COMMISSION OF THE EUROPEAN COMMUNITIES

COM(93)525 final

Brussels, 27 October 1993

REPORT ON THE COMPETITIVENESS OF THE EUROPEAN TEXTILE AND CLOTHING INDUSTRY

(Communication from the Commission to the Council and the European Parliament)

COMMISSION OF THE EUROPEAN COMMUNITIES

CORRIGENDUM

Trois nouvelles pages pour : FR., D., En.
Annulent et remplacent les pages correspondantes du COM(93)525 final du 27/10/93

COM(93)525 final/3

Brussels, 18 November 1993

REPORT ON THE COMPETITIVENESS OF THE EUROPEAN

TEXTILE AND CLOTHING INDUSTRY

(Communication from the Commission to the Council and the European Parliament)

Replaces pages 5, 6, and 40 of the original.

SUMMARY

In response to the request made by the Council in its resolution of 17 June 1992, the Commission has drafted a report on the competitiveness of the European textile and clothing industry. It consists of:

- a foreword and conclusions summing up the competitive position of the industry and the measures taken by the Community to strengthen it. This could be the policy paper intended primarily for the Ministers. It is followed by six chapters:

- an introduction describing the background to the report;

- an account of the underlying developments in the industry from 1988 to 1992, i.e. falling production and (since 1991) consumption, an extremely marked decline in employment and investment at its lowest level since 1982. Imports rising almost twice as fast as exports (to the detriment of intra-Community production). Turnover increasing and then stabilizing and value added remaining stable (two trends reflecting the industrial strategies based on subcontracting and relocation);

- an assessment of the international competitiveness of the textile and clothing industry, which is deteriorating, as confirmed by the loss of market share taken by exports from the Community in the industrialized countries and the sharp increase in the trade deficit in clothing; on the other hand, the Community still has a trade surplus in textiles. One point to note is the severe imbalance with the leading Asian exporters, most of whose markets remain closed;

- an analysis of the factors determining international competitiveness. The adverse impact of the depreciation of the dollar has been partly offset by the devaluations since September 1992. Labour costs are a decisive factor, particularly in the downstream sectors. They are extremely high in most Member States and the gap with the Community's competitors, apart from the NICs, is widening. Capital productivity, labour productivity, job skills and the complex factors affecting competitiveness (particularly quality and flexibility) are some of the strengths of the Community industry. However, it still suffers from various distortions of international competition;

- a description of the industrial strategies adopted in response to these problems. Four main trends can be identified: modernization, relocation, specialization and flexibility. Some businesses have been restructured, others are lagging behind;

- a description of the measures taken by the Community, both internally and externally. These must be continued and stepped up.

Finally, an addendum examines the impact of the opening-up of trade with the countries of Central and Eastern Europe on the Portuguese textile industry.

CONTENTS

Overview and conclusions

In response to the request made by the Council in its resolution of 17 June 1992 (OJ No C 178, 15.7.1992), the Commission is submitting this report on the competitiveness of the European textile and clothing industry, which will be updated in 1993 once the data are available.

The Commission is convinced that the efforts to bolster the competitiveness of the industry must be continued to support the adjustment process. It expects the Council to give its political assessment of the problems facing the industry and to send a clear signal as regards the directions to be taken.

1. The situation of the industry

With a turnover of ECU 180 billion and a workforce of some 2.7 million, the textile and clothing industry occupies a key position in the Community's industrial base. In the 1990s the industry has been hit hard by the general economic recession, falling production and lower consumption. Certain regions heavily dependent on the industry have been particularly affected. These difficulties have forced the industry to shut down production capacity and to relocate it to non-Community countries. These decisions have resulted in lower production, fewer jobs, reduced investment and the replacement of products made in the Community by low-price imports.

Particularly heavy job losses have ensued (434 000 in four years or almost 70% of all job losses in manufacturing industry) and the rate grew faster still in 1991 and 1992, as a result of falling production, increased imports, improved labour productivity in the wake of restructuring and automation, and industrial strategies geared towards greater internationalization.

The recent decline in consumption is attributable partly to the downturn in household demand but also partly to the contraction of certain industrial users, such as the car and building industries. In response to the saturated European clothing market, consumers have also become much more demanding as regards value for money.

This slowdown in activity and investment continued and even intensified in the first half of 1993.

1c

In this gloomy climate within the Community, the balance of trade has deteriorated relentlessly since 1985, the last year of trade surplus. Between 1988 and 1991 the deficit doubled to ECU 12.4 billion. Only a very slight improvement followed in 1992, triggered by more favourable export trends and the stabilization of imports. However, the textile sector - which is one of the early stages in the chain, is highly capital intensive and requires considerable know-how - still made a surplus of ECU 2.1 billion in 1992.

Amongst the positive indicators which partly offset these generally negative trends, attention should be drawn to the increase in turnover between 1988 and 1992 (up by 6.8% at constant prices), although this too has levelled off over the last two years, plus the productivity improvements of 3% a year since 1985 and the stability in value added, which is attributable primarily to the growth on the clothing side. These trends reflect the development of industrial strategies based on relocation and a shift to high value added activities.

Of course, these general trends mask big differences from one branch of the industry to another and between the Member States.

2. Assessment of international competitiveness

On a world market in textiles and clothing marked by frequent distortions of competition of all kinds, analysis of international trade trends suggests a loss of competitiveness throughout the Community industry, albeit with differences from one branch to another. Two trends are particularly revealing:

- the poor performance of the Community's exports on the markets in industrialized countries, where they have lost market share;

- imports have grown almost twice as fast as exports. Imports now account for 40% of intra-Community demand in the clothing industry in volume terms.

As subcontracting in non-Community countries has gained ground, exports of textile products from the Community have been redirected, primarily towards the Mediterranean countries (which took approximately one quarter of the Community's exports in 1992), Central and Eastern Europe and a number of countries in the Far East. On the import side, China took first place, with 8.3% of imports of textile and clothing products from outside the EC in 1992. Turkey, Morocco, Tunisia, India, Poland and Indonesia saw their share of imports into the Community decline, while Hong Kong, South Korea and Taiwan increased theirs. Looking at the various blocs of countries, imports from Central and Eastern Europe rose by 15.6% per year in volume terms between 1988 and 1992, while imports from the MFA countries grew by 8.5%.

Another point to note is the Community's particularly large deficits, especially with the leading Asian exporters which are often unfettered by free competition and resort to dubious practices such as dumping, double pricing, subsidization, copying designs and models and non-compliance with international labour standards.

3. Factors determining competitiveness

While analysis of trade patterns reveals the general weaknesses of the Community textile and clothing industry, evaluation of the factors determining competitiveness can pinpoint the causes of firms' performances. However, any diagnosis of this industry must take account not only of the extremely varied product range, with the level and intensity of competition depending on the sophistication of the product and on the value for money, but also of the fact that the industry is made up of firms of all kinds.

One factor with a definite impact on the international competitiveness of the industry is the **exchange rate** for European currencies, particularly against the US dollar. The falling dollar eroded the competitiveness of the European textile and clothing industry, notably in the form of loss of market share and imports, as illustrated by the flow of exports to countries in the dollar zone. The slight recovery of the dollar since 1992 combined with recent fluctuations in the exchange rate could, however, provide some compensation for part of the Community industry.

Of all the individual factors determining competitiveness, **labour costs** remain a decisive factor for a large proportion of the industry, particularly the clothing sector, where they can account for up to 40% of production costs. In the most modern spinning and weaving firms, however, wage costs play a far smaller part. Although relatively low compared with other sectors of industry, most European countries now have the highest labour costs and they are still rising. The gap between total wage costs (including social security contributions) in the Community and in its main rivals, including the industrialized countries, has widened considerably since 1988. In 1993 the average hourly wage cost in the spinning and weaving sector in the Community was $14 (with a range from 1 to 6 between the Member States) compared with not more than $11.6 in the USA for the same types of task.

Labour productivity has risen constantly in recent years, strengthening the Community's superiority in this area. The important part played by small firms in the Community's industrial base is one factor which contributes to high productivity levels and flexibility. However, the productivity gaps in favour of Community producers are not enough to compensate for the higher wage costs which lead to unit labour costs far greater than their competitors'.

Although, on the whole, Europe still has amongst the most modern production plant in the world, it must be stressed that there are big differences between the Member States, as some have made more progress with restructuring than others. However, the sharp reduction in capital investment over the last two years could, if it continues, threaten this relatively stronger position. Also, the low capacity utilization rate compared with the Community's competitors (e.g. 76% in the EC compared with 97% in Taiwan and 84% in the USA for spinning and weaving) is a considerable competitive disadvantage.

A large proportion of the European industry already has a series of key assets which largely compensate for its disadvantages on the cost front. In particular, it has the capacity to provide a rapid, flexible response to needs on the market, plus creativity and the full range of services associated with production. Also, the costs of extra-Community transactions and the added risks posed by the distance from suppliers set limits to internationalization of production. Since the completion of the single European market, the gap has widened further.

Finally, the quality of the human resources available in the Community is high compared with its rivals, although considerable differences remain between the Member States and some aspects could be improved. This applies not only to activities involving new technologies and the reorganization of production systems but also to fields where management plays a vital role. Workforce skills must be considered a key factor in the adjustment process and call for continuous training geared to changes in the industry.

4. Industrial strategies

In response to the difficult economic climate and to their structural weaknesses, firms have been restructuring on four main fronts: relocation of some production to countries with more attractive production costs or better general conditions; new methods of organization, both of production and of relations with suppliers and distributors; automation and technological development; shift to new top-of-the-range products which are less sensitive to price.

Each firm's strategy depends on its position in the chain and its size, competitiveness and markets. However, some general trends can be identified, for example a preference for automation and flexible production in the upstream sectors and for relocation of highly labour-intensive downstream activities, particularly making-up operations. Relocation has been a rapidly growing phenomenon in recent years and is likely to continue. It started in very high-wage countries such as Germany and the Netherlands and subsequently spread to Belgium and France followed, more recently, by Italy. According to a recent survey, approximately L 40%, by value, OF production under the control of large and medium-sized enterprises had been relocated by 1992. Imports generated by outward processing traffic accounted for just 9% of all imports, but this figure is underestimated because some of the imports from subcontractors take the form of direct imports. Most high value added activities such as invention, design, logistics, marketing and sales, of course, remain in the Community.

5. Community measures

In line with the Commission communication of 25 October 1991 and the Council resolution of 17 June 1992, the Commission has promoted a series of measures to make the textile and clothing industry more competitive. They can be divided into two pakages:

(a) External measures

- On **commercial policy**, in addition to the extension of MFA IV for one year and of the bilateral agreements for two years with the option of a further one-year extension by tacit agreement, virtually without granting any new advantages but replacing the national quotas by new Community limits, the new integrated computerized licence management system (SIGL) introduced with the cooperation of the Member States and the task force set up, with the support of the industry, to ensure more effective fraud prevention (TAFI) are particularly noteworthy. Moreover, the Commission has recently proposed to reinforce the fight against counterfeiting and pirate goods. The Commission's proposal directly empowers the customs authorities to decide on requests to impound suspected counterfeit goods, which will simplify and speed up the procedures, extend the range of rights protected and ecourage the Member States to impose severe penalties; this reform incorporates all the suggestions made by the industry on this subject.

  Amongst the measures taken on joint management and monitoring of the agreements, it must be possible to draw on effective national statistical systems for the fundamentally important question of application of the safeguard clause. Despite the difficulties, it is essential that the Member states submit the statistics by the dates set.

Results have been achieved by the measures to combat dumping and unlawful subsidization (with 21 measures in force and 7 investigations in progress to prevent dumping and one measure in force against subsidization). In this context, the procedures must be speeded up (the Commission will submit a proposal to this end in the near future), the requisite resources must be allocated to this task and the council must find a compromise on the decision-making process without delay.

The action taken by the Community in the future will depend heavily on the decisions taken in the Uruguay Round, which is now in the final stage of the negotiations. The results of the Uruguay Round must include gradual opening-up of the markets in non-Community countries, based on stricter rules and discipline. The Commission considers that this could provide a lasting framework to help the European industry to adjust.

These Uruguay Round negotiations will also influence the decisions to be taken on revision of the Generalized System of Preferences, particularly the discussions on the social clause.

(b) Internal measures

- The textile and clothing industry will benefit from completion of the **internal market**, in the form of lower costs, shorter delays for intra-Community transactions, closer relations between producers and distributors and more uniform conditions of competition. Greater transparency and stricter control of State aid should in turn consolidate the competitiveness of European firms. Of course, steps will have to be taken to ensure that non-Community rivals apply the same rules.

  To support European creativity, the Commission has proposed legal protection for industrial designs and greater protection against counterfeiting.

  Completion of the internal market has created a need to replace the national quotas by Community quotas. This also applies to products manufactured in non-Community countries from semi-finished products made in Europe and subsequently re-imported into the Community (outward processing). The Commission has proposed a review of the current discipline on this subject in order to adapt it to the new situation and to create common conditions for all producers in the Community benefiting from it.

- Support for **modernization and conversion** by the European industry is provided primarily by the Structural Funds and the research and development programmes.
  Although textiles and clothing, as processing industries, are normally downstream from the innovation process, they have successfully fitted in with the objectives of the Community's RTD programmes. In the next Framework Programme too the generic multi-sectoral approach will enable them to benefit from a series of activities to make industry more competitive (on generic technologies, information and communication technologies, materials, etc.), from a new mechanism planned to improve the take-up of the Community's research results by small firms and from the specific measures to improve dissemination of research findings.

  In 1993 the Commission approved the national programmes to implement the **diversification and conversion** measures provided for by the RETEX scheme in regions depending heavily on the textile industry (for which the Community budget for 1993-97 will be ECU 500 million). Projects receiving support under this programme have already been completed in most Member States.

- As regards **training**, the two sides of industry regularly exchange views with the Commission on various aspects of the employment problems facing the industry. In addition to the development of basic programmes such as FORCE, EUROFORM and NOW, it must also be remembered that an initiative is being prepared under the new Objective 4 for the Structural Funds with a view to providing training tailored to the new requirements and to softening the impact of industrial change, in terms of job losses.

- Under the European growth initiative, on 14 June 1993 the council of Ministers adopted a programme of Community measures to intensify and ensure the continuity of enterprise policy, in particular SMEs, in the Community.

  To promote subcontracting, the Commission is promoting a series of measures to optimize the production capacity and structures of small firms in Europe and of main contractors in this field. These include improving the confidential (BCC) and non-confidential (DC-net) partner-search networks. These are in addition to programmes encouraging direct contacts between businesses, such as the Interprise scheme, which allow transnational inter-firm contacts on a sectoral basis.

- **The European Textile and Clothing Observatory** proposed by the Commission to keep closer track of the situation in the Community, in close cooperation with the industry, is fulfilling its mandate to conduct economic analyses, to validate data and to provide information for decision-makers in the private sector and public authorities. A report on the situation of the industry in 1992 was submitted to the Council meeting on industry on 4 May. To form a clearer picture of the prospects for the industry, the Observatory recently completed on an extensive forward analysis, taking account of the changes in relations between producers and distributors and of the relocation phenomenon. The results will be known in 1994. The Commission will keep the Council informed of developments.

6. Conclusions

The analysis in this report highlights the differences in competitive performance between the various branches of the textile and clothing industry.

However, the entire industry has become less competitive over the last few years, mainly due to:

- the deterioration in the cost factors affecting competitiveness, particularly labour costs;
- unfair competition on the international market;
- the difficulties with the modernization process and adaptation to technical change and new methods of organization in certain regions and branches of the industry.

However, it is not inevitable that the industry will lose direction. The European textile and clothing industry has a future provided it succeeds in exploiting its competitive advantages, with the backing of the support measures adopted by the public authorities. Consequently, a lasting recovery in the textile and clothing sector calls for a package of measures built around a global approach to international competitiveness.

The priority must be to create conditions favouring economic recovery in the Community and stabilization of the financial and foreign exchange markets, particularly by attaining the objectives of economic and monetary union by the deadlines set in Maastricht.

Although the recent revaluation of the dollar has had a positive impact on short-term competitiveness, targeted exchange rate policies will not be enough to attain a sound long-term competitive base. Structural policies to improve production conditions play a decisive role in this context.

Employment policies are now being reviewed in the light of the decline in competitiveness and the persistent structural unemployment. The Commission will set out its ideas and proposals on this subject in the White Paper on growth, competitiveness and employment.

The policies introduced, with strong support from the Community, to accompany the industrial change must be stepped up to bolster the textile and clothing industry's greatest competitive strengths, following a horizontal approach. In particular, they will make it possible:

- to strengthen RTD and innovation activities throughout the textile industry, in particular by taking fuller account in the Fourth (1994-98) Framework Programme of the specific nature of small firms and of their needs for the dissemination of new technologies;

- to make it easier for workers and managers to adapt to industrial change and to new production systems, with the aid of a new generation of training and conversion schemes under the new Objective 4 of the Structural Funds, to respond to firms' specific needs;

- to improve firms' know-how, with the aid of a new Community initiative on industrial change and competitiveness to encourage the dissemination of know-how and technologies and, in particular, form networks of small subcontracting firms with a view to specific training and information schemes.

Extra resources will be available for the Community research programmes and for the programmes adopted on the Community's initiative under the Structural Funds. The measures to support diversification and conversion, as provided for in the RETEX Programme, will be continued and stepped up.

In order to restore the competitiveness of the textile and clothing industry it is essential for the Uruguay Round to agree on a generally satisfactory package of measures for the textile industry, i.e.:

- progressive integration of the textile industry in GATT which must take the form, in particular, of greater opening-up of non-Community markets;

- tightening-up of the GATT rules and discipline, particularly of the anti-dumping, anti-subsidy and safeguard measures and greater protection for intellectual property;

- improvements to the Community's commercial policy instruments, in the form of greater transparency and efficiency.

Reinforcement of the mechanisms for direct cooperation between the industry and the Commission is desirable, particularly on the following points:

- identification and follow-up of solutions to make the industry more competitive. The first step could be to target the work done by the European Textile and Clothing Observatory on selected phenomena such as subcontracting and purchases of semi-finished products outside the Community. In addition, a framework for broad cooperation could be created by organizing round tables bringing together the European and national representatives of the industry, distributors, consumers and trade unions;

- promotion of exports to non-Community countries, particularly to the new markets which will open up in the wake of the Uruguay Round;

- in the context of the TAFI, intensification of the constructive dialogue already started with the industry by setting up an ad hoc task force;

- provision of full, regularly updated information in order to combat non-tariff barriers more effectively. This will strengthen the Commission's position in its negotiations with non-Community countries;

- analysis of the situation of the industry to enable the Commission to ensure more effective application to the agreements.

1. Introduction

Based on a communication from the Commission (COM (91) 399 final), on 17 June 1992 the Council adopted a resolution describing the measures to be taken to improve the competitiveness of the textile and clothing industry (OJ No C 178, 15.7.1992). This called upon the Member States and the Commission to adopt and propose such measures and upon the Commission, amongst other things, "to submit to it regular reports on developments in the competitiveness of the textile and clothing industry within the Community".

This communication, based on the 1988-92 data and the figures already available for 1993, marks the response to the Council's request and paints a comprehensive picture of the competitiveness of the industry. It also describes recent developments in the structure of the industry and trade and reviews the industrial strategies applied in this sector and the support measures taken at Community level to follow up the communication from the Commission and the Council resolution.

This should provide the Council with the information which it requested on the situation of the industry and enable it to monitor the action taken by the Community in this field.

Naturally, the Community institutions must also consider the future and the need to step up or supplement the measures already taken. The Commission is convinced that the efforts to bolster the competitiveness of the industry must be continued to support the adjustment process.

The Commission suggests that the Council should hold a preliminary debate at its meeting on 18 November 1993 to give its political assessment of the situation in the European textile and clothing industry and on the developments described in this report.

2. Recent developments in industrial structures

2.1 General context

With a workforce of around 2 636 000 (2 753 000 including chemical fibres and the five new Länder), a value added of ECU 65 billion and a turnover of ECU 180 billion, the textile and clothing industry still occupies a key position in the Community's industrial base.

With 9% of all jobs in industry, it remains one of the most important industries in the Community in terms of employment. In some regions, where over 40% of the jobs depend on it, all economic activities remain highly vulnerable to the changes in the textile and clothing industry. Textiles and clothing generate 5.3% of the total value added in the Community and are important markets for other sectors (e.g. mechanical engineering, the chemical industry, etc.). They are also recognized as a rich source of know-how and creativity in the Community.

Between 1988 and 1992 the textile and clothing industry operated in a context marked by the following features:

A climate of economic recession

After the Gulf crisis in 1991, the hopes of recovery faded as the Western economies, with the exception of the USA, fell into a steady decline which lasted the whole of 1992 and has deepened this year.

The distinctive features of this recession as compared with earlier ones are, indisputably, the high unemployment and the Member States' heavy budget deficits, heightened by serious monetary and financial problems.

Contraction of demand

Demographic factors (lower birth rate combined with ageing of the population) plus the reduction in the share of the family budget spent on textiles, accentuated by the general economic recession, produced a decline in final consumption in 1992. Moreover, distributors and consumers have become more versatile and more demanding, particularly in respect of value for money.

Industrial demand too has suffered the consequences of the downturn in other sectors.

Fierce international competition and increasing internationalization

The European textile and clothing industry remains vulnerable to low-price imports made possible by extremely low wages and also by questionable trading practices and social conditions in many exporting countries. Difficult access to many real, or potential, markets likewise seriously curbs exports from the Community.

The expansion of trade has been accompanied by internationalization and relocation of production which has become one of the predominant response strategies of firms in the Community. The increases in turnover and in exports from the Community stand in marked contrast to the sharp reduction in production within the EC.

2.2 Basic developments from 1988 to 1992

Since 1988, activity in the textile and clothing industry in the Community has been marked by a sharp, growing decline in the volume of employment, production, investment and, more recently, consumption (see Annex 1).

Alongside these negative trends, firms' turnover has grown, while their value added has levelled off.

Nevertheless, the data available up to the first few months of 1993 show that the current recession is longer and deeper than the usual cycles and that no change of tide is imminent in the short term.

In its report to the May 1993 Council meeting on industry, the European Textile and Clothing Observatory provided a detailed analysis of the situation in the industry in the EC. In the light of this report and of more recent information, five basic developments since 1988* can be highlighted:

(i) The industry has shed 434 000 jobs in the Community (down by 14%), 153 000 of them in 1992 alone (twice the average annual rate in the '80s). Almost 70% of the job losses in manufacturing industry over the last four years were in the textile and clothing industry (see Annex 2). There were big differences from one Member State to another, as illustrated by Annex 2a.

At the same time, over 2 000 textile and clothing firms closed down last year.

(ii) Production was down by 4.7% in the textile sector and by 6.4% for clothing, more than in the rest of manufacturing industry despite the increase in apparent consumption up to the early '90s, most of which was swallowed up by imports (see Annexes 3 to 5).

Sector-by-sector analysis of production trends since 1988 shows falls in every sector except wool, carpets and industrial textiles, although in 1992 the problems gradually spread to every sector. The biggest falls in production were with cotton spinning and weaving (down by 17%) and woven clothing (down by 12%).

---

* 1988 was chosen as the reference year partly for statistical reasons (foreign trade series) and partly for convenience for medium-term analyses.

Annexes 6 and 7 also show that the trends varied widely from one Member State to another.

(iii) After several years of sustained growth which increased the supply capacity of the industry, investment in both the textile and clothing sectors was 32% and 25% lower respectively, at constant prices, in 1992 than in 1998.

Last year investment in the textile industry was at its lowest since 1982 in volume terms. The biggest cuts were in the cotton industry which is one of the most modern sectors in Europe but also suffers from substantial overcapacity worldwide.

As a result of the oversupply, stock levels rose sharply, particularly in the third quarter of 1990, prompting most firms to pursue a moderate pricing policy.

(iv) Apparent consumption in the Community rose until 1990 in the textile sector and until 1991 on the clothing side. Then the general economic recession led to a sharp fall in final consumption and in intermediate demand from the downstream industries. Consumer spending on textiles and clothing fell by 1.6% between 1991 and 1992, while retail sales of clothing were down by 5.3%.

Demand trends by end-use over the last four years confirmed the fall in sales of clothing, which accounted for no more than 45% of final consumption in 1992. This was offset by an increase in industrial textiles.

In the light of the situation on the market, imports grew very slowly in 1992. However, they had grown extremely rapidly between 1988 and 1991 as Community producers lost market share. Exports have grown steadily without, however, managing to stabilize the trade deficit which has widened from ECU 5.6 billion to ECU 12 billion in four years.

