

PART II- LOCAL ASSESSMENT

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1. Objective and Methodology

Objective

The objective of the local assessment -within the overall terms of reference of the study- is to reveal the present performance of the industry especially in the areas of the sector's physical, institutional structure, business environment, and level of nominal & effective protection. It is also to further analyse the obstacles hindering the sector's overall contribution to the country's economy and more specifically to realize its export potential in order to reach a general positioning for the entire value chain.

Methodology

Choice of product groups and sectoral activities has been based on the current actual situation of the different players at manufacturing, institutional levels and economic environment levels taking into account, basic elements of value added, contribution to employment, export potential, future domestic & global demand, and environmental aspects. This is bearing in mind that the development to take place in the leather products supply should exert eventual pressure on and create substantial demand for all supportive ingredients namely, material, skills, managements, policies etc.

In an integrated approach, the assessment methodology entailed examination of available data, statistics and studies available as supported by dialogues with key industry institutions and involved bodies as well as own information. This has covered –inter alia :

- Trade Associations
- Supporting Institutions
- Representatives of the different sub-sectors entrepreneurs
- Representatives of the 30 enterprises involved in the survey
- IMC Task group

Other sources of information have also covered;

- Studies and reports on the global and Egyptian Leather sector
- Sectoral statistics by EUROSTAT/COMTRADE
- Publications and papers published by development institutions i.e. WB, UNIDO/CBI
- Publications and papers edited by public institutions;
- National statistics by Central Bureau of Statistics

Field survey has covered a total of 30 selected enterprises operating in the Footwear (15), Leather Goods (4), Leather Garments (3), Components (6) including (3) of the tanning sector- being a supplier of leather material as well as Supporting Services (2). Selection of the companies to survey is based on;

- Proportional size of sectoral activities, where footwear product line is dominant,
- Cross section representing Large, Medium & Small operations,
- Geographical coverage of the main industrial centres i.e. Cairo, Alexandria, Ismailia, Banha, 6th October, 10th of Ramadan.
- Availability for the visits

Consequently, an appropriate survey form has been designed covering all elements revealing the sectoral situation at management, product, production and marketing levels- which after completion was further analyzed together with other supporting gathered information.

2. Brief History Background

Picture 1 - Manufacturing Roots



Egyptian history has a traditional wealth in manufacture and use of leather and leather products as seen in the tombs of pharaonic civilization.

Top picture; the wooden statue of Niach-Pepi at the Cairo museum demonstrates leather goods as part of the early Egyptian lifestyle

Bottom right; Egyptian sandal workshop drawn after a painting in the tomb at Beni-Hassan, shows the earliest example of rationalization and division of labor in the footwear.

Bottom Left; Bottom left, rural old pit tanning operation, demonstrating stages of tanning and featuring a tanned hide on the wall.

Now in Egypt, the leather products manufacture in the country is clearly classified into three main sub-sectors: footwear, leather goods and leather garments.

Footwear represents 85 percent of the Egyptian industrial activities among the leather based industries with a total output estimated at 97 million pairs per annum applying both leather and man-made material. Leather goods and leather garments manufacture are estimated to represent about 15 percent of the sub-sector's manufacture.

In order to understand the current situation of the industry, it is necessary to review briefly stages of development over the last four decades. Before the 1970's, the industry operated at the handicraft level through small units mainly in Cairo and Alexandria. At the beginning of the 1970's, the industry

witnessed the start of widespread business activities encouraged by trade agreements for exporting to the large USSR and other East-Europe markets.

At the end of the seventies, the market of Eastern Counties started to show a gradual shrinkage until it reached a complete cease. Meanwhile, transform to a market economy together with structural adjustments made it possible for imported goods to enter the formerly protected domestic market; thus putting the industry at a real challenge - after protection withdrawal.

This element among others has collectively put the entire sector at a real disadvantage. Now, the “good-old-days” are over i.e. when a lot of footwear could be exported to the countries of the centrally planned economies, as a part of large trade agreements and the imports were almost nil, due to high protective duties. Neither the domestic market nor export markets by then were demanding quality and/or price pressures.

Today the harsh realities of the global competition does not allow local manufacturers any room to produce shoddy products but demands top-quality products at internationally competitive price levels - even in the home market. The situation –unless certain tailored measures are taken- is not likely to change for the better. On the contrary – when the import duties are at zero in the not-too-distant future- the Egyptian shoe and leather products industry must compete at equal terms with the “big-giants” manufacturing in the Far-East for the standard cheap lines and/or with the successful Mediterranean supply as well as new merging supply from South Asia and Eastern Europe who are targeting the up-market products. With no doubt, it is not an easy task!

So let’s analyze the situation of the industry in detail, starting from the quality image of the product, sub-sector by sub-sector.

3. Sectoral Profile

3.1 Sectoral Structure

3.1.1 Footwear

As mentioned, it is estimated that footwear represents 85 percent of the activity of the leather based industries. Total output is difficult to estimate. There are no reliable statistics. It is probably around 100 million pairs per year representing the formal and informal sectors. These are made from both leather and man-made materials.

The footwear manufacturing industry can be classified into two basic sections

- informal or artisanal production
- semi and mechanised production

a) Small and Micro enterprises

Recent statistics suggest that the number of workshops active in shoemaking is around 19,000 employing some 42,000 workers. In all probability these figures may well be understated. Studies have indicated that up to 30-50% of Egyptian economic activity is in the informal sector. If this is the case then there may be more than 60,000 workers and 27,000 workshops. They tend to be clustered in central areas of major towns and cities and are served by a support structure of retailers of components and materials. Also located in the cluster are the makers of ancillary equipment, cutting dies, lasts, punches, embossing etc. Also certain types of simple machines are made or adapted locally. 75% of the sub sector is located in Cairo with 10% in Alexandria. Few workshops are scattered in other cities as Tanta, Banha and Dumiat.

Often the production involves sub contractors in the cluster. People who only stitch uppers or a person with a particular machine who can service many workshops because it is not possible to invest in the machine as an individual.

The main characteristic of this section of the industry is that the workshops are nearly all the same. They use the same (antiquated) production methods, with the same machines and produce very similar shoes which are sold either informally through shops or on the street markets. Competition between the workshops is fierce, selling price plays an important part. The culture of the sector seems to be a resistance to change. As long as there is sufficient money from the labour input and sales - this seems to be the target of the entrepreneurs in this sub sector. The workshop is really “a job” rather than “a business”. There is no forward planning, simply a reaction to current events.

The sub sector produces cheap synthetic shoes and sandals usually of indifferent quality. In many ways they compete directly with Chinese production. Certain experts proclaim the imminent demise of the sub sector with the advent of Asian imports which will eventually enter the market without duties. It remains to be seen if this will in fact happen.²

The workers are extremely resilient, they operate from the lowest possible cost base there is no supply problems for raw materials in this sub sector. Marketing is informal and elastic. Product development means copying whatever is produced on the market by formal companies or by imports. New products or orders can be made in days rather than months. Empirical evidence suggests that this sub sector is not declining but remaining either static or even expanding a little as larger formal companies have retrenched or closed. Workers from these organisations are induced to start up a small independent workshop of their own.

The sub sector could improve its performance relatively easily by upgrading its manufacturing techniques and better utilisation of raw materials. But these are artisans not industrialist and operate according to tradition, a difficult mind set to change.

b) Mechanised and Semi Mechanised Companies

According to the Chamber of Leather Industries there are 53 formal shoe making enterprises operating in the market. In the past (1970's) some 39 of these companies were active exporters mostly to the planned economies of the Eastern block.

Since the demise of this market these companies, with some exceptions, have found it difficult to successfully make the transition to an open market economy. Installed capacity for these companies is 500 – 1500 pairs per day. (Exceptionally some are higher than this). Many companies are operating at low levels of production capacity some as low as 20-30% and some have switched to a workshop status.

By and large, considering the difficulties the companies have experienced for some time now, they are well equipped with machinery to produce good shoes. The machines may be of the older type but are still performing. The lack of investment reflects the economic realities and the reluctance of managers to take risks with the limited capital preserved.

Technically the owners of the companies are aware of modern production methods. Perhaps some small gaps exist, but these can be brought up to date by one or two visits to international technical shoe shows. One company in Egypt operates a CAD system for pattern development and grading and no company extends this technology to computer controlled cutting of leather. In the area of stitching uppers (always the most problematic of operations in shoe making) very few automatic/computer controlled stitching machines are in operation. These technologies are quite compatible with smaller companies.

The serious problem the companies have in common is one of product development and in turn marketing. It is very difficult for the companies to produce new designs and styles with fashionable soles and correct leather if none of the components are easily available.

² Nigeria has a similar structure to Egypt in the informal sector. Workshops in Aba produce shoes in direct competition with the Chinese and undercut them with prices and styling. They even export footwear to neighbouring countries beating out the Chinese.

Finished leather up to international norms is extremely difficult to obtain in Egypt. Importation is not an option because of duty rates (17%). A similar scenario pertains for soles. Good quality ancillary components (including lasts) are also not available locally. The companies have little choice but to do the best they can with local materials. In today's consumer market this is really not good enough.

One of the main concerns is that the informal sector can easily copy the styles in cheap synthetic materials. If there is no strong brand name then the consumer is confused when it comes to deciding which shoe to buy at point of sale.

