

CHAPTER 2:

2. 1. THE UNITED KINGDOM'S KNITTED APPAREL INDUSTRY AND ITS MARKETS

2. 1. 1 Chapter 1 included main reasons for the focusing of this research on the United Kingdom knitted apparel industry. In this chapter a fuller description of the sector, its chief characteristics and its future trading prospects, is given, under four main headings:

(A) The UK Knitted Apparel Industry: Main Parameters & Trading Performance.

(B) Its Home And EU15 Retail Customers;.

(C) Comparison Of The UK Knitted Apparel Sector With Its Main EU15 Partners/Competitors

(D) The UK Knitting Sector's Prospects, In The Context Of The EU.

2. 2. (A) The UK Knitted Apparel Industry: Main Parameters And Trading Performance

2. 2. 1. The UK knitted apparel industry continues to be profoundly affected by powerful international and domestic forces. Of particular relevance here is the continuing growth of competition, at home and abroad, from low-cost producers overseas; causing ongoing rapid decline; together with the rise in the power of apparel retailers, in the UK and the rest of the EU15. Steady reductions in Multi Fibre Arrangement (MFA) /Agreement on Textiles and Clothing (ATC) quotas in recent years, together with intense domestic price competition, had led to a doubling of the degree of import penetration of the UK's retail clothing and knitting apparel market in a decade. Moreover, in a quota-free trading environment, China and India are forecast to become the dominant world suppliers in the next few years (*Key Note, 2004, Executive Summary [ES]: Nordas, H.K, 2004, p2, 34*). For most apparel lines sold in the UK, imports now account for more than 90 per cent of the total (*Key Note, 2008: Abstract*)

2. 2. 2. The following analysis relates to the UK and the other 14 countries who comprised the EU up till May 2004; it does not attempt to find and integrate data for the newer members. Indeed, the restricted availability of statistics relating specifically to the knitting sector (further discussed below) is a considerable problem in a number of areas — including retail distribution, where there is rarely much practical distinction made between woven and knitted apparel. Against this background, we begin by describing and assessing the chief parameters of the UK knitted apparel manufacturing sector and the trends within it.

2. 2. 3. The main elements of the UK knitted apparel manufacturing industry are described below under seven sub-headings:

- (i) Sector definition and its geographical location;
- (ii) Industry size and structure: enterprises, turnover and employment.
- (iii) Production system and technology;
- (iv) Main products and their characteristics;
- (v) UK-based production and outward processing;
- (vi) The sector's importance as a customer of other UK industries; and
- (vii) Consolidation and decline in the knitting industry's infrastructure.

2. 2. 4 Sector definition and geographical location: The UK knitted apparel industry, which excludes warp (fabric) knitting, falls into SITC (R3) category 84 (clothing) and is defined collectively by Standard Industrial Classification categories 17.7 and 18.22/23/24. Of these, SIC 17.7 is entirely knitted apparel. The other three embrace both knitted and woven garments whose trading data can be separated out only at the ONS PRQ 8-digit level. The availability of other important data, especially relating to subsector turnover, numbers of enterprises, and employment is quite seriously limited

by a number of factors, identified by the Knitting Industries Federation (KIF): 'The contraction of the industry, downsizing of firms and the localisation of many product subsectors, in the context of the new version of national statistical surveys, are all inimical to the provision of the detailed sector data that were available in the past' (KIF, 1999, p2).

2. 2. 5. While knitted apparel producers are distributed across the United Kingdom, the sector was formerly predominantly concentrated in two geographical areas of Great Britain. In the mid-1980s an estimated two-thirds of knitted apparel production was based in the East Midlands and a further 14 per cent in the Scottish Borders. But, in the wake of substantial shrinkage in recent years, there is at present no reliable geographical weighting picture of the sector though the proportions may remain similar— and there certainly remain significant clusters in these two areas, as also in the North West. Moreover, as Table .2.4.shows, the East Midlands continues to account for some two-thirds of SIC 17.7 employment.

2. 2. 6. Industry size and structure: enterprises, turnover and employment:

This section aims to describe these three major aspects of the industry as fully as the available data permit. While full statistics are available for overall turnover, for enterprises and employment their coverage is partial. Incomplete but useful information from three other sources is deployed below.

2. 2. 7. With national declines in output of over a quarter for knitted apparel and 40 per cent for all apparel in the five years to 2004, the impact on UK production of the economic forces described above has clearly been a heavy one (Table 2.1). It will,

Table 2.1: UK Production Of Knitwear (all knitted garments) 2000 to 2004¹ inclusive

£m\ Year	2000	2001	2002	2003	2004	%+/- 00/04
1. Knitwear	1,629	1,350	1,553	1,320	1,203	— 26
2. All Apparel	6,499	4,932	4,793	4,391	3,925	— 40
3. Ratio of 1 to 2	25	27	32	30	31	

Sources: Office of National Statistics: British Apparel & Textile Confederation 2005 estimates, in *Industry Statistical Overview 2004*

however, be noted that knitwear production, accounting for a quarter of total apparel in 2000, diminished less than woven clothing over the period.

Table 2.2: Scotland: All Knitted Apparel: Turnover, Enterprises & Employment in 2004

SIC	Turnover	No of Enterprises	Employment
All	£246m (-76%)	225 (-30%)	4,360 (-72%)
17.71	—	10 (-33%)	—
17.72	£98m (-80%)	45 (-31%)	1,770 (-74%)
18.22	£68m (-78%)*	80 (-30%)	1,560 (-72%)*
18.23	£42m (n/a)	10 (-27%)	440 (n/a)
18.24	£72m (+0.04%)	80 (-27%)	1,380 (-28%)

Source: Scottish Executive: 2005. Unpublished. Adapted by the writer.

Notes: Bracketed percentages show changes on Year 2000

* Asterisked figures are for 2003 because those for 2004 are not available

2. 2. 8. Our other two sources of turnover data, one regional and one subsector specific, show complementary trends. In Scotland (Table 2.2) the impact of these forces has been even heavier, overall and by subsector -except for SIC 1824 which showed a marginal increase in turnover. Our only available all-UK figures for categories of knitted apparel are those for SIC 17.7; both of these subsectors also suffered large declines in output (Table 2.3).

¹ In 2006 the values were respectively: £1,155m (Knitwear) and £3,871m (All apparel Production). (BATC, 2007).

2. 2. 9. Numbers of enterprises and trends therein can cast important light on the shape of an industrial sector. However, the statistical merging (Para 2. 2. 4) means there are no full-UK data . Partial enterprises-data are available in precisely the same form as those for output/ turnover. Turning first to Scotland (Table 2.2), it will be seen that, at less than a third, the decline over the period in the numbers of knitted apparel firms is less than half that for turnover. It will also be noted that the percentage fall was broadly equal across all subsectors. The available national data for SIC17.7 exhibit steep falls in both firm numbers and turnover but, in the case of the latter, less so than in Scotland. This is possibly an indicator that the downward pressures accelerated between 2003 and 2004 (Table 2.3).

Trends In The UK Knitting Sector's Main Parameters: Subsector SITC 17.7

Table 2.3. Condition in 2003 compared with 1999.

<u>Product</u>	<u>No of</u>	<u>Turnover</u>	<u>Employment</u>	<u>Purchases*</u>	<u>Net Capital</u>
	<u>Enterprises</u>	<u>(£m)</u>	<u>(000s)</u>	<u>(£m)</u>	<u>Investment (£m)</u>
(a) Hosiery	150 (-44%)	269 (-52%)	4 (-60%)	179 (-45%)	3 (-81%)
(b) Outerwear	302 (-36%)	370 (-57%)	10 (-50%)	221 (-58%)	12 (-14%)
(a) + (b)	452 (-61%)	639 (-45%)	14 (-47%)	400 (-53%)	15 (-50%)

Source: Annual Business Inquiry: Subsection DB: Manufacture of textiles and textile products. Office Of National Statistics -(release date 29/6/05). (* of Materials, goods and services) . Bracketed percentages show extent of decline from 1999 levels.

2. 2. 10.. Employment²: The continuing decline in knitted apparel is shown by long and shorter term data for employment. Standing at 159,000 in 1973-74, its level fell below 100,000 in the early 1980s, then to 50,000 in the mid-1990s, reaching about 30,000 in 2002 (*Knitting Together, 2005, p1*).

² Employment in UK apparel manufacturing as a whole declined from 156k (2000) to 83k (2006), a fall of some 47 per cent. (BATC, 2007) .

