

*The Single Market Review*

EUROPE

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Volume 3:

**Textiles and clothing**



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TEXTILES AND CLOTHING

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### **Results of the business survey**

EUROPEAN COMMISSION

*The Single Market Review*

IMPACT ON MANUFACTURING  
**TEXTILES AND CLOTHING**

*The Single Market Review*

SUBSERIES I: VOLUME 3

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This report is part of a series of 39 studies commissioned from independent consultants in the context of a major review of the Single Market. The 1996 Single Market Review responds to a 1992 Council of Ministers Resolution calling on the European Commission to present an overall analysis of the effectiveness of measures taken in creating the Single Market. This review, which assesses the progress made in implementing the Single Market Programme, was coordinated by the Directorate-General 'Internal Market and Financial Services' (DG XV) and the Directorate-General 'Economic and Financial Affairs' (DG II) of the European Commission.

This document was prepared for the European Commission

by

**CEGOS S.A.**

It does not, however, express the Commission's official views. Whilst every reasonable effort has been made to provide accurate information in regard to the subject matter covered, the Consultants are not responsible for any remaining errors. All recommendations are made by the Consultants for the purpose of discussion. Neither the Commission nor the Consultants accept liability for the consequences of actions taken on the basis of the information contained herein.

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## List of abbreviations

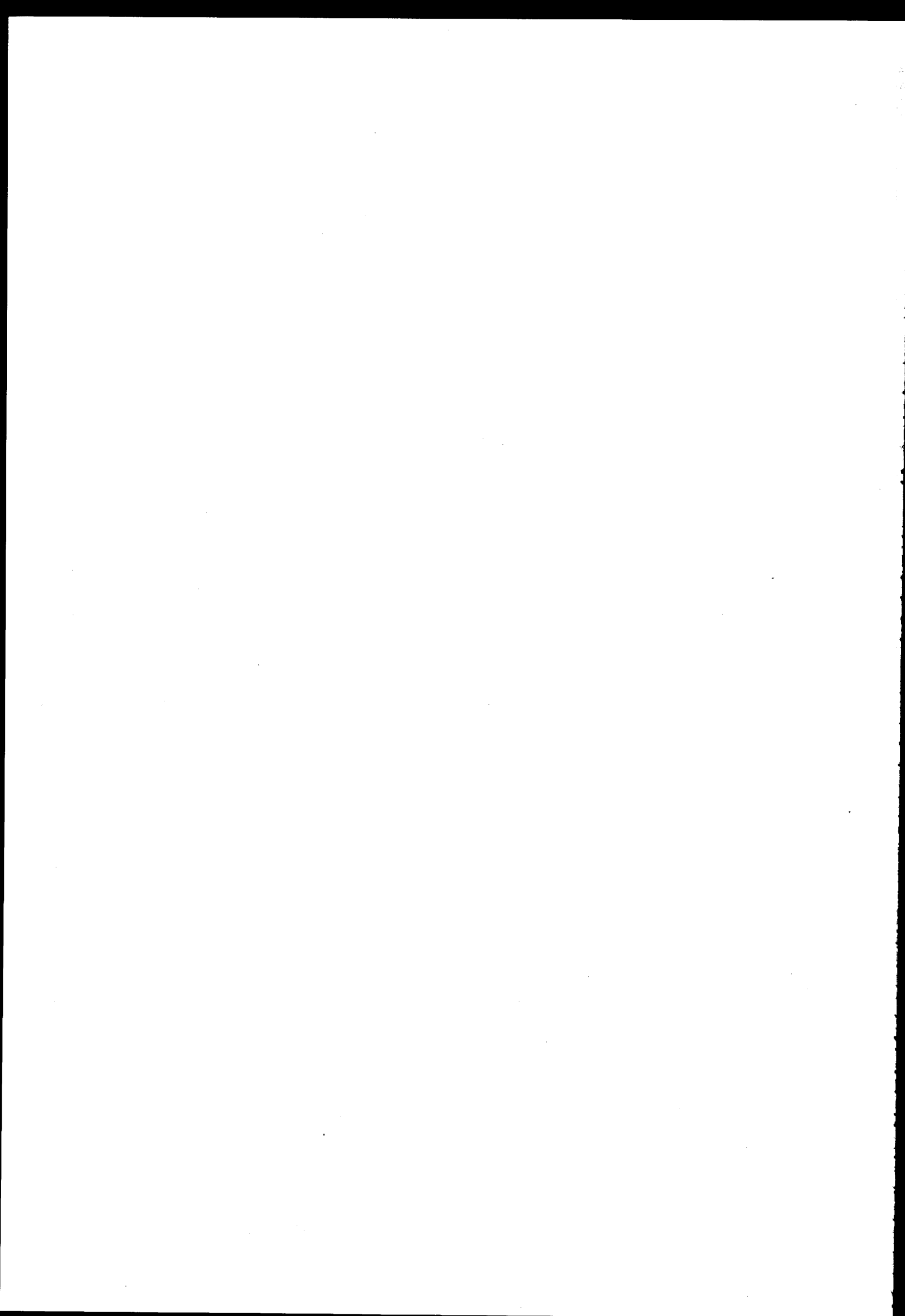
AFNOR	Association française de normalisation (French standardization institute)
AOX	Composés organohalogènes absorbables extractibles
B	Belgium
BNL	Benelux
BRITE	Basic research in industrial technologies for Europe
CEEC	Central and Eastern European Countries
CEN	European Committee for Standardization
CIRFS	Comité international de la rayonne et des fibres synthétiques/International Rayon and Synthetic Fibres Committee
CITH	Centre d'information du textile et d'habillement/Textile and Clothing Centre
Comext	Database of external trade statistics (Eurostat)
Comitextil	Coordinating Committee for the Textile Industries
CTCOE	Centre textile de conjuncture et d'observation économique
D	Germany
DG	Directorate-General
DIN	Deutsche Industrienorm (German industrial standard)
DK	Denmark
E	Spain
EC	European Community
ECA	European Carpet Association
ECU	European currency unit
EDI	electronic data interchange
ELTAC	European Largest Textile and Apparel Companies
EPO	European Patents Office
EU	European Union
EURAM	European research on advanced materials
Euratex	European Apparel and Textile Organization
Eurostat	Statistical Office of the European Communities
Excolour	European research on decoloration of industrial waste water
F	France
GATT	General Agreement on Tariffs and Trade (UN)
GDP	gross domestic product
GR	Greece
I	Italy
IFM	Institut français de la mode (French Fashion Institute)
Intrastat	EU system for the collection and dissemination of cross-border statistics, managed by Eurostat and national administrations
IPT	inward processing traffic
IRL	Ireland
ISO	International Organization for Standardization
L	Luxembourg
MFA	Multifibre Arrangement
NACE	general industrial classification of economic activities within the European Communities
NBN	Norme belge nationale (Belgian national standard)
ND	Non disponible (not available)
NL	The Netherlands
NSP	Ne sais pas (don't know)
Ö-Norm	Austrian quality mark
OECD	Organization for Economic Cooperation and Development
OETH	Observatoire européen du textile et de l'habillement
OJ	Official Journal of the European Communities
P	Portugal
SIGL	Integrated Licence Management System (Fr: SIGLE)
SMEs	small and medium-sized enterprises
Synbleach	European research on bleaching techniques
TPP	Trafic de perfectionnement passif (outward processing traffic)
UK	United Kingdom
UNE	Una norma española (Spanish standard)
UNI	Ente nazionale italiano di unificazione (Italian national standard)
UNICE	Union of Industries of the European Community
VAT	Value added tax
VPC	Vente par correspondance (mail order)



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# 1. Summary

## 1.1. The textile and clothing sector

This sector is of major importance for the European Community.

With a turnover of ECU 180 billion, the sector is the leading exporter and the leading importer in the Community. The sector employs about 2.5 million people in the Member States.

## 1.2. The measures and their impact on the textile and clothing sector

### 1.2.1. The barriers and the measures

The textile and clothing sector has long been internationalized, with international intra- and extra-community trade representing a significant proportion of its turnover. This trade developed steadily throughout the 1970s and 80s, and the existing barriers did not apparently impede this growth. However, certain barriers existed and the measures for completion of the single market attempted to reduce them.

The main barriers, the measures for reducing them and the consequences to be expected from these measures are summarized in Table 1.1.

**Table 1.1. The main barriers, measures aimed at reducing them and the consequences to be expected**

Barriers	Measures	Expected consequences
Delay on the frontiers	Elimination of customs inspections	Reduction of delivery times
	Elimination of customs documents	Reduction of administrative tasks
Verification of origin	Elimination of the verification of origin in intra-community trade	Idem
Restrictions in public tendering	Transparency of information about public tenders Harmonization of the procedures for dealing with bids	Easier access to public contracts in other Member States
Technical barriers	Harmonization of standards	Wider access to the markets of other Member States
	Principle of mutual recognition	Reduction of the costs and time involved in gaining access to markets
Fiscal barriers	Convergence of VAT rates and harmonization of administrative procedures	Administrative simplification Neutrality of VAT on trade
Recourse to Article 115	The abolition of frontiers makes Article 115 inapplicable	Easy circulation of articles of non-Community origin Increase in the resources of third countries subject to quotas
Global cost of registering trade marks, designs and models	Measures for protecting intellectual property and combating infringements	Reducing costs and administrative burdens
		More effective protection

It should be noted that most of the measures are not specifically connected with the textile and clothing sector; they are 'transversal' measures affecting all manufacturing sectors.

On the other hand, the impact of the abolition of Article 115 especially affects the textile and clothing sector, which accounted for more than 50% of the instances of recourse to this article.

#### 1.2.2. The impact of the principal measures

##### *Reducing delivery times/reducing administrative tasks*

The reduction in delivery times and administrative tasks has had an impact on the quality of service offered by suppliers and on costs.

The abolition of frontiers has enabled enterprises to improve their service to customers in the Community and to improve their competitive position compared with non-Community competitors:

- (a) cutting back on delivery times: the view of enterprises is that the interval between orders and deliveries has been cut back by 15% to 20%;
- (b) the abolition of frontiers encourages enterprises to split up their orders and deliveries, making them more flexible.

The transport costs for the sector are between 2% and 5% of the turnover. The view of enterprises is that the abolition of frontiers is saving them 10% on transport costs, which is the equivalent of 0.2% to 0.5% of turnover.

Moreover, enterprises have recorded a fall in administrative expenses of between 0.08% and 0.6% of turnover. This reduction is partly offset by the cost of declaring the trade in goods.

##### *The possibility of taking part in public tendering in other Member States*

The public sector market is significant in the textile and clothing sector (ECU 4.3 billion in 1993). The measures are intended to complete the single market through harmonizing procedures and achieving a greater clarity in information.

The measures have raised the awareness of businesses with growth potential, but a number of factors make it difficult to succeed. Businesses complain of factors such as barriers created by technical standards, and have the impression that contracts are still being awarded in the light of political criteria. Moreover, problems remain with regard to clarity and the dissemination of information, and with regard to language barriers.

##### *Technical obstacles*

The creation of harmonized standards, which is supposed to remove technical obstacles permanently, is making very slow progress. Twenty-four have come into force, but there are still 170 under preparation.

In the meantime, national law has remained in force with regard to:

- (a) inflammability;
- (b) tests and certification procedures to meet legal requirements for construction (carpets, furnishing fabrics, geotextiles);
- (c) the prohibition of certain chemical products (partly because of environmental legislation).

Euratex studies have shown that technical obstacles were still impeding trade, especially with regard to clothing, carpets and geotextiles. The lack of progress is confirmed by the replies to the CEGOS and Eurostat surveys, which indicate that most enterprises in the textile and clothing sector take the view that the impact of the single market on technical obstacles is neutral.

*Circulation of articles of extra-community origin (abolition of Article 115 and Communitarization of quotas)*

During the period leading up to the Communitarization of quotas and the abolition of Article 115, there were perceptible distortions in intra-community trade.

- (a) Germany, Denmark, the Netherlands and the United Kingdom have adopted relatively non-restrictive attitudes towards the Multifibre Arrangements. They have rarely had recourse to Article 115. Their extra-Community imports grew rapidly over the period 1986–93, and penetration rates of extra-Community products are relatively high.
- (b) Portugal, Spain and Greece have adopted relatively restrictive attitudes, and have experienced relatively low increases of extra-Community imports.

France occupies a position somewhere between the two.

The Netherlands, France and Britain have also increased their intra-Community exports, which may mean that they have re-exported some of the imported extra-Community products.

These distortions may be expected to disappear; the final stage of the Communitarization of quotas came into force in January 1995. Trade figures for 1995–96 will throw some light on this question.

*The protection of intellectual property*

Creativity is a key factor in the competitiveness of European industry. The cost of this creative element is high – up to 6% of turnover.

In 1993, unauthorized imitations were estimated at ECU 14 billion, about 5% of the goods sold in the countries of the European Union.

In this section, the most important measures relate to:

- (a) the protection of designs and models;
- (b) the prevention of unauthorized copying.

Community measures to protect models and designs (protection by a single filing procedure, harmonization of national legislation) is still at the planning stage.

The Community rules against unauthorized copying came into force in July 1995. It is too soon to gauge their impact, and especially whether the customs services have the resources to apply them effectively. The steps taken by the industry (associations to combat fraud) can also play an important role, but are hampered by the lack of harmonization of the prosecution procedures in the Member States.

### 1.3. Impact on performance in the sector

#### 1.3.1. Changes in the environment of the sector

The textile sector has undergone pressure in its market by a number of factors causative of change:

- (a) competition from extra-Community countries (from the MFA countries, the countries of Central and Eastern Europe);
- (b) recession in Europe;
- (c) growths in customer demand, especially more stringent demands from distributors for services.

Changes in the patterns of distribution in Europe have also played a significant role. The internationalization of distribution (which is partly connected with the single market measures) is also linked with a general increase in concentration in the clothing distribution sector. The major chains are tending to concentrate on and to internationalize orders, but they also have a tendency to be more demanding with regard to quality and service (more collections per year, speed of restocking and just-in-time working, pressures on prices and quality etc.).

#### 1.3.2. The policy of enterprises in the sector to cope with the changing environment and role of the single market

Faced with these pressures, industrialists in the sector have been compelled to react by measures which are aimed, in particular, at:

- (a) containing or reducing production costs and increasing productivity;
- (b) developing the flexibility and reactivity of deliveries and speeding up restocking;
- (c) developing quality and creativity.

Enterprises have chosen to operate mainly along the following lines:

- (a) dividing production among different sites, often located in different geographical areas;
- (b) in connection with this redistribution, recourse to sub-contracting and to TPP (outward processing traffic);
- (c) automating certain design and production stages (especially in the textile sector, less so in the clothing sector);
- (d) logistical action to reduce delivery times.

Some measures have already helped or may help enterprises as part of these development options, including:

- (a) the free circulation of goods which gives enterprises greater flexibility in organizing logistics, and helps them to reduce delivery times;
- (b) the harmonization of technical standards and the rules on public contracting should reduce the cost of gaining access to markets and increase productivity.

### 1.3.3. Global impact on the sector – productivity and trade

The indicators of change in the textile/clothing sector, which have evolved considerably, are productivity and commercial exchange.

**Productivity** has in fact increased significantly but the upward tendency was already present even before the single market was announced.

**Table 1.2. Productivity trends between 1982 and 1994**

1982-84	1984-86	1986-88	1988-90	1990-92	1992-94
+ 5.7%	+ 12.4%	+ 7%	+ 5.7%	+ 8.9%	+ 11%

The steady increase in productivity is largely due to competition from extra-community countries, which has compelled enterprises to strive for productivity.

Some aspects of the single market should have encouraged productivity (for example access to markets) but have not had a very marked impact. Changes in the customer base caused by the single market (internationalization and concentration) have had an impact on productivity, but this impact is relatively minor compared with the impact of extra-community competition.

**Trade** has also increased significantly during this period.

Market penetration by products of extra-community origin has significantly increased. Between 1986 and 1994 it grew from 13.6% to 25.6% for textiles, and from 15.6% to 33.4% for clothing (in volume).

Intra-community trade has also increased significantly, but this trend is due only in part to the completion of the single market.

- (a) The tendency for intra-community trade to increase had already begun in the early 1980s.
- (b) The relative proportions of intra-community and extra-community trade remained relatively stable over the period 1986-92. This stability could be regarded as an indication that enterprises have not attempted to replace their extra-community purchases by intra-community purchases.
- (c) Moreover, one of the trade increases was due to distortions in the pattern of trade described above, which means that these increases can be explained partly by flows of products of extra-community origin.

Information for the years 1993/94 is difficult to analyse because of changes in the methods of collection and definition.

## 1.4. The impact on business strategy

### 1.4.1. The two main business strategies

Two major types of strategy can be discerned from the developments in the market.

An 'offensive' strategy, aiming to conquer a wider market. This strategy is distinguished by:

- (a) extensions in the distribution network;
- (b) the development of marketing on a European scale;
- (c) increased productive capacity, or a restructuring of this productive apparatus in order to supply the goods within the time limits or to optimize costs;
- (d) a modification of the policy on human resources (for instance, more highly skilled operators).

A 'defensive' strategy, aiming to defend and maintain established positions:

- (a) simplifying distribution networks;
- (b) reducing productive capacity and closing production sites;
- (c) reducing costs, relocation.

The interviews show that the major textile enterprises (employing over 1,000 people) have been organized for some time to cope with internationalization. Recently, however, some forward-looking SMEs (small and medium-sized enterprises) have proved quite aggressive.

#### 1.4.2. The single market and the policy of enterprises

The enquiry conducted by CEGOS shows that many enterprises have pursued certain lines of action since 1987, some being related to the single market.

- (a) **Reducing cost levels:** enterprises have attempted to do this by various means (reducing staff, changing sources of supply, subcontracting and redeploying their activities to countries with lower production costs). The single market plays a part in changing sources of supply, through eliminating customs barriers and liberalizing transport, which brings the policy of enterprises round to increased Community preference.
- (b) **Restructuring the productive apparatus:** this is done in two different ways: by reducing production costs and by seeking other competitive advantages.
- (c) **Extending the distribution network:** the enquiry shows a significant growth in distribution in the Member States, a trend which is linked to the single market both directly (elimination of barriers) and indirectly (internationalization of distribution).
- (d) **Increasing productive capacity:** generally this results directly from an increase in turnover resulting from the extension of the distribution network.

Mergers and takeovers have not been a significant tool in internationalizing the sector; this is due to the predominance in the sector of SMEs, which do not have the means of taking over businesses or of managing them.



## 2. Introduction

### 2.1. Aims of the study

In order to remove remaining obstacles in the construction of the single market, in 1985 the Commission of the European Communities issued a White Paper on the completion of the single market, for the attention of the European Council. Most of the proposed measures were adopted and incorporated into the national law of the Member States.

Among these measures, some concern all economic sectors and others concern certain sectors only.

The aim of this study is:

- (a) to identify the measures which have had an impact on the textile and clothing sector and to examine their application in practice;
- (b) to evaluate the nature and scale of the impact which the measures already in force have had on the textile and clothing sector;
- (c) to identify the obstacles and shortcomings which remain in the building of the Community, and on which the Commission and the Council could take legislative action;
- (d) to identify the way in which enterprises in the sector have adapted to this new environment; and finally
- (e) to identify how far the completion of the single market has contributed to the performance of the sector and to making Community industry more competitive.

### 2.2. Definition of the sector

The study focused on the textile and clothing sector, disregarding furs and footwear.

This corresponds to the NACE codes 43 (textile industry producing natural and synthetic fibres), 453 (the production of articles of clothing) and 455 (the production of other textile items and accessories etc.). This includes enterprises which chemically treat textile fibres (finishing).

However, synthetic fibres have always been regarded as part of the chemical industry, and have been taken into account in the equivalent study on that industry. This sector is not therefore part of this study.

Changing trends in distribution of clothing products have been covered in this study, as the completion of the single market has had an impact on distribution, which has brought about changes within the textile and clothing sector. However, they will be dealt with in greater depth in the similar study on distribution.

### 2.3. Importance of the sector in relation to the single market

The textile and clothing sector was regarded, even before the completion of the single market, as an almost perfectly integrated sector: products circulated freely, and there was already a tradition of international trade in this sector, which was considerably exposed to the

international division of labour, both between Member States and with third states. Hence the completion of the single market was not expected to bring very profound changes in this sector.

However, some of its characteristics gave grounds to expect a thoroughgoing readjustment of trade, which might well bring about a new state of affairs:

- (a) a regulation of world trade through the Multifibre Arrangement, based on a set of quotas which now apply to the Community;
- (b) Article 115 of the Treaty of Rome, which regulated certain kinds of trade among Member States, ceased to apply with the introduction of the free circulation of goods.

In a sector which is politically and socially sensitive, faced with considerable competition from the developing countries, and on which the economic development of many European regions relies, it was vitally important to identify the impact of these measures.

#### 2.4. The textile and clothing sector and its economic importance

The textile and clothing industry is of major importance for the European Community, from both an economic and social point of view. With a turnover of ECU 180 billion, it is the leading exporter and leading importer in the European Community.

This sector employs about 2.5 million people in the Member States. They are unequally distributed among Member States; in some countries, such as Portugal, the sector employs more than 5% of the employed population and accounts for more than 5% of GDP.

**Table 2.1. The importance of the textile and clothing sector in the economies of Member States in 1990**

Country	Share of GDP in %	Proportion of the wage-earning population in %
Germany	1.1	1.9
France	1.3	2.2
Italy	3.6	5.6
Netherlands	0.6	1.1
Belgium	1.6	2.8
Luxembourg	0.8	0.6
United Kingdom	1.2	2.1
Ireland	not available	2.7
Denmark	0.8	1.4
Spain	2.0	3.9
Greece	not available	7.4
Portugal	6.1	8.4

Source: Eurostat.

The textile and clothing sector is closely integrated with other sectors:<sup>1</sup>

- (a) it supplies, among others, the automobile, aeronautical, construction and public works, public services and medical sectors;
- (b) it is a customer for the chemicals and machine building sectors, sometimes with highly sophisticated applications. Its purchases from the chemical industry amount to approximately ECU 13 billion, and its recourse to external services represents ECU 35 billion every year.

The textile and clothing sector also plays a major role in town and country planning, and especially the textile industry, which is distributed among geographical regions:

- (a) in 43 regions of the EC, the textile and clothing sector represents over 10% of industrial jobs (see proposal);
- (b) in six regions of Europe, the sector accounts for over 100,000 direct jobs; these are Lombardy (Italy), Catalonia (Spain), Veneto (Italy), Bavaria and North Rhine-Westphalia (Germany), and Norte (Portugal) (cf. proposal).

The textile and clothing sector is highly fragmented. Estimates often indicate a total of around 143,000 enterprises in the 12 countries of the European Community, of which 117,000 employ fewer than 20 people. However, an OECD study found 200,000 textile and clothing enterprises in Italy alone.

## 2.5. Methodology adopted

This study relies on several sources:

- (a) documentary sources, consisting of texts dealing with the measures intended to complete the single market, studies already carried out by institutes (such as the IFO institute, the IFM, the CITH or the OETH), or professional bodies (Euratex and its member associations);
- (b) statistical sources (Eurostat, Euratex, CIRFS, CITH, KPMG);
- (c) contacts with experts from the European Commission and the textile and clothing sector;
- (d) conversations with business leaders in the textile and clothing sector, and also with import managers in companies distributing garments;
- (e) a survey by post and telephone of 94 enterprises in the textile and clothing sector, the methodology being explained in detail in Appendix B; and collaboration with consultants in charge of the other studies, especially the study on distribution.

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<sup>1</sup> Euratex memorandum of 9 January 1995.

**Table 2.2. Methodological sources used**

Source of contribution	Measures associated with the completion of the single market	Impact on sectoral performance	Enterprise strategy
Documentary sources	Texts of directives Studies on their impact (cf. bibliography)	Studies already carried out (cf. bibliography)	
Statistics	Sources: services of the Commission of the European Communities	Sources: Eurostat, CITH, CIRFS, Euratex	
Interviews	Interviews with experts from the Commission of the European Communities and with professional bodies	Interviews with professional bodies and directors of enterprises	Interviews with professional bodies and directors of enterprises
Survey by questionnaire		Survey of directors of enterprises	Survey of directors of enterprises

Using statistics is not a straightforward matter:

- (a) If we consider that there are two key dates in the completion of the single market, that is 1985–86 (the time of the announcement, which had a considerable psychological impact), and 1993 (corresponding to the entry into force of the measures), from the data we can explore the impact of the former of these key dates. However, the absence of data on production and apparent consumption in 1994 prevents a full analysis of the second of these key dates.
- (b) The changes in statistical classification and in the methods of gathering statistics which took place in 1993 bring about distortions in the statistical series. The introduction of Intrastat has been complicated, and the data provided by this base are not reliable for 1993. In particular, experts consider that the fact that cross-border transactions are not recorded by the government departments, but instead declared by enterprises, leads to a general underestimate of trade.
- (c) To remove these difficulties, several sources have been compared, and the quantitative information has been examined to see how it ties in with the qualitative information which it has been possible to obtain.

The trickiest issue in the course of the study has undoubtedly been the isolation of the impact of measures for the completion of the single market, whereas there are many other development factors in the textile and clothing sector. To arrive at these, the methodology adopted was to identify all the factors which explain the developments found to have occurred, and to analyse the links between these factors.

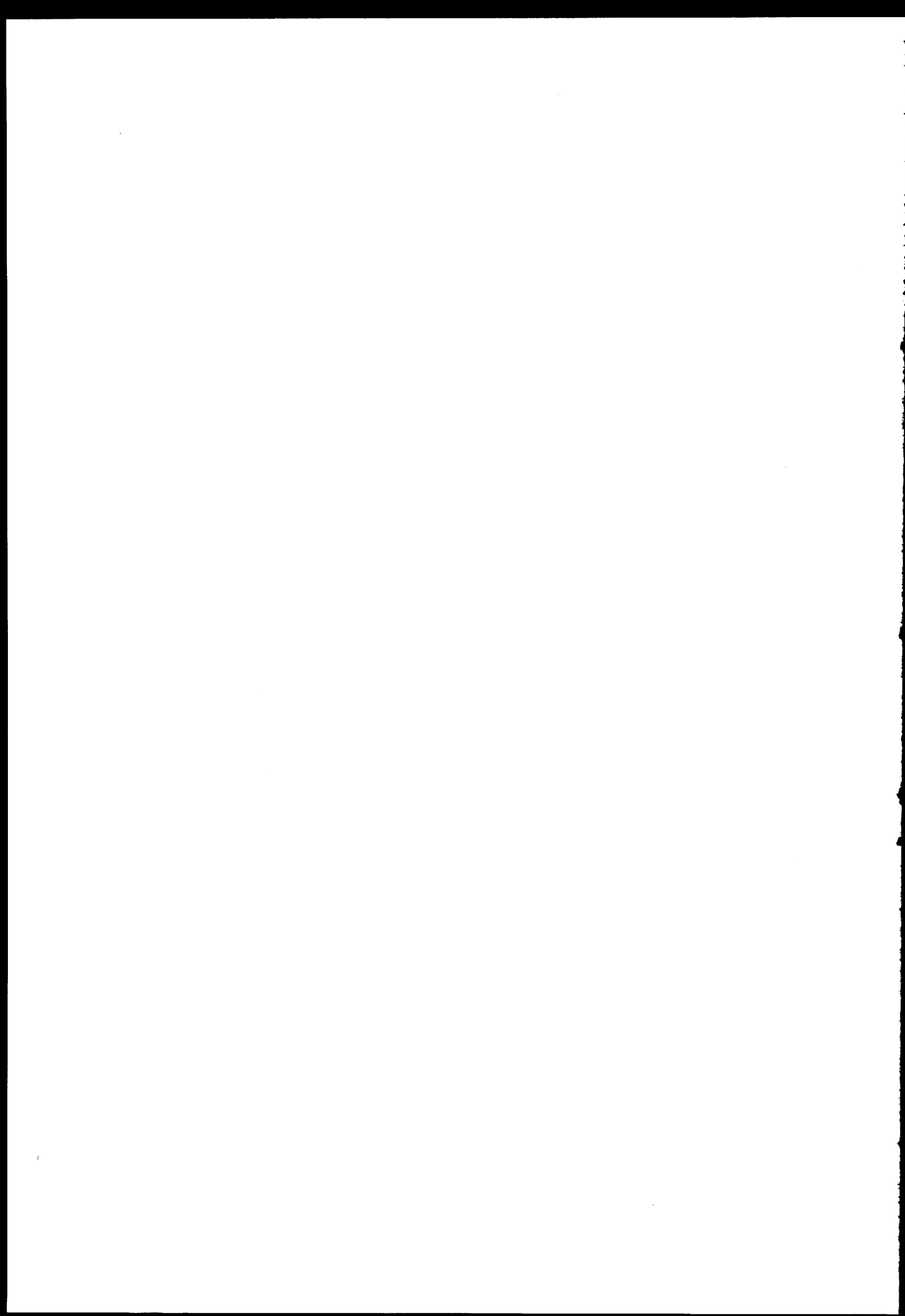
We have attempted, in particular, to identify discontinuities in trends observed over long periods, and especially since 1985, and then to trace the causes of these developments, whether they are connected with completion of the single market or with other factors.

## 2.6. Structure of the report

This report is structured around various main parts:

- (a) Chapter 3 offers an analysis of the direct and indirect, and the definitive or occasional impacts obtained through the measures.

- (b) Chapter 4 offers a description of the measures which most concern the textile and clothing sector, as defined above. It begins with a brief presentation of the barriers to intra-community trade which existed before the completion of the single market, and by comparing these barriers and the measures which were supposed to remedy them.
- (c) Chapter 5 offers an analysis of the effects brought about by the completion of the single market on the distribution sector, and the impact of these effects on the clothing sector.
- (d) Chapter 6 analyses the remaining defects in the construction of Europe.
- (e) Chapter 7 describes the strategies put into effect by enterprises in the textile and clothing sector in order to take advantage of the completion of the single market or, on the other hand, to protect themselves against it.



### 3. The impact of the measures for the completion of the single market on the textile and clothing sector

This chapter presents a brief description of the barriers to intra-community trade before the completion of the single market, followed by the measures aimed at completion of the single market.

- (a) a description of the measures;
- (b) a description of the changes they bring and of some points which remain unchanged;
- (c) the impact expected when these measures are introduced;
- (d) their application in practice: the state of transposition into national law, steps taken to evade them;
- (e) the contextual elements needed to understand what is involved in these measures;
- (f) the impact actually found to occur, and the impact which is still awaited.

#### 3.1. Barriers to intra-community trade before the completion of the single market<sup>2</sup>

Even before the completion of the single market, enterprises were not complaining particularly of serious barriers to intra-community trade. In fact, there was no significant difference between selling in one's own country and selling in another country in the European Community.

However, certain barriers of relative importance were sometimes mentioned:

##### 3.1.1. Frontier delays

These delays were due to administration formalities:

- (a) checks on customs documents;
- (b) checks on origin;
- (c) checks on products from third countries subject to quantitative restrictions, to make sure they are placed in the right quota;
- (d) checks to ensure that products comply with the rules, especially on labelling.

These delays lasted several hours, or even several days when the consignment arrived at the beginning of a weekend. They were annoying, but did not actually hold up trade.

These administrative obstacles were used in an arbitrary and therefore discriminatory fashion by some customs posts.

##### 3.1.2. Restrictions in public tendering

Apart from national preference, which was practised regularly, these restrictions relied on a series of technical barriers:

- (a) the obligation to have one's products certified in a laboratory in one's own country;

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<sup>2</sup> Source: report *The cost of Non-Europe* (European Commission, 1988).

(b) the obligation to meet specific standards.

For enterprises this meant additional costs (the cost involved in testing and obtaining the certificate, and the cost of adapting to the standards), and additional delays; in practice, enterprises did not take part in the bidding, as they were convinced they had no chance.

### 3.1.3. Fiscal barriers

Enterprises often referred to the differences in rates and practices relating to VAT charges as a barrier to trade. The payment of VAT at the time of importation could be regarded as discrimination in favour of local producers, since the importer or exporter had to pay VAT as soon as the goods crossed the frontier.

### 3.1.4. Recourse to Article 115

Article 115 permitted an exception to the principle of free circulation of goods, and by relying on this Member States could protect themselves against imports to their territories of goods of extra-community origin which had been brought into the European Community through another Member State.

Recourse to Article 115 was becoming more and more frequent before the completion of the single market. It represents a restriction on intra-community trade for goods subject to quotas.

### 3.1.5. Currency fluctuations

Currency fluctuations disrupt the play of competition and force enterprises to protect themselves against these fluctuations, leading to higher costs.

### 3.1.6. Impact of these barriers on trade

These barriers were particularly troublesome for small and medium-sized enterprises, less so for large enterprises which had acquired the necessary resources to handle these constraints. The large enterprises in the sector regarded the European Community as their own local market.<sup>3</sup>

Although these barriers did not prevent enterprises from exporting to other Member States, they kept the level of such trade below what it might be.

Most of these obstacles should have been tackled through measures associated with the completion of the single market (see Table 3.1).

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<sup>3</sup> Sources: report *The cost of Non-Europe* (European Commission, 1988) case study; interviews with sectoral bodies, page 66.



**Table 3.1. Correspondence between the obstacles to intra-community trade and measures for reducing them**

Obstacles to trade before 1993	Measures for reducing them	Expected consequences for operators
Delay on frontiers, administrative formalities on frontiers	The elimination of customs checks between Member States, and the elimination of customs documents, should remove this obstacle.	Reduction in delivery times. Reduction in the administrative tasks involved in drawing up export documents.
Checks on origin	Checks of origin are no longer called for in intra-community trade. They only involve imports of extra-community origin, and only on external frontiers.	Reduction in delivery times. Reduction in the administrative tasks involved in drawing up export documents.
Restrictions in public tendering	Greater clarity in the information about public tenders, and especially publication in the Official Journal of the European Communities of invitation to tender above a certain threshold, together with harmonization of procedures for dealing with tenders, should improve access by enterprises to invitations to tender from other Member States. The harmonization of standards is part of the same process, as invitations to tender often refer to tests and certificates.	The possibility of taking part in public tendering in other Member States, resulting in readier access to a wider market.
Technical barriers (standards, tests and certificates: non-harmonization of specifications among the Member States	The harmonization of standards and the principle of mutual recognition of tests and laboratories should eliminate this problem.	Wider access to the market in other Member States. Reduction in costs and time delays in entering the markets. Economies of scale.
Recourse to Article 115	Although in theory Article 115 may still apply, the abolition of frontiers makes it inapplicable in practice.	Easier circulation of goods of extra-community origin. Increased competition by third countries subject to quotas.
Global cost of registering trade marks, designs, models and patents in Member States in which the enterprise distributes its products <sup>4</sup>	Measures for the protection of intellectual property and against infringement.	Reduction in the cost and administrative burden involved in protecting designs, patents and models. More effective protection against infringement, resulting in fairer competition.

Source: Interviews.

### 3.2. Impact of the most significant measures for the textile and clothing sector, associated with the completion of the single market

We have listed the following measures for the completion of the single market; the measures specific to the sector are few in number and those which most frequently concern textiles and clothing are the horizontal measures.

<sup>4</sup> This question was not mentioned as such by enterprises as being a barrier to trade; however, it is included in this table because it covers measures of potential importance for the profession.

A significant proportion of the measures, especially horizontal measures, are found in the White Paper. Others (for example, measures on the environment and the preparation of standards) result from work in parallel with completion of the single market.

Measures specific to the textile and clothing sector:

- (a) the communitarization of MFA quotas;
- (b) the deletion of Article 115 of the Treaty of Rome;
- (c) the adjustments to the outward processing traffic system;
- (d) support for aids intended for the synthetic fibres sector.

Horizontal measures affecting all sectors of activity:

- (a) the free circulation of goods and the elimination of customs barriers;
- (b) the changes in the VAT regime;
- (c) the harmonization of technical standards;
- (d) the protection of the environment;
- (e) the harmonization of rules on public contracts;
- (f) the protection of intellectual property;
- (g) the liberalization of services: transport, financial services and insurance;
- (h) the competition policy and restricting state aids;
- (i) the harmonization of company law;
- (j) the free movement of individuals.

Of the 282 measures listed in the White Paper, 265 were adopted by the Council before 1993. 222 measures necessitated transposition measures at the national level. About 87% of these transposition measures have been adopted. However, delays in transposition have resulted in only half the measures being transposed throughout the Community, while 75% of them have been able to be transposed in 10 out of 12 Member States.<sup>5</sup>

We consider below in greater detail the measures which have had an impact on this sector.

### 3.2.1. The communitarization of the MFA quotas

To understand this part, it is necessary to clarify some aspects which are not directly linked to the completion of the single market – the **Multifibre Arrangement** and the quotas in general. These are dealt with in Appendix E.

#### *Description of the measures for the completion of the single market*

The elimination of national quotas is a consequence of eliminating customs barriers on the frontiers between Member States. The effect of eliminating internal frontiers was to put out of action the system of bilateral quotas between each Member State and each third country individually.

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<sup>5</sup> Source: Euratex.

This system has therefore been abandoned in favour of a quota system which links the European Community as a whole to each third state.<sup>6</sup>

The transition took place in three phases, which have now been completed:

- (a) *The first phase (from 1 January 1993 to the end of 1993).* The exporting country continued to issue export licences indicating the Member State of destination, as previously. Only that Member State could accept the export licence, and the corresponding import licence was valid only in the Member State which had issued it.
- (b) *The second phase (from 1 January 1994 to the end of 1994).* The exporting country continued to indicate a Member State of destination on the export licence, but the licence itself could be presented in every Member State. The import licence issued in this way was valid only for the State which had issued it.
- (c) *The third phase (from 1 January 1995).* The export licence can be presented in every Member State, and the corresponding import licence is valid throughout the Community. The import licence is therefore valid from now on for the entire EC. It continues to be granted by the national authorities, on the basis of Community quotas. **Before** granting the licence, the Member States must consult the SIGL real time database (Integrated Licence Management System).

#### *Description of the changes effected by these measures*

- (a) Checks on origin are carried out only on external frontiers; there are no longer any checks on internal frontiers. Hence there is no further check on the circulation of extra-community goods once they have been introduced onto the EC market.
- (b) In theory, an importer may use quotas even if the equivalent volume prior to the quota of the Member State in which he is located has already been achieved.
- (c) Importers have the option of requesting an import licence from the authorities of other Member States.

#### *What has not changed*

- (a) The Community quotas are calculated from the recorded total of national quotas; the global quota therefore remains unaltered.
- (b) The flexibility measures of the quotas remain (anticipation, transfer of quotas etc.).
- (c) The basket exit mechanism is unchanged in comparison with the one in place before 1993.
- (d) The administrative formalities remain the same for enterprises. The breakdown of products according to MFA categories continues to be checked by the customs services of each Member State.
- (e) The delays are almost unchanged. If the quotas are exceeded, the time taken is longer. If the national authorities are under pressure, the same applies.

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<sup>6</sup> The texts describing these measures are as follows:

- (a) Commission Regulation (EC) No. 3617/93 of 22 December 1993 amending Articles 14, 21 and 28 of Annex III to Council Regulation (EEC) No. 3030/93 on common rules for imports of certain textile products from third countries, OJ L 328, 29.12.1993, p. 22;
- (b) Notice to importers 92/C 347/03, OJ C 347, 31.12.1992, p. 2, which describes the three transitional phases described above.

- (f) Before they were communitarized, Member States redistributed national quotas among enterprises according to differing criteria: in Germany, on the basis of purchasing forecasts and past performance; in France, on the basis of purchase orders already written out. That meant that German companies were likely to have too many quotas, whereas French companies were unable to restock because no quotas were left for France. After the communitarization of quotas, the methods of distribution among enterprises did not change.

*Contextual elements required to understand what is involved in these measures*

MFA imports account for a significant share of total imports by the European Community, and of apparent consumption, as the following two tables show.

**Table 3.2. Share of MFA imports in total imports of the European Community – textile products (unwoven) in 1000s of tonnes**

	MFA imports (in volume)	Total EC imports (in volume)	Apparent consumption in the EC (in volume)
1990	1 812	2 253	NC
1991	1 867	2 309	10 188

Source: OETH.

**Table 3.3. Share of MFA imports in total imports of the European Community – clothing products (woven) in 1000s of tonnes**

	MFA imports (in volume)	Total EC imports (in volume)	Apparent consumption in the EC (in volume)
1990	1 044	1 048	NC
1991	1 287	1 299	6 087

Source: OETH.

This shows that MFA imports account for 80% of total imports of the European Community in textiles and 99% in clothing. They also account for 18% of apparent consumption in textiles and 21% in clothing. The communitarization of quotas therefore potentially represents a significant impact for this industry, as it relates to sizeable volumes.

*Impact expected when these measures are introduced*

One of the expected impacts was the entry of flows of goods of extra-community origin among the Member States.

The mechanism underlying these expected flows may be understood through a description of the situation which prevailed before the completion of the single market.

Before the completion of the single market, the Member States which are close to saturation of their quotas ('applicant' state) would use some of the quotas not used by the states for which the quota exceeded the import potential ('offering' state).

This results in:

- (a) an increase in extra-community imports for the offering state;
- (b) an increase in intra-community imports for the applicant state;
- (c) an increase in intra-community exports for the offering state.

This phenomenon is moderated by Article 115, and depends on the existence of commercial networks; distributors already functioning on an international level had more facilities to carry out operations of this kind.

After the completion of the single market:

- (a) in theory, the communitarization of quotas will enable states which are structurally in an 'applicant' position to request import licences for larger quantities, and for them this will result in a reduction in intra-community imports, which are actually linked to the flows of 'triangularization', in favour of direct extra-community imports;
- (b) for states which are re-exporting some of their goods of extra-community origin to 'applicant' states, the result will be a reduction in intra-community exports.

In order to analyse the potential compensatory flows among the Member States, we have to identify states which are structurally 'applicants', and therefore restricted in their trade by the quotas, and 'offering' countries whose quotas place few restrictions on them.

In the analysis by J. Pelkmans,<sup>7</sup> a comparison is made for each country of:

- (a) the share of the quotas of each Member State in the community quota, on the one hand; and
- (b) the 'burden sharing' on the other hand. This is a theoretical evaluation of the potential for extra-community imports, **if there were no quotas**, drawn up on the basis of the population, the GDP and prevailing trends for each country for trade in general. A ratio for 'share in quotas/burden sharing' is derived by this means, and this makes it possible to single out three groups of countries:
  - (i) Germany, United Kingdom, Benelux, Denmark and Ireland, for which this ratio exceeds one, showing that the national quota is unlikely to be achieved;
  - (ii) France, Italy and Portugal, for which the quotas may well be saturated;
  - (iii) Spain and Greece, for which the quotas are well below the import potential.

The industry was therefore expecting:

- (a) a reduction in extra-community imports and intra-community exports for Germany, the United Kingdom, Benelux, Denmark and Ireland;
- (b) a reduction in intra-community imports and an increase in extra-community imports for Spain and Greece;
- (c) a stable situation for the other Member States.

These flows should also be reflected in developments in pricing, communitarization of quotas being seen as a factor in price convergence:

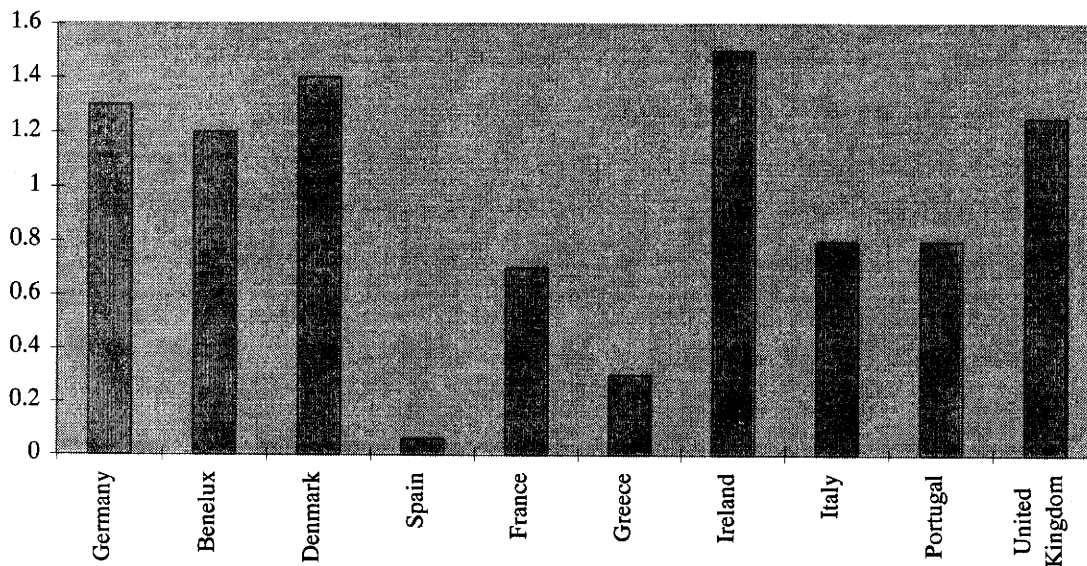
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<sup>7</sup> J. Pelkmans, *The challenge of trade liberalisation*, 1992.

- (a) an increase in prices for Germany, the United Kingdom, Benelux, Denmark and Ireland;
- (b) a reduction in prices for Spain and Greece;
- (c) relative stability for the other Member States.

Another impact which could be foreseen was the reorganization of the logistics of distributors, the latter combining their ranges so as to place orders for shared purchases, in order to obtain better rates from the suppliers.

**Figure 3.1. The ratio share in Community quotas: burden sharing**



Source: J. Pelkmans, *The challenge of trade liberalisation*, 1992.

The industry was therefore expecting:

- (a) a reduction in extra-community imports and intra-community exports for Germany, the United Kingdom, Benelux, Denmark and Ireland;
- (b) a reduction in intra-community imports and an increase in extra-community imports for Spain and Greece;
- (c) a stable situation for the other Member States.

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- (c) relative stability for the other Member States.

Another impact which could be foreseen was the reorganization of the logistics of distributors, the latter combining their ranges so as to place orders for shared purchases, in order to obtain better rates from the suppliers.

#### *Implementation in practice*

The communitarization of quotas is now taking place in all States, but Euratex believes that there are still 'ghost' quotas based on the national quotas prior to 1993, with the Commission monitoring the achievement of the quotas.

The belated introduction of the SIGL has led to many practical problems; customs services were equipped only at a late stage, and the German customs are still not equipped, which makes it much more difficult for them to check licences and carry out anti-fraud measures.

