

PART III- BENCHMARKING STUDY

TABLE OF CONTENTS

PART III:	Page
1. BENCHING PLANNING.....	88
1.1 Objective of the benchmarking study	88
1.2 Selection of Comparison Factors.....	89
1.3 Selection of Benchmarking Countries and Product – Group	91
1.3.1 Benchmarking Countries.....	91
1.3.2 Focus Product Group.....	92
2. COUNTRY ANALYSIS.....	93
2.1 SPAIN	93
2.2 TUNISIA	98
2.3 TURKEY.....	103
2.4 ROMANIA.....	108
2.5 VIETNAM.....	112
3. COMPARISON ANALYSIS.....	116
3.1 Efficiency Performance	117
3.2 Sector Performance.....	119
3.3 Industry Structure and Business Environment Comparison	123
4. BENCHMARKING SUMMARY.....	125

Index of tables

	Page
Tab.1- Description of the select focus product group	92
Tab.2- Yearly production of shoes in Spain (000 pairs)	94
Tab.3- Yearly value of shoes in Spain (000 US\$)	94
Tab.4- International exchanges -Spain (000 US\$)	94
Tab.5- Average export prices –Spain 2004 (French Market)	95
Tab.6- Main countries for export –Spain 2003	95
Tab.7- Main countries for import –Spain 2003	96
Tab.8- Yearly productions in Tunisia (000 pairs)	98
Tab.9- International exchanges –Tunisia (000 US\$)	99
Tab.10- Average export prices –Tunisia 2003 (French Market)	99
Tab.11- Main countries for export –Tunisia 2004	100
Tab.12- Yearly productions Turkey (000 pairs)	103
Tab.13- International exchanges –Turkey (000 US\$)	104
Tab.14- Average export prices –Turkey 2004	104
Tab.15- Main countries for export –Turkey (French Market)	105
Tab.16- Yearly productions – Romania (000 US\$)	108
Tab.17- International exchanges –Romania 2004	108
Tab.18- Average export prices –Romania 2004	109
Tab.19- Main countries for export –Romania 2004	109
Tab.20- Yearly quantity productions in Vietnam (000 US\$)	112
Tab.21- International exchanges –Vietnam (000 US\$)	112
Tab.22- Average export prices –Vietnam 2003 (French Market)	113
Tab.23- Main countries for export -Vietnam 2003	113
Tab.24- Cost structure Comparison	117
Tab.25- Comparison of average trade policy by focus product group	117
Tab.26- Matrix for industry and business	118
Tab.27- Comparison of key leather and shoe industry parameters (2003/2004)	119
Tab.28 Comparison of productivity factors	120
Tab.29 Comparison of cost for lady shoes US\$	121
Tab.30- Comparison cost for lady bag US\$	122
Tab.31- Comparison of labour cost	122

Index of Charts

Chart1-Comparative Production, Export, Import & consumption	120
Chart2- Comparative cost for lady shoes US\$	121
Chart3- Comparative cost for lady bag US\$	122

1. Benchmark Planning

1.1 Objective of the benchmarking study

The objective of benchmarking applied to the whole sector is to improve products, industrial process and general business conditions, to better meet the global market opportunities, identify problems and bottlenecks as well the utilization of competitive advantages.

Benchmarking entails a structured comparison of the industry in the target country; Egypt, and a number of key countries, representing market competitors as well as best practice champions.

The country assessment provides a deeper insight of the global industry trends for producers/exporters as well as the importers/consumers. On the other hand, the analysis of the gap between the Egyptian performances against the relevant international benchmarks supports the conception of specific development and marketing strategies for the dimension SLGG sector.

While the results achievable and the solutions adopted in other nations are not easily transferable to different realities, considering the relevant influence of intrinsic constraints such as the availability and quality of raw materials and the dimension of the internal market, the benchmarking exercise provides for a significant comparative check-up of the Egyptian SLGG sector and offers distinctive indications for viable and valuable enhancement strategies.

The benchmarking analysis has been structured into four consequent steps:

<i>Planning stage</i>	Identification of quantitative and qualitative comparison factors, selection of focus product-groups and benchmark countries
<i>Country assessment</i>	Country-by-country sectorial overview and recognition of industry practice
<i>Comparative analysis</i>	Quantitative and qualitative parameters at sectorial and product-group level
<i>Positioning of Egyptian industry</i>	Uncover of comparative potentials and setbacks of the Egyptian industry (Shoes, Leather Goods, Garments) to support sector strategy plan

1.2 Selection of Comparison factors

According to the results of the global assessment a set of four comparative factor domains have been identified to meet the requirement of a wide-ranging appraisal of the benchmark countries as well as to single out critical business features that are likely to have the most significant impact once approached and improved. The four sets are:

<i>Sector performance</i>	Overall production, domestic consumption, import and export that express the relevance of the country in the world scene, the importance of the domestic market, and the related historical trends
<i>Efficiency performance</i>	Cost factors structure, cost factors magnitude, productivity, average price, product quality: these indicators represent the most immediate measure of overall competitiveness of the country production on the global market
<i>Industry structure</i>	Sector and enterprise organization, technology and professionalism, business associations and fairs: these factors encompass all the sector-related industrial conditions that have a large influence in the present and short term ability of the country to upgrade its performance
<i>Business environment</i>	Public support policies, regulatory and environmental framework, trade and transport barriers: these factors comprise all the external conditions mainly linked to legislative and general economic inputs and constraints

The four factor domains have been investigated for each benchmark country on the base of the first hand information available to the experts team, thanks to their long standing business contacts and experience, continuous monitoring of the international dimensional Shoes, Leather Goods and Garment & Components sector and available existing official data and studies.

The structured appraisal of Shoes, Leather Goods and Garment & Components has been conducted providing key quantitative and qualitative assessments of the four factor domains. The qualitative observations refer mainly to the last two factor domains since they concern aspects that cannot be captured by meaningful numeric index but still provide essential background required to understand the current state of art and conceive a development strategy.

The comparison analysis has been carried out on a quantitative approach based on a selected number of key indicators. Country performances have been compared at the sector scale and, as appropriate, highlighting the specific outcome for the single selected focus product groups.

The quantitative indexes taken into consideration are as follows:

- General socio-economic parameters
- Production by product groups
- Consumption by product groups
- Export by product groups
- Import by product groups
- Overall sector productivity
- Magnitude of key cost factors
- Average prices by product groups

In general comparison has regarded the last annual total/average data in possess, as applicable. However country market size indicators, such as production and export, have been also plotted against each other over the last period of time in order to highlight tendency, growth and volatility. This provides for a dynamic picture of industry trends, offering insight on the likely future evolution of present differences among countries.

Availability of reliable and accurate numerical data has been a general concern while evaluating the indexes. Data sources for the Shoes, Leather Goods and Garment & Components dimension sector are limited and not exhaustive. Insufficient official data retrieval and publication due to lacking institutional and organizational arrangements couple with uncertainties on the extent of the submerged part of the industry, which often represents a significant share of the sector economy. These situations are typically displayed by the Egyptian case since country exports are not reported to the COMTRADE database and are only present as mirror data and official production figures are believed to be substantially underestimated the real situation.

This constraint has been overcome on one side by focusing the analysis on the essential business parameters, potential and competitiveness of market dimension. On the other side, collected data have been checked and adjusted for consistency by the experts' team according to a consolidated approach based on information cross-checking, Multilateral (Eurostat European Statistical Institute) and corporate sources.

1.3 Selection of Benchmarking Countries and Product-Group

1.3.1 Benchmark countries

SPAIN: is the reference international market for the SLGG sector by tradition, consolidated know-how and presence, innovation and technological progress.

TUNISIA: is a success story in the leather sector in North Africa for export in Europe.

The geographic proximity with Europe made it possible for Tunisia to develop an active partnership with French and Italian industrialists.

The law of 1972 creating free zones inside the company entails a significant development of the IDE.

Tunisia exports more than 40% of its Europe shoe production to Europe.

Low wages and qualified personnel due to effective vocational training; resulting in flexibility to market trends.

ROMANIA: is the only country in CEE Europe whose Footwear production and export levels are showing significant increases.

Strong relationships with Italy - Europe's leading producer have resulted in dynamic growth of Romanian Footwear production increasing penetration of European markets by 27% and worldwide markets by 21% between 2000 and 2003.

TURKEY: ranks as one of the world's top ten shoe manufactures. The current production is intended for domestic production, this is supported by a strong infrastructure for components.