Table 2.4: Manufacture Of Knitted and Crocheted Articles: SITC 17.7: Employment

<u>Area/ Year</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>00/03 +/-%</u>
East Midlands	16,166	14,531	10,195	7,877	6,001	- 63
United Kingdom	24,808	18,657	16,522	14,104	9,334	-62

Source: Economy & Labour Market Division, Department Of Work & Pensions. 11 May 05. Personal communication

2. 2. 11. There are again two sources of employment data. That for all of Scotland shows that jobs in this region fell by almost three-quarters over the period 2000 to 2004 (Table 2.2). And the more reliable of the two sources of data for SIC 17.7 exhibit slightly smaller declines, nationally and for the East Midlands specifically, of just over 60 per cent (Table 2.4). Again, the higher figure for Scotland may reflect a steepening of the trend. In summer 2005 the Knitting Lace Industries Training Resources Agency (*KLITRA*) estimated that total employment in all of East Midlands-based knitted apparel had declined to under 15,000.

2. 2. 12. As this region is home to the largest UK cluster of apparel manufacturing firms, including many contract knitted apparel manufacturers, the estimates of *KLITRA*, *EMCAT* and the William Lee Innovation Centre on the trends over the past five years are especially informative. There has been a drop of some 70 per cent in the number of firms, impacting fairly evenly on the outerwear, underwear and hosiery subsectors, to the 2005 total of 200 companies. This decline has been skewed strongly towards large firms, (very few of which now remain) and in this home of that form of production (*Totterdill, P., et al, 2002 , p24*), contract producers have suffered much more than branded- to the point where it is reported that very little is now made there for High Street retailers' own-brands. And almost all of the surviving manufacturers have down-sized. The experience in the North West knitted apparel sector shows both similarities and differences. The decline of 30 per cent in company numbers, leaving a residue of

75-80, affected small firms in the outerwear sector (no large companies remain there). Again, the impact was greatest on contract manufacturers. Likewise, most of the survivors have downsized (*Personal communications to writer, July /August 2005: KLITRA, EMCAT, Community; WLIC/ Manchester University*). (Further data from these specialists, together with that of Skillfast-UK, are deployed below)

2. 2. 13. The knitting manufacturing subsector is distinguished chiefly from that of the producers of woven garments in two main ways. First, it typically knits its own fabric, while its counterpart buys in from weavers its woven fabric; and, second, in the matter of their respective manufacturing technologies. Knitting manufacturing is capital intensive; and technology is advanced; in clothing production, capital intensity is typically low, centring on the sewing machine and, as the OECD points out: *'...today's sewing techniques do not differ much from those of a century ago'* (OECD, 2004, p6)

2. 2. 14. Within knitting manufacturing other major distinctions can be made. Production methods may take either of two main forms. In the fully fashioned route garments such as pullovers are knitted directly to shape thus requiring only limited manual operative intervention. The other main route, cut & sewn, involves the knitting of fabric panels that are then cut to shape, after which the various components are sewn together by operatives. Because of its labour-intensity, this subsector of knitting has proved the most vulnerable to low-cost imports and therefore in most need of automation— as the Knitting EDC anticipated more than 20 years ago (*NEDO, 1983a, p2*). The highly-automated hosiery sector knits its products to shape; its relative efficiency (which could be uplifted further) acts as an obstacle to imports (*Oxborrow, L., 1998, p24*).

2. 2. 15. The capabilities of knitting technology are continually being enhanced, with Japan and Italy the leading innovators. Recent important technological developments have included Shema Seiki's development of the slide needle. This initiative significantly advanced the scope for knitting to shape and hence the more efficient production of garments that are also more comfortable. . There have of course also in recent years been important advances in micro-electronics and ICT generally (*Knitting Together, 2005, p1*). The mantra-like exhortation; 'to remain competitive, it is necessary to invest continuously in the latest technology' (*op.cit, 1983a, p2.*) remains a necessary but not a sufficient strategy for UK knitters' success.

2. 2. 16. While this advanced technology is being installed by low-cost and other competitors across the globe, its take-up here does not seem to have been notable. Thus, while the *Department of Trade & Industry's* Textile & Clothing Strategy Group (TCSG) observed that the UK's lower level of capital investment than that of its competitors in advanced countries helped to explain our less good performance, the Group was also encouraged by the level of knitting investment 'in recent years'— shortly before the 'storm' struck the industry. (*TCSG, 2000, p12*). Because the ONS's Annual Business Inquiry does not differentiate between clothing and knitted apparel producers, it is not possible to chart the level of the entire knitting sector's capital investment performance over recent years. But these data are available for the two subsectors embraced by SIC 17.7 (hosiery: pullovers, cardigans etc.). And from Table 2.3 it will be seen that Net Capital Investment in these product subsectors declined by half between 1999 and 2003. As trading conditions for the sector have worsened in the interim, it seems probable that investment levels have fallen even lower. For instance, the specialists report that there is now low or very little capital investment in the East Midlands. Therefore when continuous investment in the latest technology is only part of a

recommended strategy for success, the UK knitted apparel sector remains underinvested.

2. 2. 17. Main products, their broad characteristics and their relative weightings

The UK knitted apparel industry's products divide into three main categories: outerwear, underwear and hosiery. These groups, their related SIC identities, and the knitted garments which are classified to each are tabulated hereunder, followed by details of their chief qualities and characteristics. As it has not been possible to obtain specific and detailed information on the latter for the full knitting sector, the data received from the survey sample companies is used here as a proxy therefor— and likewise for the relative weightings of the outerwear, underwear and hosiery subsectors.

As shown in Chapter 4, Table 4.10, the weightings are similar.

Table 2.5. Specific Products Within The Three Broad Product Categories

Outerwear

SIC1772, 18221/2, 1824/1

Overcoats, car coats capes, cloaks; anoraks, ski-jackets, windcheaters, wind jackets; jackets and blazers; suits and ensembles; dresses and skirts; trousers, breeches, shorts, overalls; jerseys, pullovers, sweatshirts, waistcoats and cardigans; babies' garments; track, jogging and ski-suits; swimwear; gloves, mittens and mitts; shawls, scarves, mufflers and mantillas; ties, bow-ties and cravats; hats.

Underwear

SIC 18231/2

Blouses, shirts and shirt-blouses; briefs, panties, nighties and pyjamas; negligees, robes, dressing gowns; slips and petticoats; shirts and undershirts; underpants and briefs; nightshirts and bathrobes.

Hosiery:

SIC 17.71

Pantyhose and tights; stockings, socks

Source: Office Of National Statistics. PRQ series, 2004

Characteristics:

2. 2. 18. As Table 2.6 indicates, knitted garments, which may be of natural, blends or manmade fibres, range from low to high fashion and a similar price spectrum and may be 'own brand', customers' brand, or both.

Table 2.6. Main Characteristics Of Sample Firms' Knitted Apparel - By No of Firms

Gender	Fashion Content	Price	Fibre	Brand/ Contract
1.Men 8	Low 14	Low 3	Natural 31	Contract 17
2.Women 7	Medium 38	Medium 42	Blends 8	Brand 26
3.Children 2	High 16	High 14	Manmade5	Brand & Contract 38
4.M&W 24	L&M 7	L & M 9	N & B 12	
5.M&C 1	L & H 2	L& H 0	N & M 4	[Missing data:
6.W&C 5	M & H 2	M& H 11	B & M 7	Fibre -3: Fashion -2
7.MWC 32	LMH 0	LMH 2	NBM 12	Gender/price/B&C-1
<u>Source</u>	Response from	Survey Firms.	See Table	4.11)

2. 2. 19. Outward processing: Faced with the common problem of growing low-cost imports many of the UK's EU15 partners, chiefly high-cost producers themselves, accepted the logic and moved their production, mainly to Central and Eastern Europe where labour costs were much lower. These operations, which take a variety of forms, usually involve having the labour-intensive operations, including making-up, performed abroad and then the re-importation of the completed garments, under favourable customs arrangements. Main countries who took this route as early as the 1980s, included West Germany. As Graziani shows, Italy did not begin until the mid-1980s. (*Graziani, G. 1998, p3*). But it was not till the mid-1990s that the UK turned to outward processing on a substantial scale. This lateness is attributed to two factors: one was the relatively lower wages costs in the UK; and, second, that many knitters were long-standing suppliers to Marks & Spencer who followed- well into the 1990s— a rigorous 'Buy British' policy. Then in 1999 this retailer, in the face of strong price competition, decided to source some 70 per cent of sales abroad, causing thousands of manufacturer job losses in the UK; and driving many more of them to produce abroad for UK sales (*Lane, C., et al, 2004, p11; Totterdill, P., 2002, p24*)

2. 2. 20. The sector's importance as a customer of other UK industries: In past years the knitters have been an important customer of other industries — though it is not possible readily to establish the import content ratio of their total purchases of materials, goods and services, nor indeed their current level for the sector as a whole. But, using SIC17.7 data as a proxy for the sector, we find that purchases had declined by more than half since 1999. Nonetheless, at £400m for these subsectors and possibly double that for the industry as a whole, UK knitted apparel manufacturing remains an important customer for other traders in the domestic economy (Table 2.3).