The main problem is to create an exclusive shoe line with clear product differentiation. This can be reached in theory but necessary materials and components needs to be easily procured at competitive prices; therefore the exercise is one of futility.

c) General Manufacturing Pattern

Contrary to the world trend where successful shoe making became an assembling industry for ready and standardized components, the general pattern in Egypt still follows traditional manufacture of all components under one roof with a resultant low output capacity and higher production cost. Upper closing being the most crucial operation, is still made by the same units. This is with the exception of one successful foreign company as subcontracting this operation to more than 20 workshops; thus overcoming more than 80 per cent of the manufacturing difficulties. In this way, the company with access to the Italian market is exporting some 1000 pairs per day.

3.1.2 Leather Goods

Profile

The manufacture of modern type(s) of leather goods is deeply rooted in the country with concentration in Cairo and Alexandria being the main centres of the sub-sector's industrial and trading activities. Generally, the industry exists at small and medium scale levels where product lines follow the western styles as mainly orientated towards a certain class of the Egyptian society and foreigners living-in or visiting the country.

The industry general orientation is directed towards the domestic market with three distinctive categories at the market outlets; i) product range with peculiarities adapted for the Egyptian consumer's taste as representing the bulk of displays, ii) seasonal product groups made for the Middle-East tourists and iii) a limited category coming-up to meet the western tourists demand. Among the three product categories, the latter represents the closest taste to the world market trends.

According the Industry Chamber, the sub-sector encompasses 13 companies classified as the golden list as well as 10 companies in the second category of a silver list. This group is clearly specialized in the main categories of leather goods i.e. bags, small leather goods, belts and gift items. This is with the exception of a handful of fairly large companies covering the entire range in different production lines which represents a category on its own.

However, in the unrecognized sector which has no record, the number of workshops is estimated to exceed some 500 enterprises representing the wider base of manufacture. Actual number of artisan workshops might exceed this estimate by a large margin if the sub-sector's activity is estimated at 10 per cent of that for footwear i.e. 1900 workshops. At an average employment of 2 – 5 workers/unit , one would estimate a workforce in the order of 6,000 people. Unlike footwear, the workshops distribution exists all over the two cities with no clear cluster- making the estimate a difficult task.

Manufacture

At production level, the pioneering generation which started the business during the fifties has gained extensive experience through close contacts with the west. As an example- *Rivoli*, a joint venture with the German known *Goldfile* back in the fifties, has been a major source of skilled labour which spread into small workshops after its closed down. By then, leather goods was an important subject at two vocational schools namely; Ahmed Maher School in Cairo and Mohamed Ali School in Alexandria where the remaining skilled generation have received their formal craftsmanship education. These two institutions are currently closed.

During the late sixties and in the early seventies, the export boom with massive orders from countries of centrally planned economy has brought sudden structural changes to the manufacturing pattern of the industry. The demand for large export orders of limited design range as well as long ban on the import leather goods, made the sector operating in isolation from world developments in trends as well as in manufacture. With the eventual closing down of the vocational training facilities in the trade, the workforce had to obtain experience through inherited skills which were subject to further deterioration due the reduced demand for modernization and quality whether for domestic and/or export markets at the time.

With the exception of newly established modern factories, the wide base of leather goods manufacture has a range of outdated machines and equipment for the mechanized operations whilst lacking a wide range of appropriate hand tools necessary for the perfection of the manual operations. A general tendency to piece work manufacture had a negative impact on production organization as well as the workers attitudes which are necessary elements for a modern pattern for consistent quality and efficient manufacture.

Table 1 - Productivity in Leather Goods

Leather Goods Item	Productivity at Modern Level pcs/worker/day	Productivity at Artisan Level pcs/worker/day
Wallets	8	4
Bags	4	2
Belts	20	12

As seen, the level of productivity at the artisan level of operation is almost half of that at modern level which is explained by the result of sectionalized operation at the latter .

Machines maintenance has proved to be a serious weakness for the realization of a modernized operation particularly for sewing machines mechanics. Agents of machinery suppliers are not in a position to provide this service as expected whilst the increased number of modern sewing machines as

employed by single factories urges the need for full/part-time experienced mechanics where resources are not available to offer.

Subcontracting pattern by larger units of cut/prepared components to smaller workshops for assembling does not exist in the sector – notwithstanding its successful application in several countries where Italy is a leader.

Management

At the recognized high level, modern management techniques apply together with continued serious attempts for export and/or a healthy stand at the domestic market as demonstrated by professional window shops displays.

At the artisan level, the operation follows the same pattern of footwear where the owner resumes all functions including design selection and even some production tasks as design and pattern making. Production pattern generally requires a minimal management role in manufacturing organization where the work follows a piece rate system and consistency in quality is difficult to achieve. The middle management at supervisory level does not exist which is loading the management with excessive duties.

Design

Design abilities are limited to copying from catalogues and/or prototype sample offered by domestic and/or overseas buyers where limitations on design analysis and collection building tasks are experienced by the sector. Under the circumstances, the profession of leather goods designer does not exist in the sector. These duties are mainly undertaken by the factory owners according to their own judgement.

Human Infrastructure

In the absence of training facilities for skills reproduction, the industry is dependent on high level skills as acquired by the old generation and inherited to the new generations- with some wrong and/or old practices and eventual shortcomings on possible progress.

Women's employment by the sector reflects a minimal participation in the industrial activity at all levels. In contradiction to the worldwide pattern for the utilization of the women's natural skills in certain operations particularly for stitching, the sector's major employment is dominated by men's workers. Limited trials for the introduction of women to some factories has produced excellent results which were limited by a non-available source of training. This being a costly task for an individual company. It is also noticeable that artistic talents of women and pattern of entrepreneurship are not presented in the sector due the lack of training facilities in the country -whilst balanced presentation would contribute to a further success in the overall industry operations.

Material Inputs

Material inputs applied by the industry particularly for leather, as well as other important components have suffered from the long isolation of the sector from the world technological and trend innovations. As per the dominating domestic market requirements and the ongoing price pressure, most of the leather material is heavily pigmented and or embossed with a shining finish giving a hard texture and loosing the genuine grain appearance.

Major dependence on the tanneries supply of cheap leather material far below the world market prices as originally thought by leather goods exporters to provide a competitive edge, did not support the product with the right quality as so far design realization and function are concerned. Success in the business has only been realized through the cooperation between the tannery to produce the required qualities at an elevated price acceptable by the manufacturers which was necessary to achieve importers satisfaction. On the other hand, the application of such an expensive leather material whether local and/or imported shall require higher level of skills in the workmanship which are currently difficult to generate .

Other inputs as accessories, threads, linings, stiffening material, glues etc. are mainly imported, had locally made substitutes which are not necessarily in line with trendy innovations as well. Such imports are usually made by importers whose primary interest is procurement of cheap stocks rather than following the trend. Bearing in mind the predominant small size of the enterprises, it is rather impossible to import on their own and are dependent on whatever is brought in.

Export Development Experience

A completed phase of an EU assisted project followed by GTZ assistance for the Export Development and Promotion Project for Egyptian leather goods had had a fairly positive impact at a pilot scale within the sector. The programme as designed has incorporated a package of technical and marketing assistance addressing the weak position of the industry being at a small-scale level. It has induced specialization into specific product lines and has created a certain level of awareness with the market needs as well as an eye-opener for production organization at the manufacturing floor.

As a direct result of the project impacts, a participating company among the group being rated as the smallest at the project start has established an excellent modern factory with an initial investment of some LE 1 million. In recent years, the business realization of the sector's potential have motivated additional companies to make a new total investments for establishment of modern leather goods factories.

However, the general trend for industry modernization and successful penetration of the export market is still encountered with a serious vacuum in labour, middle management and management skills in order to assist in diverting the production pattern from an artisan level to a modern operation. This situation is expected to exert pressure on the development of human infrastructure of the industry throughout its modernization process.

An important lesson learned throughout the project implementation exercise has been the industry full participation in all activities and the benefits of collective work whether at joint promotional level as well as cooperation in matters of technical and production nature. At a certain stage, and in order to sustain the arrived at results, further success shall always depend on the industry collective efforts and initiatives for the development of the sector towards steady penetration of the market.

3.1.3 Leather Garments

Profile

The manufacture of leather garments in the country has coincided with the export boom to East-European countries – back to the sixties- through tailor’s type workshops which have expanded into larger industrialized operation. Manufacturing units are concentrated in Cairo and Alexandria operating at a small and medium levels, with the exception of one factory which is considered as fairly large. The industry Chamber has a golden list of six companies employing an average of 40 workers/unit in addition to three companies in the silver list employing some 20 workers/unit . They all In the have been export oriented with a currently shrinking operation. In the unrecognized sector, estimates suggest additional 100 workshops employing an average 5 people/unit. This gives an estimate at a total of 1000 workforce in the sub-sector under the present situation.

The manufacture is focused on the domestic market outlets with a fairly limited consumption as well as the tourist market with occasional minor exports.

Manufacture

At production level, the generation of leather garments manufacturers has gone through self development being a branch of textile garments – where no specific training facilities exist so far for leather garments. The demand for quality items has catalyzed to some extent the supply of quality leather whether for sheep nappa and/or suede.

However, fairly large scale operations in leather garments business with an average of 40 – 60 sewing machines have ceased and/or shrinkage operation down to a cottage level.

Due to the size limitations at manufacturing level, the operation –with one exception- is featuring a piece work pattern where the responsibility is totally passed to the workers group against piece rate payment for cutting and stitching. At the only company with moderate healthy operation, modern management techniques apply through self development with computerized records. As in modern factories, the leather is cut by hand in order to have full control over the material yield and waste being a determinant costing element in the leather garments.

