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EU PROJECT PERFECT LINK

COUNTRY TEXTILE, CLOTHING AND LEATHER INDUSTRY PROFILE - CZECH REPUBLIC

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Perfectlink Survey on Competitiveness Country Report

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1. ANALYSIS OF NATIONAL STATISTICS

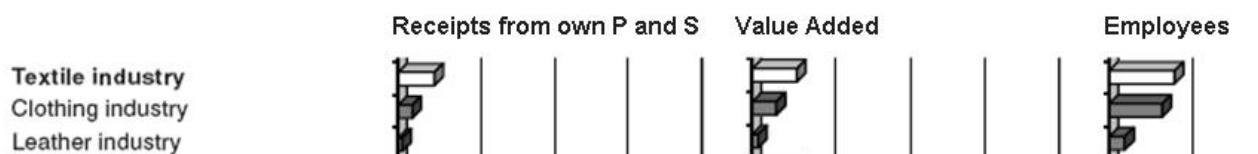
1.1 Textile +Clothing

The T+C industry in the Czech Republic represents, with more than 80.000 employees, the 4,2% of them in the European Textile and Clothing Industry.

According to the type of processed raw materials the textiles industry is divided into the cotton, linen, wool and knitwear industries. Most textile industry manufacturers operate in more technological stages. They comprise groups of spinning, weaving, final finishing and processing into ready-made clothing. In the framework of the international Classification of Industrial Activities the textile products are included in NACE - Division 17 Products.

As a specific feature of the individual product groups of the textile industry there can be considered, their dependency on co-operations with respect to the preceding technological stages. A part of production processes is assured by inward processing.

In 2004 the manufacture of textiles and textile articles participated in receipts of the Czech manufacturing industry reached at 2,3 % (clothing industry = CI 0,6%), in number of employees at 4,5 % (CI - 2,7%) and in value added at 3,1 % (CI - less than 1%). Its share in the manufacturing industry is permanently decreasing. The reasons behind are the growing competition of Asia countries namely, accompanying the progressing liberalisation of trade with textile products and recession of the textile industry in Europe.



The most important part of production is realised in enterprises with more than 250 employees (manufacture of made-up textile articles, except apparel and manufacture of knitted and crocheted articles). The share of this group in receipts from sales of own products and services was approx. 58,9 %.

In comparison to 2002 the participation of large enterprises in this coefficient decreased by 5,1 %. As to **regional structure** of the branch the largest share in total receipts from sale of own product and services was registered in the South Moravian region. On the following ranks the East Bohemian and North Moravian regions were placed (the same position with respect to the number of employees).

The inter-annual growth of textile products price index in 2001 by 1,9 % was followed by its drop in the following years, namely by 2,5 % in 2002 and by 1,4 % in 2003. In 2003 the inter-annual growth of price index was registered in the knitted and crocheted articles only, which was caused by revival of market with these products. The largest drop in price development by 4,4 %, was registered in the made-up textile articles, except apparel. In this product groups there is a tremendous competition namely of the Asia textile manufacturers.

The domestic consumption of the textile industry products was decreasing since 2001.

Foreign Trade

The export of textile products was enhanced by 4,7 % (2003) of which the export to EU enhanced by 5,7 %. In 2003, compared with 2002, the exchange rate of CZK was weakening and for exports of textile products more favourable conditions were adjusted. The largest export increase (by 24,7 %)

was registered in the knitted and crocheted articles (made-up textile articles, except apparel). The share of the textile products export into EU was approx. 71,8 % (2003).

The imports: the share of EU was 78,4 % of the total import in 2003. Worth of the direct exports of textile products was increased by approx. 5,7 % as compared with 2002. The import items are characterised by a high share of special textiles determined on the first place for the motor vehicle and furniture industry as well as carpets and highly modish knitted products in higher price relations.

The net balance of the foreign trade with textile products was amounted to approx. CZK 6 539 mill., where the direct exports reached the value of CZK 32 638 mill. and the direct imports the value of CZK 26 099 mill. In comparison with 2002 the positive net balance in the textile products enhanced by 7,54 %.

The EU countries were largest partner in the foreign trade with textile products (2003). Their share in total exports was amounted to 71,8 %, an increase by 1 % as compared with 2002, with the largest foreign trade turnover with Germany, Italy, Slovakia followed by Poland and Austria. From the point of imports, most products of textile industries were imported from Germany (approx. 44 %).