2. 2. 21. UK imports and exports of knitted apparel; 2002 (Q1) to 2004(Q1): In the wake of the foregoing description of main facets of the UK knitted apparel industry, it is informative to look at its international trading performance in recent years. Therefore this section tabulates and describes the main aspects of the UK's knitted apparel exports and imports for the three years ending with Quarter 1 of 2004. While separate knitted apparel data are readily available for SITC 17.7, those for SITC 18.2 have to be extracted at the 8-digit level — a process too laborious to countenance the extraction of a full five-year time series.

2. 2. 22. As will be seen, the main trends in the UK's 2004 exports and imports compared with those of 2002 are these. Exports (+8%) grew about half as fast as imports (+17%), and the share of total exports going to the rest of the EU rose from 65 to 70 per cent. Although imports as a whole had shown a significant rise over the period, the EU14's share remained steady at 24 per cent. By named product, underwear

Table 2. 7: UK: Exports & Imports Of Knitted Apparel³: Quarter 1, 2002 to Quarter 1, 2004

³ .2006: All apparel (£m): Exports: 2,859 (EU:2, 081): Imports: 12, 077 (EU:2,925). (BATC, 2007)

	Exports (£000s)	+/- (%)		To			+/- (%)		From EU			
		'03	'02	EU(%)	'03	'02	Imports	'03	'02	EU	'03	'02
<u>2004</u>												
Outerwear	145,146	+10	+15	66	66	61	618,639	+2	+53	26	22	27
Pullovers	348,506	+5	+4	76	76	73	1,232,316	+1	-4	26	25	23
U/wear	182,121	+9	+23	66	71	74	809,161	0	+11	20	17	17
Hosiery	48,263	+4	-6	67	69	62	295,247	+14	+14	33	33	37
Other	150,218	+4	+2	64	48	41	469,566	+8	+81	20	19	32
Totals	874,254	+6	+8	70	68	65	3,424,929	+3	+17	24	23	24

Sources: Office Of National Statistics: PRQ: 17710, 17720, 18.221, 18.222, 18.231, 18232, 18249

Data are for years ending with Quarters 1 of 2002, 2003 and 2004.

underwent the largest change, with exports growing by 23 per cent. On the imports side, outerwear (+53%) showed the highest rate of growth. Taken in the round, about two-thirds to three-quarters of the sector's exports went to the rest of the EU, but only a quarter to a third of UK imports of knitted apparel came from there. Export and import data for other individual members of the EU15 is shown in (C), Tables 2.15

2. 2. 23. Import penetration. Table 2.7, with the foregoing discussion, has indicated clearly the growing pressure of imports, especially from low-cost producers, on the UK apparel market. Table 2.8 demonstrates its practical impact by main knitted garment type. It will be noted that, with the exception of a highly-automated subsector of hosiery, there is deep import penetration right across the knitted apparel market, ranging from 73 to more than 100 per cent.

2. 2. 24. Decline and consolidation in the sector's infrastructure: The decline in the fortunes of the UK knitted apparel industry have been paralleled by a considerable

Table 2.8: UK Home Market For Knitted Apparel: Extent Of Import penetration
Main Products % of Home Market

Pullovers etc	92
Trousers	118
Other outerwear	108
T-Shirts	116
Nightwear	82
Slips etc.	95
Track Suits	87
Tights & Stockings	28
Socks/ Other Tights	73

Source: British Apparel & Textile Confederation. (Data are for 2003).

Note: Levels above 100 per cent penetration reflect the impact of re-exported imports.

weakening of its traditional infrastructure, chiefly in the areas of suppliers/allied services, trade associations, industrial relations, education & training. First, our regional industry experts reported on the decline of two key industry local facilities in the 5 years to mid-2005. In the East Midlands it is estimated that the Dyeing & Finishing sector has diminished by 90 per cent and yarn spinning capacity by 80 per cent in this time. In the North West both of these have gone completely. For the East Midlands this is a general problem for the manufacturing chain; for the North West it is more specifically described as restricting yarn variety and increasing lead times. Second, the industry's national trade association, the Knitting Industries Federation, joined the clothing and footwear bodies under the umbrella of the British Apparel & Textile Confederation; and the 115-year old Hinckley & District Knitting Industries Association, latterly with only a handful of members, was set to close down at the end of 2005 (*HADKIA letter to the writer July 2005*).

2. 2. 25. Third, the sector's main trade union, originally the NUHKW, then KFAT, has merged with another union, ISTC, to form Community. Fourth, concerns have been articulated about the diminishing availability of the specialised training and educational courses which are essential to the sector's trading success [*Increasingly, even in regional centres of the industry, some training establishments are questioning the viability of continuing to provide training in traditional subjects.*](*Oxborrow, L., 1998,*

p57). (The importance of adequate training to the prospects of the sector is discussed further in Section (C). Finally, it may not be without significance that the Department of Trade and Industry, for decades the sponsoring department for textiles and clothing, has now devolved this function to the regions (*conversation with DTI official, August 2005*). These trends are not hallmarks of growth.

2. 2. 26. Summary: The foregoing section has described the main characteristics of the UK knitted apparel manufacturing sector, including its SIC definition and geographical distribution. Overall, the industry makes outerwear, underwear and hosiery, in all genders, for brand and contract labels, at low to high fashion levels and price points, of natural, mixtures and manmade fibres. Much more capital intensive than woven clothing production, it serves both home and export markets — the latter weighted towards the rest of the EU15.

2. 2. 27. Over recent years the combined impact of accelerating low-cost imports, growing retailer power and intense price competition at home, with major growth in outward processing, have resulted in a substantial decline in the scale of the sector, . In the five years to 2004 production declined by a quarter, to £1,203m; while for most knitted garments home market import penetration now ranges from 73 to over 100 percent. From 2000 to 2004 employment in the Scottish industry fell by almost three-quarters, and nationally by more than 60 per cent in the SIC17.7 subsector. And, unsurprisingly, there have been large declines in the numbers of enterprises engaged in knitting manufacture. Finally, the extent of shrinkage in the sector's traditional infrastructure has reflected these negative trends— as has the decline in the capital investment which is crucial to its competitiveness.

2. 3. (B) ITS HOME AND EU15 RETAIL CUSTOMERS

(a) The Knitted Apparel Sector's Home Market Retail Customers

and woven apparel grew, in 2004, to £37 billion⁴, up some 4 per cent from 2003 (*Mintel, July, 2005*). The market was supplied predominantly by imports. As has been seen, for 8 key knitted products the import penetration ratio ranged from 28 to 118 per cent (Table 2.8)..

2. 3. 4. Table 2.10 shows how total sales are divided between the different types of distribution outlets, also giving their relative shares and the trends. In terms of gender, womenswear accounts for just over half of the market — a proportion that has remained fairly steady in the period 1999-2003 at least. (*KeyNote, 2004, Executive Summary(ES)*).

Table 2.10: Share Of Spending On Clothing By Type Of Retail Outlet:(%) 2003

Type	Share (%)	Type	Share (%)
Multiples	24	Mail Order	9
Variety chains	14	Independents	8
Sports shops	10	Supermarkets	8
Discount/cash & carry	10	Other	8
Department stores	9		

Source: Key Note Ltd ;*Clothing Retailing 2004, p 20*

2. 3. 5. The shares by type of outlet shown conceal substantial growth in specific categories. Thus, between 1994 and 1999, in UK apparel retailing, discount retailers doubled their market share, department stores enhanced theirs by 40 per cent and home shopping's share grew by one-third (www.austrade.gov.au/australia/layout). But there is no stasis; the trends mentioned below are changing the distribution share picture- and the independents' percentage, already low, seems likely to suffer most- as the scale advantages enjoyed by their main competitors continue to undermine them.