Only few factories of medium scale apply the appropriate sewing machines with alternating transport system as essential for quality stitch. The rest apply light duty sewing machines which are meant for textile garments.

Productivity at a medium modern scale is 2 garments/worker/day which follows international norms. Whilst that level of productivity goes down to 0.8/garments/worker/day at the small scale level. The difference is explained by the production pattern of group or chain work at the first operation and piece rate work at the second operation.

Successful manufacture of leather garments shall always rely on reliable supply of the leather material at the right quality. Prices generally follow the world market for the offered quality. However, the supply is rather limited to basic colours rather than fashion colours as putting limitations of the marketability of the garments – even at the domestic market.

As the case with leather goods, other inputs as accessories, threads, linings, interlinings, fusing material are mainly imported, with very limited local made substitutes which puts further limitations on manufacturing quality.

Design

Designs are copied from catalogues or prototypes with no real concept for collection building. This is followed by manual size grading which applies principles of textile garments.

Only one company has procured the equipment for modern computer design, size grading and accurate pattern plotting which is successfully applied even at a limited level of output.

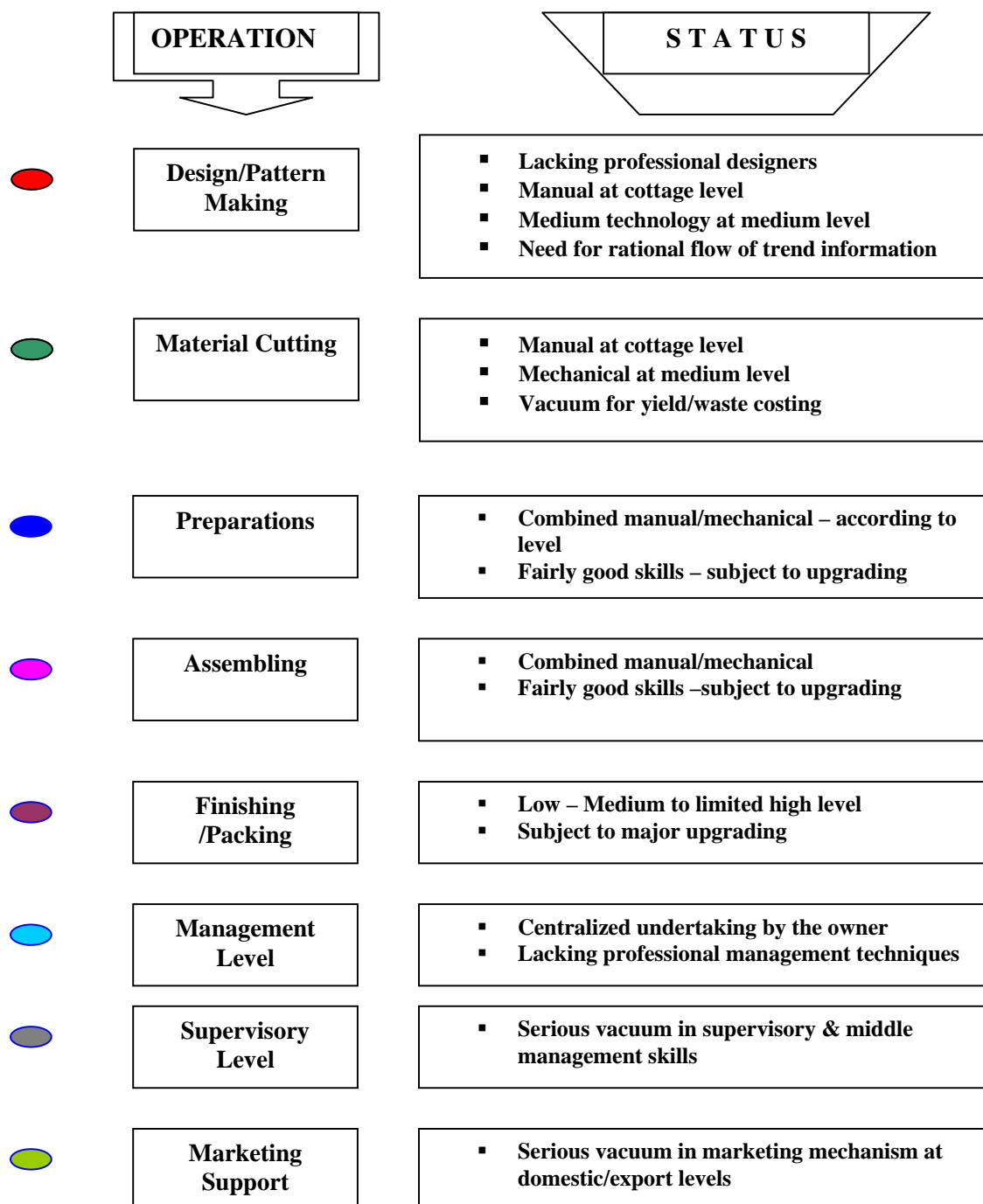
Human Infrastructure

No formal training facility for leather garments exist in the country – which does not seem to be justified under the current size of operation. However, formal education of Home Economics provides professional basis for textile pattern making which needs to be further adapted to leather garments.

3.1.4 Sequence of Operation and Common Status

Although , each sub-sector of leather products has its own peculiarities, they share the general sequence of operation as featuring the following common status .

Chart 1 - General Sequence and Status of Operations



3.1.5 Leather

Finished Leather

Egypt has high quality raw material for leather with an estimated continued increase of supply 2.4 per cent a year for the domestic supply of hides and skins at 153.6 mn sq ft in 2004- being the highest of any country in the region. Bovine material (hides) represents 70 % against ovine (skins) representing 30 % as reverse to the North African countries. In terms of production activity, Egypt ranks the 4th just behind Italy, Spain and Germany within the EU tanning activity.³

Twenty years ago, virtually all of Egypt's raw hides and skins were processed into finished leather, with about half sold in the domestic market to Egypt's Leather Products Sector and the other half sold into the former Soviet Union to be processed into leather products in these countries. Through the combination of, the situation in Egypt (protectionism and keeping costs of finished leather down) and in the former Soviet Union where the buyers did not emphasise quality, Egypt's Tanners Sector got away with having customers that accepted low quality finished leather. With the collapse of the Soviet Union market and the down-turn in Egypt's Leather Products Sector, Egypt Tanners Sector had to find new markets for 70% of its output. The most significant problem that faced the tanneries were that the buyers from the new international markets knew that Egypt tanneries lacked modernization and were, on the whole, only capable of producing wet blue. Within a decade, the sector went through a transformation from virtually all of the raw hides and skins being processed to finished leather to only 30% reaching this final stage of production.

Egypt's tanneries are being squeezed by three market pressures/challenges.

- international customers want to buy only wet blue for environmental reasons
- international customers are not prepared to buy crust, or finished leather, due to quality and fashion issues
- domestic leather product manufacturers demand leather at low prices and tedious payment conditions- due to their weak position

This squeezing has induced restructuring within the sector over the last 10 years: smaller tanneries closing, working part-time or undertaking jobbing activity from the larger tanneries; and an increasing concentration of production activity in a small number of large tanneries. However, such restructuring does not demonstrate a healthy pattern where some 70 % of exported materials are in the semi-processed – the bulk goes to wet-blue. It is even reported that one large scale tannery captures some 70 % of raw material for conversion into wet-blue through unrealistic exaggerated prices for the raw hides.

The following table illustrates the current situation of domestic leather supply in million sq ft during 2004:

³ DOL Report on Tannery Relocation, 2005

Table 2 - Domestic Leather Supply

	Domestic Market		Exports		Total	
	Quantity	%	Quantity	%	Quantity	%
Wet blue	-	-	92.16	84.6	92.16	60.0
Crust	-	-	15.36	14.1	15.36	10.0
Finished Leather	44.7	100.0	1.38	1.3	46.08	30.0
Total	44.7	100.0	108.9	100.0	153.60	100.0
Total		29.1		70.9		100.0

Source: DOL report , 2005

Current average prices for the Egyptian leather as follows:

Table 3 - Domestic Leather Prices

Wet Blue	Crust	Finished Leather
\$ 1.65 per sq ft	\$ 1.48 per sq ft	\$ 1.75 per sq ft
EGP 9.50¹	EGP 8.50¹	EGP 10.00¹

¹ Based on exchange rate of USD 1 : EGP 5.87

Should the leather products sub-sectors be developed to an efficient level in all aspects, an intermediary solution to the second and third challenges is made. It is much easier to sell finished leather in the form of finished products rather than exporting finished leathers at the competitive international market.

With a simple calculation for added value to the wet-blue exports through conversion into footwear or other leather products, an added value of average 300 per cent is gained according to international norms. This means an export value of 92 million sq ft wet-blue, at a total price of \$ 152 million which would reach \$ 607 million at transformation into finished products. The balance represents a serious loss of economic opportunity plus related social impacts on employment generation.

Most recent indicators on quality leather prices for major EU suppliers show a range of €2.4 – 3.0 i.e. EGP 18 - 23 against the current price range of Egyptian supply at EGP 12 - 15 for a comparable quality (with minor reservations possible to correct in due course). Apparently, a healthy and constructive dialogue needs to be established among both players to the interest of the business. Should this be not possible, imported leather would be an additional option where world giants in the business rely mainly on imported leathers together with few examples in Egypt.

Raw Material Supply

The current supply of raw material for leather manufacture is mainly dependant on the country's animal wealth of Cow, Buffaloes, Sheep and Goats which follows –in general- a small scale pattern of animal husbandry rather than large scale herds raising.