Turkey is ready to export components to the Eastern and Mediterranean zone.

The leather garments are flourishing, and exports are particularly strong to Russia.

VIETNAM: now ranks in the top four footwear producers in the world after China, India and Brazil, with a great deal of its production being geared to export markets. Traditionally, Vietnam exports 80% of its footwear to Europe, but since the opening of the US market to Vietnamese manufactured products, export earnings have grown accordingly (22% in 2004 vs. 2003).

Footwear production is 480 million pairs/year, and leather garments production is 32 million/year.

1.3.2 Focus product groups

Table 1 - Description of the selected focus product groups

	<u>Harmonized System trade code</u>	<u>Description</u>
• Leather Shoes	64 03	Leather shoes (named brown shoes)
• All shoes	64	All type of shoes: Sport shoes (call sometime white shoes), synthetic shoes, textile shoes
• Leather Goods	42 0211 42 0221 42 0231	Lady bags, leather articles
• Garments	84 811 84 819	Only garments in napa leather some time with the fur inside (not outside)

Shoes:

Represent the most important production in Egypt in terms of value and quantity.

It is also the most important worldwide: total consumption is approx 12 billions pairs/year.

Leather goods:

The leather goods category is the consolidation of different products. In this category the most important is ladies bag and the small leather products: pocket book, purse.

Garments:

This category uses mainly sheep skin leather and pig leather in China. There are two different markets; one for males, and another for female which is more influenced by fashion.

2. Country Analysis

2.1 Spain

2.1.1 Sector overview and performance (sources FICE 2003)

Spain is the second largest European footwear producer with 171.018 million pairs, Spain accounts for 24.63% of European production (Italy: 43.65%).

Some companies have developed a brand policy with worldwide success, such as Camper and Panama Jack.

In all European countries production is dropping by 22% between 2000 & 2003, in Spain it dropped by 16%.

Production in Spain is concentrated on products with high added value, notably shoes with leather uppers. This accounts for 64.5% of Spain's shoe production and in terms of value it contributes for 2.938 billion \$ which accounts for 81%.

The Spanish footwear industry is positioned on the medium-high and high quality segments.

Domestic consumption is 175.4 million pairs for a total of \$2.240 billion i.e. 4.2 pairs /year for each individual, and its still growing (23.5% in 4 years). Average consumption in the 15 members of the European Union is 4.7 pairs.

The leather goods sector includes 1,733 companies and 16,403 direct jobs with a turnover of \$2.128 billion. In terms of productivity, the leather goods sector has a turnover of \$128,013 per direct employee.

The industrial structure consists of artisans and medium-sized companies (10 to 49 employees). Most of these companies are specialized in the production of top-of-the-line items for prime contractors in the luxury industry (Lowe, for example). This positioning enables these companies to effectively hold their own against Asian imports.

Companies have invested heavily in new production technologies such as automatic cutting and stitching robots operated by qualified workers and a very high level of design. These companies are very profitable and are growing from year to year.

The leading products are the small leather goods, which account for 34.63% of production for \$737 million in turnover, followed by handbags at 24.45% for \$520.81 million.

This sector has a handicraft structure. Production is turned toward the top of the line and major luxury brands. The average price per item is \$249. This sector exports 51% of its production.

Table 2 – Yearly production of shoes in Spain (000 pairs)

	2000	2001	2002	2003	2004
Leather shoes	145,799	138,783	127,594	115,912	-
Other shoes	56,884	70,599	70,338	55,106	-
TOTAL	202,683	209,382	197,932	171,018	147,400

Source: FICE

Table 3 - Yearly value of shoes in Spain (000 US \$)

	2000	2001	2002	2003	2004
Leather shoes	3, 212, 548	3, 215, 197	3, 105, 358	2, 871, 136	-
Other shoes	501, 143	650, 639	714, 928	483, 864	-
TOTAL	3, 713, 693	3, 865, 838	3, 820, 286	3, 355, 000	2,981,660

Source: FICE

Table 4 - International exchanges: Spain (000 US\$)

	Code	2000	2001	2002	2003	2004	MIX
Import for leather shoes	6403	339, 981	357, 475	443, 748	648, 959	-	52,8%
Total Import for shoes	64	666, 698	714, 942	870, 604	1,226, 654	1,402,545	100%
Export for leather shoes	6403	1, 388, 951	1, 493, 937	1, 582, 262	1,678, 671	-	73%
Total Export for shoes	64	1, 885, 248	1, 985, 784	2, 124, 643	2,297, 419	2,147,654	100%
Import of leather goods	420211 420221 420231	37, 633	45, 369	56, 961	92, 387	-	
Export of leather goods	420211 420221 420231	105, 767	127, 044	135, 688	168, 965	-	
Import for Garments	8481	179,734	220,801	200,561	233,299	-	
Export for Garments	8481	67,735	91,458	133,384	108,515	-	

Source: Comtrade : FICE

Table 5 – Average export price for Spain 2004 (French market)

<i>Products</i>			<i>Benchmark country (lowest within selection)</i>
Leather shoes	US\$ per pairs	25,55 \$	14,64 \$
All shoes	US\$ per pairs	21,26 \$	7,5 *
Ladies Bags	US\$ per pieces	64,43 \$	20,92 \$
Small leather goods	US\$ per kilo	192 \$	
Garments	US\$ per kilo	89,87 \$	

Source: CNC

Spain exports 70% of its production of shoes, and increased by 4% in 2003. Spanish companies exports \$2.350 billion. The average price of a pair of shoes for export is \$18.53.

Table 6 – Main countries for exports - 2003

EXPORT Shoes	France	U.K.	Germany	USA	Portugal
%	20,8%	14,1%	12,8%	10,4%	7,8%
Value (000\$)	477, 938	323, 872	293, 922	237, 881	178,157

EXPORT Leather Goods	France	Japan	U.K.	Hong Kong	Portugal
%	53,6%	11,3%	4,8%	4,2%	2,9%
Value (000\$)	90, 545	19, 837	8, 646	7, 944	5, 000

EXPORT Garments	Portugal	France	Japan	USA	Germany
%	17,2%	16,7%	7,6%	6,6%	5,8%
Value (000\$)	18,717	18,095	8,247	7,189	6,343

Source:Comtrade

Table 7 – Main countries for imports - 2003

IMPORT Shoes	China	Viet Nam	Italy	Holland	Indonesia
%	20,7%	14%	12,2%	7,5%	6,5%
Value 000 \$	254, 525	171, 406	149, 057	92, 220	80, 108

IMPORT Leather Goods	France	Italy	India	China	Turkey
%	26,1%	18,5%	16,3%	8,6%	3,2%
Value 000 \$	24, 469	17, 661	15, 685	8, 625	3, 199

IMPORT Garments	India	China	Pakistan	Italy	Turkey
%	31%	18,9%	12,8%	8,8%	7,3%
Value 000 \$	72,392	44,079	29,791	20,436	17,035

Source Comtrade

With 75% of consumption, shoe imports have increased by 25.9% in volume compared to 2002. The average price of imported shoes is \$9.41.

Imports come from China, with an average price of \$4.52 for 61.9 million pairs, Vietnam, with an average price of \$11.46 for 13 million pairs and Italy, with an average price of \$21.82 for 6 million pairs.

2.1.2 Efficiency performance

Since 2003, the European footwear sector has been in a structural crisis. Indeed, the Spanish footwear industry and its actors are in the middle of a transformation. The traditional model of a company which performs the industrial process from A to Z is confronted with the development of the “leader” company model which centralizes all decisions and coordinates the firm’s strategies: brand policy, design, quality control and commercialization. Small production units are organized around this centre, producing finished products or shoe components. The “Italian Districts” model inspires this organization. This organization allows greater reactivity and the possibility to produce small series in a short time.

The Spanish shoes industry is made up of 2,287 companies and 44,453 employees. It has a small business structure (76% of the companies have fewer than 20 employees).

Productivity calculated per employee in the sector (turnover/number of employees) is \$75,471 for an average production of 14 pairs a day.

For more than 15 years, the footwear sector has been developing an innovative image in terms of design. Today, Spain is at a level close to Italy in terms of fashion and quality, with slightly lower prices.

2.1.3 Industrial structure

The footwear industry relies on a very strong component sector (soles, heels, glue) as well as machine tool producers. 90% of these companies are found in the Valencia region. This sector accounts for 15,000 jobs and \$1.115 billion in turnover.