Overall Evaluation

The 2004 year saw the T + C Industry standing up to foremost a general drop of market demand and the strong CZK exchange rate.

The sector could benefit from the strong EURO in its exports to major markets but the weakening USD rendered imports cheaper not only into the Czech Republic but the EU markets as well thus accounting for more purchase orders seen as lost.

The revenues from the direct export decreased approx. by 7%.

The important element in the second half of 2004 was the expected impact of the market access - liberalisation of the trade from 1st January 2005. This situation has influenced the buying activity by the merchants with direct impact to the production.

The clothing sector has lost more than 2500 employees during the 1st Q, and till the end of year more than 4000 in total. It is the mostly quantity in the last 5 years.

The strong rate of CZK has heavily cheapen the imports, which means in clothing industry the decrease of new orders by 11%.

The textile industry has lost more than 5800 employees but has increased the labour productivity and eliminating the sector's major competition disadvantage in comparison to the EU countries.

1.2 LEATHER AND LEATHER PRODUCTS

The leather industry is an export-oriented branch in a long-term, which is witnessed by the fact that a considerable part of receipts (about 40 %) are receipts from sales of leather goods for exports. As to its position the leather industry belongs to branches with the lowest share of receipts from sale of own products and services, value added and number of employees. In 2003 the leather industry manufacturing indicators developed as follows: approx. 0,3 % in receipts from sales of own P&S, approx.0,4 % in value added and approx.1,0 % in number of employees. Position of the leather branch within manufacturing has been continuously decreasing since 2000.

The largest share in receipts from sales of own P&S (approx.40,4 %), in value added (approx.42,2 %) and in employment (approx.37,2 %) has been attained in SME organisations.

The leather industry plays an important role from the point of regional employment, mainly in Moravia.

The drops of receipts from sales of own P and S are illustrating sales difficulties in placing of leather products (mainly leathers and footwear) on abroad markets.

The drop of value added by manufacturing was significantly affected by the inter-annual decline of receipts from sales of own products and services in constant prices, namely in the footwear industry, where the year-on year decline was amounted to 16,7 % in 2003.

The decline of the number of employees in the leather industry was significantly influenced by the Foot-wear industry, where in 2002 an inter-annual drop by approx.19,0 % was reported.

The loss of the leather industry, when compared with development in the main production indices in manufacturing, is growing.

An inter-annual decrease of total costs in the leather industry by approx.25, 5 % was registered in 2003.

The costs structure was as follows: direct consumption approx.51,3 %,labour costs approx.28,0 %,other costs approx.12,5 %,costs of goods 4,0 %,depreciations approx.3,0 %and costs interests approx.1,2 %.

Foreign trade

The foreign trade in leather commodities has been developing unfavourably since 2000.It is in great extent reflecting the situation on the EU internal market (imports from China).

In 2003 the direct imports from China to CR were approximately 28 % of the entire import. In 2003 the export to EU participated by about 60 % in the total export of leather commodities, which presented a decline by 3 %.

Development of foreign trade in the leather commodities is notably influenced by the footwear trade, which in the total foreign trade turnover of this product group took a share of about 48,2 % in 2003

Development of foreign trade in the leather commodities is notably influenced by the footwear trade, which in the total foreign trade turnover of this product group took a share of about 48,2 % in 2003 representing an inter-annual drop by 2,8 % in comparison with 2002.The drop was caused by reduction of the footwear exports, to EU mainly. The reasons were very similar to the T+C industry.

Territorial structure: From the leather industry commodities total exports about 77,1 % were placed on the EU market (mainly Germany, Italy) in2003, however, the total value of export inter-annually decreased by approx.14,5 %.

2. NATIONAL QUESTIONNAIRES SURVEY RESULTS

Textile – Clothing – Leather

Initial position:

There are 946 T+C+L companies in the Czech Republic (385 textile, 408 clothing and 153 leather companies with more than 20 employees). The number of companies addressed by questionnaire: 300 in total, 10% from them from leather industry. The response: 55 questionnaires (18,3%) with domination of the weaving and spinning companies (60%)

Company profile according to:

- The products sold: garments represent the biggest share (33%), followed by yarns and fabrics (29%), home textiles (16%), technical textiles (15%), leather products (5%). The companies sell almost its own production (95%)
- The turnover size: in the Czech sample the segments <5 and 5-20 M euro represents 47% followed by 24% each in 5-20 and 20-50 and the segment >50 represents 5%
- The employees: SME's 49% (50-250), 27% more than 250 employees, 22% from 15 to 50 employees
- The sales and markets the Czech companies prefer the EU countries (53%) and then domestic market (44%).