#### *Impact actually identified and the impact still expected*

Changes have been found to occur in the flows of goods among the various Member States, and this will be explained in Chapter 6 (see Section 6.3.2). These readjustment flows among Member States are probably due to underlying economic criteria, such as respective purchasing power in the different countries.

It is found that there is natural increase in import penetration by extra-community imports, but this seems to be linked rather to the dismantling of quotas resulting from the Uruguay Round Negotiations.

Only 20% of the respondents to our survey consider that it is easier than it used to be to import products of extra-community origin. We note that a large number of these respondents are in Spain. For respondents who find it easier to import goods of extra-community origin, the reason most often given is the increased simplicity of administrative procedures and the shorter waiting times for obtaining licences.

The combination of ranges by distributors and the sharing of purchases to obtain better conditions is now an ongoing process. However, this process is handicapped by the lack of homogeneity among the Member States in the way products are classed into the various MFA categories, a phenomenon which was not seen as problematic before the communitarization of quotas. This process is likely to continue developing, but will take longer to establish than might have been expected.

Other effects have been pointed out which were not expected at the outset:

- (a) Importers may request a licence from the authorities of another country, especially if they are found to be more efficient. For instance, the Italians make applications in Germany. This may result in a modification in the flows of goods.
- (b) Another factor displacing the flows is the importer's choice of the most practical and favourable point of customs clearance, from a logistical point of view, but also according to the stringency of the checks of origin which are carried out there. Some of them are seeking by this means to create a mass influx to certain customs clearance points, which further reduces the stringency of the checks carried out. The volumes actually checked remain the same, within an increased reference volume.

- (c) Information is more difficult to gather and organize, as the entry and exit points of the goods may be different. For instance, licences may have been presented several times, goods in transit may have remained on Community territory and been distributed before any check takes place.<sup>8</sup>
- (d) The communitarization of quotas, and the changes in the methods of collection, have made it more difficult for the profession to gain access to information which it was using to identify competitors more closely, and this in a sector where information is already scarce and expensive. Waiting periods for obtaining statistics on trade are found to be longer, and these figures are regarded as less reliable than previously.

### 3.2.2. The abolition of Article 115 of the Treaty of Rome

Appendix F contains a description of Article 115 of the Treaty of Rome.

#### *Description of the measures for the completion of the single market*

Recourse to Article 115 was necessary so that Member States could ensure compliance with the MFA quotas. The article made it possible for a Member State to exclude goods of extra-community origin which had entered the European Union through another Member State. Without this article, operators could easily get round the MFA quotas. The fact that Article 115 has fallen into disuse is therefore linked to the communitarization of the MFA quotas. Without a national quota, the Member States have no further reason to seek application of Article 115.

#### *Contextual elements necessary for understanding what is involved in these measures*

Textile products accounted, structurally speaking, for more than half the total of instances of recourse to Article 115. Frequency of recourse has evolved over three periods:

- (a) In 1977 and 1978, there was a marked upsurge, explained by the fact that initially the European Commission granted protection for fairly long periods, generally for one year, and for entire categories of products. From 1978, protection was granted for shorter periods and for more restricted categories of products. The consequence is obviously that recourse becomes more frequent.
- (b) Between 1980 and 1981, the number of appeals lodged fell by one third, mainly because of Decision No. 80/47/EEC,<sup>9</sup> which makes the implementation of Article 115 dependent on the existence of economic problems.
- (c) Since 1982 there has been a steady fall, explained by the improving economic climate and then by the objective of completing the single market. Since 1980 the number of appeals dismissed in relation to those lodged has increased, reflecting a hardening of attitude by the Commission in anticipation of this target. However, the fall in the number of appeals is largely connected to a drop in the number of applications made by the Member States (see Table 3.4).

<sup>8</sup> Source: Euratex and national and European professional bodies.

<sup>9</sup> Commission Decision of 20 December 1979 on surveillance and protective measures which Member States may be authorized to take in respect of imports of certain products originating in third countries and put into free circulation in another Member State (80/47/EEC), OJ L 16, 22.1.1980, p. 14.



**Table 3.4. Number of authorized appeals to Article 115 for textile and clothing products (authorizations and extensions taken together)**

Year	Number
1984	125
1985	110
1986	112
1987	122
1988	82
1989	82
1990	50
1991	32
1992	0

Source: Commission of the European Communities, DG III.

The distribution by country was more or less stable over time. The table below shows that most of the appeals were filed by France, Ireland, Italy and the United Kingdom. For the other Member States, recourse to Article 115 was almost negligible.

**Table 3.5. Number of authorized appeals based on Article 115 introduced by a Member State between 1984 and 1988 – textiles and clothing (including extensions)**

Country	D	BNL	DK	E	F	GR	IRL	I	P	UK	Total
Number	0	17	2	2	223	0	237	40	0	32	553
%	0%	3%	0%	0%	40%	0%	42%	7%	0%	5%	

Source: Commission of the European Communities, DG III.

If we consider the breakdown by country following the announcement of the completion of the single market, we find a similar distribution to this: in 1990, France was in the lead with 41% of applications, followed by Spain with 29%, Italy with 17% and Ireland with 8%; the other Member States lodged virtually no appeals based on Article 115.

#### *Impact expected on the introduction of these measures*

The decline in recourse to Article 115 should result in more fluid circulation of goods of extra-community origin, and facilitate the triangularization of trade, that is, the import of goods of extra-community origin by certain states, which subsequently re-export them to other Member States.

#### *Implementation in practice*

Appeals based on Article 115 have been rejected since 1992 for products in the textile and clothing sector. The article has not in fact been used since that date in this sector.

*Kinds of impact found to exist and those still awaited*

The elimination of Article 115 is closely linked to the communitarization of quotas; it is therefore one of the factors which impact on the development of intra and extra-community trade, as described in the preceding section (Section 3.2.1).

3.2.3. The readjustments of the outward processing traffic system

Appendix G explains the concept of the outward processing traffic system (TTP).

*Description of the measures for the completion of the single market*

The communitarization of the TPP system could offer European operators in each Member State an equal opportunity to benefit from the TPP, although initially quotas are granted to operators according to their record of use of the TPP.

Under the new regulation applying to the TPP,<sup>10</sup> the conditions for benefiting from the TPP system are as follows:

- (a) manufacturing within the EC products which are similar to and at the same stage of manufacture as products re-imported for which the benefit of the TPP is sought;
- (b) carrying out within the EC the main manufacturing processes for these products, especially sewing and making up or knitting;
- (c) the goods temporarily exported must be of Community origin; waivers may be granted on this point by Member States, but to a limit of 14% of the total value of the goods for which the regime was granted to the beneficiary during the previous year.

The new operating principles are as follows:

- (a) the annual quantities of compensatory products are fixed at the Community level; the national authorities divide these quantities among the potential beneficiaries on the basis of their applications;
- (b) every former beneficiary receives an amount equal to the quantity for which he carried out TPP operations in 1993 or 1994, for each category of product and for each third country;
- (c) the quantities which remain available are divided by the Commission according to notifications received by the Member States and the chronological order in which they have been received;
- (d) producers may only benefit from the TPP if they can show that they have maintained their production within the EC during the previous year; the outward processing value must not exceed 50% of the value of Community production;
- (e) customs duties (12%) are levied only on the added value actually achieved abroad.

*Description of the changes effected by these measures*

The new TPP regulation introduces five significant changes:

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<sup>10</sup> Council Regulation (EC) No. 3036/94 of 8 December 1994 establishing economic outward processing arrangements applicable to certain textiles and clothing products re-imported into the Community after working or processing in certain third countries, OJ L 322, 15.12.1994, p. 1.

- (a) The definition of the producer has been made more precise. In future only producers can request a TPP licence; previously distributors could also obtain one. Moreover, subcontractors may now obtain a TPP licence whereas previously they were excluded.
- (b) The regulation provides for the possibility of using materials from third countries up to a limit of 14% of the total value of the goods; previously these 14% were granted according to Member State, each state dividing this volume among the enterprises in the country according to specific rules. As a result, some enterprises could work wholly with materials of extra-community origin. In future the division is to be made directly by enterprise, on the basis of the historical record, with a transition period of three years for enterprises which previously exceeded the 14% limit.
- (c) The quota distribution system has also been changed; previously, each Member State had a quota which it distributed to the enterprises in the country; from now on there is a Community quota which is divided among the enterprises according to two rules: those who resorted to the TPP under the former regulation are granted reference quantities based on the historical record; enterprises newly involved with the TPP regime are granted TPP licences according to the rule of 'first come, first served'.
- (d) For newcomers to the TPP regime, an important condition has been introduced which did not exist before: at least 50% of the added value produced by the enterprise must be maintained within the European Community. This condition introduces a limitation on TPP trading.
- (e) Finally, a relationship has been created between the TPP and jobs: enterprises which reduced their staffs in the year preceding the request for a TPP licence will have the licence reduced, whether they are newcomers to the TPP regime or traditional users.

#### *What has not changed*

The national authorities continue to issue the TPP licences for the MFA quotas. They must inform the European Community through the SIGL and obtain agreement within the quota limits, so that these operations will be taken into account for the proper quota.

#### *Contextual elements necessary for understanding what is involved in these measures*

In the clothing sector, the share of imports from central and east European countries in total EC imports went up by 2.4 times between 1988 and 1992. In addition, TPP exports account for a growing proportion of exports of these countries: from 23% on average in 1988, they rose to 56% on average in 1992, still in the clothing sector.<sup>11</sup>

This trade has developed especially with the CEECs, because of:

- (a) their geographical proximity, which results in lower transport costs (ECU 1,200–1,600 for 80 m<sup>3</sup>, as compared with ECU 4,000 coming from Casablanca, and acceptable periods for transport (of around two to three days));<sup>12</sup>
- (b) the low labour costs in these countries (sometimes one tenth of the average costs in the EC);

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<sup>11</sup> Eurostat/Comext in *CEEC Exports to the EC (1988–1993). Country differentiation and commodity diversification*, Françoise Lemoine, 1994.

<sup>12</sup> Mercer Management Consulting, Report on *European subcontracting in the clothing sector*, March 1994.

- (c) their long industrial tradition, which means that the quality of work is higher than in other third countries.

*Impact expected when these measures are introduced*

The objective of these new texts was to enable competitiveness in the Community textile and clothing industry to be maintained by reducing production costs, while maintaining productive activity on Community territory.

*Implementation in practice*

It is still too early to draw up a factual overview of these new regulations. The returns from the industry indicate that applications continue to diverge as among Member States; these discrepancies are explained partly by the lack of any implementation rules. A regulation along these lines is under preparation, and should come into force in early 1996.<sup>13</sup> These remaining discrepancies are difficult to evaluate; one example is the differing frequency of the calculation for the waiver relating to the 14% of products of extra-community origin which can be included in the processing of products concerned in the TPP operation: in Germany the calculation is made annually, which leaves a greater margin of flexibility than in countries where the calculation is done monthly or according to consignment dispatch. The disparity between the stricter countries (Italy, Greece, France and Spain) and the liberal countries (Germany, Netherlands) persists.

*Kinds of impact which have actually occurred and those still awaited*

Figure 3.2 shows the rapid advance in the use of the TPP by certain countries. The phenomenon is especially marked in Germany, which has adopted positions especially favourable to recourse to the TPP.

The trends prior to 1992 are continuing without any particular interruption.

Germany has expressed the fear that administrative procedures may become more cumbersome, which might set off a wave of relocations. This risk is all the more evident because there are discrepancies between Member States in the way they grant TPP licences. Germany, in particular, interprets in a somewhat flexible manner the option of using goods of extra-community origin within the 14% limit (see above). The result is a greater margin of manoeuvre for relocating a whole stage of production. The European Commission will have to continue observing possible developments of this kind.

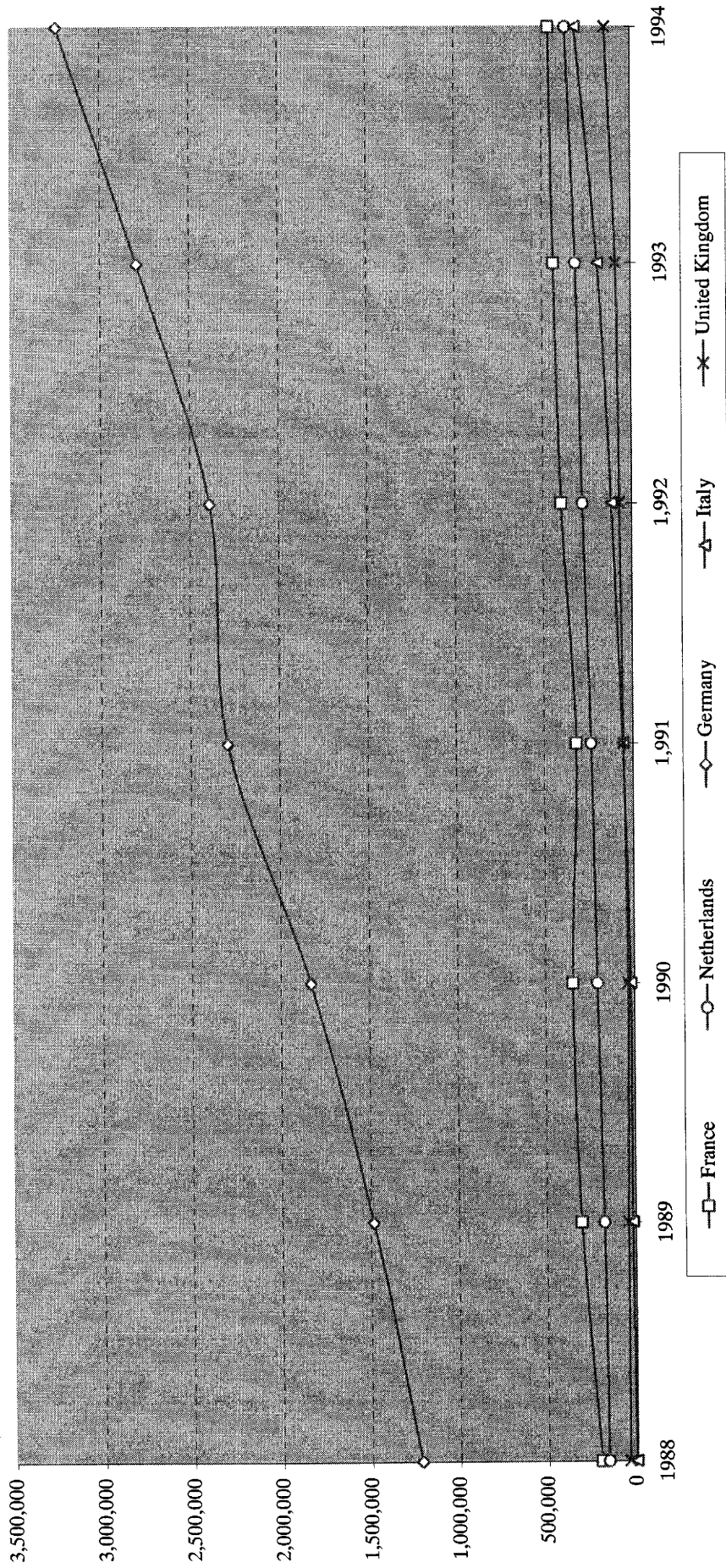
The survey carried out among 94 companies tends to show that recourse to the TPP is no easier since these measures.

We should note that the European Community will liberalize its trade with the CEECs in 1998: customs duties will be eliminated (they are now 13.8%) along with quotas. By then, the use of the TPP regulation will therefore largely have been abandoned.

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<sup>13</sup> Subsequently adopted as Commission Regulation (EC) No 3017/95 of 20 December 1995 laying down the provisions for the implementation of Council Regulation (EC) No 3036/94 establishing economic outward processing arrangements applicable to certain textile and clothing products reimported into the Community after working or processing in certain third countries (OJ L 314, 28.12.1995, p. 40).

Figure 3.2. TPP imports by the main EC countries, in ECU 1000



Source: Eurostat/Federtessile.

### 3.2.4. The free circulation of goods and the elimination of customs barriers

#### *Description of the measures for the completion of the single market*

Since 1 January 1993, there have been no further checks on internal frontiers for goods of intra-community origin or for goods of extra-community origin released for free circulation on Community territory.

No customs documents are now required to transport goods from one Member State to another. The single administrative document has been abandoned.

The transit regime now applies only to goods of extra-community origin, with a few exceptions.

Before 1 January 1993, checks were made in customs warehouses to verify the origin of the goods, to carry out operations associated with VAT, to record information for statistical purposes, to manage the transport policy etc.

#### *Contextual elements needed to understand what is involved in these measures*

Intra-community trade represents about 60% of total trade in textiles, and more than 50% of total trade in clothing (cf. Sections 6.3.1 and 6.3.2).

The time taken for transport in intra-community trade was on average three days.<sup>14</sup>

Transport costs accounted for between 2% and 4% of manufacturers' turnover.<sup>15</sup>

#### *Impact expected when these measures are introduced*

The expected impact of eliminating customs barriers was as follows:

- (a) A reduction in delivery times owing to less time being devoted to administrative formalities on internal frontiers.
- (b) A reduction in the cost of sales administration by lessening the administrative tasks associated with intra-community exports, and by less frequent use of forwarding agents.
- (c) This increased facility in trade should result in the readjustment of commercial policies, which would become more international in order to find markets which have become more attractive because they are easier to enter. Logically, this should result in the production of larger volumes and longer series, and therefore lower production costs by exploiting economies of scale, which did not seem very likely. On the other hand, economies of scale with regard to distribution (advertising budgets) were expected to be more likely.
- (d) This increased facility in trade should also result in readjustment of supply policies. Sourcing supplies would become more international, and, because of the purchase of larger volumes, should become more competitive. Logically, this should result in obtaining better prices.

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<sup>14</sup> Interviews.

<sup>15</sup> Interviews and survey.

- (e) Another consequence should be a readjustment in product ranges, in order to make even better use of these purchasing policies.

### *Implementation in practice*

These measures seem to be applied more or less correctly. However, some differences remain between countries with regard to customs practices:<sup>16</sup>

- (a) In Italy, customs officials are still stopping lorries to check their contents and origin, and to inspect the 'made in' labels. This is not the case in Germany or the Netherlands.
- (b) Within the same country, some custom clearance points are stricter than others. For example, in some custom clearance points, all goods are checked, which is not necessarily the case in other custom clearance points.
- (c) In Spain, checks are also strict. This is due to a law dating from 1990 on labels for clothing (use of the Spanish language, information to be given, etc.). This law has now been suspended.

During the transitional period for the communitarization of quotas (see above), goods of extra-community origin must be accompanied by documents certifying their origin and their destination. This is a customs document which existed until 31 December 1994.

### *Kinds of impact which have actually occurred and those still awaited*

The elimination of customs barriers is certainly one of the measures for the completion of the single market which has contributed most to the competitiveness of the textile and clothing sector.

The simplification of customs formalities when intra-community frontiers are crossed has done away with waiting periods (of several hours, or even two days in cases where the consignment arrived at customs just before the weekend). Most enterprises say that it is now as simple to send goods to another Member State as within the same country. There is a broad consensus on this within the profession.<sup>17</sup>

This reduction in delays is highly appreciable in a sector where deadlines are becoming tighter and tighter, and where the ability to react is one of the only competitive advantages of Community industry which is difficult to attack.

The simplification of formalities, associated with the liberalization of transport, enables enterprises to split up their orders and their deliveries, and therefore to be more flexible. Previously, the same procedures had to be followed for small or for large volumes. Companies therefore had an interest in combining volumes of goods in order to reduce the proportion of administrative costs. Now that administrative costs are lower, this need is less pressing. Taking all the factors together, the gain has been estimated at one day per order, and 15–20% of the delivery time (the total time between the order and the delivery).<sup>18</sup>

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<sup>16</sup> Professional bodies.

<sup>17</sup> Interviews and survey among industrialists, distributors and professional bodies.

<sup>18</sup> Interviews, case studies.

This simplification also means that it is less often necessary to go via forwarding agents, which reduces the costs of the service providers and creates more direct contact with the market, and therefore allows a better adjustment to developments on it.

The survey which we carried out among the 94 enterprises in the sector reveals the following points of view:

- (a) 64% of companies consider that intra-community trade has become easier and less expensive than before; this percentage shows an insignificant variation depending on the countries in which the companies are operating. The improvement is shown to be greatest for enterprises employing fewer than 250 people and is particularly evident for enterprises in the textile sector, clothing companies being less conscious of an improvement.
- (b) These improvements have been exploited mainly in the form of a reduction in time spent on sales administration, especially in the textile sector, which has not been reflected in a reduction in the staff concerned, and a reduction in delivery times to the customer, especially in ready-to-wear clothing enterprises. This reduction is achieved largely through partial deliveries.
- (c) They have also meant that less use is made of forwarding agents (77% of respondents), especially for enterprises with fewer than 250 employees.
- (d) The costs of using forwarding agents have fallen, but only by very low percentages: in 1990, 22% of the respondents placed the percentage of these costs in the total costs of their enterprise between 0% and 1%, and 5% located it above 1%, 72% not having this ratio. In 1994, 26% of respondents situated the percentage of these costs in the total costs of their enterprise between 0% and 1%, 4% above 1%, and 70% not having this ratio. Only 9% of respondents considered that these costs have fallen between 1990 and 1994.

The survey carried out by Eurostat confirms the viewpoints expressed in the CEGOS survey. The percentage of enterprises in the textile and clothing sector which consider that 'the elimination of frontier delays' has had a positive impact on their enterprise has gone up to 65%. For the 'elimination of frontier documents' the percentage is 62%.

These factors do in fact enhance the competitiveness of Community products compared with extra-community products, as the distributors have confirmed when they add up all the costs; the elimination of tariff barriers on intra-community trade reduces the cost variance between European products and products from third countries. If we add up all the costs together with the quality problems and the necessary organization, **a variance of 20% is necessary for a product from a third country to be worth having.**<sup>19</sup>

This variance breaks down as follows:

Economic aspects:

- (a) No customs duties, i.e. 14%.
- (b) No more forwarding costs, i.e. 0.15–0.5%.

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<sup>19</sup> Interviews with distributors.



- (c) Qualitative aspects: restocking is easier and less expensive; the cost and time involved in restocking an article from the Far East can act as a deterrent. The quality is more even, making quality control on receipt a simpler process which therefore requires fewer workers. The logistics are more reliable (deliveries made on time).

It can be said that the completion of the single market contributes about one fifth to this variance.<sup>20</sup>

The organizational consequences of these measures have still to be exploited:

- (a) the process of internationalizing ranges by the distributors is under way, but is encountering resistance to change on the part of purchasing services;
- (b) there is little evidence of industrial economies of scale, because of the fragmented nature of the sector and the lack of concentration, except for a few sectors (see below);
- (c) the economies of scale relating to distribution and marketing have been little exploited, because of the non-harmonization of consumer preferences.

### 3.2.5. The changes in the VAT system and the simplification of administrative procedures for trade in goods

The VAT system raises two issues:<sup>21</sup>

- (a) the issue of VAT rates and their heterogeneity;
- (b) the issue of administrative procedures.

#### *The issue of the rates and aligning them*

The completion of the single market provides for the gradual alignment of VAT rates.

The impact of the VAT rates does not seem to be very significant for enterprises in the textile and clothing sector, because:

- (a) the principle of VAT neutrality was respected both under the previous system and under the transitional system, both being based on the principle of application in the importing country;
- (b) price elasticity is modest, and it is therefore unlikely that any link can be made between variations in VAT rates and consumption volume.

<sup>20</sup> That is, all the costs of forwarding agents (0.15–0.5%) and half the qualitative advantage, or one half of about 5.5%.

<sup>21</sup> The following directives have been adopted:

- (a) First Council Directive of 11 April 1967 on the harmonization of legislation of Member States concerning turnover taxes (67/227/EEC), OJ L 71, 14.4.1967, p. 301;
- (b) Sixth Council Directive of 17 May 1977 on the harmonization of the laws of the Member States relating to turnover taxes – Common system of value added tax: uniform basis of assessment (77/388/EEC), OJ L 145, 13.6.1977, p. 1;
- (c) Eighth Council Directive of 6 December 1979 on the harmonization of the laws of the Member States relating to turnover taxes – Arrangements for the refund of value added tax to taxable persons not established in the territory of the country (79/1072/EEC), OJ L 331, 27.12.1979, p. 11;
- (d) Council Regulation (EEC) No 218/92 of 27 January 1992 on administrative cooperation in the field of indirect taxation (VAT), OJ L 24, 1.2.1992, p. 1;
- (e) Special regime applicable to small and medium-sized enterprises (COM(86) 444; COM(87) 524);
- (f) Elimination of fiscal frontiers (final VAT regime) COM(87) 322.

**Table 3.6. VAT rates applicable to textile and clothing products**

Country	VAT rates applicable to textile and clothing articles (%)
Germany	15
France	20.6
Italy	16
Netherlands	17.5
Luxembourg	15
Belgium	20.5
United Kingdom	17.5 (Children's clothing is zero rated.)
Ireland	21 (Children's clothing is zero rated.)
Denmark	25
Greece	18
Spain	16
Portugal	17

In fact, where differences in rates persist and necessitate the maintenance of particular administrative procedures, the extent of these differences has little impact on enterprises in the textile and clothing sector. There may be an impact in the frontier zones, especially in the Danish and Belgian zones closest to the German borders, where the VAT rate differential is greatest. However, this phenomenon has not been mentioned by anybody in the sector, and is therefore probably minimal.

The issue of the administrative procedures associated with VAT is more significant for enterprises in the textile and clothing sector.

#### *Description of the measures for the completion of the single market*

The abolition of frontiers among the Member States involves changing the associated procedures for selling goods among Member States and for collecting VAT.

The checks on VAT on the frontiers between Member States are abolished, VAT repayments among States being carried out on the basis of declarations of the sale of goods which list merchandise purchased and sold in other Member States. This declaration has to be sent to the national authorities, which carry out checks on the basis of commercial documents.

From now on the statistics are to be supplied by the enterprises themselves, through the declaration of the sale of goods and the Intrastat system.

With the elimination of customs on internal frontiers, the concept of import and export no longer exists as between the Member States; all reference is now to intra-community deliveries and purchases. Where certain conditions are fulfilled, the supplier makes an intra-community delivery and the customer makes an intra-community purchase. These conditions are as follows:

- (a) being able to prove that the goods have crossed the frontier;
- (b) giving the VAT identification number for the customer and the supplier.

If these conditions are fulfilled, the supplier issues an invoice exclusive of tax (not, as in the past, inclusive of tax).

The customer receives the invoice; the purchase is taxable in the country of destination of the goods; the customer must 'self-discharge' his country's VAT, that is, the customer himself must pay the VAT, which he declares, pays and then deducts. This represents a significant change for enterprises.

The customer and the suppliers must fill in declarations of a sale of goods. This declaration is not standardized among the different countries (in France there is a single document in two copies; in Germany, one document for purchases and one document for deliveries), but this should not in itself cause any difficulty for enterprises.

It should be noted that this is a transitional system. Under the final system, the principle is taxation in the country from which the goods are sent.

#### *The changes made by the new measures*

The changes introduced by this new system are as follows:

- (a) the VAT is self-discharged by companies; this represents quite significant changes in the administrative procedures of companies;
- (b) the VAT declaration is made by the enterprises, and not as before by the customs service;
- (c) the invoices are drawn up exclusive of tax, not (as before) inclusive of tax.

#### *The impact expected when these measures are introduced*

The expected impact of the changes relating to indirect taxation was a relatively short adaptation period for enterprises.

#### *Implementation in practice*

In practice, the introduction of the system has generally been more or less straightforward. All Member States emphasize that preparation has been too rapid and the time allowed too short but, for the most part, the national authorities have been more or less flexible and understanding.

#### *Impact actually found to occur, and the impact still awaited*

The modifications associated with changes in indirect taxation have not been favourably received among enterprises in the sector, as the declaration of the sale of goods has necessitated making an investment. According to an expert in company taxation, the difficulties which enterprises have found it hard to cope with are the following:

- (a) The declaration of sale of goods requires enterprises to deal with concepts unfamiliar to them (the distinction between fiscal value = purchase value, and statistical value, which includes transport costs, insurance costs etc.); these concepts existed but were handled by forwarding agents.
- (b) The VAT identification number has caused problems, as enterprises have had to collect the numbers of all their customers and all their suppliers. The Commission's database provides some help, but the task involved has been considerable, as clients and suppliers have had to be sent circulars and taught to indicate these numbers.

- (c) VAT and its administrative management involve fairly automatic processes which are applied without raising questions about the underlying mechanisms. With the changed system, it has been necessary to do away with these automatic reflexes. There are real difficulties in understanding the new machinery, and it has been necessary to work on reorganizing marketing channels, and adapting computer programs and training programmes. This has placed a heavy burden on small businesses in particular, which have no specialist staff able to carry out these adaptations and understand quickly what is required.

According to the survey by Eurostat, 37% of enterprises saw the impact of the changes as positive and 17% as negative; for the other businesses, the impact was neutral or they expressed no opinion.

The CEGOS survey has analysed this aspect in greater depth. Adjusting to the VAT changes has raised problems for enterprises, at least in the short term:

- (a) 57% of companies have had to change their computer information system, regardless of the size of the business; the investment has not necessarily been very high (less than ECU 3,000 for a quarter of enterprises employing fewer than 250 people);
- (b) 53% have had to give their employees special training, the SMEs using this method less often than the bigger companies;
- (c) only 6% of companies have increased the frequency with which they call upon an external service-provider, regardless of the size of the business or the sector of activity. However, the financial outlay involved remains relatively low.

A director of a large Italian textile and clothing firm gave the following relative figures: one employee in sales administration can handle 300 customers in Italy, 100 customers in the European Community and 50 customers in the Far East. This shows that administrative simplification has not yet brought about a completely integrated internal market from an administrative point of view.

Moreover, collecting the VAT identification numbers has caused extra work generally lasting several days.

### 3.2.6. The harmonization of technical standards

The differences between national laws concerning the products were seen as one of the main obstacles to the free circulation of the goods. Before the completion of the single market, Member States often had their own system of standards; imported goods also had to meet national standards, and this was a significant obstacle to trade, which extended to the replies to invitations to tender.

#### *Description of the measures for the completion of the single market*

In the absence of harmonized standards, the prevailing principle is the mutual recognition of standards and tests, that is the acceptance by each Member State of goods which have been legally and properly manufactured in any other Member State, even if these products are manufactured to standards different from those imposed by the technical rules in force in the purchasing country, insofar as the products concerned adequately meet the legitimate objective in view. The principle of mutual recognition of the tests implies, in theory, that a product

checked by a laboratory in one country does not need to pass other tests in the countries in which the product is sold.

In the absence of harmonized regulatory standards, it is up to the Member States, each on its own territory, to regulate the production, sale, consumption, labelling and naming of products, on condition that they do not pose any hindrance to intra-community trade.

The obstacles to trade resulting from disparities between the commercial and technical regulations are not accepted by the European Court of Justice except where these regulations are necessary in order to meet 'imperative demands'. These 'imperative demands' constitute a non-exhaustive list which is subject to case law. The most frequently occurring ones are:

- (a) consumer protection;
- (b) fair dealing;
- (c) the protection of public health;
- (d) the protection of the environment.

The 16 'new approach' directives do not affect textile and clothing products.

#### *Expected impact when these measures are introduced*

The industry is expecting standards to be harmonized, thus creating greater homogeneity among markets and greater transparency of information.

The expected impact was:

- (a) the free circulation of goods, hence increased intra-Community trade;
- (b) possible investment to bring certain enterprises up to standard with respect to harmonized standards;
- (c) economies of scale where they can be achieved, by means of longer and more homogeneous production series and greater simplicity in stock control.

#### *Implementation in practice*

The standards are laid down by the CEN (European Committee for Standardization).

The main complaint about the work of the CEN is its slow progress. Where CEN standards exist, the Member States undertake to suspend their own work on standardization. However, pending the preparation of CEN standards, there is nothing to prevent the Member States from continuing their work and thus from devising potential technical barriers under the pretext of protecting the consumer, public health or the environment. Hence the slow pace of the harmonization work increases this risk. The process of standardization for carpets has only recently been completed, and it took eight years.

This slow progress is due to several factors, according to the professional bodies:

- (a) the struggle for power among the national standards bodies, each seeking to impose its own standards;
- (b) the lack of determination and involvement of industry, directly linked to the resources which it invests. The large enterprises play a predominant role in this standardization process, as they have the most resources to finance participation by experts.

The technical barriers raised by the differences in standards, and especially by the non-recognition of tests and laboratories, are far from disappearing. Tables 3.7–3.12 give a fairly comprehensive overview of the compulsory national rules which constitute obstacles to the principle of mutual recognition.

The sectors most affected are carpets, clothing and geotextiles. In this sector, the standards most often referred to as causing problems relate to:

- (a) inflammability;
- (b) tests and certifying procedures to comply with national law on construction, which affects carpets, furnishing fabrics and geotextiles;
- (c) the prohibition of certain chemical substances;
- (d) particular requirements relating to labelling.

The consequences for enterprises are:

- (a) additional costs, especially for the tests, the time taken for certification procedures and stocking, but only to a small extent due to the adaptation of products. For instance, in Germany certification for fibres used in Fibrociment can take several years;
- (b) access to certain markets is less easy; when the article produced does not comply with the national standards in force in the country targeted for export, the enterprise will usually refrain from exporting it.

Almost all the Member States were mentioned, but this cannot be regarded as fully representative. The Member States most often referred to are the United Kingdom, Germany, Italy, France, Belgium and the Netherlands.

For information purposes, the following tables show the findings of a survey by Euratex of its members on the subject.

**Table 3.7. Remaining technical obstacles associated with standards. Use of national standards in legislation**

Legislation concerned	Requirements	Effects
United Kingdom: Furniture and finishing fire safety legislation	Holding back the fire	Additional stocks
Italy: Restrictions concerning tests	Submitting a sample only to an Italian body	Need for a local agent
All Member States	Tests for certification in geotextiles	Delays Costs Additional tests

**Table 3.8. Remaining technical obstacles associated with standards. Safety requirements in national legislation**

Legislation concerned	Requirements	Effects
Austria Ö-Norm BJ810 & Ö-Norm BJ800	Holding back the fire National legislation differs and calls for different tests	Limits entry onto the market; cost overruns caused by the test
Netherlands NEW 1775		
Spain UNE 23.727.80		
Italy UNI 19174 and UNI 18457		
France NFP 92-506 and NFP 92-501		
Germany DIN 54332 and DIN 4102PT14		
Portugal NP 4102		
Belgium NBN S21-203		
Netherlands Legislation on sleepwear	Special inflammability requirements	Limits entry onto the market; cost overruns caused by the test Legislation currently suspended

**Table 3.9. Remaining technical obstacles associated with the standards. Health requirements in national legislation**

Legislation concerned	Requirements	Effects
Germany Draft law prohibiting the use of azoic dyes	Use prohibited on German territory	Cost
Germany Prohibition of the 'stone bleach wash' procedure for jeans	Use prohibited on German territory	Cost Change of technology
Germany Draft law MAK III	Prohibition of potentially cancerous dyes	Cost
France Preparation of a law similar to the German law on azoic dyes		Cost
Finland	Limitation of the use of formaldehyde	

**Table 3.10. Remaining technical obstacles associated with the standards. Requirements for testing in specific laboratories**

Legislation concerned	Requirements	Effects
Austria	Tests for inflammability and certification only by national laboratories	Costs Delays
Spain		
Portugal		
France		
Germany		
France	Requirements for certifying materials for use in public buildings: only five laboratories	Costs Delays
Italy and Germany DIN 4102	Official homologation is necessary for everything which has to do with the inflammability of carpets	Regardless of which laboratory carries out the tests, a final visa provided by an official laboratory is necessary, with significant delays
Germany DIN 4102	Certification by BAU, Berlin only	Significant delays
Italy CSE RF 3/77 and CSE RF 2/75	Tests are valid only in Italian laboratories	Costs Delays
All Member States Inflammability tests for carpets	Certification by the laboratories of each Member State	Costs Delays
Netherlands	Inflammability test. Tests valid only if carried out by national laboratories	Costs Delays



**Table 3.11. Remaining technical obstacles associated with the standards. Requirements for labelling and packaging in national law**

Legislation concerned	Requirements	Effects
Portugal Decreto Lei 238/86	All the information on the labels must be in Portuguese, even information which is not compulsory.	Translation, including 'made in' which has to be written as 'feito em'
Spain	All the information on the labels must be in Spanish, even information which is not compulsory.	Translation, including 'made in' which has to be written as 'fabrica en'
Green point Grünepunkt (Allemagne) Ecoemballage (France)	Requirements concerning reusable packaging	Barriers on packaging products

In parallel with this Euratex survey, the enterprises which replied to the survey carried out by CEGOS have mentioned the following regulatory requirements in the Member States.

**Table 3.12. Requirements contained in national legislation, by Member State**

Type of requirement	UK	F	I	D	NL	DK	B	L	IRL	E	P	GR
Inflammability	X	X		X	X	X	X		X			
Dyes	X	X	X	X	X	X	X	X	X	X	X	X
Packaging	X	X		X	X						X	
Labelling	X	X	X	X	X	X	X	X	X	X	X	X
OLOTEX	X	X		X	X		X					X
ISO 9000 Certification	X			X								

*Source: CEGOS survey.*

As regards national regulations for environmental protection, there are two reasons for the development of these regulations:

- recourse to Article 10(a), which authorizes Member States which voted against harmonization measures in the Council to apply more restrictive specifications on their territory;
- the absence of harmonized regulations at the Community level, which authorizes Member States to issue their own rules.

The legislation concerned includes, for example:

- Germany's prohibition of azoic dyes;
- the identical draft law in France.

There is also some vagueness about metallic components (chrome and nickel for buttons and wool dye).

The main sectors affected by these laws are finishing and printing. Some national laws prohibit the sale of goods using these substances. This raises a problem for the circulation of goods of intra- and extra-community origin. Others prohibit the use of these substances, for

instance the Netherlands for carpets. Enterprises get round the law, for instance, by having processing done in Belgium, where it is not prohibited.

### *Impacts found to occur and impacts still expected*

The survey we carried out in 94 enterprises shows that the situation has not improved.

In reply to the question 'before 1990 did your firm have to adapt its products to comply with regulatory standards or requirements concerning tests, in order to sell them in other Member States?', 27% gave a positive answer and 66% a negative answer. To the same question regarding 1994, 30% replied positively and 63% negatively. This even implies that the situation has deteriorated slightly.<sup>22</sup>

An analysis according to type of enterprise appears to show that there has been some deterioration for SMEs, and for textile, carpet and knitwear firms. At the same time, there has been some improvement for large enterprises, women's ready-to-wear and high-performance textiles. The survey confirms that the countries posing the largest number of problems are the United Kingdom (for 61% of respondents) and Germany (for 68% of respondents).

The survey by Eurostat tends to bear out the conclusions of the CEGOS survey, indicating that the single market has not improved the position of enterprises in any significant way. The majority (68.4%) consider that the impact of harmonizing technical regulations is neutral; 15% hold the view that it was positive, 7% that it was negative and 9% did not know. As regards mutual recognition, 59% consider it neutral, 18% positive and 7% negative (15% did not know).

The consequences of this situation, for enterprises, are:

- (a) first of all, higher production costs;
- (b) secondly, investment to meet the requirements;
- (c) finally, though far behind the first two, the decision not to trade with these states. The low score on this reply is explained by the size of the markets concerned. The survey conducted among enterprises in the sector shows that by far the most important criterion in the selection of countries to which an enterprise will export its products is the size of the market and its growth potential (57% of replies). The United Kingdom and Germany are sufficiently large markets in the light of this criterion for Community enterprises to make the necessary investment.

### 3.2.7. Protection of the environment

The protection of the environment, in the textile and clothing industry, is approached in three different forms:

- (a) the European programme for recycling packaging;
- (b) developing the Eco-label;
- (c) European directives, for instance prohibiting certain substances.

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<sup>22</sup> This problem affects textile enterprises more than clothing enterprises, but the situation in both sectors has not changed since 1990.

The need to devise European measures to protect the environment is partly the result of developing measures or arrangements at national level. What has to be done is to avoid a proliferation of national measures which would constitute barriers and would involve additional costs for enterprises.

#### *The European programme for recycling packaging*

Some Member States, including in particular France, Germany, Italy and Belgium, are already taking part in the programme for recycling packaging. The cost involved for enterprises in these countries has been estimated at between 0.5% and 0.8% of turnover<sup>23</sup> but general acceptance of this programme will avoid the proliferation of different programmes which would constitute barriers and would involve additional costs for enterprises. But this is also a barrier for the other countries, since they have to take part in the programme in order to be able to sell in these Member States.

#### *Development of the Eco-label*

The need to devise an 'eco' label became apparent in the light of the development of private and/or national arrangements. An Eco-label is a means of avoiding a proliferation of quality marks and labels, which would constitute barriers to trade. These arrangements involve considerable cost for enterprises, as the tests carried out by the associations have to be financed. For example:

- (a) the Eco-tex label;
- (b) the Oeko-tex 1000/Öko-tex label; the bodies which issue the certificate are located in Northern European countries, including countries beyond the boundaries of the EC;
- (c) the Eco certification;
- (d) the label issued by Stichting Miliuekeur (Denmark); it costs NLG 5,000 initially, then NLG 4,000 a year and 2.4% of the price of products manufactured in the Netherlands;
- (e) the label issued by Nordic Environmental Label.

These labels relate to the product, but they are evolving towards the production cycle in Germany, and also take account of the production of raw material (pesticides, insecticides).

These associations have stepped into a legislative gap which is to be filled by the Eco-label for enterprises which can use it and wish to do so. The Regulation of 23 March 1992<sup>24</sup> provides for the appointment, in the twelve Member States, of a competent body to manage the European Eco-label.

The objective of the Eco-label is to identify products which respect the environment throughout their life cycle, extending to destruction operations. Two test products have been designated for a test period:

- (a) cotton tee shirts;
- (b) cotton and polyester bed linen.

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<sup>23</sup> European Carpet Association.

<sup>24</sup> Council Regulation (EEC) No 880/92 of 23 March 1992 on a Community eco-label award scheme, OJ L 99, 1.4.1992, p. 1.

The Eco-label is eventually expected to be phased out, by a date still to be decided.

The criteria for textiles are being prepared and validated. Defining them is more difficult, because of the complexity of the production cycle for textile products and the lack of cooperation among the various players. For the same reason, the label focuses on finishing. These criteria will be valid for the entire EC.

Producers using the label will have to pay annual licence fees (0.15% of turnover in the United Kingdom).

The Eco-label may transform the environmental approach of enterprises and enable niche marketing to emerge (ecological products). Some markets, like Germany, are especially sensitive to this aspect. On the other hand, the industry still has grave reservations as to whether this measure will be really effective in reducing emissions and wastes. After all, the bodies which issue the label depend on their members for their income; this financial dependency makes it difficult to apply any sanctions on a member who does not respect the criteria (see below).

#### *European directives*

For example, the European directive on 'benzidine' (in draft form) prohibits the treatment of products with dyes derived from benzidine. The difficulties this raises are the cost for enterprises of adapting their procedures, and especially finishing; they sometimes have to alter their production processes.

One of the objections raised by the industry is that these texts prohibit the use of these substances, but not the import of products which have been treated with these substances. This creates a competitive handicap for Community enterprises, which are talking of 'ecological dumping'.

It should be noted that European research programmes, and especially those under BRITE EURAM, help enterprises to adjust; for instance, the Excolour programme, which deals with the decoloration of industrial waste water, conducted by Centexbel, with the possibility of recycling in some cases. There is also Synbleach, launched to develop bleaching techniques that will reduce the quantity of halogenic byproducts released into the atmosphere and the water (AOX, often byproducts of chlorine).

#### 3.2.8. The harmonization of rules on public contracts

##### *Description of the measures for the completion of the single market*

The measures aimed at the completion of the single market were geared mainly to harmonizing procedures and improving the clarity of information.

##### *Contextual elements necessary for understanding what is involved in these measures*

Public contracts represent an important area for the textile and clothing sector, especially in:

- (a) the army (uniforms, blankets, mural and wall textiles etc.);
- (b) the fire services;

- (c) hospitals (bed linen, blankets, work clothes, operating areas, compresses and bandages, etc.);
- (d) the other public services, especially in relation to construction (for example, carpets, furnishing fabrics, high performance textiles, geotextiles).

**Table 3.13. Evaluation of the textile and clothing market in the public sector in 1993, and forecasts for the year 2000 (in ECU million)**

Sector	Size of the textile and clothing market in 1993	Size of the textile and clothing market forecasts for 2000
Army fire service	1 700	2 048
Health services (including private services)	1 100	1 316
Transport and communications	800	961
Culture, education and leisure	700	839

Source: OETH.

#### *Implementation in practice*

The practical implementation of these measures and the effectiveness of the measures are bedevilled by certain problems:<sup>25</sup>

- (a) A language problem. Although the announcements in the Official Journal of the European Communities are published in the languages of the European Union, the registers sent to candidates are drawn up in the language of the purchaser. SMEs do not have the resources or the time to translate them and to reply in the same language.
- (b) A problem of the clarity and dissemination of information, especially as regards the time taken for dissemination: Euratex estimates that 80% of invitations to tender reach enterprises after the date set for the reply.
- (c) In practice, the professional bodies consider that tenders are not always awarded to enterprises in other Member States, for political reasons.
- (d) In order to reply to the invitations to tender, and to have a chance to have the contract awarded to them, enterprises often have to meet national technical standards, and undergo specific tests. This applies especially to the fire services, which carry out their own tests and have their own requirements, which vary from country to country, and even from city to city.

#### *The impact actually found to occur*

The true impact of these measures is difficult to gauge. The professional bodies and the enterprises which we have questioned take the view that at the present time, this legislation has served mainly to make enterprises aware of European invitations to tender but they are very quickly discouraged. This is still a common complaint made by enterprises to their representative bodies.

<sup>25</sup> Professional bodies.

However, enterprises should be beginning to overcome these obstacles. For example, a Belgian association, Promptex, has been set up to distribute invitations to tender (in Belgium and other countries) to their members.