Exports account for 24.36% of total production. Soles and parts account for 40.5% of exports.

Imports of components and machines account for \$235 million. The positive trade balance of this sector is a proof of the overall dynamics of the industry.

The tanning industry as a supplier of leather includes 206 companies with 2,651 employees. It has \$1.526 billion in turnover for an apparent consumption of \$1.409 billion.

All of these elements prove that the industrial structure of this sector is complete, dynamic and innovative. This is one of the criteria for development on the national and international levels.

2.1.4 Business environment

All the professional federations are grouped together in the Spanish Leather Council.

The profession makes use of the INESCOP Technological Institute for all questions of quality, design, physical and chemical analyses and quality labels for certain products, notably for the European market.

Twice a year, the profession organizes the Moda Calzado international trade fair in Madrid.

The sector receives support from the regional governments for promoting exports. It has a major presence at international trade shows (Hong Kong, Paris, Milan, Düsseldorf, Moscow and Las Vegas) and develops a consistent image of the industry at booths bearing the national colours. (29 international trades show each year).

The sector is promoted through a strong policy of showcasing products in the trade press.

SPAIN	Weak Points	Strong Points
<u>Manufacturing</u>	Small industrial structure Limited delocalization of uppers	Manufacture for export and the national market. Geographical proximity, access by road to the rest of European countries. Small series in production
<u>Marketing</u>		Strong presence in the international fairs. Innovative design, effective policy of brands, high quality of the products.
<u>Human Resources</u>	High labour cost.	Entrepreneurship Large qualified staff, with high productivity Continuous training of personnel
<u>Financial and Politic factors</u>		Political stability. Professional federation Availability of Technical Centre. Within the Euros Zone

2.2 Tunisia

2.2.1 Sector overview and performance

The footwear and leather goods sector in Tunisia ranks 20th among worldwide shoe exporters. The domestic market is mainly supplied by a handicraft structure employing more than 18,000 people. Since 1972, a law allows companies with foreign capital to benefit from a preferential system of taxation and profit repatriation. A large number of companies, notably French and Italian ones, have set up in Tunisia. This law commonly referred to as the Law of '72, permits the company to import raw materials and components without customs duties as long as all of the products manufactured are for export.

Those represent 149 companies producing footwear and uppers and 43 in the leather goods sector. They account for 68.48% of the jobs in the industrial sector.

The industries produce shoe uppers for exportation to their companies in Europe where the shoe uppers are assembled to produce the final product. This partial relocation has enabled French and Italian industrialists to improve their production costs and their products' competitiveness, notably in relation to Spanish and Portuguese production.

In 2005, the production of finished products accounted for 62.31% of the sectors export value.

French and Italian industrialists are attracted by the geographical and linguistic proximity.

Table 8 - Yearly production in Tunisia (000 US \$)

	2000	2001	2002	2003	2004	MIX
Shoes	402 020	503 095	513 734	531 973	508 415	76%
Leather Goods	115 514	120 074	118 554	117 034	113 994	17%
Garments	41 341	43 317	44 837	44 837	44 837	7%
TOTAL	558 875	666 486	677 125	693 844	667 246	100%

Source: CNCC

Table 9 - International exchanges (Tunisia) (000 US\$)

	Code	2000	2001	2002	2003	2004	MIX
Import for leather shoes	6403	41,406	61, 854	63, 972	14, 047	5, 443	7,28%
Total Import for shoes	64	89, 515	123, 246	129, 094	97, 135	74, 755	100%
Export for leather shoes	6403	117, 069	154, 858	164, 588	146, 814	228, 051	53,4%
Export for uppers	64061	132 233	161, 112	161 112	155, 032	15,1 232	35,4%
Total Export for shoes	64	265 278	328, 319	343, 555	338, 960	427, 062	100%
Import of leather goods	420211 420221 420231	451	1 278	1 284	1 860	2 338	
Export of leather goods	420211 420221 420231	9 708	13 388	11 085	17 841	17 882	
Import for Garments	8481	1,787	1,457	3,025	6,832	2,246	
Export for Garments	8481	11,208	14,882	17,638	18,435	19,750	

Source INS Comtrade

Table 10 – Average export price for Tunisia 2003 (French market)

<i>Products</i>		<i>Tunisia</i>	<i>Benchmark country (lowest within selection)</i>
Leather shoes	US\$ per pairs	15,49 \$	14,64 \$
All shoes	US\$ per pairs	14,53 \$	8,21 \$
Ladies Bags	US\$ per pieces	26,59 \$	20,92 \$
Small leather goods	US\$ per kilo	42,34 \$	
Garments	US\$ per kilo	38,51 \$	

Source CNC

Table 11 – Main countries for export (Tunisia) (2004)

EXPORT Shoes	<i>Italy</i>	<i>France</i>	<i>Germany</i>	<i>Spain</i>	<i>U.K.</i>
%	41,7%	39,3%	8,2%	3,4%	5,1%
Value (000\$)	178 070	167 946	35 030	14 453	21 703

EXPORT Leather Goods	<i>France</i>	<i>Italy</i>	<i>Germany</i>	<i>U.K.</i>
%	28,8%	25%	21%	0,5%
Value (000\$)	15, 415	13, 618	11, 943	528

EXPORT Garments	<i>Germany</i>	<i>Italy</i>	<i>France</i>
%	51%	22,6%	24,1%
Value (000\$)	10,064	4,464	4,769

Source Comtrade

2.2.2 Efficiency performance

Exports of Tunisian footwear and leather industry have been growing regularly, with average annual growth of 12.1% since 1997. Added value increased at an annual rate of 8.8% from 1997 to 2003, increasing from \$178 million to \$296 million (source: INS).

The sector has a large trade surplus, with a 570% cover rate for the year 2004.

The increase in the number of companies working totally for the export market (96 in 1999, 123 in 2004) confirms the fact that the sector is essentially oriented toward exports. This increase is notably due to investment by the Tunisians. This is evident by the fact that: over the same period, 7 companies with 100% foreign capital have closed down their activities.

The program for upgrading the sector, which began in 1996, has led to an investment of \$44 million. By the end of 2004, 101 companies in the sector had taken part in this program.

One negative effect of allowing free imports of components for exporting companies is that it stifles the development of this type of business in Tunisia, as the market is not large enough. The result is a large deficit in the industrial structure in terms of components and machines.

Tunisia has been seeking to develop “Italian Districts”, so far without success.

2.2.3 Industrial structure

The leather goods sector in Tunisia includes a total of 307 companies which employ more than 10 people each.

It accounts for 6% of the Tunisian industrial fabric and 6.6% of exports by manufacturing industries.

15 tanneries

219 footwear companies

50 leather goods companies

31 leather garment companies

The average size of the companies varies widely depending on their production goals.

In footwear, exporting companies have on average 105 employees, while those oriented toward the local market have 46 employees. In leather goods, 100 for export, 28 for the local market; in garments, and 77 for export, 25 for the local market.

Overall, the sector employs 26,687 people, 21,940 of which work in companies wholly in the export market.

There are 43 exporting companies in partnerships with foreign investors; 83 have 100% foreign capital. The countries with the strongest presence are Italy and France, each accounting for 35% of the companies with foreign investment.

2.2.4 Business environment

The Tunisian footwear and leather sector benefits from a complete, effective support structure.

A federation, the FNCC, grouping together all the actors in the field, represents the sector with the public authorities. It is the systematic contact for all questions concerning the evolution of the profession.

The CNCC Technical Centre provides support to companies, notably in a program for sector upgrading and quality control. The CNCC, in partnership with the European technical centres INESCOP and CTC, has developed continuous professional training programs. The Centre's laboratory has COFRAC accreditation and all contractors in European countries recognize its analysis reports. The Centre has had ISO 9001 certification since 2001.

Tunisia follows a strict training policy. Three centres for the three sectors with a total capacity of 2,000 trainees providing courses leading to qualified labour. This strong training policy enables companies to orient their production toward more technical products with higher added value thanks to versatile personnel.

But since 2004, graduates from these centres have been having difficulties in finding jobs that correspond to their qualifications. This situation is a concern, notably in the Sfax industrial basin.

Tunisian companies are subject to a tax for continuing professional training called the TFP. There is also a national fund, the PRONAFOC, which is used to finance continuing professional training in companies.

The manufacturing sector in Tunisia benefits from a centralized structure, the API which set up a one-stop office where all administrative formalities can be undertaken in a very short time.