The current extraction of the hides/skins form the animals carcass is undertaken manually where it estimated that over half of the slaughtering occurs privately leading to a lack of conformity of the flesh side of the hides and skins due to the manual flaying. It is estimated that up to 30% of the hides are damaged due to post-mortem defects representing a serious loss to the entire supply chain and to the

economy as well. However, issues related to the tanning sector and its raw material supply, need to be addresses within the overall all sector strategy specifically at the level of tanneries interest.

It is however evident that catalyzing the tanneries focus on manufacturing and supplying finished leather to the domestic leather based industries shall always depend on strengthening the performance of footwear and leather products manufacture in order to increase their absorbing capacities/abilities for quality finished leathers, which is not the case today.

3.2 Market Size

3.2.1 Market Size Footwear

There are various statistics published which give an indication of trade flows in and out of Egypt. The most common ones are the United Nations Department of Statistics (<http://unstats.un.org/unsd/comtrade>) and the ITC Leather Line www.itracen.org/leatherline.

Statistics from comtrade show the following information for total imports and exports of footwear in and out of Egypt:

Table 4 - Market Size for Footwear

Imports

FY 2003

Code	Item	Value (\$)	Quantity Prs	Unit Price (\$)
64	Shoes	18,646,224	7,305,500	2.55
640610	Shoe upper	459,500	157,173	2.92

FY 2004

64	Shoes	22,875,904	5,404,830	4.23
640610	Shoe upper	4,493,779	1,275,433	3.52

Exports

FY 2003

64	Shoes	1,231,941	249,589	4.94
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FY 2004

64	Shoes	1,018,255	204,813	4.97
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Statistics from ITC show the following information which shows export from Egypt to Italy. (This is from a duty free zone in Egypt). These figures combined with those above show the vast majority of imports of footwear into Egypt.

Table 5 - Footwear Imports into Egypt

Period	Trade Flow	Reporter	Partner	Code	Trade Value \$
2001	Import	Italy	Egypt	64	6,151,000
2002	Import	Italy	Egypt	64	7,026,000
2003	Import	Italy	Egypt	64	12,541,000

In 2003, at a trade value of \$12,541,000 and an average price of say \$12.00 per pair this would represent 1,045,083 pairs.

There are no official statistics as to the market size in Egypt. Certain assumptions have to be made to make a reasoned calculation.

The European footwear federation, CEC publishes per capita consumption for various countries:

Table 6 - Per Capita Consumption for Footwear

COUNTRY	PER CAPITA	⁴ PPP (US\$)
United Kingdom	5.4	31,460
Spain	4.2	25,070
Turkey	2.6	7,680
Tunisia	2.5	7,310
South Africa	2.15	10,960
Kenya	1.25	1,050
Morocco	0.7	4,100
Russia (estimate)	0.5	9,620
EGYPT (estimates)	0.75 – 2.00	4,120

It is estimated therefore, using the above trends, the per capita consumption of footwear in Egypt is between 0.75 and 2.00 pairs per annum.

There is a projected population of 77,506,000 in 2005. The market therefore would be between:

58,129,500 and 155,012,000 pairs

average 106,570,750 pairs @ 1.38 pairs per annum

Local production is therefore calculated as follows:

Table 7 - Local Production for Footwear

Total Market (pairs)	106,570,750
- Imports (Incl uppers pairs)	6,680,263
Difference	99,890,487
+ Export (pairs)	1,249,896
LOCAL PRODUCTION	101,140,383

⁴ purchasing power parity

There are 53 mechanised or semi mechanised companies operating in the formal sector. Their individual installed capacities are from 500 to 1,500 pairs per day.

This gives an annual production capacity of:

$$53 \times 1,000 \text{ pairs per day} \times 300 \text{ days} = 15,900,000 \text{ pairs per year}$$

From the company sample survey most of the companies are working at about 30% of capacity. This gives an output of:

$$30\% \text{ of } 15,900,000 = 4,770,000 \text{ pairs per year}$$

The breakdown by sub sector is

Formal Sector	4,770,000 pairs	4.7%
Informal Sector	96,370,383 pairs	95.3%

3.2.2 Market Size for Leather Goods/Garments

In view of non-available data on the domestic consumption for both sub-sectors and the wide diversification of the product range, the market size for leather goods & leather garments is estimated through the import/export limited indicator.

Table 8 - Exports / Imports of Leather Goods/Garments

Imports			
	Code 420211-31	Value (\$)	Unit Price (\$)
FY 2003	L.Goods	418,216	3.00
FY 2004	L. Goods	257,323	3.40
Exports			
	Code 420211-31	Value (\$)	Unit Price (\$)
FY 2003	L.Goods	35,336	20.00
FY 2004	L. Goods	93,888	8.00
Imports			
	Code 8481-12	Value (\$)	Unit Price (\$)
FY 2003	L.Garments	286,000	NA
FY 2004	L. Garments	NA	NA
Exports			
	Code 8481-12	Value (\$)	Unit Price (\$)
FY 2003	L.Garments	64,000	NA
FY 2004	L. Garments	NA	NA

Source: Central Bureau of Statistics

The number of retail outlets acquiring telephones obtained through *Telecom Easycall programme* shows 2007 shops only in Cairo as retailing all types of leather products. It should be expected that the total number of outlets is exceeding by manifolds including those without telephones i.e. 6000 shops in Cairo only.

As indicated by the shopkeepers for combined leather products, the average daily sales value is LE 2,000 x 6000 shops = LE 12 M. x 350 days/year = LE 4,200 million in Cairo only. Adding some 50 % for other cities, a total domestic market size for the entire leather products would reach LE 5,040 million .

Estimated Domestic Market Size for Leather Products LE 6,300 million

3.3 Contribution to Added Value

3.3.1 Footwear

Value added by manufacture, is essentially the difference between the ex factory value of the finished shoes and the value of the raw materials consumed in their manufacture. This figure is a means for measuring and comparing the economic importance the industry. It is found by subtracting from the value of finished shoes, the cost of materials, supplies, fuel, and power etc used in their manufacture.

From the survey of the formal companies in the study the average retail selling price of their shoes varies from \$15.65 to \$73.91 per pair. The normal retail mark up in Egypt is 30 – 40%. This would give ex factory selling prices of \$10.17 to \$48.04. The extremes have been disregarded to give average ex factory prices of \$18.20 to \$20.87 say an average of \$19.50 per pair. Using the cost breakdown for leather products, materials and consumables represent 65 – 70% of the selling price. Therefore the added value is estimated as \$19.50 – \$13.65 = \$5.85 per pair.

The formal sector's share of local production is 4,770,000 pairs. Therefore the estimated added value is:

$$4,770,000 \text{ pairs} \times \$5.85 = \$27,904,500$$

Information from operators in the informal sector gives their retail selling prices at LE 40 - £E90 per pair for an average of say £E65 (\$11.30). Using the above formula this would give an added value of £E19.50 or \$3.39 per pair. Informal production share is 96,370,383 pairs.

The estimated added value is therefore:

$$96,370,383 \times \$3.39 = \$326,695,598$$

The sectors contribution to added value is the sum of the above two calculations.

Contribution to added value is \$354,600,098

3.3.2 Leather Goods/Garments

Due to the wide diversification in leather goods/garments, average cost structure is used as an indicator to added value. Unlike footwear, following norms exist for per capita consumption, the output for both sub-sectors is difficult to estimate where no statistics exist.

Chart 2 - Cost Structure for Leather Goods/Garments

Av. Cost Structure- Wallet

Material	Labor	Overheads/ Profit
35	40	25



AV. COST STRUCTURE-BAG

Material	Labor	Overheads & Profit
65	20	15



AV. COST STRUCTURE-GARMENT

Material	Labor	Overheads & Profit
80	10	10

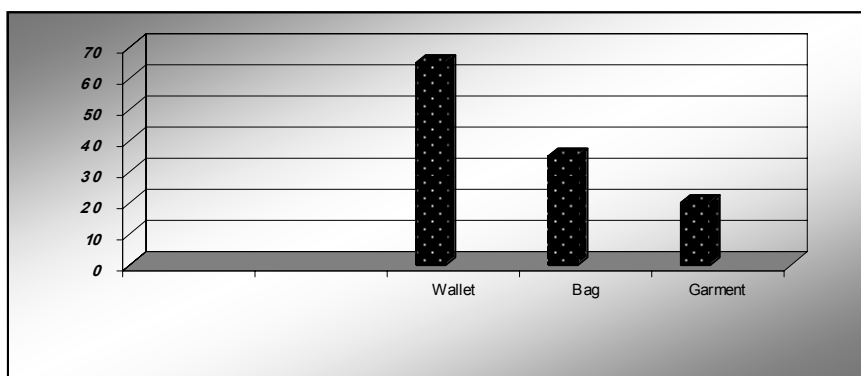


Based on the average cost structure for different product lines, a proportional added value is hereby calculated in relative rather than absolute value:

Table 9 - Proportional Added Value for Leather Goods/Garments

Product Line	Average Cost Structure			Average Added Value
	Material	Workmanship	Overheads/profit	
Wallet	35	40	25	65
Bag	65	20	15	35
Garment	80	10	10	20

Chart 3 - Proportional Added Value for Leather Goods/Garments



3.4 Contribution to Employment

3.4.1 Footwear

Recent studies have put labour costs for shoe production in economies similar to Egypt at about 10% of the total manufacturing cost. Using the ex factory selling price from the survey of the companies in the study, the average wages paid would be \$1.95 per pair for formal and \$1.13 for informal.