Producer prices grew slower than consumer prices apart from in 1992 when the rates were fairly similar. The gap between the trends for these two prices was widest when average import prices were falling fastest (between 1988 and 1990), particularly for textiles.

(v) Nevertheless, this generally gloomy picture must be tempered by the more encouraging trends in turnover and value added.

The former rose by 4% in the textiles sector and 12% in clothing over this four-year period at constant prices, although it has stabilized since 1990. The latter (in firms employing over 20 workers) varied, falling by 1.7% in the textile sector but increasing by 3.2% on the clothing side. Nevertheless, in relation to production, value added grew from 33% to 35% in both sectors.

These trends confirm that the development of industrial strategies based on relocation has partly compensated for the contraction of local production, particularly in the clothing industry. It also signifies a marked change in activity throughout the industry, albeit with greater differences than in the past between the strategic objectives of the textile and clothing sectors.

2.3 Trends in 1993

The figures available for the first five months of this year show that the downturn in activity has been even sharper than in 1992, with production down by 8% in both the textile and clothing sectors (see Annex 2).

In view of the renewed fall in final consumption and of the weakness of the confidence indicators, production could fall to its lowest ebb in the last 20 years.

No area of activity has been spared, not even the carpet or non-woven sectors, not only because of the falling demand for clothing but also because of the downturn in sectors such as the building and car industries.

3. Assessment of international competitiveness

3.1 General context

Assessment of international competitiveness by analysing trade trends is a key instrument for diagnosing the textile and clothing industry. Between 1988 and 1992 the Community economy, which was already very open to international trade in this sector by world standards, became even more so. Both import penetration in relation to apparent consumption and exports' share of production grew strongly over these four years. Consequently, the international division of labour will play an increasingly decisive role in textile and clothing firms' strategy.

However, the conditions in which the Community market was steadily opened up distinctly aggravated certain imbalances:

(i) the trade deficit with non-Community countries in this sector deteriorated as imports grew faster than exports;
(ii) to a large extent this import growth replaced intra-Community production, leading to a decline in production and jobs in the industry in absolute terms.

Imports from outside the Community grew by an average of 8% a year by volume, compared with just 4.6% for exports, between 1988 and 1992 (see Annex 8). This gap widened the Community's trade deficit in textiles and clothing, particularly in 1990 and 1991. In 1991 the deficit with non-Community countries reached the new record of ECU 12.4 billion (see Annex 9).

In 1992 the deficit shrank slightly to ECU 12.2 billion as a result of the slowdown in imports triggered by the stagnant demand within the Community combined with the improved terms of trade.

Between 1988 and 1992 the gap between total demand, which grew by an average of 1.6% a year, and production, which fell by some 0.8% a year, widened for all finished textile products. This gap was filled by imports, some of which replaced intra-Community production. The upstream sectors (spinning, weaving and fabrics) were hit not only by falling total demand, as they lost outlets in the Community (down by an annual average of 4.4%) but also by fiercer competition from imports.

Another point to stress is that the greater opening-up to non-Community countries has been accompanied by remarkably dynamic intra-Community trade, which has grown by an average of 5% a year. Between 1988 and 1992 intra-Community trade's share of sales rose from 64% to 66% reflecting, to a certain extent, the impact of completion of the internal market.

The general trends mentioned mask significant differences in competitive performance on the different markets, as is clear from the more detailed analysis below.

3.2 Exports

While exports to all the free market industrialized countries (USA, EFTA and Japan) in 1992 were slightly down on 1988, exports to all other countries continued to grow at a remarkable rate, by 9.6% a year in volume terms for textiles and 16% for clothing (see Annex 10).

Consequently, industrialized countries' share of all exports from the Community fell, by volume, from 56.3% to 44.5% for textiles and from 80% to 70.8% for clothing.

The poor performance by exports from the Community on the markets in the developed countries between 1988 and 1992 is reflected by the decline in Community products' share of developed countries' total imports (see Annex 12). For example, the market share of textile and clothing products from the EC fell from 12.4% to 8.8% in the USA and from 67.2% to 66.5% in the EFTA countries, while in Japan their market share has been falling sharply since 1990 (from 24% to 16.2%). The developing countries benefited from these losses of market share.

These trends indicate a genuine loss of international competitiveness. The reasons are analysed in Chapter 4.[1] This could have serious implications if this trend were to continue in the future. The industrialized countries are the traditional markets for exports from the Community (the USA, Switzerland and Austria are the three leading customers). Generally, these exports take the form of middle- to top-of-the-range products.

The rapid growth of textile exports to Central and Eastern Europe, including the Republics of the former Soviet Union, and to certain developing countries is largely attributable to the extremely marked expansion of subcontracting in recent years. This entails exporting fabrics to be made up locally and subsequently reimported onto the Community market after processing.

The Mediterranean countries remain the leading export market for textiles from the Community (with 23% of the Community's exports in 1992). However, Central and Eastern Europe and the ASEAN countries recorded the highest growth rates, particularly in 1992. Naturally, the extremely rapid export growth to Central and Eastern Europe also reflects the far-reaching changes in economic relations with these countries since 1990, which has taken their share of textile exports from the Community from 8.7% in 1988 to 15% in 1992.

Clothing exports to Central and Eastern Europe have also been growing extremely rapidly, not only due to the expansion of subcontracting in the case of semi-finished clothing but also in the wake of the steady opening-up of markets which were once almost completely sealed off. Exports of clothing to the developing countries have also grown from a very low base. This has been encouraged by unilateral liberalization measures in certain countries. However, these have not been consolidated and therefore remain shaky. Generally, the protectionist trade policies pursued by most developing countries continue to block access to their markets.

---

1 In view of the generally competitive markets in the industrialized countries and the relatively stable conditions of access to them, movements in relative shares of imports to those markets are considered a good indicator of international competitiveness.

3.3 Imports

The loss of competitiveness on the part of European industry revealed by the analysis of export trends is further confirmed by import growth. However, major disparities were found between the textile and clothing sectors. For example, imports of textiles from non-Community countries rose by 5.3% a year while imports of clothing were up by 13.8% a year by volume (see Annex 13).

In 1992 Switzerland, Austria and the USA, in that order, remained the Community's three leading suppliers of textile products. However, the industrialized countries' combined share of the Community market fell from 43.4% to 40.2% between 1988 and 1992, while Central and Eastern Europe and the developing countries, particularly in Southern Asia, strengthened their positions on the Community market. India, China, Pakistan and Indonesia are now amongst the Community's leading suppliers of yarn and fabrics (see Annex 11).

The developing countries and Central and Eastern Europe now account for over 95% of all imports of clothing into the Community in volume terms (and 91% in terms of value). Within this group, however, the situation changed significantly between 1988 and 1992. For example, China has become the leading exporter to the European Community (with a market share of almost 9%). Turkey, Morocco, Tunisia, India, Poland and Indonesia have also made significant gains. On the other hand, Hong Kong, the leading supplier in 1988, has slipped back to third place, while South Korea and Taiwan too have become less competitive. In essence, these changes indicate that the comparative advantage has shifted away from the countries where wages have now risen to close to the Community minimum.

The very marked acceleration in imports, particularly of clothing, from Central and Eastern Europe and the developing countries between 1988 and 1992 is attributable to a combination of four factors, which are analysed in greater detail in Chapters 4 and 5:

(i) aggravation of the structural disadvantages of most producers in the Community from the point of view of industrial competitiveness;

(ii) the appreciation of most European currencies against the US dollar up to September 1992;

(iii) the changes in economic relations with the former Soviet Union and Central and Eastern Europe, as reflected, in particular, by bilateral agreements which have substantially liberalized trade;

(iv) the adoption of restructuring strategies based on relocation of labour-intensive activities with a view to cutting production costs, particularly in the clothing sector.

3.4 Balance of trade

In the textile sector, the European Community still recorded a trade surplus of ECU 2.1 billion in 1992 (see Annex 9). The Community's traditional deficit with Asia was worse in 1992 than in 1988. By contrast, the surplus in trade in textile products with Central and Eastern Europe and the Mediterranean countries has almost doubled since 1988, as subcontracting has grown. Between 1988 and 1992 the surplus with the industrialized countries contracted by 26%, the sharpest reductions being in the surplus with EFTA (down by 37%) and Japan (down by 57%).

Increased imports of clothing from developing countries and Central and Eastern Europe were largely to blame for the deterioration of the trade deficit in this area to ECU 14.3 billion in 1992. Although declining since 1990, the balance of trade in clothing with the industrialized countries remains in surplus, but not by enough to bridge the deficit with other non-Community countries.

One point which must be stressed is the very unusual pattern of trade with certain non-Community countries which remain almost completely closed to imports from the European Community (with the exception of Hong Kong and Macao which are free ports), yet are very big exporters to the Community.

Not one of the 13 countries listed in Annex 14 (Turkey, China, Hong Kong, Taiwan, South Korea, Macao, Pakistan, India, Indonesia, Thailand, the Philippines, Brazil and Malaysia) imports from the Community even a third of the value which it exports. Together they account for a deficit of ECU 18 billion.

3.5 Differences between product categories

The average values of textile and clothing imports and exports vary widely (see Annex 15). On average, textile products exported from the Community to non-Community countries cost 73% more than products imported from the same countries. In the case of clothing, the difference is 122%.[2] Between 1988 and 1992 this difference widened.

---

2 Taking intra-Community trade as the reference level, the average price differences shrink to 21% for textiles and 66% for clothing because of the more varied nature of trade patterns between the Member States, where bottom-, middle- and top-of-the-range products are all traded freely.

More detailed analysis based on MFA categories offers the explanation that the Community specializes in the most expensive varieties of the same type of product. This is the fruit of a selective strategy targeted on the top-of-the-range products on the market. However, this cannot nullify the role played by price in competition since, as a general rule, the smaller the price difference between the imported and exported varieties of the same category, the further the balance of trade in the category concerned tilts in favour of the Community.

Analysis by stage of manufacture reveals that the EC has a large deficit in clothing but a relatively small deficit in the upstream sectors (apart from knitted fabric) and in household textiles (see Annex 16). The Community has a surplus or an even balance of trade in knitted fabric and finished textile products (except household textiles). Looking at the individual types of fibre, the EC is competitive in wool textiles, maintains an even balance with silk but is in an extremely fragile position in the cotton sector and with all varieties of made-up goods (see Annex 17).

The direct import penetration rate rose to 39% of final consumption of clothing in 1992 (compared with 27% in 1988)[3] and by a relatively smaller amount for fabrics (27% in 1992 compared with 21% in 1988). However, it must be noted that the upstream sectors are vulnerable to the increase in imports downstream since a very large proportion (78% to 95%) of their production is sold on the internal market.

Since 1988, import penetration has increased in every sector except chemical fibres (see Annex 18). Although exports' share of total production has also increased in most of the branches considered, international competitiveness has generally declined. The balance of trade in every product category except knitted fabric and miscellaneous textiles has deteriorated.

4. Analysis of the factors determining international competitiveness

Chapter 3 identified some of the general trends in the competitiveness of the European textile and clothing industry compared with its leading rivals over the last five years. The explanation for these trends lies in the factors determining the cost and general quality of the product placed on the market. Most of these factors concern the productive side (costs, productivity, etc.), others organization of production and distribution as a whole and yet others foreign trade practices and policies.

---

3 Imports account for over 50% of intra-Community consumption of many clothing products: T-shirts, shirts, suits, knitwear, etc.

4.1 Exchange rates

Movements in the exchange rate for European currencies, particularly against the US dollar, have a definite impact on the international competitiveness of the European textile and clothing industry. Already over 50% of all textile and clothing imports from outside the EC come from countries which normally price their exports in dollars: the USA and Canada, but also Latin America and almost all Asia.

Moreover, the vast majority of raw materials of animal or plant origin are imported and depend on world prices, which are likewise quoted in dollars.

As regards the position of European currencies vis-à-vis the dollar, the period covered by this report can be divided into two: before and after September 1992, the date marking the start of the monetary problems still shaking the European Monetary System.

Before September 1992, all the European currencies except the drachma appreciated in value against the dollar, to the net detriment of the international competitiveness of the Community industry (see Annex 19). In practice, the beneficial effects of this revaluation on the prices of raw materials and imported intermediate products are more than counterbalanced by the adverse effects on the cost of internal factors of production which account for a far higher share of the total costs. All this must be seen in the context of an industry very open to international competition.

There is a strong correlation between the EC's trade deficit in textiles and clothing and the exchange rate between the ECU and the dollar (see Annex 20). Similarly, the falling share of exports from the EC in imports to the USA suggests the impact of the monetary factor.

Since September 1992 and up to August 1993 (the latest data available), all European currencies fell against the dollar, which could possibly boost international competitiveness. However, these gains will not be spread evenly throughout the Community. The countries with currencies shadowing the DM registered a less marked devaluation and will also have to withstand the increased competitiveness of their rivals within the Community which devalued very heavily (by between 20 and 40%).

If the turbulence within the EMS persists, businesses will face extra costs for their intra-Community transactions, as they will be forced to cover themselves against possible changes in the parity of their currency not only against the dollar but also against other currencies in the EMS. These extra costs could amount to up to 2.5% of the total cost of a delivery.

4.2 Labour costs

The proportion of the total production costs attributable to labour costs (direct wages, other payments to workers and employers' social security contributions) depends directly on the labour intensity of the technology employed and on wage levels. It is normally very low (7 to 12% in the industrialized countries) in spinning mills which use highly automated production processes. At the other end of the scale, in industrialized countries labour costs can account for 40% of the total cost of making-up activities (assembly and finishing) requiring long manual production lines.

Annex 21 reveals enormous differences in average wages, both within the Community and between the Community and non-Community countries. The data refer to spinning and weaving. The figures available for making-up activities show similar disparities, albeit on a smaller scale.

Gaps like these cannot be attributed primarily to special economic conditions or to employment practices too far removed from European standards, notably child labour and the absence of trade union freedoms, but must be put down more to structural factors:

(i) the generally higher skill levels of the European workforce which must be reflected by higher productivity (see Section 4.4);

(ii) the low level of industrialization and abundant supply of unskilled labour for primary activities in the developing countries and the surplus manpower released by industries in the midst of restructuring in Central and Eastern Europe.

Between 1988 and 1992 the labour cost gap, expressed in dollars, widened between most Member States and their rivals, both in the industrialized world (USA) and in Asia or North Africa. Only the recently industrialized countries in the middle of the wage scale (Taiwan, Turkey, Korea and Hong Kong) recorded bigger wage increases than most EC countries.

In the medium term, the NICs in Asia and some countries in Central and Eastern Europe could probably fit into the current intra-Community wage scale of 1 to 6. This phenomenon implies changes in the international division of labour as these countries, particularly the NICs, become more competitive on more sophisticated branches of the market and relocate production in response to the competition from countries with lower wages.

Based on the data in Annex 22, real wages have risen extremely fast throughout the Community except in Italy and the United Kingdom, despite the deteriorating labour market and the contracting final demand. The fundamental explanation for this trend lies in inadequate operation of the labour market in the form, in particular, of the rigidity of wages to cuts. In this respect, it is important to note the diverging behaviour of real wages in the Community and in the USA, where they have remained virtually constant throughout the same period.

Higher inflation in the Community than in the USA or Japan also led to faster growing nominal wages. By contrast, the devaluation of certain currencies since September 1992 could play an important part in bridging the gap in wage growth.

Employers' social security contributions vary widely within the Community (see Annex 23). Although reductions in certain countries could help with the approximation of labour costs, a broader package of measures is needed to produce an effective solution to the competitiveness problems posed by this factor.

4.3 Capital productivity

The productivity of production plant is a key factor in international competitiveness. In the textile industry, the upstream sectors (spinning and weaving) are the most heavily dependent on capital productivity for their competitiveness, since they are relatively capital-intensive by the standards of this industry.[4] This factor depends on both:

(a) modernization of production plant, which is dictated by the quality and pace of capital investment; and
(b) the capacity utilization rate which, in turn, depends to a large extent on organization of the production system and on the institutional and cultural conditions for employment.

(a) Capital investment

In the 1980s the upstream stages of the textile industry underwent a genuine technological revolution which substantially improved their productivity. Today, investment per job can be as high as ECU 3 million for the most efficient plant for spinning (open-end rotors) and cotton weaving (shuttleless looms).

4 However, the upstream sectors of the textile industry can be considered moderately capital intensive by the standards of all manufacturing industry.

Annexes 25 and 26 illustrate the equipment available and investments in such plant since 1983.

Over the last ten years, the EC's share of all purchases of spinning and cotton-weaving equipment worldwide has been 10% and 25% respectively.

This is twice the EC's share of capacity installed worldwide and therefore signifies an extremely high plant modernization rate.

Worldwide, investment displayed a fairly cyclical pattern, with extended growth in all geographical areas from 1983 to 1988 followed by a sharp slowdown sparing only the Asian countries, which experienced only a modest slowdown in spinning but continued to build up substantial new weaving capacity.

In 1992 plant purchases revived in the wool and cotton weaving industries in most regions but fell substantially in the cotton spinning sector, even in Asia. In 1992 the EC's position in the cotton industry in relation to its leading rivals weakened, except in the case of open-end operations.

Years of heavy investment in the Community have been followed by a slowdown, starting in 1990, due to three main factors:

(i) a sharp increase in interest rates, where a very wide gap has now opened up compared with the rates charged in the USA and Japan (see Annex 26) adding to the European industry's traditional handicap in terms of the cost of capital;

(ii) a tangible deterioration in the prospective return on investments as a result of the falling demand since 1991 and of the losses of market;

(iii) a cyclical phenomenon related to the lack of new technological breakthroughs after the wave in the 1980s with the introduction of automation and computer-aided manufacturing.

Despite this recent slowdown in investment, the Community wool and cotton industries remain amongst the most modern in the world, as indicated by the plant modernization rate (proportion of plant purchases over the last ten years in relation to installed capacity).

However, country-by-country analysis reveals very big differences within the Community, not only in the plant modernization rate but also in the level of investment per job (see Annexes 27 and 28).

(b) Capacity utilization rate

Generally, producers in the Community make less intensive use of their production plant than their non-Community rivals. For example, in Taiwan spinning and weaving plant is in operation for 97.2% of the maximum possible, compared with 84% in the USA and the Community average of not more than 76%.

This disparity reflects the more rigid organization of work in Europe and the generally shorter working hours (see Annex 29) compared with the USA, Japan and most NICs.

Increasingly, practices such as these are perceived as a competitive disadvantage for the European industry. Accordingly, over the last five years, virtually every Community Member State has been moving towards more intensive utilization of production plant without, however, increasing working hours which are still even being reduced, except in Spain, Portugal and Greece.

This new trend can be attributed to the introduction of organizational systems allowing more flexible work and shorter delays between successive production runs.

4.4 Labour productivity

Apparent labour productivity, measured in terms of value added per employee, has been rising by an annual average of 3.2% throughout the industry.

This is hardly surprising, despite the falling production, in view of the heavy job losses reported in the sector combined with the trend to concentrate high value-added activities in the Community.

However, big differences in productivity levels persist within the Community, reflecting the differences in wage levels and average investment (see Annex 30). The countries with the highest wages have also been making the fastest progress with restructuring production plant, so that the gains in productivity partly compensate for their disadvantage on wages.

The key aspect in connection with competitiveness is, however, international comparison of the real productivity levels for the average worker doing similar jobs.

The figures in Annex 31, which show the productivity indexes based on expert opinion,[5] show that the advantage held by certain Community countries on this point is too slim to compensate for their higher wage costs.

As a result, when it comes to unit labour costs, the Community countries are at a distinct disadvantage over non-Community countries, apart from Japan in the case of weaving and spinning (see Annex 32).

The steady erosion of the productivity advantages stems partly from the particularly rapid spread of new production technologies at international level. Over the last few years certain non-Community countries have acquired particularly efficient modern production plant, in some cases at a faster rate than the Community.

Consequently, higher labour productivity cannot be achieved by modern plant alone. It also depends on the dynamism of the industrial base and on the quality of the human resources available.

In industries where economies of scale are of minor importance, small firms are a driving force towards higher productivity by virtue of their flexibility to adapt to change and their lower overheads. A recent study[6] found that small firms achieved the highest productivity in most Member States. In the clothing sector, medium-sized firms employing between 100 and 200 workers had the highest productivity, whereas in the textile, knitwear and simple made-up goods sectors very small firms achieved the highest productivity per employee.

The predominant trend in the textile and clothing industry throughout the 1980s in every Community Member State has been towards smaller firms, particularly at the production stage. In 1988, small and very small firms employed 41% of the total workforce in the textile industry and 57% in clothing and generated 47% of the total turnover in both these sectors. However, this category of firms, which is far more widespread in the Community industry than in non-Community countries (whether the USA or NICs), is particularly sensitive to relocation which tends to destroy local networks of subcontractors.

5 Source: Werner International.

6 Comitextil, "Structure de l'industrie textile-habillement en Europe: Rôle des petites et micro-entreprises", bulletin 1993/4.

4.5 Human resources

Human resources and skills are the basic source of productivity improvements and flexibility for the economy and individual firms alike. But they can also seriously slow down the dissemination of technological innovations, of new production processes and new organizational methods should skills prove unsuitable or insufficient.

It is generally considered that the Community's competitive advantages over non-Community countries lie in the superior quality of its human resources rather than in its modern production plant. However, training standards, management and even awareness of the problem vary markedly between the various regions of the Community.

Talks between employers and trade unions are endeavouring to propose adequate responses to today's major problems and challenges. Although the information on training needs, particularly in the made-up goods sector, is still inadequate, it is already clear that:

(a) Training tailored to the new needs generated by industrial change is not always available:

* new production technologies call for continuous training;
* reorganization of production and distribution systems calls for new skills;
* greater competitiveness calls for greater efforts on flexibility, reliability, quality and know-how. It also implies integration of skills at all levels in management functions. Many of these are "horizontal" skills.

(b) The unattractiveness of the sector makes it more difficult to recruit certain skills.

(c) The large proportion of female workers (78% in the clothing industry) and the big regional disparities in vocational training are two unique features which make this sector more vulnerable. Better dissemination of know-how and experience is essential in this respect.

(d) The heavy job-shedding in the industry calls for general training schemes.

Workforce skills must, therefore, be considered a key factor in flexibility and adaptation and, increasingly, in access to employment.

4.6 Raw material, energy and environmental costs

Raw material prices, quoted in dollars, have been falling very sharply since 1990 (see Annex 31). However, this is unlikely to improve European producers' competitive position since their competitors will also benefit from it. On the other hand, the revaluation of most Community currencies in relation to the dollar will have given Community producers, particularly in the upstream sectors, certain competitive advantages over their rivals in the dollar region (or in countries which have devalued their currencies).

Although synthetic fibres and cotton are traded as commodities on world markets, some producers nevertheless pay substantially lower prices. This applies in particular to Taiwan in the case of polyester and to Pakistan and India in the case of cotton, as a result of double pricing practices which have been denounced repeatedly.

The impact of electricity prices varies, but is greatest in the finishing sector. Very substantial differences have been reported, not only in comparison with certain non-Community countries (particularly the USA where electricity prices are far lower) but also within the Community. Italian, Spanish and Portuguese producers, for example, have to pay twice as much as their French or Dutch counterparts. Completion of the internal energy market will no doubt narrow the existing gaps and lower the average price in the Community.

The cost of compliance with national environmental standards already accounts for a large proportion of total production costs, particularly for dyeing and finishing. In Germany, for example, environmental costs already amount to 9.2% of the total while in most other EC countries the figure is close to 5% (see Annex 32). The Community's new environmental protection policy should bring these figures closer together. However, environmental costs are virtually negligible in the vast majority of the developing countries and of Central and Eastern Europe.

4.7 Complex factors affecting competitiveness

In addition to these quantitative criteria, the international division of labour reflects two other types of factor which, on the whole, favour continuation of certain production activities in the Community:

- first, there are a series of barriers to internationalization of production, particularly in the form of the costs and risks incurred by customers;

- second, there are the complex factors, i.e. the key factors determining success which are hard to quantify but largely compensate for local cost disadvantages.

(a) The main added costs generated by internationalization of sourcing and subcontracting are:[7]

- transport costs;
- administrative costs for customs clearance;
- costs to cover revaluation of the dollar (purchases for future delivery, currency option, etc.);
- the costs of issuing letters of credit;
- financial costs due to the fairly strict terms of payment normally demanded by non-European suppliers;
- quality control costs, if this task is performed by specialist undertakings.