TUNISIA	Weak Points	Strong Points
Manufacturing	<p>Weak investment in new technologies.</p> <p>Small sized national market.</p> <p>Absence of raw material and components.</p>	<p>Industrial approach; Manufacture for export.</p> <p>Strong establishment of foreign companies.</p> <p>Geographical proximity of the European markets</p> <p>Industrial engineering for medium size series</p>
Marketing	No brand development	Positive image of Tunisia
Human Resources	Productivity below the European standards	<p>Important and powerful sector formation</p> <p>Population is bilingual</p> <p>Lower labour cost compared to Europe</p>
Financial and Politic factors	Low value added	<p>Political and trade-union stability accords of free exchange with Europe Programs of effective levelling.</p> <p>Importation of the raw materials net of tax</p> <p>Powerful sector technical Centre</p>

2.3 Turkey

2.3.1 Sector overview and performance

Since 1980, this sector has had regular growth in production. Although it is still dominated by a very large handicraft sector (more than 40,000 small workshops throughout the country) and a traditional distribution network, this evolution has led to the emergence of more than 150 industrial units, which employ more than 50 workers.

Production is highly concentrated around Istanbul, accounting for 50% of the industrial companies. Other production centres include Ismir, Konya, Bursa, Ankara, Gaziantep, Manisia, Denizli, Adana, Malatya and Corum.

Only 55% of production is manufactured in industrial or semi-industrial production units. It is estimated that a total of 300,000 people work in the footwear sector. The industrial units (150) produce only Turkish exports.

The sector is confronted with a sharp drop in its historic market, the Russian market, which accounted for 57% of its footwear exports in 1997 and now only accounts for 9.7%.

This is the so-called “suitcase” trade, which consists in a constant back-and-forth movement of Russian buyers who take the boat across the Black Sea for purchase supplies, mainly in Istanbul. In 1996, this trade alone accounted for \$8.8 billion for the clothing, footwear and leather garment sector, or 7.5% of all official foreign trade with Russia. Today, this type of trade has regressed and, for the same industrial sector, amounts to only \$3 billion. Structured import networks have partially replaced the informal “suitcase” network, which still accounts for \$100 million for the footwear sector alone (estimated value).

This highly particular typology of the Turkish export market has not encouraged the emergence of a strong footwear industry. In fact, in this highly atomized type of exchange, the handicraft structure is privileged.

Table 12 – Yearly production Turkey (000 pairs)

Year	2000	2001	2002	2003	2004
Shoes	219,000	211,000	215,000	218,000	-

Source: SATRA

Table 13- International exchanges Turkey (000 US\$)

	Code	2000	2001	2002	2003	2004
Import for leather shoes	6403	57,978	40,055	53,514	84,851	128,144
Total Import for shoes	64	113,694	84,221	116,213	191,057	303,283
Export for leather shoes	6403	40,022	43,974	50,732	74,696	92,807
Total Export for shoes	64	113,657	126,115	131,396	183,787	204,916
Import of leather goods	420211 420221 420231	4,023	3,769	5,233	5,670	9,550
Export of leather goods	420211 420221 420231	24,241	29,965	28,189	26,830	32,828
Import for Garments	84811 84819	10,951	22,875	22,131	22,729	22,676
Export for Garments	84811 84819	257,477	271,598	243,443	240,776	234,714

Source: Comtrade

Table 14 - Export average price in Turkey (2004) (French market)

Products			Benchmark country (lowest within selection)
Leather shoes	US\$ per pairs	25,94 \$	14,64 \$
All shoes	US\$ per pairs	7,5 \$	7,5 \$
Ladies Bags	US\$ per pieces	21,10 \$	20,92 \$
Small leather goods	US\$ per kilo	81,72 \$	
Garments	US\$ per kilo	74,14 \$	

Source: CNC

Table 15– Main countries for export Turkey (2004)

EXPORT Shoes	Germany	Saudi Arabia	Greece	France	U.K.
%	10,7%	8,6%	8%	6,8%	5,4%
Value 000\$	22, 024	17, 636	16, 383	13, 997	11, 138

- ***In 2000 the Russia was the first importer with a turnover 19 371 000\$***

EXPORT Leather Goods	U.K.	Germany	Spain	U.S.A.	Free zones
%	20%	8,8%	6,6%	6,5%	6,2%
Value 000\$	9, 555	4, 307	2, 997	2, 965	2, 803

EXPORT Garments	Germany	France	Russia	Free Zones	Holland
%	26,4%	13,5%	10%	8,1%	6,4%
Value 000\$	67,554	34,366	25,606	20,621	16,298

Source Comtrade

2.3.2 Efficiency performance

The sector's productivity is penalized by its handicraft structure. The weakness of the industrial structure leads to products of mediocre quality.

Turkish industry is oriented to satisfy the local market. Footwear production is estimated at 296 million pairs.

Despite its low productivity, the sector offers the Turkish clientele a product that is suited to its purchasing power.

The sector currently is not competitive in terms of export possibilities, notably toward the EU zone.

The Turkish footwear and leather goods industry, unlike the fur garment industry, does not have strong export promotion and design investment.

The export structure, historically oriented towards the Russian market with its strong demand, and highly informal trade methods have not encouraged companies in the sector to invest in new technologies.

However, companies specialized in particular types of production, have invested and achieved an industrial size. These units are recent, well equipped and able to meet European quality standards.

Since 1997, with the steep drop in exports to the Russian market, they are seeking to diversify their foreign clientele. They oriented their exports toward new markets in Europe and the Middle East.

3.3.3 Industry structure

Nevertheless the footwear sector includes a certain number of industrial units with large-scale capacity.

These companies are specialized in two production fields: footwear or components obtained using injection technology (PU or PVC), and the manufacture of safety footwear. These companies have made major investments, whether in machine tools (injection machines) or in product research for work shoes.

These companies export a significant share of their production to European markets. Their safety shoes meet European standards.

The street shoe sector also includes industrial structures that develop product lines for men, women and children. In all, there are 150 industrial or semi industrial units that manufacture 55% of production. The rest is produced by the 40,000 handicraft structures that make 133 million pairs, mainly sandals.

The Turkish footwear sector relies on a high-performance industrial fabric for components and raw materials. The size of the domestic market has given rise to strong growth in this sector, which largely covers the needs of the local industry. The component companies notably exports throughout the Mediterranean basin and the Middle East.

Leather goods are a handicraft sector; there are 3,000 to 3,500 workshops, 90% of which have fewer than 6 workers. Production is estimated to be 36.8 million items.

As in other sectors, leather goods have been faced with the sharp drop in demand from the Russian market. The structure of the sector limits export possibilities.

3.3.4 Industrial and business environment

Footwear and leather companies have an effective associative structure. Each professional corporation has its own employers' association, grouped together in a national federation.

This highly active federation, assisted by a communication firm, manages all promotional events, notably trade shows on the national and international levels. For example, the delegation of Turkish industrialists at the Düsseldorf International Shoe Fair includes more than 50 companies.

The footwear and leather industry now also supports a private college, Tasev College, which was recently established in Istanbul. It trains students at various levels of skills, from production operators to executive managers. All the courses are in Italian and in English.

There is a project to have a fully accredited laboratory up and running at the college

TURKEY	Weak Points	Strong Points
Manufacturing	<p>Weak investment in new technologies.</p> <p>Weak industrial engineering</p> <p>Artisan production</p>	<p>Size of the national market.</p> <p>Raw material and components available</p> <p>Proximity of European markets</p> <p>Industrial Engineering for small series</p>

Marketing	Weak rate of export	Positive image in the Leather Sector Strong presence in int'l fairs
Human Resources	Productivity below the European standards Quality below the European standards	Lower cost of the labour compared to Europe. Development of the sector formation
Financial and Politic factors	Informal market	Political stability and trade-union Professional Federation Agreements of free exchange with Europe. Purchase of raw materials and components in national currency

2.4 Romania

2.4.1 Sector overview and performance

Romania is the only country in Central and Eastern Europe whose footwear production and export levels are showing significant increases; a strong relationship with Italy – Europe's leading producer – has resulted in dynamic growth in Romanian footwear production, increasing penetration of European markets by 27% and worldwide markets by 21%.