This would give a total annual wage bill for the industry of:

\$1.95 x 4,770,000 pairs =	\$9,301,500
\$1.13 x 96,370,383 =	\$108,898,532
Total	= \$118,200,032

Evidence from the survey puts the average monthly wages paid to workers at £E 600 per month giving an annual income of £E 7,200 = \$1,252.17. This applies to both informal and formal sectors. In turn this would mean $\$118,200,032 \div 1252.17 = 94,396$ workers required to manufacture the shoes.

**The contribution to employment therefore is estimated at 94,396 jobs
with an annual wage bill of \$118,200,032**

Estimates for leather goods and garments suggest 15 per cent of the total industrial activities for the leather product based on the same principle of calculations

**The contribution to employment for Leather Goods/Garments is therefore estimated at 14,159
jobs with an annual wage bill of \$ 17,729,975**

3.5 Contribution to Output

3.5.1 Footwear

From the details above the formal sub sector of the footwear industry has an average ex factory price of \$19.50 and an annual production of 4,770,000 pairs. The informal sector has an average ex factory price of \$11.30 and an output of 96,370,383 pairs.

The contribution to output therefore is estimated as:

$$\$19.50 \times 4,770,000 = \$2,078,129,625$$

$$\$11.30 \times 96,370,383 = \$326,695,598$$

The Sectors Contribution to output = \$1,182,000,328

Following the same principle for leather goods/garments with 15 Per cent of the industrial sectoral activities of leather products, it adds a further estimate of

\$ 17,730,049

Contribution to output = \$17,730,049

Cross checking of the estimated contribution to output for the entire leather products against that for the domestic market size reveals a close result.

Table 10 – Contribution to Output

Leather Product	Contribution to Output		Market Size
	Millions \$	Millions LE equiv.	Million LE
Footwear	1,182	6,737	6,300
Leather Goods/Garments	18	103	
Total	1,200	6,840	

3.6 Contribution to Investment

3.6.1 Footwear

The leather products manufacturing industry is not generally regarded as a capital intensive sector. The exceptions are tanning (large machines and many of them) and certain component supply (rotary injection moulding machines). The machines required for informal production are few. Mechanised factories need more sophisticated set ups.

In the workshop environment, where many of the operations are done by hand, the following is (at present) a typical machinery inventory. Most of the machines are produced or adapted locally.

Table 11 - Estimated Local Cost of Footwear Machines

Machine	No. Required	Cost £E	Investment £E
Sewing	3	1,000	3,000
Skiving	1	3,000	3,000
Sole press	1	2,000	2,000
Roughing/finishing	1	2,000	2,000
TOTAL INVESTMENT			10,000

This equates to a typical investment per workshop of US\$1,739.13. From industry sources there are around 19,000 workshops. Therefore the contribution to investment from the workshops is:

$$19,000 \times \$1,739.13 = \$33,043,470$$

In the mechanised sector the set up has more machines. A typical shoe factory set up to make 1,000 pairs per day would have the following machine inventory as a minimum:

Table 12 - Estimated imported Cost of Footwear Machines

Machine	No. Required	Cost US\$	Investment US\$
Upper cutting	4	3,000	12,000
Travelling head	1	8,000	8,000
Skiving	4	2,000	8,000
Stamping	2	1,500	3,000
Closing room	40	2,500	100,000
Back Part Mould	1	15,000	15,000
Pull Toe Laster	1	100,000	100,000
Heal Seat Laster	1	90,000	90,000
Roughing	1	3,000	3,000
Heat Setter	1	4,000	4,000
Sole Press	1	4,000	4,000
Finishing	1	3,000	3,000
Ancillary	4	2,000	8,000
TOTAL INVESTMENT			358,000

From industry sources there are around 53 factories. Therefore the contribution to investment from the factories is:

$$53 \times \$358,000 = \$18,974,000$$

The total contribution to investment from the footwear manufacturing industry is the combination of the two factors:

Contribution to investment = \$52,017,470
--

3.6.2 Leather Goods

Generally, the leather goods manufacture is labour intensive rather than capital intensive, and therefore the following estimates apply:

13 modern factories, golden list	x \$ 100,000	= 1,300,000
10 silver list	x \$ 70,000	= 700,000
500 artisan	x \$ 10,000	= <u>576,000</u>
Estimated total contribution to Investment		2,576,000

3.6.3 Leather Garments

For leather garments manufacture, mainly sewing machines are required for all levels of operation except large factory with computerized design equipment:

1 large factory	x \$ 150,000	= 150,000
6 golden list	x \$ 100,000	= 600,000
3 silver list	x \$ 70,000	= 210,000
100 small factories	x \$ 15,000	= <u>1,500,000</u>
Estimated total contribution to Investment		2,460,000

3.7 Contribution to Exports

The footwear industry since the end of the exports to Russia has never recovered its export performance. Most of the export of footwear goes to certain Gulf States – Saudi Arabia, UAE, Yemen and Kuwait in the east and to Libya in the west, in relatively small quantities.

One particular company based in an export processing zone accounts for 88.5% of all exports of footwear most of which goes to Italy.

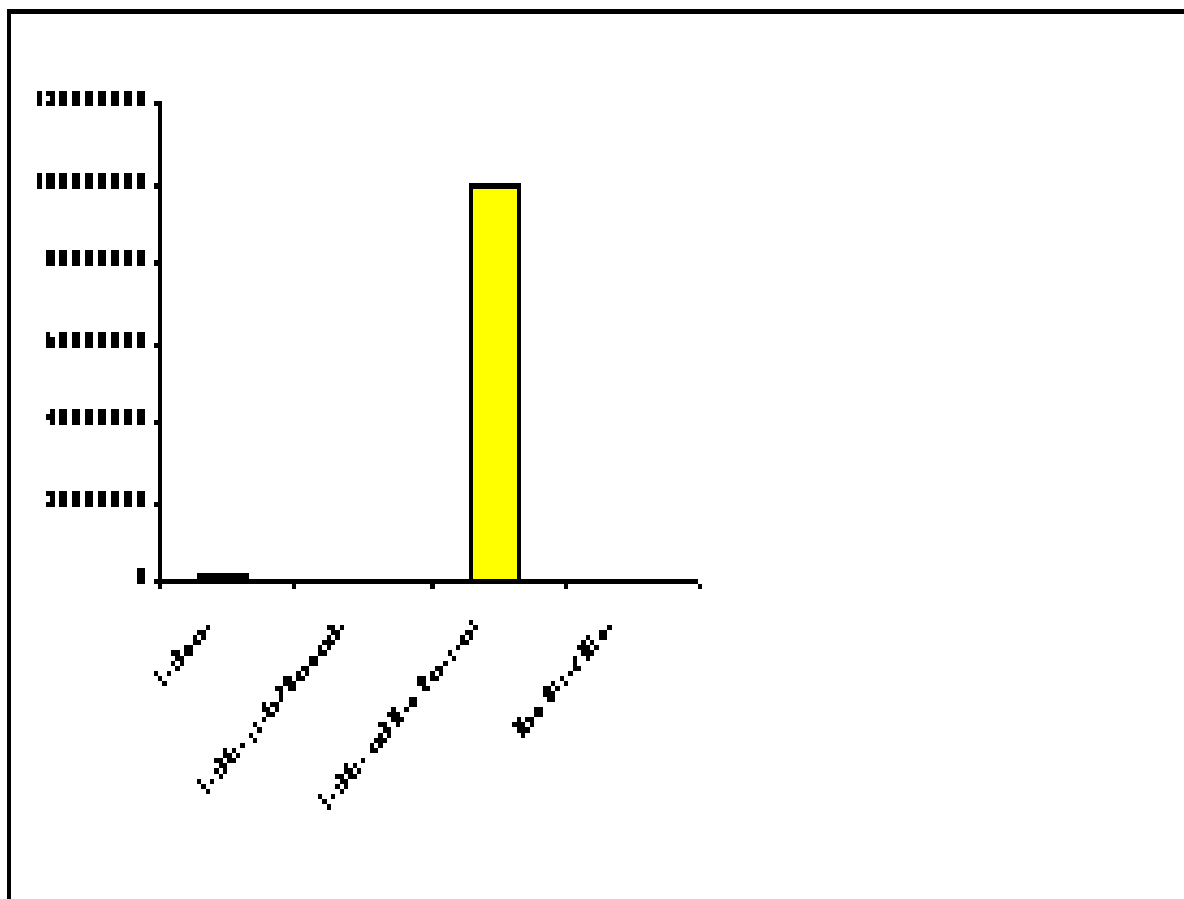
Information from the department of statistics combined with the export processing zone puts at 2003 as \$14 total exports,178,000.

With a total production of 101,140,383 pairs selling at \$19.50 per pair making a market in monetary terms of \$1,972,237,469, exports represent 0.72%

Table 13 - Sectoral Contribution to Exports

Sectoral Contribution to Exports	Value (\$)	Percentage
Footwear	1,500,366	1.40
Leather goods/Garments	99,336	0.09
Leather and Semi Processed	99,719,000	98.32
Raw Hides/Skins	103,000	0.01
Total	101,421,702	100

Chart 4 - Sectoral Contribution to Exports



3.8 Components

Non-Leather material components for the entire leather products sub-sectors are crucial for a healthy performance. They cover an extremely wide base of material with specific requirements for footwear, leather goods and leather garments. A strong base of components in a country determines all sub-sectors developments. Italy and Spain dominate the quality components supply with continued innovations in line with the trend. Far-Eastern supply is mainly copies at much cheaper price. This goes to adhesives, finishing agents, toe-puffs, stiffeners, unit soles, insoles, linings, interlinings, shaping material, stuffing material, zippers, metal accessories, threads and many others. Usually, the suppliers are specialized in certain lines in order to justify the mass-production at reduced prices.