2. 3. 6. Each of these categories of outlet is not populated by numerous firms, all engaged in something like perfect competition. In fact the UK apparel market is the

⁴ And had an estimated value of £42.45 billion in 2007. In that year clothing and footwear together accounted for only 6 per cent of UK consumer expenditure, largely owing to the continuing decline in garment prices (*Key Note, 2008*).

most highly concentrated in Europe, with a concentration index of 75 per cent (*Lane, C. et al, 2004, p22*). And the five leading UK clothing retailers-: Marks & Spencer; Next, Arcadia Group, Matalan; B&S — together accounted for 44 per cent of all apparel sales in 2004 (*Mintel, 2005, ES*). As the combined share of the five top retailers stood at 35 per cent not much earlier (*Mintel, RB, 2004*), the degree of concentration is clearly continuing to grow.

2. 3. 7. This fact has crucial importance for suppliers and others. The major cause of the substantial reduction in the numbers of independent retailers and small chains, growing concentration has greatly reduced the variety of outlets available to suppliers and thus increased their dependence on the large retail groups (*Totterdill, P. et al, op.cit., p21*). Moreover, this decline in its traditional customer base has undermined the independent fashion designer sector and thus its ability to produce the types of garments on which the survival of the UK's apparel industry depends (*Malcolm Newbery Consulting, 2003, p46*).

2. 3. 8. But, despite the high concentration, there is intense competition in the UK apparel market. Discount stores have driven down prices, reducing retail margins. To a great extent, the market has polarised, with the discounters on one side and specialists in high-price designer garments on the other. The traditional mid-market retailers, especially Marks & Spencer, have been coming under increasing competitive pressure in recent years. However, the strongest threat to the mid-market is not from the discounters; it is from what have been described variously as the 'value-led' retailers, in particular TK Maxx, Asda, Tesco, or 'the grocery superstores' (ASDA, Tesco), who are reported to be the fastest growing channel type in the market, taking an increasing share of sales (*Key Note, 2004, ES*). As this retail category is now moving its value-led ranges

more upmarket, it is increasing the competitive pressure on both the discounters such as Matalan and the mid-market retailers, especially Marks & Spencer.

2. 3. 9. As noted above, the intense competition of recent years in the UK apparel market has both driven down prices (*Key Note, op.cit., 2004*) and put strong pressure on retailers' margins. This squeeze has elicited from affected retailers one or both of two responses. The first of these has taken the form of an upsurge of overseas sourcing. Here the prime example is certainly Marks & Spencer, which had bought, in 1985, 20 per cent of all UK-produced clothing and continued its 'Buy British' policy into the 1990s, ended thousands of UK knitting and clothing manufacturing jobs by switching most of its orders out of the United Kingdom. It thus adopted what had long been the practice of many of its fellow-retailers, and, additionally, has driven into various forms of outward processing some of its former suppliers. As mentioned above, many other manufacturers took a similar course (See Para 2. 2. 19).

2. 3. 10. Retailers' second form of response has been to drive the main pressure on prices upstream, so as to bear on supplying manufacturers. This is reported to have galvanised the speed of change, increasing the latter's overseas sourcing and broadening their ranges with the aims of spreading risk and enhancing customer loyalty. Those wishing to continue serving UK retailers must now achieve shorter response times, be more flexible, and provide an expanding number of added-value services, including response to EPOS data, and inventory management (*Totterdill, P. et al, 2002, p24*). Unsurprisingly, some manufacturers find these stringent demands unreasonable and oppressive (*the writer's 2005 conversations with sample survey firms*).

2. 3. 11. Summary: While the number of retail outlets had remained fairly steady, the UK market for knitted and woven apparel had grown to £37bn in 2004 (See above for

2007 level). Supplied predominantly by imports, it accounts for about a quarter of all EU15 retail sales of clothing. With its five leading firms collectively responsible for 44 per cent of UK clothing sales (2004), it is the most highly concentrated retail sector in Europe. Intense price competition from discounters and 'value' retailers, particularly with the UK mid-market, have driven down prices and squeezed margins. In turn, affected retailers have increased their overseas sourcing, also passing on these financial pressures to their UK garment suppliers, many of whom have either been driven offshore themselves, or have had to close down. Weakened also by the steep decline of the independent retail sector, many of the surviving UK apparel manufacturers now face much more exigent service and other demands from their powerful domestic retail customers.

(b) The UK Knitted Apparel Sector, Import Penetration And The EU Retail System

2. 3. 12. Introduction: Having described in the previous sections the main aspects of the UK knitted apparel sector and its home market, together with the trends therein, and its trading performance in recent years, we now move on to consider the sector in the context of the EU15, under these subheadings: size of market; import penetration; impact on manufacturers; retail distribution structures and trends, and factors moderating the impact of retail concentration and import penetration.

2. 3. 13. Size of the EU15 retail clothing market : In 2000 the combined turnover for clothing and footwear was over Euro 165 billion, of which 78 per cent (Euro 129 bn) was clothing sales. In each member state apparel retailing comprised two-thirds or more of the subsector's turnover. The UK had, in 2000, the largest subsector of the 15 and contributed 25 per cent of its total turnover (*European Business, 2003, Part 5, p307*)

2. 3. 14. Import penetration:. This market is supplied by both domestic production and imports; the latter has been increasing and the former diminishing. Assisted, as in the case of the UK, by the gradual removal of MFA /ATC quotas, and possibly by the reduction in EU tariffs since the mid-1990s (*Lane, C. et al, 2004, p9*), import penetration of the EU15 market has grown substantially over the past 15 years. Its overall degree had increased, in the decade to 1999, from 12 to 23 per cent in textiles, and from 30 to 46 per cent in clothing (*Stengg, W., 2001, p13*)—markedly lower than the UK. And, with the abolition of the quotas at end-2004, the pressure from low-cost imports continued to increase strongly⁵.

2. 3. 15. Main sources: About 60 per cent of these imports come mainly from East Asia, followed by suppliers in Central and Eastern Europe (*Poverty Research Unit Sussex (PRUS), 2002, p1*) - a number of whose home states joined the EU in mid-2004. Not all of these are straightforward imports. Thus Stengg draws attention to the OETH estimate that outward processing trade, whose steady growth continues, accounted in 1999 for more than a quarter of all clothing imports to the EU (*op cit.,2001, p9,10*). The positive aspect of this element of imports is discussed below.

2. 3. 16. Uneven incidence: The extent of import penetration is far from being uniform, in terms of both magnitude and growth, across the Union. Germany accounts for the bulk, followed by the United Kingdom and France, while Italy and Spain enjoy a relatively low degree of penetration [*PRUS, op cit., p1,3,4; see also Table 2.15 (CITH data)*]. Imports have grown fastest in Germany, the United Kingdom and the Netherlands, with slower or later growth in the lower labour cost countries eg Portugal and Greece. (*Totterdill, P. et al, 2002, p18*). The probable causes for this differential pressure are discussed below.

⁵ Though it remains to be seen what effect the worldwide 2008 downturn will have in this area.

2. 3. 17. Impact on manufacturers: Unsurprisingly, the growing scale of imports has had a major effect on EU15 firms and employment in textiles and apparel manufacturing. Euratex 2001 estimates are that the number of firms in this sector fell by 14 per cent overall between 1995 and 2001; and that the effect on employment in the three subsectors for the period 1995 to 2000 was as tabulated in Table 2.11.

Table 2.11: Subsector: Employment % change.1995-2000

Textiles	656,100	-12.1
Knitting	499,500	-18.2
Clothing	961,500	-19.4
Total	2,117,200	-16.9

(Source: Euratex estimates, 2001, based on Eurostat data). (*Totterdill, et al, op cit, p16*)

More specifically, it will be seen (Table 2.12) that the UK suffered the greatest number of job losses in the period, with other leading members of the EU15 far below. It does, however, need to be appreciated that it would be misleading to confine attention entirely

Table 2.12 : Clothing: Employment decline by main EU country 1995-2002

<u>Country:</u>	<u>United Kingdom</u>	<u>France</u>	<u>Greece</u>	<u>Italy</u>	<u>Germany</u>	<u>Spain</u>	<u>Portugal</u>
Employees 2002 (000s)	78	81	45	198	105	116	143
Decline from 1995 (%)	55	41	32	28	14	1	0

Source: International Labour Organisation 2004: In *World Trade Organisation, 2004, p10*

to this specific period. In Germany, for example, early outward processing and later reunification diminished employment. Thus, as Lane explains, while the strongest overall decline there occurred in the 1990s, the fall in employment, number of firms and output started much earlier (*Lane, C. et al, op.cit., p12*).