Much of the production in this region has been based on Lohn (labour only) contracts – but there is an emerging trend among Romanian manufacturers to provide 100% of footwear content, rather than supplying low cost labour contracts for “uppers manufacturing”. At the same time, Romanian manufacturers are establishing “own brand” products with significantly higher revenue return. In Europe, Romania is the only major footwear producer with competitive labour costs in relation to the world's leading producer countries.

Romania, in particular, has been the major beneficiary of this strategy, by recently becoming a focus for European outsourcing of footwear production, adding to its established strengths as a significant player in the “needle industries”.

Table 16 - Yearly production Romania (000 US \$)

	2000	2001	2002	2003	2004	MIX
Shoes	784,974	975,598	1,157,931	1,420,673	1,512,944	
Leather Goods	19,444		29,724			

Source: PPE

Table 17 - International exchanges Romania (2004)

	Code	2000	2001	2002	2003	2004
Import for leather shoes	6403	10,,554	15,466	24,220	25,912	35,101
Total Import for shoes	64	217,574	247,663	283,188	348,047	387,781
Export for leather shoes	6403	371,079	476,592	570,020	691,457	769,415
Export for uppers	64610	258,978	305,132	361,916	425,616	381,316
Total Export for shoes and uppers	64	784,974	975,598	1,157,931	1,420,673	1,512,494

Import of leather goods	420221 420231	1, 021	1, 173	1, 522	1, 526	2,,412
Export of leather goods	420221 420231	10, 155	17 ,294	22, 475	29, 988	43 ,866
Import for Garments	84819 84811	538	1, 159	2, 214	3, 065	5, 409
Export for Garments	84819 84811	13,450	25,723	27,311	27,866	24,979

Source: Comtrade

Table 18 – Average export price for Romania (2004)(French market)

<i>Products</i>			<i>Benchmark country (lowest within selection)</i>
Leather shoes	<i>US\$ per pairs</i>	18,41 \$	14,64 \$
All shoes	<i>US\$ per pairs</i>	13,56 \$ *	7,5 \$
Ladies Bags	<i>US\$ per pieces</i>	20,92\$	20,92 \$
Small leather goods	<i>US\$ per kilo</i>	25,86\$	
Garments	<i>US\$ per kilo</i>	216,89\$	

* without ski shoes (56,26 \$ per pair)

source CNC

Table .19– Main countries for export Romania (2004)

EXPORT Shoes	Italy	Germany	France	Holland
%	72,07%	5,88%	5,62%	4,16%
Value 000 \$	1, 092, 678	89, 566	85, 814	63, 908

EXPORT Leather Goods	Italy	France	Spain	Germany
%	88,37%	4,18%	3,42%	2,45%
Value 000 \$	38, 519	1, 836	1, 474	1, 054

EXPORT Garments	Italy	Germany	Hungary	Spain
%	91,30%	5,6%	-	-
Value 000 \$	21, 110	1, 309	217	92

Source Comtrade

2.4.2 Efficiency performance

The evolution of the Romanian footwear and leather industry's performances is characterized by a production system that is essentially oriented toward exports, notably to the Montebelluna region of Italy. Italian industrialists have developed "districts", notably in the Timisoara region.

90% of Romanian producers in the footwear and leather industry work using the Lohn system (the raw materials are sent by the customer as temporary imports). This operating system is the result of the poor quality of Romanian raw materials, notably leather, whose quality does not meet European standards, and the lack of working capital among Romanian companies.

Every week, foreign companies have to send trucks loaded with raw materials which are then loaded with finished products for the return trip. This additional cost is compensated by the ensured quality of the materials.

They have set up a high-performance logistics system, which is backed by a strong network of transport companies, notably from Italy.

The negative effect produced by this operating system is a lack of development in the sector of components, notably for the domestic market. This can be seen in the mediocre quality of the products and a lack of creativity. Production of finished leather has dropped by 85% since the sector was restructured (1990).

The sector creates little added value as it only corresponds to labour costs.

Romanian industrialists are strongly oriented toward exports; 80% of the Romanian production was exported in 2004.

Due to market deficit in production, low-priced imported products account for 80% of local consumption.

2.4.3 Industry structure

The footwear and leather sector is a traditional industry in Romania, which grew strongly in the 1970s and 1980s. Romania was one of the COMECON footwear and leather suppliers until 1990.

The industrial structure at the time was made up of 52 State-run companies – only 2 remain. All of the companies were privatized starting in 1996.

From 202 companies in 1989 (State-run and cooperatives), the sector now has more than 700 medium-sized companies.

Production in 1989 was 118 million pairs of shoes. Today, it stands at 75 million. This decrease has been accompanied by an improvement in the quality of products and by a higher price range.

Romanian companies continue to be overstaffed, meaning that productivity is not up to European standards. Their production units are too large, leading to a lack of maintenance and an inefficient production organization. Romanian companies are equipped with outdated machines due to a lack of investment resources.

To make up for this situation, some companies have developed partnerships with European industrialists, who have financed modern equipment to improve productivity and quality.

New companies with foreign capital (notably Italian) are mostly equipped with modern equipment.

2.4.4 Industrial and business environment

There is a great deal of assistance for foreign companies setting up, notably for small and medium-sized enterprises (SME's).

SME's receive customs duty exemptions for machines, installations and industrial equipment.

They also have tax exemptions for importing the raw materials needed to manufacture their products.

SME's have a 75% tax reduction on profits obtained from exported production.

Romanian workers historically have had a high level of industrial qualification in terms of skills in the sector.

The privatization of the sector was not accompanied by an upgrading of support structures.

There is one technical centre, CERPI, which is strongly oriented toward research projects. Its action is not oriented toward business needs.

Due to a lack of financing and a lack of political will power, the evolution of the support structures depends on the industrialists. Their lack of financial resources makes them unable to acquire suitable tools and structures.

ROMANIA	Weak point	Strong point
Manufacturing	Romanian companies are under capacity. Weak investment in new Technologies. Low productivity for the Rumanian companies Industrial buildings outdated Absence of raw materials and national Components	Industrial approach; manufacture for export Strong establishment of foreign Co. Geographical proximity, Access by road to the major European retailers
Marketing	Dropping out the national market Default of promotion of the Romanian product in the foreign fairs Unfit with international competition	Association of Romanian Leather and Footwear Manufacturers (PINC) regrouping 52 more important Rumanian companies. Development of a brand OXALAGA for working & brown shoes
Human Resources	Labour cost increase with the input in the EU. Low productivity No sector training program	Motivation of the Romanian head management (primarily female) Large qualified staff. Low labour cost.
Financial and Political factors	Low value added Low tax for the state.	Political stability Future entrance in the EU Tax exemption on the raw material and components in temporary imports

2.5 Vietnam

2.5.1 Sector overview and performance

Vietnam now ranks among the top four footwear producers in the world after China, India and Brazil, with a great deal of its production being geared to export markets. Traditionally, Vietnam has exported 80% of its footwear to Europe, but since the opening of the US market to Vietnamese manufactured products, export earnings have grown accordingly, and increased by around 22% in 2004 vs. 2003.

Annual footwear production in Vietnam is 480 million pairs, in addition to 32 million leather garments and one has a healthy manufacturing sector. The main export items in the footwear sector are canvas shoes and running shoes, most of which are exported to the European market. There has been a push towards the US market since 2004 with the aim of diversifying export markets so as to obtain a "wider base" in the longer term.

In just a few years, the country has become a major production centre, including famous brands, notably sport shoes (Adidas, Nike, etc.), but also includes street shoes (Hush Puppies, Timberland, etc.).

Despite the impressive performance in exports for 2004, there are still concerns about the lack of readily available raw materials and skilled labour. The sector has called upon the government to step in, by allocating more funds for training centres, since if the conquest of the US market is to progress, emphasis has to be placed upon increasing output and improving quality at the same time.