### 3.2.9. The protection of intellectual property

#### *Description of measures for the completion of the single market*

The rules in force and in course of preparation deal with the protection of patents, trade marks, designs and models, and with combating infringements:

- (a) The European patent: the Munich Convention has been in force since 1977. Under the convention, there is a single procedure for filing with the European Patents Office (EPO). Once an application has been filed and accepted, it becomes a bundle of national patents. The Luxembourg Convention was signed in 1975 and is still not in force. It establishes a single title valid throughout the EC, with a legal regime which is independent of national legal systems.
- (b) The European trade mark: the 1988 Community directive to harmonize national law<sup>26</sup> has been transposed into the laws of the Member States. A regulation<sup>27</sup> instituting the Community trade mark will enter into force in 1997. It establishes a single title valid throughout the EC, with its own legal regime. This title should coexist alongside national trade marks, and be run by a Community body based at Alicante (Spain).
- (c) Community designs and models: the draft EC regulation instituting a single title,<sup>28</sup> like the Community patent and the Community trade mark. There is a draft EC directive for harmonization of national law on designs and models.<sup>29</sup>
- (d) Action to prevent infringement: there are two regulations<sup>30</sup> which lay down measures to prohibit putting into free circulation, export, re-export and placing under a suspensory regime of infringing goods and pirated goods. These Community rules state how authorship or original ownership is to be proved, whether the design or model has been filed or not, and provide for the customs authorities, not merely the courts, to have the power to 'block' goods on their own initiative and by agreement with the European industries concerned, before any decision is handed down on the merits of a case.

The changes which these measures represent for the sector are as follows:

- (a) a single filing procedure in all the Member States for patents, trade marks, designs and models;
- (b) the possibility of goods being blocked by the customs authorities, as soon as infringing goods have been identified;

<sup>26</sup> First Council Directive of 21 December 1988 to approximate the laws of the Member States relating to trade marks (89/104/EEC), OJ L 40, 11.2.1989, p. 1.

<sup>27</sup> Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark, OJ L 11, 14.1.1994, p. 1.

<sup>28</sup> Proposal for a European Parliament and Council Regulation on the Community Design, COM (93) 342 final.

<sup>29</sup> Proposal for a European Parliament and Council Directive on the legal protection of designs, COM (93) 344 final.

<sup>30</sup> Council Regulation (EC) No 3295/94 of 22 December 1994 laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods, OJ L 341, 30.12.1994, p. 8, in force since 1 July 1995, and Commission Regulation (EC) No 1367/95 laying down provisions for the implementation of Council Regulation (EC) No 3295/94, OJ L 133, 17.6.1995, p. 2.

- (c) the possibility of covering also unregistered designs and models.

*Contextual elements necessary for understanding what is involved in these measures*

This chapter deals with one of the major concerns of the European textile and clothing industry. The creativity of the European industry is one of its key competitive factors, but at a high cost, as the cost of creating designs can be 6–7% of turnover.

Infringement therefore represents a significant threat to the industry, since it wipes out this key competitive factor, without reducing the costs attributable to creation. For instance, in 1993 in the textile and clothing sector, infringement accounted for ECU 14 billion and at least 5% of the goods placed on the Community market.<sup>31</sup>

For these reasons, the sector is very active in seeking effective and complete protection for intellectual property. In particular, its hopes are raised by the possibility of coverage for unregistered designs and models.

*Impact expected when these measures are introduced*

The single filing procedure will bring lower costs and more straightforward administrative procedures, and this will encourage enterprises to expand the extent of protection. The cost and the cumbersome nature of filing in all the Member States are excessive, especially for the SMEs, and this often discourages them from filing.

The customs Regulations (EC) No. 3295/94 and (EC) No. 1367/95 enable counterfeit goods to be blocked, and therefore enable customs services to prevent them from being distributed before a court decision is made, as was the case previously.

*Implementation in practice*

The majority of the measures most expected by the sector in relation to patents, trade marks, designs and models, are not yet being applied, and the entry into force of the rules on combating infringements is too recent for a review of their implementation in practice.

The customs services say they are not yet equipped to carry out these activities, in terms of operational tools for customs officials.

*Impact actually found to occur*

As the measures are not yet in force, or have been in force for too short a time, it is difficult to come to any conclusions about the impact which has actually been achieved.

One important question is whether the completion of the single market has increased or reduced the ability of the authorities to combat infringements. The abolition of internal frontiers, and therefore of internal customs inspections, makes it more difficult to detect fraud. In fact there are no further checks once the goods have entered the territory of the Community.

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<sup>31</sup> ELTAC.

The possibility of freely choosing the point of entry for the goods also creates difficulties in combating infringements, as flows of goods have been displaced towards the most 'permeable' points. Moreover, the concentration of a significant volume on the same point of entry considerably reduces the efficacy of the checks, since the resources available to the customs services themselves remain constant at a given point. Thus the customs services actually check 1–2% of the goods which enter Community territory. Measures have been taken to redress this situation, such as stepping up controls on external frontiers, in order to reduce the risk of fraud as far as possible. For this purpose the TAFI cell (anti-fraud initiative for textiles) has been set up in order to coordinate the efforts of customs services in the various Member States.

The profession has acquired associations such as the Association Belge Anti-contrefaçon – Belgische Associatie Anti-Namaak, and the SNB in the Netherlands – one of their objectives being to represent their title holders in taking official steps. These initiatives are welcomed as a source of increased effectiveness in combating infringements. However, this development still suffers from the lack of harmonization of prosecution measures among the Member States.

The professional bodies and customs services take the view that the completion of the single market has encouraged these fraudulent practices. The volume of illegal traffic has risen from 7–8% of visible traffic to 15–16%. The reasons are as follows:

From an economic point of view, the consequences for European industry are:<sup>32</sup>

- (a) increased penetration by products from third countries, through phenomena of compensating quotas among third states; to some extent, these products are being substituted for European products;
- (b) this excess penetration is dragging the market downwards in price terms for certain products, such as viscose fabrics and domestic linens.

### 3.2.10. The liberalization of services: transport, financial services, insurance

Not all the measures for the liberalization of services have had the same degree of impact on the textile and clothing sector. We will look here especially at the measures affecting transport, which might have been expected to have more impact than the other liberalized services.

The liberalization of services had an impact in terms of cost when it actually developed competition among service-providing enterprises, and when the power relationship between the service provider and the customer permitted it.

#### *Transport: The measures for the completion of the single market*

Traditionally, there were quotas in the Member States, which regulated the volume of cross-border transport. These quotas were fixed through bilateral agreement. This quota system was abolished by a Council decision dated 20 June 1988, which came into effect in 1992.

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<sup>32</sup> Professional bodies.



Another measure which is important for transporters is the option they have of carrying out 'cabotage', that is making deliveries between two points located in Member States in which the transporter is not resident. The change this introduces for transporters is the possibility they now have of making an unregulated number of deliveries in other Member States, thus avoiding returning empty. Cabotage will be completely liberalized on 1 July 1998, after a transitional period which began on 1 January 1994.

Contextual elements necessary for understanding what is involved in these measures:

According to the CEGOS survey, transport costs represented on average 3.4% of the total costs of the enterprise in 1990. There is little variation according to the type of enterprise and the subsector concerned.

*Expected impact of these measures:*

These measures should permit a reduction in the transport costs of enterprises in the sector, thanks to increased competition among transporters and a reduction of their costs, especially by means of cabotage.

*Impact actually found to occur:*

The replies to the Eurostat survey confirmed the positive impact of deregulating transport. 50% of enterprises consider that this deregulation has had a positive impact (33% neutral, 5% negative and 12% 'don't know').

Partial estimates supplied by certain enterprises in the textile sector indicate a cost reduction of 4%,<sup>33</sup> where the volume and means of transport are the same. On its own, the liberalization of transport has therefore resulted in cost savings of around 0.14% for businesses.

However, the proportion of transport costs in the total costs of enterprises went up from 3.4% to 3.9% between 1990 and 1994.<sup>34</sup>

At first sight, this global increase is a surprise. However, other elements in the survey, as well as the interviews which were conducted, show that the textile and clothing companies have taken advantage of the abolition of customs barriers and of customs documents by developing partial deliveries, and therefore by transporting lower volumes. Moreover, deadline pressures exercised by customers in the textile and clothing sector have resulted in their preferring speedier and therefore more expensive methods of transport. The fall in costs, under equal transport conditions, is therefore offset by the decline in unit volumes and the change in methods of transport. These two latter factors have therefore led to an increase in the costs of enterprises of around 0.6%.

Liberalization has therefore primarily enabled companies to transport smaller consignments and therefore to be more reactive and to reduce the time taken for deliveries and supplies. For instance, a weaving enterprise told us that its waiting periods between the order and the delivery had fallen, as a result of this, from four weeks in 1990 to 15 days in 1995. Other

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<sup>33</sup> Interviews and case studies.

<sup>34</sup> Survey in 94 enterprises.

enterprises mention a 20% reduction in waiting times. At the time when the textile and clothing industry is subject to the iron law of just-in-time and to pressure on reactivity, this is a much appreciated factor.

In future, the liberalization of cabotage should permit a reduction in transport costs.

The liberalization of banking, insurance, telecommunications and energy seems potentially to involve less impact for the textile and clothing sector, according to the professional bodies questioned. We summarize below their comments on these aspects, and the light shed by the survey in certain respects, confirming the absence of impact.

### *Banking*

The survey shows that the proportion of commission paid to the banks and financial institutions has not grown since 1990 (1.4% of total costs of the enterprise on average).

The impact of the liberalization of financial services on the methods of payment for transactions was the following: only 20% of respondents state that they have changed their methods of payment for transactions with other Member States, the enterprises concerned being mainly in the bracket between 250 and 1000 employees, in the textile sector, and in Spain.

The significant changes relating to payment techniques for transactions since 1990 have been as follows:

- (a) the growth in SWIFT payments (27% of respondents);
- (b) the growth in direct payments from or to a currency account (13% of respondents);
- (c) the growth in payments by cheque and Letter of Credit (17% of respondents).

It is noteworthy that the payment techniques adopted do not involve abandoning other techniques, except for payment by cheque, which has been abandoned by 10% of respondents.

Impact of the liberalization of financial services on the techniques for covering exchange risk:

- (a) the cost of coverage against exchange risks has remained unchanged since 1990, according to our survey: it represents 0.4% of total costs of the enterprise, with few disparities in relation to the type of enterprise.
- (b) only 15% of enterprises have altered the techniques they use to protect themselves from exchange risk since 1990. The largest proportion is among enterprises employing between 250 and 1000 employees.

The techniques being developed to give protection against exchange risk are as follows:

- (a) compensating for sales by purchases in the same currency: this has been developed by 20% of respondents since 1990 (back-to-back operations);
- (b) carrying out the transaction in the currency of the counterpart country: developed by 16% of respondents since 1990;
- (c) use of coverage techniques: developed by 15% of respondents since 1990.

Here too, the techniques adopted are not resulting in the abandonment of those used previously.

The responses to the survey show quite clearly that large enterprises (1,000 plus employees) had already organized themselves before 1990 for a future internationalization of trade. Small enterprises employing fewer than 250 people have not yet shown much reaction; enterprises with between 250 and 1000 employees are in the process of organizing these functions.

### *Insurance*

Insurance products are sometimes difficult to interpret, and it is not therefore a ready option for enterprises to change their insurers, because of the risk of not being covered for the same risks. The view of the representative bodies is that few enterprises therefore have relied on liberalization of insurance.

### *Telecommunications*

The differences in costs between local and international communications remain significant, in spite of a reduction.

### *Energy*

The cost of energy remains highly variable from one Member State to another, and creates quite significant distortions of competition, especially for finishing, an activity which consumes a great deal of energy. The German industry, in particular, complains that it cannot obtain supplies of energy from other Member States.

## 3.2.11. Competition policy and restricting State aids

### *Description of the measures for the completion of the single market*

European legislation provides for:

- (a) a prohibition against enterprises entering into agreements contrary to free competition;
- (b) a prohibition against abuse of a dominant position (Article 86);
- (c) restricting State aids, with the obligation to notify to the European Commission subsidies granted by Member States.

Few complaints are about these three aspects, which in any case have little to do with the textile and clothing sector, because:

- (a) the sector is not highly concentrated, so that the concept of abuse of a dominant position and agreements between undertakings contrary to free competition are somewhat alien to it, except for the production of synthetic fibres, where the customers regularly complain that significant price increases are being imposed;<sup>35</sup>
- (b) the enterprises in the sector very often constitute the basis of the economic and social development of entire regions. Aids to enterprises in clothing and textiles are therefore granted under the heading of regional development aids.

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<sup>35</sup> On this question, refer to the Single Market Review study on *Chemicals* (European Commission, 1997a) prepared by KPMG.

### 3.2.12. Harmonizing company law<sup>36</sup>

#### *The creation of enterprises*

Few enterprises have opened subsidiaries or branches abroad. The harmonization of company law, and especially freedom of establishment, have little impact on this sector. Moreover, all the operations of this kind which have been conducted have been prompted rather by industrial or financial considerations.

The reasons are as follows:

- (a) goods circulate freely enough to mean that a branch or subsidiary is not particularly relevant;
- (b) the cost differentials are not sufficiently valuable;
- (c) an operation like this is difficult to bring to fruition, especially because of the financial and managerial resources which have to be invested.

In addition, tax and commercial regulations are not harmonized, and the different accounting criteria used in the Member States make it a more complicated matter to consolidate company accounts.

#### *The acquisition of enterprises*

There have been few company mergers, and in any case they have had nothing to do with the harmonization of company law. Other factors are much more influential.

We will return to this point later.

Therefore, it may be concluded that the impact of these measures, at the present time, is nil for the textile and clothing sector. Nor is there an indication that they will have an impact at a later stage when they are more advanced.

### 3.2.13. Free movement of individuals

The free movement of individuals is still not a very important aspect in an industry which has been losing more than 100,000 jobs every year since 1988 in the European Community, and where the recruitment of labour is not the chief problem. Moreover, concerns relating to the management of human resources still fall far behind concerns over competition, competitiveness and business profitability.

57% of the enterprises questioned in our survey have not made any changes as regards the management of their human resources. 38% of respondents have introduced changes. However, the internationalization of the management of human resources, although it exists in the large industrial groupings in the sector such as Marzotto, is still largely confined to these major groupings, and is not a priority for them.

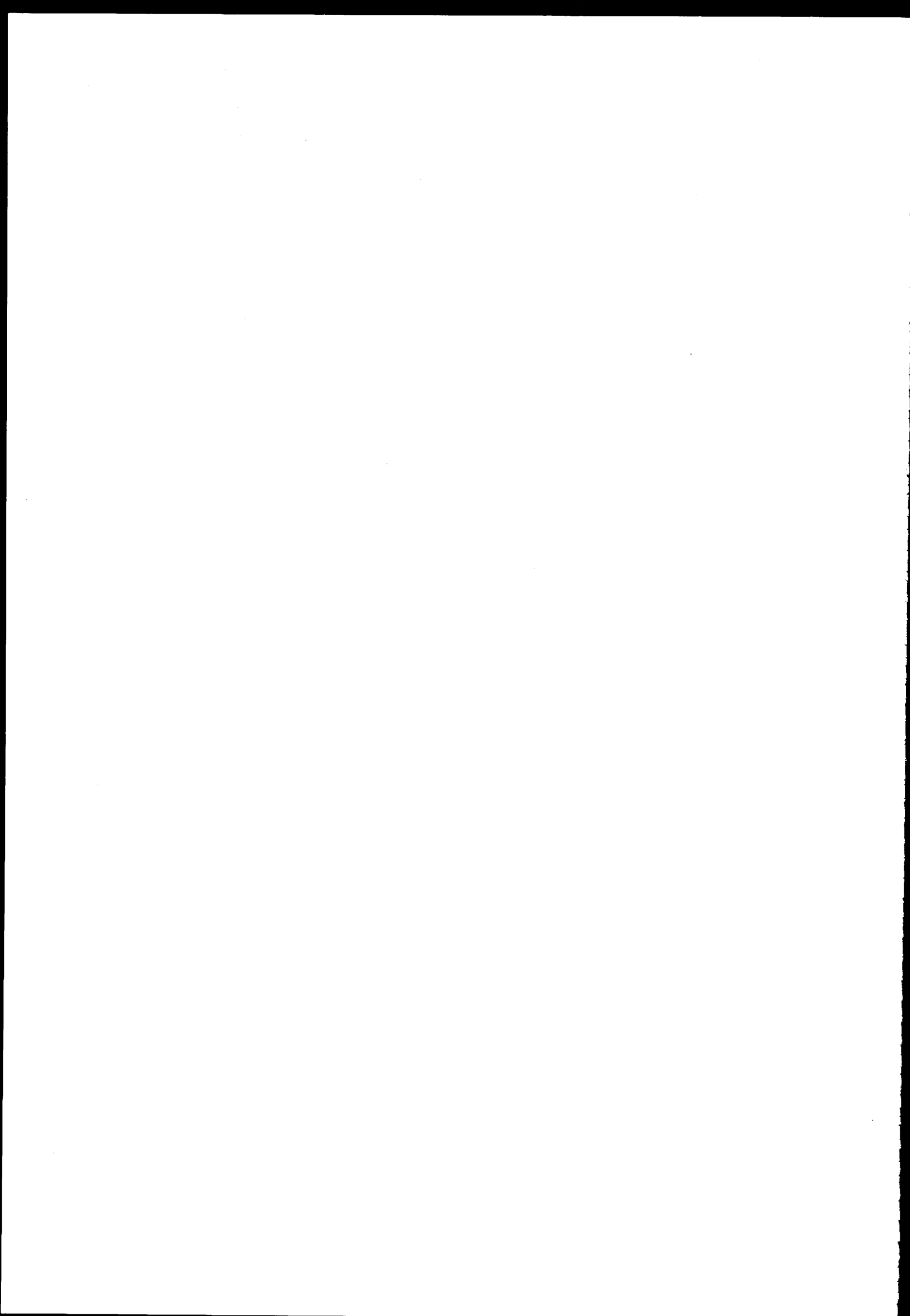
The other kinds of modifications are as follows,<sup>37</sup> and follow trends in the sector:

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<sup>36</sup> Professional bodies.

- (a) steps to improve management;
- (b) steps relating to vocational training;
- (c) measures relating to occupational changes (more quality control staff and fewer direct operators).

Hence measures facilitating the mobility of individuals and professional equality, although they cannot be said to have no impact in the sector, are of marginal importance.



## 4. The impact of the completion of the single market on the distribution sector

The effects brought about by the completion of the single market on the distribution sector have had an indirect impact on the textile and clothing sector.<sup>38</sup>

In this part we will attempt to show that the changing pattern of distribution of textile products, and especially of clothing, are associated with the completion of the single market, and then to show that these changes have had repercussions on manufacturers.

### 4.1. Changes in the clothing distribution sector

Among the changes affecting the distribution of items of clothing, which belong more appropriately to the sectoral study on distribution,<sup>39</sup> three areas are particularly noteworthy because of their impact on industries in the sector:

- (a) the internationalization of clothing distribution;
- (b) the concentration of outlets, associated with the growing influence of the larger operators;
- (c) the modification of their purchasing policies.

This is taking place through the development of specialized distribution, which is both concentrated and internationalized.

We describe below these three changes, and then examine the link between them and the completion of the single market, and their consequences for the clothing sector.

#### 4.1.1. The internationalization of clothing distribution<sup>40</sup>

The internationalization of distribution is a general trend in this sector; it started at the end of the 1980s and has continued since.

The internationalization takes place through merger and acquisition operations, and through cooperation agreements, for example participation in collective purchases and sales agreements. In the case of hypermarkets, it also takes place through internal growth.

Over the period 1991 to 1993, 800 capital movements were recorded between distribution enterprises in different countries, taking all distribution sectors together, and 530 were considered to be significant. 80% of these movements come from EC enterprises, and of these 80%, 83% relate to other distribution enterprises in the EC. French, Italian and German distributors show a greater tendency than other Member States to invest outside the EC, and especially in the countries of east and central Europe.

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<sup>38</sup> See also the Single Market Review study *Distribution* (European Commission, 1997b) prepared by Coopers and Lybrand and Katholieke Universiteit Leuven.

<sup>39</sup> Report prepared by Coopers & Lybrand and Katholieke Universiteit Leuven.

<sup>40</sup> KPMG database and Oxford Institute of Retail Management: *Survey of international moves by retailers 1991-1993* and *La distribution spécialisée en Europe*, Eurostaf, August 1992.

Four countries collectively account for 40% of the operations. These are France (102 operations), Germany (82), the USA (65) and the United Kingdom (63). France prefers the other countries of the EC, Germany the CEEC, and the United States and United Kingdom the countries of the EC.

A large proportion of withdrawals are made by France, Germany and the United Kingdom, some of them relating to investments in Spain.

144 (27%) of these 530 movements relate to the distribution of textiles and clothing. The tendencies with regard to investing and receiving countries are the same as for distribution as a whole.

In terms of the size of enterprises, we find in first place the large enterprises such as Benetton, as well as somewhat smaller enterprises which rely on designer boutiques (Armani, Cacharel, Lacroix and so on). Surprisingly, however, we also find in this trend to internationalization medium-sized enterprises such as Zannier, Kookai, Zara and Cortefiel, for instance.

**Table 4.1. Number of transboundary capital movements among distribution enterprises in textiles, clothing and footwear between 1991 and 1993, by country of destination. All countries of origin of capital taken together**

Capital movements conducted in the EC	85	Capital movements conducted in other European countries	47	Capital movements conducted in other countries outside Europe:	12
of which:		of which:		of which:	
Belgium and Luxembourg	11	CEEC	38	Australia	1
Denmark	1	Finland	3	China	2
France	13	Iceland	1	Cuba	1
Germany	21	Norway	4	Japan	2
Greece	2	Switzerland	1	Mexico	2
Ireland	0			USA	4
Italy	4				
Netherlands	5				
Portugal	1				
Spain	6				
United Kingdom	21				

Source: Oxford Institute of Retail Management.

The study carried out by OETH on distribution trends shows that internationalization will continue for large-scale specialized distribution and hypermarkets, and especially in France, Italy, the Netherlands and Denmark.



#### 4.1.2. The concentration of sales outlets resulting from the increasing influence of the larger operators

The present situation of distribution varies considerably according to Member States. In particular, breakdown among the distribution channels is different.

**Table 4.2. Breakdown of the distribution of clothing products, by distribution channel in 1993**

% of value	B	DK	F	D	E	F	GR	IRL	I	L	NL	UK	EU
Independents	42	41	30	41	52	68	63	53	66	43	45	16	44
Multiples*	23	26	22	24	11	8	8	15	12	24	24	31	20
Chain stores	19	13	5	9	8	5	7	15	4	12	6	7	12
Variety stores	**	**	2	3	8	**	**	**	4	**	**	20	**
Supermarkets	6	0	19	3	10	2	3	2	1	4	2	2	6
Catalogue selling	3	4	13	13	2	1	1	3	1	8	8	8	8
Other	7	16	9	7	9	16	18	12	12	9	15	16	10
Total	100	100	100	100	100	100	100	100	100	100	100	100	100

\* Including discount chains.

\*\* Including chain stores.

Source: OETH from data of IFM/CTCOE.

This level of concentration, greater or smaller from one country to the next, is also related to differences in national legislation; for instance, in countries such as Italy or Belgium, large-scale distribution is subject to a law which holds back its development and thus restrains the concentration of distribution.<sup>41</sup>

Thus, the country characteristics are as follows:

- (a) United Kingdom: the most concentrated distribution, especially thanks to Marks & Spencer and Burtons;
- (b) Germany: another form of concentration, via purchasing companies (Katag, Kaufring);
- (c) France: specialist distribution is highly reactive and professional (Camaïeu, Promod, Pimkie), and is growing rapidly;
- (d) Italy, Portugal, Greece and Spain: distribution is highly fragmented. This raises quite an effective barrier to imports, as this form of distribution tends to favour purchase of local products, and does not represent volumes sufficiently large to attract foreign producers.

In spite of these differences, tendencies are the same in all the countries of the Community, including Italy, Spain and Portugal. In particular:

- (a) there has been a fall in traditional independent distribution, which specializes in high-class products at higher prices than the other types of distribution;
- (b) the stability of the chain stores;

<sup>41</sup> See the Single Market Review study *Distribution* (European Commission, 1997b).

- (c) the growth in specialist chains, largely because of EDI and logistical investments, which produce a sound knowledge of the market and high reactivity. Some of these specialist distributors come from diversification by hypermarket chains;
- (d) development of outlets associated with food distribution, especially for children's clothes and underclothing;
- (e) growth in discount sales points, especially in the north European countries;
- (f) the stagnation in postal selling, although the countries of the south will probably experience growth in this outlet as their postal services improve.

These tendencies will lead to a homogenization of distribution, even if differences persist until at least the year 2000.

**Table 4.3. Breakdown of the distribution of clothing products, by distribution channel – projection to 2000**

% of value	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EU
Independents	36	38	36	60	46	20	50	57	38	42	61	14	38
Multiples*	26	29	27	10	14	29	17	16	27	27	13	35	24
Chain stores	19	13	8	9	9	5	16	6	12	6	6	6	13
Variety stores	**	**	3	**	8	2	**	6	**	**	**	20	**
Supermarkets	8	1	4	4	12	22	2	2	5	3	3	3	7
Catalogue selling	4	5	16	2	3	15	4	2	10	9	3	8	9
Other	7	14	6	15	14	7	11	1	1	8	13	8	14
Total	100	100	100	100	100	100	100	100	100	100	100	100	100

\* Including discount chains.

\*\* Including chain stores.

Source: OETH from data of IFM/CTCOE.

Still according to the OETH study, the process of concentration will continue in the same field of distribution, that is there will be no diversification of these distribution enterprises. This will be the case especially for hypermarkets, specialized distribution, selling by post, and especially in Spain, Portugal and the United Kingdom.

This will happen through:

- (a) internal growth in the chains, at the expense of the multi-brand independents;
- (b) mergers and takeovers, especially in large-scale distribution;
- (c) the disappearance of enterprises, especially the wholesalers.

#### 4.1.3. Change in distributor purchasing policies

Distributors of clothing items have made changes in their supply policies and in organizing upstream logistics:

- (a) the development of triangularization;
- (b) combining some of their purchases and grouping purchasing orders.

### *Development of triangularization*

Triangularization existed before the completion of the single market; forwarding agents offered to act as intermediaries for these operations, but the operations themselves were limited because of the financial risks involved, due to the sums which the forwarder had to pay in advance.

Some traders carried out operations of this kind without any difficulty, where they had companies in several EC countries. An 'internal market' was able to develop with these distributors, with subsidiaries which had unused quotas making them available to their sister companies in Europe.

The countries between which these operations took place were determined by quotas and logistics:

- (a) the level of quotas and the method of awarding quotas, by giving greater flexibility to States such as Germany, and less to States such as France, encouraged the development of flows of products of extra-community origin between these countries;
- (b) Considerations of a logistical kind resulted in avoiding countries such as the United Kingdom and giving priority to countries such as the Netherlands, Belgium and Germany, which are easier to reach by road.

The completion of the single market, by eliminating customs barriers and facilitating transfrontier transactions, has permitted the development of triangularization for distribution companies which had not yet reached a European dimension, by means of forwarding agents.

### *Combining some of their purchases and grouping purchasing orders*

The abolition of customs barriers has encouraged distributing companies to combine their purchases at the Community level, in order to make group purchasing orders to suppliers. This enables them to obtain better prices, while facilitating the administrative side of purchasing, and to adjust more readily among States the quantities ordered, as the quantities can be readjusted at the time of delivery rather than at the time of ordering.

To develop this regrouping process further, some distributors have standardized their ranges of basic items, in order to place orders with the same supplier. This concerns basic items such as shirts, underclothing, baby clothes etc. For this type of product some distributors with a team of buyers for each EC country standardize their ranges so that purchase orders can be combined, resulting in only one purchasing order for all countries from the same supplier. The goods are then delivered to a single point within the European Community, and redistributed over the territory of the Community.

However, the distributors operating on an international level retain, for the most part, national ranges; some of the range is adapted at the local level, where there are regional tendencies. This necessarily results in a readjustment of the supplier portfolio maintained by the distributors, but there are no very marked trends in the preferences followed, which depend largely on the culture and policy of the distributor.

In the case of MFA products, the problem with grouped purchases is the heterogeneity with which products are allocated to quotas among the EC countries. A single community text may be interpreted in very different ways from one country to another; for example, for a 'polar'

fabric, the criterion in some countries is thickness, and in others the number of stitches to the square centimetre. It has not been possible to dispose of this problem in practice with phase three of the communitarization of quotas, as the licence is always issued by a country's government, and is therefore dispensed according to the rules in force in that Member State. This heterogeneity considerably complicates the process of centralizing orders by distributors.

#### **4.2. These changes are associated with the completion of the single market**

The report on the impact of completing the single market on the distribution sector brings out the marked impact of certain measures for the completion of the single market on this sector.

- (a) Theoretically the liberalization of transport reduces the cost of transport, and therefore the cost of supplying other Member States. In practice, we have already seen that in fact the effect has been to reduce delivery times, which in this sector is a significant advantage. In fact, the stock management and supply policy of the major distributors tends to equate clothing products with 'fresh products'.<sup>42</sup> Moreover, the liberalization of transport facilitates the centralization of purchasing and storage, because it is possible to serve a larger territory at the same time and at the same transport cost, but with the advantage of a more efficient logistical organization.
- (b) The abolition of customs checks and documents tends to play the same role as the liberalization of transport.
- (c) The measures relating to VAT have no impact, because the goods continue to be taxed in the state of destination.
- (d) The measures relating to customs exemptions, and competition policy in general, are still sufficiently flexible to enable distributors to choose their own methods of expanding internationally.
- (e) The policy on agreements for grouped purchasing is sufficiently flexible to enable distributors to set up international purchasing combines.

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<sup>42</sup> Interviews with distributors.

**Table 4.4. Impact of measures for the completion of the single market on the distributors of clothing with consequences for the producers**

Measures	Reduction of costs and delays in obtaining supplies abroad	Increased acceptability of products of foreign origin	Increased attraction of centralized purchasing	International development of distributors	Concentration of distribution
Harmonization of technical standards	0	XX	XX	0	0
Liberalization of transport	XXX	0	XXX	X	X
Elimination of customs checks and documents	XXX	0	XXX	XX	XX
Transitional VAT regime	0	0	0	0	0
Measures on the customs exemption regime	0	0	0	0	0
Joint purchasing agreements by purchasing combines	0	0	X	XX	X

0 = no impact or negligible impact, X = low impact, XX = moderate impact, XXX = strong impact.

Source: CEGOS/Coopers & Lybrand - Katholieke Universiteit Leuven.

#### 4.3. The impact of these changes on the manufacturers

This concentrated distribution, with international ranges of goods, results in large volumes of goods being brought to a lower number of producers; the harmonization of ranges and the concentration of purchasing result in a relative degree of recentring on a smaller number of suppliers. The suppliers will have to be capable of producing larger quantities. For certain products which are already highly automated in production (e.g. socks), this will not raise any problems for the manufacturers. For others, on the other hand, the distributors will look to industrial producers rather than to the SMEs.

This phenomenon is restricted by the following factors:

- (a) The risk involved in too highly concentrated a purchasing system.
- (b) The autonomous decision making which purchasers continue to have. In the case of most distributors there is a high degree of autonomy, and it is therefore no simple matter to insist on a purchaser abandoning a supplier with whom he is accustomed to working, and to start working with another supplier. In the case of some products, if the volume ordered from one supplier goes up from 5,000 to 10,000 units, and if the supplier cannot produce the 5,000 extra units, the purchaser may prefer to find a second supplier for the extra 5,000 items. This is not an automatic decision, and it will also reflect the pre-existing relationship between the purchaser and supplier.

Some distributors will therefore prefer to respect this autonomous power of choice of the purchasers, rather than to maximize their supplies.

This is a continuing trend which will persist in future; the completion of the single market is one factor in this trend, among others.

Another consequence for manufacturers is that they will have to pay increasing attention to the demands of this distribution system, because they are increasingly dependent on it:

- (a) the speed of restocking and just-in-time working: full and speedy deliveries with the possibility of restocking are the primary criteria for European distributors;
- (b) the inclusion of variants in the collections during the season;
- (c) pressure on prices is being maintained, with two thirds of the distributors questioned by OETH wishing they could lower their prices;
- (d) the quality of goods which they are selling will increase, whatever the positioning price of the distributor;
- (e) distribution occurs upstream of production; distributors' brands will increase their share, manufacturers' brands will be maintained, and non-branded products will lose ground.<sup>43</sup>

A study conducted recently by Moda Industria (Italy) highlights the differences in purchasing and satisfaction criteria between so-called 'independent' distribution and 'organized' distribution.

**Table 4.5. Supplier's selection criteria according to independent and organized distribution in Italy (maximum rating: 10)**

Criterion	Independent distribution	Organized distribution
Service	4.1	7.8
Quality	8.9	7.5
Style	5.4	6.1
Price	5.6	5.8
Brand	4.1	1.9

*Source: Moda Industria, Milan.*

**Table 4.6. Supplier's selection criteria according to independent and organized distribution in Italy: breakdown of the 'service' criterion (maximum rating: 10)**

Criterion	Independent distribution	Organized distribution
Speed of delivery	7.2	9.2
Complete delivery	7.2	8.7
Ability to solve problems	5.0	5.8
Assistance by the supplier or the agent	4.8	3.3
Sales backup	4.4	1.7
Frequent visits by a salesman	1.5	1.3

*Source: Moda Industria, Milan.*

Knowing that independent distribution is on the decline everywhere while organized distribution is gaining ground, a trend encouraged by the completion of the single market, as we have seen above, these tables show that suppliers who improve their associated service delivery, especially their ability to react, have a greater chance than others of future growth.

Some figures are enlightening:

<sup>43</sup> OETH.

#### Independent distribution in Italy:

- (a) has 2.4 collections a year on average;
- (b) updates collection 3.4 times a year;
- (c) has a restocking ratio of 8.4%.

#### Organized distribution in Italy:

- (a) has 3 collections a year on average;
- (b) updates collection 6 times a year;
- (c) has a restocking ratio of 15%.

Hence the development of distribution is forcing enterprises in the clothing sector to modernize, and is resulting in a degree of selection among enterprises. Those which succeed in working with these distributors are making progress, like their customers; the others are falling behind.

The tendency of distributors to internationalize their ranges results in demand becoming more professional and encourages dialogue with manufacturers, which in turn results in greater volumes. This increases the relative influence of the distributors.

The evolution of the supply policy pursued by distributors is also a significant development factor in the clothing industry. The simplification of administrative procedures and the elimination of tariff barriers on intra-community trade are reducing the cost variance between European and third country products. Adding all the costs involved to the quality problems and the level of organization required, a variance of 20% is necessary if a product from a third country is to be considered worth selling.

This variance breaks down as follows:

- (a) economic aspects:
  - (i) no customs duties: approximately 14%;
  - (ii) no more forwarding costs: approximately 0.15– 0.5%.
- (b) qualitative aspects:
  - (i) restocking is easier and less expensive; the cost and time involved in restocking an item from the Far East may be a deterrent;
  - (ii) the quality is more even, so that quality control on receipt is more straightforward, and fewer staff need to be engaged in quality control;
  - (iii) the logistics are more reliable (regularity of deliveries).

This variance has increased as a result of the completion of the single market.

Thus the completion of the single market is to some degree protecting European textile and clothing production.

In order to succeed in their international development, distributors are installing their own warehouses for goods. Thus very few manufacturers have their own international distribution networks, as the 'gap' has been filled more quickly by importers and distributors. What is

therefore taking place is a process of downstream vertical disintegration of manufacturers, and a vertical upstream integration of distributors, who are increasingly taking over the downstream logistics of the manufacturers.

For the manufacturers, this offers the advantage of having a single customer and the option of not engaging in a complicated occupation (distribution) instead of concentrating on one's own occupation. The disadvantage is the loss of influence involved when dealing with a single customer, and the risk of losing contact with the market.

It is thought that these trends will work their way through and reach the textile industry in a few years' time.



## 5. Remaining shortcomings in the construction of Europe

### 5.1. Review of the barriers before the completion of the single market

We recall that even before the completion of the single market, enterprises did not often complain of significant barriers to trade. The barriers referred to were as follows:

- (a) delays on frontiers;
- (b) technical barriers;
- (c) restrictions on public tendering;
- (d) recourse to Article 115;
- (e) currency fluctuations.

### 5.2. Replies by enterprises about the impact of the single market

A question in the Eurostat survey (Table 5.1) confirms the areas in which enterprises consider that the single market has had an impact. Among the positive aspects, mention may be made of all those relating to delays on frontiers and the elimination of documents. Discussions with the enterprises confirm that their view is that in future it will be just as simple to send goods to another Member State as to somewhere in one's own country.

With regard to VAT and other fiscal matters, the comments by the enterprises are relatively positive. These are not aspects which have been regarded as major barriers, but a significant percentage of enterprises consider the impact of the completion of the single market to be positive. However, a minority have always regarded it as negative; these responses probably have something to do with the difficulties encountered with the change in administrative procedures (see Section 3.2.6).

As regards the technical barriers and the restrictions on public tendering, the majority of enterprises take the view that the impact is neutral and that barriers still exist. These are the two barriers most often mentioned by enterprises and organizations in the sector.

Concerning the intellectual property aspects, enterprises also consider that the impact is if anything neutral. This response confirms that enterprises are waiting for the entry into force of measures on European patents, trade marks and models, and the results of the directives on infringement. They particularly mention the differences in the legal treatment of fraud and infringement from one country to another.

Two types of significant barriers for the sector were not mentioned in the Eurostat questionnaire:

- (a) Recourse to Article 115 has been abolished.
- (b) Currency fluctuations have not been dealt with by the single market measures, but this topic is often mentioned in the discussions with enterprises and in the sectoral organizations.

The three main defects which persist in the construction of Europe are:

- (a) the technical barriers;

- (b) public contracts;
- (c) currency fluctuations.

**Table 5.1. Impact of the single market on your enterprise**

	Positive %	Neutral %	Negative %	Don't know %
Harmonization of technical standards	15	69	7	9
Mutual recognition	18	59	7	16
Test procedures	15	70	3	12
Intellectual property procedure	12	69	3	16
Rules for public contracts	8	71	3	18
Elimination of customs documents	62	26	7	6
Liberalization of transport	50	33	5	12
Elimination of frontier delays	65	24	4	7
Change of VAT regime	37	33	17	12
Liberalization of capital movements	30	57	1	13
Fiscal barriers	22	57	3	18

Source: Eurostat replies by textile + clothing enterprises.

### 5.3. Technical barriers

In spite of the effort and labour which have been put in, the technical obstacles to trade remain almost as problematic as before the completion of the single market:

- (a) national standards, especially as regards inflammability and labelling, continue to exist;
- (b) national regulations are developing for the protection of the environment and the prohibition of certain chemical substances;
- (c) Member States are continuing to insist on certificates being issued by national laboratories, especially in public tenders.

These technical barriers remain the principal obstacle to intra-community trade. According to our survey, these remaining barriers are a handicap for enterprises in the sector, because:

- (a) they deter certain operators from contracts which they regard as less attractive than they might be;
- (b) they place a burden on production and R&D costs as more expensive production processes have to be adopted in order to adjust to the requirements;
- (c) they maintain the cost of carrying out tests and obtaining certificates at a higher level than it might otherwise be;
- (d) they increase the time taken in marketing products in other Member States, which is a serious drawback as timing is a significant key factor in success;
- (e) they compel enterprises to make specific investments in order to respond to requirements;
- (f) they prevent them from taking advantage of the economies of scale which still exist, especially in textiles, by preventing the extension of series.

#### **5.4. Restrictions in public tendering**

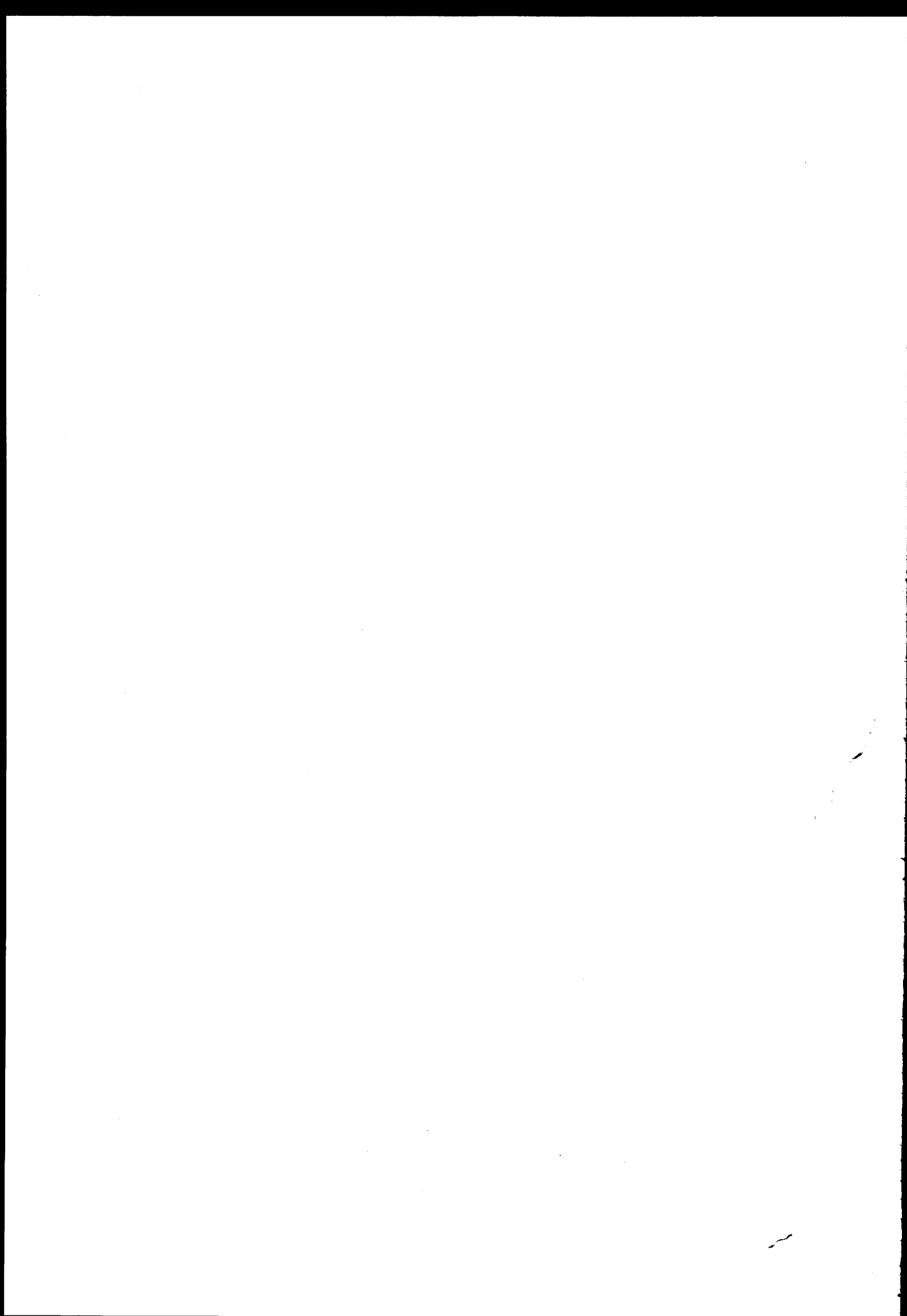
Several practical problems bedevil the application of the standards: language problems, problems of transparency in the dissemination of information, and preferences for national suppliers.

The implementing measures have not succeeded in significantly reducing barriers in public contracts.

#### **5.5. Currency fluctuations**

Currency variations are a factor which influences intra-community trade. In the interviews, particular emphasis was placed on the impacts of variations in the pound sterling and the Italian lira. These result in significant price variations, which alter the conditions of competition among producers in the different Member States. Above all, and this is the obstacle to trade, they create a financial risk for enterprises which are exporting or importing. Managing this risk and endeavouring to overcome it involve expense for enterprises. The large enterprises surround themselves with financial advisers and experts, resort to more sophisticated or more expensive banking products and techniques (such as foreign currency accounts). The SMEs, however, have to bear the brunt of this risk, which also imperils their profitability.

Some enterprises seek to reduce this risk by entrusting part of the processing of the product to enterprises in the country of destination; for instance the silk firms of Lyons have their fabrics finished in Italy. Hence the currency variations alter the nature of intra-community commercial transactions.



## 6. The impact of the completion of the single market on sectoral performance

### 6.1. Main tendencies in the sector: development factors and their impact

#### 6.1.1. The textile and clothing sector: a sector subject to major constraints

The textile and clothing sector is subject to the pressure of many development factors, including:

- (a) competition from extra-community countries;
- (b) the fall in consumption in Europe;
- (c) evolving customer demand.

#### *Competition from extra-community countries*

Competition from extra-community countries which are able to deliver highly competitive products to the European market is experienced as a particular problem by industrialists in the Community.

This competition has a very dramatic effect on the cost factor, as the following table shows:

**Table 6.1. Total hourly textile cost, 1991 (in ECUs)**

Total hourly textile cost in ECUs	1991 (EC average = 10.21)	Total hourly cost for principal textile producers	1991 (EC average = 100)
Germany West	14.27	USA	101.2
Germany East	7.62	Taiwan	49
Belgium	14.68	South Korea	35.3
Denmark	15.49	Hong-Kong	33.3
Spain	6.49	Turkey	30.4
France	10.63	Tunisia	27.4
Greece	4.87	Mexico	27.4
Ireland	7.44	Brazil	14.7
Italy	14.58	Morocco	13.7
Netherlands	15.26	Hungary	12.7
Portugal	2.63	Thailand	8.8
United Kingdom	8.53	India	5.9
		Pakistan - Sri Lanka	3.9

Source: Werner International in *Le textile, une industrie pour l'Europe* [Textiles, an industry for Europe].

Differences in production costs like these cannot be compensated except by technical standards or productivity markedly superior to those in extra-community states. But these differences in technical standards and productivity, if they exist, are not sufficient to offset these variances in wage costs, as Table 6.2 shows.

**Table 6.2. Unit production cost index for 1993 (unit labour cost index/productivity index)**

Country	Clothing	Spinning and weaving
Japan	59.4	11.7
Germany	109.5	100.7
France	112.2	90.8
Italy	114.7	73.2
USA	46.2	71.5
United Kingdom	72.3	66.6
Greece	72.6	57.2
Spain	80.3	46.2
Taiwan	36.3	44
Portugal	32.5	33.6
Turkey	35	27.5
Hungary	20	18.2
Brazil	11.5	10.5

Source: Werner International.

**Table 6.3. Productivity index, 1993**

Country	Clothing	Spinning and weaving
Japan	85	90
Germany	92	92
France	75	75
Italy	80	100
USA	100	73
United Kingdom	75	70
Greece	40	57
Spain	60	78
Taiwan	70	60
Portugal	55	50
Turkey	45	75
Hungary	40	45
Brazil	45	70

Source: Werner International.