Most of components supply in Egypt is imported by traders whose main interest is to generate profits rather than following the trend and quality requirements. Often stocks are brought-in with no guarantee for re-ordering of the same quality/design as putting a regular manufacture at a real disadvantage.

In recent years attempts have started for local manufacture and supply of components at varied quality levels. Several types of adhesives, unit soles, rubber sheets, YKK zippers, man-made leathers for increased application to shoes and leather goods and a limited range of metal accessories. However, following the same principle for economy of scale, the local demand is not generally sufficient to absorb the massive output where export development to potential markets needs to go side by side with that for finished products.

3.9 Supporting Services

3.9.1 Lasts

There is an old saying in footwear manufacture that “the last comes first”. This forms the basic platform for all shoe engineering. If the last is designed, made and graded correctly then the resultant shoe made on that last will fit the consumers foot. It will also enable the manufacturing process to proceed as smoothly as possible because subsequent upper patterns that are derived from the last will fit together correctly.

Because of more efficient manufacturing techniques mechanised factories use a much less number of lasts than before, simply because they can turn these round during a production day 3 or 4 times. The demand for lasts therefore decreased in absolute terms.

Lasts also need to be stable, i.e. do not expand or shrink. Wood was abandoned as a raw material for lasts some years ago because of the difficulties of stability. Today in nearly all markets plastic lasts are used.

In Egypt recently there were 20 last workshops in operation today there are about 12 that continue to manufacture. These exclusively use wood. The equipment used is antiquated (1955 German and Italian turning machines). There are the problems mentioned above about the drying of wood and its stability. Much of the finishing work is done by hand. It is estimated that output is around 400,000 pairs per year. This problematical production of lasts accounts for many of the quality problems in the finished shoes. The only good thing that can be said is that the lasts are cheap (\$E15 –20) compared to imported plastic lasts at (\$25 = \$E145.00) per pair. The life span for a wooden last is around 50 to 100 pairs before it has to be replaced. (Due in the main to the prolific use of nails by the workers). For a plastic last the life span is years, fashion changes before the last has worn out.

For export purposes plastic lasts would be required for production. Wooden lasts can be used for samples.

3.9.2 Cutting / Embossing Dies

These are used by companies who have clicking machines. Dies are made from strip steel (imported) and shaped to the various pattern parts of the leather uppers. The machines used are very simple. The supply of cutting dies by the local workshops is good and up to international standards.

However the trend today is to eliminate this operation and have cutting done from patterns produced by computer. The parts are sent direct to a plotter that cuts the leather in the most economical way. This does away with cutting machines and cutting dies.

A number of companies at least three in Cairo and similar in Alexandria are fully equipped with computerized facilities for embossing dies at international quality and much competitive prices . Other companies acquire high skills in manual engraving for special jobs.

4. Legal and Regulatory Framework

4.1 Environment for Investment and Business

The environment for investment and business is covered by the following set of laws :

- General Company Establishment law No. 159 / 1981
- Investment law No. 8
- Monetary law
- Labour law
- New taxation law
- VAT law
- Social security law

The said laws determine the regulatory framework for the business establishments as applies to leather products companies whether new or already established.

The law No. 159/81 is the basic for companies formation including companies established within the investment law. It is considered the blanket law for company formation which suits the small and medium scale and enables legalization of all types of companies.

Investment law offers several facilities especially to foreign partners, including free transfer of funds in/out of the country, foreign employment and tax exemptions at the new industrialized locations. Companies formed under this law are quite limited in the area of footwear and leather products- whilst obstacles of red tape and bureaucracy are often encountered by most investors whether local and/or foreign. Here it should be noted that Egypt ranks the 9th country in the region for the attraction of foreign investment.

Workers rights are regularized by the Labour Law as specifying annual leave, sick leave, incentives/penalties and rules of dismissal through the judgment of a special committee representing the Labour office and the company.

A new taxation law has been recently issued which has cancelled all types of tax exemptions as replaced by smoother procedures and lower income tax rates. However, it is viewed by most companies at the small and medium scale that the said law provides advantages to the large scale enterprises whilst loading the small ones with additional duties. Adjustments of the law articles as demanded by the industry chamber are still pending a response.

Social security law as applied does not necessarily provide safety coverage neither to the workers nor to the companies owners as featuring fairly high deductions on the one hand and extremely low return to the worker on the other hand. The medical insurance component of the law is viewed by the subscribers to be the least effective.

4.2 Obstacles to Growth

Obstacles to the growth of the leather products sector are seen within the overall regulatory framework which applies to all sectors i.e. red tape, taxation system, VAT, flooding market with smuggled goods, etc. etc. However, sectoral specific obstacles as surfaced to be the vacuum in coordinating the sectoral development, a task which is scattered among various agencies with lack of a focus directed to the sector. Attempts by the industry institution are diluted by minimal representation of the unrecognized sector at the Chamber of Leather Industries in order to provide the appropriate coverage. Here, it should be noted that the majority of the supply capacity for leather products falls with the unrecognized sector. Lack of accurate and reliable information on the wide base of the unrecognized sector remains as a major obstacle for planning the sectoral growth and development .

5. Impact of Globalization & Trade Liberalization

Globalization and trade liberalisation may well make a serious negative impact particularly on the footwear sub-sector – after the withdrawal of several protections putting a safety valve on the importation of shoes particularly those with inferior quality. The market may soon be open and receptive to the imports of extremely cheap shoes which are inline with the trend. They could end up occupying a significant portion of the domestic market. The same applies to several product lines of leather goods. Concluded trade agreements with some neighbouring Middle-Eastern countries has enabled an additional entrance path of semi-assembled shoes into the domestic market.

This situation among others, has encouraged several manufacturers to switch into the retail business where massive retail outlets have been established and offering additional display facilities to imported shoes.

5.1 Export Promotion Strategy

5.1.1 International Trade Agreements

Egypt has signed several bilateral and multilateral agreements to promote and develop competitiveness of the Egyptian exports, enhance trade, and improve the balance of Trade. The Ministry of Foreign Trade and Industry displays a summary of key agreements on this page of its website for the use and benefit of the Egyptian exporters:

a) Free and Preferential Trade agreements between Egypt and the Arab countries:

A series of bilateral Tariff and Trade Agreements have been signed during the last decade of the last century between Egypt and Libya, Syria, Tunisia and Morocco. Executive programmes to support trade have also been laid down between Egypt Jordan, Iraq and Lebanon.

b) Comesa Agreement

In July 1998 Egypt joined the Common Market For Eastern and Southern Africa (Comesa) Free and Preferential Trade Area agreement, aimed at establishing a free trade area between member states.

In October 2000 the free trade area was created (Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe). The FTA has contributed not only to the elimination of custom duties but also to the streamlining of all trade barriers (custom regulation, harmonization of standards etc.).

The objective was to enhance the competitive advantage of the Comesa region as a regional market. The FTA will favor internal competition as a tool to prepare SMEs to the global competition. Egyptian SMEs' are comparatively better prepared than other member countries SME's to face competition. They will be in the best position to benefit from the opportunity of this huge regional market.

There will be more impact on the sector from the special agreement with the South Mediterranean countries (Jordan, Morocco, Tunisia etc.).

c) EU Partnership Agreement

The Egypt-EU Association Agreement that was executed in May 2004 consists of 92 Articles (Al Ahram Al Iktesadi, issue 180- December 2002).

Egypt started negotiations with EU for concluding a partnership agreement in 1995. Its initial signature was made on January, 26th 2001 in preparation for the final signature that was effected on June, 25th 2001.

According to the Agreement, a FTA will be established during a 12-year transitional period, from the date the Agreement enters into force. During the third year both parties will decide upon the procedures - to be implemented on the following year - to further liberalize their trade in agricultural products, maritime products and processed agricultural products.

The Agreement permits Egypt to take certain exceptional measures for specific periods during the transitional stage, if and when certain domestic industries face a threat as a result of liberalization of imports of similar goods from the EU.

It also includes implementation of WTO and GATT regulations against anti-dumping, subsidy and safeguard measures. The Agreement allows each party to enjoy Most Favorite Nation treatment from the other party in trading services.

The Agreement aims at increasing the flow of foreign capital, expertise and technology to Egypt. Egyptian exports of manufactured goods to the EU will be exempted from tariffs once the Agreement enters into force, meanwhile, EU exports of manufactured goods to Egypt shall be tariff-exempted according to the lists and time frame specified in the Agreement.

In order to speed up the implementation of the Association Agreement, an exchange of letters was signed between Egypt and the EU to allow the trade provisions of the Association Agreement to enter into force as from 1 January 2004.

The Association Agreement as a whole entered into force on 1 June 2004 after ratification by all EU Member States and Egypt.

According to the Agreement both parties will enjoy trade liberalization from all barriers of quantity and tariffs based on the time frame and the specific lists incorporated within the Agreement.

Manufactured goods exported from the EU to Egypt are to be exempted from all quantity, tariffs and any other barriers having the same effect according to a time frame established for each category of goods.