2. 3. 18. Retail distribution structures and trends: The level of import penetration to the EU15 is best seen in the context not only of the size of the retail market (Para 2. 3. 13), but also of its structure, main elements, trends and the implications of all of these. Each of these factors is discussed in turn below. Turning first to structure, the textiles, knitting and clothing retail distribution system of the other EU15 remains very heterogeneous. It thus contrasts strongly with the highly concentrated UK retail. Table 2.13, covering additionally the sale of footwear, casts further light on the variability of structure across the 14 members of the EU15 for which we have comparative data.

Table 2.13 : EU Retail Sales: Textiles, Clothing, Footwear etc. (NACE 52.41/42/43). 2000

EU state	UK	Aus	Lx	Ger	Nl	Dk	Sw	Irl	Fr	Fin	Bel	It	Sp	Pl
ATE*	2.08	0.87	0.79	0.79	0.70	0.59	0.56	0.49	0.46	0.43	0.43	0.21	0.17	0.11
% of UK	—	42	38	38	34	28	27	24	22	21	20	10	8	5

Source: Eurostat: Structural Business Statistics; and European Commission.

Adapted by the writer from European Business (2003), Pages 307/308. Figures 18/19.

* Average Turnover per Enterprise (Euros millions)

2. 3. 19. This table takes the average turnover by retail enterprise in 14 of the member states as an index of concentration. It will be observed that the average size of enterprise in the UK retail subsector is more than twice that of Austria, the next highest, and then tapers off steadily till the lowest level is reached at Italy, Spain and Portugal. The very high average for the UK enterprise is a reflection of the heavy weighting of large retail chains here. By contrast, the much lower and steeply declining average size enterprise indicates the opposite.

2. 3. 20. The marked contrast in size of enterprise is not new. It was, for example, stressed by the Knitting EDC in its submission to the Department of Trade and Industry (DTI) for financial assistance (*NEDO, KEDC, 1983b*), drafted by this writer, emphasising that it made the United Kingdom much more vulnerable to imports, especially the low cost variety, than its contemporary EEC partners, additionally because a foreign supplier visiting London had only to see a dozen main buyers to have prospected most of UK apparel market sales. It was also highlighted by de Jonquieres (*deJonquieres, G. 2004, p13*). Below we discuss the main implications of this heterogeneity in the context of import pressures.

2. 3. 21. EU15: Market shares by type of retail outlet.

Not least because of its power aspect, the degree of concentration in apparel retailing is a very important factor. Another which has key implications for both the level of imports and the nature of the relationships between suppliers and retailers is the relative shares held by the different categories of distributor in the EU15. Table 2.14 shows the average share by type of outlet for the EU15 as a whole, alongside those of four leading individual members . Probably the most important aspect is the relatively large average share held by the group of independent retailers. Although this share continues to be eroded, they remain a more important force in Europe than in the United Kingdom. As noted earlier (Para 2. 3. 7), the existence of independent retailers provides alternative outlets for manufacturers, as well as (at least in the UK) customers for designer sector apparel. And in countries such as Italy they also act as obstacles to low-cost import penetration.

2. 3. 22. This distributional diversity is being steadily reduced, chiefly at the expense of the independent outlets. In the EU15 the predominant trend is the spread of large retailers across the Union. By categories, the fastest growing are the specialist fashion

Table 2.14: EU15: Apparel Distribution By Type Of Channel: Share Of Retail Sales (%)

<u>Channel Type</u>	<u>EU15</u> (1999)	<u>Italy</u> (2000)	<u>Germany</u> (1999)	<u>France</u> (2000)	<u>U Kingdom</u> (2000)
<u>Independents Retailers</u>	33 (-11)	56 (-10)	37 (-4)	22 (-8)	13 (-3)
<u>Specialist Chains</u>	25 (+4)	19 (+7)	24	41 (+19)	32 (+1)
<u>Dept & Variety stores</u>	15 (+3)	8	12	6 (-1)	27
<u>Hyper & Supermarkets</u>	8 (+2)	3 (+2)	4 (+1)	15 (-4)	4 (+2)
<u>Mail Order</u>	8	0 (-1)	15 (+2)	8 (-5)	9 (+1)
<u>Street Vendors</u>	—	9 (-5)	—	—	—
<u>Other</u>	12 (+3)	5 (-7)	8 (+1)	8 (-1)	15 (-1)

Source: M.Dunford, who elaborated from OETH (1995,1998,2000) and IFM— CTCOE (2001). Abridged (and decimals rounded) by this writer. Bracketed figures are percentage changes since 1993). Personal communication from Dr Dunford 21 December 2005.

chains (characterised by market segmentation and quick response), and the supermarkets and discounters who use their buying muscle to reduce supply chain costs. Moving from the abstract to the concrete, these trends are exemplified chiefly by the dispersion through the EU of retailers: Zara, H &M, Carrefour, Benetton, together with the arrival there of such American firms as Walmart and the Gap. (Totterdill, P. et al, op. cit, p21). The main impact of these trends is outlined below, as are the important countervailing forces.

2. 3. 23. Retailer power The main effects of growing retailer concentration and competition in the EU knitted apparel and clothing market lie chiefly in the consolidation of supply chains and greater control by large retailers over suppliers and the entire supply chain. There is also said to have been a weakening of previous cultural or geographic loyalties with the emergence of new low-cost suppliers. As in the UK, this growing retailer power affects suppliers in a number of key ways: pressure on margins, increased risk, and demands for greater flexibility in product variety, response times, product quality and other standards. (Poverty Research Unit Sussex (PRUS), op.cit, p32).

2. 3. 24. Barriers to Concentration: There are, however, strong barriers to the emergence of a unified EU apparel retail market dominated by large retailers. They consist mainly of the following countervailing forces:

(a) Regional Complexity: The EU 15 comprises great diversity, especially in demographics, property costs, cultural differences, social and other practices, tastes, traditions, shopping habits, all of which contribute to the shaping of their existing retail structures. Germany, for instance, has a powerful Mail Order presence; Italy has none.

(b) Legal: In parts of southern Europe local laws have braked the development of large stores and retail chains. This contrasts largely with Germany and the UK. Indeed Tesco appears to be able to leverage UK local authority planners by threatening to take rejected applications to appeal (*The Observer*, 2005)

(c) Buying groups: In Germany and the Netherlands there have long been powerful buying groups who operate on behalf of the independent retail sector. The main and very considerable benefit which they confer on the member firms is the economies of scale that derive from their bulk purchasing;

(d) Benefits of outward processing: By establishing early and sound relationships with nearby Central and East European manufacturers, some from as long ago as the 1980s, France, Germany, Italy, Holland and Belgium in particular continue to benefit greatly from their outward processing operations. A major advantage is of course supplies of good quality garments at low cost. Another, as the Poverty Research Unit Sussex (PRUS) explains, is that the outward processors have, in a number of cases, been themselves able to move downstream into distribution, or alternatively to become managers of outward processing operations, supplying designs and making only samples (*PRUS, op.cit., 2002, p3,4*).

(e) Private supply chains: The experience of the UK, Germany and some of Scandinavia has been of distributor-driven restructuring— powered by the direct low-cost imports of powerful retailers. This is in marked contrast with the vertically-integrated private production chains, some of which are to be found in Italy and Spain. These organisations, usually led by independent retailers, have their bases in groups of small producers and the fragmented independent retailers. They are thought to operate to the

mutual benefit of their members and without the retailer dictation to be found in the most concentrated apparel retail markets (*PRUS,op.cit., p1,3,4*).

2. 3. 25. These five instances do not catalogue fully the extent of the EU countervailing power that opposes the growth of domineering retailers - there is also, for example, the high degree of concentration in German clothing manufacture and its greater choice of possible outlets than is available to UK manufacturers (*Lane, C. et al, 2004, p21*). But while the much higher general ratio of independent retailers that survive in the rest of the EU 15 will be gradually whittled down, UK knitted apparel exporters appear clearly to be at a competitive relative disadvantage, mainly because their own independent outlets have been virtually eliminated, they comprise predominantly small (non-optimised) firms, and they face higher pressures from powerful retailers, who are engaged in intense price competition, than do any of their EU15 partners/ competitors.

2. 3. 26. Summary: In 2000 total EU15 apparel market sales, of which the UK had the largest share, were valued at Euros 129 billion. Import penetration, especially from low-cost sources, has grown substantially over the past 15 years and in 1999 supplied almost half of the market's needs. Germany takes the bulk of these imports, which include outward processing trade, followed by the United Kingdom and France, with Italy and Spain having relatively low shares; growth in import levels tends to be skewed in the same order. Over the years imports have cost the EU15 an estimated 4m jobs (with the UK losing most in recent times) and, in the five years to 2001 some 14 per cent of its apparel firms.