Table - 20 Yearly production Vietnam

	2000	2001	2002	2003	2004	MIX
Shoes 000 pairs	240,816	302,800	320,014	360,000	416,644	
Leather Goods 000 \$	31,300	32,000	33,700	35,000		

Source VLFA

Table 21 - International exchanges Vietnam (000 US\$)

	Code	2000	2001	2002	2003	2004
Import for leather shoes	6403	=	=	=		
Total Import for shoes	64	304,129	329,040	281,109		
Export for leather shoes	6403 8512	59,459	105,646	217,985	514,504	
Export for Sport shoes	64061 8512	1,149, 528	1,144, 505	1,135, 586	1,127, 327	
Total Export for shoes	64 851	1,471, 667	1,630, 195	1,912, 981	2,299, 175	* 2,600, 000
Import of leather goods	4202 83811	228	343	2,064	3,553	

Export of leather goods	4202 83811	30,566	48, 867	12, 957	* 9, 657	
Import for Garments	84819 84811	-	-	-	-	-
Export for Garments	84819 84811	1,469	4,744	8,771	5,223	

Source Comtrade/ ITC

*The fall of export turnover for the leather goods is due to the fall of exports in Japan

- Estimation for 2004 by the federation

The main production is in sport shoes: 56% of the total production. This category accounts for 220.322 million pairs for a value of \$1.638 billion (average price: \$7.43). Women's footwear is in second place with 19.89% of production for a value of \$438 million (average price: \$5.56).

:

Table - 22 Average export price for Vietnam (2003) (French market)

Products			Benchmark country (lowest within selection)
Leather shoes	US\$ per pairs	14,64\$	14,64 \$
All shoes	US\$ per pairs	8,21 \$	7,5 \$
Ladies Bags	US\$ per pieces	59,97\$	20,92 \$
Little leather goods	US\$ per kilo	30,60\$	
Garments	US\$ per kilo	25,90\$	

Source CNC

Table 23 – Main countries for export Vietnam (2003)

EXPORT Shoes	U.K	Germany	USA	Holland	France
%	17%	13,7%	12,3%	9,4%	8,4%
Value 000 \$	390, 653	315, 865	283, 930	215, 723	194, 193

EXPORT Leather Goods	USA	Belgium	Germany	Korea	Japan *
%	24,5%	19,9%	9,7%	6,5%	5,8%
Value 000 \$	2, 655	1, 919	934	624	564

*Japan was the N° 1 in 2001 with 14 312 000 \$

EXPORT Garments	USA	Germany	U.K.	Japan
%	25,9%	18,3%	9,8%	8,7%
Value 000 \$	1,291	913	488	433

Source Comtrade

In the North American market, Vietnam only ranks 14th among shoe exporting countries.

Meanwhile, the US has emerged as a potentially lucrative market for Vietnamese footwear products. Since the US granted most favoured nation status to Vietnam, the volume of Vietnamese footwear shipped to this market, mainly sport shoes, leather shoes and sandals, have increased dramatically.

Given the weak purchasing power of the Vietnamese, shoe imports are quite weak. State-run companies and artisans make products that are adapted to the purchasing power of the Vietnamese people, notably shoes with fabric uppers and natural rubber soles.

Moreover, the Vietnamese government protects its industries by maintaining high customs tariffs: 50% import duties for products with certificates of EU origin, 75% without the certificate.

2.5.2 Efficiency performance

The entire chain (tanneries, footwear manufacturers, importers/exporters, etc.) includes approx. 300 firms of a certain size, 55 of which are State-owned, 177 private, 134 with foreign capital and 14 joint ventures, none of which has managed to build up a brand name of any renown so far, except perhaps Vinagiay (approximately forty sales outlets throughout the country).

Production is essentially concentrated in two industrial areas: the greater Saigon region (including the provinces of Binh Duong and Dong Nai) and the Mekong Delta, which accounts for 76% of the total footwear production, 74% of tanned leather and 85% of heels. 400,000 employees, 240 companies, 750 production lines.

80% of production is exported:

Exports: US \$ 2.8 billions (2004 estimates)

Companies with foreign capital: 60% of exports; 2/3 of production.

Production capacity in 2003: 520 million pairs of shoes (objective for 2010: 720 million pairs), 35 millions leather items.

Vietnam is dependent on the outside world for raw materials and semi-finished products (tanned leather, heels, accessories, chemicals, glues, etc.), which puts it at a disadvantage in relation to China in terms of production costs.

2.5.3 Industry structure.

The shoe sector accounts for 10% of GDP, in 3rd position after oil and textiles.

Companies with foreign capital: 60% of exports; 2/3 of production.

Production capacity in 2003: 520 millions pairs of shoes (objective for 2010: 720 millions pairs), 35 millions leather items.

The cost of importing raw materials and parts is on the rise, with an annual increase of 1.16%. This reduces the added value in the sector, notably among private firms and those with foreign funds, mostly specialized in subcontracting.

Vietnam is dependent on the outside world for raw materials and semi-finished products (tanned leather, heels, accessories, chemicals, glues, etc.), however, which puts it at a disadvantage in relation to China in terms of production costs.

Imports for the textile and leather industry account for 9% of all Vietnamese imports.

In the leather sector, this is notably the case of 80% of tanned leather and 60% of raw materials and accessories. The origin of these imports usually depends on the origin of the prime contractors: Taiwan, South Korea and China (Hong Kong).

The companies give greater importance to their imports of raw materials and components (80% of all imports in the sector) to the detriment of investments in high-performance production equipment. This situation hurts the industry in terms of quality and productivity, and therefore its competitiveness.

2.5.4 Business environment

A professional federation group together with the industrialists in this sector, whether public or private has set up: the Vietnam Leather and Footwear Association.

This association has a web site, LEFASO.com, which provides members with information about their sector.

There is no industrial technical centre specialized in the footwear. An industrial centre for rubber and polymers performs studies and controls on soles.

There is a semi-public institute of higher education, Lotus, in Ho Chi Minh City. This school has developed a partnership with the Centre Technique du Cuir in France for training Vietnamese teachers specialized in the footwear sector. The school issues diplomas to high-level technicians in integrated automation of production processes.

Every year a trade show is held in Ho Chi Minh City in association with ASSOMAC (Italy).

VIET NAM	Weak Points	Strong Points
Manufacturing	<p>Vietnamese companies are under-capacity.</p> <p>Weak investment in new technologies.</p> <p>Absence of raw material and components</p> <p>Industrial engineering for great series</p>	<p>Industrial approach, manufacture for export</p> <p>Shoes turnover export represent 11% of the total export</p> <p>Strong establishment of foreign companies.</p> <p>Seaport near the industrial parks.</p> <p>Products conform with the international standards</p>
Marketing	Price policy	
Human Resources	<p>Insufficient training program.</p> <p>Weak spoken English</p>	<p>Large qualified and motivated staff</p> <p>Low labour cost</p>
Financial and Politic factors	<p>Low value added</p> <p>Purchase of the raw materials in US \$</p> <p>Factories are operated by foreigner</p>	<p>Political and trade-union stability</p> <p>Export agreement with Europe & USA</p>

3. Comparison Analysis

This analysis concerns the quantitative and qualitative comparison of the benchmark countries performances versus the Egyptian situation: efficiency performance, industry structure and business environment. Appraisal of the sector and efficiency performance has been carried out taking into consideration the most significant quantitative indexes in terms of most recent value and trend, where appropriate.

The comparison quantitative index the following:

- General socio-economic parameters
- Total production and by product groups
- Total consumption and by product groups
- Export total and by product groups
- Total import and by product groups
- Overall sector productivity
- Magnitude of key cost factors
- Average prices by product groups

Data provided have been extracted from official sources, integrated and cross-checked as relevant in order to maintain consistency within each country and globally in terms of import and export exchanges. For the imports and exports, Comtrade is used as the unified source of data.

French ministry of commerce for some general information (France)
 Conseil National du Cuir for all the export prices (France)
 American apparel and footwear Association (U.S.A.)
 Vietnam Leather and Footwear association (Vietnam)
 Spanish Federation of leather and shoes (Spain)
 ITC : International Trade Centre (Suisse)
 COMTRADE
 F.N.C.C. (Tunisian Federation Leather and shoes)
 C.N.C.C. (Tunisian Technical Center)
 I.N.S. (Tunisian Institute of statistic)
 World Bank
 SATRA (technical Center U.K.)
 V.L.F.A. (Vietnam Leather and shoes Federation)

Egypt's figures for the leather and shoe sector are the best available estimates, since the official data is underestimated.

3.1 Efficiency Performance

Table 24 - Cost structure comparison

<i>Product Average</i>		<i>Egypt</i>	<i>Spain</i>	<i>Tunisia</i>	<i>Turkey*</i>	<i>Romania</i>	<i>Vietnam</i>
Shoes	Material	60%	33%	57%	52%	55%	60%
Leather	Workmanship	23%	32%	17%	20%	15%	10%
Goods							
Garments	Overheads/ Profit	17%	35%	26%	28%	30%	30%

Sources: Authors calculation

* The work force cost estimation is subject to change due to the unofficial labour estimated at 50% of the total turnover.