Taking account of all these costs, but excluding customs duties and quotas, since completion of the internal market on 1 January 1993 Community producers hold an average advantage of 7% over their competitors close to the Community and of 11% over those further away.

Added to these costs,there are also the risks inherent in extra-Community transactions due to:

- the deterioration in quality which sometimes follows over-hasty changes of supplier;
- the transfer of the firm's own know-how to the subcontractor or to competitors which are also customers of the same subcontractor;
- the added cost, or even impossibility, of delivery due to import quotas;
- the loss of networks of specific know-how available on a traditional European market.

(b) The complex factors most quoted by the firms are:

- the sophistication and quality of the product;
- the reliability of the supplier;
- the ability to accept small orders (short circuiting);
- local availability of high-quality yarn or fabric;
- technical know-how;
- flexibility of production;
- delivery time;
- the possibility to repeat orders.

European suppliers are considered to offer their customers better conditions on all these counts than their non-Community competitors.

7 Institut Français de la Mode (IFM) "A competitive analysis of finished textile and clothing products: imported versus European manufactured items", 1992.

Annex 33 clearly shows that although Asian countries offer more generous retail margins, they cannot satisfy the demand for small orders (short circuiting) or for moderate to high quality. Instead, they therefore hold the competitive advantage in manufacturing relatively standard basic products, such as household linen, simple made-up goods, yarns and fabrics or bottom-of-the-range clothing. Against this, the Mediterranean countries and Eastern Europe continue to offer advantageous conditions both in terms of retail margin and quality criteria, particularly in the case of clothing.

One final point to note is the strong position of NICs with regard to quality and technical know-how. In the near future, this could strengthen their competitive position on the markets in top-of-the-range products. This trend is reinforced by the system of quantitative quotas which encourages producers to upgrade their products in each category.

4.8 Distortion of international competition

All kinds of distortion of competition are widespread on the world market in textiles and clothing. Very few countries can claim to practice no form of protectionism or of direct promotion of their exports.

The European Community too imposes tariffs and applies import quotas negotiated bilaterally with the leading exporting countries. The duties imposed by the Community are amongst the lowest in the world on textiles. A large number of exemptions and suspensions are also allowed in application of the Generalized System of Preferences and several preferential agreements. The rapid growth of imports in recent years raises questions about who really benefits from the system and the advisability of maintaining it in the textile sector.[8]

The tariff and non-tariff barriers set up in many non-Community countries, particularly developing countries and NICs, distort the patterns of trade and put Community producers and exporters at a serious disadvantage. Usually, in practice barriers of this kind constitute veritable bans on access to the market, either because of their level or due to the arbitrary way in which they are applied.

Import duties of up to 100% are common, particularly in Asia and Latin America. In most cases, the more elaborate the product the higher the tariff in order to encourage local production of products with a higher added value (clothing). Some countries, such as the Philippines, Taiwan or Korea in the recent past, have cut their customs duties, but, for want of consolidation under the GATT rules, can still raise them again to suit their political requirements. The textile and clothing industry is one of the most heavily protected sectors. This is because the importance of local industries to the industrial base puts them in an extremely strong position to exert pressure on the authorities. In many Asian countries (India, Pakistan, Indonesia, China, etc.) textiles and clothing is considered a strategic industry and an extremely important hard currency earner.

The USA, the Community's leading market for exports of textiles and its third market for clothing, also imposes high import duties, with maximums ranging from 15% to as high as 42%, particularly for woollen fabrics and clothing. The Commission expects a considerable reduction in these peaks as the USA strictly implements the Tokyo agreement.

---

8 The USA does not apply the GSP in the textile and clothing sector.

The commonest non-tariff barriers include import bans, exchange controls and local distribution systems. As well as restricting imports, these barriers also play an important indirect role in promoting exports. In particular, the protection extended to local producers on their home market enables them to charge prices which are normally higher than the world market rate.

Several means of artificially enhancing the competitiveness of exports are commonly used:

- production and export subsidies;

- dumping (particularly in the upstream sectors of the industry);

- double pricing of raw materials.

Copying of designs and models is another source of distortion of competition, in that this fairly widespread practice on most non-Community markets denies the firm holding the trademark the chance to reap the full commercial benefits from exercising the trademark or exploiting a specific innovation. This practice seriously damages the interests of European firms which hold a distinct competitive advantage in branded goods.

At the moment all these practices and policies relating to international trade in textiles and clothing militate distinctly against the interests of the Community's industry, which rightly recognizes them as one of the adverse factors to blame for its loss of competitiveness. Integration of the industry into the GATT rules and disciplines could help to create a more evenly balanced international environment.

5. Industrial strategies

5.1 Over the last twenty years textile firms in the Community have faced two major challenges:

- competition from products from low-wage countries;

- weak capacity for long-term growth in final demand.

They have been forced to meet these challenges by restructuring their methods of organization, technologies, etc. at various times, depending on their position in the chain and their location. Clothing firms in high-wage countries such as Germany or the Netherlands were the first to be hit and, consequently, to respond. The upstream branches reacted later, in response to the loss of home markets in the wake of the thinning-out of the clothing industry and to the emergence of integrated sectors in certain developing countries, encouraged by the availability of raw materials and investment aid. Today, countries such as Portugal or Greece still need to restructure in response to challenges of this type, but have hardly started the process.

Consequently, the textile and clothing industry in the Community presents a very varied and, at times, contrasting picture with a juxtaposition of firms in different stages of a restructuring process, of which the broad lines are nevertheless becoming clear. More specifically, four major strategies can be identified for the restructuring of the European textile industry:

(i) modernization of production plant;

(ii) relocation to lower-wage countries;

(iii) specialization in specific markets or products, with the adoption of a product strategy;

(iv) change of organization and methods to encourage globalization and flexibility.

Naturally, these four methods of restructuring are by no means incompatible but are often combined in firms' choices of strategy.

5.2 The textile industry has undergone extensive technical modernization. Considerable progress has been made with automation, allowing savings on labour costs and, at the same time, transforming the production system, which has become more capital intensive, particularly at the spinning and weaving stages.

Some even say that these technological changes have reversed the trend and returned the comparative advantage to firms in the most industrialized countries, which could benefit from more direct access to the technological innovations (particularly by joining "clusters" bringing together the industries producing the plant and materials) and have a reserve of more skilled human resources.

However, before new advantages such as these are converted into more balanced patterns of trade, other factors must also enter into play (a more favourable exchange rate, fairer terms of international trade and more flexible employment).

Although the clothing industry has also benefited from technological innovations, particularly computer-aided design (CAD), it remains labour-intensive, particularly the making-up operations. This makes it more difficult to reduce the wage disadvantage by modernizing production plant.

5.3 Clothing firms' relocation strategy has taken the form of international subcontracting:[9] fabrics or semi-finished clothing are delivered to producers in low-wage countries, which perform generally highly labour-intensive but simple tasks such as making-up and finishing and then return the finished product to the firm which placed the order.

This practice has led to the disintegration of the original production units, which now retain only a very small core of workers employed, however, for activities offering high added value or of strategic importance: product development, quality control, small production runs and customer services. In other cases, most frequently in France or Italy, relocation implies a thinning-out of the local networks of subcontractors who traditionally offered the advantages of flexibility and cost control.[10] In some low-wage regions of Portugal or Greece, subcontractors who traditionally worked for customers in other Community countries have been replaced by producers from countries with even lower wages (the Maghreb countries or Central and Eastern Europe).

A recent survey of a sample of over 200 large or medium-sized subcontractors found that production under their control in other countries rose from 30% of the value of their own production in 1988 to 40% in 1992.[11] The same survey concluded that this trend was likely to continue in the years ahead as the improved performance of the firms which have embarked on this path forces their rivals to follow suit.

9 Direct investment is virtually non-existent in this sector, where technology and capital play a minor role.

10 Subcontractors employ an estimated 500 000 workers in the Community.

11 Schaeffer "Outward Processing Trade in the EC Clothing Industry", European Textile and Clothing Observatory, 1993. In this study, the countries to which production has been relocated include the low-wage countries in the Community.

Originally relocation was targeted on the production of long runs of simple products. Today it is gaining ground for short production runs and more complex products. A series of factors encourage further development of this strategy in the clothing industry, including the widening wage gap, the impact of the telecommunications revolution, the sustained heavy pressure on production costs on a market in recession and the increasing involvement of the distribution chains in directly productive activities.

Relocation is also on the increase in other branches of the industry, albeit on a more modest scale, principally in the form of direct investment alongside subcontracting and direct purchases of finished fabrics or unbleached cloth. Apart from the advantage of lower wage costs, other objectives also come into play, such as to establish a presence on markets currently closed to imports in order to satisfy local demand, to follow the relocation of clothing production or to avoid certain environmental constraints which are considered too heavy a burden.

The discipline imposed by the Community on outward processing traffic (OPT) aims at ensuring that the Community maintains a very firm base in the upstream branches of the textile industry. In order to qualify for more favourable tariffs (which can even go as far as exemption in the case of the countries of Central and Eastern Europe) or for an extra quota, OPT operators in the Community must, in principle, use fabrics originating in the Community. However, the steady liberalization of trade with the countries most commonly involved in OPT (the countries with preferential arrangements and Central and Eastern Europe) could loosen the control allowed by this discipline in the future.

5.4 Product differentiation is achieved by:

- the spread of the fashion factor to stimulate repeated purchases in consecutive seasons;

- the fragmentation of the markets into quality and price ranges;

- the response to the new social, environmental and industrial requirements.

In this way, product differentiation contributes not only to stimulating final demand but also, above all, to reducing the price elasticity of demand, thereby improving the profit margins of the leaders in pace-setting niche markets. It therefore implies the choice of a specific type of market defined in the light of the brand image.

Differentiation strategies are well suited to large or medium-sized clothing manufacturers which rely on local subcontracting networks and are able to adapt rapidly to consumer trends. However, this solution is not the only way in so far as relocation enables producers or distributors based in the Community successfully to pursue strategies based on volume not differentiation. Recent trends seem to call into question the traditional strategy of brand image differentiation and, instead, put the emphasis on the price criterion in consumer choice.

5.5 New organizational strategies aim at positioning the firm at the most profitable stages of the circuit, in terms of generation of added value, and to give it a high capacity to respond to fluctuations in demand.

In the clothing industry, production costs often account for less than half of the consumer price. Consequently, the biggest margins are downstream, in the distribution circuit. Globalization strategies aim at improving the firm's position in the chain, by integrating a series of activities from design right through to the retail trade and focusing on the activities with the highest added value. Today this same concept is applied by producers, who have gradually added distribution activities, and by distributors who have moved further back along the chain to secure certain supplies meeting their precise specifications.

Integration of production and distribution activities facilitates the adoption of quick response methods and short circuiting. Global undertakings must, therefore, remain flexible to avoid excessive stocks or excessive delays in restocking points of sale.

5.6 This juxtaposition, within the Community, of strategies at different stages of development explains the widely contrasting forms of competition which producers in the Community must face. For the sake of simplification, a distinction could be drawn between two types of competition:

(i) The first is based mainly on the most sophisticated products, where Community producers must compete against the other industrialized countries as well as the rivals emerging in the NICs for certain made-up products. This includes top-of-the-range clothing, finished fabrics with high added value, industrial fabrics, etc. If they are to succeed in this field, producers in the Community must play to their strengths of creativity, innovation, services and proximity to the most profitable consumer markets. Differentiation and adaptability will play the major part in determining their competitive position.

(ii) The second type of competition concerns relatively homogeneous basic products such as cotton yarn/synthetic fibres, unbleached or bleached cloth and the vast majority of non-differentiated household textiles and middle- to bottom-of-the-range clothing. Community producers' competitors come from the low-wage countries. In this case, competition is based primarily on price, even though ultimately value for money (taking account of delivery times, finishing, etc.) determines the siting of production.

These two types of competition create a kind of "duality" with modern and traditional firms existing side by side within the Community, sometimes with diverging interests, particularly with regard to foreign trade and competition policy. Traditional firms must also restructure in order to make the industry as a whole more competitive at international level.

6. Community measures

6.1 Commercial policy

6.1.1 MFA and bilateral EC agreements

In accordance with the negotiating directives received from the Council on 6 October 1992, in December 1992 the Commission successfully negotiated a one-year extension of the MFA, which was going to expire at the end of 1992, without any change in its provisions, and an extension for two years (plus a tacit renewal for a third year if necessary) of each of the existing bilateral textile agreements.

The Community's textile agreements under the MFA or within certain preferential relationships with other countries are the main political instrument to defend the European textile and clothing industry against low-cost imports disrupting the markets and to give the industry the possibility to re-establish its competitiveness. These agreements cover a wide range of possibilities for consultation with partner countries which have not always been fully utilized in the past.

Their most important components are certain quotas on imports including correct management thereof and the negotiation of new quantitative restrictions when justified by the economic situation of the Community's industry.

Following the completion of the single market leaving only Community quotas in existence, the Commission, in cooperation with the national licensing authorities, has established an integrated computerized system for the coordination of quota management (SIGL). After a transitional period of provisional arrangements the Community system has become fully operational.

Regarding the application of the safeguard clause, timely trade statistics, but also information on other economic indicators must be constantly available. Member States must urgently improve their statistical reporting systems to make such data available within the required deadlines, since otherwise it will be impossible for the Commission to manage the Community's textile policy efficiently. Only on this basis will the Commission be able, with a view to conducting an efficient textile trade policy in the context of the single market, to monitor the industry's economic situation and to initiate, if necessary, consultations with third countries with a view to restraining imports if the conditions for such action are fulfilled.

6.1.2 Control and fraud prevention activities

Policy measures extending or limiting trade (e.g. the Community's Generalized System of Preferences or the quantitative restrictions of the EC's bilateral textile agreements) could encourage certain economic operators to seek unduly to exploit certain provisions or to circumvent them, as the case may be. Such activities also distort competition and undermine the competitiveness of the European industry.

In addition to ensuring the Member States' licensing authorities and customs administrations apply the appropriate controls on textile imports, Member States also provide mutual assistance in the customs field,[12] in particular by exchanging information and by taking joint action under the coordination of the Commission. For this purpose the Commission has made available a computerized information network (SCENT), which has recently been extended through the Customs Information System (CIS).

In order further to intensify the efforts of the competent authorities in the Community to put an end to those fraudulent practices, the Commission, with the help of the European Parliament and the Member States, launched the textile anti-fraud initiative (TAFI) and cofinanced the establishment of an anti-fraud task force, to be managed by the industry, to detect anomalous imports. Through this new initiative, and also in cooperation with third countries, the Commission intends to support the activities of both the Community textile industry and the competent authorities in the Member States in combating fraud.

On the basis of systematic surveillance and analysis of trade flows and intensified efforts to discover and trace fraudulent transactions, the collection of evidence of fraud will also be facilitated by additional missions to third countries. When clear evidence of evasion of quantitative limits is available the Commission, in agreement with the Member States, will open the necessary consultation with third countries in order to deduct the fraudulent imports from the quotas of the countries of true origin. The Commission intends to increase the effectiveness of this action by strengthening both the procedures and the resources.

Moreover, the Commission has recently proposed to reinforce the fight against counterfeiting and pirate goods. The Commission's proposal directly empowers the customs authorities to decide on requests to impound suspected counterfeit goods, which will simplify and speed up the procedures, extend the range of rights protected and encourage the Member States to impose severe penalties; this reform incorporates all the suggestions made by the industry on this subject.

6.1.3 Uruguay Round

Within the GATT and the ongoing Uruguay Round negotiations the Commission is trying to make progress in opening up the markets of the Community's trading partners and reducing unfair trading practices in world trade in textiles. Acceptance of a textile package based on the Dunkel text will be assessed in the light of satisfactory progress in the other areas of the negotiations relevant to trade in textiles.

In view of the complexity and interdependence of economic and political factors which are relevant for developments in international economic activities and trade, the following priorities have been identified for most urgent further action:

12 Council Regulation (EEC) No 1468/81 of 19 May 1981 (OJ No L 144, 2.6.1981, p. 1).

Market access

The analysis of competitiveness in Chapter 2, but also the Uruguay Round negotiations, have clearly underlined the major importance of, and need for, mutual market access between world trading partners. Therefore, the reduction of tariff and non-tariff barriers has become the centre of negotiations. There is no more justification for comprehensive protection of highly competitive and continuously growing and exporting textile and clothing industries in many countries, particularly in newly industrialized countries (NICs), but also in certain developing countries.

Therefore the Commission will continue to insist on a real and effective reduction of barriers to textile markets in developed as well as developing countries. The Community's objective must be to achieve reasonable economic results. On such a basis it would be possible also to accept the gradual integration of the textile sector into GATT. Purely superficial reductions from very high tariff levels do not ensure improved market access.

The main objective, therefore, remains the harmonization of tariffs in all major textile exporting and importing countries. The Community proposal tries to find a compromise by establishing two sets of maximum duty rates for certain product categories, one set to be applied to advanced countries and the second to other countries.

Once the Uruguay Round has been concluded, another aspect relevant to international trade in textiles will be the harmonization of the rules of origin planned within the framework of the Customs Cooperation Council. The Community's priority must be to maintain at least the present level of processing required in the EC.

Anti-dumping and anti-subsidy measures

Depending on the progress in the improvement of real market access, dumping and subsidization may take on a new perspective. While dumping practices in open markets generally lose ground, subsidization could increase. Both practices are covered by the Uruguay Round negotiations in order to improve the existing GATT rules and competitive conditions on world markets.

The improvements in the anti-dumping and anti-subsidy provisions to be proposed by the Commission, particularly those concerning a reduction of the deadlines for investigation, will respond to the specific needs of the textile sector.

Currently there are 21 anti-dumping measures and one anti-subsidy measure in force in the textile sector against 12 third countries, while seven investigations are in progress.

Trade-related aspects of intellectual property rights (TRIPS)

The spread of industrialization beyond the traditional centres of manufacturing has created a situation in which questions of transfer and protection of intellectual property have become vastly more important than ever before. The European textile and clothing industry today is suffering from piracy all over the world. It was therefore in the Community's interest that intellectual property was introduced in the GATT Uruguay Round. In this context the TRIPS negotiations have produced a draft agreement as a basis for the introduction and application of the necessary legislation in the most important textile trading countries. Moreover at the Community's request the TRIPS provisions contain an obligation for all parties to ensure through industrial design law or through copyright that requirements for securing protection for textile designs, in particular in regard to any cost, examination or publication, do no unreasonably impair the opportunity to seek and obtain such protection (Section 4, Article 25-2).

Already at present, on the basis of specific cases of violation of intellectual property rights, consultations could be held with most of the Community's textile trading partners and measures could be envisaged in the framework of existing bilateral textile agreements.

6.1.4 Generalized System of Preferences (GSP)

The new ten-year scheme announced by the Commission in its communication of 6 July 1990 to the Council (COM(90)329 final) has been postponed from one year to the next because of the uncertainty concerning the outcome of the Uruguay Round. This has led to a freeze on the annual GSP arrangements, starting in 1990 and lasting until 1993.

At its meeting on 28 April 1993 the Commission examined a memorandum on the GSP for 1994. It concluded that it was preferable to postpone introduction of the new ten-year scheme once again until 1 January 1995 since Uruguay Round negotiations will not be concluded until the end of 1993, making it impossible to start to implement the results until 1994 at best.

For 1994 the Commission is thinking in terms of inclusion of a minimum package of changes to allow readjustment and simplification, without changing the basic mechanisms of the GSP.

The Commission's proposal for 1994 includes updating the reference statistics, taking account of the changes in the sensitiveness of the products and in individual countries' competitiveness and applying the differentiation mechanisms to the most competitive countries.

In the near future the Commission will have to start to examine the new ten-year GSP scheme including, inter alia, the insertion of special arrangements to take account of the impact of the social and environmental aspects on competition. The review of the specific mechanisms applicable to textile and clothing products will have to take account of the changes in international competition since the last review and of the prospects after the Uruguay Round negotiations. It will also have to be based on an assessment of the real benefits which the system offers to exporting countries.

6.1.5 Export promotion

With increasing competition from imports and improved access to textiles and clothing markets, particularly to those countries with large and rapidly growing markets, it seems important to support the efforts of the European industry to develop its exports to those markets outside the Community. The initiatives taken by the Member States but also by the European Parliament should be further improved. In 1991 the Commission launched an export promotion scheme (EXPROM) seeking to develop new markets for EC textile products.

A large part of the ECU 680 000 budget for EXPROM was used to support a range of initiatives in the textile and clothing sectors designed to help Community exports exploit opportunities in new markets as well as promoting a distinct Community image. Working together with the relevant European industrial federations, several analyses investigating the potential of new markets were commissioned and a variety of exploratory missions and trade fairs were supported in those markets already identified as offering opportunities for EC exports.

6.2 Single market

6.2.1 Community rules on outward processing traffic

In the context of the new initiatives and strategies of enterprises in the textile and clothing industry, transfrontier subcontracting, i.e. outward processing traffic (OPT), has become of major importance (see Chapters 3 and 5). In product areas which are not subject to quantitative import restrictions in the Community, all operators in the EC industry have equal opportunities to carry out OPT. However, where specific OPT quotas have been established, Community Regulation No 636/82[13] granting additional quantitative access to OPT operators in categories under restriction, the benefit has, in principle, been reserved for the Community's clothing industry.

13 Official Journal No L 76, 20 March 1982, p. 1.

The establishment of Community OPT quotas on 1 January 1993 requires elimination of the disparities in the interpretation of Regulation 636/82 between the Member States. To this end, the Commission has proposed amendments to the Regulation which will harmonize application throughout the Community.[14]

The Commission's proposed amendment (COM(93)259 final) to this Regulation is not intended to establish a new policy approach to OPT imports but, on the basis of compromises between the Member States' currently different interpretations, aims at defining clear common lines for the implementation of this Regulation in the Community. At the same time it tries to reflect the wishes and needs of the European clothing industry in its efforts to improve its international competitiveness as well as to be consistent with the Community's overall textile trade policy.

6.2.2 Protection of intellectual property rights

The basic importance of the creation of new trademarks (labels), models and designs in the field of textile fashion for the competitiveness of the Community's textile and clothing industry has become increasingly evident. A suitable system of registration and legal protection of industrial designs, not only in the Community but also at international level, and effective application thereof to textile trade worldwide is therefore needed.

The Commission, in anticipation of the results of the Uruguay Round in this field and as a clear signal to other participants in world trade, has proposed two pieces of internal EC legislation:

- rules laying down measures to prohibit the release for free circulation in the Community of counterfeit goods, including illegally copied designs and models (amendment of Regulation 3842/86),[15]
- Community Regulation on the legal protection of industrial designs.[16]

These proposals take particular account of the specific situation in the textile and clothing market, e.g. the quick change of fashion, the multitude of designs and models and the small and medium size of most of the enterprises.

14 Commission communication to the Council: Implications of the internal market for commercial policy in the textile and clothing sectors, SEC(92)896 final, 1 June 1992, p. 2.
15 COM(93)329 final, 13 July 1993.
16 COM(93)342 final, 28 July 1993.

6.2.3 Protection of the environment

Environment policy, depending on the sector of industry concerned and on existing consumer preferences, can either be an advantage or a disadvantage to the competitiveness of an industry:

- there could be advantages for industries offering environmental protection technologies, goods and services or ecologically sound consumer products,

- but at the same time there could be disadvantages for industries which have to bear higher environmental costs for production than their competitors in other countries with lower environmental standards or suffer from non-acceptance by consumers of ecologically sound products.

The situation in the Community's textile and clothing industry seems to be different in the individual lines of production as well as Member States, but it still lacks transparency. It is evident that the Community has to continue its efforts to harmonize its environmental policy if certain distortions in intra-Community competition are to be avoided.

Very few of the textile-exporting developing countries have already established environmental standards. In assessing their conditions of international competitiveness, Community producers have to take differences in the degree of enforcement of such standards increasingly into account. This is one of the reasons why the Commission supports the view that as soon as possible after completion of the Uruguay Round work in international trade organizations should also cover the environmental aspects.

Another important part of the environmental aspect is systematic information of consumers will make them aware of the advantages of ecologically sound products and develop their willingness to give them preference. This aspect is included in the Fifth Action Programme on the Environment,[17] but also taken into account by the initiatives concerning the eco-label. Regulation 880/92[18] on eco-labels and Regulation 1836/93[19] allow voluntary participation by companies in the industrial sector in a Community eco-management and audit scheme.