2. 3. 27. Since removal of quotas, import pressures have been intensifying. While others' retail structures are much more fragmented than that of the UK, with

independent outlets retaining a much bigger market share, the large specialist retailers are extending across the EU, bringing with them price competition and increased low-cost sourcing, to the detriment of domestic suppliers and the independent retail sector. Forces opposing a move to a unified EU15 retail market include regional social complexity, legal restraints, concerted purchasing by independents, private supply chains, the benefits of outward processing, and concentration in German apparel manufacturing. Against this background UK suppliers of knitted apparel tend to be at a competitive disadvantage vis a vis their other EU15 counterparts.

2. 4. (C) COMPARISON OF THE UK'S KNITTED APPAREL SECTOR WITH ITS MAIN PARTNERS/ COMPETITORS IN THE EU15

2. 4. 1. Introduction: Section B has described the EU15 apparel retail market and import penetration together with the main factors influencing both. It is now appropriate to compare, insofar as the available data permit, main aspects of the UK's knitted apparel industry with those of its partners/ competitors in the rest of the EU15. Comparisons are made first in respect of export, import, and relative values levels in knitted apparel trade (and for clothing as a whole), then in relation to a series of key factors that help to explain the UK knitting industry's performance *vis a vis* its main competitors.

EU15: Trade In Knitted Apparel 2004: Exports/Imports:Value (EUR),Volume (Tonnes)

2. 4. 2. Turning to the first of these, Table 2.15 describes the main facets of the EU15's exports and imports of knitted apparel for the period 2002 to 2004 (—thus broadening out the UK-centred picture presented in Table 2.7) . But this discussion focuses more narrowly on Italy, France, Germany and the UK, comparing them in respect of relative shares, average values per tonne, ratios of export to import values, and respective performance trends over the period. As the table indicates, some of the other states'

average values seem suspiciously high. Caution needs to be exercised in interpretation also because we have no information on the types and characteristics of the knitted garments included in the various volume figures.

2. 4. 3. Within the EU15 the magnitudes of shares of total export and import tonnages are seen to be strongly skewed towards a few countries. In exports Italy (17%) leads the field, with Germany (15%) a fairly close second, but markedly lower shares for the United Kingdom (9%) and France (8%). In imports, the ranking order is partly reversed: at 22 per cent, Germany has the largest share, with the UK (21%) in second place and France, at 14 per cent, well behind. And it is noteworthy that Italy, with the largest share of EU15 exports, ranks only fourth as an importer (11%).

2. 4. 4. Average value per tonne is a useful rough measure of apparel quality/ market value which helps too with the making of comparisons (*see also DTI, 2003, p 65*). At Euros 40,706 Italy's exports have the highest average value per tonne of the four countries. France (96% of Italy) is second, Germany (70%) is third and the UK (60%) is the lowest of the four. France (Euros18, 302) imports knitted apparel with the highest average value per tonne of the four countries: Germany (88%), Italy (84%) and the UK (76%) are all markedly lower. For the EU15 as a whole the average values per tonne are Euros 29,996 (exports) and Euros16, 562 (imports).

2. 4. 5. The export/import ratio, also in average value per tonne, helps to show the extent to which these countries are exporting higher value apparel and importing lower value items. This is most obviously the case with Italy whose export/ import value ratio is 2.64, as compared with France (2.16), United Kingdom (1.76) and Germany (1.75). These ratios compare with an EU15 average ratio of 1.81.

2. 4. 6. Finally, the trends in relative shares for the four countries 2002 to 2004 (tonnes) are mixed. With a marginal decline in its share of exports and a 22 per cent increase in its share of imports, Italy did least well. France with a 1 per cent gain in exports share for a 6 per cent growth in that for imports did little better. For a 5 per cent increase in export share and 2 per cent growth in imports the UK was in an intermediate position. And with a gain of 11 per cent in exports share and a decline of 2 per cent in imports, Germany had the best trend performance.

2. 4. 7. Though the time periods are a little different, it is informative to compare the four chosen EU15 states not only in respect of knitted apparel (Table 2.15) but also in relation to all apparel (Table 2.16.). It is interesting that while there are minor variations in positioning, when ranked on their respective shares of exports and imports these four countries have similar rank orders in clothing as a whole as they do for knitted apparel specifically. This suggests that their trading performances in knitted apparel and clothing as a whole follow broadly similar patterns.

Table 2.15a. EU15: Selected countries: Export /Import Ranking In Knitted Apparel & Clothing

<u>Country</u>	<u>Kn itted</u>	<u>Apparel</u>	<u>All</u>	<u>Clothing</u>
	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>
			<u>s</u>	
Italy	1	4	3	7
Germany	4	1	6	3
U.K.	5	2	12	5
France	6	3	8	5
<u>Source</u>				

Source: Tables 2.15 (KA) and 2.16 (all Clo)

It will be noted, too, that, of the four, only Italy achieves the desirable higher ranking for exports than for imports. Unsurprisingly, all four countries rank lower in world clothing trade than they do in EU15 knitted apparel trade.

2. 4. 8. Our second set of comparisons focus chiefly on key factors affecting competitiveness, especially: differences in: productivity; capital investment;

Table 2.16: EU 15: Shares of Clothing Exports & Imports 1990, 2000: Top 9 Countries

<u>Exports (\$bn)</u>					<u>Imports (\$bn)</u>				<u>Balance +/- (\$bn)</u>
<u>Rank*</u>	<u>State</u>	<u>2000 (\$bn)</u>	<u>1990</u>	<u>2000</u>	<u>Rank*</u>	<u>2000 \$bn</u>	<u>1990</u>	<u>2000</u>	
3.	Italy	13.22	11.00	6.60	7	6.07	2.30	2.90	+7.15
6.	Germany	6.84	7.30	3.40	3	19.31	18.20	9.20	-12.47
8.	France	5.43	4.30	2.70	6	11.48	7.50	5.50	- 6.05
12.	UK	4.11	2.80	2.10	5	12.99	6.20	6.20	- 8.88
14.	Belgium	3.94	—	2.00	9	4.81	—	2.30	—

Source: World Trade Organisation: International Trade Statistics (2001).Table IV— 80. P154; and (C. Lane et al, 2004, p10)

* China and H Kong are ranked 1 and 2 for exports; USA & Japan No 1 and 2 for imports.

qualifications, training and skills level; design.capabilities, relative concentration, and outward processing trade. Again, a mix of data for knitted apparel and clothing as a whole is used .

2. 4. 9. Comparative productivity: Turning to the first of these, it is of course not only a case of needing to have the right products in the right place at the right time and at the right price but also, as an essential condition for this, adequate levels of productivity in their manufacture. There is scope for improvement in the UK in this area, as the following macro to micro data will show. When the UK's Textile/Clothing/ Footwear level of productivity is used as a base (UK=100), France ranks 196, Germany 129 and the USA 159 (*Skills For Business, 2003, p4*). Other measures point in the same direction. Thus, in the narrower field of textiles and clothing, the UK's Gross Value Added per employee is shown to be markedly lower (on the chart) than that of France, Germany, Italy and the USA (*TCSG, 2000, p37*)

TABLE 2.15 EU15: EXPORTS AND IMPORTS OF KNITTED APPAREL 2004
(Volume (Tonnes), Value (Euro). Includes share trends 2002/04)

(a) EXPORTS

Country:EU15 (%) (Tonnes)	Tonne Ratios (cf Italy)	Value Ratios (cf Italy)	Average Share of EU15 Value/Tonne	Trend 02/04 +/-	
Italy	17.2	100	100	40,706	-0.04
Greece	17.1	99	22	8,172	0.002
Netherlands	16.5	96	34	14,405	0.08
Germany	15.3	89	62	28,378	0.11
U.Kingdom	9.2	54	32	24,300	0.05
France	8.2	48	46	39,067	0.01
Portugal	4.5	26	35	54,747	-0.02
Belgium	3.2	19	37	82,303	0.1
Spain	2.8	16	22	54,671	0.05
%EU15	94				

(b) IMPORTS

	(cf Germany)	(cf Germany)			
Germany	22.13	100	100	16,195	-2
U. Kingdom	21.32	0.96	0.82	13,830	2
France	13.58	0.61	0.69	18,302	6
Italy	10.71	0.48	0.46	15,402	22
Spain	7.79	0.35	0.33	15,008	21
Netherlands	6.3	0.28	0.33	18,864	5
Belgium	5.13	0.23	0.29	20,560	11
Austria	2.66	0.12	0.18	23,840	25
Sweden	2.24	0.12	0.1	18,636	8
Denmark	2.07	0.12	0.09	21,242	2
Greece	4.5	0.2	0.06	4,643	33
Portugal	0.03	0.01	0.07	91,708	11
% EU15	95.4				

(c) Exports/Imports Ratio (a) Value;(b) Volume. Exports/Imports Ratio:

	(Average value/tonne)		
Italy	1.41	0.53	2.64
Greece	2.23	1.27	1.76
Netherlands	0.66	0.86	0.76
Germany	0.40	0.23	1.75
U.Kingdom	0.25	0.14	1.76
France	0.43	0.20	2.13
Portugal	3.10	5.18	0.6
Belgium	0.82	0.21	4
Spain	0.44	0.12	3.64
EU15	0.60	0.33	

EU15:Total:

Exports E23023283180 T 767545
Imports E38295459090 T2312205

Source: CITH Textile & Clothing Information Centre, Brussels (Direct contact)
Processed by the writer from the raw data.