Table 25- Comparison of average trade price by focus product groups (French market)

	<i>Unit</i>	<i>Egypt</i>	<i>Spain</i>	<i>Tunisia</i>	<i>Turkey</i>	<i>Romania</i>	<i>Vietnam</i>
Leather shoes							
	\$/Pair	16 – 74 \$	22,55 \$	15,49 \$	25,94 \$	18,41 \$	14,64 \$
All type of shoes							
	\$/Pair	6.60 \$	21,66 \$	14,53 \$	7,5 \$	13,56 \$	8,21 \$
Lady bag							
	\$/bag	26,25 \$	64,43 \$	26,59 \$	21,10 \$	20,92 \$	57,97 \$

Source: CNC

Table 26 - Matrix for industry and business

Factors		Egypt	Spain	Tunisia	Turkey	Romania	Vietnam
Structural support	University instruction	1	10	6	2	4	5
	Professional schools	2	10	8	3	3	3
	Web diffusion	2	8	6	4	2	2
	Certification and testing labs	3	10	9	3	4	-
	Scientific research	0	10	4	2	2	0
	Leather /Shoes press and publications	0	10	4	10	2	0
	Technical/commercial catalogues	2	10	2	10	2	0
	Exhibitions and fairs	2	10	2	8	2	5
	Business and sector associations	2	10	8	10	5	5
Technical	Machinery and equipment	2	7	2	4	2	2
	Availability of leather and components	3	10	6	8	3	4
	Technical assistance	2	9	6	3	3	2
Constraints							
	Overheads	2	8	5	5	6	6
	Availability of industrial areas	6	9	8	8	8	8

Legend 1 Minimal 10 Very Good

3.2 Sector Performance

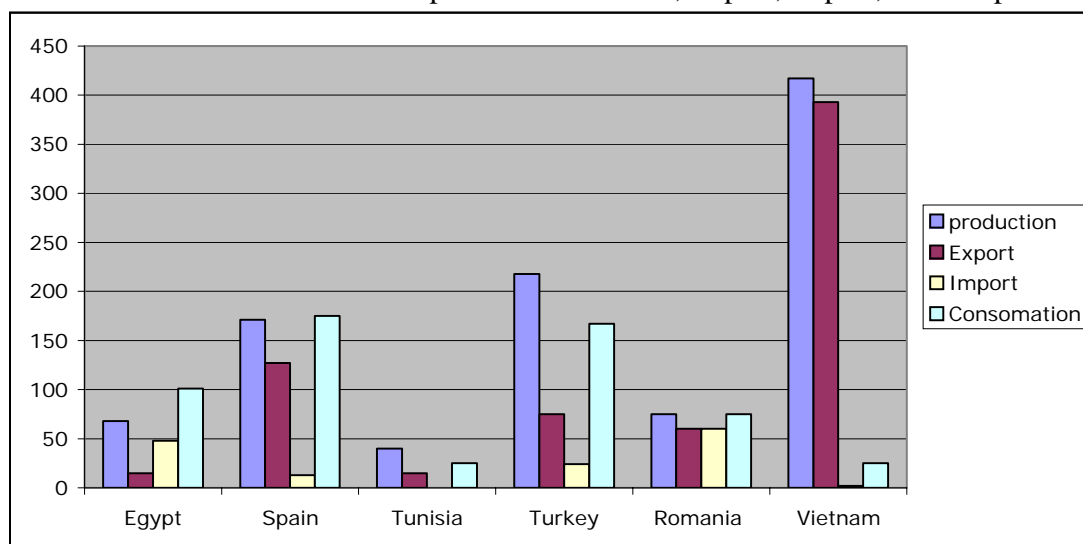
Essential macro-economic and demographic parameters together with main Leather and shoes sector performance indicators are presented for Egypt and for the five benchmarked countries in the general tables below.

Table 27- Comparison of key leather and shoes industry parameters 2003/2004

Parameter	Unit	Egypt	Spain	Tunisia	Turkey	Romania	Vietnam
Import leather Hide & skin	000 \$	333	149,921	24,747	396,849	12,323	12,029
Import S/F and finish leather	000 \$	193	657,255	149,135	178,663	733,585	492,607
Import components	000 \$	5	26,658	22,277	4,494	52,058	-
Shoes product	Million pair	68,000	171,018	40,000	218,000	75,000	417,000
	World %	0,5%	1,2%	0,3%	1,64%	0,56%	3,14%
Shoes export	000 pairs	15,000	127,000	15,000	75,000	60,000	393,000
	World %	0,16%	1,38%	0,16%	0,81%	0,65%	4,28%
Shoes import	000 pairs	48,000	131,000	2,000	24,000	60,000	7,000
	World %	0,6%	1,63%	0,027%	0,3%	0,75%	0,087%
Domestic consuming	Total 000 pairs	101,000	175,000	25,000	167,000	75,000	25,000
	Per capita	1,4	4,2	2,5	2,3	3,5	0,3
Leather-goods export	000 \$	244	347,698	25,478	60,287	104,038	9,657
	World %	-	0,6%	-	-	-	-
Leather-goods import	000 \$	209	698,478	5,998	122,572	18,742	3,553
	World %	-	1,06%	-	-	-	-
Garments export	000 \$	241	109,792	19,750	255,481	32,879	8,649
	World%	-	0,3%	-	1%	-	-
Garments import	000 \$	634	276,487	2,246	22,676	12,423	1,773
	World%	-	1,07%	-	-	-	-

Source SATRA for shoes- Comtrade

Chart 1 - Comparative Production, Export, Import, Consumption



Source: SATRA 2003

Egypt is the only country in the study to have its production lower than its consumption, (Note: Spain's production is higher than its consumption value)

Table 28- Comparison of productivity factors

<u>Parameter</u>	<u>Unit</u>	<u>Egypt</u>	<u>Spain</u>	<u>Tunisia</u>	<u>Turkey</u>	<u>Romania</u>	<u>Vietnam</u>
Quantity of shoes products	000 pairs	100 000	171 018	40 000	218 000	75 000	417 000
Directly employed workers	unit	60 000	44 453	18 400	300 000	75 000	300 000
Productivity Total	P/ person /year	1666	3847	2173	726	1000	1390
Ratio		43%	100%	56%	18%	26%	36%

Source: authors' calculations

The gaps of productivity are due:

- Type of product manufactured
- Equipment
- The size of the medium staff
- The training

Tunisia's productivity is 56% that of Spain's due to the lack of middle management and the equipment not being up to date.

Vietnam's low productivity is due to the manual operation which entails the use of unqualified cheap labour.

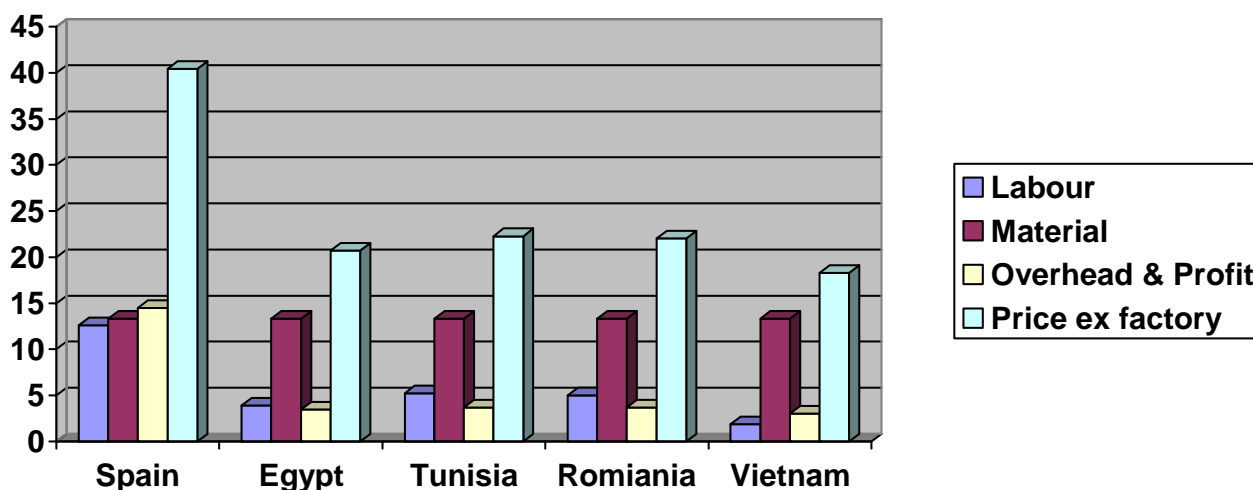
Romania's low productivity is due the under employment in the Romanian ex state manufactures.

