Agreement on Tariffs and Trade. Within this framework voluntary restraint agreements have been signed with about 30 low-cost exporting countries. Imports from these countries have, as a result, increased by only 28% between 1977 and 1984, compared to 75% between 1974 and 1977. Significantly, imports from the newly industrialized countries in Asia and Latin America have been stabilized at their 1977 level.

- Concluded other agreements with those countries, mainly in the Mediterranean area, linked to the Community by preferential trade arrangements. These agreements are necessarily more generous since they concern coun-

[1] One ECU (European currency unit) = about £ 0.59, Ir£ 0.71. or US$ 0.85 (at exchange rates current on 7 November 1985).

tries which, in principle, benefit from a completely open European market. A certain steadying of their export growth has nevertheless been possible. Their exports have doubled since 1977 but still represent only a minor part of total Community imports (about 10% if one excludes Spain and Portugal).

The Community's trade policy has therefore allowed a certain growth in textile imports from third countries – about 30% since 1977 – while imposing restrictions which have avoided a social catastrophe by allowing the gradual restructuring of the European industry. Although a considerable textiles trade deficit has been created, the Community has built an environment favourable to the recovery of business confidence and profitability. This has encouraged investment in new equipment and in the research needed to re-establish competitiveness despite the relative burden of European wage bills. More importantly, by placing stricter limits on imports from the most developed Third World countries, the Community has created room in its market for the poorest countries, thereby assisting their efforts to industrialize.

These import moderation agreements and arrangements terminate in 1986. Is it time to adopt a more flexible approach? A premature and excessive liberalization of trade in textiles would run many serious risks.

- After considerable sacrifices, the European industry has just about recovered its competitiveness in certain sectors. In other areas, thanks to technical advances, it is on the way to competitiveness but it is by no means clear how long it will take to complete the process. This huge effort to restructure could be set at nothing if a renewed surge of imports were to be allowed. The goods which would flood into the Community would cause most damage to the weakest sectors of the industry, those 'upstream' in the production chain which use the output of plants recently restored to profitability. The result could be the closure of an indefinite number of plants, notably in the clothing industry, and almost certainly a reduction in profit margins and, consequently, investment possibilities. The drift towards the 'emigration' of textile activity to the most advanced Third World countries would, without doubt, be accelerated.

- The potential benefits to European consumers from such a switch in policy are difficult to evaluate. Its impact on shop prices is impossible to predict because these contain elements, such as distribution costs, which are often larger than production costs. The social cost of a renewed fall in European textiles production must also be taken into account, with all its consequences for employment and struggling regions.

- Many exporting countries are not yet ready to accept the disciplines which free trade would entail. At present their textile exports benefit not only from low wage costs but also, in some cases, from public subsidies and the practice of dumping. In addition they often protect their own market by import controls and punitive customs duties.

- Completely free trade would allow the strongest third countries to dominate the world market to the detriment of the weaker ones. The least advanced countries could be chased out of the market altogether and discouraged from developing their industry, since investment needs partly to be paid for through exports.

- In sum, there would be a risk that a policy of disciplined moderation of exports would give way eventually to crudely protectionist measures designed to counter the social and regional repercussions of completely free trade.

For these reasons the Community is preparing to re-negotiate the MFA and other arrangements and agreements with exporting countries. The aim is to find a reasonable and equitable settlement which will respect two basic facts of life: if protectionist tendencies are to be arrested and trade restrictions dismantled gradually as the world economy recovers, there can obviously be no permanent special status for one sector of industry; on the other hand, it is clearly not possible to abolish overnight safeguards of long-standing for an industry on which so many jobs depend.

The Community supports the expansion of world trade. It wishes to see the gradual liberalization of trade in textiles, on the basis of a better balance of rights and obligations for all parties concerned. It is ready to adjust the Multi-fibre Arrangement to take account of changes in the industry. It is ready to apply the Arrangement more flexibly. In return it expects its trading partners to make parallel efforts to open their own markets in line with their level of development and the strength of their economy. The Community intends to maintain a multi-lateral framework permitting an orderly growth in textiles trade and the continued restructuring of the European industry. For the Community these are the essential goals of the re-opened negotiations on trade in textiles ■

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Office for Official Publications
of the European Communities
L - 2985 Luxembourg

ISSN 0379-3133

Catalogue number : CC-AD-85-019-EN-C