2. 4. 10. These divergencies are also shown in four other comparisons. First, in clothing manufacture, as Lane points out, Germany appears to achieve a higher turnover with significantly fewer employees and she enlists the views of other scholars in support of the UK's productivity deficit (*Lane, C. et al, 2004, p14*). Second, in manufacturing Gross Value Added (GVA) for textiles, clothing, leather and footwear, the UK scores only 5% to Italy's 14% (though a markedly higher rating than Italy in 8 of the total of 17 sectors featured) (*DTI, 2003, Chart 4.1, p54*). Again, in Men's suits production, the UK could not achieve the Italian unit cost. Moreover, while both countries export suits that are twice as valuable as those they import (per kilogram), the suits the UK exports to Italy are less than half as valuable as those she imports from there. (*DTI, 2003, p66*). Finally, turning specifically to the knitting sector in the UK, for the period 1990 to 1995, Gross Value Added per employee is only 70 per cent of Skillfast-UK's footprint of related sectors (*Skillfast-UK, 2005, p1*).

2. 4. 11. Capital investment and R&D: The relatively poor productivity record of the UK textile and clothing industry appears to be largely explicable in terms of the relative levels of capital investment and staff skills. One authority attributes our lower productivity in part to the higher capital intensity of the industry in other countries, including Italy and the USA. (*TCSG 2000, p8; 2.17*). Another points out that the UK sector has a long record of under-investment in technology and innovation vis-a-vis its main EU competitors, noting that in 1996 the UK's average investment per employee was a massive 37 per cent below the average for the EU and well under the rates for Italy, Germany and Ireland (*Oxborrow, L. et al, 1998, p31*). In an increasingly competitive world, adequate investment in innovation and technology is essential. But the UK textile sector, described as being in overall decline, shows little signs of

innovation. Indeed, the 1996 collective investment in R & D by the sector was less than 0.2% of its turnover (*op cit, 1998, p21*). Skillfast-UK reports lack of investment as a weakness of their (narrower) subsector, which includes knitted apparel (*Skillfast-UK, 2005, p3*). And as the East Midland's specialists reported, there is currently low or very little capital investment in that region. We do not have figures for the UK's main EU15 competitors but they seem likely to be much higher- especially those of Italy.

2. 4. 12. As the data for net capital investment make clear (Table 2.3.above), the guarded optimism expressed in 2000 by the TCSG about rising levels of knitting sector investment, has not been justified by the later outcome. Also, while the Steering Group was no doubt right about the importance of investing in the new knit-to shape technology, it appears not to have taken sufficient account of the high cost. Thus it is concluded by another expert body that for this reason only large firms are likely to be able to benefit from *this new technology* for the foreseeable future (*Oxborrow, L. et al, 1998, p23*) . We have already noted that such firms are a minority in the knitted apparel industry.

2. 4. 13. Skills and qualifications: It is too well known to require argument that the workforce at all levels within the enterprise must possess the relevant qualifications and skills, adequate arrangements for training and upgrading, with appropriate remuneration and motivation, if it is to have the prospect of prospering in today's highly competitive world. But, as OECD and others note, in general textiles and clothing are characterised by workers who tend to have low levels of education, low skill levels, low wages and to be predominantly female and from ethnic minorities.(*OECD, op.cit., p5/6: Totterdill, P. et al, op.cit., p21*). Within that general picture there is scope for variation. And there is a

clear disparity between the UK's textile and clothing industry and some at least of its EU15 competitors, at all levels of skills, qualifications and training.

2. 4. 14. For the UK, Skillfast's assessment moves down to the more specific. The percentage of adults qualified to Level 2 in 2001 was only *about* the OECD average and in 2002 the score on literacy and numeracy ranked below 15th. The proportion of young adults holding vocational qualifications is still below that of France and Germany, with the international skills gap being most acute at NVQ Level 3. (*Skillfast-UK, op. cit., p6*). For its own subsector, Skillfast estimates that 55 per cent of employees have either no qualifications or are qualified at or below Level 2 equivalent, compared with 33 per cent nationally. Only about 14 per cent are qualified at Level 4 equivalent or above, against a national figure of a quarter. Skillfast adds that about a fifth of the UK's productivity deficit, in textiles and clothing, with Germany, and about a tenth of that with France can be accounted for by their higher skills levels. In knitted apparel specifically, Skillfast point out that on one measure of skills, employees' Gross Value Added, is only 70 per cent of that for their overall UK 'footprint'. It reports, too, that the recruitment and retention of skilled labour is a major concern for many firms in the subsector (*Skillfast: Skills Needs Assessment, 2005, p1, 2, 3*).

2. 4. 15. Lane concludes that, with few exceptions, the UK clothing sector's education and specialist expertise appears to be markedly lower than that of its counterpart in Germany. German managers are mainly graduates with related tertiary education; in the UK only 0.23% of annual recruits are graduates: at higher levels of training, more than 10 times as many German employees had passed vocational examinations than in the UK: in the categories of supervisory staff and operatives, in the UK levels of qualification are low or none existent - and training budgets are constrained; with a

much more systematic training system, Germany had, in 2001, a ratio of trainees to total employees of 7.5 per cent in clothing manufacturing. And Germany's facilities for higher-level technical education in textiles appear to contrast favourably with those of the UK. (Lane, C. et al, p15, 16,17). See also above.

2. 4. 16. Not uniquely in the rest of the EU15, UK training quality is also an issue; in particular, it is usually carried out *solely* on the shop floor, by untrained trainers and mostly to meet *ad hoc* production needs; whereas ESRC found that the most effective training was likely to be that given partly within and partly without the firm (Totterdill, P. et al, op.cit., p21). The importance of adequate UK training for knitted apparel has long been apparent: *'...future success depends on having a well-trained and committed workforce, from shop floor to top management'* (NEDO. KEDC, 1983a, p2). As Newbery explains, one key effect of the UK's rapidly declining skills base is that it leaves very limited scope for the designer/manufacturer partnerships which are vital to the wellbeing of the UK's independent designer sector (Malcolm Newbery Consulting, 2003, p43,44).

2. 4. 17. It also seems clear that qualifications, skills and training levels are higher not only in Germany but also in the Italian and French textile and clothing manufacturing sectors. The Department of Trade & Industry consultants who sought to discover the secret of the Italians' superior performance in the production of textile fabrics and mens' suits, were particularly impressed by their technical secondary schools. One of their report's most striking conclusions is that the Prato school alone supplies its district annually with more school leavers with industry-relevant Level 3 (A-level) qualifications than the total numbers awarded for textiles and clothing in the UK each year. It is also clear that the Italian sector has an effective system of training. In the

report there are several references to the contribution made to product excellence by the quality of employees skills-eg `...drawing on its deep pool of skills' (DTI, 2003, p61, 67). For the French sector, we have a second indicator (see para 2. 4. 13) of their good skills training. Thus, referring to Cholet's response to low-cost competition, Courault reports that: *'Cholet invested early and heavily in training in new skills and methods and it now has a network of small firms that support a diversified set of product specializations.'* , (Courault, B., 2005, (abstract): Courault and Doeringer, 2008, p1,2.)