General Awareness on Competition

- The decrease of production quantity and value was mentioned by 51% of respondents, the stable situation by 31%. With reference to this the more than a half of companies have mentioned that they don't need the basic changes.
- As an enough strong company, which don't need the changes feels 5% of respondents.
- Most of the companies (69%)think that their position will be decreasing in the next 2 years
- The most threatening competitor is considered by most companies China (60%), followed by, EU 15 (10%), domestic competitors (6%), South Med (3%). Also other Asian countries – India and Pakistan as well as the former Yugoslavia countries are identified as a strong competitors.

Chinese Issue

- The growing increase of the Chinese competition on the EU and world markets has captured 91% of companies
- The most serious consequences of Chinese competition are: reduction of sales to one or more clients (29%), the decrease of the sales and prices (27%), loss of clients (22%), decrease of own prices and in order to maintain the same level of sales (21%)

- All companies felt negative impact on their business, 56% significantly, 30 % very remarkably and the rest indicate it as minor
- These product groups were involved by Chinese competition:
Heavily - clothing, piece – goods and fancy goods /haberdashery
Medium - home textiles and yearns
Little - technical textiles

Impact to the market segments:

- The strongest demand decrease was mentioned by the EU 25 countries (38%), domestic traders - wholesalers, retailers (34%) and domestic manufacturers (16%)
- All surveyed companies consider the prices as the strongest competitive advantage of China
- Generally all the surveyed companies think that China uses unfair trade practices; 60% thinks that all Chinese sales is unfair and the rest thinks that China plays unfair often
- The direct evidence of unfair trade practices has more than 7% of the Czech companies; 44% manufacturers have indirect evidence of them
- The companies mention various kinds of unfair commercial practices; dumping seems to be very significant according to the manufacturers (37%). Other unfair practices: unregistered imports and smuggling (21%), counterfeited products 24%), false custom declarations (16%)
- The wholesalers and importers (41%), local consumers (21%), large retailers (18%) and international brands (10%) are considered to be the main allies of the Chinese by more than half of the surveyed companies. The local manufacturers whose outsource their products in China (7%) also come to the Chinese allies
- With reference to the General Delivery Conditions was the Chinese competition validated as follows: from the point of price is considered as a strongest (84%), basic by the level of quality and product range and low in fact of customization.

Future of the Chinese competition

- Almost all companies in the sample think that Chinese presence in European markets will increase (96%)
- The surveyed companies have defined various kinds of factors that could be effective to counter Chinese competition with the same weight; business service and delivery (19%), productivity increase + cost reduction and quality (16%) seems to be considered as the most important. Other mentioned factors: fashion + design (15%), brand + communication (10%), legislative, WTO and EC impact on equivalent production and business conditions in China as in EU, quotas and limits retain. No factor is really effective mean 10% of respondents
- Lower taxes and social costs (39%), support of innovation (25%) and support of financial strengthening of the companies (22%) are considered to be the most important for EU /CZ companies in the future. The serious value have also strict regulations for imports and its quality control
- 36% of the sample have developed a new competitive strategy and next 40% have been thinking about

The new competitive strategy should involve especially:

- Improve customer satisfaction trough customisation
- Services enhancement (delivery etc.)
- Reduce prices through increase of productivity and reduction of cost
- Support of company image, brand and communication through investments
- Development of retailer chains
- Special products