---

17 "Towards sustainable development", OJ No C 138, 17.5.1993.
18 OJ No L 99, 11.4.1992.
19 OJ No L 168, 10.7.1993.

6.3 Competition policy

There is a danger that the current economic context in the textile and clothing industry could prompt the authorities to take more measures to save firms in order to soften the social and regional impact of the difficulties facing firms. Far from solving the problems, these measures hamper and needlessly delay proper operation of the adjustment mechanisms, thereby adding to the economic and social costs.

To avoid aggravation of the overcapacity in certain subsectors, it is essential for firms to have a legal framework ensuring compliance with the rules on competition.

Aid may be granted to textile and clothing firms on the basis of schemes authorized by the Commission for regional development purposes, to promote R&D, to protect the environment, to support small firms, etc., while observing the general guidelines laid down in the following specific frameworks:

(a) Aid to the synthetic fibres industry is controlled by the code on aid to this industry which entered into force in 1977 and was last renewed and amended in December 1992.[20]

Under this system, the Commission must be notified of all aid covered by this code and will make its authorization of aid conditional on a "significant reduction" in the production capacity of the assisted company.

20 OJ No C 346, 30.12.1992.

(b) The specific aid to the textile and clothing industry was defined in the 1971 communication from the Commission to the Member States on aid to the textile industry[21] and defined in greater detail in the 1977 letter.[22]

A more rigorous competition policy will also call for a greater effort to improve the transparency of aid to textile firms. To this end, the Commission has urged the Member States to improve the notification procedures, operating on a standardized basis, and to establish an annual report on the aid granted by the Member States to vulnerable industries in crisis (including textiles and synthetic fibres). Closer collaboration between the national authorities and the Commission is necessary to enable the Commission to evaluate the sectoral impact of non-sectoral aid, which has not yet been the case.

The Commission departments concerned have begun to consider restriction of regional aid for highly capital-intensive investments since their contribution to regional development is sometimes not enough to compensate for the possible distortion of competition.

6.4 Support for modernization and conversion

6.4.1 Research and technological development

Textile and clothing firms are usually downstream from the technological innovation process. They benefit from the process by adapting their needs (flexibility, productivity, durability and quality plus cost-effectiveness) to the progress made in the sectors with the know-how and resources required to develop generic technologies.

21 Document SG(71)363 final (July 1971).

22 Document SG(77)D/1990 of 4 February 1977 and the Annex thereto (Doc. SEC(77)317 of 25 January 1977).

Continuous adaptation to innovations in information technologies, materials or production methods is a fundamental component of the competitiveness of textile firms. However, the textile industry itself, particularly firms developing innovatory solutions specifically for this industry, continue to play a vital role. These firms must play a decisive role in the innovation process by capitalizing on their advantageous position based on experience, creativity and a thorough knowledge of the needs of the industry.

Consequently, the European textile and clothing industry depends on rapid adaptation to generic technologies and on a specific innovation programme which, in recent years, has enabled it to promote, in particular:

(i) the development of more flexible production systems capable of responding to the new strategic requirements stemming from short-circuiting;

(ii) application of technological progress for quality control (for example, automatic fault detection);

(iii) environmental protection, in conjunction with the objectives of improving quality and making more rational use of resources;

(iv) application of new materials and processes for a wide range of end-uses, particularly for clothing and industrial textiles;

(v) use of emerging technologies displaying considerable potential (biotechnology and optoelectronics).

Development of generic technologies and of specific solutions and subsequent application thereof to the priorities of the textile and clothing industry call for parallel coordinated efforts to disseminate and demonstrate research findings and know-how. Particular attention must be paid to training staff in new techniques and to making development of the training needed an integral part of the RTD projects.

The Third Framework Programme for Community RTD includes a series of activities to satisfy the need to take up the results of applied research. Firms and research institutions in the textile industry have benefited directly from these, particularly from BRITE/EURAM (the programme to support research into industrial technologies and advanced materials), and from the multidisciplinary schemes targeted on small businesses, such as the CRAFT (Cooperative Research Action for Technology) pilot projects and the BRITE/EURAM feasibility awards.

In recent years, there has been a marked improvement in participation in BRITE/EURAM by the textile and clothing industry, as a result of closer cooperation between the various branches of the industry and upstream sectors and a better flow of information between the industry and the research centres, allowing clearer identification of the priorities and of the research objectives. The Commission has organized information and awareness campaigns to support these efforts.

For the period from 1994 to 1998, the Commission has submitted its proposal for the Fourth Framework Programme for Community RTD, with a total budget of ECU 13.1 billion. The proposal is for the Community's RTD activities to concentrate more on generic technologies for widespread use in all sectors of activity. The joint research on information and communications technologies, industrial technologies, materials or biotechnologies, for example, will have spin-offs for many branches of industry, including textiles and clothing, and help to improve their international competitiveness.

The activities to encourage the use of new technologies by small firms will be stepped up in the Fourth Framework Programme. The proposal puts the accent of the dissemination activities on small firms and propose a completely new financial instrument specially designed to encourage small firms to take up the findings of Community research. This new instrument will be added to the measures already in force to ensure more effective participation by small firms in the Community's RTD activities.

6.4.2 Training

The Commission's current guidelines on human resources policy are making a significant contribution to solving the problems described in Chapter 4.

Starting in 1994, the Community, in partnership with the national authorities, will implement a series of measures under the new objective 4 of the Structural Funds aiming at:

(i) predicting the new medium-term requirements and ensuring adequate training;

(ii) reducing the impact of industrial change in terms of job losses and improving workers' chances of keeping their job or of finding another.

The action to be taken in this area will include a number of novel features compared with the other activities financed by the Structural Funds:

- it will apply to the entire Community, not just the assisted regions;
- it will be open to all sectors of activity, with no priority sectors;
- priority will be given to workers and managers who are in employment but are likely to be affected by industrial change;
- it will take the form of a few types of action responding to priority objectives (for example, training schemes on the introduction of flexible manufacturing systems, computer links between customers placing orders and small subcontracting firms or environmental technology).

The Community must be selective and concentrate on a limited number of fields in which industrial change has the greatest impact on competitiveness. Priority will have to be given to activities offering major benefits in terms of strengthening industrial competitiveness:

(a) training schemes on key skills for the new systems for organizing production;
(b) transnational action;
(c) activities giving priority to small firms.

In order to take greater account of the changes in employment, job profiles and real needs for training, the Commission has started talks to enable employers, trade unions and the Commission to share their ideas. A programme of activities and discussions with the two sides of industry has been focusing on four priorities:

- vocational training (the need for statistics and know-how on employment and training in the textile and clothing industry; involvement in programmes run by the public authorities, such as the "Euroqualification" scheme and exchanges of information and views on projects in the industry receiving support under the NOW, EUROFORM, FORCE and COMETT programmes);
- jobs for women (draft joint opinion on access to vocational training for women and discussions on teleworking and undeclared employment);
- the RETEX regional round tables (to study the problems caused by conversion of the textile and clothing industry both inside and outside the Community);
- the social clauses in trade agreements, particularly in the GSP.

6.4.3 Diversification and conversion

The process of adapting the textile and clothing industry to the new conditions on the market, as described in Chapter 5, entails substantial social costs, particularly in regions heavily dependent on the industry. Diversification of the industrial base in such regions is becoming more necessary than ever. However, the backwardness or general decline in industrial activity makes such diversification difficult in a very large proportion of the textile regions in the Community.

Consequently, the uneven levels of regional development within the Community curb industrial change and add to the social costs of the inevitable restructuring.

The Structural Funds provide substantial support for the recovery programme in the regions hardest hit by the changes in the textile and clothing industry.

First, the Community support frameworks help to improve the general conditions for development in the least favoured regions and for modernizing their economic base, in line with the priorities agreed between the national authorities and the Commission. Textile and clothing firms in some Member States have been granted aid up to certain limits set on the basis of the rules in force on competition policy.

In addition, in 1992 the Commission adopted a new Community programme (RETEX) which is now being put into operation in most Member States. The objective is to speed up diversification of production in regions heavily dependent on the textile and clothing industry and to make it easier for viable firms in all branches of industry to adapt.

To this end, RETEX puts the emphasis on improving the know-how available in firms, cooperation between undertakings in the same region or branch, the establishment of local management and advisory teams, the use of new technologies to improve quality and easier access to financial markets.

The RETEX programme aims at diversification of the economy in the assisted (objective 1, 2 and 5b) regions of the Community which satisfy set criteria, as regards dependence on the sector. Regions hit by heavy job losses in the sector but not considered assisted regions are therefore excluded.

The Commission has published a green paper on the new generation of Community initiative programmes to be implemented between 1994 and 1999. This document emphasizes the need to respond to industrial change with a package of measures to support modernization of the manufacturing base, particularly to adapt human resources, throughout the Community.

A new horizontal Community initiative tailored specifically to the needs of the industry and with more flexible geographical coverage could make a significant extra contribution to attaining the diversification and conversion objectives of RETEX.

6.4. Information and communication

The Commission intends to continue the schemes to improve the flow of information, communications, cooperation and the dissemination of experience, by developing an effective policy for providing services for businesses.

Four general areas for support have been defined:

1. Provide fuller information, particularly economic and structural statistics and analyses of potential scenarios. To this end, the Commission has started a pilot project, in the form of the European Textile and Clothing Observatory, in cooperation with the industry. The Commission is also taking measures, in coordination with the Member States (the national statistical institutes) to analyse the structure of the market and trends in this sector, with particular emphasis on subcontracting.

2. Support studies to provide a fuller understanding of the structure of the industry and/or conduct pilot projects, provided they lead to practical proposals (skills required in the clothing industry, subcontracting in the Community, etc.).

3. Encourage coordination of information and exchanges of experience by networking centres of excellence or regional observatories. Closer cooperation and partnerships are being prepared in key sectors of subcontracting, with the aid of BC-Net, the Business Cooperation Centre, Europarténariat and the Interprise programme.

4. Promote communication with the aid of a standardized data interchange language: specific programmes (STAR, telematics systems, etc.) or the Community action programme on Trade Electronic Data Interchange Systems (TEDIS) to support the industry's work on EDI.

ADDENDUM

Repercussions of the opening-up to Central and Eastern Europe for the Portuguese textile industry

At the Council meeting on general affairs on 30 September 1991 at which the mandate for negotiations with Poland, Hungary and Czechoslovakia was discussed, the Commission undertook to assess the consequences of the gradual opening-up of the Community market to textiles from these three countries for the Portuguese textile industry.

It must be remembered that, because of their status as State-trading countries, up until 1989 trade in textiles with all these countries was severely limited by the quantitative restrictions imposed by the bilateral agreements. To encourage economic recovery in Central and Eastern Europe, the textile quotas for Hungary, Poland and Czechoslovakia were increased in 1990/91 and those for Romania and Bulgaria in 1991/92. The quotas specifically for outward processing traffic (OPT) were improved early in 1991. The association agreements concluded in late 1992 included significant increases in the OPT quotas for the first three countries and, in the course of 1993, for Romania.

In the new Protocols which entered into force in 1993, except in the case of Bulgaria, for which no date has yet been fixed, the Community committed itself to phase out the quantitative restrictions within five years. A start has also been made on dismantling the customs duties, on a reciprocal basis.

The liberalization of trade with Central and Eastern Europe is only just beginning to have an effect. It is therefore too early for a full assessment of the consequences. The Commission will keep a vigilant watch on developments and will keep the Council informed. The latest data available at this juncture reveal the following trends:

1. Since 1988, trade in textiles between the EC and Central and Eastern Europe has grown extremely dynamically. Up to 1992 exports of textiles from the EC rose by an average of 22% per year (in terms of quantity) and exports of clothing by 41%. Imports of textiles rose by 13% and of clothing by 21%.

   The EC's balance of trade with these countries shows a surplus of 48 000 tonnes for textiles and a deficit of 93 000 tonnes for clothing.

2. The pattern of OPT trade has changed particularly rapidly as firms in the Community are keen to take advantage of Central and Eastern European countries' considerably lower labour costs for highly labour-intensive activities. Imports of clothing covered by OPT arrangements rose from just 26 000 tonnes in 1988 (or 46% of all imports) to 73 000 tonnes (62%) in 1992.

This trend also explains the rapid growth in exports of fabrics from the Community, a large proportion of which are intended for local making-up operations and subsequent reimportation into the EC.

3. Trade with Central and Eastern Europe is shared extremely unevenly within the EC. Germany takes 45% of the textiles imported into the EC from Central and Eastern Europe and 57% of the clothing. It also claims 54% and 39% respectively of all the EC's exports to Central and Eastern Europe. Italy, the Benelux countries and France also take large shares.

   Portugal's direct trade with Central and Eastern Europe in both directions is virtually negligible.

4. The main impact of the opening-up of trade with Central and Eastern Europe on the Portuguese textile industry will be greater competition on the Community market. A large proportion of the products supplied by Portugal compete directly with the exports from Central and Eastern Europe, often on the basis of subcontracting arrangements.

   The Community market takes 75% of all Portugal's exports of textiles and clothing (ECU 3 billion out of ECU 4 billion). Any contraction of this market could have serious consequences for Portugal's entire economy. The textile and clothing industry accounts for approximately 25% of all industrial employment in Portugal and 30% of its exports of goods.

5. The data available so far provide no evidence that the opening-up to Central and Eastern Europe has had any significant impact on Portugal's traditional patterns of trade on the single market. Between 1988 and 1992 Portugal's sales rose steadily by an average of 9.5% per year in the case of textiles and 14.3% for clothing (see Annex 36).

   Portugal has even strengthened its competitive position within the Community; its share of all the EC's imports (both intra-Community and extra-Community) rose from 3.2% in 1988 to 3.7% in 1992, although its position on the EFTA and US markets deteriorated slightly. In 1992 all the Central and Eastern European countries' combined share of EC imports was roughly equivalent to Portugal's (3.6%).

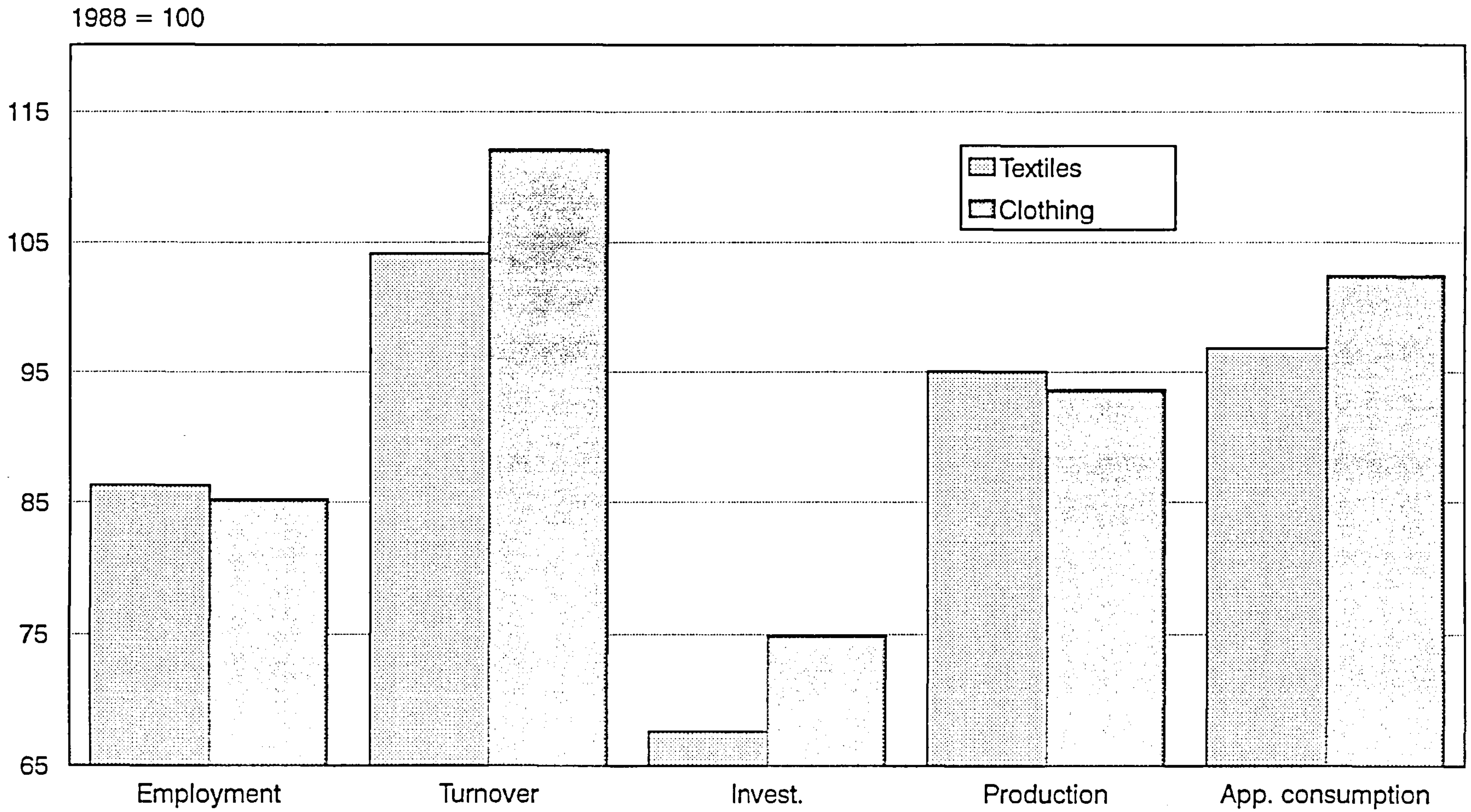
6. As in all the rest of the Community, production in the Portuguese textile and clothing industry contracted sharply in 1992. Output in the textile sector (including knitwear) was down by 8% compared with 1991 and 4.4% lower than in 1988. Clothing production fell by 2.5% in 1992 but is still 2.4% higher than in 1988.

   This situation occurred despite the continued, albeit slower, growth of deliveries on the Community market (5.7% for textiles and 4% for clothing). Fundamentally, the Portuguese industry's current difficulties are attributable to the contraction in demand and to the fiercer external competition on its national market.

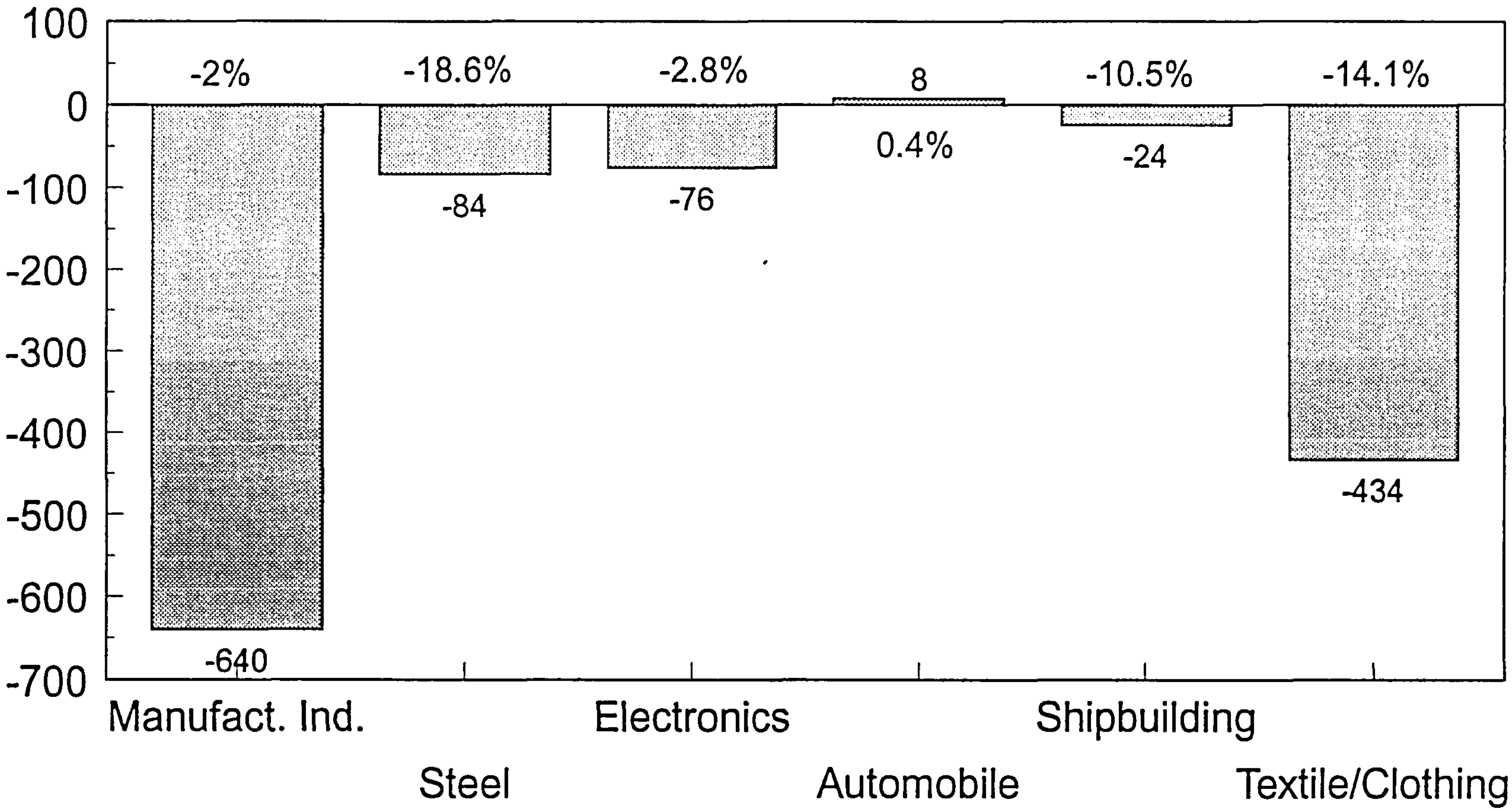
ANNEXES

Annex 1

EC: Basic Structural Data 1992/1988



EC: Employment 1988 - 1992



Unit: Changes 1988/1992 in thousands and in perc

Sources: OETH/Eurostat/DG III-E4

ANNEX 2a

Employment trends in the textile and clothing industry in the Member States 1988 - 92

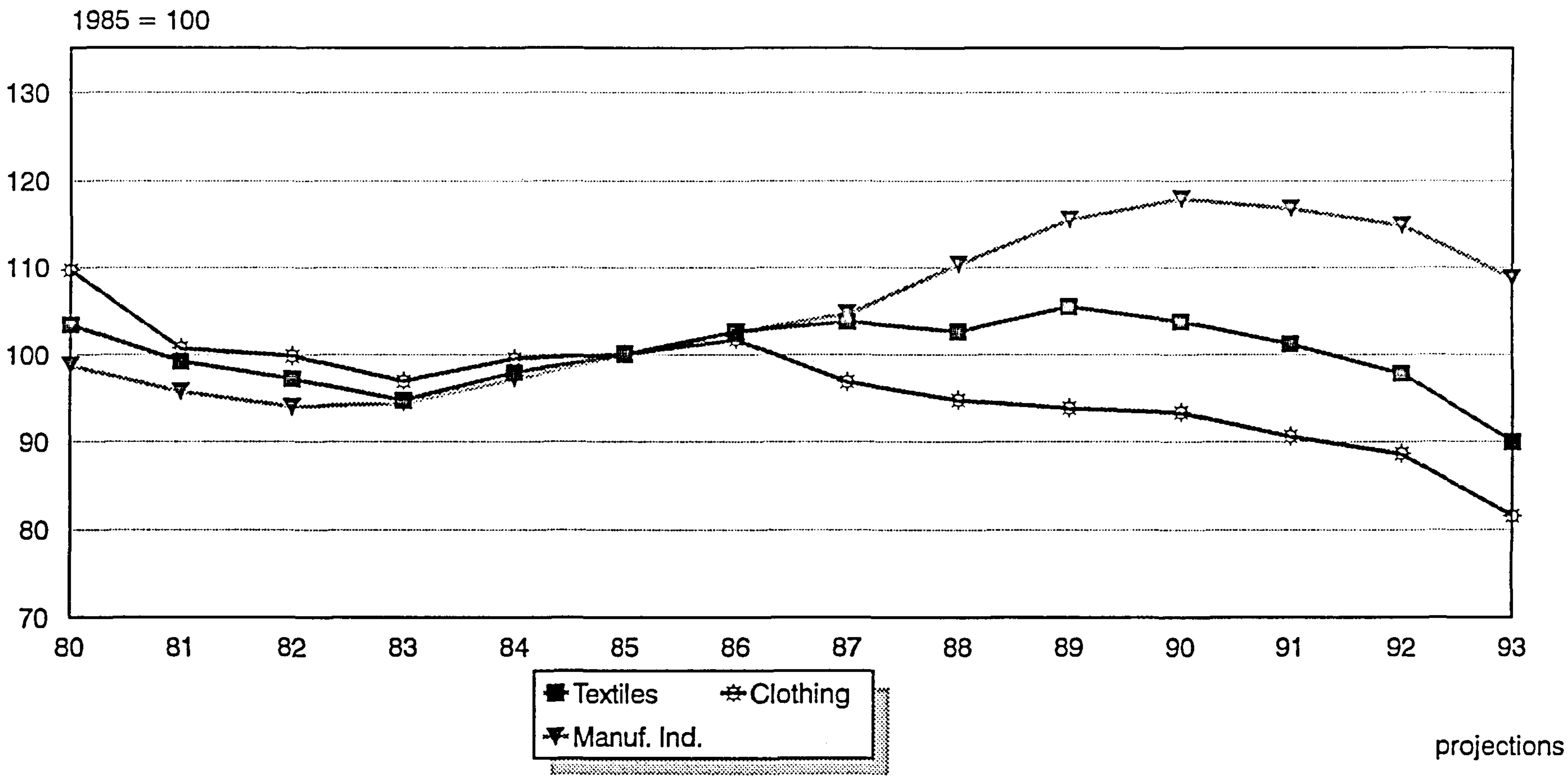
	1988	1992	Percentage change 1992/88
Belgium	86.878	79.495	- 8.5
Luxembourg	942	926	- 1.7
Denmark	24.821	20.337	- 18.1
Germany	479.881	425.733	- 11.3
Greece	96.378	79.642	- 17.4
Spain	346.617	294.550	- 15.0
France	393.370	332.472	- 15.5
Ireland	22.521	21.131	- 6.2
Italy	804.473	718.123	- 10.7
Netherlands	31.755	30.418	- 4.2
Portugal	289.179	263.833	- 8.8
United Kingdom	493.999	369.882	- 25.1
E.C	3.070.814	2.636.542	- 14.1