This competition is reinforced by the liberalization of trade, resulting partly from the progressive dismantling of quotas under the Multifibre Arrangement and also from the gradual incorporation of the textile and clothing sector within the general framework of GATT. These measures resulted from the Uruguay Round (see above) and are reflected in an increase in staggered quotas, and therefore an increase in imports of extra-community origin.

On the other hand, the CEEC (Central and Eastern European countries) represent a source of subcontracting which combines cheapness with proximity and high quality. These countries have a long industrial tradition, especially in textiles.

The opening of the European Community to countries of the East since the collapse of communist power in these countries resulted in reduction in customs duties in 1990. Agreements were signed with Hungary, Poland, Czechoslovakia, Rumania and Bulgaria which came into force between March 1992 and February 1994. These agreements provide for a more rapid liberalization of trade in the sense of imports by the CEEC to the EC than in the reverse direction, the aim being to promote the industrial development of these countries. The

general principle is to abolish custom duties and quotas as soon as the agreements come into force. However, textile products have been covered by a separate protocol which provides for the gradual elimination of customs duties and the gradual integration of quotas, over a transitional period which will end in early 1998.

This is reflected in the rapid growth of exports from the CEEC to the EC (Table 6.4).

**Table 6.4. Trend in CEEC imports among EC imports**

Sector	1992/1988 Index 1988 = 100	1993/1992 Index 1992 = 100
Textiles	152	98
Clothing	243	122

Source: Eurostat – Comext: in *CEEC Exports to the EC (1988-1993)*. Country differentiation commodity diversification, Françoise Lemoine, 1994.

This tendency for a rapid growth of Community imports from the CEEC is due primarily to the rapid increase in outward processing traffic with these countries, as Table 6.5 indicates.

**Table 6.5. Share of TPP exports in CEEC exports (as a percentage)**

	Clothing (knitted)		Clothing (other than knitted)	
	1988	1993	1988	1993
Poland	15	64	82	87
Ex-Czechoslovakia	7	60	51	72
Hungary	65	73	90	80
Rumania	9	42	61	76
Bulgaria	19	41	61	69

Source: Eurostat – Comext: in *CEEC Exports to the EC (1988-1993)*. Country differentiation commodity diversification, Françoise Lemoine, 1994.

The result of these three factors in increasing competition from extra-community sources is a constantly growing penetration rate for these imports, as Table 6.6 shows.

**Table 6.6. Growth in the rate of penetration<sup>44</sup> of imports of extra-community origin, by volume**

	1986	1987	1988	1989	1990	1991	1992	1993	1994
Textiles	13.6%	15%	15.8%	16.3%	18.3%	19.6%	20.6%	23.5%	25.6%
Clothing	15.6%	17.2%	19.4%	20.2%	22.7%	26.4%	28%	32.4%	33.4%

Source: Eurostat – Comext: in *CEEC Exports to the EC (1988-1993)*. Country differentiation commodity diversification, Françoise Lemoine, 1994.

#### *The drop in consumption in Europe between 1990 and 1993*

The following table indicates a levelling off, followed by a drop in apparent consumption of textile and clothing products in the European Community from 1990, and especially in 1993.

<sup>44</sup> Rate of penetration = extra-community imports/apparent consumption. Apparent consumption = production – exports + imports.

The fall in 1991 and 1992 is more marked in value than in volume, which indicates strong pressure on prices.

**Table 6.7. Trend in apparent consumption by volume (index 1986 = 100)**

	1986	1987	1988	1989	1990	1991	1992	1993	1994
Textiles	100	108	107	108	109	107	107	98	103
Clothing	100	109	111	113	118	119	121	115	118

Source: Euratex, from CIRFS data.

**Table 6.8. Trend in apparent consumption by value: textiles and clothing (index 1986 = 100)**

	1986	1987	1988	1989	1990	1991	1992	1993	1994
Trend	100	108	114	123	129	135	133	118	n.a.

Source: Eurostat.

#### *Evolving customer demand*

The study carried out by Moda Industria,<sup>45</sup> which is presented in greater detail in Section 3.3, explains how purchasing is done in the organized and independent distribution networks respectively. We recall here that:

- (a) 'organized' distribution has more collections: three a year, compared with 2.4 for independent distribution;
- (b) 'organized' distribution has a higher restocking rate: 15%, compared with 8.4% for independent distribution;
- (c) 'organized' distributors look to their suppliers more than do independent distributors for quality service and a style and price. Service is seen in terms of rapid delivery and punctuality, and the ability to solve the distributor's problems and to answer his questions.

Everywhere in Europe, distribution networks are tending to concentrate and organize themselves, which reinforces their professional image.

<sup>45</sup> The Italian Clothing Trade Association.



For garment producers, the result is to increase demands relating to:

- (a) flexibility and delivery times;
- (b) the capacity for restocking, that is to make additional deliveries during the season, of lower quantities, within short deadlines and at competitive prices;
- (c) creativity and model styles.

This is happening in a climate of increased international competition, with pressure on prices and quality being maintained at a comparable level.

Changes in distribution are therefore prompting industrialists to be more rigorous and more flexible in their methods of design and production, and to control their costs. The changes in distribution are therefore a factor in the increasing professionalism of those in the industry, and a factor in the decline or even gradual elimination of businesses which will not be able to adjust.

6.1.2. The textile and clothing sector is pursuing three major objectives: to control its costs, to develop flexibility and to develop quality and creativity

In order to cope with these three aspects of change (competition from extra-community countries, recession and the changing demands of distributor customers), industrialists in the clothing and textile sector are obliged to improve their performance, and therefore to pursue two objectives:

- (a) to contain or reduce production costs in order to remain competitive and not to worsen their situation of disadvantage relative to States with low production costs;
- (b) to develop flexibility and the ability to react: speedy deliveries, rapid restocking, swift adjustment of models, more frequent collections;
- (c) to develop quality and creativity.

#### *Reducing production costs*

This objective consists partly of increasing productivity, that is volume produced per head, and partly of reducing the unit labour cost, that is the cost for each hour worked, although this factor is governed largely by regulatory elements outside the control of the industry.

#### *Increasing flexibility*

This objective, consisting in reducing delivery times, increasing the capacity to produce small series without overburdening production costs, and increasing the number of collections or adaptations per year, has already been dealt with in Section 4.3.

#### *Developing quality and creativity*

This relates to the product itself, but also to the development of associated services.

As regards the product, for the enterprises it is a question of creating models which will make it possible to distinguish the product from that of other manufacturers, under ever-increasing time pressures. The costs involved in its creation (the salaries of the designers and other people involved, the protection of the models, combating imitations etc.) can be as much as 6% of turnover.

As regards the services associated with the product, these may include, for instance, advice to small distributors on utilizing and enhancing their sales points. For the manufacturer, it is a matter of responding to the needs of his end customers (the consumer) as well as his direct customers (the distributors).

#### 6.1.3. The textile and clothing sector is introducing significant technological and organizational changes

Against the background of the evolving situation described in Section 4.1.1, and in order to achieve the objectives described above, enterprises in the textile and clothing sector are taking action of their own, independently of any legislative intervention. These changes take the following forms, although this list is not exhaustive:

- (a) Dividing production among specialized sites located often in different geographical areas, in order to optimize costs. This applies especially to dressmaking and to certain operations such as sewing, putting on buttons or adding zip fasteners. Some products thus follow a complex path, and may traverse a large number of kilometres before reaching their end buyer. For example, a French fabric may be dyed in Italy, cut in another Member State, and then assembled in Hungary, with the buttons put on in Rumania, after which it returns to France to be sold.
- (b) Recourse to subcontracting and to TPP<sup>46</sup> is also an increasingly widespread means of reducing costs. A study carried out by the Mercer Consulting Group has shown that the cost variance between a manufacturer making up articles on site and a traditional subcontractor is around 7% for a mid-range shirt in the United Kingdom. According to the same study, the cost variance between a mid-range pullover produced in France with a French fabric, and the same product made up in Morocco from a French fabric, is around 29%.
- (c) The automation of some stages of the design and production process: this automation is advanced in the textile sector, less so in the clothing sector where there are more technical difficulties; designing models and cutting out are, however, highly suitable for it.
- (d) Logistical steps (the organization and computerization of stock management, organization of manufacturing launches, the improved integration of raw material suppliers, anticipated purchases, the organization of methods of delivery, the installation and organization of warehouses etc.) to reduce delivery time. An Italian study by Moda Industria shows that enterprises are devoting on average 4.9% of their turnover to logistics. These logistical steps may include the establishment of EDI<sup>47</sup> among distributors and manufacturers to make advance decisions on stock management.

These are the steps taken by European textile and clothing manufacturers in order to cope with competitive developments, and independently of the legislative measures introduced by the Member States or the European Commission.

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<sup>46</sup> Processing traffic system, see below.

<sup>47</sup> Electronic data interchange.

#### 6.1.4. The major indicators which have changed: productivity and commercial exchanges

Taking all factors together, without trying to identify the impact of the completion of the single market or the outcome of action initiated by the manufacturers, and looking at the major indicators of the structural performance of the textile and clothing sector, those which show the most development are:

- (a) productivity;
- (b) intra-community exchanges;
- (c) extra-community exchanges.

**Productivity** has increased considerably, and this is an underlying tendency which emerged in the 1970s. This increase was steady between 1980 and 1992, and then accelerated (see Section 6.4.2 for a more detailed analysis of productivity trends).

**Table 6.9. Productivity per employee (in ECU 1,000)**

1982	1984	1986	1988	1990	1992	1994
190	201	226	242	256	279	310

Source: Eurostat.

Intra-community trade has increased considerably since 1986, although situations are highly variable from one country to another.

Extra-community trade has also increased considerably, and in even greater proportions than intra-community trade. The balance of trade between the EC and the other countries is negative overall, but the situation differs as between textiles, which show a net balance, and clothing, where the balance is largely in deficit.

#### 6.1.5. The contribution of the completion of the single market to changes in these indicators

As regards productivity, the completion of the single market may have had an impact on the size of production series, which has resulted in economies of scale. This has been possible:

- (a) directly, through better harmonization of standards and the principle of mutual recognition of standards and tests, and also by the harmonization of the rules on public tendering. However, some of this task of harmonization has yet to be brought into practice;
- (b) indirectly, through changes in distribution, which build upon the completion of the single market through a relative standardization of ranges and purchases, so that larger volumes can be bought from a smaller number of manufacturers.

Other factors have an influence on productivity:

- (a) in textiles, investments and the automation of some processes, the size of production units;
- (b) in clothing, the automation of certain stages (cutting out), the use of subcontracting and TPP, skilled labour, and quality control, which itself is associated with the choice of sources of supply and of subcontractors.

These factors are influenced mainly by the intensity of world competition; the completion of the single market may have had an indirect impact on these factors, by contributing to the reinforcement of this international competition.

As regards intra-community trade, the impact of the completion of the single market on intra-community trade exists, although in a sense it merely takes over from an earlier trend which began in 1980 or even before.

As regards extra-community trade, the increase here is mainly the outcome of liberalizing trade, which has nothing to do with the completion of the single market.

In conclusion, the completion of the single market has been a factor for change in the textile and clothing sector whose impact, though not to be ignored, has been minimal if we bear in mind the considerable influence of world competition, which remains the key factor of evolution in this sector.

#### 6.1.6. The impact as perceived by the end consumer

So far, the only changes mentioned have been those which relate to manufacturers. Some changes are also discernible regarding the end consumer. These changes are chiefly the result of changes in distribution.

#### *Prices*

The prices of clothing items have tended to converge between 1980 and 1985, but this trend subsequently reversed, and prices have once again started to diverge. The level of divergence remains relatively high by comparison with other major consumer products, although the disparities tend to be offset by the differential rates of VAT (see Section 6.4.4 for a detailed analysis of price changes).

#### *The type of products, the selection and product ranges*

The interviews conducted in distribution enterprises show that the nature of the proposed ranges is not changing in any especially marked way; the most highly organized distributors are standardizing part of their range among the Member States, to constitute virtually identical products for every Member State. There is some willingness to increase this shared portion but this will only happen in the long run, as the European consumer does not yet exist.

## **6.2. Impact of the completion of the single market on enterprises (costs, economies of scale, investment, purchases)**

### 6.2.1. Direct short-term impact on costs

In order to clarify and measure the impact of the completion of the single market on costs, we will take the example of the structure of the manufacturing cost of certain products. It has not proved possible to obtain any meaningful data for the trends in production and preproduction costs.

**Table 6.10. Cost structure in a French sock factory in 1988**

Components	In French francs	In % of the industrial cost price	Type of operation
(1) Yarns	1.50		
(2) Treatment of yarn	1.80		Floating, mercerizing, dyeing, winding
(1)+(2) = Raw materials	3.30	34%	
Knitting	2.10	22%	Warp knitting – highly automated operation; only requires two hosiers and one part-time mechanic
Shaping	1.80	18%	Separating the feet, turning, looping, shaping and pairing Virtually complete automation
Labelling and packing	0.30	3%	
Dispatch, transport, scheduling, purchasing, administrative costs	1.50	15%	
Amortization of equipment	0.80	8%	
<i>Industrial cost price</i>	<i>9.80</i>	<i>100%</i>	
Commercial costs	2.00		Sales administration, sales force, marketing, advertising
Manufacturer's margin	1.90 to 4.10		Varies according to distribution outlets
Selling price	12.85 to 16		Ex-factory
Distributor's margin	6.45 to 11.20		
Price to the public	19.30 to 31.00		

Source: *Tertiel No. 41*, October 1988.

Table 6.11 lists the factors affecting cost changes under the various heads distinguishing the factors associated with the completion of the single market from other factors.

**Table 6.11. Factors in cost changes**

Components	As a % of the manufacturer's cost price	Cost factors directly associated with completion of the single market	Cost factors not connected with completion of the single market
(1) Yarns	15%		Negotiating power Raw material prices Choice of sources of supply
(2) Treatment of yarn	19%	The prohibition of certain processes or the use of certain substances increases production costs and involves extra expenditure in finding substitute processes	
(1)+(2) = Raw materials	34%	Cost of changing technologies or processes	Negotiating power Raw material prices Choice of sources of supply
Knitting	22%		Investment in machinery Size of production units
Shaping	18%		Investment in machinery Size of production units
Labelling and packing	3%	The harmonization of legislation on labelling would permit greater standardization at this stage	Investment in machinery Size of production units
Dispatch, transport, scheduling, purchasing, administrative costs	15%	The abolition of frontiers and the free circulation of goods reduces the cost of export sales administration and eliminates some of the fees payable to forwarding agents. Managing Intrastat, declaring sales of goods increases indirect costs The liberalization of transport makes it possible to obtain better rates	The productivity of the administrative functions is derived from their organization and from the performance of the computerized system
Amortization of equipment	8%		Policy on investment and renewal of equipment
<i>Industrial cost price</i>	<i>100%</i>		
Commercial costs	+2%	Potential effect not known: economy of scale for advertising and marketing	Reorganization of the relations between the distributor and the manufacturer
Manufacturer's margin			
Selling price			
Distributor's margin			Distribution network Competitive conditions
Price to the public			

Source: *Tertiel No. 41*, October 1988/CEGOS analysis.

### *Production and pre-production costs*

The factors inducing cost changes are associated principally with the spontaneous reaction of enterprises faced with increasing cost competition, as we have seen above:

- (a) increase in productivity, especially through computerization;
- (b) recourse to subcontracting and to TPP;
- (c) choice of sources of supply, so that better terms can be obtained and quality controls reduced.

These factors have nothing to do with the completion of the single market. However, some factors leading to cost changes are associated with the completion of the single market:

#### *Factors in cost increases*

- (a) The adaptation to harmonized compulsory standards is noted in the survey as increasing the design and control costs of the product. This adaptation would also call for the use of manufacturing procedures which are sometimes more expensive than those previously used, especially in finishing. At any rate, the necessary change in processes inevitably involves extra cost: finding a new organization, investment in machinery, adjustments, extra wastage, etc. As the harmonization of standards has not yet made much progress, these additional costs are still potential rather than real.
- (b) The programme for recovering and recycling packaging is estimated to cost between 0.5% and 0.8% of turnover (source: European Carpet Association).

#### *Cost reduction factors*

Among the factors reducing costs, the following are associated with the completion of the single market:

- (a) Respect for the principle of mutual recognition, if it were obtained, would result in gains on tests and trials. This is not yet completely achieved at present.
- (b) The harmonization of legislation on labelling and on consumer information, if it was also achieved in practice, would permit greater standardization of this operation and hence a reduction in costs.
- (c) An increase in volume for a given product is possible in certain cases, especially for enterprises working with an internationalized distribution system. This results in a reduction of the unit cost of pre-production costs: creation, and will be considered later as part of the economies of scale.

#### *Transport costs*

The liberalization of transport, as pointed out in Section 3.2, has not involved any real reduction in transport costs and in their share of total costs. On the contrary, the proportion of transport costs in the total costs of enterprises has risen from 3.4% to 3.9% between 1990 and 1994, according to our survey.

The liberalization of transport itself generated a drop in transport costs of around 4%, given the same transport conditions (volume and means of transport). On its own, the liberalization of transport would therefore have permitted savings of around 0.14% of business costs.

Changes in transport policy, taking advantage of the elimination of frontiers in the form of more flexible deliveries on a smaller scale, have, however, led to an increase in transport costs.

The reduction in costs, given the same transport conditions, is therefore offset by the reduction in unit volumes and the change in methods of transport. These two factors in combination have resulted in an overall increase in costs for enterprises of around 0.6%.

### *The cost of sales administration*

The simplification of administrative formalities, associated with the elimination of checks on internal frontiers, has brought about a real reduction in the task of administering export sales, as regards intra-community trade. The enterprises which we surveyed say that the reduction of administrative formalities has enabled them to cut the staff involved in sales administration by between one and two people.

The effect on productivity of the administrative services and their staff is sometimes difficult to gauge, especially for small businesses, as there is a certain threshold of staff cuts below which it is difficult to fall without making the service more vulnerable to absences and holidays.

Overall, the survey shows that:

- (a) 49% of the companies questioned have not experienced any growth in the number of staff in the export sales administration service;
- (b) the proportion of enterprises for which the number has fallen (18%) is below the proportion in which it has grown (33%).

Comparatively,

- (a) the proportion of enterprises in which the turnover has remained stable is 12%;
- (b) those where the turnover has increased represent 51% and;
- (c) those where the turnover has fallen represent 36%.

**Table 6.12. Comparison between turnover trends, the share of exports and staff trends in export sales administration**

	Reduced	Stable	Increased
Turnover trends	36%	12%	51%
Trend for the share of exports in turnover	20%	18%	61%
Trend for the number of employees in export sales administration	18%	49%	33%

Source: CEGOS survey.

This means that sales administration costs have not tended to grow, and are inelastic in relation to export turnover. As a result, the administration costs of sales internal to enterprises have grown only to a virtually negligible extent. In fact, gains associated with the abolition of customs checks have been offset by the preparation of the declaration of sales of goods.

Moreover, a study of general expenses<sup>48</sup> in about 15 textile and clothing enterprises in France places the cost of sales administration between 0.6% of turnover (spinning) and 1.1% (clothing and weaving).

<sup>48</sup> Study of general expenses published periodically by CEGOS, 1986 figures.



Regarding the external costs of sales administration, especially fees paid to forwarding agents, the enquiry shows a slight drop in these costs, estimated at about 5%, which corresponds to about 0.03% of the total costs of enterprises.

#### *Distribution costs*

The enquiry does not bring out any significant cost development.

Sums devoted to advertising have tended to increase (1.9% of the total costs on average in 1994, compared with 1.7% in 1990).

#### *Simulation of the financial impact of the completion of the single market on costs*

**Table 6.13. Review of the impact on the cost of the completion of the single market**

Head of expenditure	Calculation hypotheses	Additional cost	Cost saving
Harmonization of labelling	1% to 2% of costs × about 10%		0.1% to 0.2% of costs
Mutual recognition (testing)			unknown
Adaptation of processes to new standards		unknown	
ECO PACKAGING	source: ECA	0.5% to 0.8% of turnover	
Transport costs	source: survey 4% gain on 3% of costs		0.12% of costs
Costs of sales administration	source: survey		0.03% of costs
Distribution costs		unknown	unknown
Total impact:		0.4% to 0.7% of total costs	0.25% to 0.35% of costs

*Source:* CEGOS analysis, according to survey and interviews.

Table 6.13 indicates a net excess cost which may be estimated at between 0.05% and 0.45% of turnover, connected with the completion of the single market.

The conclusion that the completion of the single market has had only a minor impact on cost is borne out by the findings of the Eurostat survey.

**Table 6.14. Impact on unit costs (as a percentage)**

	Very significant	Significant	Insignificant	Don't know
Production process	9.5	12.5	38	39.7
Certification tests	3.5	8	48.8	39.7
Distribution	5.3	16.4	38.7	39.7
Marketing	2.2	13.2	44.8	39.8
Purchasing	17.8	15.3	28	39.9
Bank costs	8.0	11.6	41.7	38.7
Bank insurance costs	2.1	13.2	45.8	39.9

### 6.2.2. Economies of scale

Economies of scale may be distinguished relating to the size of the production unit, and also relating to the size of the production series.

#### *Economies of scale relating to the size of the production unit*

The effects of scale on production are found only in some highly capital-intensive sectors (carpets, high performance textiles), for which the world market is relatively standardized and where labour costs represent only a low share. These economies of scale had already been exploited before the completion of the single market.<sup>49</sup>

According to the statistics, the average size of units has fallen: the share of employees working in enterprises employing fewer than 20 people has grown; this is the only category of employees which is increasing in the textiles and clothing industry. It seems, however, that a trend like this is not the result of economic logic, but rather of businesses taking advantage of fiscal measures which encourage them to hive off and to create a network of very small subcontractors, whose profitability and permanence is far from guaranteed. We will return to this point later.

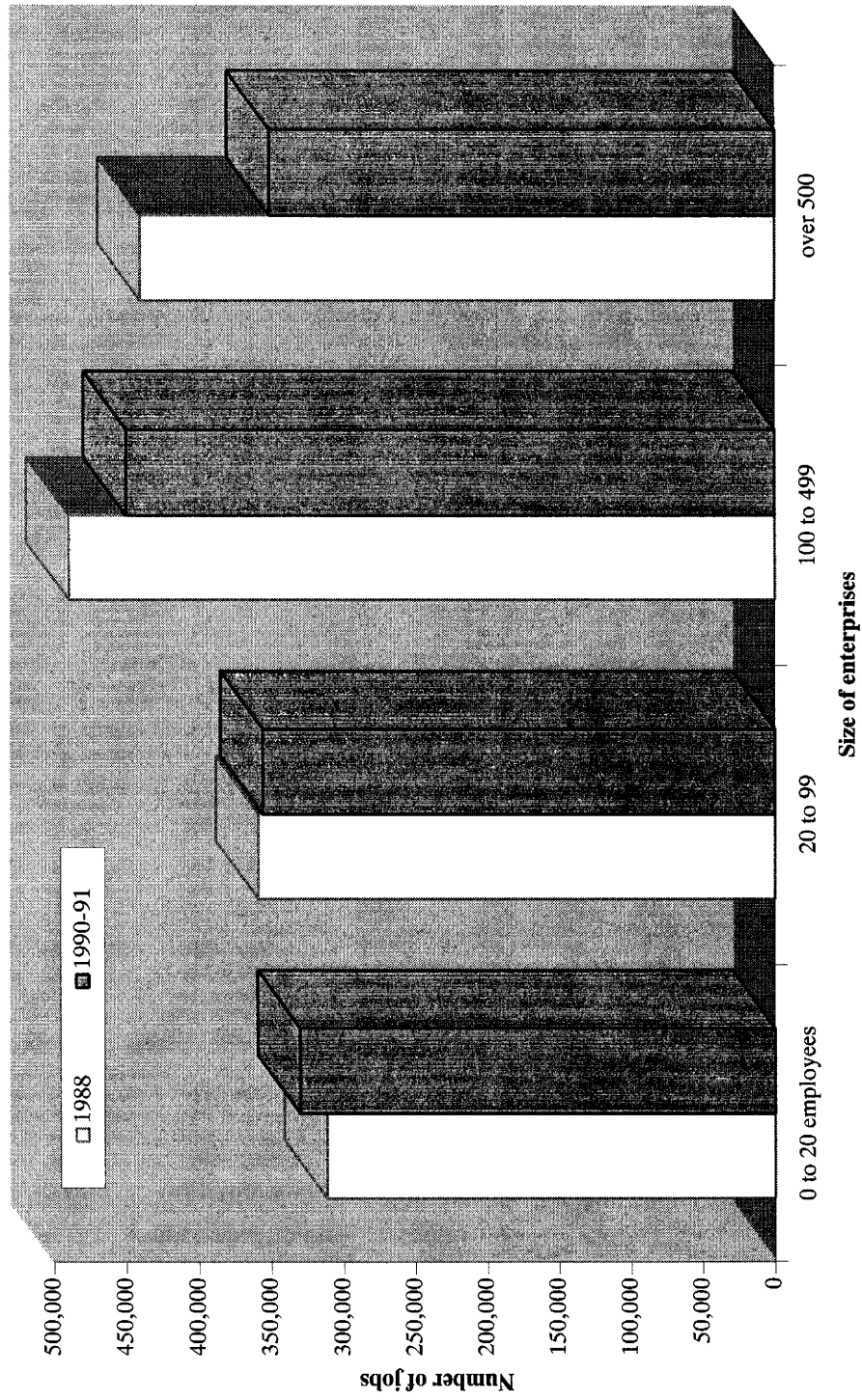
The figures obtained through Eurostat on average staff sizes per unit of production are not very reliable, and they stop in 1992. They show a general downward trend since 1980, with major differences between countries. Sizes are very small in Spain (no figures are available for Portugal); Germany and the United Kingdom have large-sized enterprises. The other countries come somewhere in-between.

In textiles, this trend can be explained by increased automation, but this is not true of clothing. The quest for greater flexibility seems to us to be a significant factor in this development, as well as a tendency to vertical disintegration in some enterprises, on the Italian model. Community industry shows a general tendency to specialization in production units, the only solution which is really acceptable in order to reduce production costs while retaining flexibility and handling fairly short production series.

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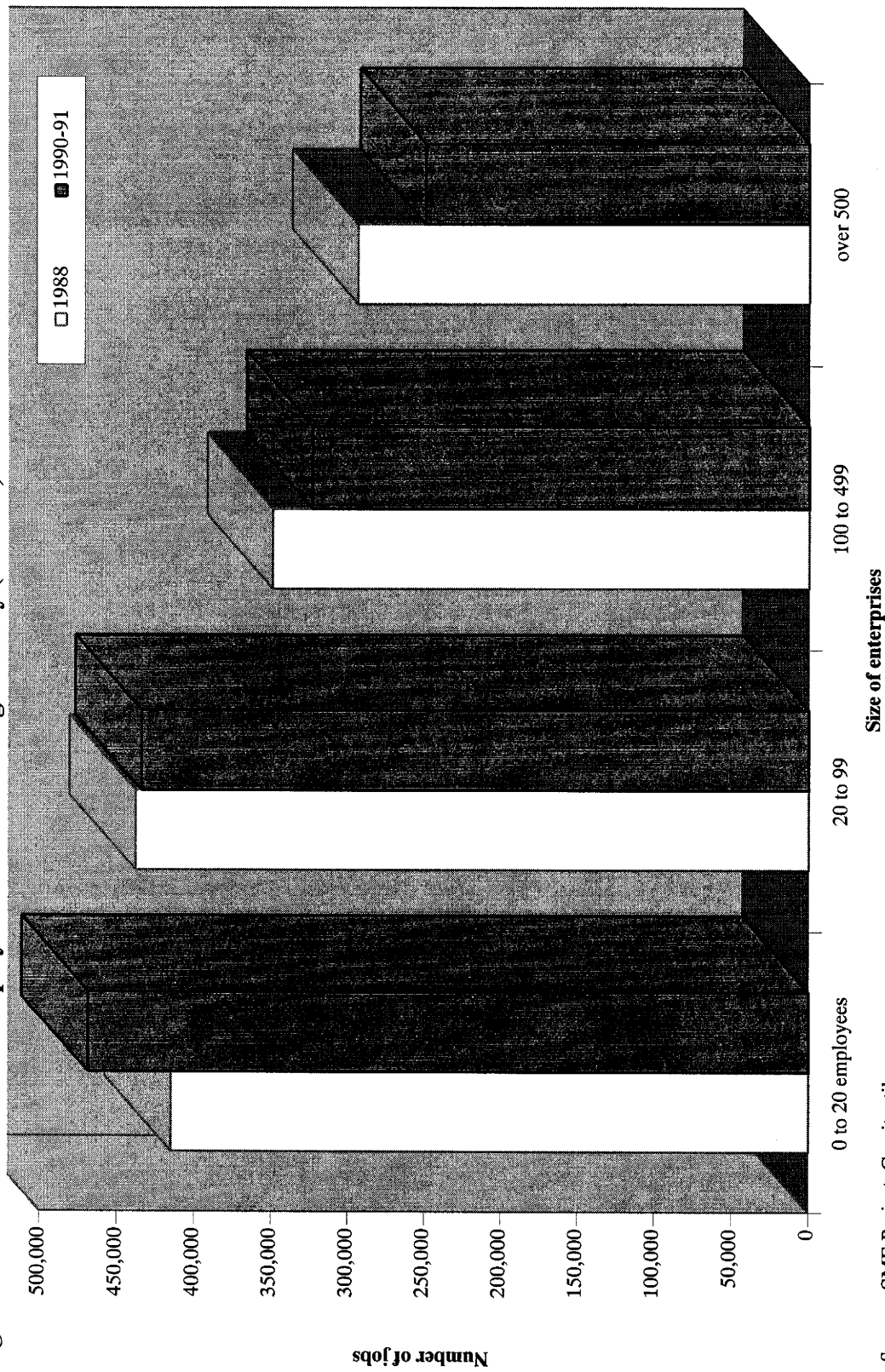
<sup>49</sup> See the study *The cost of Non-Europe* (European Commission, 1988).

**Figure 6.1. Distribution of employment in the textile industry (EUR 12)**



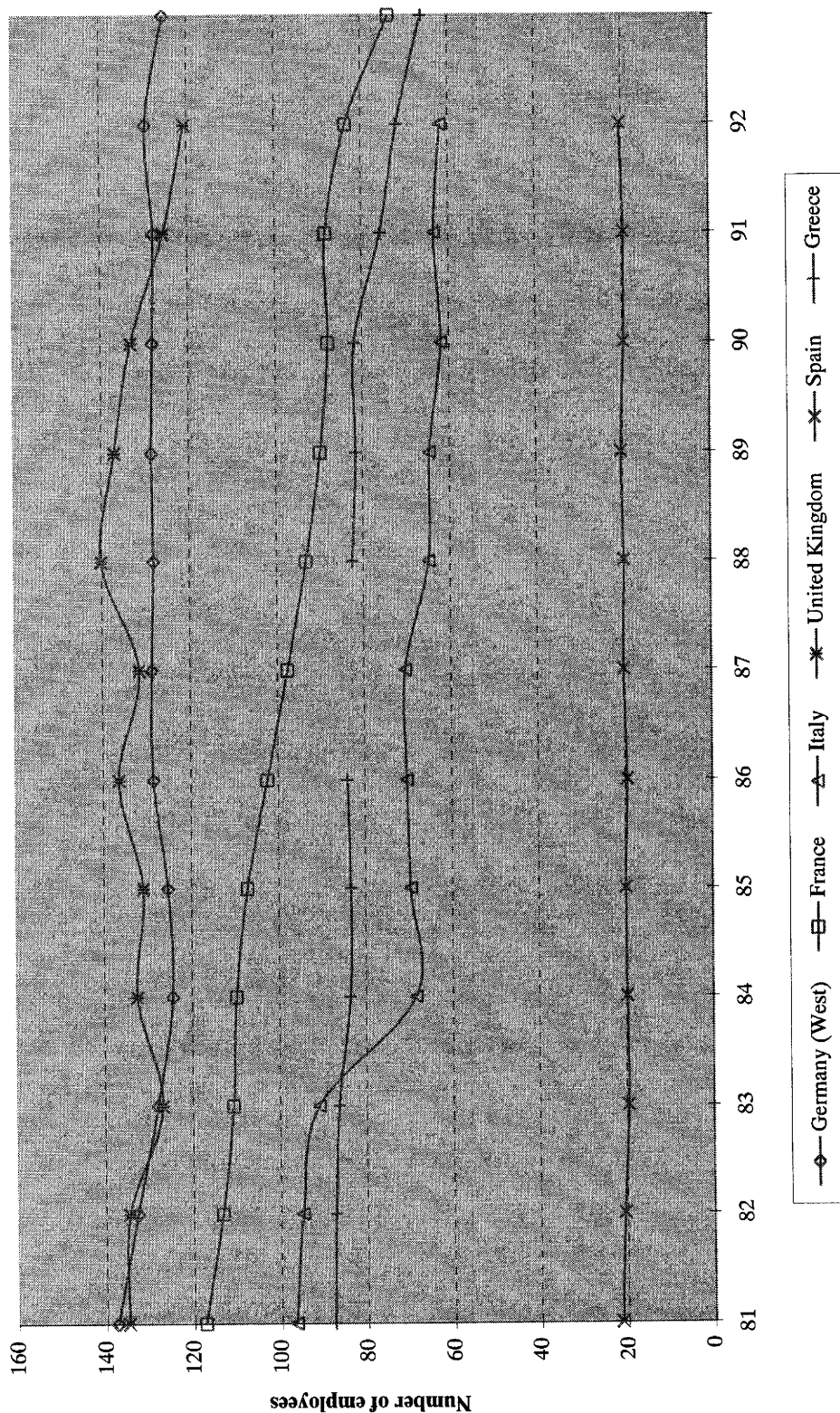
Source: SME Project, Comitextil.

Figure 6.2. Distribution of employment in the clothing industry (EUR 12)



Source: SME Project, Comitextil.

Figure 6.3. Development in average staffing by unit of production



Source: Eurostat.

Similarly, the data for average production in value per unit of production do not seem very reliable. Apart from Germany, which shows consistent progress according to this criterion, the other countries for which we have obtained these data do not show any particular growth.

The completion of the single market has not had any impact on the achievement of scale economies in relation to the size of the production unit; it has not brought about any significant change in the actual size of production units.

#### *Effects of scale relating to the size of production series*

There are no data available for exploring this field, although the existing analyses<sup>50</sup> show the importance of economies of scale relating to the size of the production series.

However, the logic of industry makes it difficult to obtain economies of scale in relation to the size of a series. Except for carpets and high-performance textiles, it is difficult to reach minimum series sizes, because of the lack of homogeneity of demand, and because of the growing pressure on delivery times and the shortened production cycle. Product niches which are not highly differentiated, manufactured in large quantities, with fairly long cycles and production times, have in fact become the privileged territory of countries with low production costs.

This quest for scale effects for the product leads to vertical disintegration, with enterprises rationalizing their production on a very specific range of products. Our figures which show a reduction in the average size of production units are consistent with this hypothesis.

The completion of the single market may contribute indirectly to these scale effects, by promoting the concentration of distribution and the internationalization of its ranges, so that larger series can be ordered. However, as we have said, this movement is not yet very distinct. It will certainly become more so when the harmonization of standards has advanced further.

#### 6.2.3. Direct investment abroad and localization

##### *Contributions among Member States*

We have obtained the number of capital operations among enterprises in different Member States (Table 6.15).

This table prompts the following comments, supported by the opinion of an expert in the textile and clothing sector responsible for client financing files in a bank, and borne out by the comments of professional bodies.

There have been some instances of investments between Member Countries, but this remains limited if we compare the number of operations to the structure of the sector, which consists of about 143,000 enterprises. Note that the figures include the footwear sector, and are therefore a slight overestimate.

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<sup>50</sup> See the study *The cost of Non-Europe* (European Commission, 1988).

**Table 6.15. Number of transactions in capital between enterprises in different Member States (takeovers, minority shareholdings, joint ventures) by target country: textiles, clothing and footwear sector**

Country of destination of the investment	1987	1988	1989	1990	1991	1992	1993	1994	Total
Belgium			1	2	2	1			6
Denmark					1				1
France	3	5	12	12	9	11	7	10	69
Germany		2	7	4	8	9	13	8	51
Greece					1				1
Ireland		1				2			3
Italy		1	1	5		5	2	1	15
Netherlands	1	2	6	1		3	2	1	16
Portugal				2					2
Spain	1		2	9	3	3	2	2	22
United Kingdom			2	5	3	3	2	3	18
<b>Total</b>	<b>5</b>	<b>11</b>	<b>31</b>	<b>40</b>	<b>27</b>	<b>37</b>	<b>28</b>	<b>25</b>	<b>204</b>

Source: KPMG.

The operations took place mainly between 1989 and 1992, and they reflected chiefly industrial and financial openings. The impact of the legal measures for the moment has been only slight, and has not encouraged enterprises to speed up direct transboundary investment. One reason is the fragmentation of the sector, dominated by SMEs which do not have the financial scope and the managerial resources to carry out such operations. Another reason is the facility with which goods circulate within the European Community, which makes such an operation less attractive. Finally, the difficulty of successfully carrying out a capital contribution exercise, for reasons of culture and knowledge of the local market, represents a deterrent. Moreover, the concern to control directly information coming from the market prompts enterprises to opt rather for the services of a commercial agent and for intra-community delivery.

One area of interest could be direct investment in countries with low labour costs within the Community (Greece, Portugal, Spain) and outside it (the Maghreb). However, the savings achieved in this way can also be achieved through trading relations not involving investment. Moreover, these are vulnerable savings in view of the currency variations which may well reduce or wipe them out in a short time.

Our survey shows that for enterprises which have carried out mergers or takeovers since 1987, the primary object was to expand into new markets and to increase market share; the expectation of economies of scale and production cost reductions remains slight in this kind of operation.

Hence takeovers, mergers and regrouping of enterprises do take place in the sector, but are not a basic feature. These operations relate mainly to the large enterprises or to highly specific niches in which an oligopoly is sought (elastic bands, carpets, synthetic fibres, for instance). In carpets a significant movement has taken place – the takeover of the German carpet industry by Belgium. This was due to the fear of transport being held back, in an industry where the product is voluminous. The sector therefore preferred to get closer to the market.

For this proposal to offer an attraction, the following conditions must be fulfilled:

- (a) the existence of barriers to entry;
- (b) the existence of a motive for the enterprise to grow in size (the existence of scale effects in particular).

Apart from these cases of takeovers and mergers, concentration is tending to take place through internal growth.

It will also be noted that Portugal has not benefited much from the completion of the single market in the form of direct investment; such investment has benefited mainly France and Germany, as well as Spain to a lesser extent. This contradicts the current notion that European enterprises have invested massively in Portugal and Spain in order to take advantage of lower production costs.

Moreover, the social directives may lead to a movement to disinvest in other Member States. For instance, the obligation to set up a European Works Council for all enterprises with units in at least two Member States has prompted certain enterprises which had activities in only two countries to consider getting rid of one of the two establishments.

#### *Third country capital contributions*

**Table 6.16. Number of capital operations between third country and European enterprises (takeovers, minority shareholdings, joint ventures) by country of target enterprise: textiles, clothing and footwear sector**

Country of destination of the investment	1987	1988	1989	1990	1991	1992	1993	1994	Total
Belgium	0	0	0	2	0	0	0	0	2
Denmark	0	0	1	0	1	0	0	0	2
France	0	3	1	12	8	4	3	3	34
Germany	0	2	4	3	5	6	3	5	28
Greece	0	0	0	0	0	0	0	0	0
Ireland	0	0	0	0	0	0	0	0	0
Italy	0	1	4	9	4	2	8	5	33
Netherlands	0	1	0	1	0	0	1	0	3
Portugal	0	0	1	1	0	0	0	0	2
Spain	0	0	0	2	1	1	0	0	4
United Kingdom	3	2	3	3	3	4	5	5	28
<b>Total</b>	<b>3</b>	<b>9</b>	<b>14</b>	<b>33</b>	<b>22</b>	<b>17</b>	<b>20</b>	<b>18</b>	<b>136</b>

Source: KPMG.

Some capital contribution movements have occurred from third countries (USA, South East Asia, Japan) but they have also remained fairly limited. Investments from Asiatic countries have been mainly upstream (fibres, weaving, spinning, and especially synthetic fibres).

According to one current notion, the prospect of a huge internal market has attracted foreign investors. Indeed, between 1987 and 1990 the pace of investment from third countries has been found to have quickened. These investors have sometimes made use of regional development aids. However, from 1990 this pace has been falling off, and does not seem to be varying with the completion of the single market. The new investments have gone mainly to France, Germany, the United Kingdom and Italy.



These attempts have sometimes proved difficult and not all have been successful. Some of them have already gone into reverse:

- (a) the stagnation of the European market makes it less attractive than the emerging markets in Asia, while
- (b) difficulties in achieving compatibility in methods of operation and decision making have weighed heavy. The success of an enterprise in this sector often resides in the personality and creativity of its director, and mixing styles is often a cause of failure.

*Investment by EC enterprises in third countries*

**Table 6.17. Number of capital transactions between European and third country enterprises (takeovers, minority shareholdings, joint ventures) by country of target enterprise: textiles, clothing and footwear sector**

Country of destination of the investment	1987	1988	1989	1990	1991	1992	1993	1994	Total
CEEC				7	14	2	3	6	32
USA and Canada	1	10	10	3	7	4	9	5	49
Asia	1	2	2	1	7	2	13	11	39
Mediterranean area					3				3
Others	2	2	4			3	3	3	17
<b>Total</b>	<b>4</b>	<b>14</b>	<b>16</b>	<b>11</b>	<b>31</b>	<b>11</b>	<b>28</b>	<b>25</b>	<b>140</b>

Source: KPMG.

The figures in Table 6.17 show the existence of an external investment trend on a scale comparable to third country investments on Community territory, equivalent to two thirds of transboundary intra-community investments in number, but above 40% in amount. This indicates the relative scale of the relocation trends as regards the CEEC and Asia, but also the renewed commercial aggressiveness; investment in the USA and in Asia is intended partly to overcome customs barriers.

To summarize, Table 6.18 highlights the causes of merger and takeover trends since 1987, and brings out the very weak link between the completion of the single market and the merger and takeover operations which have been carried out in Europe since 1987.

**Table 6.18. Causes of mergers and takeovers in the textile and clothing sector: links with the completion of the single market**

Type of transaction	Causes linked to the completion of the single market	Causes not linked to the completion of the single market
Transactions between enterprises in different Member States		Efforts to expand into other markets Efforts to achieve economies of scale (where they exist)
Transactions by an extra-community enterprise involving an intra-community enterprise	Liberalization of intra-community trade	Efforts to expand into other markets
Transactions by an intra-community enterprise involving an extra-community enterprise		Efforts to expand into other markets Displacement of production capacity

*Source:* CEGOS, from interviews.

#### 6.2.4. Vertical upstream/downstream purchasing and linkages

The analysis of statistics for intra- and extra-community trade has revealed an increase in intra-community trade in textiles. This indicates that a change in supply policy has been obtained from industrialists who manufacture and use textiles. These findings are in fact more or less borne out at all manufacturing stages except weaving, and seems to be true especially of customers for high performance textiles (the automobile and construction industries, for instance). These trends have existed since 1986, and have tended rather to stabilize in 1992/93.

As regards clothing items, we have seen that the trend was less apparent; however, some change in the supply policy of garment distributors is not excluded, although it is not especially noteworthy.

We can distinguish here between the supply policies of the manufacturers (fibres, fabrics and intermediate processing stages) and those of the distributors (finished garments).

##### *Supply policies of manufacturers*

For the textile industry, as for the garment industry, the survey shows that policies have evolved to be more favourable to intra-community purchases between 1990 and 1994, and this applies especially to textiles, even more than to clothing.

About one third of enterprises have not altered their purchasing policy. Another third have increased their share of purchases of intra-community goods (33% in clothing and 38% in textiles), while at the same time the proportion of enterprises which have increased their extra-community purchases is lower, and markedly so in textiles: 31% in clothing and 24% in textiles. The elimination of customs barriers has therefore had a real impact on changing sources of supply for the industries.

As regards the intermediate processing stages, the changes relate mainly to increased reliance on subcontracting and on outward processing traffic. These changes are due mainly to competitive pressure on prices and to the liberalization of trade with the CEEC, but are not related to the completion of the single market.

Changes in purchasing policies have very rarely occurred through vertical integration; in fact, the breakup of industrial sectors and the effects of competition make it possible to find suppliers who are less expensive than an integrated supplier would be. The low level of standardization of products is also a factor which would hold back any trend towards vertical integration. Only technical products which are specialized from the fibre stage, such as the manufacture of some sports clothing, warrant integration of this kind, which in any case has already taken place.

Nor have we found any instance of manufacturers taking advantage of the communitarization of quotas, placing joint purchase orders in order to negotiate better rates, contrary to what happens with the distributors.

#### *Supply policies of distributors (finished garments)*

It has already been said that the proportion of intra-community imports of clothing items in apparent consumption has been increasing steadily since 1986.

Interviews held with buyers for major distributors show that industry leaders in countries such as Italy, Spain and Portugal are again becoming more competitive for some niche items, for instance knitted garments for Italy, if all the cost elements are put together:

- (a) quality control costs;
- (b) transport costs;
- (c) the possibility of restocking, flexibility of supply;
- (d) administrative costs.

The impact of the completion of the single market on this aspect is obvious, as the elimination of customs checks and administrative simplifications for intra-community trade help to reduce costs in the administrative management of purchases.

The liberalization of transport encourages breaking up orders and deliveries into smaller units, which in turn brings about a speedier reaction by suppliers.

The communitarization of quotas encourages the process of combining purchase orders in order to negotiate better rates. This, in distribution companies covering several Member States, fosters the trend towards the centralization of purchases and the internationalization of ranges, with a view to negotiating more favourable rates. For these companies, this involves redefining suppliers for the various products, both in the light of their capacity for integrating the logistical constraints of the distributor (the kind of label, for instance) and their capacity to supply the desired quantities within the requisite time limits, thus placing demands on the flexibility and increased capacity of production. The inability of a supplier to respond to these criteria does not necessarily mean that this source of supply will be eliminated, but it does involve a risk for it.