Turkey'Low productivity is due to the majority of the shoe industry and the non-official business working as a craft industry.

Table 29 –Comparative cost for lady shoes (medium range) in US \$

	Spain	Egypt	Tunisia	Romania	Vietnam
Labour	12.61	3.9	5.22	4.99	1.88
Material	13.35	13.35	13.35	13.35	13.35
Overhead & Profit	14.48	3.45	3.714	3.668	3.045
Price ex factory	40.44	20.70	22.28	22.01	18.28

Chart 2 – Comparative cost for lady shoes US\$



Calculation Methodology:

Labour cost: Cost/Hour of each country x time to produce the model x productivity

Material: equivalent price for all the countries (Spain's cost)

Overheads & Profit: 20%

Comments:

The calculation for Turkey is impossible due to the informal business which represents more the 50% of the sector's activity.

The ratio between the production and the workers is incorrect.

The statistics include all the individuals in the sector probably all the retailers.

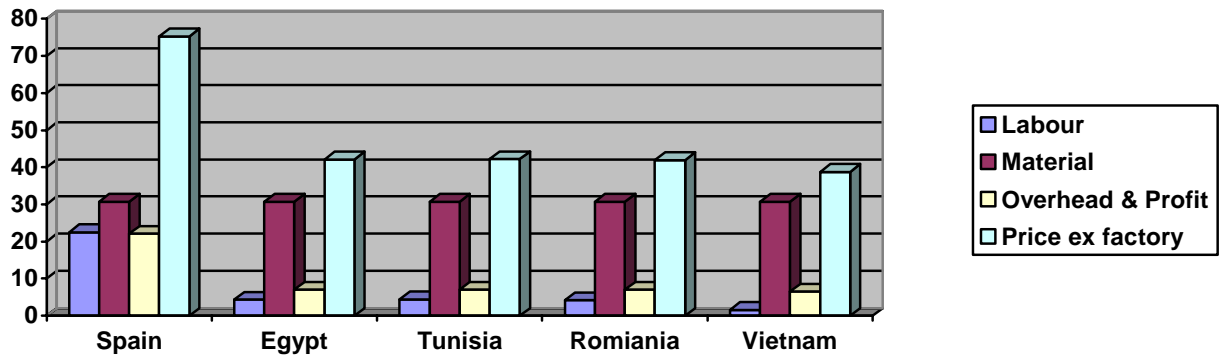
Theoretically the Egyptian shoe sector is competitive, exporting companies have proven that when specific measurements are set, the Egyptian products are accepted by the European markets.

Table 30 -Comparative cost for a lady bag (medium range) in US \$

The calculation is made on the same figures of shoes calculation. The difference is on the labour time to make and on surfaces and leather cost.

	Spain	Egypt	Tunisia	Romania	Vietnam
Labour	22.48	4.33	4.42	4.19	1.59
Material	30.73	30.73	30.73	30.73	30.73
Overhead & Profit	22.07	7.012	7.03	6.984	6.464
Price ex factory	75.28	42.07	42.18	41.90	38.78

Chart – 3 Comparative cost for lady bag (US\$)



The cost of the raw material is a major factor in the production of lady bags, due to the importance of both the quality and price of raw materials.

Should Egypt be capable to produce leather which meet the European standards, the product would be very competitive as Egypt has a currency advantage.

Table 31- Comparison of labour cost include tax

<i>Parameter</i>	<i>Unit</i>	<i>Egypt</i>	<i>Spain</i>	<i>Tunisia</i>	<i>Turkey</i>	<i>Romania</i>	<i>Vietnam</i>
Workforce	USD/hour	1,02 \$	5,01 \$	1,77 \$	2,13 \$	0,78 \$	0,41 \$

Source: OXLANGA 2002 and OCDE

3.3 Efficiency Performance Industry Structure and Business Environment Comparison

Most foreign contractors controlling the design and marketing own companies in countries that focus highly on exports.

Italian contractors in Tunisia and Romania.

French contractors in Tunisia.

Taiwanese and Korean contractors in Vietnam.

Taiwanese and Korean contractors act as middlemen for customers in North America or Europe.

These are firms that have relocated all or part of their initial production by installing their old production tools in one of these countries to take advantage of attractive labour costs.

The aim is not to develop a new market.

Temporary import agreements for raw materials to protect the local industry, that suffers from low productivity and inefficient quality and design.

The study sheds light on the interest of geographical proximity in this type of development. European contractors relocate to countries on the European borders, and Asian contractors relocate in other Asian countries. Moreover the language and culture similarity is very important, as contractors have to expatriate personnel to ensure the success and development of their business.

The local companies produce for the domestic market or as subcontractors.

Turkey is a special case: It's the 7th largest footwear producer in the world, exports are not currently a priority for the sector. The Turkish industry is the only one, along with Spain, that is potentially self-sufficient in terms of raw materials and components. Turkey has real export potential if it can structure its industry and invest in design and communication. It has successfully done so for the leather and fur garment sector.

Its geographical proximity between Europe and the Middle East will make it a major actor in this industrial sector in the long run.

Of all the countries in the study, only Vietnam has a strongly developed fabric or synthetic footwear, notably for sports shoes. Those items are based on a large-scale industrial organization that produces millions of pairs/year (a company with 25,000 workers produces for a major sport brand).

Romania and Tunisia are organized to produce short series. The contractors who own the production units set up this type of organization. In Romania, however, there are companies such as Geox or Salomon, which are worldwide leaders, producing several million pairs.

Tunisia has managed to protect its "small" domestic market from Asian imports, which has not been the case in Romania.

Based on the data in the study, it is possible to draw up the ideal profile of an industry seeking to develop its exports in the footwear and leather sector.

- Work in close cooperation with European or American contractors (the size of the companies and consequently their production capacity will determine the type of contractor).
- Develop joint-venture companies to preserve control of the business's future so as to avoid brutal relocation if labour costs increase.
- Invest in plants and high-performance equipment. Today, low labour costs are not enough to ensure competitiveness.
- Have the capacity to produce a finished product in the box and to deliver quality on time.
- Priority is to specialize in the production of women's street shoes, as well as men's footwear with leather upper in the mid-range or handbags and small leather items.
- Develop training structures, notably for supervisory staff. This is the type of skill that is often lacking and which has a direct effect on quality and productivity. These structures should be managed or co-managed by the profession (the system used by Turkish industrialists should be taken as an example).
- Set up a technical centre for the sector that is adapted to its needs: quality measurements, strategy monitoring and technical support from companies (the Tunisian CNCC and Spanish INESCOP structures should be taken as examples). This centre should be co-managed by the industrialists.
- Facilitate the supply of raw materials and components, at least for re-exported products.
- Delay imports of low-priced products so that local companies can be upgraded (policy applied in Tunisia).
- Develop a strong marketing policy for the sector in question at professional trade shows, along the lines of what is being done in Turkey for leather garments and in Spain for footwear.

4. Benchmarking Summary

Matrix for Critical Factors

Factors	Egypt	Spain	Tunisia	Turkey	Romania	Vietnam
Certification and Testing Labs	3	10	9	3	4	-
Exhibitions and Fairs	2	10	2	8	2	5
Business and Sector Association	2	10	8	10	5	5
Machinery and Equipment	2	7	2	4	2	2
Availability of Leather	3	10	6	8	3	4
Availability of Components	3	9	3	9	2	3
Technical Assistance	2	9	6	3	3	2
Overheads	2	8	5	5	6	6
Availability of Industrial Areas	6	9	8	8	8	8
TOTAL	25	82	49	58	35	35

Average CIF Prices/Cost Structure

	Egypt	Spain	Tunisia	Turkey	Romania	Vietnam
Leather shoe	12\$	22.55\$	15.49\$	25.94\$	18.41\$	14.64\$
All types of shoes	6.6\$	21.26\$	14.53\$	7.5\$	13.56\$	8.21\$
Leather lady bags	26.25\$	64.43\$	26.59\$	21.10\$	20.92\$	57.97\$
Material	60%	33%	57%	52%	55%	60%
Cost of Labour	23%	32%	17%	20%	15%	10%
Overheads	17%	35%	26%	28%	30%	30%