Source : OETH

Annex 3

EC: Production index trends

1980-1992

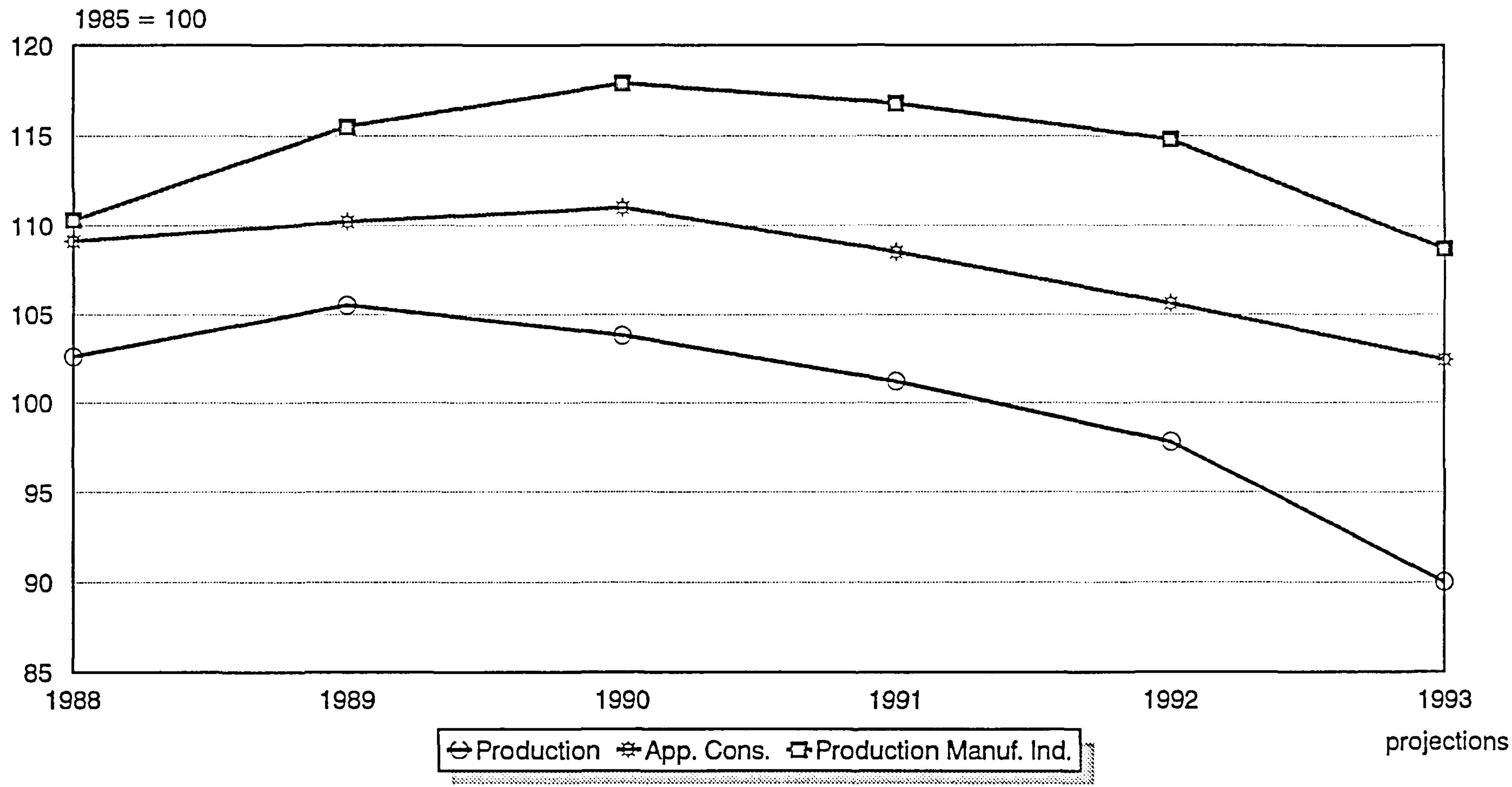


Source: Eurostat

Annex 4

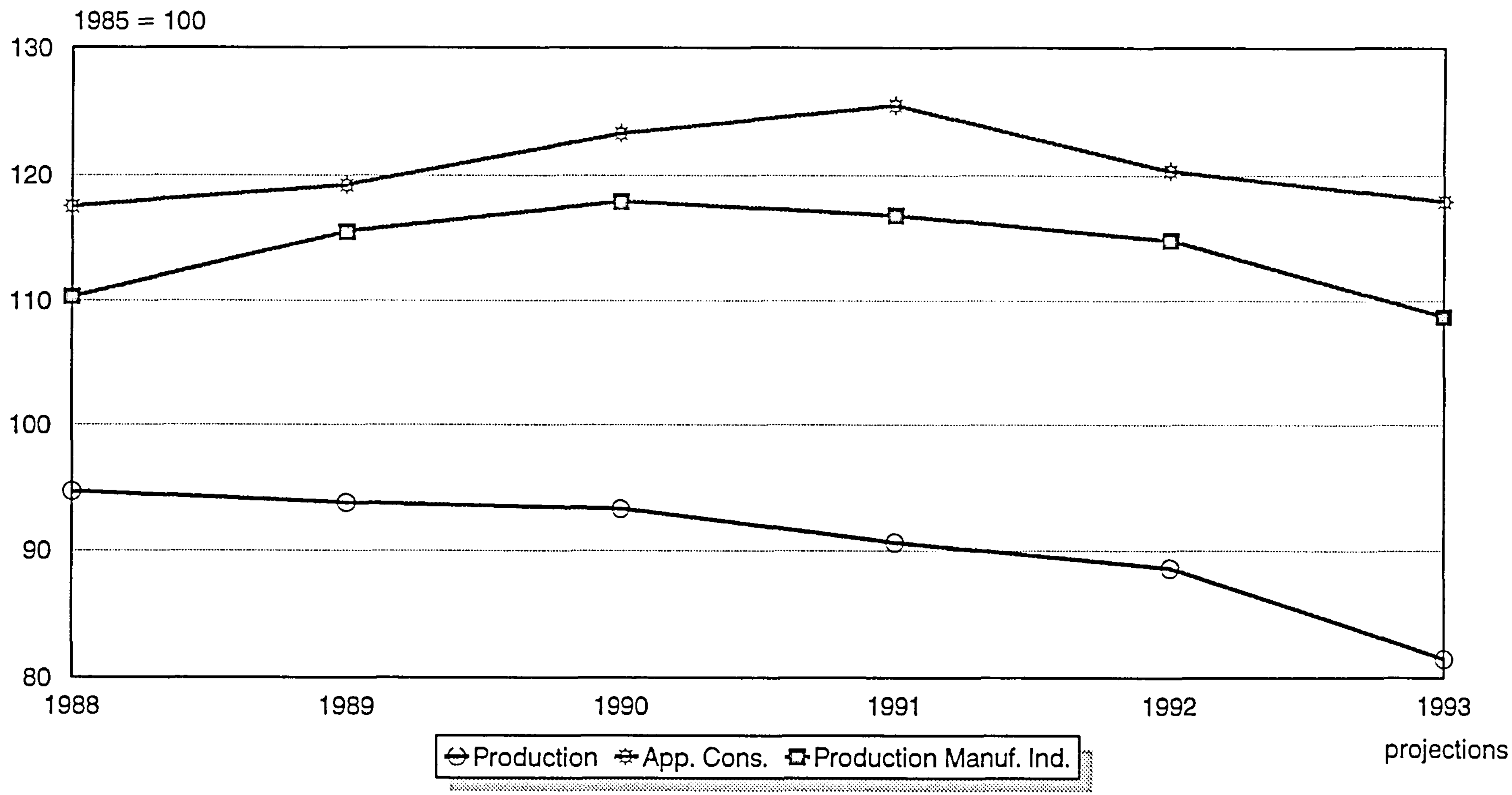
EC: Volume trends 1988-1992

Textiles



Sources: Eurostat CIRFS

EC: Volume trends 1988-1992
Clothing



Sources: Eurostat,CIRFS

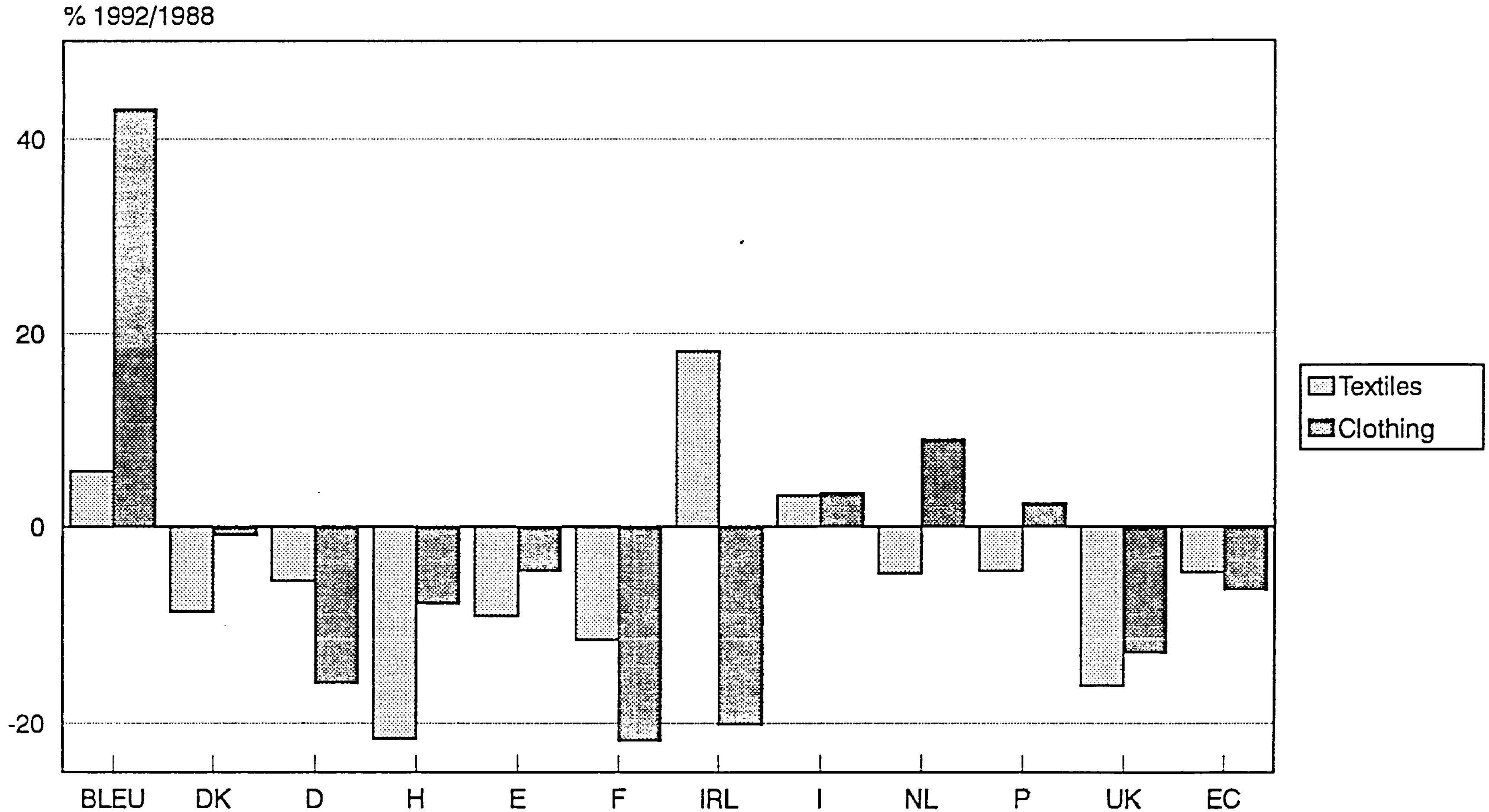
ANNEX 6

EC : TEXTILE AND CLOTHING PRODUCTION (1980 - 1992) 1985 = 100										
	Textiles (NACE 43) (incl.knitwear)					Clothing (NACE 453 + 454+ 456)				
Country	1980	1988	1991	1992	1992/1988	1980	1988	1991	1992	1992/1988
Belgium/ Lux.	95.0	100.9	104.5	106.7	+ 5.7	107.3	91.3	128.7	130.6	+ 43
Denmark	85.6	92.4	87.4	84.4	- 8.7	79.5	72.8	68.7	72.2	- 0.8
Germany	105.4	97.4	99.8	92.0	- 5.5	122.2	91.6	86.2	77.0	- 16.0
Greece	104.6	105.8	90.7	83.0	- 21.6	132.1	97.0	92.8	89.4	- 7.8
Spain	104.4	104.4	99.5	94.9	- 9.1	126.1	97.7	97.8	93.3	- 4.5
France	112.4	92.9	83.8	82.2	- 11.5	106.1	84.0	72.2	65.7	- 21.8
Ireland	114.3	106.2	118.9	125.4	+ 18.1	99.1	95.4	79.2	76.2	- 20.1
Italy	102.5	108.9	114.4	112.4	+ 3.2	104.1	96.9	95.7	100.2	+ 3.4
Netherlands	101.0	94.5	98.0	90.0	- 4.8	135.1	101.9	120.9	111.0	+ 8.9
Portugal	87.5	108.2	112.3	103.3	- 4.5	---	108.5	114.0	111.1	+ 2.4
United-Kingdom	101.7	101.7	85.6	85.2	- 16.2	92.6	102.5	88.3	89.3	- 12.5
EC 12	103.4	102.6	101.2	97.8	- 4.7	109.6	94.7	90.6	88.6	- 6.4

Source : Eurostat

Annex 7

Production index trend by Member State

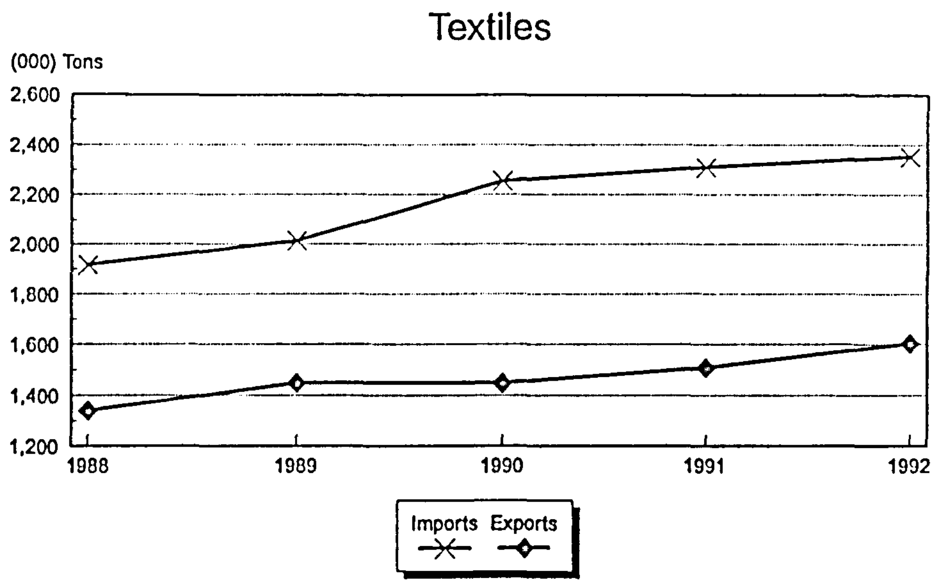


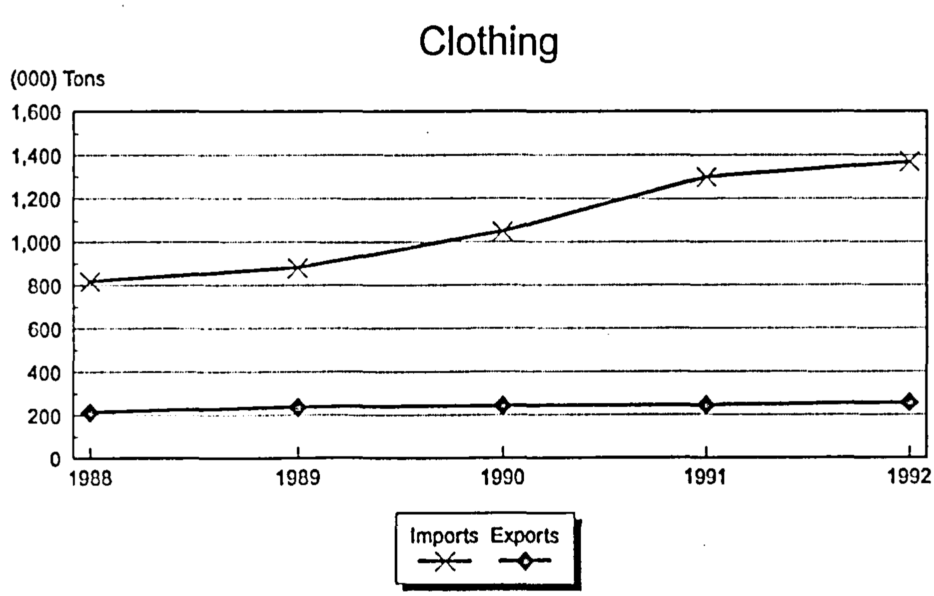
Source: Eurostat

EC foreign trade with non-Community countries

(by volume)

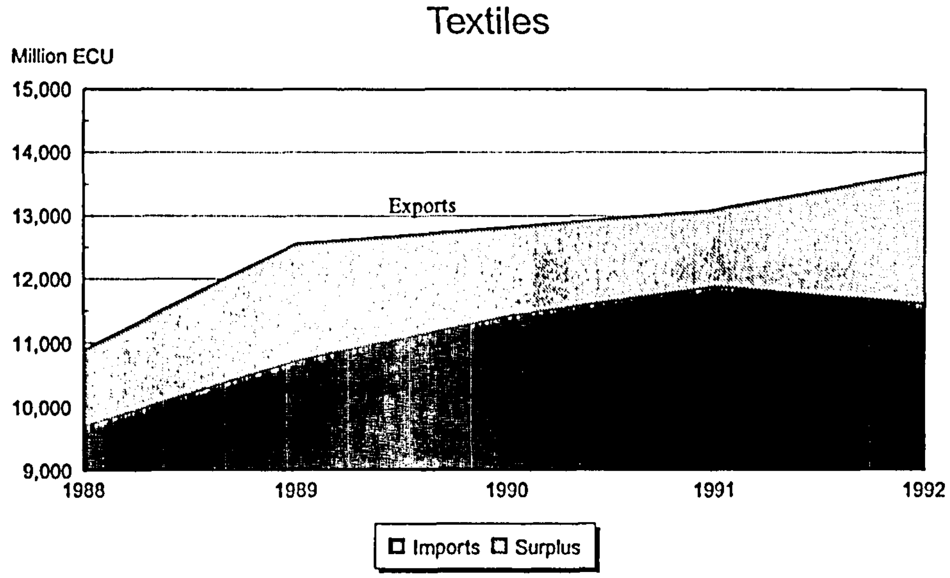
1988/92

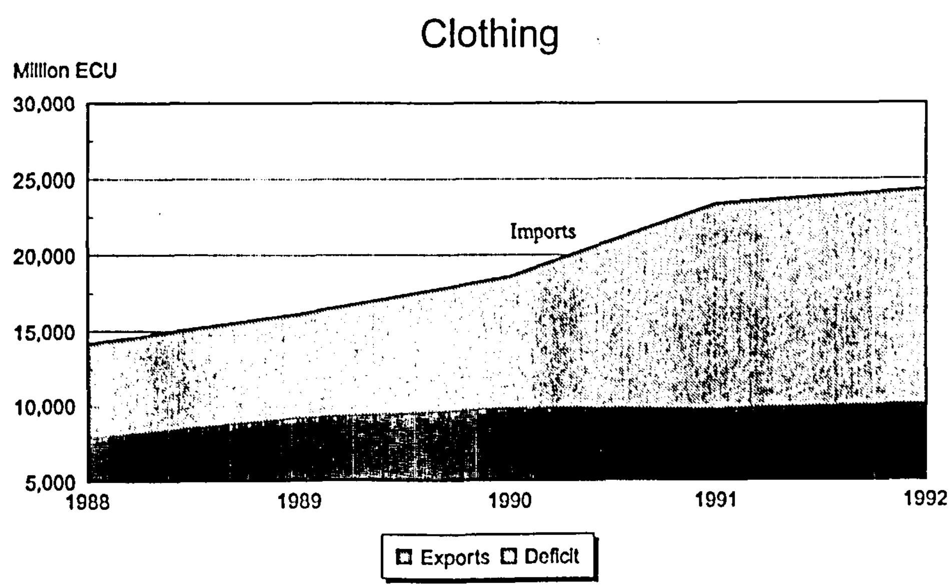




Source: EUROSTAT
Textiles = CITC 65
Clothing = CITC 84 (-848)

EC foreign trade with non-Community countries
(by value)
1988/92





Source: EUROSTAT
Textiles = CITC 65
Clothing = CITC 84 (-848)

Annex 9 a

EC: Foreign Trade 1990-1992

		Imports EC (*)				Exports EC (*)				Balance		
		1990	1991	1992	Pct. change 92/91	1990	1991	1992	Pct. change 92/91	1990	1991	1992
Textiles (excl. knitwear)	Tons	2,253,509	2,308,631	2,352,473	1.9	1,446,608	1,507,441	1,602,774	6.3	-806,901	-801,190	-749,699
	million ECU	11,425	11,887	11,620	-2.2	12,823	13,098	13,703	4.6	1,398	1,211	2,083
Clothing (incl. knitwear)	Tons	1,048,527	1,298,695	1,370,374	5.5	243,290	244,486	255,750	4.6	-805,237	-1,054,209	-1,114,624
	million ECU	18,625	23,394	24,375	4.2	9,865	9,753	10,114	3.7	-8,760	-13,641	-14,261
Total T+C	Tons	3,302,036	3,607,326	3,722,847	3.2	1,689,898	1,751,927	1,858,524	6.1	-1,612,138	-1,855,399	-1,864,323
	million ECU	30,050	35,281	35,995	2.0	22,688	22,851	23,817	4.2	-7,362	-12,430	-12,178

Source: EUROSTAT
Textiles = CITC 65
Clothing = CITC 84 (-848)

(*): Extra-EC only

ANNEX 10

Average annual growth rates for exports from the EC

(%, by volume)