### **6.3. Impact of the completion of the single market on the market (trading patterns, concentration)**

#### **6.3.1. Changes in access to markets resulting from the programme on the completion of the single market: global analysis**

In order to gauge the impact of the completion of the single market, an analysis was initially made of the figures for intra-community and extra-community trade, namely:

- (a) apparent consumption, which is calculated on the basis of 'production + imports - exports', representing volumes purchased and consumed in the European Community;
- (b) imports of intra-community origin;
- (c) imports of extra-community origin;
- (d) exports of intra-community origin;
- (e) exports of extra-community origin.

Analysing these figures certainly yields useful information, but not sufficient to draw any conclusions. This is why four indicators are used in this part:

- (a) the ratio 'intra-community imports/apparent consumption', in which intra-community imports are calculated on the basis of the sum of intra-community imports from all Member States, measures the rate of average penetration of imports from the other Member States;
- (b) the ratio 'intra-community exports/total exports' is calculated on the basis of the sums, for each Member State, of exports from the other Member States;
- (c) the ratio 'intra-community imports/total imports' is calculated on the basis of the sums, for each Member State, of imports from the other Member States. It measures the degree of 'Community preference' when external sources of supply are chosen;
- (d) the ratio '(intra-community imports + intra-community exports)/total imports and exports' measures the intensity of intra-community trade as a whole, in relation to the total external trade of the Member States.

For each indicator, we have considered textiles and clothing separately.

We present below the analysis which follows from a consideration of these indicators and from changes in value.

#### *Trends in access to markets in the textile sector*

##### *Trends between 1980 and 1992:*

The period 1980 to 1992 shows regular progress in value of exports, both intra-community and extra-community. The period 1984 to 1985 marks a growth in these indicators.

The same tendency is discerned as regards intra- and extra-community imports; the rise is somewhat steeper for imports, but all these changes remain virtually parallel.

Intra-community trade is shown to be more significant than extra-community trade, and is increasing slightly more quickly.

An analysis of the four indicators defined above shows that Community integration of the textile sector had been largely achieved before 1986, as Table 6.19 shows.

**Table 6.19. Indicators for the integration of the textile sector**

	1980	1985	1987	1989	1990	1991	1992	1993
1 Intra-imports/apparent consumption	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2 Intra-exports/total exports	64%	61%	65%	64%	64%	65%	65%	62%
3 Intra-imports/total imports	59%	62%	64%	64%	64%	62%	62%	55%
4 (Intra-imports + intra-exports)/total imports and exports	62%	61%	65%	64%	64%	63%	63%	59%

*Source:* Eurostat/VISA – calculations: CEGOS.

This table shows:

- (a) the significant share of intra-community trade in total trade;
- (b) an increase relating to the level of intra-community trade in comparison with total international trade (indicator 4) up to 1987, then stability or even a steady decrease since 1987;
- (c) there is the same finding for the share of intra-community imports in total imports (indicator 3);
- (d) the stability of the share of intra-community exports in relation to total exports (indicator 2).

*Factors underlying these trends:*

The fact that barriers to intra-community trade, as already mentioned, are generally weak has contributed to a high level of integration in the textile sector since the introduction of the Common Market.

*Trends over the period 1992 to 1994:*

For exports, in 1993 there was an acceleration in the tendency for extra-community exports to increase, and a fall in intra-community exports, but this finding is only relatively reliable. On the other hand, for imports, in 1993 there was a slight acceleration in the tendency for extra-community imports to increase, but there was a very marked decrease in intra-community imports, and this finding is definitely due to a problem in gathering the statistics.

It is not possible to conclude that there has been any increase in intra-community trade. No conclusions can be drawn on this point from the data provided by Eurostat in their present state.

The table for trends in these four indicators for the period 1992 to 1994 shows:

- (a) a more marked decline in the level of intra-community trade by comparison with total international trade (indicator 4) in 1993, although no categorical conclusions can be drawn because of the unreliable nature of the intra-community figures for 1993;

- (b) the decline in the share of intra-community exports in comparison with total exports (indicator 2) in 1993, to be confirmed or invalidated in 1994;
- (c) the decline in the share of intra-community imports in total imports (indicator 3) continues and indeed accelerates in 1993.

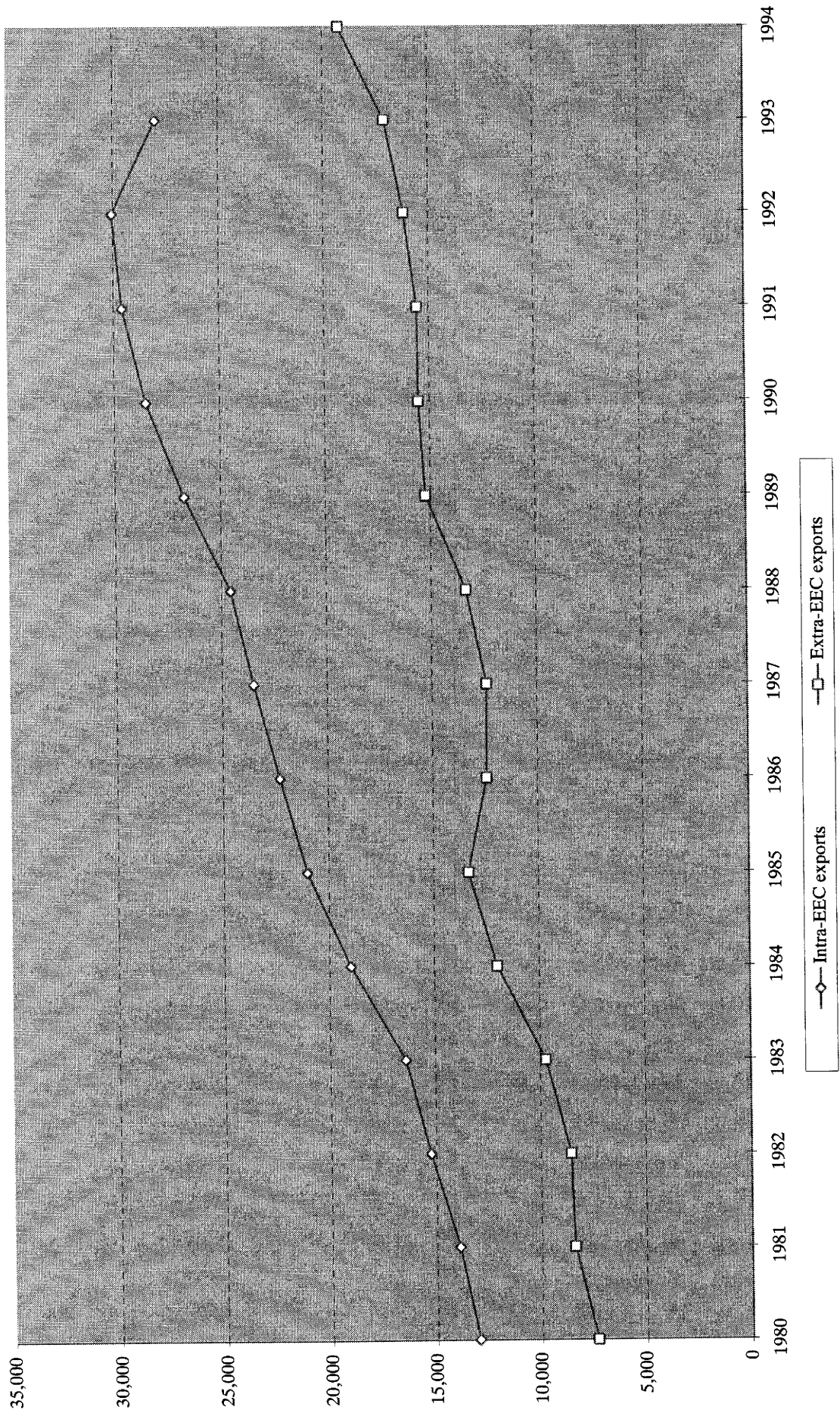
In conclusion, since 1993, the following trends have become apparent:

- (a) a more rapid acceleration in extra-community trade, and especially in extra-community imports;
- (b) uncertainty concerning intra-community trade.

*Subsequent effects anticipated:*

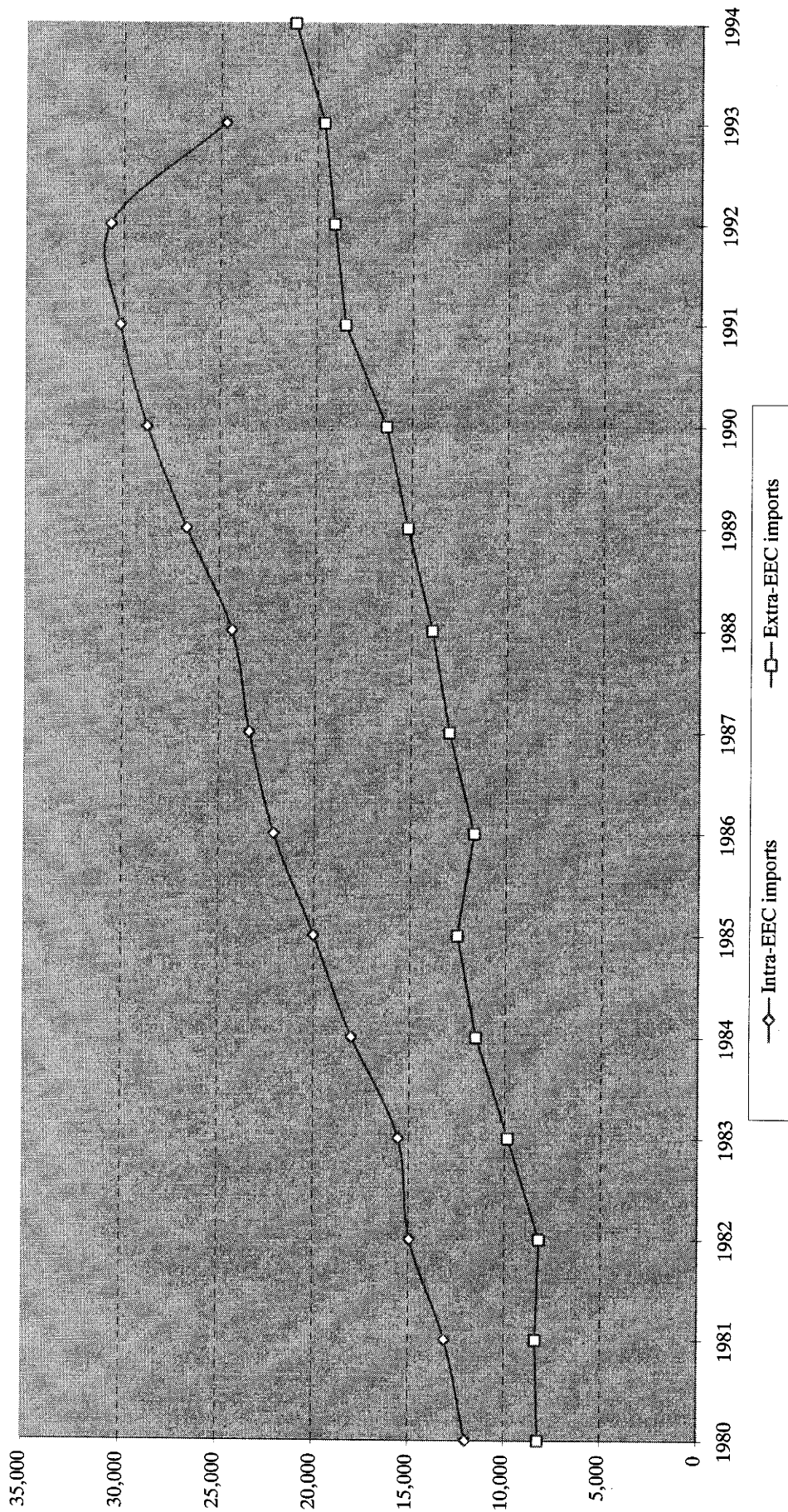
The figures for 1994 and 1995 should make it possible to determine these trends more precisely. However, intra-community trade is certainly expected to increase.

Figure 6.4. Value of exports in the EC: textiles (in millions of ECU)



Source: Eurostat/VISA.

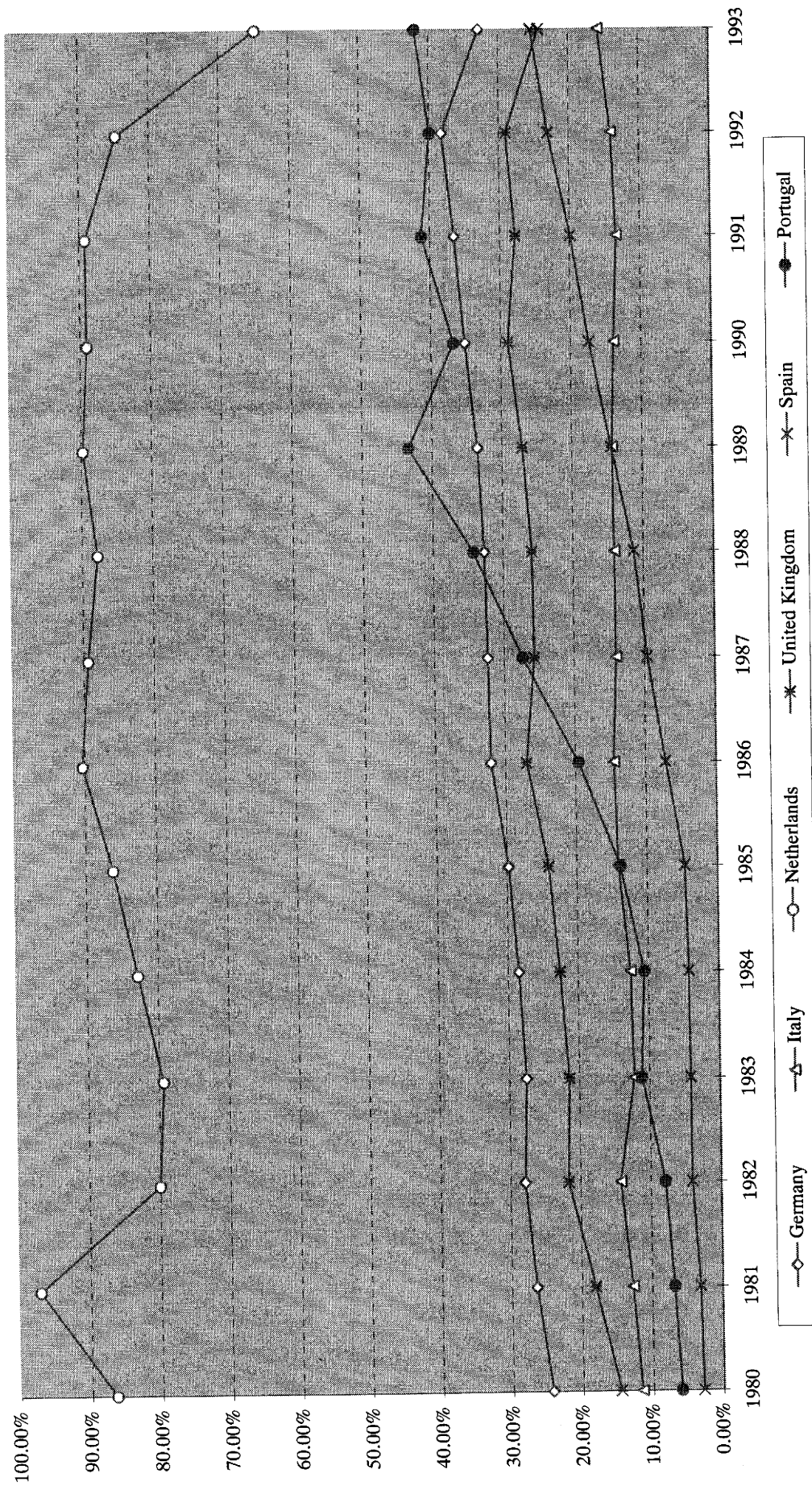
Figure 6.5. Value of imports in the EC: textiles (in millions of ECU)



Source: Eurostat/VISA.



Figure 6.6. Development of the rate of import penetration in the EC for certain countries



Source: Eurostat/VISA.

*Underlying causes of these trends and impact on the completion of the single market:*

The increase in the imports of extra-community origin is associated primarily with the liberalization of trade with extra-community countries; this liberalization is reflected in the gradual integration of the MFA quotas, and hence in the increase in the quotas. It has also led to the signing of agreements for promoting trade with the CEEC, and one effect of this has been to enable outward processing traffic with these States to develop. This liberalization has no connection with the completion of the single market.

The increased use of TPP also results from the pressure on prices, which in turn is a consequence of less favourable competitive conditions, especially for goods from third countries.

The increase in extra-community exports is associated with the attractiveness of markets such as Asia and the CEEC, which has induced some enterprises to focus on them as target development priorities, the Community market being regarded by them as already exploited or less attractive, because of its stagnation. The signing of agreements with the CEEC is a factor which facilitates exports to these States, which are experiencing an economic development which makes them more attractive.

Hence the development of extra-community trade in textiles owes very little to the completion of the single market as such, whether directly or indirectly.

An increase in intra-community trade seems to be much more closely associated with completion of the single market. However, this trend was already well established before the announcement of the single market; moreover, even before 1992 operators took the view that there were few barriers to trade. Increases in intra-community trade could be expected, and the data for the coming years should bring out these trends more clearly.

- (a) The elimination of checks on the frontiers and the liberalization of transport should make Community enterprises more competitive, in terms of flexibility and speed of delivery. As we have seen, flexibility was a key element on which enterprises have attempted to build their competitiveness.
- (b) The effect of the abolition of internal frontiers, and the abandonment of Article 115 have encouraged 'triangularization', i.e. re-exporting to a Member State merchandise subject to an MFA quota which is imported by an enterprise located in another Member State which has quotas available. This triangularization is counted into intra-community trade.
- (c) The communitarization of quotas leaves room, in theory, for a different allocation of extra-community imports, as in theory the enterprises which request import licences most rapidly are served first. In itself, this possibility would not lead to an increase in the overall level of imports, but to a different pattern of allocation among Member States.

*Trends in access to markets in the clothing sector*

*Trends between 1980 and 1992*

The graph for exports in value terms shows a very significant increase in intra-community exports and imports, with the two graph lines following the same trend between 1980 and 1992.

Table 6.20 reveals the following for the period between 1980 and 1992:

- (a) a lesser degree of integration than for textiles; in particular, the share of intra-community imports in total imports is very much less;
- (b) a relative stability in the level of intra-community trade compared with total international trade (indicator 4);
- (c) the slight increase in the share of intra-community imports in the consumption of clothing products since at least 1986 (indicator 1);
- (d) the instability of the share of intra-community exports in relation to total exports (indicator 2).

**Table 6.20. Indicators for the integration of the clothing sector**

	1980	1985	1987	1989	1990	1991	1992	1993
1 Intra-imports/apparent consumption	16%	19%	20%	19%	21%	21%	21%	18%
2 Intra-exports/total exports	66%	58%	62%	60%	62%	64%	64%	61%
3 Intra-imports/total imports	38%	34%	32%	30%	30%	28%	30%	23%
4 (Intra-imports + intra-exports)/total imports and exports	20%	22%	23%	22%	23%	23%	23%	21%

Source: Eurostat/VISA – calculations: CEGOS.

#### *Underlying factors in these trends*

International competition, especially from countries with low labour costs, and pressure on prices, are major factors in explaining these trends. The result is a growth in imports of products from these countries; certain enterprises, especially in northern Europe, have therefore reduced their industrial output to concentrate more and more on dealing in imported merchandise; this tendency is more marked in clothing. This is associated with the fact that textiles, being more capital-intensive than clothing, have suffered less than clothing from the competitive pressures from countries with low labour costs.

This period has also seen the development of 'triangularization', with distributors using up the surplus of quotas not used by other companies located in other Member States. This triangularization comes about through sister companies or through intermediaries who buy up these quotas and sell them on to customers on whom they know they can rely. Article 115, although it hampered trade of this kind to some extent, did not completely suppress it.

The sudden rise in trade in 1986–1987 may be the result of the announcement of the completion of the single market, but it is probably associated with the entry of Spain and Portugal.

#### *Trends over the period 1992–1994*

There has been a fairly marked decline in intra-community exports and imports.

Extra-community imports have slightly increased their growth rate since 1991, benefiting no doubt from a depressed market which demands cheap products, and from the liberalization of trade with the MFA states.

Extra-community exports sharply increased their growth rate. However, the reliability of the data provided by Intrastat is not sufficient to confirm that intra-community trade has not increased.

The table for our integration indicators shows:

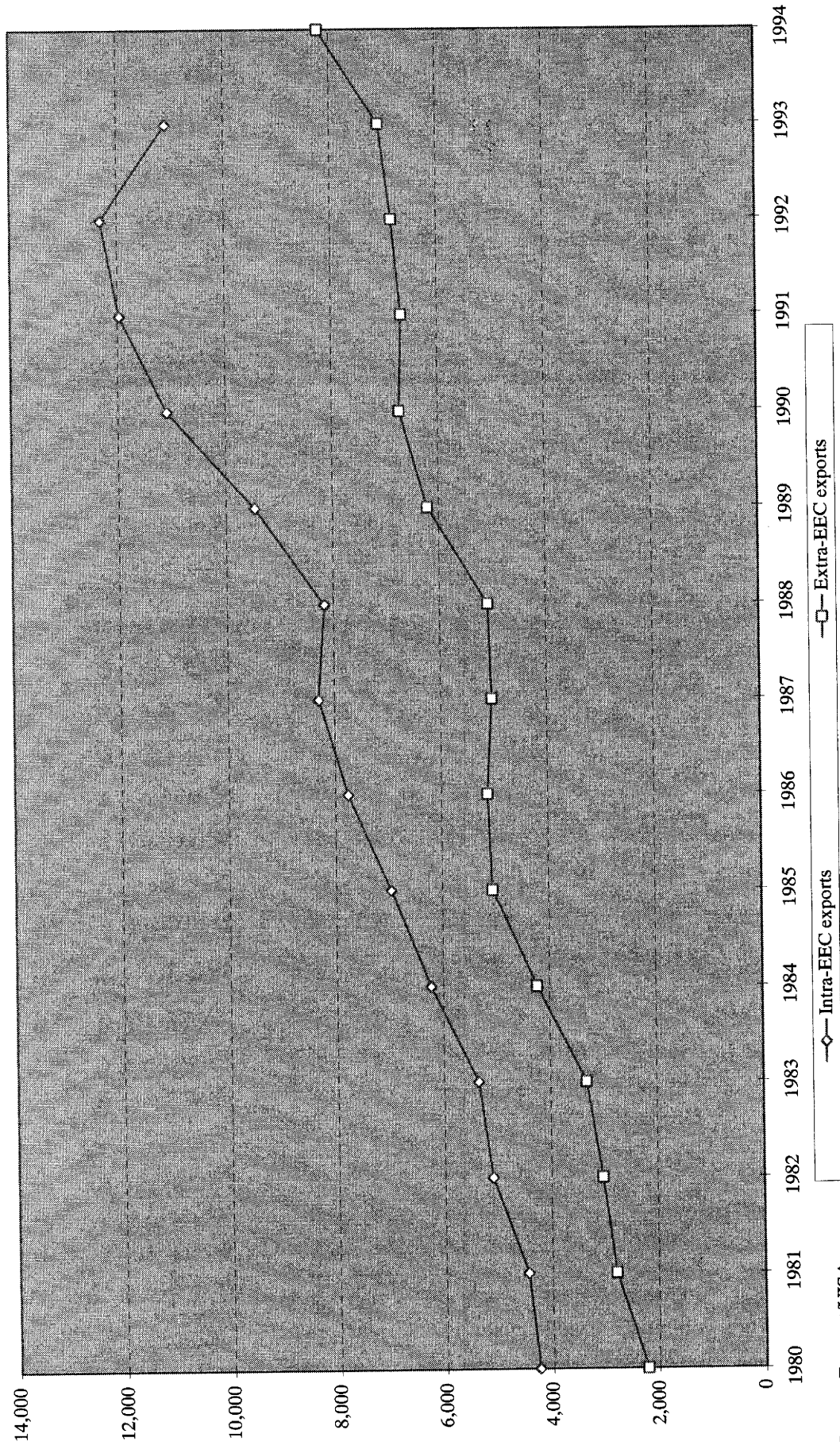
- (a) an accelerated decrease in 1993 in the level of intra-community trade compared with total international trade (indicator 4);
- (b) the reduction of the share of intra-community imports in the consumption of clothing products (indicator 1);
- (c) the same finding as regards the share of intra-community imports in total imports (indicator 3);
- (d) the decline in 1993 in the share of intra-community exports by comparison with total exports (indicator 2) should be confirmed or invalidated in 1994.

#### *Effects expected in future*

The reduction in the technical barriers to trade should encourage a further increase in intra-community trade.

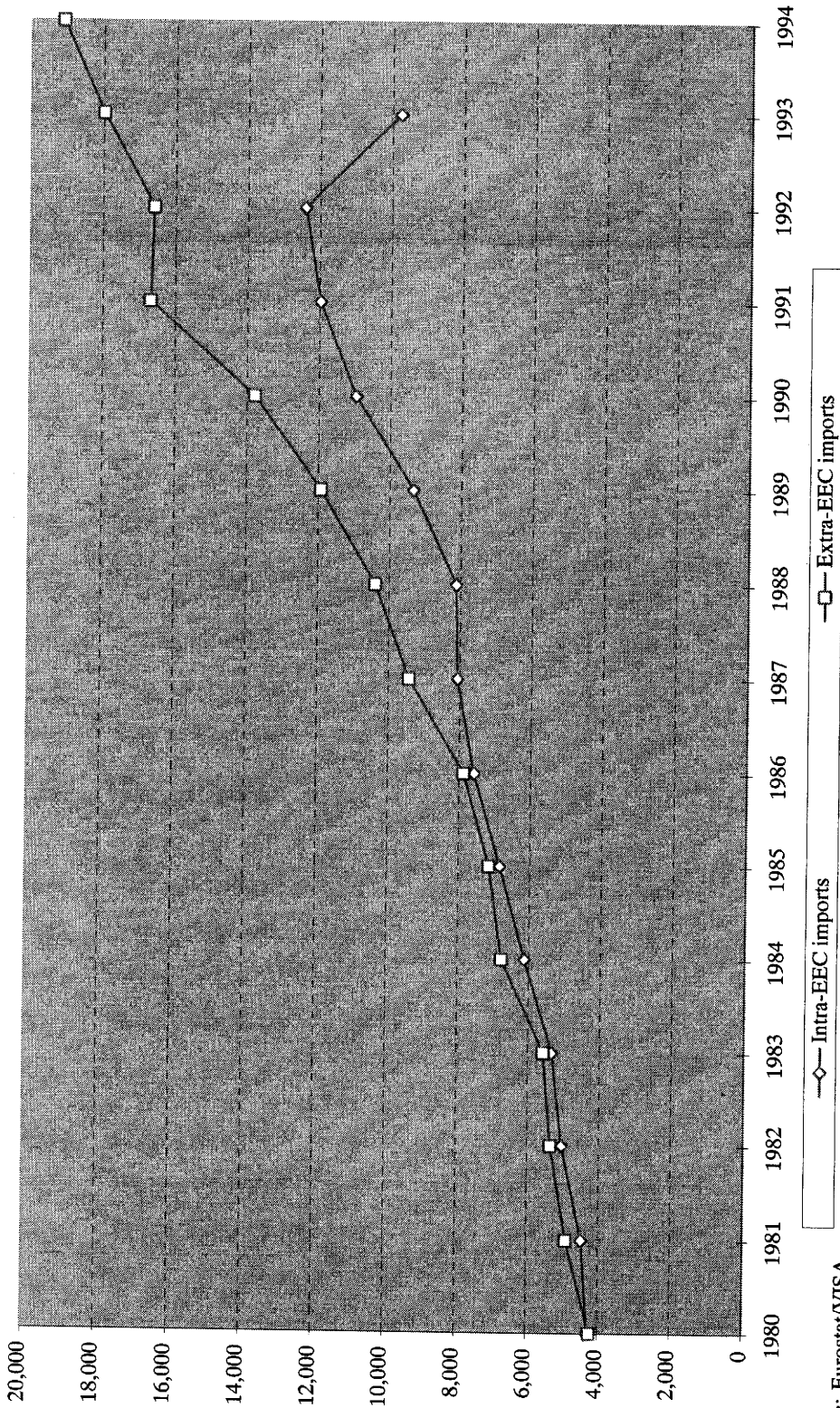
The continuing growth in European distribution, with the introduction of adequate logistical structures, could be a significant factor in the development of trade.

Figure 6.7. Export trends in value terms in the EC: clothing (in millions of ECU)



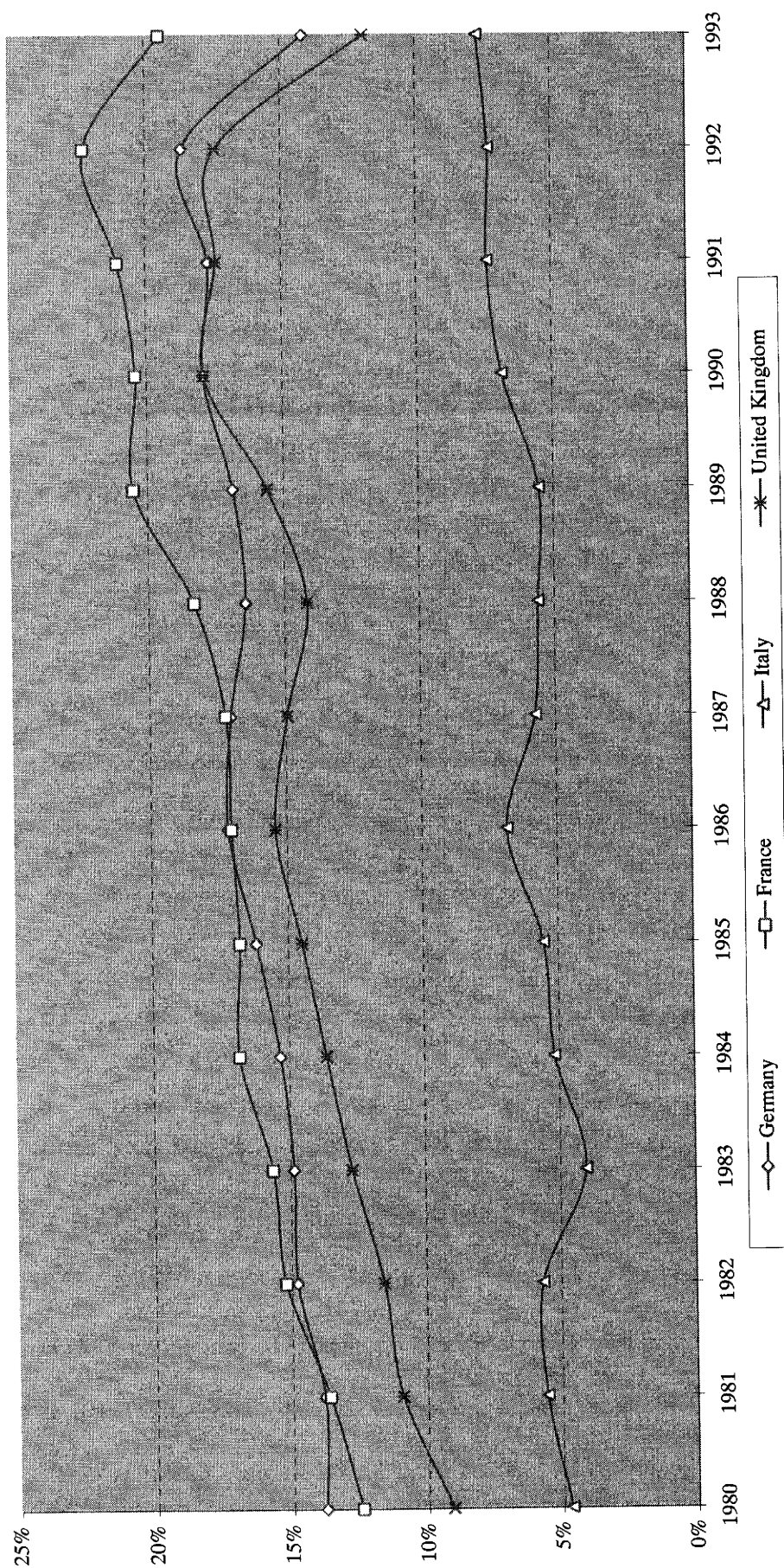
Source: Eurostat/VISA.

Figure 6.8. Import trends in value terms in the EC: clothing (in millions of ECU)



Source: Eurostat/VISA.

Figure 6.9. Penetration rate for intra-EC imports for certain countries: clothing



Source: Eurostat/VISA.

*The causes of these trends and the impact of the completion of the single market:*

- (a) The liberalization of trade resulting from the Uruguay Round and the signing of free trade agreements with the CEEC has permitted an increase in the share of imports of extra-community origin, whether finished merchandise or merchandise in the course of manufacture, via outward processing traffic. An increase of 25–50% in MFA quotas between 1992 and 1994, as was the case for some products, is reflected in a potential increase of 10–25% in the level of total extra-community imports.<sup>51</sup> Between 1992 and 1994, imports of goods of extra-community origin increased by 16%, which shows that the liberalization of trade has been the main factor underlying growth of this trade. This increase in extra-community imports has been offset by a decline in intra-community imports, explaining the trends identified above.
- (b) The 1991–1993 recession increased pressure on prices, creating further demand for products from countries with low production costs.
- (c) The communitarization of quotas, associated with the completion of the single market, leaves room in theory for a different distribution of extra-community imports, since the enterprises which request import licences most rapidly are in theory served first. However, this factor does not play a role in global EC trade with third countries, but instead is a factor in the readjustment of trade among Member States.
- (d) The abandonment of Article 115, which is also associated with completion of the single market, likewise encourages the readjustment of intra-community trade.

From this analysis it can be seen that the completion of the single market has been a factor which facilitates intra-community trade, effecting both goods of intra- and goods of extra-community origin, but that it has not altered the trends which were already at work since the 1980s. It is not the most significant factor in the growth of trade and its structure.

#### 6.3.2. Changes in access to markets resulting from the programme on the completion of the single market: country analysis

The analysis of commercial exchanges must also take account of factors which are not linked to the single market measures, but which may have a significant impact on flows of textile and clothing products, including:

- (a) Strong competition from extra-community countries, in which the European market share is tending to grow, thanks to their competitiveness (see Section 6.1.1).
- (b) The dismantling of the MFA, which is both a brake on the progress of non-community countries in European markets and at the same time an instrument for opening up these markets. The products covered by the MFA represent more than 80% of extra-community imports of textiles and 99% of extra-community imports of clothing (see Table 3.2).
- (c) The entry of Portugal and Spain into the European Union in 1986.

It is obvious that in the light of this very complex situation, it is difficult to identify the causes of changes in international trade.

<sup>51</sup> MFA imports account for 49% of total extra-community imports of clothing in 1992.



*Extra-community imports*

The Member States which are more or less liberal in respect of extra-community imports can be identified; this liberalism follows two criteria:

- (a) the low frequency of recourse to Article 115;
- (b) a 'quota/burden-sharing quota' ratio (cf. Section 3.2.1) in excess of one.

From these two criteria, three groups of Member States can be identified:

- (a) France, Portugal, Spain and Greece take restrictive attitudes; from these countries one should expect a relatively restricted development of imports until the actual communitarization of quotas, but marked growth after that.
- (b) Germany, Denmark, Benelux and the United Kingdom take a less restrictive attitude. From these countries one might expect a greater growth in extra-community imports.
- (c) The position of Ireland is ambiguous, with a very high number of instances of recourse to Article 115, but apparently a non-restrictive attitude. It is possible that recourse to Article 115 is primarily for the clothing sector.

The communitarization of quotas, the elimination of Article 115 and the readjustments of the TPP system may have a differing impact from one member country to another, depending on the policies previously conducted by these countries.

Chapter 3 sets out some assumptions about the distortions which may have been the result of these policies. The analysis which follows presents the trends in trade by country, from which the distortions can be discerned.

Figures 6.10 and 6.11 show the figures for the penetration of extra-community imports in relation to apparent consumption.<sup>52</sup>

The figures bear out certain aspects of this analysis:

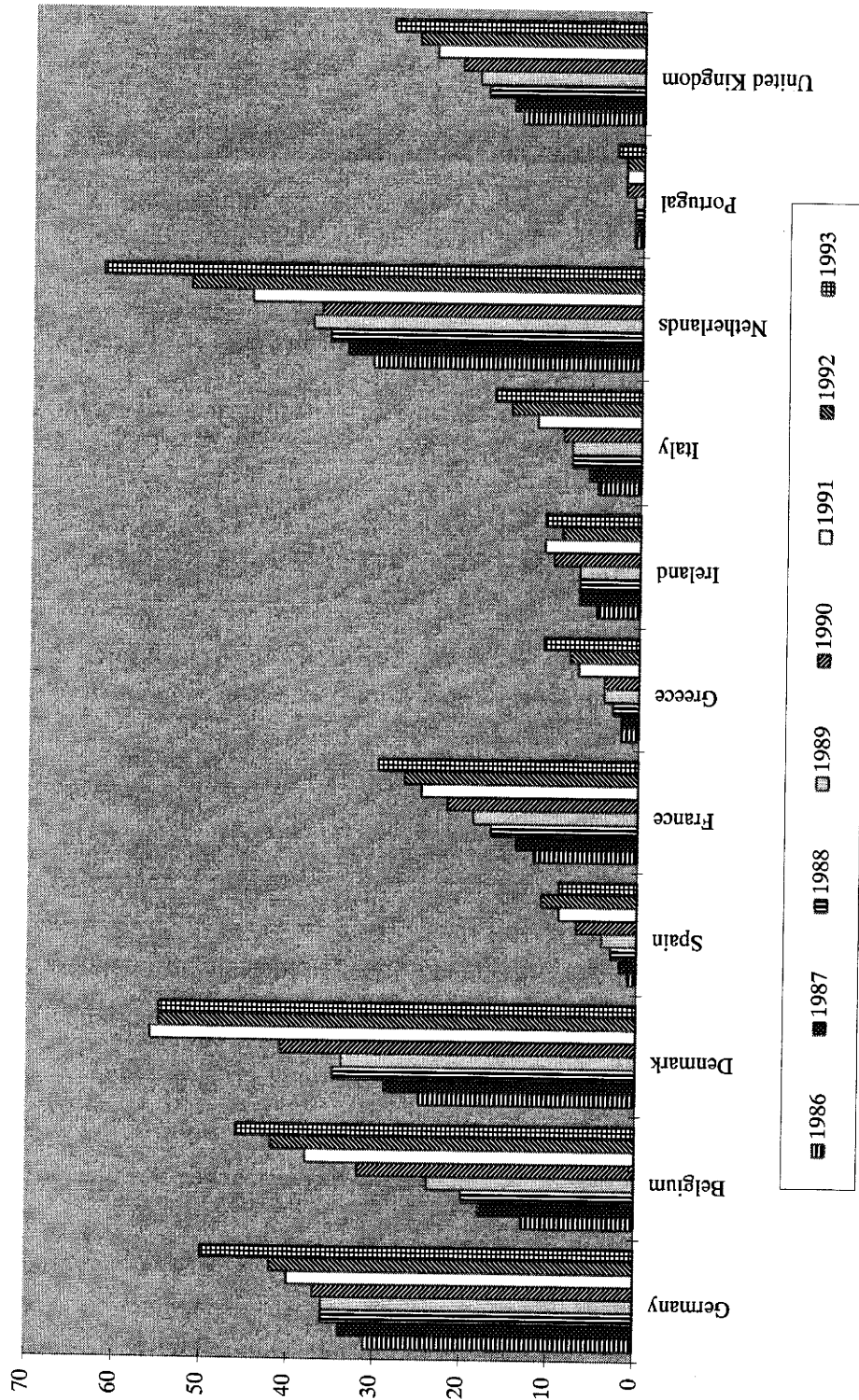
- (a) Germany, Denmark, the Netherlands and the United Kingdom have experienced rapid growth in extra-community imports (clothing and textiles) in relation to apparent consumption;
- (b) France is in an intermediate situation, with rapid progress and a level of extra-community imports which is relatively significant at the end of the period under review.

The other countries have experienced restrictive growth in extra-community imports and low penetration of extra-community products at the end of the period.

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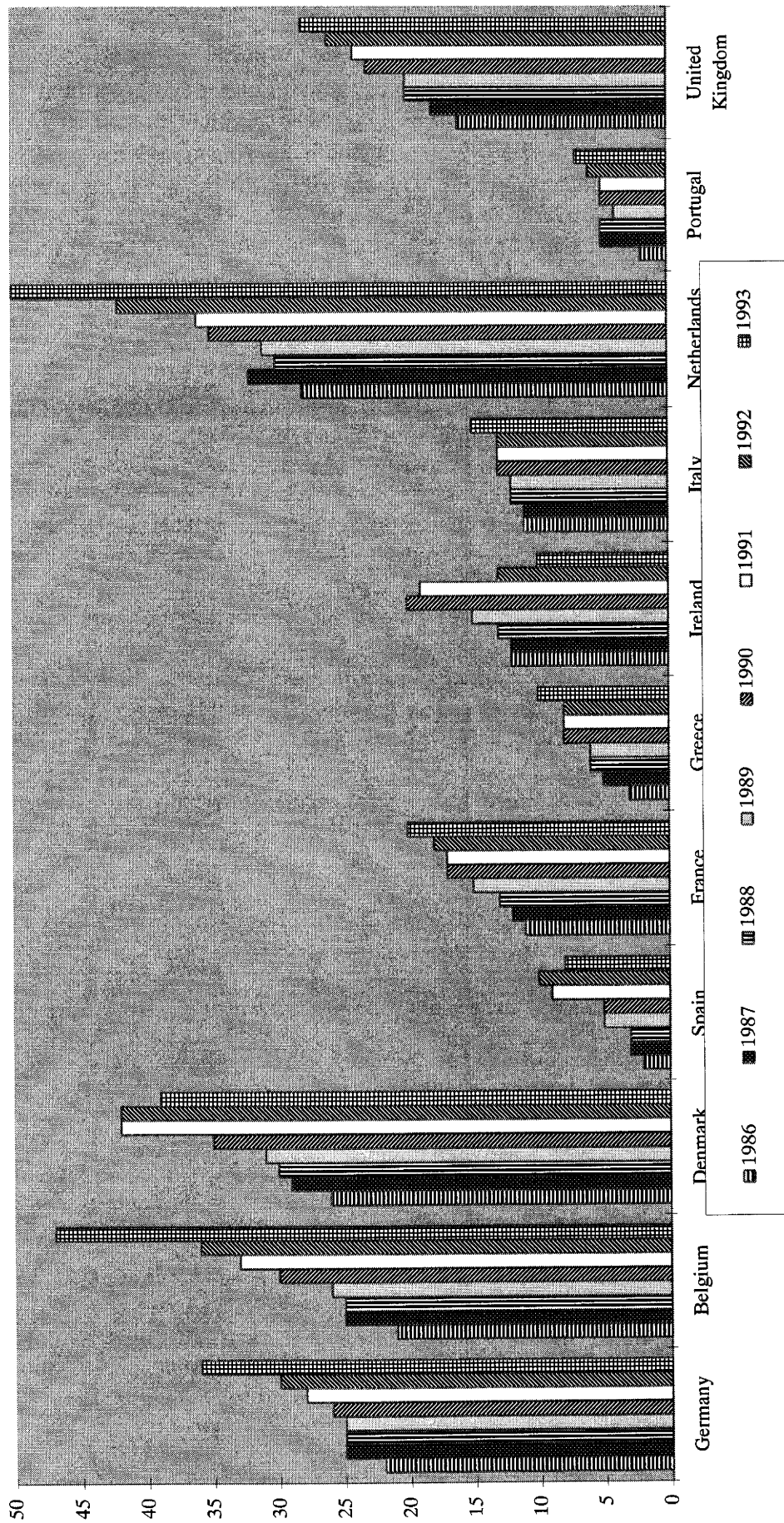
<sup>52</sup> We must point out that the figures for 1993 result from a new data-gathering methodology, and are not readily comparable with figures for the previous years.

Figure 6.10. Extra-EC imports as a percentage of apparent consumption by country 1986 to 1993: clothing



Source: Comitextil (based on figures from CIRFS).

Figure 6.11. Extra-EC imports as a percentage of apparent consumption by country 1986 to 1993: textiles



Source: Comitextil (based on figures from CIRFS).

*Intra-community imports*

For the category of 'restrictive' countries, it might have been expected that intra-community imports would increase rapidly, either because products of extra-community origin are imported by non-restrictive countries and re-exported to restrictive countries, or because they had obtained other products in the European Union as substitutes for extra-community products. But the information which bears out this hypothesis is not particularly convincing.

Spain and Portugal have experienced rapid growth in intra-community imports since 1986, but this phenomenon can be regarded as a 'catch-up' process following their admission to the European Union.

Italy, which has increased neither its extra-community imports nor its intra-community imports, seems to be a country which is difficult to penetrate, and this is possibly due to the extreme fragmentation of its distribution system and the absence of major international operators.