3. SWOT – T+C+ L

<p>Strengths</p>	<p>Good image of the Czech Republic and CZ products abroad EU membership (norms, standards, geographical location etc.) Long term tradition of T+C+ L production Qualified, skilled and flexible workers cheaper than in EU Lower investment requirements Important share of T+C+L branch on total country export Foreign investment already realized in the country Possibility to take advantage of EU funds and structural programmes Short delivery times Quality and design Growing share of the production with the added value Production of goods with a short period of turnover Business service</p>
<p>Weaknesses</p>	<p>Undercapitalization Weak competitiveness power to the cheap imports of standard goods from China and other Asia countries Deficiency of investments for the modernisation of technology and machinery in the SME's Still lower labour productivity compared to the EU countries Prevailing range of standard production segment Higher prices of domestic production in comparable products Low purchasing power of the citizens Low mobility of the employees Still existing OPT production especially in the SME's Unsatisfactory share of innovation performance and R&D in the sectors</p>
<p>Opportunities</p>	<p>New Strategy of CZ Textile and Clothing Industry by 2010 - realisation of the conclusions</p>

	<p>Changes in the structure of T+C+L production (more sophisticated products with high added value (= development of the sector of technical textiles)</p> <p>Market opportunities especially for products for further industrial processing which means</p> <p>cooperation with other industrial sectors mainly automobile industry, construction, agriculture, army, police medical sector, etc.</p> <p>New possibilities of international and domestic cooperation (clusters)</p> <p>EU membership</p> <p>EU development and structural programs</p> <p>Attractiveness for foreign investors and foreign direct investment inflow</p> <p>Working opportunities for young and skilled people</p> <p>Production of more environmentally friendly products</p>
<p>Threats</p>	<p>Growth of cheap imports from developing third countries mostly not respecting the General Conditions of Delivery (dumping, IPR, customer health protection etc.)</p> <p>Transfer of T+C+L production from EU 15 countries to the “Far East” with lower labour costs</p> <p>Change of consumption behaviour and habits of customers</p> <p>Requirements of employees for wage increasing and social care</p> <p>Most of the foreign company owners in Czech Republic are prepared to move the production to</p> <p>The East (lower production costs)</p> <p>High dependence on evolution of external condition (exchange rates, prices)</p> <p>Low adaptation ability of SME´s to the conditions of common market</p> <p>Not fully cleared up the property of companies</p>

4. COMPARISON WITH THE OTHER COUNTRIES SURVEYED

4.1 Analyses of T+C imports and exports 2002 - 2003

Import of yarns and fabrics

Total imports have slightly decreased - 2,37%, and show a high concentration: three countries reach 90% of total.

The large majority of imports are from the EU 15: 70,53%. This share, combined with a positive growth trend of 2,82%, qualifies EU15 as WINNER.

The generic cluster of “Others” maintains the second position in terms of share but its growth trend is negative (-12,89%): it qualifies as LOSER.

China ranks 8th as market share (1,10%) and 4th as growth rate (+55,38%). Other competitors such as Turkey, India, Malaysia suffered significant decreases. (-19% -13%).

Lithuania was the fastest growing country.

Import of Garments

Total imports have increased +5,9%. Import concentration is rather low.

The **largest supplier** is the **EU15** (share 28,30%) but its growth trend is negative (- 3,61%). This makes the EU15 a **LOSER**.

China is the second largest supplier (with a 21,18% share, up from a mere 9,09% in 2001), and it is the real **WINNER**. Also **Slovakia** and **Turkey** are ranked as **WINNER** while **Poland** is losing ground (**LOSER**).

Russia has been the fastest growing supplier.

Among the 10 Perfect link countries, **Bulgaria** and **Romania** have significant positions and positive trends.

Export of Yearns, Fabrics and Garments

The Czech Republic is not in a good position. (- 2,17%)

Export of this group of products is decreasing while the average of the 10-country sample is increasing (Textile 1 Yearns – 2,17%, Garments – 12,56%).

Analyses of Leather and Shoes imports and exports 2002 - 2003

Import of Shoes

Total imports have been decreasing: - 5,71%, and show a medium concentration: three countries make up 67% of total imports.

The largest supplier is still the **EU 15**: 33,20%. This share, combined with a negative growth trend of – 17,67%, makes the EU15 a **LOSER**. Losers are also **Slovakia and Poland**.

China is ranked 2nd as market share (1,10%) and 17th as growth trend (-4,29%), which is negative but higher than the negative average. China is a “weak” **WINNER**.

The “true” **Winner is Viet Nam with an increase of 18,09%**.

Good performance of Romania (INCREASING).

Import of Leather

Total imports have been stable: + 1,00%, with a medium-high concentration: three countries make up 80% of total.