Destination	Textiles		Clothing		TEX + CLOTH	
	88/92	91/92	88/92	91/92	88/92	91/92
Extra-EC	4.6	6.3	4.8	4.6	4.6	6.1
Industrialized countries	- 0.3	5.2	- 0.7	- 3.8	- 0.4	3.5
EFTA	- 0.2	3.6	1.2	- 2.5	0.1	2.1
USA	- 0.2	14.2	- 12.7	- 8.5	- 1.7	11.7
Japan	0.6	- 7.8	9.3	- 6.9	1.7	- 7.7
Developing countries	7.8	0.5	7.3	9.7	7.7	1.3
of which :						
Mediterranean rim	7.7	- 0.4	9.9	2.0	7.9	- 0.1
Latin America	14.9	9.6	13.0	18.4	14.7	10.6
Indian subcontinent	0.0	8.7	22.9	- 10.8	0.2	8.3
ASEAN	21.1	25.8	15.1	34.7	20.9	26.0
Far East	5.9	3.0	17.9	32.6	6.6	4.7
Central and Eastern Europe	16.5	35.6	53.3	41.6	19.6	36.5

Source : EUROSTAT

Textiles = CITC 65

Clothing = CITC 84 (- 848)

Annex 11

The EC's ten leading partners

(% by value)

IMPORTS

RNK	TEXTILES				CLOTHING			
	1988		1992		1988		1992	
	EXTRA-EC (M.ECU)	9,700	EXTRA-EC (M.ECU)	11,620	EXTRA-EC (M.ECU)	23,882	EXTRA-EC (M.ECU)	35,995
1	Switzerland	13.0	Switzerland	10.9	Hong-Kong	9.8	China	8.7
2	Austria	9.2	Austria	9.3	Turkey	4.9	Turkey	6.9
3	USA	8.6	USA	8.6	Yugoslavia	4.6	Hong-Kong	6.9
4	China	6.9	India	7.6	S. Korea	4.5	Morocco	3.5
5	Turkey	6.9	China	7.2	China	4.2	Tunisia	3.4
6	Japan	6.8	Turkey	6.5	Morocco	2.5	India	2.7
7	India	6.5	Japan	5.6	Tunisia	2.4	Poland	2.5
8	Pakistan	4.0	Pakistan	4.7	India	2.4	Indonesia	2.5
9	S. Korea	3.2	Indonesia	4.1	Austria	2.2	S. Korea	2.0
10	Taiwan	2.8	S. Korea	3.0	Taiwan	2.0	Austria	1.9

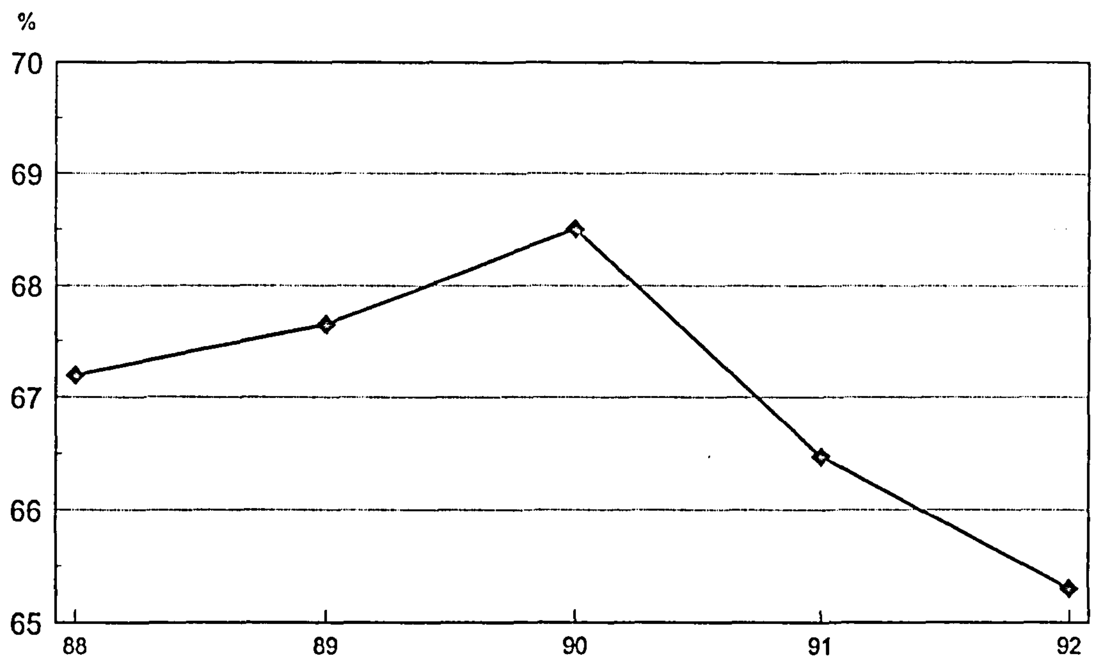
EXPORTS

RNK	TEXTILES				CLOTHING			
	1988		1992		1988		1992	
	EXTRA-EC (M.ECU)	10,891	EXTRA-EC (M.ECU)	13,703	EXTRA-EC (M.ECU)	18,772	EXTRA-EC (M.ECU)	23,817
1	USA	12.9	USA	10.5	Switzerland	7.6	Switzerland	6.8
2	Switzerland	9.1	Austria	8.0	USA	6.8	Austria	5.7
3	Austria	8.7	Switzerland	7.4	Austria	5.7	USA	4.6
4	Japan	6.9	Poland	5.7	Sweden	4.4	Sweden	4.2
5	Yugoslavia	6.6	Japan	5.0	Japan	3.0	Japan	4.0
6	Sweden	5.3	Tunisia	4.9	Norway	2.6	Norway	2.2
7	Finland	3.3	Morocco	4.8	Finland	1.3	Hong-Kong	1.5
8	Tunisia	3.2	Sweden	3.9	Canary I.	1.2	Canary I.	1.1
9	Morocco	3.2	Hong-Kong	3.0	Canada	1.1	Finland	1.0
10	Canada	2.5	Hungary	2.8	Hong-Kong	1.0	Tunisia	0.8

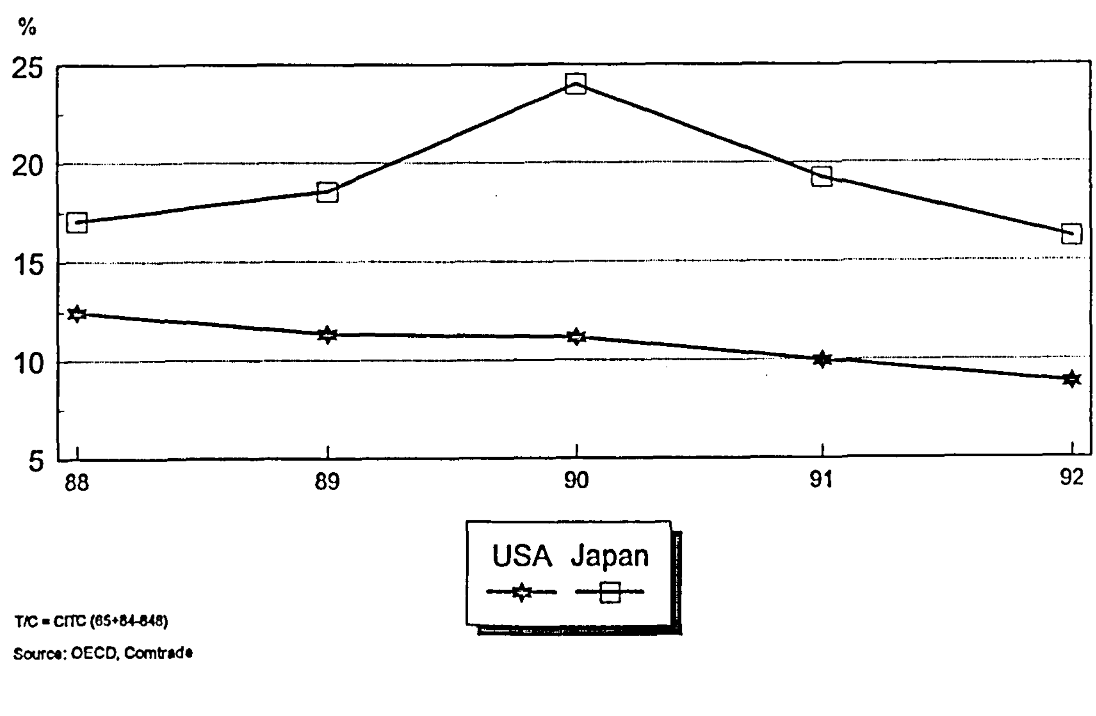
Source: EUROSTAT
Textiles (CTCI rev. 3) = 65
Clothing (CTCI rev.3) = 84 - 848

Annex 12

EC's share of textile and clothing exports to the EFTA countries



EC's share of textile and clothing exports to Japan and the USA



T/C = CITC (65+84-848)

Source: OECD, Comtrade

ANNEX 13

<u>Average annual growth rates for imports into the EC</u>

(%, by volume)

Destination	Textiles		Clothing		TEX + CLOTH	
	88/92	91/92	88/92	91/92	88/92	91/92
Extra-EC	5.3	1.9	13.8	5.5	8.0	3.2
Industrialized countries	3.7	1.1	9.6	- 0.8	4.1	1.0
EFTA	3.0	6.6	1.8	0.2	3.0	6.2
USA	3.9	- 9.1	27.3	- 2.6	5.6	- 8.4
Japan	3.0	- 6.6	-6.2	- 22.0	2.2	- 7.8
Developing countries	5.3	0.3	13.4	3.8	8.5	1.8
of which :						
Mediterranean rim	1.6	- 5.3	14.3	5.1	7.4	- 0.1
Latin America	- 6.2	- 20.7	28.0	9.4	- 3.3	- 17.0
Indian subcontinent		13.4	25.9	16.0	14.5	14.0
ASEAN	13.0	8.5	17.8	3.2	14.9	6.2
Far East	0.8	- 11.0	6.1	- 4.1	3.9	- 7.0
Central and Eastern Europe	12.1	22.0	21.8	31.5	15.6	25.7

Source : EUROSTAT, COMTRADE

Annex 14

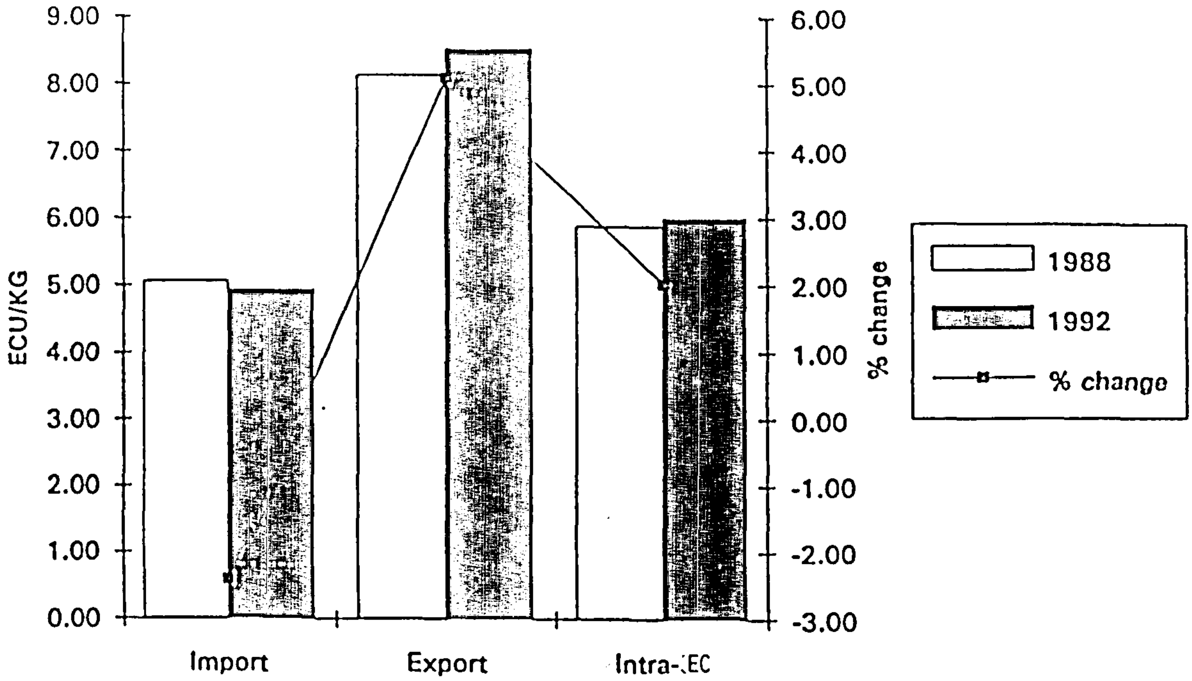
EC trade in textiles and clothing - 1992
(000 ECU)

	Exports	Imports	Balance
China	62,974	4,309,280	-4,246,306
Turkey	390,326	3,560,594	-3,170,268
India	22,065	2,093,451	-2,071,386
Hong-Kong	783,180	2,640,753	-1,857,573
Indonesia	45,636	1,382,877	-1,337,241
Pakistan	23,281	1,089,544	-1,066,263
South Korea	283,112	1,300,038	-1,016,926
Thailand	57,103	956,288	-899,185
Malaysia	39,684	651,350	-611,666
Taiwan	225,829	787,156	-561,327
Macao	2,830	430,765	-427,935
Philippines	45,115	353,759	-308,644
Brazil	64,664	292,893	-228,229
TOTAL	2,045,799	19,848,748	-17,802,949

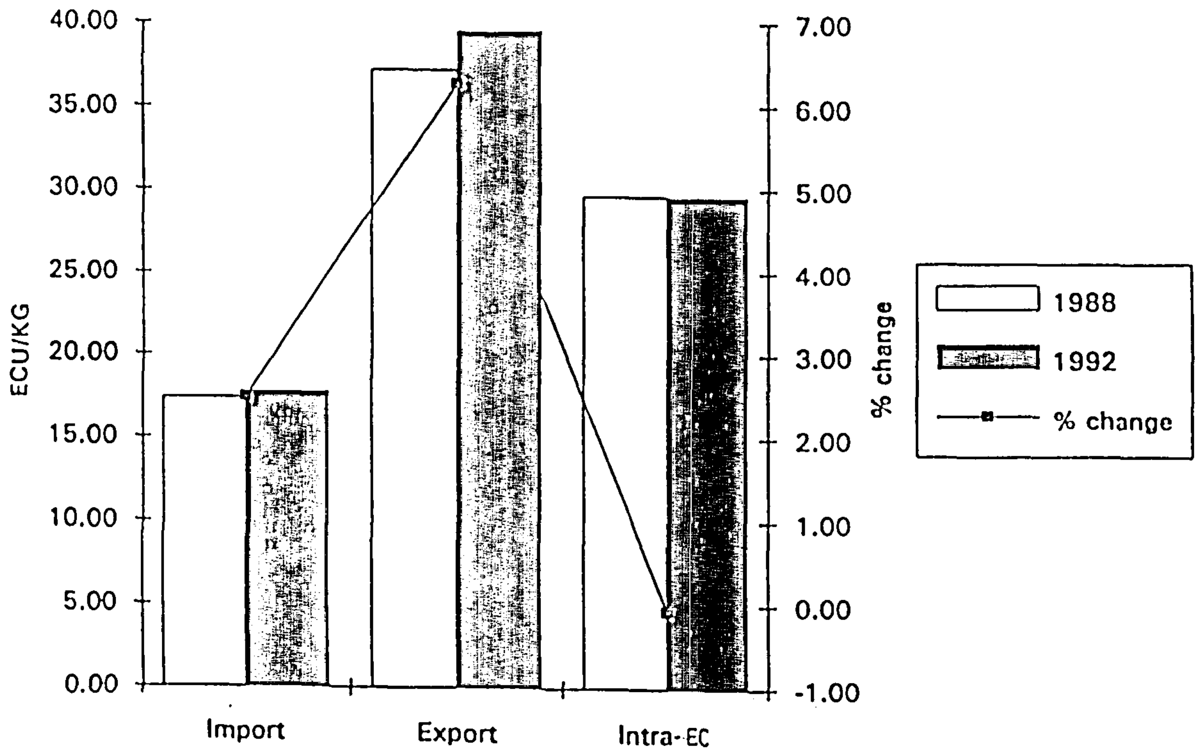
Source : Eurostat

ANNEX 15

Average prices of products traded - Textiles



Average prices of products traded - Clothing



Source : Eurostat

ANNEX 16

Production and foreign trade by stage of production : 1992

(1000 tonnes)

Branches	Production	Exports extra-EC	Imports extra-EC	Consumption	% Imp/Cons	% Exp/Prod	Balance
Chemical fibres	3,176.6	474.0	634.9	3,337.3	19.0	14.9	- 160.8
Spinning	2,456.5	127.9	426.4	2,755.0	15.5	5.2	- 298.5
Woven goods & fabrics	2,551.2	498.2	643.2	2,696.2	23.9	19.5	- 145.0
Woven goods	2,033.2	452.0	594.9	2,176.2	27.3	22.2	- 142.9
Knitted fabric	517.9	46.3	48.3	520.0	9.3	8.9	- 2.0
Clothing	2,156.1	203.5	1,237.0	3,189.6	38.8	9.4	- 1,033.6
Made-up knitwear (*)	1,053.7	109.8	574.6	1,518.5	37.8	10.4	- 464.8
Made-up fabric	1,102.4	93.7	662.4	1,671.1	39.6	8.5	- 568.7
Textiles-final uses	2,718.4	348.6	432.9	2,802.7	15.4	12.8	- 84.3
Carpets	703.4	87.1	83.5	699.8	11.9	12.4	+ 3.6
Household textiles	760.7	50.5	162.2	872.4	18.6	6.6	- 111.7
Industrial textiles	393.6	42.8	68.0	418.8	16.2	10.9	- 25.2
other textiles(**)	860.6	168.2	119.2	811.6	14.7	19.5	+ 49.0
Total - final uses	4,874.5	552.1	1,669.9	5,992.3	27.9	11.3	- 1,117.8

Source : CITH - CIRFS (*) including 'fully fashioned' knitwear (**) including non-woven goods

ANNEX 17

Production and foreign trade by branch

(1.000 tonnes)

Branch	Prod.	Exp.	Imp.	Cons.	Imp/Cons %	Exp/Imp %
Textiles(*)						
Cotton	2578.9	344.9	861.6	3095.6	27.8	40.0
Wool	1420.6	142.2	62.7	1341.0	4.7	226.8
Silk	490.1	92.9	97.0	494.2	19.6	95.8
Clothing(**)						
Cotton	1342.6	153.4	893.0	2082.2	42.9	17.2
Wool	665.9	48.9	170.9	787.9	21.7	28.6
Silk	764.2	50.5	190.8	904.5	21.1	26.5

Source : CITH

(*) Spinning and weaving (1992 figures)

(**) Knitwear and woven goods (1991 figures)

ANNEX 18

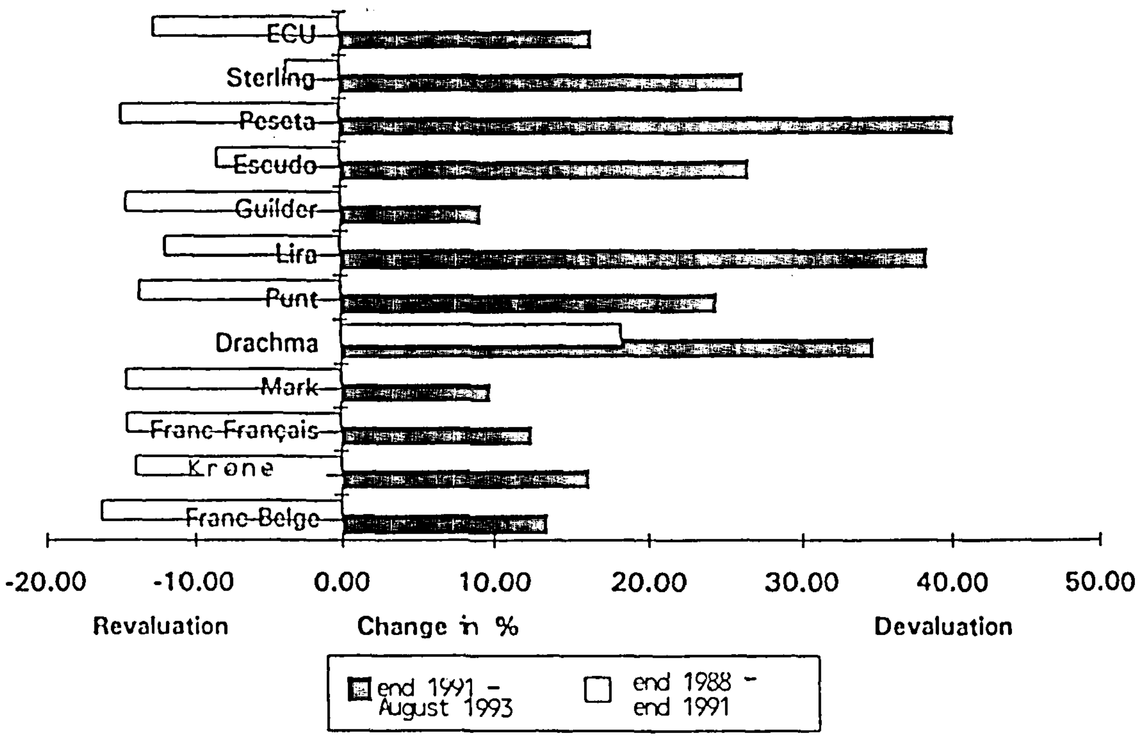
Production and foreign trade trends by stage of production 1988 - 1992

Branches	Production	Exports extra-CE	Imports extra-CE	Consumption	Imp/Cons	Exp/Prod	Balance (variation in 000 tonnes)
	1988 = 100 (by volume)						
Chemical fibres	103.8	62.5	97.5	113.1	86.0	60.1	- 268.5
Spinning	90.7	106.5	103.6	91.8	113.1	118.2	- 590.0
Woven goods & fabrics	91.6	138.0	119.7	91.0	132.0	150.0	- 321.3
Woven goods	88.7	139.3	117.4	87.9	133.2	156.3	- 325.0
Knitted fabric	104.9	126.8	157.3	106.5	147.6	120.3	- 7.8
Clothing (*)	94.2	113.6	155.9	109.8	142.1	120.5	- 1,648.0
Made-up knitwear	101.2	115.8	176.7	119.4	147.7	114.3	- 695.1
Made-up fabric	88.3	111.2	141.4	102.4	138.0	125.0	- 952.8
Textiles-final uses	98.8	117.3	142.4	101.6	140.0	118.5	- 91.2
Carpets	116.1	104.7	126.7	118.9	106.3	90.5	- 13.7
Household textiles	86.2	100.0	157.2	93.3	168.6	115.8	- 164.4
Industrial textiles	94.9	135.9	135.2	96.6	139.6	143.4	- 44.0
Other textiles(**)	141.7	127.5	140.9	101.5	139.0	89.9	+ 1.7
Total - final uses	96.7	115.9	152.2	105.9	143.8	120.2	- 1,759.1

Source : CITH - CIRFS (*) including 'fully fashioned' knitwear (**) including non-woven goods

ANNEX 19

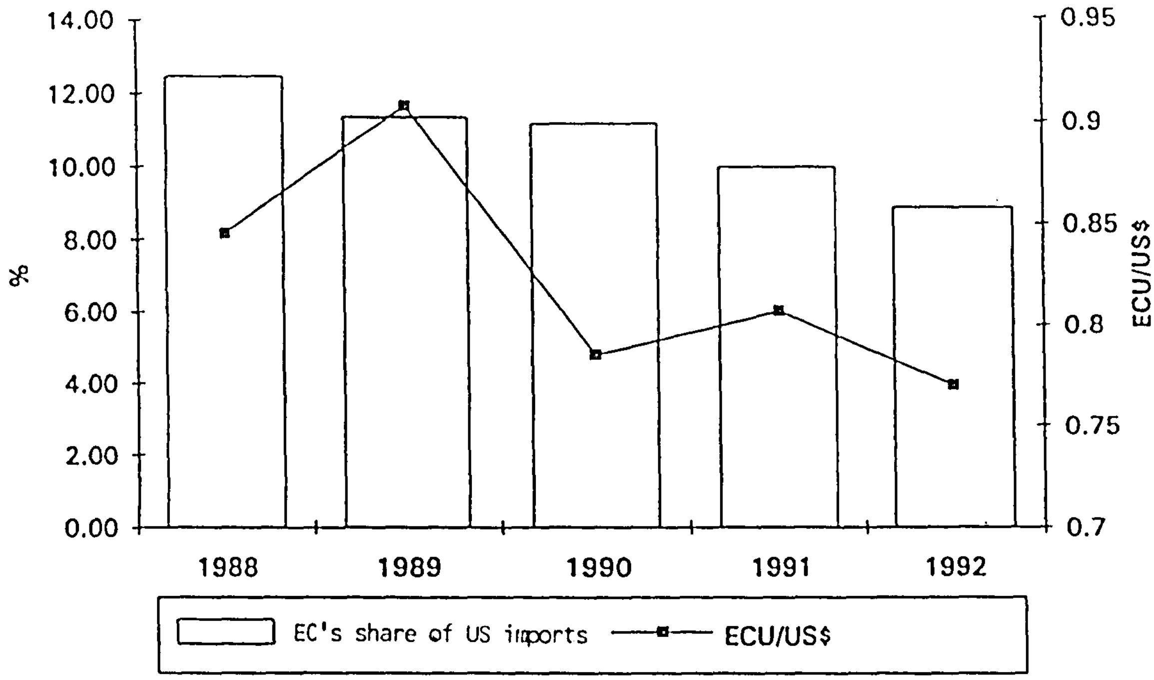
Movement of the dollar against Community currencies



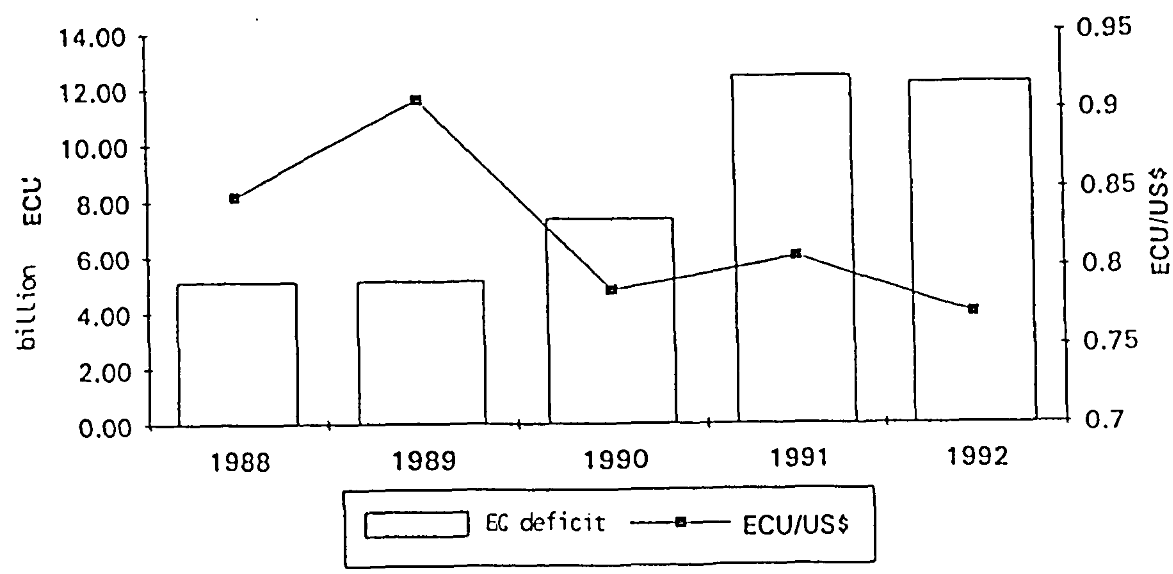
Source : Weimer Int.