5.1.2 Strategy Coherence

As already stated that the economic liberalization enabling market forces to apply has put the industry at a real disadvantage. This is against tough competition from imports taking advantage of limitations on the purchasing power on the one hand and the vacuum in coherent sectoral strategy focusing on the sector on the other hand. Massive exports of semi-processed leather material against minimal exports of finished goods shows a clear example of a lack of strategy coherence in order to fully exploit the sector's overall potential, particularly for exports.

5.1.3 Current Trade Policies

Trade policies in general reflect a healthy direction towards supporting export efforts in various sectors. This is demonstrated by an increase in export performance of other sectors such as furniture, ready-made garments and food. However, these supportive measures have not yet been taken advantage of by other leather products sub-sector so that it can make its rightful contribution to the national economy. Apparently, the industry players of the sector have not yet been able to present the industry to the controllers of these programmes with its true potential. This is mainly due to the dominant presence of the artisanal workshops with its educational limitations as compared with other sectors. Even at a medium scale, many companies follow a small scale pattern rather than the application of modern professional management techniques.

5.2 Coherence of FDI Strategy with Trade Policy

An excellent export performance of one shoe company operating with a free trade zone where healthy environment pertains, demonstrates clearly the result of coherent FDI strategy with trade policies. This has enabled the said company to successfully apply a sub-contracting pattern employing several cottage workshops for major components supply under strict and well organized management. Here the marketing element plays a major role in the operation success towards exports- which seems to be the only avenue to easing up the sectoral bottlenecks.

Bearing this goal in mind, coherence of FDI strategy with trade policy needs to be tailored to the sector's specific peculiarities where general measures would not necessarily make the required impact. Here, the role of the industry players shall be instrumental in promoting the said coherence within the competent agencies .

A positive step has been taken recently in this direction through an embryonic successful organization of the Cairo International Leather Fair (CIL), with IMC support as providing an appropriate platform for interaction for FDI promotion. This is being followed by a plan to host the Meet in Africa leather fair in the year 2006 as focusing on the continent's markets as well as potential overseas businesses .

6. Major Stakeholders and Institutions

6.1 Chamber of Leather Industries

The Chamber is created more than 40 years ago, however, in the past, it has shown minimal contribution to the sector's development. Recent years have shown a gradual growth in the Chamber's performance to the interest of its members. This is demonstrated by initiating dialogues with competent authorities for improving the regulatory environment, establishing relations with several industry institutions and donors as well as starting communications with overseas bodies.

Recent attempts to provide accurate information on the sector's players were made through taxation files and electrical supply as estimated at some 13,000 enterprises mostly as small scale level. This against recorded membership of some 460 members showing a representation ratio of 3.5 per cent. A major detected weakness in the representation remains in the Chamber's stature and ability to sell tangible services to the industry through direct and practical collaboration with other involved institutions.

6.2 Export Board

Sectoral Export Boards are formed by the Ministry of Foreign Trade and Industry comprising members representing the varied sectoral activities with a mandate to work out focused strategies to foster the export development. This Government initiative has proven to play an effective role with various sectors as showing impressive export growth. However, this does not seem to be the case with the leather sector as demonstrated by dominant export of semi processed leather with marginal added value vis-à-vis finished products with substantial added value – which represents a serious loss to the national economy as well as least contribution to the crucial unemployment situation.

6.3 Footwear Training Center – Amereya

The Centre is established through GTZ assistance in 1994 and is operated by the Productivity and Vocational Training Department of the Ministry of Trade and Industry with minimal involvement of the industry Chamber. The centre is well equipped for the purpose of training, however, its healthy performance shall depend on upgrading the staff capabilities for the training task. It has recently obtained additional equipment to encompass leather goods training as well which has not started operation. The centre is supported by the Social Development Fund for subsidizing the training cost and the trainees stipends. The centre is also equipped for basic testing facilities for leather and footwear.

6.4 Footwear and Leather Industry Service Center (FLISC)

Established with UNIDO technical assistance through finance of the Social Development Fund jointly with bilateral assistance of Switzerland. Its mandate is to provide services to the small scale workshops

mainly for computerized pattern making and grading. However, operational strength of the centre shall always rely on practical involvement of the technical staff in the manufacturing aspects as well as devising means for close linkages with the industry clients aiming at efficient selling of its services. FLISC is also equipped with basic testing facilities for leather and footwear.

6.5 Egyptian Exporters Association (Expolink)

A successful body established some 10 years ago with the initial assistance of USAID and is currently supported by the IMC. Activities are mainly focused on professional organization of overseas fairs as well as local exhibitions as recently concluded the CIL as well as a forthcoming fair in Nairobi. Through its activities, it has also provided limited providence of expert services as requested by enterprises on the bases of share contribution. Expolink role in the export development process seems to be instrumental and needs to be rationalized within the overall export strategy of the sector.

6.6 Leather Technology Center

An established nucleolus body under the Ministry of Trade and Industry within series of Technology Centres. However, it has not yet shown activities for serving the sectoral needs. Apparently, the centre's activities are correlated with the project of the tannery transfer which is still pending to materialize through bilateral Italian technical assistance.

6.7 National Research Center

The National Research Centre is the largest multidisciplinary R&D Center devoted to basic applied research within the major fields of interest. It is the largest of all institutions affiliated to the Ministry of Scientific research and employs about 70% of all scientists working in these institutions. It was established as an independent public organization at 1956, with the aim "to foster basic and applied scientific research particularly in industry, agriculture, public health and other sectors of national economy".

Since its establishment, the NRC has evolved through 3 distinct stages. The initial stage extending from 1956 to 1968, focused on man power development and building research capacity in basic sciences. The second stage (1968-1973) was characterized by a growing interaction with the national production and services sectors. The third stage (1973 till now) concentrated on customer oriented research serving specific needs of end users.

Total number of NRC employees has reached 5061 in 2002 the researchers number is 48.6% from that total .

In order to implement its mandate, the NRC is entitled to:

- Conduct research in different fields of science and advanced technologies to serve the national economy via a number of developmental plans.

- Provide services and scientific technological consultations to production units to solve their problems and enhance their production levels.
- Undertake activities aiming at technology innovation to help the society attaining technological self-reliance.
- Assist in transferring, and developing of foreign technologies.
- Train young researchers in various scientific fields in order to develop the national technological capabilities.
- Contribute to the national efforts for upgrading of science and dissemination of knowledge.
- Strengthen scientific links and cooperation through agreements with local and international organizations.

It has a fairly equipped laboratory for leather tanning research. However, it has not shown a contribution to serving the industry requirements so far.

6.8 Industrial Control Authority

The Industrial Control Authority is one of the service bodies affiliated to Ministry of Foreign Trade and Industry that is targeted at Egyptian industry's development to world quality standards in view to the global economic changes

Moreover the Authority should watch to protect the Egyptian consumer rights to have, use, and consume industrial products of high quality that are valid according to health and technical specifications.

6.9 Egyptian Organization for Standardisation and Quality Control

Standardisation's official application in Egypt started in 1957, when the Egyptian Organisation for Standardisation was established by a presidential decree and entrusted to test products & materials, and industrial calibrations.

The organisation is a governmental body that follows the Ministry of Foreign Trade and Industry. About 600 persons are employed in the organisation including 160 technical experts, 250 executives, and 190 technical and vocational workers.

It has issued a set of standards and testing methods for different types of leather material, footwear and components. The organization has a fairly equipped testing laboratory with trained staff. The standards are mainly based on international standards as adapted to local conditions which are subject to periodical updating.

However, the question remains on to what extent the standards application makes a contribution to the sector's development.

6.10 Chemical Department

An established body a century ago, with a basic mandate to provide official testing of material upon Government and/or industry request. The department among its several sections, has a well equipped laboratory for physical and chemical testing of leather .

6.11 Skills Standards Project

The project is financed by the Social Development Fund and aims at establishing skills standards for more than ten industrial and services sectors including the leather sector.

Operating under the Industrial Federation of Egypt, it has established functional map for professions employed by the sector and is undergoing the establishment of learning elements in the form of Student Centred Learning Packages. The project aims, in the long run, to support the training institutions with adequately prepared training material in line with recognized professional international standards.

(Annex 1 : Functional Map- Leather Sector)

6.12 UNIDO “Pilot Programme for Upgrading the Leather Industry in Egypt”

A pipeline project with several components for technical support to industry institutions as well as tannery transfer with a component for assistance to the tannery transfer. The project is pending formal approval for seeking financing resources .

As already seen that the sector is supported by several stakeholders institutions which are involved in one way or another in its development and growth. However, a clear vacuum is felt in the coordination role of the functions of the institutions in order to make a positive impact on the overall sector’s development particularly for exports. To a greater extent, the inter-linkages between the industry one side and the institutes on the other side are missing where a platform and/or a mechanism needs to be devised.