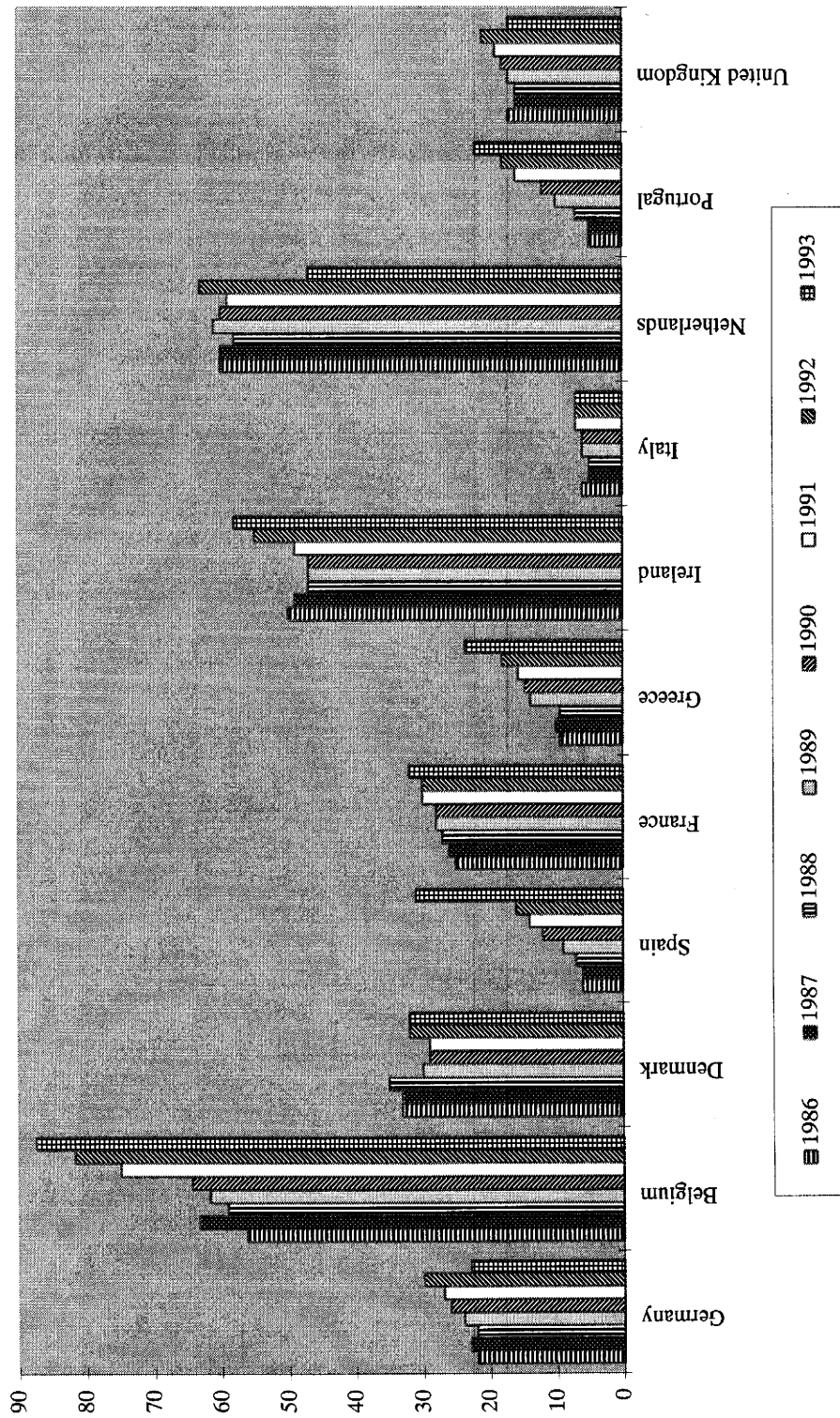
The increase in intra-community trade seems to be a fairly widespread factor, with many countries having increased their intra-community imports.

*Intra-community exports*

The Netherlands, France and the United Kingdom have increased their intra-community exports, which may indicate that they have re-exported some of the imported extra-community products; but this does not apply to Belgium or Germany.

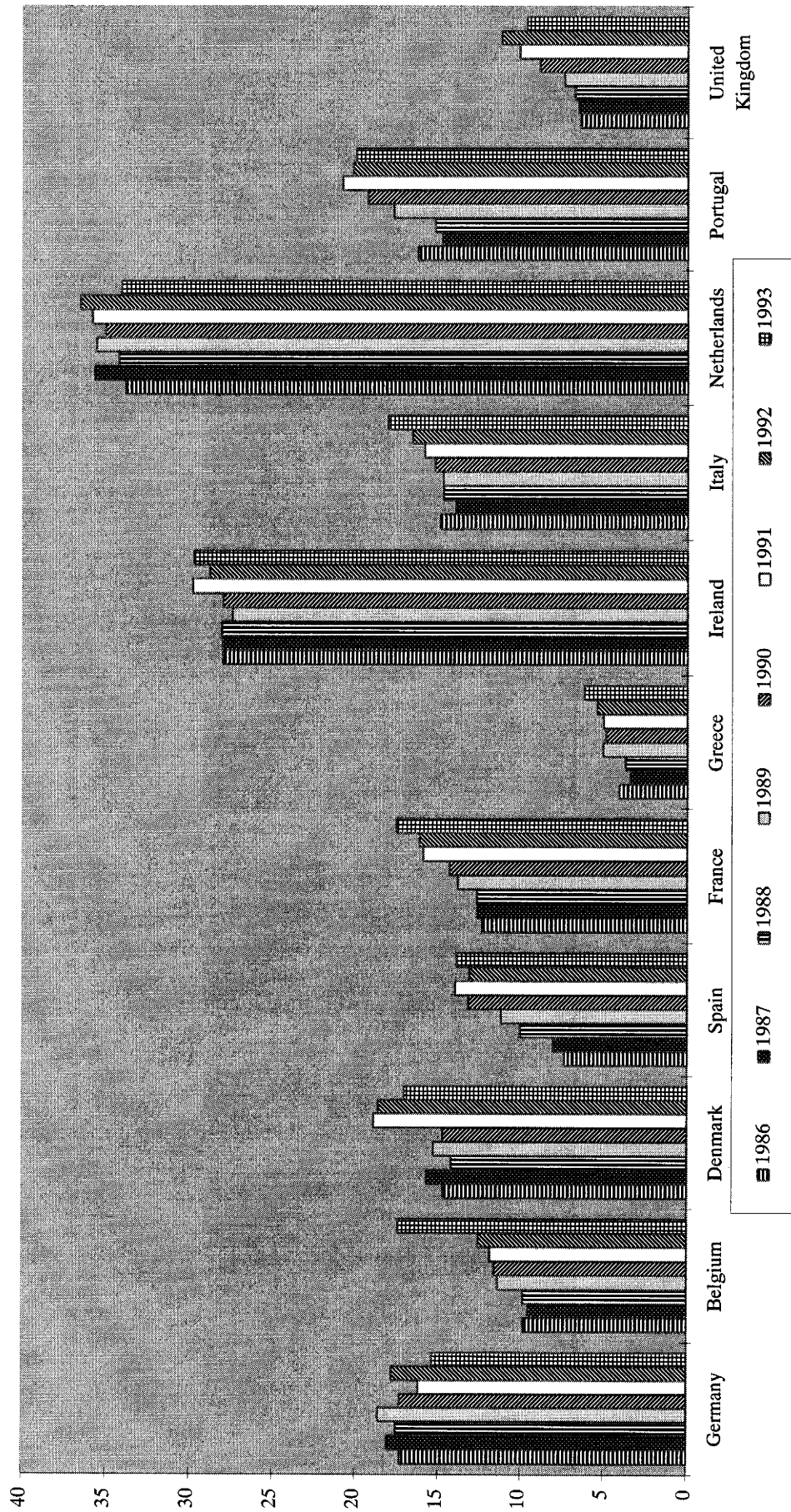
Spain and Portugal have increased their intra-community exports, this also probably being an effect of catching up following their admission to the European Union.

Figure 6.12. Intra-EC imports as a percentage of apparent consumption by country 1986 to 1993: clothing



Source: Comitextil (based on figures from CIRFS).

Figure 6.15. Intra-EC exports as a percentage of production and imports by country 1986 to 1993: textiles



Source: Comitextil (based on figures from CIRFS).

### 6.3.3. Changes in market concentration

#### *Trends between 1986 and 1992*

Table 6.21 shows that the number of enterprises, after experiencing some growth, began to decline very markedly in 1991 for textiles and in 1989 for knitwear and clothing. The graph lines for volumes produced and the number of enterprises follow a parallel course between 1988 and 1993 for both textiles and clothing, indicating that no major change in concentration took place over this period.

The decline in the number of enterprises has therefore probably been reflected by the rate at which these enterprises have died off.

The main factor in this trend is the strengthening of international competition, which has involved a phenomenon of natural selection among enterprises, those which die off first being the most vulnerable.

**Table 6.21. Number of textile and clothing enterprises in the European Community**

	1988	1989	1990	1991	1992	1993
Textiles	32,825	34,293	35,991	36 331	35,037	31,874
Knitwear	29,161	29,046	26,594	25 511	24,837	24,114
Clothing	67,874	74,113	72,969	71 750	69,873	67,406
<b>Total</b>	<b>129,860</b>	<b>137,452</b>	<b>135,554</b>	<b>133,592</b>	<b>129,747</b>	<b>123,394</b>

Source: Euratex.

#### *Trends between 1992 and 1994*

The developing share of the five largest textile enterprises in the turnover of the sector points to somewhat different conclusions from one country to another:

- (a) a decline in France, Italy and the Netherlands, tending to show a reduced concentration;
- (b) virtual stability for Germany, indicating that concentration has been maintained;
- (c) an increase in Belgium and the United Kingdom, resulting in an increased degree of concentration.

For Spain, we only have the share of the three largest enterprises. The trend in Spain shows increased concentration, which is still at a very low level (4.1–7%, one of the lowest in the European Community).

In any event, a tendency towards concentration seems improbable or a very minor feature in the other Member States.

In terms of sectors, only carpets have experienced any marked growth in concentration.

**Table 6.22. Share of the five largest enterprises in the textile sector in each Member State in turnover for the sector**

	1990	1991	1992	1993
Germany	12.7	14.1	12.3	14.8
France	27.4	24.2	21.9	22.9
Italy	13.6	13.8	9.7	12.0
Netherlands	58.3	57.6	71.1	62.0
Belgium	27.4	36.5	44.8	45.9
United Kingdom	36.8	37.2	40.5	48.1

Source: Comitextil.

**Table 6.23. Share of the ten largest enterprises in the textile sector in each Member State in turnover for the sector**

	1990	1991	1992	1993
Germany	20.0	22.0	19.0	23.6
France	33.4	30.8	28.0	29.8
Italy	18.4	18.2	11.8	15.4
Netherlands	—	—	—	—
Belgium	37.2	49	59.6	59.4
United Kingdom	43.3	43.3	47.8	54.5

Source: Comitextil.

*Factors underlying this trend and impact of completion of the single market*

Some concentration has taken place in carpets, for the following reasons:

- (a) the harmonization of standards in the carpet sector has contributed to concentration in this sector, with Beaulieu (Belgium) being the leading company;
- (b) this same sector is highly capital-intensive, and existing economies of scale have supported the process of concentration. Concentration is linked to the fact that in highly automated production units, the number of employees needed to monitor and maintain production equipment cannot be allowed to fall below a certain minimum, but increases only very slightly in line with the size of the production units. Significant productivity gains result in terms of the volume produced per person when the size of the production unit increases. Concentration may have been encouraged by the abolition of customs barriers, as geographical proximity to the market plays a minor role. On the other hand, in the same sector, the fear of a regulation of transport, which would limit the options for transporting such bulky products over long distances, has encouraged Beaulieu to buy up other production units so as to cover the market from several sites.

In the other sectors the factors involved in concentration do not exist: the lack of economies of scale in the majority of sectors does not encourage concentration of enterprises. Instead, the problem is how to increase the size of series and quantities for each product and how to reduce the time taken to adjust machinery, and this tends rather to encourage specialization among production units and enterprises.



Concentration is therefore justified in a small number of sectors (carpets, elastic bands, etc.) for which there are scale effects and barriers to entry.

In conclusion, some elements associated with the completion of the single market (the elimination of customs barriers and harmonization of standards) would encourage increased concentration in the sector, but other structural elements in the sector offset this potential trend by eliminating a large part of the benefits it would bring, with the exception of a few rare sub-sectors.

#### **6.4. Direct consequences of changes in enterprises and in the sector: profitability, productivity, employment, consumer prices**

##### 6.4.1. Profitability trend in enterprises

###### *Trends between 1986 and 1992*

Figure 6.16 shows that the ratio 'added value/turnover' is fairly stable and is dropping slightly, except for the United Kingdom where it is improving slightly. The general level of this ratio is not high. Please note that it is particularly low for Greece.

An improvement took place in 1986/1987. However, it has not been maintained over time. The figures for Denmark do not seem very reliable.

The ratio 'gross operating surplus/turnover' shows a general tendency for the profitability of the operation to improve slightly, although at a very modest level. The position of Greek enterprises seems fairly critical, especially since 1988.

###### *Trends between 1992 and 1994*

A slight upward tendency seems to have emerged in 1993 and 1994.

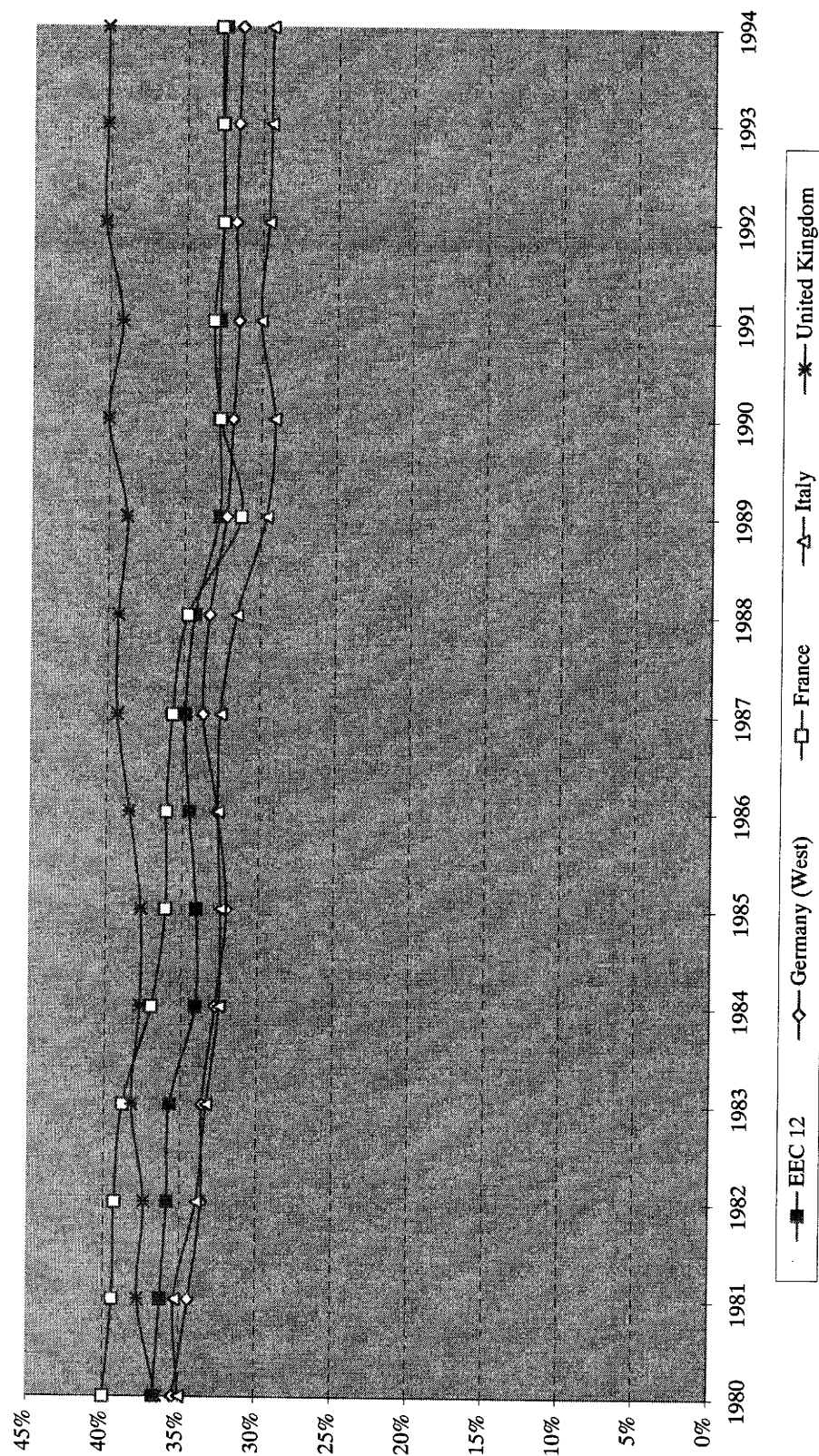
###### *Factors underlying this trend and impact of the completion of the single market*

These trends in the ratios added value/turnover and gross operating surplus/turnover seem to reflect:

- (a) increased recourse to subcontracting;
- (b) the specialization of production units and the vertical disintegration of enterprises.

However, it is not evident how widespread the phenomena deduced from these figures actually are.

Figure 6.16. Trend of the ratio added value:turnover



Source: Eurostat.

Table 6.24 identifies the components of profitability in textiles and clothing, and the various factors in profitability trends.

**Table 6.24. Factors in profitability trends in textile and clothing enterprises in the European Community**

Components of profitability	Factors associated with the completion of the single market	Factors not associated with the completion of the single market
The necessary investment	potentially: adaptation to compulsory standards	quest for automation, flexibility in the productive apparatus and technological advantage in order to meet competition, especially from outside the Community
Trends in factory products: sales in volume, selling prices	concentration and development of organized distribution in which purchases are concentrated, resulting in higher volumes being ordered from a lower number of enterprises (a factor involving redeployment to the most competitive companies, but not a factor in overall growth) no impact on prices	pressure on prices because of extra-community competition
Cost developments	slight reduction in costs (cf. Section 4.3)	administrative and industrial organization automation computerization attempt to reduce costs in order to meet competition
Subsidies	change in criteria and practical arrangements, but probably no impact in volume terms	

Source: CEGOS analysis – interviews.

To summarize, the factors underlying profitability trends in European enterprises are chiefly the steps which they take to control their costs in order to meet increased international competition.

The completion of the single market has a not inconsiderable potential impact on profitability, through investment which for certain enterprises calls for upgrading to meet harmonized compulsory standards.

The completion of the single market also has an indirect impact through the impact on distribution. But it is mainly a question of modifying the relative forces as they exist, rather than a generalized development in business profitability.

Finally, the completion of the single market, if the impact on costs is confirmed, may contribute to improving by a few percentage points the improvement in the profitability of Community enterprises.

#### 6.4.2. Productivity

##### *Trends between 1986 and 1992*

Productivity is tending to grow in a steady and uniform manner for all countries since 1980, as the graph in Figure 6.17 shows.

##### *Trends between 1992 and 1994*

A particularly significant gain was recorded between 1993 and 1994. However, the situation varies somewhat between countries:

- (a) productivity is stable in Portugal and in the United Kingdom;
- (b) it has increased especially in Spain, Italy and France;
- (c) it declined between 1992 and 1993 in Denmark and Belgium.

##### *Factors underlying this trend and impact of the completion of the single market*

The quest for increased productivity and for maintained competitiveness in cost terms is, for the Community textile and clothing industry, one means of meeting competition from countries with low labour costs. This is the reason why increased productivity is one of the key strategic weapons of enterprises in the sector.

Table 6.25 identifies the factors which impact on productivity in the textile and clothing sector. It shows that the major trends have emerged under the influence of competitive conditions, and result from action decided by the enterprises themselves: for instance, investment policy, organization of productive equipment and logistical organization, and staff skilling. The main factor in productivity growth therefore remains the increased international competition.

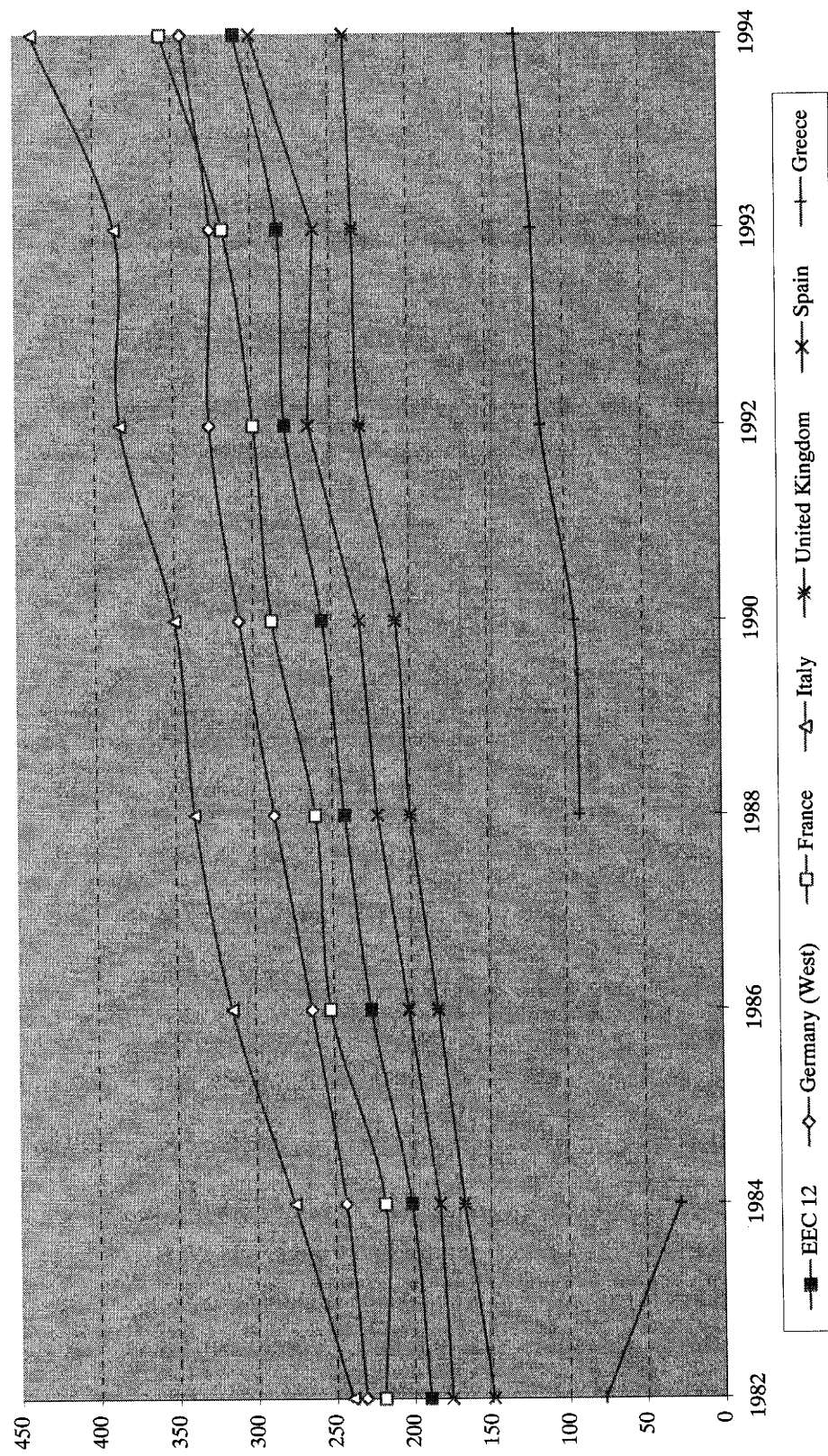
However, the completion of the single market has stimulated this growth in productivity:

- (a) by reinforcing the perception of stronger competition it has been possible to reinforce the trend in this direction and thus to contribute indirectly to a higher increase in productivity;
- (b) by encouraging 'organized' distributors to develop and to reorganize their purchasing, so that they can order higher quantities from a smaller number of suppliers; this concerns garment manufacturers, who produce relatively standardized goods throughout the European Community.

The impact of the completion of the single market will be more strongly felt in future, when:

- (a) compulsory standards have been harmonized;
- (b) the principle of mutual recognition of standards and testing will be applied in practice;
- (c) resistance to combined purchasing and combined ranges internal to the distributors will have been overcome.

Figure 6.17. Productivity per person in ECU 1,000/person



Source: Eurostat.

**Table 6.25. Factors influencing productivity**

	Factors associated with the completion of the single market	Factors not associated with the completion of the single market
<b>Textile sector</b>		
automation		increased competition
technical level of the production equipment		increased competition
size of production units (few workers needed to supervise possibly a larger number of machines)		volume of business – size of series
size of series	harmonization of standards and principle of mutual recognition of standards and tests (potential effect) harmonization of rules on public tendering	handicap: accelerated updating of collections, customer demand for flexibility
<b>Clothing sector</b>		
use of subcontractors	elimination of barriers to trade, allowing readier use of subcontractors located in other Member States	increased competition
use of TPP (developing faster than intra-community subcontracting)		increased competition liberalization of trade with the CEEC
automation of cutting out ...		increased competition
less rigid quality control/ choice of sources of supply for fabrics	elimination of barriers to trade	increased competition
size of series	harmonization of standards and principle of mutual recognition of standards and tests (potential effect) harmonization of rules on public tendering via impact on distribution: combined purchasing	handicap: accelerated updating of collections, customer demand for flexibility, non-standardization of products, non-harmonization of preferences of end customers
training/producing skilled staff		increased competition

Source: Interviews.

### 6.4.3. Employment

#### *Trends between 1986 and 1992*

The number of employees in the textile and clothing sector has been in decline since at least 1978, with more or less marked intervals: between 1983 and 1988, in particular, the decline seemed to slow down, only to resume afterwards. An analysis by subsector shows that textiles, clothing and knitwear have been affected in the same way.

The drop has been less severe in some countries: Portugal, Greece and to a lesser extent, Spain. In the clothing sector, Greece (+ 50%) and Portugal (+ 18%)<sup>53</sup> have even experienced growth in employee numbers between 1984 and 1992.

<sup>53</sup> Source: OETH – Mailleurop.

**Table 6.26. Distribution of employment by textile and clothing subsector in the European Community (1000s of employees)**

	1988	1989	1990	1991	1992	1993
Textiles	330	1 324	1 281	1 239	1 165	1 106
Knitwear	498	487	465	446	420	393
Clothing	1 304	1 287	1 251	1 210	1 166	119
Total	3 132	3 097	2 997	2 896	2 750	2 618

Source: Euratex.

#### *Trends between 1992 and 1994 and expected developments*

The numbers employed in the textile and clothing industry have continued to decline: 131,000 jobs were lost between 1992 and 1993 in the Community textile and clothing industry. This tendency affects all sectors and all countries in the European Community.

An estimate by the IFM predicts a loss of 465,000 jobs between 1992 and 2002 in clothing (or a loss of 34% of present employees); the least affected country is apparently the Netherlands (-22%), and the most affected are Portugal (-49%), Spain (-40%) and Germany (-39%). In qualitative terms, the most affected categories of personnel, according to an IFM estimate, are the dressmakers, the cutters and the finishers.

#### *Factors underlying these trends and impact of the completion of the single market*

Factors external to the completion of the single market play a negative role as regards employment in the textile and clothing industry in Europe:

- (a) The competition of third States with low labour costs is a handicap for Community enterprises. The struggle to contain costs strengthens the motivation to improve productivity; steps to automate production, and relocation, have led to staff cuts which have been directly productive.
- (b) This struggle to contain costs has also resulted in the disappearance of some enterprises, leading to further staff cuts.
- (c) The recession and the drop in consumption in volume have exacerbated this tendency, involving the closure of other enterprises.

The path taken by lines on the graph in Figure 6.17 gives the impression that the completion of the single market has not been successful in reversing this trend. However, even if this impact is still marginal, there are elements which suggest that the tendency has slowed down, since we have seen above that it has contributed to developing competitiveness in the textile and clothing industry.

## 6.4.4. Trends in consumer prices

*Trends between 1980 and 1993*

The analysis of price distribution in the textile and clothing sector, by comparison with other sectors, prompts a number of comments:<sup>54</sup>

- (a) price variations in 1993 are somewhat less for clothing and footwear than for the other products under study;
- (b) on the other hand, the other categories of products have tended rather to converge since 1985. This is not the case with clothing and footwear, where, contrary to this, convergence increased until 1985, but tended to decrease thereafter;
- (c) other information contained in the same report indicates that this fall in convergence is more typical of the Europe of the 12 and the 9, rather than the Europe of the Six;
- (d) a detailed analysis by product reveals convergence over the period 1985 to 1993 for certain categories of products: babies' clothes, accessories; on the other hand, with clothes for women, men and children, price convergence is average or weak.

**Table 6.27. Price variation coefficients in five sectors (tax included) in the Europe of the 12**

Sectors	1980	1985	1990	1993
Consumer products	26.0	22.5	22.8	19.6
Food products	24.2	20.9	22.4	20.8
Clothing and footwear	24.3	14.5	18.8	17.9
Consumer durables	23.3	20.8	20.7	16.4
Other products	24.4	23.7	23.2	19.1

Source: DRI.

**Table 6.28. Price convergence in textiles and clothing between 1985 and 1993 in the Europe of the 12**

		Variation coefficient in 1985		
		Below average	Average	Above average
<b>Convergence between 1985 and 1993</b>	strong convergence			babies' clothes accessories
	average convergence		women's clothes children's clothes	
	slow convergence		men's clothes	

Source: DRI.

<sup>54</sup> Study on *The Emergence of PanEuropean Markets*, DRI, E. de Ghellinck and Horack, Adler & Associates, 1996.



*Factors underlying these trends and impact of the completion of the single market*

The relative convergence of prices before 1985 is probably linked to a market characterized by a relatively high level of exchanges and penetration by extra-community products, resulting in price harmonization.

There are several possible explanations for the non-convergence of prices after 1985:

*The structure of the market:*

According to DRI, markets where convergence has increased tend to be markets where the number of suppliers on a European scale is relatively limited. This is not the case in clothing, which as we have seen was highly fragmented.

*Developments in distribution:*

The introduction of new forms of distribution, according to the authors of the DRI study, may have the effect of increasing price divergence, by introducing less expensive products, for example. The growth in specialist chains may have had this effect.

*Methods of price fixing:*

During our interviews we found that the methods for calculating prices sometimes diverged considerably among companies. Most manufacturers are governed by the price which the customer is willing to give them; in this case, what counts is the price policy of the distributors.

For companies which distribute via independent agencies or by a distribution network 'of their own':

- (a) some make a conversion calculation based on currency rates, the base price being the one set in the country of origin of the company, on the basis of producer prices multiplied by a marginal rate;
- (b) other companies start with the local market price, that is the tendency of the price which consumers are willing to spend on an article of this kind.

For companies which distribute their products through concentrated distributors (large-scale or specialist distribution):

- (a) the selling price between the manufacturer and the distributor is evidently the outcome of negotiations in which the distributor has a dominant position;
- (b) the distributors start with the local market price (see above);
- (c) starting from the purchasing price of the goods, which is the main element of the distributor's costs, the marginal rate is applied, covering associated costs (transport, estate costs for shops, personnel costs and so on).

*The impact of the completion of the single market on these distorting factors*

The factors which intensify distortions, mostly connected with the completion of the single market, are as follows:

- (a) the European development of distribution;
- (b) the extension of European ranges by these distributors, who practise uniform margin policies in Europe. This development of ranges common to the Member States (cf. Section 1.3) remains confined to a portion of the products proposed by the distributors, and is chiefly connected to considerations of a logistical nature: to optimize supply costs by combining purchases. This is helped by the elimination of customs barriers and the communitarization of quotas.

Among the bundle of measures linked to the completion of the single market, two therefore make a contribution to intensifying price distortions:

- (a) the elimination of intra-community checks and the free circulation of goods, which encourages centralized purchasing and grouped deliveries through a single entry point in the Community, as regards extra-community imports;
- (b) the communitarization of quotas, which also encourages the bringing together of supplies of extra-community origin. But also national quotas, which are more or less restricted depending on the country, involve pressures of varying degrees of severity on prices: countries where the quotas are the most restrictive have an automatic tendency towards high prices. Hence greater flexibility in the use of quotas permits greater homogeneity of this type of pressure on prices.

It will be noted that these two factors which contract distortions exercise their effects mainly on products of extra-community origin.

The factors which may maintain existing distortions are mostly unconnected to the completion of the single market:

- (a) currency variations;
- (b) local tendencies, more or less marked, to reduce the prices of particular items; this is a function of the competitive forces at play, which are not the same in all countries;
- (c) these are related to the differing allocation of distribution channels, which practise different marginal rates. Although the trends with these channels are towards homogenization, they are slow, and the differences will remain beyond the year 2000 (cf. Section 1.3);
- (d) they are also related to the relative share of extra-community imports, and especially those from countries with low production costs. In fact these imports exercise a downward pressure on prices;
- (e) the fixed costs of distributors, as a function of real estate costs, logistical costs and labour costs, these disparities being partially connected with differences in the social policies of States.

## 7. Business strategies

Having examined the measures for the completion of the single market (Chapter 3) and the structural changes in the textile and clothing sector (Chapter 6), this part of the study will seek to identify the steps taken by enterprises in the sector to take advantage of the situation and adjust to the changes brought about by the completion of the single market.

It is based on four different sources:

- (a) interviews held with enterprises;
- (b) the survey conducted among 94 enterprises in the sector by CEGOS;
- (c) the opinion survey by Eurostat;
- (d) interviews and meetings held with bodies representative of the sector.

However, the scale of the sample used in the survey does not permit a country-by-country analysis. Moreover, the selection of the original sample (enterprises of a large size and/or identified by their dynamism) means that the percentages obtained are not representative; they cannot be treated as global figures for the whole industry.

This part is arranged around two sets of considerations, summarized in Section 7.1:

- (a) the consequences of the single market for the factors which determine general business policy, and especially the competitive forces at work;
- (b) the nature of the strategic response by industry.

### 7.1. Overview of Chapter 7: developing business strategy in the textile and clothing sector

Under the pressure of increased competition and enhanced influence by distributor customers, two major kinds of strategies are emerging:

A strategy of the 'offensive' kind, aiming to conquer a larger market; this is typified by:

- (a) an extension of the distribution network to the European scale;
- (b) development of marketing on the European scale, a phenomenon which is still emerging;
- (c) an increase in production capacity with a view to preparing to supply a larger market, or the restructuring of this product apparatus, to meet the shorter and shorter deadlines demanded by the market and/or to optimize costs;
- (d) a modification of the human resource management policy, in order to obtain more skilled and more motivated operators. This is as yet a minority factor.

A strategy of a 'defensive' kind, aiming to defend and maintain positions already held; this strategy has been adopted by about one third of the enterprises which responded to our survey. It is typified by:

- (a) the simplification and recentring of distribution networks;
- (b) the reduction of production capacities and the closure of production sites;
- (c) the reduction of costs and relocations.

Most large enterprises have anticipated the completion of the single market; most of the steps that they have taken to adjust to it were carried out between 1987 and 1990, or even before 1987. In particular, some of them have carried out the following actions:

- (a) the vertical disintegration of the productive apparatus, aiming to increase the flexibility and proximity of markets, the players varying depending on the geographical location of the customer, and also aiming to optimize costs;
- (b) some of these operations have been associated with steps taken by national authorities to encourage outward expansion;
- (c) the development of the distribution network, contact with the market being maintained by EDI.<sup>55</sup>

These trends are connected partly with the completion of the single market, and especially with the elimination of customs barriers and the liberalization of transport, both directly and indirectly.

## **7.2. The consequences of the single market for the factors which determine general business policy**

The two major changes in the competitive environment encountered by enterprises in the textile and clothing sector are as follows:

- (a) strengthened competition among enterprises in the sector;
- (b) the increased influence of customers, for garment industry leaders.

These two changes will be examined in the same light:

- (a) a description of the changes, and a review of the elements relating to them which have already been described above;
- (b) the causal link with the completion of the single market.

### **7.2.1. Increased competition among enterprises in the sector**

#### *Description of the changes*

Competition among enterprises in the sector is analysed differently depending on whether intra- or extra-community competition is involved.

Extra-community competition is strengthening considerably, as we have explained in Section 6.1.1. This is reflected in the doubling in the rate of penetration of imports of extra-community origin in apparent consumption between 1986 and 1994 (cf. Section 6.3.1). This is a marked tendency in the industry which experienced a sudden leap between 1992 and 1993, but this movement does not appear to have reoccurred in 1994.

Intra-community competition is also strengthening, as shown in the increase in the rates of penetration of imports of intra-community origin in the apparent consumption of Member States (cf. Chapter 6).

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<sup>55</sup> Electronic data interchange.

*Causal link with the completion of the single market*

The factors reinforcing extra-community competition are as follows:

- (a) the liberalization of trade and the gradual dismantling of MFA quotas;
- (b) disparities in production costs among the extra-community producers in certain geographical areas (for instance, CEEC, Asia, Africa, the Maghreb, Latin America).

The completion of the single market has little influence on these factors.

The situation is different as regards the stepping up of intra-community competition, in which the completion of the single market plays a major role: the elimination of customs formalities and customs documents and the liberalization of transport have had an impact on purchasing policies of customers in the sector, who are diversifying their sources of supply, and for whom suppliers in other Member States are now more competitive than before. This situation will be even more marked when the harmonization of legislation on tendering, the harmonization of standards and the application of the principle of mutual recognition of standards and tests become effective.

#### 7.2.2. Enhancement of customer influence

*Description of the changes*

Chapter 4 explains the increased influence of distributors, through the trend to concentration, and the changes in the purchasing policy of these distributors:

- (a) the change in demand, which is now more for services associated with products and greater flexibility and reactivity to changing demands;
- (b) the change in sources of supply and the combination of purchasing orders, which results in smaller quantities being purchased from a smaller number of suppliers.

*Causal link with the completion of the single market*

Chapter 4 has brought out the existing link between these changes in distribution and the measures for eliminating customs barriers and documents, and the liberalization of transport and elimination of technical barriers (the principle of mutual recognition and harmonization of standards).

### **7.3. The nature of strategic responses by enterprises**

In this part we attempt to identify the actions decided upon and carried out by enterprises in the textile and clothing sector.

#### 7.3.1. A typology of strategies

Two main types of strategies have been identified:

- (a) a defensive position in which the company seeks above all to protect the positions it previously held;
- (b) an offensive position, in which the company seeks to derive advantage from the completion of the single market, and to develop its activities in other Member States.

An analysis of the survey shows that when asked the question 'what is the general strategy of your enterprise following the completion of the single market?'

- (a) 56% of enterprises replied 'exploiting the wider market through the expansion of activities in new countries';
- (b) 32% replied 'maintaining established activities in the face of increased competition';
- (c) 12% did not know, which is a relatively low figure, indicating that the completion of the single market is relatively familiar to enterprises in the sector.

This indicates clearly that the completion of the single market has had an impact on strategy in almost two out of three enterprises, in the direction of greater aggressiveness.

A more detailed analysis would tend to show that Spanish and French companies have shown greater aggressiveness, as do SMEs (employing fewer than 250 people) and textile enterprises.

The replies by enterprises employing more than 1,000 people should not, however, give the impression that they have fallen back on their previous positions. In fact, the interviews which have been conducted warrant the conclusion that these enterprises have long prepared themselves for an internationalization of their activities, and have anticipated the formation of the single market.

### 7.3.2. Action taken

Figure 7.1 shows the action taken by textile and clothing companies, and the period in which the action has been taken.

This breakdown can be viewed in several ways:

- (a) some kinds of action were taken by only a few companies in the sector, and do not therefore represent a significant undertaking;
- (b) some kinds of action were taken much more frequently from 1990 onwards, and may therefore reflect an adjustment or anticipatory behaviour by enterprises faced with the completion of the single market.

We are therefore especially interested in action taken by many enterprises (at least half the respondents) and which has been developed increasingly since 1987 and 1990 (see Figure 7.1).

Such action includes:

- (a) the reduction of the cost level, which has affected 61% of respondents since 1990;
- (b) the restructuring of the productive apparatus, affecting 54% of respondents since 1990;
- (c) the extension of the distribution network in the EC, which has affected 43% of the respondents since 1990;
- (d) the increase in production capacity, which has affected 40% of respondents since 1990.

Other actions have not been taken by the majority of enterprises, but have speeded up since 1990, which may indicate the adoption of particular strategies faced with the completion of the single market. We may mention in particular:

- (a) the recentring of products;
- (b) changes in the methods of managing human resources;

- (c) the development of pan-European marketing.

Other kinds of action were taken by a small number of companies and may therefore be regarded as the result of opportunity specific to one company. This is the case with:

- (a) the creation of subsidiaries in other Member States;
- (b) mergers and takeovers;
- (c) the simplification of the distribution network;
- (d) recentring on its markets.

However, the selected method of sampling in the survey has something to do with these findings; in fact the enterprises selected were the ten largest ones in the textile sector, the ten largest ones in the clothing sector, and companies which admittedly are smaller in size but which show a significant degree of dynamism and performance and which warrant an analysis of their reactions faced with the completion of the single market.

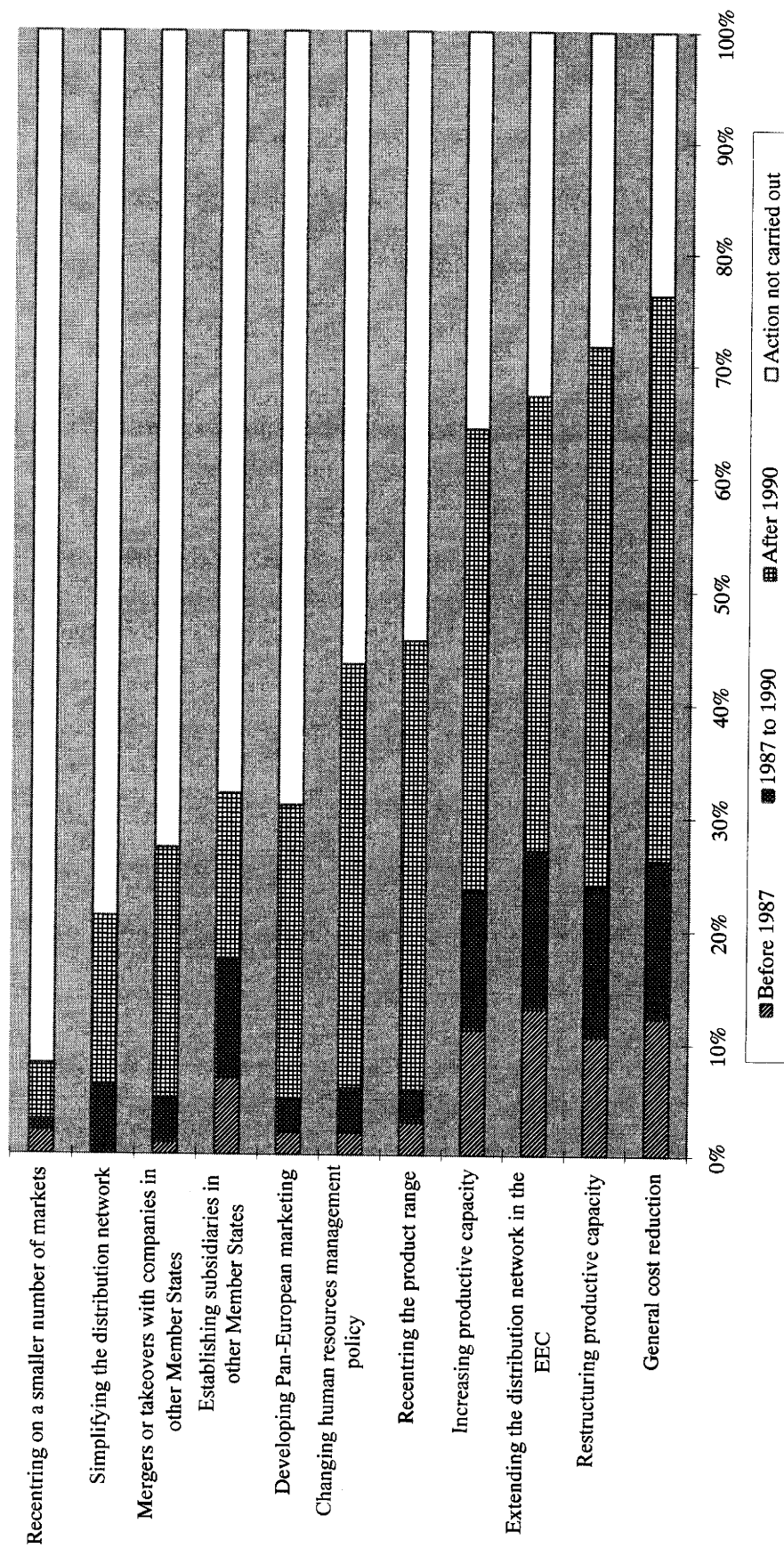
The survey carried out by Eurostat confirms, in general, the reactions of enterprises to the completion of the single market. Figure 7.2 shows the findings of a series of questions on business strategies. The replies confirm that action by enterprises has been based around three general approaches:

- (a) reducing costs; this is expressed in the Eurostat survey by action on prices and supplies (purchases of raw materials);
- (b) extending markets (penetrating into other markets in the European Union, distribution network in other markets in the European Union);
- (c) the importance of various aspects of the products (specialization, R&D, packaging etc).

As for action which seems to have a causal link with the completion of the single market, we will now look at:

- (a) the specific content of such actions;
- (b) their causal link with the completion of the single market and with other factors.

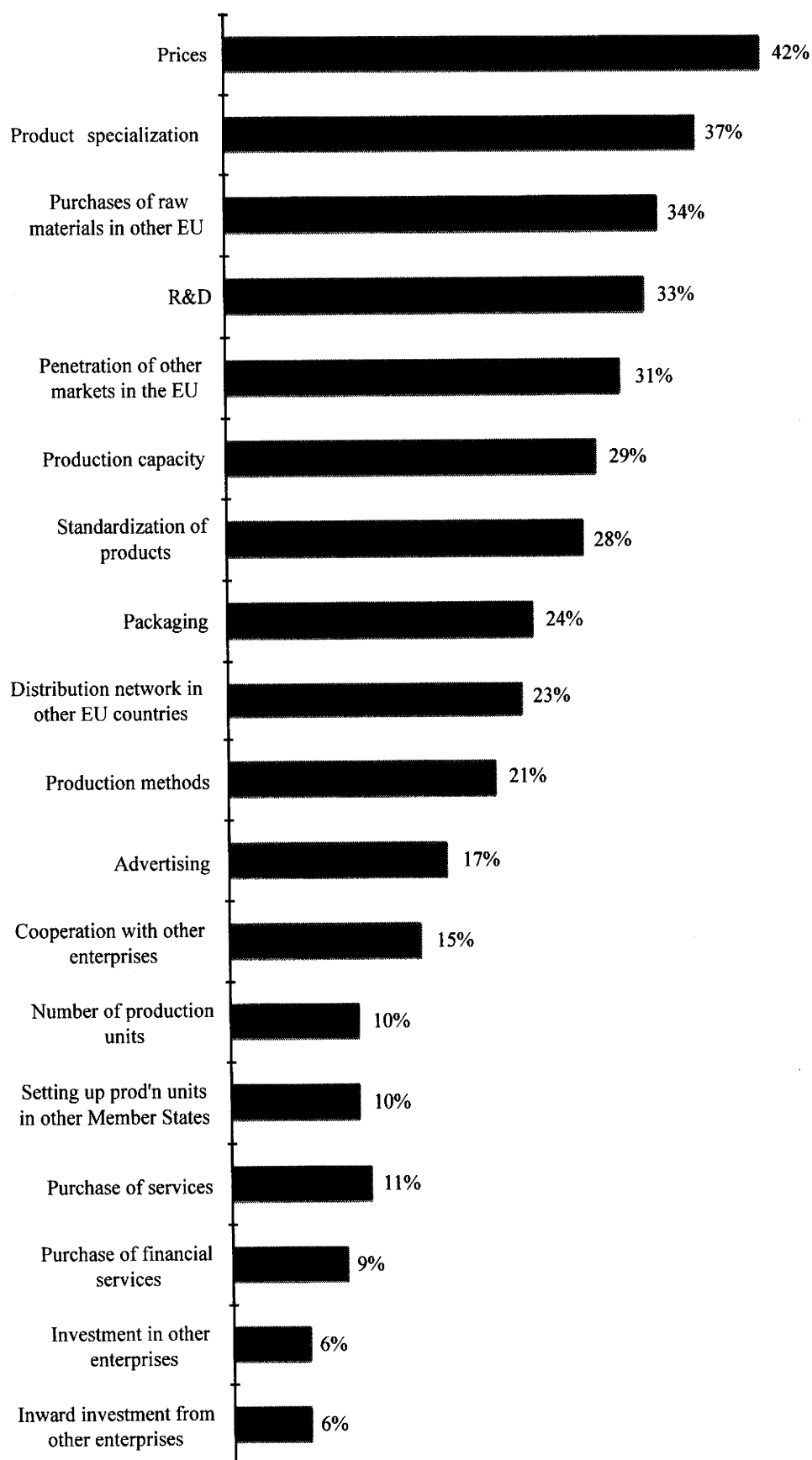
**Figure 7.1. Action taken by companies in the textile and clothing sector in Europe**



Source: CEGOS survey.