Most imports are from EU 15 (51,11%). This share, combined with a negative growth trend of -2,15%, makes EU15 a **LOSER**.

China is ranked 2th as market share (1,10%) and 8th as growth trend (+40%); it is a **WINNER** as well as **Slovenia** and **Hungary**, which is among the fastest growing countries.

Slovakia, India, Pakistan and Poland are losing shares.

Export of Leather and Shoes

The Czech Republic is not in a good position in these 2 branches. The export decrease of leather makes - 9,72% and of shoes – 38%.

4.2 Questionnaires Results

- The Czech sample outlines a rather strong sector in terms of company structure:
 - focused on product segments that are relatively innovative or presenting some sort of technological barrier;
 - the component of micro enterprises is smaller than in other countries;
 - market orientation is towards new markets.

- Despite the rather “strong” current position as highlighted in part one, Czech companies are suffering markedly due to the new international threats. In particular they fear the Chinese competition and a generalized pessimism prevails among them. Possibly the cost structure of Czech companies is already positioned in the “middle” or “upper” segment.

The situation of Czech companies is therefore comparable to that of many EU manufacturing companies.

- Czech companies suffer particularly the Chinese Threat. However several inputs lead us to think that they are over-estimating, in comparison to others, this threat. The general picture outlines an “extreme” position (unbeatable strength of the Chinese, impact on the upper range of products, pessimism, the overwhelming power of price,...) that is partially based on “impressions” instead of facts.

This psychological attitude might play a significant role in the decision-making process for the Czech industry as well as for the individual Czech company.

- The Czech sample outlines a manufacturing industry in the T/C and Leather sector that has the typical characteristics of a mature industry. It is subject to attacks on the price factor and it thinks it is unable to counter-attack in the same area.

FUTURE

- On one hand the strategy that is emerging is based on cost reduction that considers outsourcing and delocalisation as opportunities to be explored together with other “industrial measures”. On the other hand, a general up-grading of the product/service range is required in order to achieve the goal of establishing strong Czech brands.

This emerging strategy aims at fully integrating and homogenizing the Czech position to the current position of many EU 15 companies in the same sectors.

5. The EUROPEAN FRAMEWORK: THE EUROPEAN COMMISSION SUPPORT POLICY AND PROGRAMMES

The EU Commission and Member States endorsed the Recommendations worked out by the High level Group by the end of 2004. **The Framework set by the High Level Group process includes 34 actions for five following pillars :**

Environment	Impact assessment study on the New Chemical policy - REACH
Intellectual Property Rights	User friendly multi-lingual web-site on IPR Vade-Mecum on IPR Information & awareness seminars at National level
Education & Training	Implementing reconversion & re-classification units Sectoral Dialogue
Innovation and R&D	Integration of SMEs in R&D programs Non-technological innovation
Trade	Market Access Task Force Guidelines textile specific safeguard-China International actions Monitoring of trade Euromed common origin rules for easier, faster trading relationship Concentrate GSP to smaller & LDC + adaptation rules of origin

Projects on European Level

A) Euratex Projects in R&D, Innovation, Education and IPR

Activity Area	Projects	NOTE
Clothing Technology	LEAPFROG LEAPFROG CA	IP
Technical Textiles	AVALON	
Environment	Space2Tex	Czech Republic participation represented by INOTEX
IT & e-business	WebTEXpert	Czech Republic participation represented by ATOK
	Tex-Weave	
Education & Training	VITA	
	EuroTT	
IPR	4IPR	
	Transition	

B) Other EU Projects with ATOK participation

SMATCHINATEX – cooperation with the German Gesamttextil und Mode

Goal: The EU funded Smatchinatex project aims at supporting the co-operation between Small and Medium Sized Enterprises (SME) from the European Union and from China operating in the targeted Textile and Clothing industry with all related sub-sectors. Participation: SME from Germany, Austria, The Netherlands and the Czech Republic.

FASHION SCHOOL – prepared and organised by ATOK

Goal: create multifunctional explanatory dictionary for textile business (in approx. 10 European languages) in electronic form for an active use via Internet. ATOK will propose this project under the framework of the LEONARDO da VINCI programme (EAC/11/04), in the “Language abilities” measure.