7. SWOT Analysis

Table 14 - STRENGTHS & WEAKNESSES (Internal Factors)

	Major Strength	Minor Strength	Neutral	Major Weakness	Minor Weakness	Importance		
						High	Medium	Low
Marketing								
The setting of prices as demanded by the market								
Exploit proximity to Europe								
Use the FTA advantage with Europe and QIZ with USA								
Express cargo services to Europe								
The image and reputation of Egypt as a resource								
Innovation and development of new products								
Marketing information and intelligence								
Price of locally finished leather								
Availability of local leather to international norms								
Individual company export market plans								
Share of local market								
Local market difficult to operate in								
Ability to communicate effectively								
The existence of a Leather Chamber								
Manufacturing								
Ability and willingness to make alternative constructions								
Adherence to global quality standards (TQM)								
Medium sized, flexible factories								
Excess production capacity								
Utilisation of modern costing techniques								
Factory organisation – productivity levels								
Machinery and equipment inventories								
Product engineering (CAD)								
Supply of critical components								
Importation of components subject to duties & tax								
Can implement cost reduction programmes								
Can implement low cost based factories								
Human Resources								
Lack of factory floor supervisors								
Lack of technicians trained in modern techniques								
Management vision and commitment								
Entrepreneurial flair								
Dedicated export manager								
Availability of competitive labour force								

	Major Strength	Minor Strength	Neutral	Major Weakness	Minor Weakness	Importance		
						High	Medium	Low
Financial Factors								
Strength of captial base					Yellow		Green	
Access to working capital			Grey				Green	
Cash flow				Magenta		Red		
Accepting principal of marginal costing/pricing				Magenta		Red		
Currency pegged to US\$		Cyan						Purple
Availability of export credit guarantee insurance					Yellow		Green	

Table 15 - OPPORTUNITIES & THREATS (External factors)

	Major Opportunity	Minor Opportunity	Neutral	Major Threat	Minor Threat	Importance		
						High	Medium	Low
Chamber and Government can impose safeguard action	Blue						Green	
Regulations to allow importation of critical components tariff free (uppers, soles for shoes)	Blue					Red		
Allow free importation of finished leather	Blue					Red		
Promote Egypt as a resource for leather products		Cyan					Green	
Companies can choose any export market		Cyan						Purple
Upgrade vocational training schools		Cyan				Red	Green	
Take advantage of Government export promotion schemes	Blue						Green	
China getting resistance for exports from EU and USA			Grey					Purple
Negative exchange rates movements				Magenta				Purple
Local finished leather does not materialise				Magenta		Red		
Imports increase to the local market from Far East				Magenta		Red		
Government export promotion schemes are not user friendly					Yellow		Green	
Market prices are lower than can be accommodated by local manufacturers				Magenta		Red		
Export incentives by competitor export countries					Yellow		Green	
High import tariffs on essential imported components				Magenta		Red		
Trade barriers do not come down (COMESA, Japan)				Magenta			Green	
Government imposes new commercial taxes			Grey					Purple
Can upgrade with Government incentives similar to "mise au niveau"			Grey					Purple
Can implement value circles and strategic local alliances	Blue					Red		
Leather Chamber to be proactive in export promotion		Cyan					Green	
Exploit NSRA buying Alliance of USA (& QIZ)		Cyan					Green	
Target South and East Africa		Cyan					Green	
Take advantage of export assistance programmes of IMC	Blue						Green	
Train a cadre of middle managers	Blue					Red		
Europe and USA looking for alternatives to reliance on China		Cyan						Purple

ANNEX 1

Table 16 - FUNCTIONAL MAP LEATHER SECTOR

<u>FUNCTIONAL MAP (Leather Sector)</u>		
<u>Key Purpose</u>	<u>Key Areas</u>	<u>Units</u>
<u>Units</u>		<u>Skills Standards</u>
1.1.1 ML 1.1 Analyze Market Trends	----->	ML 1.1.1 Forecast trends in domestic and external consumer demand for leather / leather products
		ML 1.1.2 Identify and analyze domestic and external markets
		ML 1.1.3 Identify and evaluate opportunities for investment in leather
1.1.2 ML 2.1 Carryout Organization and Management Operations	----->	ML 2.1.1 Manage manufacturing resources
		ML 2.1.2 Manage engineering resources
		ML 2.1.3 Mana manufacturing operations
1.1.3 ML 3.1 Carryout Beam house (Lime yard) operations	----->	ML 3.1.1 Prepare and soak hides/skins to rehydrate and remove contaminates
		ML 3.1.2 Remove hair/wool by Chemical painting and effect complete hair removal
		ML 3.1.3 Perform liming using appropriate quantity of chemicals and methods
		ML 3.1.4 Perform fleshing operation using appropriate tools and equipments for the complete removal of flesh
		ML 3.1.5 Delime and bate pelts to remove unwanted lime and protein
		ML 3.1.6 Remove hair roots, pigment, fat and protein by scudding
		ML 3.1.7 Operate various types of process vessels
		ML 3.1.8 Pickle the pelts using appropriate acid-salt mixture
		ML 3.1.9 Measure and weight out chemicals and auxiliaries
		ML 3.1.10 Carryout assorting depending on the nature and type of the material
<u>Units</u>		<u>Skills Standards</u>

1.1.4 ML 3.2 Perform Tanning and Retaining	----->	ML 3.2.1 Shave the pickled pelts to the desired thickness ML 3.2.2 Tan hides/skins using appropriate type and adequate quantity of tanning agents ML 3.2.3 Split the hides/skins to uniform thickness ML 3.2.4 Shave the leathers to the specified thickness ML 3.2.5 Perform retaining, dyeing and fat liquoring using appropriate type and quantity of chemicals ML 3.2.6 Control dyeing of leathers to match colour and meet penetration requirements ML 3.2.7 Sammy and set leather to remove excess water and creasing
1.1.5 ML 3.3 Carry out Post Tanning Operations	----->	ML 3.3.1 Toggle/ Vacuum dry the leather under stretched condition to improve the area yield ML 3.3.2 Condition the leathers for appropriate moisture content ML 3.3.3 Stake the leather to make it soft and pliable ML 3.3.4 Further soften the leather by milling in a dry drum of right choice ML 3.3.5 Produce a smooth dust free surface with fine nap ML 3.3.6 Access and sort leathers into grades based on the type of finished leather
1.1.6 ML 3.4 Carryout Finishing Operations	----->	ML 3.4.1 Plan and determine the choice of finishing methods to be adopted ML 3.4.2 Measure and mix ingredients to produce the finishing formulation ML 3.4.3 Apply finish to leather by padding ML 3.4.4 Apply finish to leather by roller coating ML 3.4.5 Apply finish to leather by curtain coating ML 3.4.6 Apply finish to leather by spray coating ML 3.4.7 Emboss the surface of the leather to create textures ML 3.4.8 Perform colour matching and adjust finishing meeting the required specifications ML 3.4.9 Finish fur leathers by subjecting them to appropriate mechanical operations ML 3.4.10 Assess the quality and sort the leathers into different product grades
1.1.7 ML4.1 Determine customer specifications	----->	ML4.1.1 Maintain knowledge of fashion trends and markets ML4.1.2 Determine customer requirements ML4.1.3 Present options and receive feedback ML4.1.4 Identify Leather Properties

Units		Skills Standards
1.1.8 ML 5.1 Develop Pattern	----->	ML 5.1.1 Produce footwear standard / master pattern
		ML 5.1.2 Generate footwear grading patterns to sizes
		ML5.1.3 Generate footwear prototype
		ML5.1.4 Generate leather goods master pattern, cutting pattern and working pattern
		ML5.1.5 Develop leather goods Sample
		ML5.1.6 Generate leather garments patterns
		ML5.1.7 Draft leather garments with drafting techniques
		ML5.1.8 Grade leather garments pattern to sizes
		ML5.1.9 Input leather garments data into computer
		ML5.1.10 Develop leather garments Sample
		ML5.1.11 Calculate consumption of material
		ML 5.1.12 Estimate total cost
1.1.9 ML5.2 Conduct cutting processes	----->	ML5.2.1 Cut footwear components
		ML5.2.2 Cut Leather goods components
		ML5.2.3 Cut leather garments components
1.1.10 ML5.3 Prepare components for further processing	----->	ML5.3.1 Mark components according to the relevant pattern
		ML5.3.2 Stamp components with relevant information
		ML5.3.3 Split to specific thickness
		ML5.3.4 Carry out skiving operations
		ML5.3.5 Carry out glazing/ plating
		ML 5.3.6 Carry out embossing
		ML5.3.7 Colour / finish cut edges of components
		ML5.3.8 Gimping process
		ML5.3.9 Folding processes
		ML5.3.10 Binding processes
		ML5.3.11 Creasing processes

Units		Skills Standards
1.1.11 ML5.4 Assemble components	----->	ML5.4.1 Stitch and close footwear upper २
		ML5.4.2 Semi-assemble and construct leather goods components by stitching ३
		ML5.4.3 Assemble leather garments parts by stitching ॔
		ML5.4.4 Join components using adhesives ॕ
		ML5.4.5 Attach accessories ॖ
		ML5.4.6 Lace footwear uppers to secure for lasting ॗ
		ML5.4.7 Trim edges to appropriate specifications क़
		ML5.4.8 Mould footwear stiffeners and toe-puffs components within upper assembly
		ML5.4.9 Prepare and attach footwear insole to last
		ML5.4.10 Activate footwear uppers and soften for lasting ख़
		ML5.4.11 Form footwear uppers by stretching over lasts ग़
		ML5.4.12 Heat lasted footwear uppers to set / remove stresses from lasting ज़
		ML5.4.13 Prepare footwear soles ड़
		ML 5.4.14 Roughen footwear lasted uppers ढ़
		ML 5.4.15 Apply adhesive to surfaces of footwear soles and uppers फ़
		ML5.4.16 Activate adhesive and attach footwear soles to uppers under pressure य़

15.1.1 ML5.5 products	Finish	----->	ML5.5.1 Clean and finish products to remove contaminants	16
			ML5.5.2 Repair minor defects arising during production	17
			ML5.5.3 Slip the footwear last	17,1
			ML5.5.4 Attach footwear heels	18
			ML5.5.5 Insert footwear sock lining	19
			ML 5.5.6 Iron product	20
			ML 5.5.7 Inspect products	21
			ML 5.5.8 Packing of products	22