**Figure 7.2. Importance of the single market for the development of strategies (Responses: very important or important)**



### 7.3.3. Reduction of the level of costs

#### *Content of the action*

The reduction of costs has been a principal goal for enterprises, to be achieved through:

- (a) staff cuts (65% of respondents);
- (b) changes in sources of supply (55% of respondents); the replies to question 12c in the survey shows that these changes have been carried out in the form of more frequent purchases of goods of intra-community origin (38% of respondents in textiles, 33% of respondents in clothing) and of goods of extra-community origin (24% of respondents in textiles, 31% of respondents in clothing). Only 32% of respondents have not altered their geographical zones for imports since 1990, and only 6% are not importing anything at all;
- (c) increased recourse to subcontracting (35% of respondents). In particular, the use of TPP has grown. A study carried out by the Mercer Consulting Group has shown that the cost variance between a dressmaking house and a traditional subcontractor is about 7% for a mid-range shirt in the United Kingdom. According to the same study, the cost variance between a mid-range pullover produced in France with a French fabric and the same product made in Morocco from a French fabric is about 29%;
- (d) redeployment of activities to States with lower production and wage costs (24% of respondents). The distribution of production among specialized sites located often in different geographical areas, in order to optimize costs; this applies above all to dressmaking, and to certain operations such as sewing, putting on buttons or zip fasteners. Thus, certain products follow complicated pathways, covering a significant number of kilometres before reaching their final purchaser: a French fabric which may have been dyed in Italy, may be cut out in the EC, then assembled in Hungary, the buttons put on in Rumania, only to return to France to be sold there.

#### *Causal link with the completion of the single market*

Enterprises have altered their sources of supply following the elimination of customs barriers and the liberalization of transport, as the replies to question 12c clearly show. These measures have modified the supply policy of many enterprises in the direction of increased Community preference. The large enterprises have more frequently retained the same supply policy, whereas enterprises employing fewer than 250 people have more frequently made the changes listed above. This clearly shows anticipation by the large enterprises which made these changes before 1990.

The increased recourse to TPP does not seem to be connected with the completion of the single market, as indicated by the low total of responses to the question 'describe the administrative changes which have simplified use of TPP': only 2% of respondents to the enquiry answered this question.

The increase in extra-Community imports seems to have only a slight connection with the completion of the single market. The major cause for this is the liberalization of trade with the MFA states. The elimination of customs barriers and the communitarization of the quotas may have had some slight impact on the increase in these imports.

### 7.3.4. The restructuring of the productive apparatus

#### *Content of the action*

The interviews indicate to us that the restructuring of the productive apparatus contributes to two of the three key strategic objectives of enterprises in the textile and clothing sector:

- (a) reducing production costs;
- (b) increasing flexibility: reducing delivery times, increasing the capacity for producing small series without adding to production costs, and increasing the number of collections or adaptations per year.

**Table 7.1. Action taken to reduce costs and link with completion of the single market**

Type of action	Factors associated with the completion of the single market	Factors not associated with the completion of the single market
Staff cuts		redeployment to other States with lower costs competitive pressures on costs (especially of extra-community origin)
Changes in sources of supply Increased Community preference	liberalization of transport elimination of customs barriers	competitive pressures on costs (especially of extra-community origin)
Changes in sources of supply Development of extra-community imports	communitarization of quotas	competitive pressures on costs elimination of MFA quotas
Increased use of subcontracting and TPP		liberalization of trade with the CEEC competitive pressures on costs
Redeployment of activities to States with lower production and wage costs		competitive pressures on costs

*Source:* CEGOS, from survey and interviews.

This restructuring has taken the following forms, according to interviews:

- (a) the automation of some stages in the design and production process, especially in the textile sector, less so in the clothing sector where there are greater technical difficulties. However, the design of models and cutting out are fruitful areas of application;
- (b) action on logistics (organizing and computerizing stock management, organizing manufacturing launches, improving the integration of suppliers of raw materials, buying ahead, organizing delivery methods, installing and organizing warehouses) to reduce delivery times. An Italian study by Moda Industria shows that enterprises are devoting on average 4.90% of their turnover to logistics. These logistical actions may include the introduction of EDI<sup>56</sup> between distributors and manufacturers, for anticipating stock management needs.

<sup>56</sup> Electronic data interchange.

### *Causal links with completion of the single market*

The restructuring of the productive apparatus is associated with two main factors:

The first, historically, is the desire to find a solution faced with pressure from States with low labour costs. This has been done through two different approaches, both of them involving a restructuring of the productive apparatus:

- (a) a 'head-on' approach: seeking to reduce production costs;
- (b) a 'sideways' approach: seeking competitive advantages which cannot be attacked by these States. Flexibility, that is the capacity to design and produce goods within short time limits, and also in low quantities and within acceptable cost limits, is the approach which enterprises are exploring.

The second factor is associated with the changes in distribution, which is becoming concentrated, changing its supply policies and its demands on suppliers. The concentration and evolution of purchasing policy are linked with the elimination of customs barriers and the liberalization of transport. The harmonization of standards, when it is more advanced, will boost this trend. This increases the negotiating power of the distributor clients, and as far as suppliers to the industry are concerned it means that they cannot avoid adjusting to their demands for enhanced service quality and flexibility, at a cost which is still acceptable.

**Table 7.2. Action for the restructuring of the productive apparatus, and links with completion of the single market**

Type of action	Factors associated with the completion of the single market	Factors not associated with the completion of the single market
Automation of production	indirect link: demands of concentrated distribution (this concentration being linked to the elimination of customs barriers)	quest for reduced costs, linked with competitive pressure from States with low labour costs
Organizing logistics	indirect link: demands of concentrated distribution (this concentration being linked to the elimination of customs barriers)	competitive pressure from States with low labour costs (quest for competitive advantages – other: flexibilities)

*Source:* CEGOS, from survey and interviews.

In consequence, the completion of the single market has been partly responsible for action to restructure the productive apparatus, in an indirect fashion, through its direct impact on distribution, which has itself had consequences for industry leaders (see Chapter 4).

#### 7.3.5. Extending the distribution network in the EC

##### *Content of the action*

The survey shows that:

- (a) 58% of respondents have developed their distribution network in the EC since 1987, and 43% since 1990;

- (b) Among these companies, 63% have developed their network in Member States in which they did not have a presence before 1987. This is especially true of the SMEs.
- (c) 55% have stepped up their presence in Member States in which they already had a presence before that date. This is particularly the case with large enterprises.
- (d) The development of the network has therefore taken place mainly in a quantitative sense.

The elements listed above confirm once more the anticipatory approach of the large enterprises, which carried out these actions before 1990, whereas the SMEs pursued them mainly after 1990.

In qualitative terms, the changes made by industry leaders in the sector confirm the rising influence of concentrated distribution.

#### *Causal links with the completion of the single market*

The quest for growth in the distribution network is clearly linked to the completion of the single market:

- (a) directly, because the elimination of customs barriers, the liberalization of transport and the global reinforcement of the competitiveness of Community producers has encouraged and enabled them to carry out this development in the other Member States;
- (b) indirectly, because the concentration of distribution and its internationalization are linked to the liberalization of transport and the elimination of customs barriers (see Chapter 4) and have induced industry leaders to seek to reinforce their presence with 'carrier' distributors, that is distributors who are concentrated and internationalized, resulting in an extension of their own presence in the other Member States;
- (c) the interviews have not brought out any other factors in this development.

#### 7.3.6. Increasing productive capacity

The increase in productive capacity effected by 40% of the respondents after 1990 is a consequence, for 50% of them, of the increase in turnover. It is a result of extending the distribution network.

We note that the wording of the question does not permit the claim that the development of industrial activity has occurred on Community territory. Moreover, the selection of enterprises from the initial sample of the survey (dynamic and/or large-sized businesses) is bound to increase the results for this question.

The kinds of action described above were taken by many of the enterprises which responded to our survey. We examine below action not taken by the majority of enterprises but which increased in pace after 1990.

#### 7.3.7. Recentring products and developing pan-European marketing

These two kinds of action are examined together here, since they often spring from the same approach.

About two thirds of companies questioned have not taken any steps to introduce European-scale marketing. For the others, Table 7.3 indicates the kinds of action which have been taken as part of this plan.

These responses indicate that the attempt to develop marketing at the Community level is made chiefly when there are issues involved relating to the rationalization of production (joint product ranges, joint labelling). These trends are encouraged by changes in distribution, and especially by the sharing of supplies.

The other types of action, which have less of a structural impact, are held back at the moment by the non-existence of the European consumer.

**Table 7.3. Action to establish pan-European marketing**

Type of action	Percentage (base: total sample)
Tendency to standardize production ranges in the EC	39%
Tendency to standardize labelling and consumer information	34%
Tendency to fix prices centrally and trend towards price convergence in Europe	20%
Trend towards homogenization of publicity design	15%
Other action	7%
None of these actions	31%
Don't know	18%

*Source:* CEGOS, from survey.

**Table 7.4. Action relating to marketing and link with the completion of the single market**

Type of action	Factors associated with the completion of the single market	Factors not associated with the completion of the single market
Homogenization of product ranges and product design	indirect link: the change in policies for supplying concentrated distribution (this concentration being linked to the elimination of customs barriers)	attempt to optimize costs (scale effects according to size of series)
Homogenization of labelling and consumer information	indirect link: the change in policies for supplying concentrated distribution (this concentration being linked to the elimination of customs barriers)	attempt to optimize costs

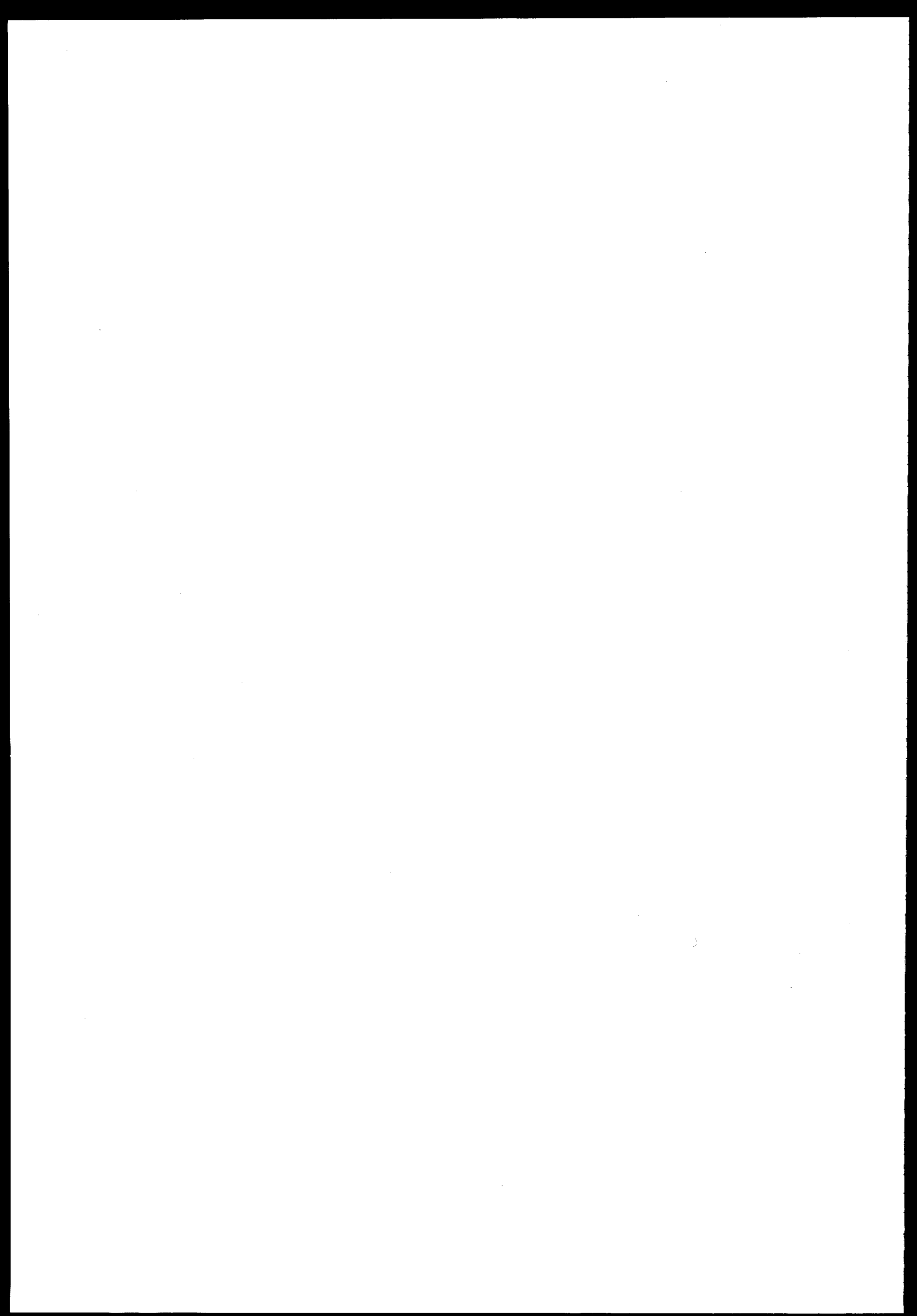
*Source:* CEGOS, from survey and interviews.

### 7.3.8. Changes in the methods of human resource management

Changes in the policy for human resource management are reflected in the following specific approaches:

- (a) development of training;
- (b) evolution in recruitment profiles;
- (c) development of the geographical mobility of staff support.

According to the interviews, these changes are part of the measures which accompany changes in the productive apparatus of enterprises, the latter being partly and indirectly associated with the completion of the single market, as we have shown in this chapter.



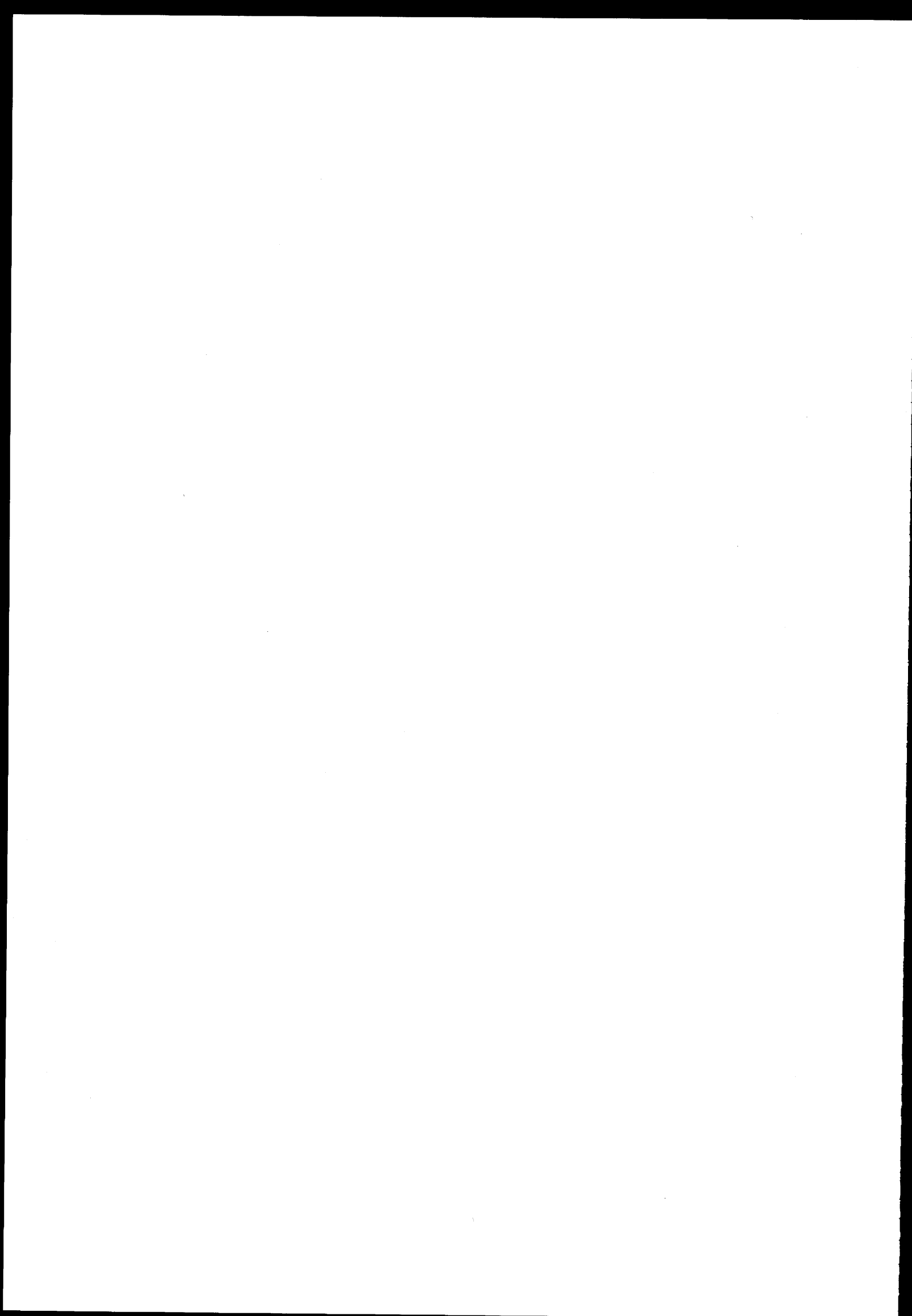


## APPENDIX A

**Methodology of the study**

This study is based on six kinds of sources:

- (a) Documentary sources which deal both with measures associated with the completion of the single market and with changes in the textile and clothing sector and in distribution. They are listed at the end of this report.
- (b) Statistics. Our statistical sources have been Eurostat, Euratex, the CITH, the OETH, the IFM and KPMG. We have been able to draw upon the expertise of the chief economist of Euratex.
- (c) A close partnership with the professional bodies: Euratex has been our main contact. We have also met ELTAC (European Largest Textile and Apparel Companies), ECA (European Carpet Association) and some national bodies in textiles, clothing and finishing: the Union of Textile Industries, Moda Industria, Fédération Française de l'Ennoblement etc. We have also contacted the Foreign Trade Association, Eurocommerce and the International Association of Textile Dyers and Printers.
- (d) Interviews with players in the sector. We have discussed certain aspects in detail with some enterprises in the sector and with buyers for major distributors, people in the banking world who take responsibility for the textile and clothing industry, tax experts and lawyers, and representatives of standardization bodies (AFNOR, CEN etc).
- (e) Interviews with 12 directors of enterprises in the sector.
- (f) A survey conducted by questionnaires with 94 enterprises, the methodology being described in Appendix B.
- (g) Collaboration with the consultants in charge of the other studies, especially the one on distribution.



## APPENDIX B

### Survey by questionnaire: methodology

#### B.1. Size of the sample

About 600 companies.

#### B.2. Structure of the sample

We could not identify any satisfactory register from which we would have been able to select enterprises in a reliable manner with one single procedure. We therefore used several files:

- (a) a mailing was sent to the European and national professional bodies asking them to send us the most interesting enterprises. Some of them responded by sending the whole of their yearbooks, others sent a selection, and others did not wish to respond;
- (b) we collected the details for the ten largest textile companies and the ten largest clothing companies in the EC;
- (c) for Portugal, France and Italy we used several kinds of sources: the knowledge of our local consultants on national enterprises, the press and professional bodies;
- (d) the press also gave us information for Germany;
- (e) finally, for France, Germany, Spain, Italy and the United Kingdom we used a commercial register, choosing respondents for whom our service provider had the names of people in charge, and targeting companies of different sizes in order to reflect the local industrial pattern: for France, Germany, Italy and the United Kingdom: over 200 people; over 50 people for Spain. This enabled us to obtain the names of 500 managing directors. The addresses used were solely those of head offices.

The criteria which we sent to our respondents in order to choose the enterprises were as follows:

- (a) the enterprises have taken specific action to take advantage of the completion of the single market;
- (b) they have derived a particular benefit from the completion of the single market;
- (c) they have particularly suffered from the completion of the single market;
- (d) they have the potential to export a lot within the EC but are not doing so.

#### B.3. Representativeness of the sample

It is a difficult matter to determine how representative the sample is, in view of the scattered nature of the sector. However, the initial sample may be regarded as representing between 35% and 40% of the turnover of the textile sector, and between 25% and 30% of clothing.

#### B.4. Method of administration

This questionnaire was dispatched by a professional service provider in the field of sampling and surveys. Each questionnaire resulted in an exchange of faxes, letters and telephone calls between the service provider and the respondent(s) in order to identify the good respondents, obtain their cooperation and fill in the questionnaire.

The respondents we were looking for were the managing director, the director of administration and finance and the export sales manager, as well as any person responsible for logistics and purchasing.

The questionnaire was translated into the language of each of the countries concerned.

#### **B.5. Expected response rate**

100 questionnaires

We had sent our service provider the following specifications:

- (a) distribution by country: two to five companies for the Netherlands and Belgium, 15 in France, Germany, Italy, Spain and Portugal;
- (b) distribution by activity: 50 in textiles, of which five in high performance textiles, five in carpets or furnishing fabrics, five in finishing and five in weaving. 50 in clothing, including five in children's clothing and five in cotton clothing;
- (c) distribution by size: as many companies as possible with over 5,000 employees; at least 20 companies with fewer than 100.

## APPENDIX C

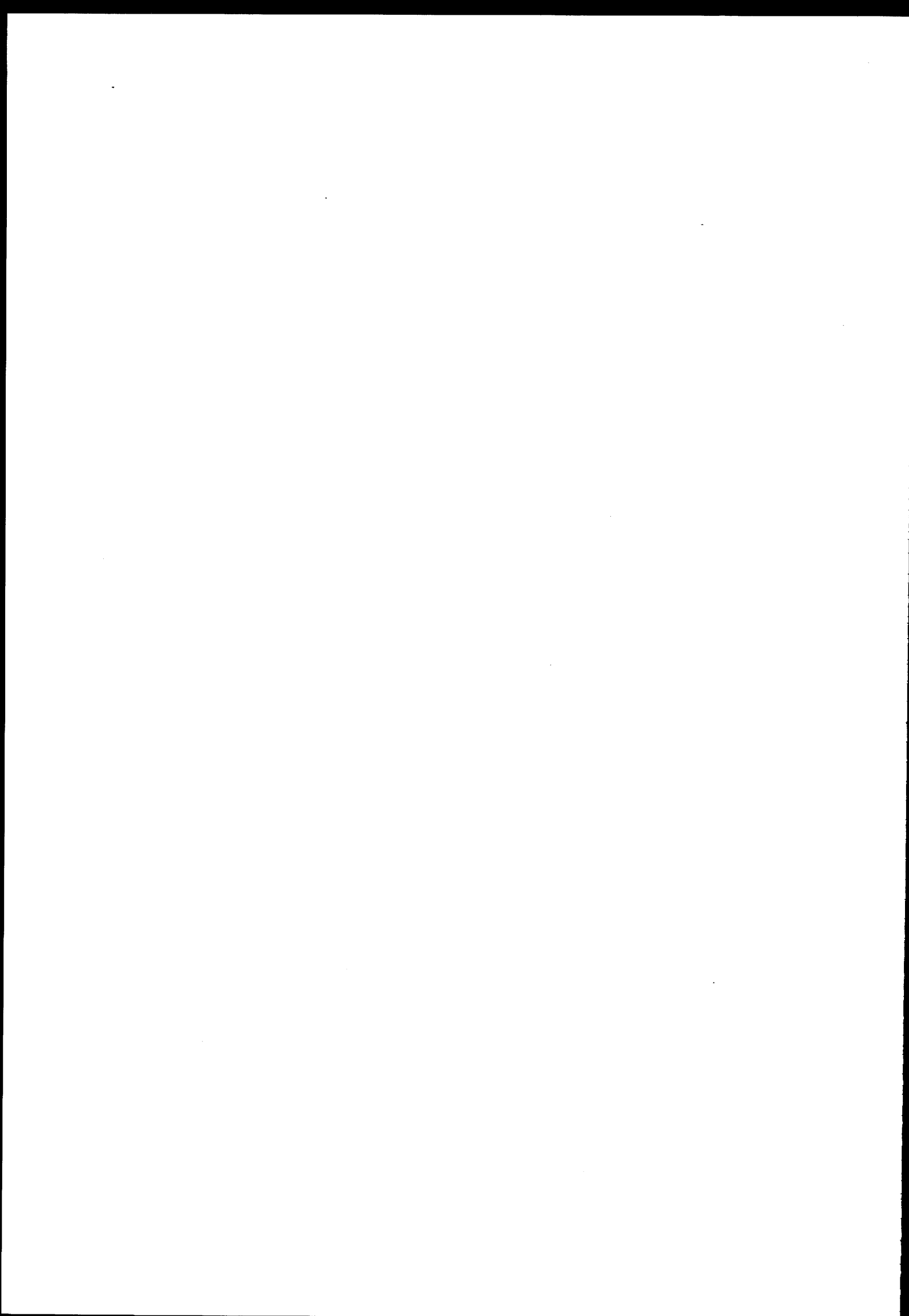
**The standards**

The topics for standardization are as follows:

- (a) resistance to fire, wear and tear, tension, water and air;
- (b) technical characteristics (thickness, density, twisted yarns);
- (c) composition of fibres and names of textiles;
- (d) conditions for maintenance: standardization of symbols and labelling, dry cleaning;
- (e) sizes of some textile articles;
- (f) arrangements for testing and checking, and for processing;
- (g) colour resistance under different conditions;
- (h) toxicity of the materials and finishing products.

The standards set down by CEN which are presently in force are as follows:

- (a) EN 23578: Textiles – symbols and labelling for maintenance (15 October 1993);
- (b) EN 29073-1: Nonwoven: mass by unit (29 June 1992);
- (c) EN 29073-2: Nonwoven: definition of thickness (29 June 1992);
- (d) EN 29073-3: Nonwoven: definition of tension and elongation (29 June 1992);
- (e) EN 29073-4: Nonwoven: definition of resistance to tearing (29 June 1992);
- (f) EN 14: Blankets: sizes (26 September 1994);
- (g) EN 25080: Sisal cords and ropes (September 1993);
- (h) EN 22286: Coated fabrics (October 1993);
- (i) EN 25978: Coated fabrics (9 September 1993);
- (j) EN 22313: Textiles: reactions to crumpling (26 June 1992);
- (k) EN 1049-2: Textiles: defining the number of threads per unit of length (16 December 1993);
- (l) EN 31092: Textiles: defining physiological properties (March 1993);
- (m) EN 20105-A02: Scale for measuring change in colours (August 1994);
- (n) EN 20105-A03 (August 1994);
- (o) EN 20105-C01: Reaction of colours to washing (16 November 1992);
- (p) EN 20105-C02: Reaction of colours to washing (16 November 1992);
- (q) EN 20105-C03: Reaction of colours to washing (16 November 1992);
- (r) EN 20105-C04: Reaction of colours to washing (16 November 1992);
- (s) EN 20105-C05: Reaction of colours to washing (16 November 1992);
- (t) EN 20811: Textiles: resistance to water penetration (29 June 1996);
- (u) EN 24920: Textiles: defining resistance of surfaces to dampness (29 June 1992);
- (v) EN 25077: Textiles: defining the changes in size (26 November 1993);
- (w) EN 29865: Textiles: impermeability (9 September 1993);
- (x) EN 26330: Textiles: washing and drying procedures for textile tests (25 November 1993).



## APPENDIX D

**Case studies****D.1. Erreuno**

**Staff size:** 150 people

**Activity:** Top of the range women's clothes

**Customers:** Independents, through direct contact

**Turnover:** 50 billion lira (+ 25% a year).

**The company was founded in 1975 and is based in Milan (Italy)**

D.1.1. The company's perception of the completion of the single market: changes in the environment, chief measures, new competitive conditions

The elimination of customs barriers has facilitated trade among Member States. It facilitates the dispatch of collections to agents, and permits more direct contact with the customers.

Competition has been stepped up, especially from France, Germany and the United States. One important problem is delivery times for fabrics from Italian producers, which are too long (three months); this is made worse by the fact that the Italian producers supply the German dressmakers first, because they pay better.

This competition has encouraged enterprises to enter other markets, both inside and outside the Community, and has encouraged extra-community enterprises to strengthen their presence in the EC.

D.1.2. Company strategy and reactions faced with the completion of the single market

Trade policy has not evolved; much of the international development has taken place in Asia. The European market is still an important market and will be developed by Erreuno, but the scale of the investment to be made is still large; one must always have an agent and a shop window, and advertise. This means a gradual process of commercial selection.

Pricing policy has not changed, as prices are based on cost (production costs + variable costs + fixed costs); prices in the other countries are based on the currency exchange rate.

As regards production, Erreuno has increasingly resorted to subcontracting in northern Italy and in the CEEC for lower-range products in 1994, in TPP: from 0% of production in 1991, the volume involved rose to 6% in 1994. The major cause is the saturation of the internal productive apparatus, and the quest for lower makeup costs.

The experience of TPP has been found satisfactory and will be repeated, even if quality is felt to be not so good.

The company has automated its cutting out, and has increased the efficiency of its sales administration service (five people in 1994, three in 1995).

Quality control has also been reorganized to make it more effective; the staff involved will be increased so that the work of the subcontractors can be better monitored.

It is intended to reduce delivery times to the customer (currently four months).

#### D.1.3. The consequences in terms of company performance indicators

##### *Increase in turnover*

The company's turnover has increased by 52% since 1990.

##### *New markets*

The list of countries in the European Community to which Erreuno exports its products has not changed since 1990.

On the other hand, the volume exported to these countries has fallen since 1992, from 30% of turnover to 20% in 1994. Between 1990 and 1992 the share of these exports was stable.

Exports outside the European Community increased from 27% of turnover in 1990 to 50% in 1994. Their rise was particularly marked between 1993 and 1994.

The completion of the single market has enabled deliveries to the customer to be fragmented.

##### *Productivity and quality*

Production gains thanks to investment in a laser cutting-out machine.

Gains in support services (quality control and sales administration) through changed methods.

Recourse to TPP will remain limited in the mid range, as the quality is not sufficient for the upper part of the range.

##### *Profitability*

The new administrative procedures associated with intra-community trade have enabled Erreuno to reduce the cost of using forwarding agents.

Reduced transport costs have been offset by the use of faster and more expensive methods of transport, and the share of these costs remains at 1% of total costs.

Production costs have been reduced by using TPP and by automating the cutting out.



## D.2. Marzotto

**Staff size:** 10,000 people

**Activity:** Spinning, weaving and dressmaking (mainly menswear, but also women's clothes and sportswear)

**Turnover:** 2,100 billion lira in 1994

**The company is based in Italy, and was founded in 1836**

D.2.1. The company's perception of the completion of the single market: changes in the environment, chief measures, new competitive conditions

The completion of the single market has increased competition, but has not homogenized the market.

Marzotto strategy is inspired by world competitive conditions and by the globalization of markets, and not by the completion of the single market. The EC was regarded as being already unified.

D.2.2. Company strategy and reactions faced with the completion of the single market

The company is developing internationally by takeovers: Hugo Boss (clothing – Germany), Le Blan (spinning – France), Nova Mosilana (weaving – Czechoslovakia); there have also been takeovers at the world level (United States of America, Tunisia). The purpose of these acquisitions is to provide better market coverage.

The product lines have been reduced and internationalized.

The sales force has been reorganized, and a policy of client selection has been operated (refining the existing customer portfolio and selective winning of customers).

### *The reorganization of the sales network*

- (a) local representatives of a better standard than previously, subsidiaries (a local presence);
- (b) marketing carried on in collaboration between the local network and the parent company (choice of ranges);
- (c) prices are the responsibility of the divisions (parent company) relying on the knowledge of local representatives.

The price is set in the light of the local price level. This is the main distorting factor, with the differences in marginal rates (in Italy  $\times 1.8$  to  $\times 2$ ; in the United Kingdom,  $\times 2.5$ ; in Germany and France,  $\times 2.2$ ). Marzotto seeks to operate a uniform pricing policy but it is the market which decides.

Price rises for raw materials (wool, linen, synthetic fibres) are partly reflected in the selling prices as regards yarn and fabric.

### *Distribution*

Marzotto is developing a policy of collaborating very closely with distribution: helping sales points to reorganize themselves, to adapt window displays, to train staff, to advertise the sales outlet and to make the shops a real meeting point.

The advertising budget has increased somewhat, but is now more targeted and closer to the customer (directly at the sales point): exhibitions, private viewings, cultural events etc. With greater proximity, adaptation becomes easier (development of direct marketing rather than advertising).

The 100 sales points are linked to Marzotto by EDI, allowing for shorter delivery times. The plan for orders is drawn up every week.

### *Industrial policy*

Work on flexibility and reactivity still has to be developed.

### *Supply policy*

Marzotto has developed TPP with the CEEC and the Mediterranean area to reduce production costs. The sportswear articles are produced entirely outside the EC.

The fall in the lira has enabled some production to be repatriated to the south of Italy and to Czechoslovakia. Products bought in the Far East are paid for in dollars or in German marks.

The service is regarded as much better among EC subcontractors: quality, punctuality, lower risk.

### *Policy of human resource management*

An effort has been made to introduce flexible working hours (Sunday work) to reflect changing demand.

An attempt has been made to introduce a policy for international mobility of senior staff, but is encountering difficulty because of the personal problems involved for the people concerned.

### D.2.3. The consequences in terms of company performance indicators

#### *Increase in turnover*

Stable between 1992 and 1993; + 8% between 1993 and 1994.

#### *New markets*

The most significant developments are taking place in European States outside the EC and in the Far East; extra-community exports are rising from 29% to 32% of turnover. The share of the Italian domestic market is falling (from 27% to 25%) and the share of intra-community exports is remaining roughly stable (43%). This is the outcome of a policy of voluntarist market conquest and devaluation of the lira.

### *Productivity and quality*

Sales administration in Europe is still regarded as being complicated and very bureaucratic, especially because of Intrastat.

One person can manage 300 clients a year in Italy, 100 in the EC, and 50 in the Far East. These figures are regarded as not having changed with the completion of the single market.

The group has lost 525 staff between 1993 and 1994 (or -5.2%). Staff reductions have occurred chiefly in garment making. The reductions affect mainly production and administrative staff.

### *Profitability*

Production costs are increasing more rapidly than the turnover (19% compared with 9%). Among these costs, purchases of raw materials and semi-finished products are increasing by 45% (owing to more expensive raw materials), and purchases of finished products for resale are increasing by 69%. Conversely, the wage bill is declining.

Investments were lower in 1993 than in 1994, and were focused mainly on information data processing in production and purchases of machines.

## **D.3. Rouleau Guichard**

**Staff size:** 1,000 people  
has recruited 50 people since 1993 for exports/manufacture

**Activity:** Manufacture of underclothes

**Customers:** Large-scale distribution

**Turnover:** + 30% since 1993

**Exported 2% of its turnover in 1993, 8% at present, to Spain, Italy and Germany.**

### **Company based at Toulouse (France)**

D.3.1. The company's perception of the completion of the single market: changes in the environment, chief measures, new competitive conditions

Before 1993 there were few customs barriers. There are even fewer now.

Administrative simplification has had the following consequences:

- (a) savings in sales administration (-1 person) are regarded as negligible by comparison with the cost price of the product;
- (b) a 50% reduction in delivery times (from four weeks to two weeks). This makes just-in-time working easier. To a large extent, this gain is regarded as being associated with the completion of the single market.

Intrastat has not posed any special problems.

The completion of the single market has increased competition from extra-community States. TPP and commercial transactions are on the increase, as the completion of the single market gives readier access to a larger market.

The liberalization of transport has resulted in a 10% gain in costs, representing 2% of total costs. This has permitted:

- (a) a better price for customers;
- (b) an increase in the margin.

But it is still quite negligible.

The harmonization of standards has not had any impact, as for Rouleau Guichard the standards consist of the specifications given by the buyers.

There have not been any changes in the methods of payment for intra-community commercial transactions. The cost of these transactions has not developed significantly.

Cover against currency fluctuations is more and more expensive: 5% of turnover at present ( $\times 3$  since 1993). This cover is made difficult by the problems in sales forecasting by countries.

#### D.3.2. Company strategy and reactions faced with the completion of the single market

There has not been any significant impact on commercial policy or on supply policy.

The company has not taken any special steps to take advantage of the completion of the single market; it is mainly following changes in its customer base.

It is pursuing an ongoing policy of improving costs and production capacity:

- (a) the turnover is increasing by 10% a year;
- (b) 6% of the turnover is devoted to research;
- (c) 5% of the turnover to training.

#### *Remaining obstacles:*

- (a) currency fluctuations, which destabilize trade and the competitiveness of enterprises;
- (b) language barriers.

#### D.3.3. The consequences in terms of company performance indicators

Increase in turnover: +10% a year (little can be attributed directly to the completion of the single market).

New markets: no.

Productivity and quality: gains in transport times (reduced by half).

Profitability: little of the growth can be attributed directly to the completion of the single market.

#### **D.4. Tissage de l'Aigle**

**Activity:** Knitted goods

**Customers:** Dressmakers (end customer: postal sales – army)

**Turnover:** FF 50 million in 1991, FF 80 million in 1994

**Company based in the Isère (France)**

**Exported 20% of its turnover in 1994 (5% in the EC)**

D.4.1. The company's perception of the completion of the single market: changes in the environment, chief measures, new competitive conditions

The new principle for declaring VAT facilitates tax evasion, especially in import and export companies.

The Community VAT declaration is subcontracted to the transporter (FF 30–50 per line).

The benefits from the new administrative procedures are:

- (a) a saving in time (about one day per transaction);
- (b) there is now no need to use a forwarding agent (this means time can be saved as the goods are no longer held up when parcels go astray);
- (c) because the system is more flexible, so is its operation, and the delivery order can be used as a basis;
- (d) it permits direct contact with the client (we no longer need 'forwarding agents').

The impact of the harmonization of standards: the effects expected from the harmonization of standards:

- (a) a means of protecting oneself against competition from third countries;
- (b) the risk that standards may be turned into a non-tariff barrier (e.g. Germany: standard for dyes, strict requirement for packaging).

The impact of the liberalization of transport: gain: 4% of transport costs (goods excluded). This is partly reflected in average production times:

- (a) 1990: four weeks per order;
- (b) 1995: 15 days per order.

On the other hand, this change in average production times leads to:

- (a) an increase in stocks of finished products;
- (b) an increase in stocks of raw materials.

## D.5. Carrefour

### D.5.1. Trends in the distribution of textile and clothing products

A rise in large-scale distribution and especially of specialist firms (Celio, Zara (Spanish), Pimkie, Promod, Etam, C&A, M&S, Hadler (German, belonging to Metro)). The latter firms, integrated groups with subsidiaries, show the most marked advances and the strongest international development. This change has taken place at the expense of direct mail sales and of the department stores.

Large-scale distribution is traditionally strong in 'permanent' items (underclothes, socks) and weak in outer clothing. In the latter, the specialist firms are the most competent and are developing fastest.

### D.5.2. Alliance with the manufacturers

*Two approaches:*

*One of the functions of purchasing centres is to create products. Cooperation may proceed further with the manufacturers on this point:*

- (a) choice of fabric, of yarn, and of supplier;
- (b) analysis of the value of the product and the manufacturing costs.

This is a very strong approach which is not being developed with everybody.

*Just-in-time working: the quickest possible liaison between dispersement and the manufacturing line*

Problem number one in textiles (over-garments) is stock depletion, as purchases are programmed one year in advance. If stock runs out during the season, it must be possible to restock very quickly.

For 'permanent' garments, the main distributors will be increasing the frequency of their orders (from one a month to one a week).

Just-in-time working presupposes that information will be circulated very quickly from sales to the manufacturer.

Manufacturers are also expected to take some initiatives.

### D.5.3. International development

Groups such as Celio and Carrefour have labels in six languages.

But international development is not a major phenomenon in distribution. Rather, it is the appearance of large groups which are becoming increasingly professional.

In distribution, textiles are the field where the most progress remains to be made.

### *The 'challenges' of distribution*

#### D.5.4. Controlling the quality/price ratio

Defining the desired quality is a key factor, and a very difficult one, as quality is extremely difficult to identify (the yarn, the fabric, the methods of makeup, the accessories, the factory, etc.).

There is a strong link between quality and price, but it is not always readily discernible. For instance, comparing shirts manufactured in China, Taiwan and Korea respectively will reveal three very different prices (from 7–11 dollars) but with no apparent difference in appearance!

For the distributor to be able to control the quality price ratio it is necessary:

- (a) to become more professional;
- (b) to define the desired standard of quality;
- (c) to instigate controls;
- (d) to join forces with the supplier upstream of the production.

#### D.5.5. Avoiding stock depletion

*(See above: restocking)*

But updating is also important. During a season there will be slight fashion changes; this calls for new products to be introduced during the season.

- (a) Carrefour: four collections a year;
- (b) Promod: six to eight collections a year.

#### D.5.6. Currency fluctuations: protecting against exchange risk; the emergence of production zones and very high mobility of the zones

The sources of production are moving very rapidly; for instance, the Taiwanese are moving their factories to China. The purchaser has to watch this phenomenon closely, and especially in the garment business.

#### **The zones:**

China and Bangladesh: first-price zones.

Taiwan, Turkey, Egypt, Israel and Mexico: higher quality.

With warp and weft, what is required is a seamstress, a machine and fabric. The fabric in any case is bought elsewhere; the machine can easily be moved; the seamstress is found locally.

For yarns and millinery the matter is more complicated, as the factories involved are more highly integrated and automated.

In Europe, knitted fabric tends to predominate. Turkey and Italy are at the top of the league, with very high quality and competitive prices (even by comparison with Asia if one includes

transport, customs duties, delivery times, the cost of quality control, the cost of stocking and complexity). In smaller segments, Spain and Portugal are also significant.

Highly divided labour circuits are emerging: the fabric is bought in one country, the garment is made up in a second, and is finished in a third.

Transport costs are much higher than 3% of turnover (but it is not clear by how much).

French manufacturers aim for service (defining the product, updating and rapid restocking) and for the middle of the range. On the first price quartile, the battle is largely lost.

#### D.5.7. The international logistical organization of distributors

The distributors are installing their own warehouses for goods; very few manufacturers have their own international distribution network. Hence the distributors have filled the gap left by the manufacturers. The advantage which the manufacturer gains is that he has a single customer and can concentrate on the job of manufacturing. The drawback is that he risks losing contact with the market.

Distribution is increasingly competent in textiles (for instance, M&S has eight buyers for socks), but it needs contact people who are equally professional and do more than just take orders.

#### D.5.8. The international organization of Carrefour

Each country is independent for its range. There are shared products (Tex, for example).

The fact of being international encourages professional-level demand (quality standards) and brings the manufacturer higher volumes; this involves a 'sharper' dialogue (it will be understood that this strengthens the negotiating power of the buyer) and a more professional one.

Some chains are highly integrated, others less so. The major chains will be internationalizing their ranges (Metro, Carrefour, Continent). The internationalization of Carrefour is recent, and comparisons with the previous situation are therefore lacking.

#### D.5.9. The impact of the completion of the single market

It is not worthwhile sourcing supplies in Asia if there is not at least a 20% price variance. With the completion of the single market, this minimum variance has increased: intra-community delivery formalities are very simple, and it is just as straightforward to buy, for example, in Italy as in France.

#### D.5.10. The harmonization of standards

At present standards of performance in Europe are not the same. It is a very complicated matter to achieve an identical performance standard (many factors involved). Standardization will not be easy to harmonize, and will probably not guarantee equal quality levels.



Carrefour draws up its own specifications and carries out its own checks. These specific standards are valid for all the products which are common to its various outlets. A change in standards will not automatically make much difference to this practice.

The manufacturers will adapt their productive apparatus. This needs care, as the higher the standard level, the more the cost of the product. It would be surprising if much progress could be made in this direction.

#### D.5.11. The simplification of customs and administrative formalities

There is a definite and important impact. It is just as simple to buy in Spain or in Italy as in France: it is also just as easy to buy in Spain as in the Maghreb (there are no customs duties for the Maghreb).

#### D.5.12. The elimination of Community quotas

'One extra facilitating factor'. Most players are not much affected by the quotas; they are not reached (one quota per enterprise: cf. import licence, based on the historic records; the larger firms, who have been importing for a long time, are perhaps more inconvenienced).

For the last four to five years there has been a sharp tussle between the distributors and the importers; the distributors are trying to regain control of direct imports (in order to avoid paying the importer's margin of 10–15%).