C) Regional Level

- EU structural Funds - **Operational programme Industry and Enterprise 2004 –2006 managed by Ministry of Industry and Trade**

PROSPERITY – the support of contacts and cooperation between industries, research

INOVATION – oriented on to increase the technical quality of the production

SKOLICI STREDISKA – Building of Training Centres – development of the human resources in the regions

REALITY- the financial support to SME’s, regional offices (towns, villages etc.) to develop the entrepreneur activities by buying and building of necessary realities

CLUSTERS – mapping and founding of the clusters (ATOK is preparing 3 of them – technical textiles, business trade mark, human resources)

DEVELOPMENT – support and development of the technical and economical in order to help the SME’s in the economic development on the markets

On 24 November 2004, the Czech government approved new SME aid schemes these schemes will remain valid through 2005 and 2006 and are entitled ZÁRUKA [‘guarantee’], TRH [‘market’], PROGRES [‘progress’], PORADENSTVÍ [‘consulting’], DESIGN, ALIANCE [‘alliance’], and ZASTOUPENÍ [‘representation’]. These schemes cater to current requirements in the development of SME’s in the Czech Republic.

Programme of Czech production export support on the foreign markets: the financial support of the participation on the selected international fairs and exhibition (TEXWORLD, HEIMTEXTIL,

ROSSTEXTIL, TECHTEXTIL, ISPO, LINEAPELE and National exhibitions in different countries). Ministry of Industry and Trade programme.

- Programmes supported by **Ministry of Labour and Social Affaires**
EQUAL - the women's entrepreneurship (opportunities for the woman in the work)
PROFESION – training programme
Lifelong training, programme „COMPETITIVENESS“ – tendered by ATOK and oriented on support of the marketing skill in T+C companies
- Regional Projects in the framework of the cross barrier cooperation in the border regions. They are mentioned under the INTERREG projects and managed by **Ministry of Regional Development**. ATOK prepares the project EURO TEXTILE REGION together with the German and Polish partners in the region North + East + West Bohemia, North Moravia, Saxony and Lower Lubieskie

6. GOVERNMENT PLANS FOR SUPPORTING THE TEXTILE, CLOTHING AND LEATHER SECTORS

All the T+C+L companies can use out the above mentioned projects (see item 5/C). These are the main sources of the economic oriented governmental support.

The growing up of the political support on the part of Parliament and Government seems to be more visible in the last period, especially in the market liberalization issue.

7. CONCLUSIONS

7.1 Textile and Clothing

Changes under progress in the textile industry have been, namely, characterised by:

- Concentrations of productions into plants equipped by machinery and installations with the smallest attrition for their maximal utilisation, whereby some decisions were also influenced by a need to solve ecological demands of manufacturing.
- Provision of supporting and servicing processes by organisations acting outside of own company.
- Finalisation of ownership structure of companies by their associations or enlargement of co-operation linkages among companies in the respective branch as well as in the related branches, which have often a strategic meaning and which are called Hi-Tech branches (automotive industry, building industry, transport, public sector etc.)
- By input of foreign capital into the branch - in 2002 organisations controlled by foreign capital were represented by 45 active units in the group with 100 and more employees.
- Expand the EU support and development programmes to companies with more than 250 employees

It is expected that the future development of manufacturing will be focussed on technical products and products for industry, such as articles for protection of health and safety, products for specific use etc. Weight of deliveries for Hi-Tech groups will keep growth in future as well. Simultaneously with the increase of labour productivity a further decrease in number of employees is expected. The main goals in the future development of T+C industry are mentioned in the worked out Strategy of the future development in the period 2005 - 2010.

7.2 Leather and shoe

The leather industry must meet these basic challenges following from the strategy of Community, namely:

- Implementation of the best available technologies (BAT),
- Assertion of the environmental regulations on origin and transfer of noxious substances,
- Improvement of mutual collaboration among SMEs and further institutions etc..

Development of the individual groups of the leather industry will be different. The tanning

industry will be considerably reduced, because the results in receipts, labour productivity, value added and others do not correspond to the existing trends in the EU countries.

The present development and future competitiveness of the branch will depend on raw material base, on capacities of the individual branches and their ability to assure the sales area for their products, on investment possibilities (technologies safeguarding protection of environment and also in the REACH system) and innovation abilities (implementation of R&D results) and on flexibility of organisations in relation to demands of consumers.