ANNEX 20

EC's share of textile and clothing imports in the USA



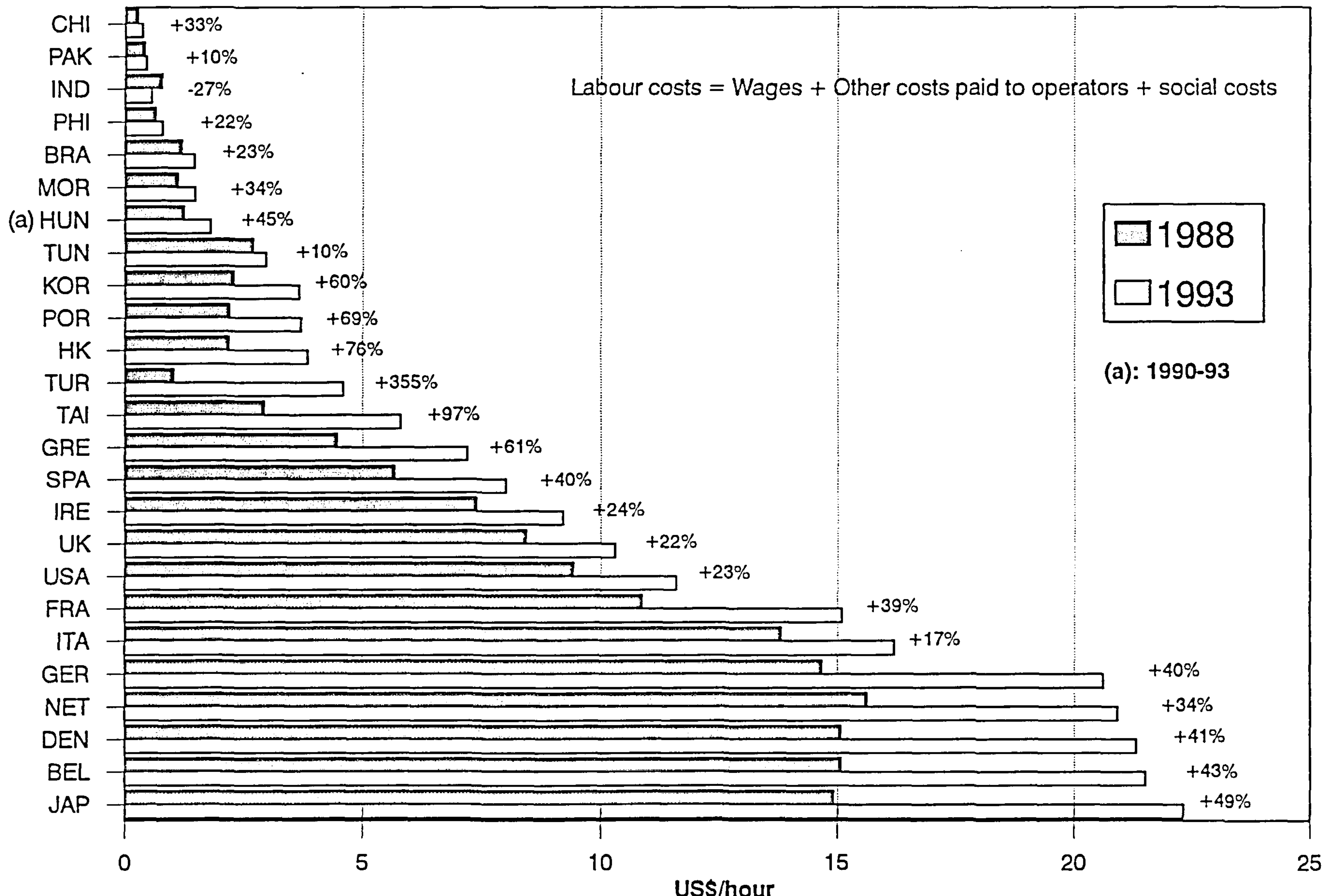
Trade deficit in textiles and clothing and exchange rates



Source : Eurostat, Comtrade

Annex 21

Labour costs in spinning and weaving



Source: Werner Int.

Wage, exchange rate and price trends 1988/93

(Spinning and weaving)

	Cost US $/hour 1993	% Change 1988/93 (*)				
		Real wages (national currency)	Consumer price	Nominal wages (national currency)	Exchange rate between US $ & national currency	Wages in US $
Belgium	21.5	+ 23.6	+ 15.6	+ 39.2	- 3.5	+ 42.7
Denmark	21.3	+ 30.2	+ 13.1	+ 43.3	+ 2.0	+ 41.3
Netherlands	20.9	+ 15.5	+ 13.0	+ 28.5	- 5.3	+ 33.8
Germany	20.6	+ 16.2	+ 19.1	+ 35.3	- 5.1	+ 40.4
Italy	16.2	+ 6.1	+ 33.7	+ 39.8	+ 22.5	+ 17.3
France	15.1	+ 20.9	+ 15.8	+ 36.7	- 2.1	+ 38.8
United Kingdom	10.3	+ 10.5	+ 30.4	+ 40.9	+ 18.7	+ 22.2
Ireland	9.2	+ 17.7	+ 15.6	+ 33.3	+ 8.8	+ 24.5
Spain	8.0	+ 17.7	+ 39.4	+ 57.1	+ 16.5	+ 40.6
Greece	7.2	+ 14.3	+ 113.5	+127.8	+ 66.7	+ 61.1
Portugal	3.7	+ 21.4	+ 65.8	+ 87.2	+ 18.2	+ 69.0
EC(**)	13.9	+ 13.9	+ 33.6	+ 47.5	+ 13.5	+ 34.0
USA	11.6	+ 1.8	+ 21.3	+ 23.1	0.0	+ 23.1
Japan	22.3	+ 19.6	+ 10.7	+ 30.5	- 18.9	+ 49.4

(*) Consumer price : Eurostat forecast; June 1993

Exchange rate : end August 1993

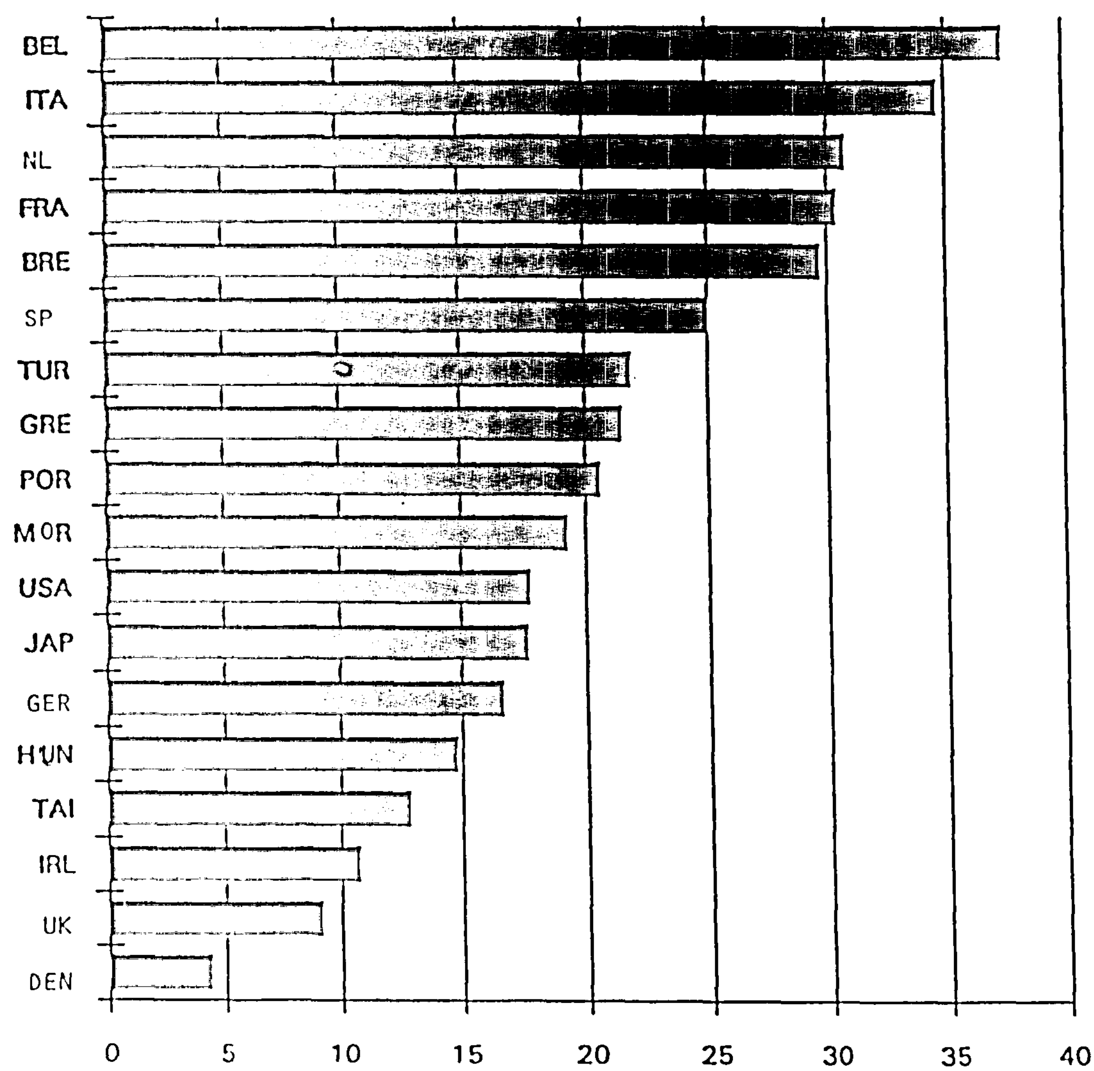
Wages in US $: summer/autumn 1993 (including social security contributions)

(**) Weighted average per job in the textile industry

Source : Werner Int. - Eurostat

ANNEX 23

Social security contributions as a percentage of labour costs in 1993
Spinning and weaving



Source : Werner Institute

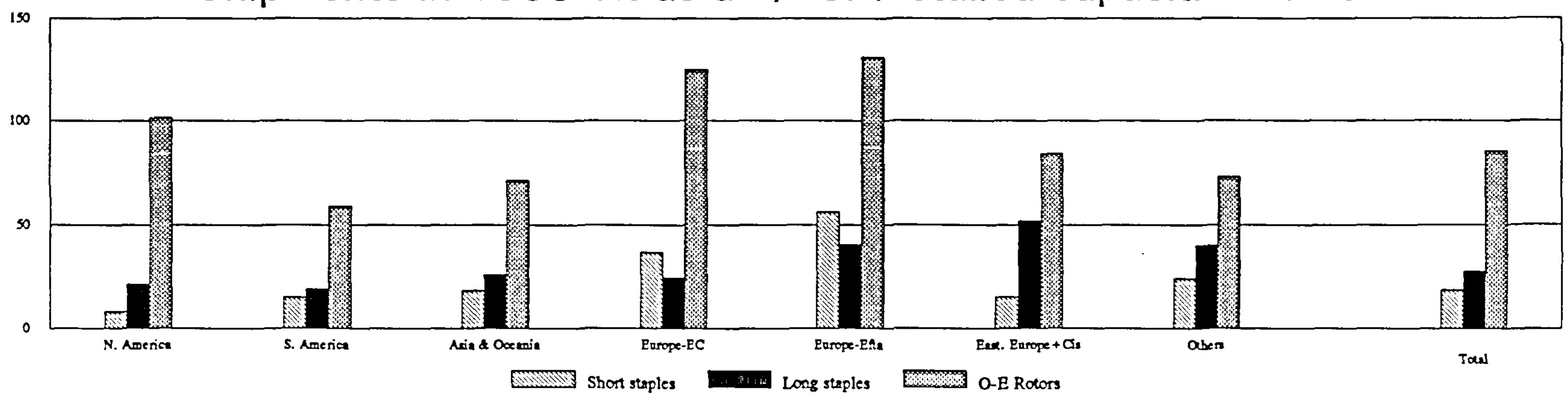
SPINNING MACHINERY

OETH/DG III-E4

	Proportion of installed capacities in 1991 (%)			Shipments in 1983-92 as a % of installed capacities (modernization rate)			Shipments in 1992 as a % of shipments in 1991		
	Spindles		O-E Rotors	Spindles		O-E Rotors	Spindles		O-E Rotors
	Short staples	Long staples		Short staples	Long staples		Short staples	Long staples	
NORTH AMERICA	8.4	5.3	10.9	8.3	21.5	101.4	66.4	811.3	197.8
SOUTH AMERICA	6.1	3.7	3.3	15.5	19.3	59.1	91.6	118.7	104.0
ASIA AND OCEANIA	62.2	41.8	17.0	18.4	26.0	71.6	63.6	132.5	90.6
EUROPE - EC	5.0	36.0	6.1	36.8	24.6	124.9	67.5	126.3	111.5
EUROPE - EFTA	0.5	1.0	0.4	56.2	40.4	131.0	68.3	292.6	164.2
EASTERN EUROPE + CIS	9.4	6.7	58.1	15.4	52.1	84.6	134.1	55.4	43.7
OTHERS	8.4	5.5	4.2	24.5	40.3	73.1	103.4	100.6	119.3
TOTAL	100.0	100.0	100.0	18.7	27.7	85.6	72.7	106.1	90.6

SOURCE: ITMF

Shipments in 1983-92 as a % of installed capacities in 1991

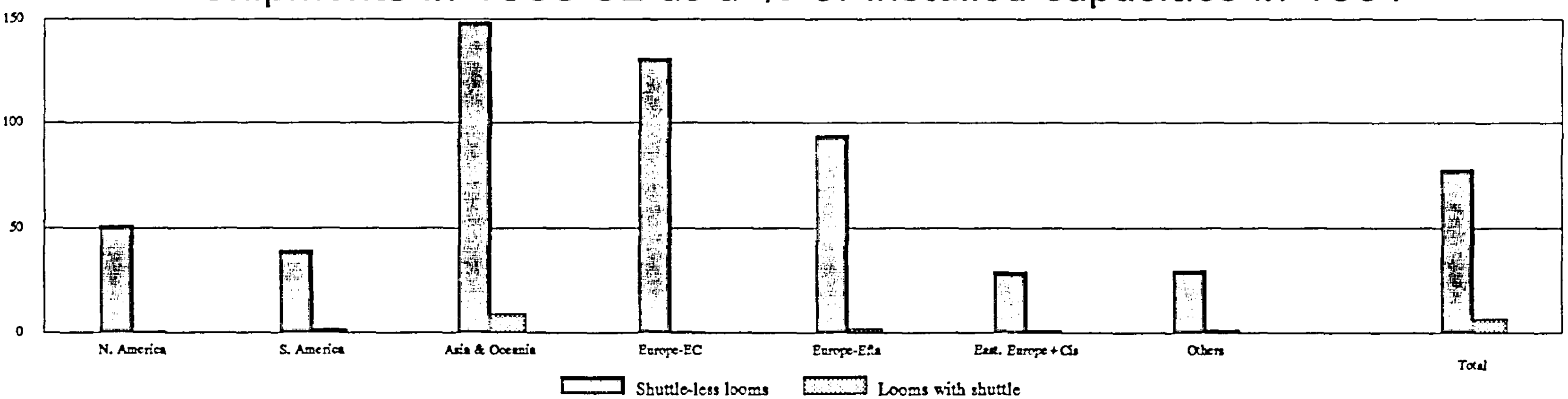


Annex 25

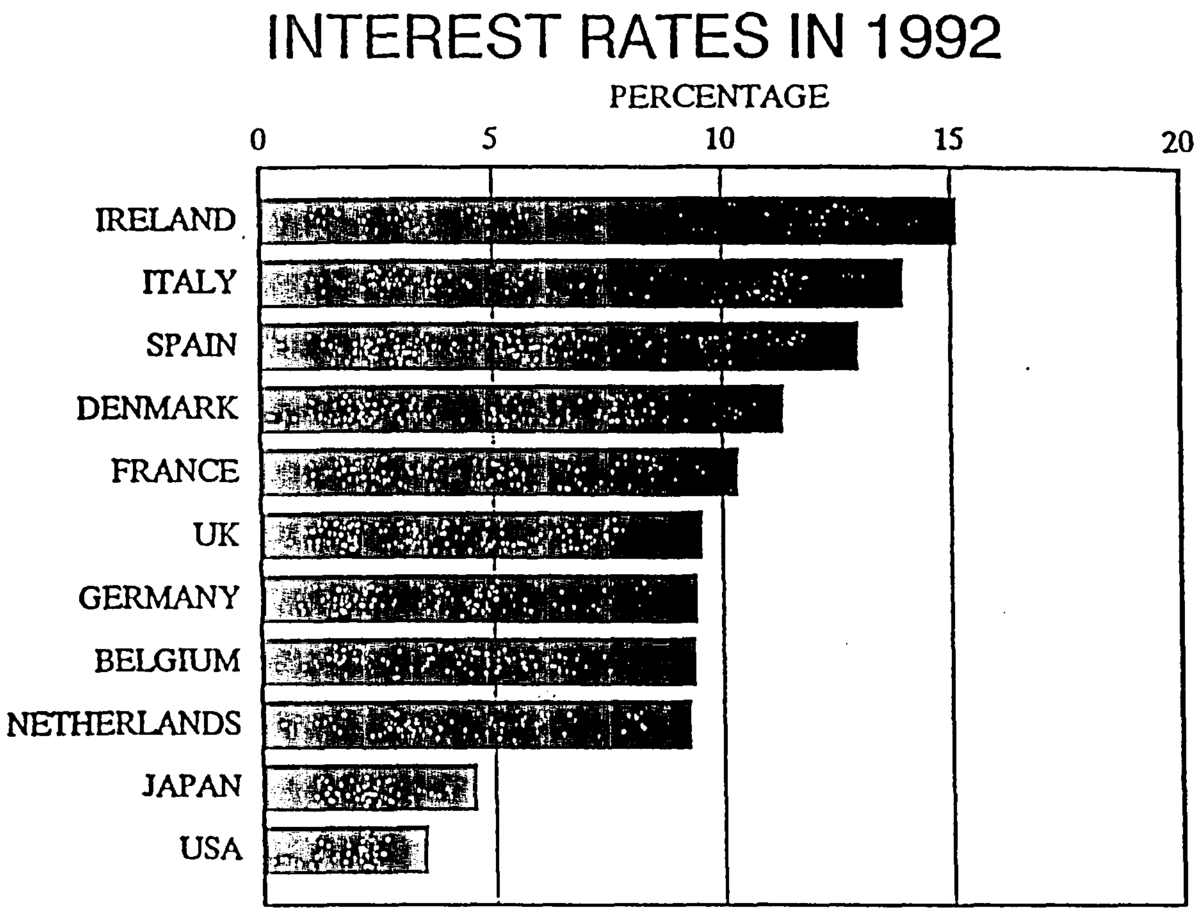
WEAVING MACHINERY								OETH/DG III-E4
	Proportion of installed capacities in 1991 (%)				Shipments in 1983-92 as a % of installed capacities (modernization rate)		Shipments in 1992 as a % of shipments in 1991	
	Looms				Shuttle-less looms	Shuttle-looms	Shuttle-less looms	Shuttle-looms
	Shuttle-less	shuttle	Filament weaving	Wool weaving				
NORTH AMERICA	12.9	4.1	-	1.8	50.9	0.8	109.1	0.0
SOUTH AMERICA	5.9	9.0	-	12.3	39.2	1.7	111.0	79.1
ASIA AND OCEANIA	26.5	71.3	93.8	39.8	148.6	9.1	107.0	56.0
EUROPE - EC	10.9	2.0	3.0	23.4	131.4	0.6	81.8	
EUROPE - EFTA	0.6	-	-	0.6	93.7	2.1	39.4	
EASTERN EUROPE + CIS	38.8	5.1	3.2	17.5	29.2	1.3	118.9	3500.0
OTHERS	4.4	8.5	0.0	4.6	29.7	1.5	88.5	42.9
TOTAL	100.0	100.0	100.0	100.0	77.9	6.9	107.0	56.2

SOURCE: ITMF

Shipments in 1983-92 as a % of installed capacities in 1991



ANNEX 26



Source : Werner Int.