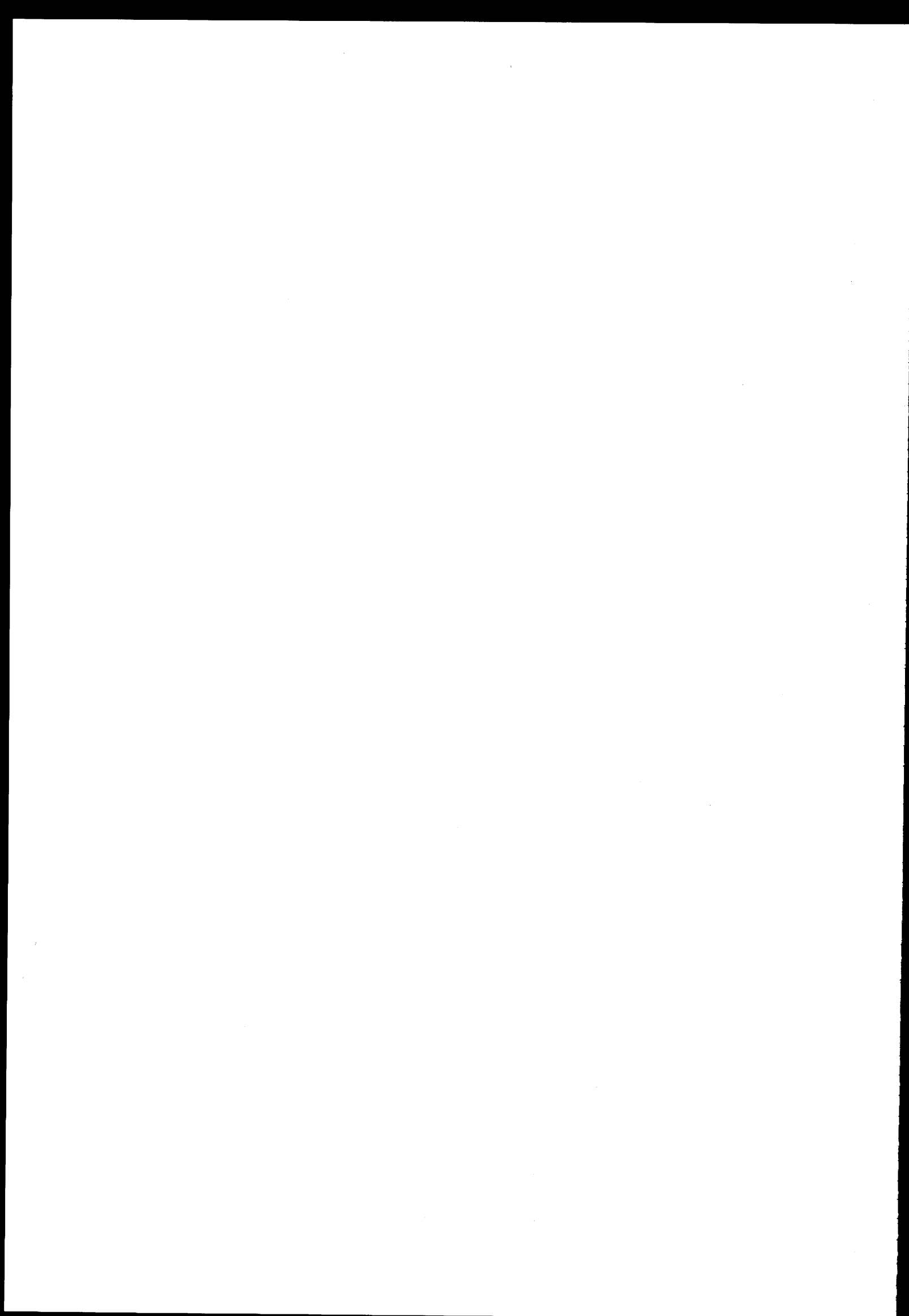
If this margin is recovered it will not actually be reflected in the selling price (prices have already been too far reduced); it will probably be reinvested in the professionalization of purchasing.

#### D.5.13. Price changes

The variations are explained by currency fluctuations.

Carrefour practises the same margin policy for all countries, but not all the distributors practise the same margin policy. In the light of respective shares on the national market, this produces a different price trend. Some markets experience greater or lesser competition, and so price changes are very different (for example, tights represent a more competitive market in France than elsewhere).

The main price component is the purchase price; there is no reason for it to differ from one country to the next.



## APPENDIX E

**The Multifibre Arrangement**

International trade in textile and clothing products is covered by the Multifibre Arrangement (MFA), which came into force on 1 January 1974. This Multifibre Arrangement is an exception to the GATT rules.

The purpose of the MFA is as follows:

- (a) to encourage the gradual liberalization of trade in textile products, while restraining the effects of disorganization on the markets of the exporting and importing countries;
- (b) to encourage the development of the developing countries.

It operates as follows:

- (a) fixing bilateral quotas whereby a 'reasonable' increase in imports can be guaranteed. These quotas establish the maximum volume of trade between each exporting country (28 countries) and each importing country (the 12 countries of the European Community and Benelux being treated as a single area; ten zones in all);
- (b) products are divided into 161 categories, within four groups (from I to IV). The groups reflect the degree of sensitivity of the product;
- (c) there are two types of quotas; quotas for finished products and quotas for products in outward processing traffic (TPP);
- (d) the introduction of safeguard measures, which a Member Country may decide to adopt to defend itself against excessive imports.<sup>57</sup> This is the basket exit mechanism, which fixes the threshold (between 0.2% and 15% of the total quota, depending on the countries and the products) from which the European Union is authorized to limit the imports of this product coming from that country. In practice, this threshold may sometimes be exceeded by 300–400% before the Member State takes protective measures;
- (e) if the quotas are reached, there are flexibility measures which enable the importers to use quotas which have not been used in the preceding year, or to anticipate the quotas for the following year, or to use quotas allotted to other products. The only obligation on the Member States is to notify the European Commission of the decision, which is not always done. Sometimes, where the step has been forgotten, quotas have been exceeded. A Member State may also refuse to grant licences.

The results of the Uruguay Round have been as follows:

- (a) the MFA was extended for a transitional period of ten years;
- (b) during this transitional period it is to be gradually integrated within the general GATT rules, in three stages, culminating in complete integration in the year 2006;
- (c) in exchange, all the countries mutually undertake to ensure respect for intellectual property, that is, to prosecute those producing infringements. They also undertake to open their own markets to imports from the other signatory countries.

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<sup>57</sup> See 1994 Year Book of the textile agreements of the European Union, Prométhée.

For enterprises, the practical effect of applying the bilateral quotas was that the following arrangement had to be made before the communitarization of quotas:

- (a) the exporter requests from his national authorities the issue of an export licence, granted according to the level of use of export quotas;
- (b) this export licence is the basis for obtaining an import licence, which is requested by the importer from his national authorities. The licence is granted if the level of use of the quotas permits it, and is valid only for the requesting country. If the quotas are reached, the authorities may refuse the licence or call into play the flexibility measures which have been provided;
- (c) checks of origin are made on the frontier; for the more sensitive products (group I categories, 1–8; group II, categories 9–30), checks are carried out by the customs on the basis of a certificate of origin from the country of origin or the exporting country. The customs services check whether there is anything to contradict the declared origin of the product (packaging, for instance). Fraud does occur, but the extent of it is not measured. In the event of fraud, the quantities are deducted from the quotas of the exporting country. For the products in groups III and IV, a solemn declaration by the importer of the country of destination is sufficient. The customs service ascertains that there is nothing to contradict the declaration.

These formalities are carried out at the same time as the check on the licence and the payment of the customs duties. They are effected in the customs warehouses.

## APPENDIX F

**Article 115 of the Treaty of Rome<sup>58</sup>**

The principle of free circulation of goods excludes any quantitative restrictions or measures of equivalent effect in trade among Member Countries. This applies equally to products of Community origin and to those from third countries which are circulated within the Community.

Article 115 of the Treaty of Rome allows waivers from the principle of free circulation of goods, in certain defined conditions.

Requests for a waiver, and therefore for the application of Article 115, were examined by the European Commission. In practice, the Commission could authorize measures of protection when the following two conditions were fulfilled:

- (a) when deflections of trade (that is, imports of goods originating from a third country which enter a Member State after a detour via another Member State in excess of ordinary trade) prevented the implementation of commercial policy measures;
- (b) when disparities in these measures led to economic problems in one or several Member States.

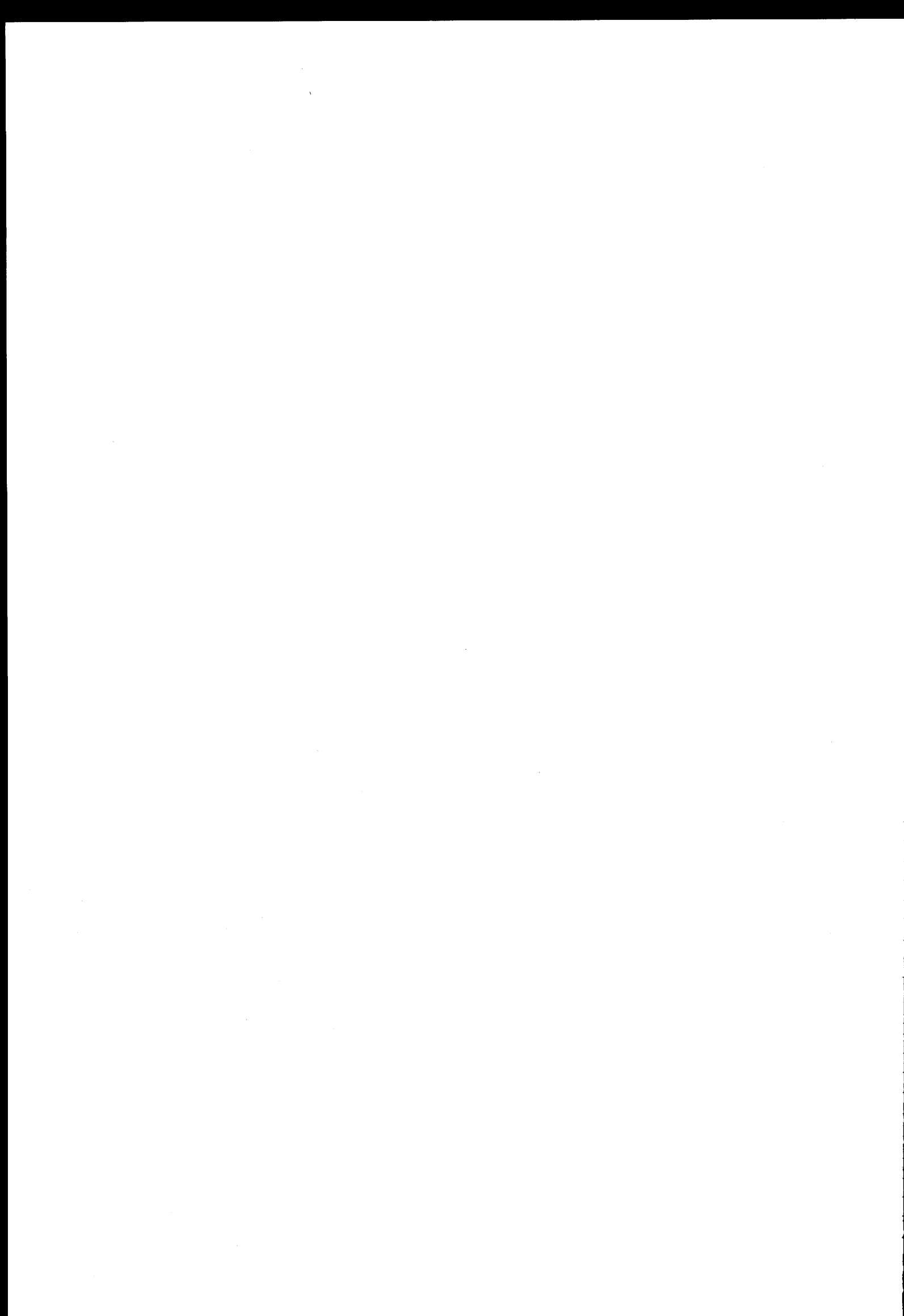
In practice, the Commission tended to ask whether the effectiveness of the national trade policy measures was endangered; for instance, in the case of quantitative restrictions, it enquired how far the quota would have been exceeded if imports were freely admitted. If the quota was underused, and if imports for free circulation did not lead to the quota being exceeded, the application of Article 115 was refused. On the other hand, if the quota was heavily used, the application of Article 115 was granted, if there was a risk of the quota being exceeded, having regard to experience over the preceding years.

Hence one of the effects of Article 115 was to hinder deflections of trade.

The importer had to produce a certificate of origin, but some countries practised a different interpretation of the activity determining the origin (e.g. sewing). This largely explained the differences of implementation. In fact, Article 115 was operated in a somewhat hit and miss way which differed from one country to the next, and it led to an abundant case law.

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<sup>58</sup> From the article by Ariane Beseler, *La protection intra communautaire à l'égard des produits importés dans la CEE (article 115)* [Intra-community protection for products imported into the EEC (article 115)], 1991.



## APPENDIX G

**The outward processing traffic system****Definition**

The TPP consists of exporting temporarily semi-finished products (fabrics, for instance) outside the European Union for processing in a third country, and re-importing them in the form of finished products (tee shirts, for example). The third country then carries out inward processing traffic (IPT). This is a contract between an enterprise in the European Union and a processor in the third country.

This type of operation has developed considerably in recent years with the countries of central and eastern Europe (the CEEC). They now play a major role in trade of this kind.

There has been a significant increase in TPP trade. The increase is particularly marked for Germany, which accounts for about 70% of TPP imports in the European Community.

**Operating principles before 1993**

The rules for Community TPP were fixed by 'Regulation 636', to ensure that quantities of goods covered by TPP were not taken from the direct quotas granted to the supplier countries. The TPP quantities are exempt from customs duties. Until the adoption of this 'Regulation 636' in 1982, the rules differed markedly from one Member State to another.

This regulation provided for the grant of a TPP licence once a year or, in specific cases, on presentation of a contract between the enterprise in the European Union and the processor in the third country. The aim of the licence was to maintain the industrial activities of the beneficiary in the European Union.

The permit, issued for each 'product x processing country', was also valid as a re-import licence. The products could not be re-imported into a Member State other than that where the permit was issued. The licence had to be granted before the goods were exported for processing.

There were quotas for TPP trade, for products and for the countries covered by the bilateral agreement. For the products subject to quotas, the exporting state issued an export licence which the Community importer presented to his own authorities in order to obtain an import licence (principle of dual control).

Goods in TPP were regarded as goods of Community origin, and therefore circulated freely in the European Community, by comparison with goods imported under direct quotas. The TPP quantities could be directly introduced into any country, since they were goods of Community origin.

The difficulty in applying these principles lay in the differences of implementation, since each Member State had its own interpretation of the criteria and conditions to be fulfilled in order to benefit from the system. A particular problem was posed by the concepts of beneficiaries and similar productions, and the priority given to manufacturers which carried out a significant

proportion of their production in the Community, and the waiver from the rules on the origin of the product exported for outward processing. These differences of implementation and the changes associated with the completion of the single market made it necessary to draft a new regulation on TPP.



## APPENDIX H

**Report of the meeting on 5 July 1995 with Euratex****In attendance:**

Mr BLUM (Director General, Euratex), Mr MARCHI (Senior Economist, Euratex), Mr VON NETZER (Gesamttextil, Germany), Mr Guy ARNOULD (ELTAC), Mr Simon VAN DE VRANDE (European Carpet Association), Mr Jef WINTERMANS (Fenetextiel, Netherlands), Mr Gianni BROVIA (Modo Industria, Italy).

*Past and present barriers*

Apart from Article 115, all the previous barriers continue to exist.

**Customs barriers:**

There has been a simplification of customs formalities on crossing intra-community frontiers. This has eliminated waiting periods (amounting to several hours, except where goods were held up for the weekend).

However, practices continue to differ among countries:

- (a) in Italy, the customs officials continue to stop lorries to check the contents and their origin, and to inspect the 'made in' labels. This is not the case in Germany or in the Netherlands;
- (b) within the same country, some customs checkpoints are stricter than others;
- (c) in Spain, controls are strict also. This is due to a law dating from 1990 relating to labels in clothing (on using the Spanish language, the information to be given, etc.). This law has now been suspended, but it is not certain that it has been repealed.

**Consequence:**

- (a) Enterprises are choosing where to clear their goods through customs. Hence Italian firms clear their goods of extra-community origin in Germany or the Netherlands. Within countries, they choose one place rather than another.
- (b) The administrative simplifications are not always obvious. The application of Intrastat has transferred the burden of statistics for customs and forwarding agents to the enterprises. This is difficult for the SMEs and represents a significant workload.

*The communitarization of quotas*

The Cecchini report anticipated that this would be the key impact of the completion of the single market.

The impact is not clear because:

- (a) the economic situation is poor (falling consumption);
- (b) there are no longer any reliable statistics.

The practical introduction has been disastrous:

- (a) the introduction of SIGL has taken three years;
- (b) the German customs are still not equipped with SIGL.

It is certain that fraud has increased because of it:

- (a) there are no more checks once the goods have entered;
- (b) the customs officials no longer receive the customs duties and therefore are not so motivated;
- (c) some customs points are easier to get through than others.

Examples of fraud:

- (a) one licence presented several times;
- (b) an importer who classifies products in several categories;
- (c) a suggestion: see by which customs point the goods come in.

Temporary imports are more difficult to check; one cannot now be sure that a product has been re-exported (there are well known instances with Turkey).

Controls are becoming more difficult to carry out now that exporters and importers are highly sophisticated in their operations.

### *The TPP*

The changes in the TPP have nothing to do with the completion of the single market.

Implementations of the rules on the TPP vary considerably between countries:

- (a) Belgium, France, Italy and Portugal are stricter; proof has to be given, with trade union verification.
- (b) Germany, Denmark, the Netherlands: a solemn declaration will suffice.

This creates distortions of competition.

France liberalized the 'made in' rule in 1984. This was the point when the TPP started with Morocco. The Netherlands have developed the TPP with certain zones also.

The communitarization of quotas has involved a new TPP ruling which has only just been accepted:

- (a) it guarantees access to the TPP to those who had it previously;
- (b) customs duties are paid only on added value;
- (c) a maximum of 14% of the product can be carried out in TPP;
- (d) this threshold is calculated differently from one country to another, leaving a different margin of manoeuvre.

Italy changed its rules in 1992: it increased its TPP production from 15% to 30%. The Germans have developed TPP with the CEEC.

### *The harmonization of standards*

All the standards are laid down by the CEN. The CEN works on regulatory standards (not the same as ISO, which are voluntary standards) in the fields of textiles, furnishings and inflammability.

There is a constant battle between the national standardization bodies, which seek to impose their own particular laws. The major enterprises tend to carry most influence, as they have the resources to finance their participation. In Italy, however, there is a void as far as standardization goes.

The major problem remains the absence of mutual recognition of tests and laboratories. Each country requires its own tests for the same harmonized standard. This means that 15 different tests have to be passed. In high-performance textiles, certification differs from one country to the next.

In addition, the pace is more or less slow depending on the degree of determination in the industry and its complexity. Carpets are the most advanced in this regard, and the process has been completed because the industry set out to ensure that it was (in eight years). The problem posed by this slow pace is that it leaves open the door to Member States to create their own standards, thus resulting in further barriers. Another problem is the insufficient clarity about the standards which are decided upon.

Regardless of the standards, the distributor clients and their purchasers impose their own specifications. In textile techniques, standards tend to be imposed by the customers.

Harmonized standards do, however, afford some protection against extra-community imports. Furthermore, the harmonization of standards does not necessarily create excess costs; that depends on the standards concerned. The chief consequence is the ability or otherwise to sell on a given market. This is a problem of the homogeneity of the market.

### **Standardization of labelling:**

There is a directive about labels. The translation and national application of this directive may sometimes create problems (e.g. the case of Spain).

All Member States require the national language to be used. There is no obligation to state 'made in', but there is an obligation to indicate the composition of the fibres. In some countries (e.g. Italy), the national legislation on the 'made in' is not clear. It is obligatory in some cases (extra-community goods) and not in others.

### **Consequences:**

Some enterprises clear goods through customs in countries where legislation on labelling is less strict. This raises several problems for SMEs in particular: increased stock management, and where should the label be placed? Some SMEs have to use labels in several languages.

### **Standardization of sizes:**

This is a major problem in clothing, which brings in morphological considerations:

*Legislation on the protection of the environment = recycling of packaging (Community programme)*

Certain countries already apply these (France, Germany, Italy and Belgium). This constitutes a barrier for the other countries.

*National legislation prohibiting certain substances*

These substances are mainly associated with dyeing and printing. For example:

- (a) Germany prohibits azoic dyes;
- (b) a similar draft law is being drawn up in France;
- (c) there is vagueness about the use of metallic components (chrome and nickel, for buttons and wool dyes).

If you are an enterprise using these substances, what might the penalties be? The answer to this question has not yet been determined.

There was no warning before the German law was published. The Maastricht Treaty gives Members States the option of adopting measures for the protection of the environment. The only obligation is to notify these measures to the Commission which considers the draft, but does not refer to the profession.

Action like this is on the increase. Turkey has retaliated against German law with a similar measure of its own.

Some national laws prohibit the sale of products using these substances. This raises a problem:

- (a) for the circulation of the goods;
- (b) for imported products of extra-community origin and their circulation within the EC.

Others prohibit the use of these substances. For instance, the Netherlands for carpets. Enterprises get round the legislation by having the processing done in Belgium, where there is no such legislation. Some enterprises (for example in Italy) affix labels saying 'eco-compatible' without any testing or any facts to base them on (for instance in order to sell in Germany). Yet if a substance is carcinogenic in Germany, it will be the same in any country.

*The Eco-label*

Private bodies without any regulatory basis have developed private arrangements about the Eco-label (in Germany, for example, as the market requires it). This involves a cost which is not negligible (testing by national bodies).

These labels relate to the product but, in Germany, are beginning to take in the production cycle, going as far as the production of the raw material (which can be affected by pesticides and insecticides).

The labels on the package (of the 'Grüne Punkt' kind) are more or less public. The cost has been estimated at 0.8% of the price in Italy, 0.5% for carpets (at the European level).

These bodies have taken advantage of a gap in the law. This gap will be filled by an attempt to introduce a legal regime, in the form of the Eco-label, intended for enterprises which can and wish to use it.

The official Eco-label has taken two test products for a trial period:

- (a) cotton tee shirts;
- (b) bed linen in cotton and polyester.

The main problem at present is the uniformity of the legislation and its implementation. In the future it is likely that the Eco-label will be phased out.

### *VAT*

In custom tailoring (especially finishing) the following have been noted:

- (a) there is more regulation for intra-community manufacturers than for importers. Thus imports are encouraged;
- (b) some enterprises have not recovered VAT on transactions carried out in other States;
- (c) there is an administrative problem: finding the VAT identification number has raised difficulties;
- (d) VAT rates are neutral;
- (e) some enterprises close to the borders (especially in Switzerland) are exporting outside the EC and then re-importing.

### *Public contracts*

Such contracts are of major importance:

- (a) the army (uniforms);
- (b) fire service;
- (c) hospitals;
- (d) carpets, furnishing fabrics;
- (e) construction (high-performance textiles, geotextiles).

European legislation faces the following problems:

- (a) A language problem. Invitations to tender are published in the language of the buyer. The SMEs do not have the resources or the time to translate them and to reply in the same language.
- (b) A problem of transparency and dissemination of information.
- (c) Contracts cannot always be awarded to enterprises in other States, for political reasons.
- (d) In replying, a tenderer has to comply with national technical standards and undergo the tests prescribed in the country concerned (see Chapter 3).

In conclusion, this legislation has helped enterprises to become aware of European invitations to tender, but they tend to be discouraged very quickly. This is a common complaint by enterprises.

*The liberalization of services*

There has been a certain impact whenever the sector concerned was private.

**Banking:**

Transactions continue to be costly (cashing a cheque in foreign currency). The process is too complicated for SMEs.

**Transport:**

Reduction in costs. The possibility of cabotage ensures that goods are transported on the outward and inward journeys.

**Insurance:**

A contract may not be altered because it is too complicated a matter to check. (Is one covered for the same thing?)

*Distribution*

Some types of distribution are not permitted in the same way in all countries:

- (a) in Italy, the consent of local businesses is required to open a hypermarket;
- (b) in Belgium there is also a law on hypermarkets.

This explains why distribution cannot be concentrated in some countries.

Nevertheless, distributors have experienced international development and have engineered growth in TPP in order to reduce costs. They are reversing the trend and encouraging intra-community purchases, because:

- (a) if they sell only low-priced products, they cannot cover their costs;
- (b) they need to reduce their stocks, and therefore to reduce their supply times.

Checks on concentration apply only to manufacturers (chemical fibres) and not to distributors. Distributors, however, are also making losses.

The completion of the single market has brought distributors:

- (a) the ability to invest in other countries;
- (b) the globalization of quotas; some distributors are combining their purchases.

It has also imposed new conditions (for example just-in-time working, but that can help the industry to become more competitive).

*Scale effects*

These were being taken advantage of before 1993. In any case they do not exist, except in high-performance textiles and carpets (a relatively standardized world market with low labour costs).

### *State aids*

Some countries share in the costs of enterprises attending trade fairs. This is a significant advantage in some sectors.

### *Size of markets*

There has been no increase (especially not for the SMEs). Consumer tastes have not become standardized and SMEs are not exporting to all countries. The large enterprises will look closely at these Member States, but generally they operate through subsidiaries. It tends to be the distributors who have benefited from the 'large market'.

### *Direct investment*

#### **By third countries in the Member States:**

Investment has taken place. The completion of the single market has been regarded as an opportunity; it was necessary to 'invest in Fortress Europe'.

This has been true especially of Asia and, in particular, upstream of the manufacturing process (fibres, weaving, spinning, and especially synthetic fibres). Such investors have taken advantage of regional aid. Enterprises from the United States of America have proceeded by taking control (or by direct export): Fruit of the Loom, Sara Lee.

#### **By one Member State in another:**

Except in fabrics and carpets, not much has happened. The German carpet industry has been bought up by the Belgians. While the harmonization of company law has not had any impact on this trend, the commercial and industrial aspect has been the most significant.

Most intra-EC buyouts date from before 1993 (the 1989–1990 period) and were a response to market opportunities and liquidity situations.

In carpets, this reflects the fear that a curb would be put on transport, hence the wish to be closer to the market.

Social directives are bringing about a contrary trend (the obligation to create a European common market when a company is established in at least two countries). Some enterprises would like to wind down one of their local establishments in order to evade these European Common Markets (the ones with activities in only two countries, otherwise it is too complicated).

### *Development in consumer prices*

There has been very little change in prices.

Only one enterprise has dropped its prices: Benetton, for the second consecutive year. These prices are fixed by the distributor. No contract is signed. A weaver can have a delivery refused a few hours beforehand unless he agrees to a 10% reduction on price.

### *Business strategy*

The main competitive factors in European industry are the following:

- (a) The proximity of the markets, making them highly reactive. This puts an enterprise in an impregnable position if it is capable of organizing itself accordingly.
- (b) Creativity is more fragile. An enterprise has to be close to the market to understand what is going on, but creative endeavour has to be protected. The cost of creativity can reach 6–7% of the turnover.

An enterprise must be brief and responsive, and therefore have short series, but also longer series in order to control cost prices. The solution is to have specialist production units.

For example, Chargeurs has dropped some of its activities in order to concentrate on its professional work. It has set up subcontracting relations with the companies created by this means. But if these companies do not stand up to competition; if they disappear, Chargeurs may find itself in difficulty.

If the network of local and European subcontractors fails to hold its own, those giving the orders will have to look to extra-community companies, but will lose the rapid response which constitute their competitive advantage. This is why the carpet industry is highly integrated vertically. The completion of the single market has had no impact in this respect.

The vertical dissipation of the manufacturing process is a drawback in responding to the demands of flexibility, but it remains the only means of having specialist production units. Moreover, it is easy to find less expensive suppliers.

There are some very rare instances of vertical integration (highly technical products, products which are highly specialized from the design of the fibre, like some items of sports clothing).

Concentration only occurs if there is an advantage in being larger, or when there are very large volumes which make it worth having production subsidiaries (carpets, padding).

### *The limits and shortcomings of the single market*

**The single market in energy** has not been achieved. In Germany, energy is more expensive. Enterprises would like to be able to obtain supplies from other countries (especially in finishing, which consumes a lot of energy).

**Harmonization of environmental rules** has not been achieved. German enterprises respect the rules, but not necessarily enterprises in the other Member States.

**Social legislation:** National differences have not been ironed out by the completion of the single market.

Legislation on 'moonlighting' differs. The areas chiefly affected by this are Amsterdam, Naples and Le Sentier.

For example, in Amsterdam, there are as many 'moonlighting' jobs as declared jobs (20,000 jobs). This creates distortions of internal competition. Moonlighting would not be replaced by subcontracting or by extra-community imports, as it typically operates in a very short circuit.



Stricter legislation and controls in the Netherlands have shifted the problem to Belgium. As a result, production is going up in Belgium and falling in the Netherlands, and prices are falling in Belgium.

**Protection of intellectual property:**

There is no common legislation. Not all Member States have ratified the basic agreements in the same way.

**Eliminating fraud:**

The legal approach varies from one country to another: fraud may or may not be covered by penal law.



## APPENDIX I

**Developments in trade and global ratios by country****Table I.1. Developments in trade and global ratios – Germany – in 1000s of tonnes**

	Year	Production	Exports		Imports		Apparent consumption	Extra-imports/ consumption (%)	Intra-imports/ consumption (%)
			extra	intra	extra	intra			
Clothing	1986	823.0	99.8	160.3	374.5	264.9	1202.3	31	22
	1987	806.5	98.2	169.7	432.8	295.2	1266.6	34	23
	1988	817.5	101.9	175.8	470.7	286.9	1297.4	36	22
	1989	831.9	123.4	184.9	477.7	323.9	1325.2	36	24
	1990	871.9	130.1	198.1	558.7	391.3	1493.7	37	26
	1991	900.5	135.2	206.8	668.6	453.2	1680.4	40	27
	1992	825.3	143.2	241.6	665.0	479.0	1584.4	42	30
	1993	729.4	145.0	168.2	750.2	345.1	1511.5	50	23
Textiles	1986	1671.2	235.0	434.6	410.0	432.0	1843.6	22	23
	1987	1671.7	240.1	467.0	460.2	451.6	1876.4	25	24
	1988	1647.7	242.3	450.2	472.1	448.3	1875.6	25	24
	1989	1682.8	275.8	495.1	470.4	505.9	1888.2	25	27
	1990	1725.5	308.5	491.9	537.0	576.4	2038.5	26	28
	1991	1729.2	332.3	479.5	597.1	638.0	2152.6	28	30
	1992	1587.8	338.1	506.1	591.9	661.7	1997.1	30	33
	1993	1397.8	355.2	389.9	640.9	500.1	1793.7	36	28

Source: CIRFS.

**Table I.2. Developments in trade and global ratios – Belgium – in 1000s of tonnes**

	Year	Production	Exports		Imports		Apparent consumption	Export/ production (%)	Extra-imports/ consumption (%)	Intra-imports/ consumption (%)
			extra	intra	extra	intra				
Clothing	1986	304.3	56.1	199.2	21.1	90.2	160.3	84	13	56
	1987	311.1	55.3	225.9	28.0	100.0	157.9	90	18	63
	1988	325.4	59.0	230.6	35.5	103.1	174.4	89	20	59
	1989	348.2	72.1	251.8	42.1	107.3	173.7	93	24	62
	1990	363.1	80.2	276.4	59.2	119.2	184.9	98	32	64
	1991	359.1	81.0	300.9	67.1	132.4	176.6	106	38	75
	1992	376.3	91.5	325.5	72.2	141.3	172.8	111	42	82
	1993	361.2	129.3	289.6	79.4	151.3	172.9	116	46	87
Textiles	1986	556.9	83.0	356.0	83.0	202.9	403.8	79	21	50
	1987	555.8	82.4	391.1	96.8	211.0	390.2	85	25	54
	1988	569.8	87.6	398.2	102.6	217.3	403.9	85	25	54
	1989	607.1	107.7	428.4	105.5	233.0	409.5	88	26	57
	1990	620.2	113.8	455.1	123.9	236.8	412.0	92	30	57
	1991	622.7	118.8	487.5	130.0	248.6	395.0	97	33	63
	1992	647.4	129.4	507.2	142.8	238.6	392.2	98	36	61
	1993	620.7	177.9	489.6	166.9	233.6	353.6	108	47	66

Source: CIRFS.

**Table I.3. Developments in trade and global ratios – Denmark – in 1000s of tonnes**

	Year	Production	Exports		Imports		Apparent consumption	Export/production (%)	Extra-imports/consumption (%)	Intra-imports/consumption (%)
			extra	intra	extra	intra				
Clothing	1986	83.5	22.9	19.8	24.3	31.8	96.9	51	25	33
	1987	81.9	22.0	21.5	29.1	33.3	100.8	53	29	33
	1988	72.5	23.0	19.4	35.8	35.3	101.2	58	35	35
	1989	80.1	18.1	23.3	37.8	33.4	109.9	52	34	30
	1990	80.4	22.7	22.6	48.0	33.8	116.9	56	41	29
	1991	79.5	22.8	38.0	68.4	35.2	122.3	76	56	29
	1992	79.2	25.8	37.3	65.8	38.0	120.0	80	55	32
1993	71.4	25.4	31.9	59.1	34.5	107.7	80	55	32	
Textiles	1986	100.5	23.6	30.2	39.2	65.6	151.5	54	26	43
	1987	103.6	23.3	33.6	45.3	64.9	156.9	55	29	41
	1988	96.0	25.8	29.1	45.4	63.0	149.5	57	30	42
	1989	103.0	20.5	32.8	50.3	61.2	161.2	52	31	38
	1990	103.9	24.3	32.5	57.7	58.6	163.4	55	35	36
	1991	103.7	25.3	44.0	69.3	59.6	163.4	67	42	36
	1992	101.9	29.6	43.6	67.1	64.8	160.7	72	42	40
1993	95.8	29.0	35.7	55.6	57.5	144.2	68	39	40	

Source: CIRFS.

**Table I.4. Developments in trade and global ratios – Spain – in 1000s of tonnes**

	Year	Production	Exports		Imports		Apparent consumption	Export/production (%)	Extra-imports/consumption (%)	Intra-imports/consumption (%)
			extra	intra	extra	intra				
Clothing	1986	414.0	31.1	28.3	4.4	23.8	382.8	14	1	6
	1987	464.6	32.9	35.2	7.5	27.9	431.9	15	2	6
	1988	439.2	41.0	35.2	11.9	28.5	403.4	17	3	7
	1989	440.9	46.2	37.5	17.5	37.5	412.2	19	4	9
	1990	397.0	31.1	36.2	26.6	49.6	405.9	17	7	12
	1991	395.4	32.6	42.0	40.0	61.0	421.7	19	9	14
	1992	423.7	33.8	45.4	53.0	75.2	472.7	19	11	16
1993	354.4	41.1	42.4	42.9	140.2	454.0	24	9	31	
Textiles	1986	888.2	53.6	69.2	13.6	32.6	811.6	14	2	4
	1987	984.9	52.1	84.9	25.1	44.3	917.3	14	3	5
	1988	922.8	59.8	100.3	28.9	43.4	835.0	17	3	5
	1989	927.9	62.2	115.8	39.8	64.1	853.8	19	5	8
	1990	838.5	54.9	126.6	50.8	70.4	778.2	22	7	9
	1991	832.9	64.0	138.7	74.3	84.3	788.8	24	9	11
	1992	868.4	70.8	139.3	87.6	103.4	849.3	24	10	12
1993	734.8	82.4	132.5	62.9	157.3	740.0	29	8	21	

Source: CIRFS.

**Table I.5. Developments in trade and global ratios – France – in 1000s of tonnes**

	Year	Production	Exports		Imports		Apparent consumption	Extra-imports/ consumption (%)	Intra-imports/ consumption (%)
			extra	intra	extra	intra			
Clothing	1986	630.4	37.1	82.7	97.7	206.5	814.8	12	25
	1987	651.9	39.2	89.9	125.1	225.7	873.6	14	26
	1988	649.0	49.5	92.4	154.5	239.9	901.5	17	27
	1989	656.4	51.2	109.0	174.1	263.9	934.2	19	28
	1990	648.1	48.4	128.7	205.3	264.0	940.3	22	28
	1991	591.9	51.2	136.6	228.8	274.4	907.3	25	30
	1992	608.2	51.9	152.0	250.0	285.6	940.0	27	30
	1993	587.2	59.2	177.8	280.0	301.5	931.6	30	32
Textiles	1986	1125.9	83.1	206.9	150.7	397.5	1384.1	11	29
	1987	1152.8	86.6	222.2	171.8	431.7	1447.5	12	30
	1988	1148.2	96.1	224.9	184.6	440.0	1451.8	13	30
	1989	1149.0	112.8	254.1	215.7	473.1	1470.9	15	32
	1990	1102.5	108.3	266.1	248.1	478.7	1454.9	17	33
	1991	1020.6	117.3	278.8	230.2	499.7	1354.3	17	37
	1992	1031.4	120.1	290.2	246.8	516.8	1384.8	18	37
	1993	983.9	141.2	318.2	264.4	563.5	1352.4	20	42

Source: CIRFS.

**Table I.6. Developments in trade and global ratios – Greece – in 1000s of tonnes**

	Year	Production	Exports		Imports		Apparent consumption	Export/ production (%)	Extra-imports/ consumption (%)	Intra-imports/ consumption (%)
			extra	intra	extra	intra				
Clothing	1986	151.0	9.4	43.4	2.2	10.5	110.9	35	2	10
	1987	161.7	7.8	49.7	2.6	11.4	118.2	36	2	10
	1988	165.7	11.7	45.7	4.0	11.8	124.1	35	3	10
	1989	162.1	13.9	46.9	5.3	17.1	123.7	38	4	14
	1990	177.3	15.9	51.3	6.1	20.0	136.2	38	4	15
	1991	170.9	15.4	52.5	8.7	20.7	132.5	40	7	16
	1992	176.3	17.3	54.2	11.0	25.5	141.4	41	8	18
	1993	149.5	16.8	55.0	13.2	28.2	119.1	48	11	24
Textiles	1986	378.8	17.7	114.0	9.3	44.8	301.2	35	3	15
	1987	392.9	15.8	123.8	15.7	53.0	322.0	36	5	16
	1988	383.7	16.7	103.9	18.8	46.5	328.4	31	6	14
	1989	376.0	22.8	106.8	17.9	57.0	321.3	34	6	18
	1990	377.5	22.9	95.9	26.4	62.7	347.8	31	8	18
	1991	378.1	23.5	109.9	26.6	62.4	333.6	35	8	19
	1992	363.0	25.3	96.2	27.0	77.1	345.6	33	8	22
	1993	297.6	25.0	97.5	27.8	78.7	281.7	41	10	28

Source: CIRFS.

**Table I.7. Developments in trade and global ratios – Italy – in 1000s of tonnes**

	Year	Production	Exports		Imports		Apparent consumption	Export/production (%)	Extra-imports/consumption (%)	Intra-imports/consumption (%)
			extra	intra	extra	intra				
Clothing	1986	1051.4	77.4	187.3	45.8	49.8	882.3	25	5	6
	1987	1184.1	76.9	190.5	67.2	53.6	1037.5	23	6	5
	1988	1152.8	68.6	193.5	83.6	56.4	1030.7	23	8	5
	1989	1200.1	70.9	203.2	85.9	64.4	1076.3	23	8	6
	1990	1208.8	73.9	218.0	97.8	66.1	1080.8	24	9	6
	1991	1156.0	70.3	220.2	126.2	70.9	1062.6	25	12	7
	1992	1139.1	75.2	221.9	158.4	73.2	1073.6	26	15	7
	1993	1057.7	96.5	256.2	159.1	69.4	933.5	33	17	7
Textiles	1986	2148.6	166.1	379.8	210.9	186.3	1999.9	25	11	9
	1987	2366.0	165.8	398.7	262.2	226.0	2289.7	24	11	10
	1988	2341.8	155.1	412.5	258.2	200.1	2232.5	24	12	9
	1989	2396.8	169.7	427.1	271.6	226.3	2297.9	25	12	10
	1990	2373.8	164.1	441.3	298.2	228.4	2295.0	26	13	10
	1991	2337.8	159.8	451.2	285.6	220.3	2232.7	26	13	10
	1992	2374.7	192.1	477.3	294.0	207.0	2206.3	28	13	9
	1993	2251.5	240.5	495.7	296.4	195.1	2006.8	33	15	10

Source: CIRFS.

**Table I.8. Developments in trade and global ratios – Ireland – in 1000s of tonnes**

	Year	Production	Exports		Imports		Apparent consumption	Export/production (%)	Extra-imports/consumption (%)	Intra-imports/consumption (%)
			extra	intra	extra	intra				
Clothing	1986	48.5	2.7	17.9	3.3	30.7	61.9	42	5	50
	1987	49.3	4.0	17.4	4.1	30.7	62.7	43	7	49
	1988	51.0	4.2	17.4	4.7	30.7	64.8	42	7	47
	1989	57.0	3.9	20.4	5.3	33.1	71.1	43	7	47
	1990	58.6	3.6	23.3	7.8	35.6	75.1	46	10	47
	1991	60.4	3.2	27.8	8.3	35.8	73.5	51	11	49
	1992	64.4	2.8	32.6	7.4	44.9	81.3	55	9	55
	1993	55.2	2.9	31.6	7.7	38.7	67.2	62	11	58
Textiles	1986	104.2	4.8	46.2	13.3	47.3	113.8	49	12	42
	1987	107.3	5.9	47.8	13.7	49.3	116.6	50	12	42
	1988	110.2	5.4	49.0	15.8	48.4	120.0	49	13	40
	1989	121.7	4.9	52.3	20.4	48.4	133.3	47	15	36
	1990	121.5	4.3	55.4	27.9	48.3	138.0	49	20	35
	1991	127.2	4.6	60.6	26.8	48.9	137.7	51	19	36
	1992	132.7	4.8	62.7	18.9	65.9	150.0	51	13	44
	1993	113.9	5.5	58.3	13.5	68.8	132.3	56	10	52

Source: CIRFS.

**Table I.9. Developments in trade and global ratios – Netherlands – in 1000s of tonnes**

	Year	Production	Exports		Imports		Apparent consumption	Extra- imports/ consumption (%)	Intra- imports/ consumption (%)
			extra	intra	extra	intra			
Clothing	1986	169.6	31.7	117.7	70.8	137.1	228.1	31	60
	1987	173.2	25.4	134.0	83.1	147.9	244.8	34	60
	1988	183.2	26.7	141.6	92.2	146.5	253.6	36	58
	1989	189.0	30.0	154.4	95.1	152.9	252.6	38	61
	1990	204.2	29.2	168.1	108.1	175.5	290.5	37	60
	1991	205.8	33.4	185.8	131.0	172.6	290.2	45	59
	1992	182.7	36.4	188.1	142.8	172.9	274.0	52	63
1993	171.1	39.1	156.5	162.4	122.7	260.0	62	47	
Textiles	1986	211.8	49.4	179.1	84.3	232.9	300.5	28	78
	1987	209.0	43.1	194.5	98.9	236.7	307.0	32	77
	1988	218.6	45.6	186.9	94.0	232.6	312.7	30	74
	1989	228.4	51.4	201.3	96.4	240.5	312.6	31	77
	1990	242.1	52.1	216.3	121.3	253.4	348.4	35	73
	1991	234.5	58.0	225.0	123.9	269.3	344.6	36	78
	1992	210.2	64.5	219.5	134.1	256.0	316.4	42	81
1993	203.3	65.3	184.3	146.5	190.7	290.9	50	66	

Source: CIRFS.

**Table I.10. Developments in trade and global ratios – Portugal – in 1000s of tonnes**

	Year	Production	Exports		Imports		Apparent consumption	Export/ production (%)	Extra- imports/ consumption (%)	Intra- imports/ consumption (%)
			extra	intra	extra	intra				
Clothing	1986	249.0	33.6	83.1	1.2	6.9	140.4	47	1	5
	1987	306.8	42.6	98.4	1.3	9.2	176.3	46	1	5
	1988	304.2	41.2	103.7	1.5	11.6	172.4	48	1	7
	1989	305.5	44.3	124.1	1.8	15.4	154.3	55	1	10
	1990	333.7	48.6	147.4	2.5	19.1	159.3	59	2	12
	1991	327.9	48.7	154.2	3.1	24.4	152.5	62	2	16
	1992	341.5	47.5	162.4	4.0	29.2	164.9	61	2	18
1993	273.6	44.9	126.3	4.5	30.8	137.6	63	3	22	
Textiles	1986	585.9	39.0	102.1	10.7	31.7	487.2	24	2	7
	1987	679.2	42.9	111.8	30.2	45.8	600.5	23	5	8
	1988	660.9	42.0	113.7	29.1	56.8	591.1	24	5	10
	1989	646.1	45.4	132.6	22.1	79.4	569.6	28	4	14
	1990	675.0	45.2	153.7	29.3	92.3	597.7	29	5	15
	1991	664.3	48.5	167.0	29.5	108.4	586.6	32	5	18
	1992	669.9	47.5	165.9	37.1	114.3	607.7	32	6	19
1993	543.3	46.8	137.1	34.0	108.5	501.8	34	7	22	

Source: CIRFS.

**Table I.11. Developments in trade and global ratios – United Kingdom – in 1000s of tonnes**

	Year	Production	Exports		Imports		Apparent consumption	Extra-imports/ consumption (%)	Intra-imports/ consumption (%)
			extra	intra	extra	intra			
Clothing	1986	813.9	55.7	63.5	141.0	168.1	1003.8	14	17
	1987	890.0	60.1	75.1	168.2	169.4	1092.4	15	16
	1988	879.3	54.8	80.2	209.8	181.9	1136.0	18	16
	1989	863.2	54.9	85.2	220.4	197.7	1141.2	19	17
	1990	837.4	58.0	101.6	238.9	206.5	1123.2	21	18
	1991	781.1	56.2	120.3	259.8	203.7	1068.0	24	19
	1992	817.0	61.2	147.0	296.7	243.2	1148.7	26	21
	1993	821.5	68.7	127.4	337.6	201.2	1164.2	29	17
Textiles	1986	1164.6	89.0	114.4	245.0	361.4	1567.6	16	23
	1987	1241.6	91.0	125.2	304.9	364.8	1695.1	18	22
	1988	1187.7	84.8	129.1	335.2	381.3	1690.3	20	23
	1989	1177.4	89.6	141.7	331.0	395.4	1672.5	20	24
	1990	1119.8	89.9	167.6	364.9	393.4	1620.6	23	24
	1991	1043.7	84.1	181.7	370.6	381.6	1530.1	24	25
	1992	1095.7	89.5	217.2	420.2	420.7	1629.8	26	26
	1993	1078.1	101.0	185.0	460.7	369.3	1622.0	28	23

Source: CIRFS.



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