ANNEX 27

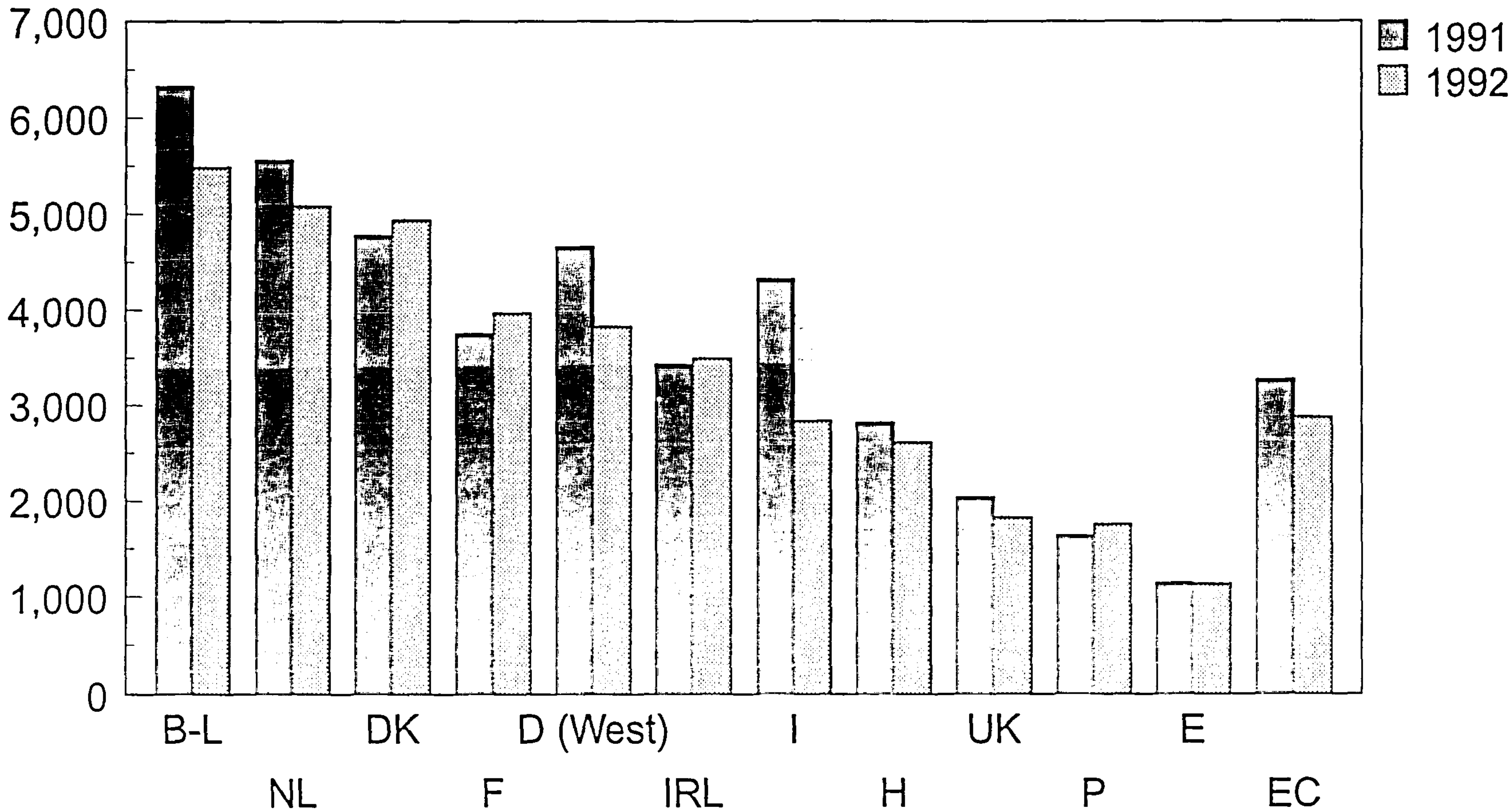
MODERNIZATION RATE IN THE EUROPEAN COTTON INDUSTRY (OPEN-END ROTORS AND SHUTTLE-LESS LOOMS[1])

	Open-End (%)	Shuttle-less Looms (%)
Belgium	119.8	116.0
Denmark	100.0	3.3
Germany	135.4	146.9
Greece	69.0	20.7
Spain	143.0	138.0
France	94.0	151.0
Ireland	60.0	19.1
Italy	179.3	236.0
Netherlands	98.5	35.4
Portugal	101.9	46.4
United Kingdom	80.9	100.2
E.C	124.9	136.0
World	85.6	77.9

Source : ITMF

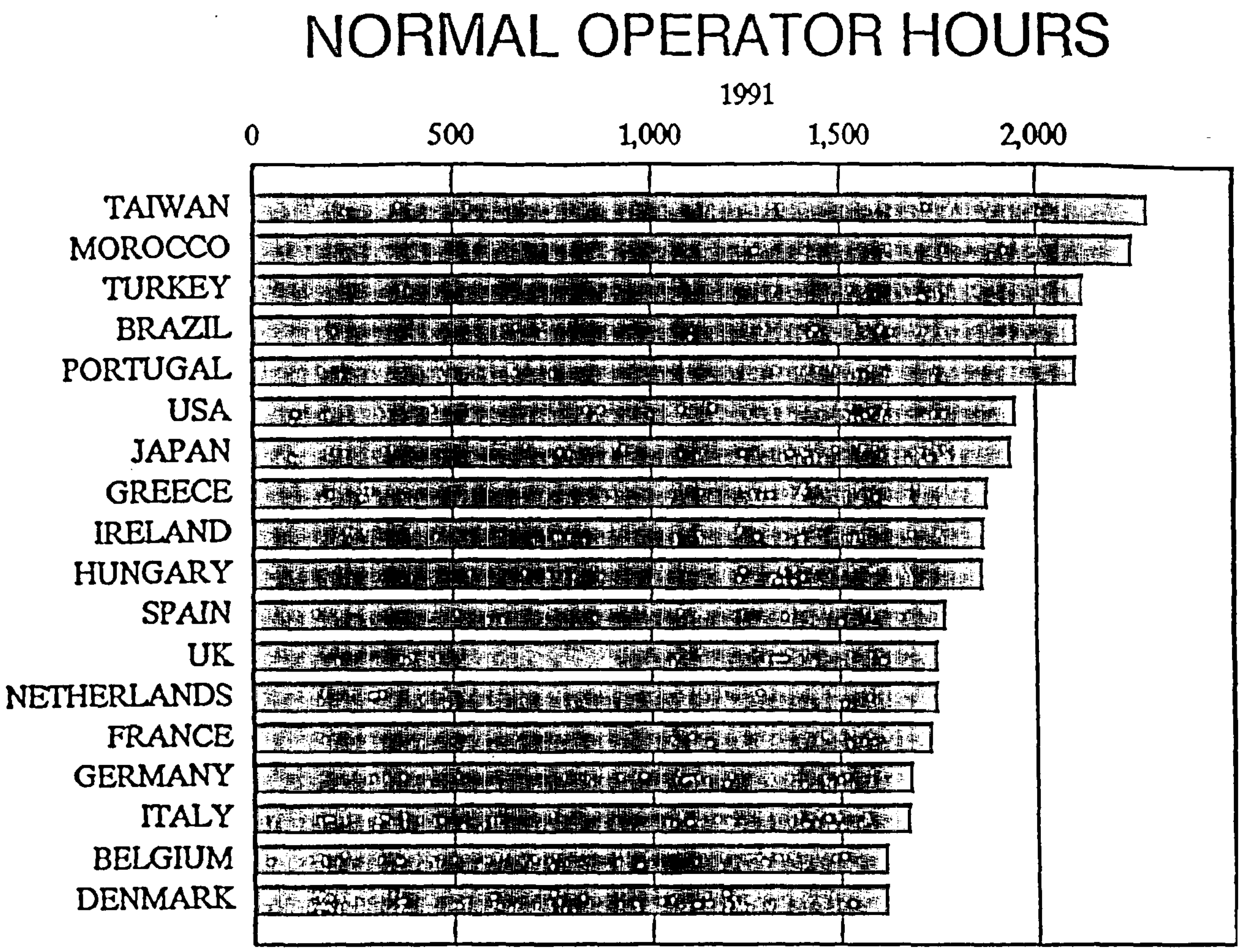
[1]Deliveries in 1983-92 as a percentage of plant installed in 1991.

Investment per Employee in 1991-1992 (ECU)
Textile Industry (incl. Knitwear)

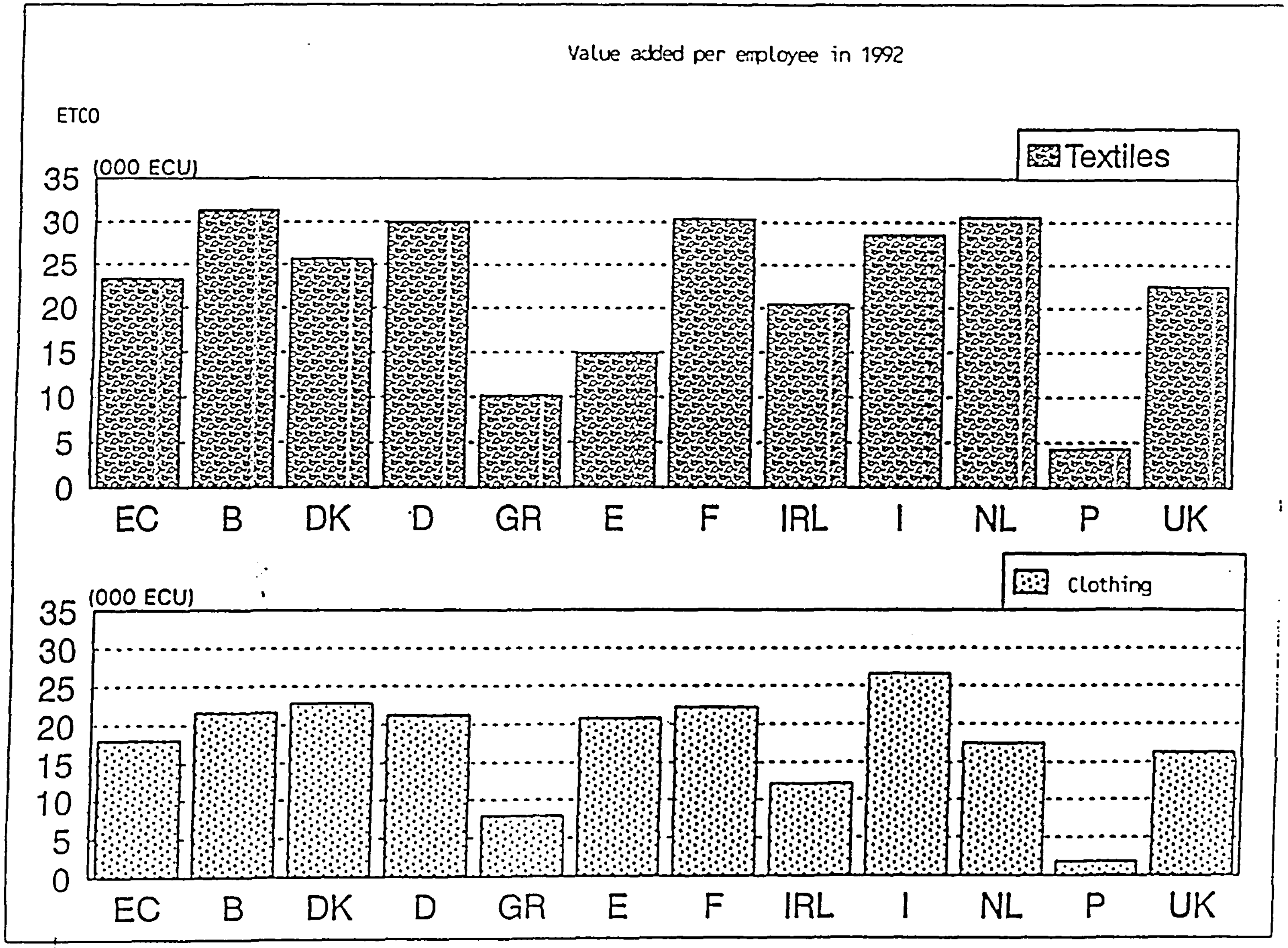


Source: OETH/DG III-E4

ANNEX 29



Source : Werner Int.


Value added per employee in 1992
ETCO
(000 ECU)
35
30
25
20
15
10
5
0
Textiles
EC
B
DK
D
GR
E
F
IRL
I
NL
P
UK
(000 ECU)
Clothing

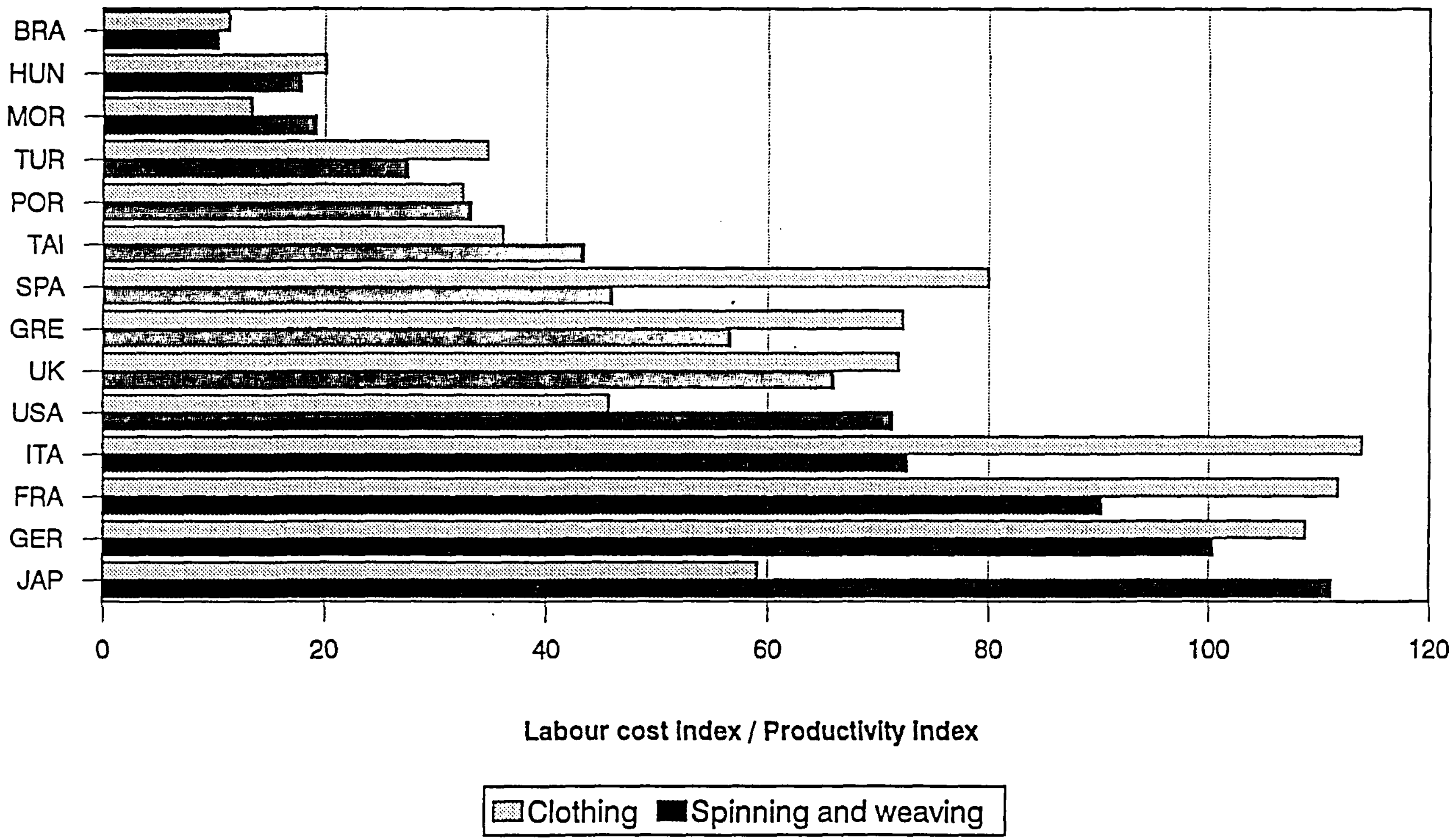
Source: OETH

ANNEX 31

PRODUCTIVITY INDEX		1993
	Primary Textile Industry Spinning & Weaving	Clothing Industry
France	75	75
Germany (W)	92	92
Greece	57	40
Italy	100	80
Portugal	50	55
Spain	78	60
UK	70	75
Brazil	70	45
Hungary	45	40
Japan	90	85
Morocco	35	50
Taiwan	60	70
Turkey	75	45
USA	73	100

Source : Werner International

Unit labour cost index - 1993



Source: Werner Int./ DG III

ANNEX 33

RAW MATERIAL PRICES						
POLYESTER PRICES US $ PER KG						
	1988	1989	1990	1991	1992	1993
WEST-GERMANY	2.04	1.91	1.96	1.79	1.81	
ITALY	2.01	1.89	1.92	1.40	1.47	
USA	1.69	1.85	1.67	1.61	1.64	
JAPAN	1.75	1.51	1.61	1.80	1.75	
TAIWAN	1.61	1.31	1.12	0.99	1.05	
COTTON N-Eur. CIF PRICE US $ PER KG						
	1988	1989	1990	1991	1992	1993
EUROPE	1.48	1.67	1.93	1.80	1.31	1.29
USA	1.58	1.61	1.89	1.80	1.49	1.33
TURKEY	1.31	2.21	2.34	1.87	1.70	1.79
BRAZIL	1.26	1.67	1.72	1.45	1.53	1.59

Source : Cotton Outlook

ANNEX 34

ENVIRONMENTAL COSTS IN DYEING & FINISHING							
AS % OF TOTAL COSTS 1992							
	G	CH	I	NL	UK	B	A
WATER POLLUTION	4.4	2.7	1.9	2.1	2.3	–	0.8
AIR POLLUTION	1.2	1.2	0.4	0.5	0.5	–	0.7
LABOUR COST	1	0.7	0.3	0.3	–	–	0.4
ENERGY COST	0.2	0.9	0.7	–	0.7	–	0.1
OVERHEAD	0.2	1.3	1.5	0.1	0.3	–	0.4
MAINTENANCE	0.2	0.7	0.2	0.2	0.6	–	0.9
DEPRECIATION	1.8	2	0.4	0.7	0.1	–	0.4
OTHER COSTS	0.2	0.6	0.4	1.2	–	–	0.5
TOTAL COSTS	9.2	10.1	5.8	5.1	4.5	3.5	4.2

SOURCE : AITIT

COMPETITIVE ANALYSIS OF SUPPLYING COUNTRIES

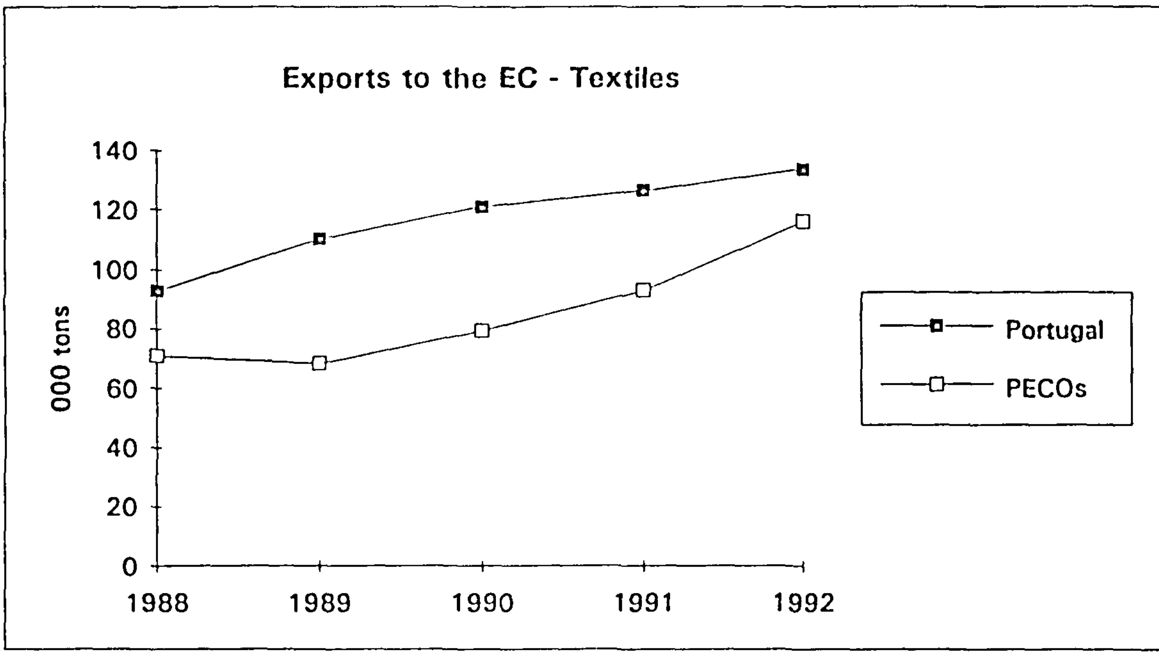
	QUALITATIVE KEY SUCCESS FACTORS										ECONOMIC FACTOR
SUPPLYING COUNTRIES	Sophistication index	Quality standards	Reliability	Small order accepted	Yarn or fabric local availability	Technical know-how (tailored)	Technical know-how (light clothing and knitwear)	Flexibility of production	Minimum delivery lead time	Repeat order possibility	Net % retail margin allowed
EC	121	++	+	++	++	++	++	++	++ * =	++	54%
MEDITERRANEAN RIM	93	+	+	++	+	=	+	++	+	+	64%
EASTERN COUNTRIES	111	+	+	++	-	+	+	+	+	+	64%
MAURITIUS	80	=	=	-	=	--	+	--	=	--	55%
NIC'S	94	++	+	-	+	=	++	--	=	--	55%
ASEAN	83	-	-	-	=	--	=	--	-	--	67%
LESSER DEVELOPED ASIAN COUNTRIES	100	--	--	--	=	--	=	--	--	--	67%

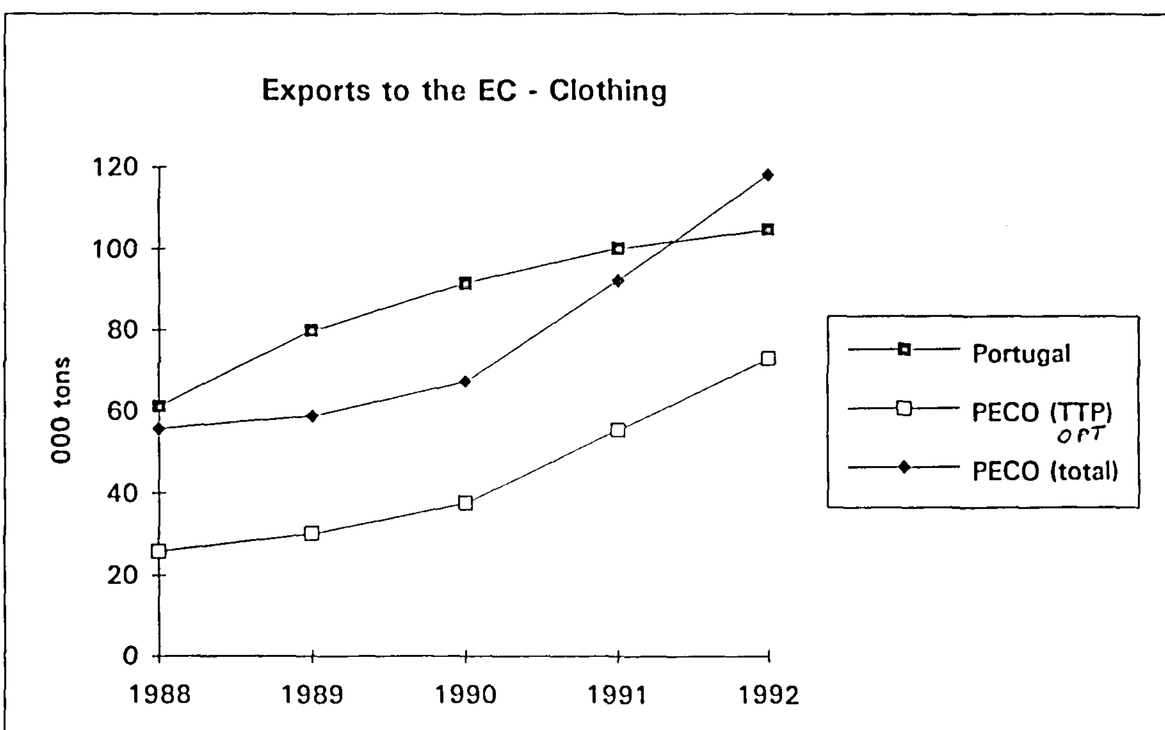
* Respectively quick response process / traditional production process.

Source : IFM, "A competitive analysis of finished textile and clothing products : imported versus uropean manufactured items" - 1992

ANNEX 36

Exports from Portugal and the countries of Central and Eastern Europe to the EC 1988/92





Source: Eurostat - Comext