2. 4. 18. Future skills requirements will be more demanding. For the UK textile and apparel sectors as a whole it has been concluded that a change of culture is needed for it to innovate on from its traditional employment and training practices to develop the skills portfolio required for its future success. These skills will include: IT, strategic management; sales & marketing, supply chain management, global purchasing & supply; human resources expertise and instructional techniques (Oxborrow, L. et al, 1998, p62,97). In the knitted apparel and allied subsector, identified future needs overlap substantially with the foregoing and key priorities are listed as high-teck skills related to: R & D, product development, design & marketing skills, sales and customer service skills. But the crucial short term need is to maintain and replenish the production skills that are seen as critical to the survival of manufacturers. (Skillfast, op.cit, 2005, p3,4). It is perhaps a bit depressing to recall that these are not all new requirements: *'...there is considerable scope for a move away from the current production orientation...firms must design for the market and have an enthusiastic production backing...many other knitters have not yet adopted a professional approach to marketing ...'* (Knitting Sector Working Party, NEDO,1983b, p1,19).

2. 4. 19. On Information Technology usage, especially in the context of Electronic Data Interchange (EDI) and supply chain efficiency, there is evidence of a lack of progress in the UK. First, while 56 per cent of company computers in the clothing and textile sector were connected to the Internet in 1999, only 17 per cent of these had links to their owners' suppliers and customers (*Totterdill et al, 2002*). And, second, our own survey of knitting exporters (2000/2001) found that some 70 per cent of respondents did not consider EDI to be applicable to their operations and only 18 per cent rated it important or very important (See Chapter 4). More recent data show IT take-up tardiness in the EU15 overall (See Para 2. 5. 5.).

2. 4. 20. Garment design: Much of the UK knitted apparel industry would appear to be at some competitive disadvantage vis a vis other major members of the EU 15 because of a less effective exploitation of design. As noted above, there has been something of a traditional production-orientation on the part of firms. But the main problem appears to stem from the past high level of contract manufacturing here -making for major retailers own-labels. UK firms are said not to give priority to design excellence because they are competing on price — and large UK retailers usually employ their own designers anyhow (*Lane, C. et al, op.cit, p15*). A complementary opinion is that in a trading environment of strong retailer brands, make to order contracting removes from manufacturers two burdens: design and marketing; but with the obvious downside that the manufacturer is 'invisible' to the consumer — and retains very little ability to innovate (*DTI, 2003, p56; Hosiery & Knitwear EDC, 1970, p viii*). But all is not gloom. For instance, Newbery reminds us that the designer sector has performed very well in the UK and export markets, in the product categories on which the future of the UK industry depends (*Malcolm Newbery Consulting, 2003, p34,45*).

2. 4. 21. As will be seen in Section D, the recommended strategies, aimed at enabling the EU to compete successfully against low-cost imports, especially from China and India, place great emphasis on the need for upmarket, niche market, branded products of excellent design and quality, produced under a fast response regime. It appears that Germany, France and Italy have all been acting largely in accordance with such a strategy for some time (*Lane, C. et al, op cit., p18; Courault, B. op cit, p1; DTI, op cit.,p36*). Lane argues that the UK industry has not, one key reason why it is so much in the power of the major UK retailers (*Lane, C. et al, op.cit., p22*). While weakness of design has been a long-standing difficulty for the industry (not through any native lack of design talent), it seems that Lane may be too pessimistic. As noted above, Newbery's assessment of UK fashion expertise and its uses is more positive; and our survey of UK knitted apparel exporters suggests that many of them must have been doing something right— at least at the time of the sample survey. .

2. 4. 22. Relative concentration: Lastly, we have already indicated broadly that apparel suppliers facing lower retail concentrations are more fortunate than those in the UK. This point can now be augmented by contrasting the UK and Germany in respect of degrees of concentration in both their manufacturing and retailing sectors. Taking the first of these, Germany's manufacturing is much more concentrated than that of the UK: while there are many small firms, the top five German manufacturers account for 42 per cent of clothing production, as compared with 28 per cent for the top five UK— and if we take the top 10 suppliers in each country, in Germany they account for almost double the share of output that they do in the UK. These ratios preceded the breakup, at the end of the 1990s, of Britain's two largest textile firms— Courtaulds and Coats Paton— so the disparities are even larger now. When we turn to retail concentration, we find their

relative standings are reversed: Four top UK retailers account for 40 per cent of sales, but in Germany the top four for only 25 per cent (*Lane, C. et al, 2004, p21*).

2. 4. 23. These reversed manufacturer/ retailer power relationships in the two countries seem very likely to have a bearing on the former's performance. In the UK, retailer might has curtailed the range of outlets available to many domestic suppliers, helped to restrict their design capabilities, squeezed their margins and increased the demands made upon them. By contrast, German manufacturers have more leverage with domestic retailers, a wider variety of home market outlets and often, it would appear, more attractive products — helping also to explain Germany's stronger export performance (see Tables 2.17, 2.18).

2. 4. 24. Comparative benefits of outward processing: Although the evidence is not complete there is enough to suggest, at least, that the UK's main EU15 partners may well have acquired a differential advantage through having resorted to outward processing, chiefly to the low-cost countries of Central and Eastern Europe, well before the UK did so. Germany, Italy and France together account for a large share of total EU15 apparel imports (of which, as seen, reimports amount to about a quarter); and, unsurprisingly, given its later initiative, the UK's share is much smaller than any of these individually. This low-cost production makes outward processors more competitive in their home markets. Moreover, the good relationships established with the low-cost suppliers by the 'early birds' has enabled some of them, as noted above, to move downstream from manufacturing and into distribution and outward processing operations management (Para 2.3.24 (d)). UK knitted apparel manufacturers may be on the way to acquiring similar benefits, but it may be doubted that it will be possible to offset fully the 'headstart' advantage.the others have had.

2. 4. 25. Summary: In Section (C) we have made two kinds of comparisons between the UK and its EU15 partners: first in respect of trade in knitted apparel; and, second, on various performance measures: including productivity, capital investment, skills & qualifications; and garment design. While comprehensive knitted apparel data are not available, and clothing as a whole has had to serve at times as proxy, it seems clear that there is considerable scope for improved performance by the UK's knitted apparel industry.

2. 5. (D) THE UK KNITTING SECTOR'S PROSPECTS, IN THE CONTEXT OF THE EU15

2. 5. 1. Sections A, B, C of this chapter have sequentially described the main parameters of the UK knitting manufacturing industry, its home and EU15 retail market and how it compares on key performance indicators with its 14 partners/ competitors therein — with whom its own fortunes are inextricably linked. This final section deals briefly with the EU15 sector's present position, the challenges it faces, and the recommended strategy. It also comments on the outlook for the UK knitted apparel sector specifically. No attempt is made to assess the prospects for the 10 new EU members. The likely positive welfare implications of trade liberalisation are recognised but not examined.

2. 5. 2. Stengg claims that the major modernising and restructuring process through which the EU's textile and clothing sectors have passed in the course of more than a decade, costing them one third of their workforce, both increased productivity throughout the chain and refocused production towards innovative high quality products. (*Stengg, W., 2001, p1*). But the High-Level Group⁶ reminds us that while the EU is the world's largest exporter of textiles and the second largest exporter of apparel, it faces internally depressed demand, with rising imports, and many closed external markets

⁶ Set up by the European Commission in 2003, the Group, which comprises top decision-makers from the textile and clothing sectors, seeks to improve the competitiveness of Euro textiles and clothing by developing an integrated set of initiatives embracing, inter alia, innovation, R&D, education & training, regional policy, and trade related issues. (High Level Group p 1,2). It has already produced a number of reports. D/L 30 December 2004.

2. 5. 3. Against this background of achievements and continuing major problems, the intensity of external competition is growing. For some time EU producers have been facing low-cost manufacturers who are very competitive because they, too, possess both high quality technology and expert technical knowledge. But the threat to the textile and apparel industries in the EU has undoubtedly increased greatly with the ending of quotas on 1 January 2005. It is already fairly clear that the subsequent rationalisation of sourcing by Western importers is, as forecast, leading to the emergence of China as a formidably competitive supplier of knitted and woven apparel. EU manufacturers are facing substantially increased competition not only in their (EU) home market but also in their existing export markets.

2. 5. 4 Clearly, these forces need to be countered by a multi-faceted strategy. Two of the elements in that of the High -Level Group are: the formulation of an action plan against China; and the completion of the Euro-Med free trade area (EMFTA)⁷. The other six are the following:

(i) Functions & Products: Manufacturers' functional focus needs to shift to knowledge-intensive activities, especially design and marketing. The products required for success are variously described as of high quality and/or fashion content; and the development of new brands, or new products, for high price or greater market share. (A fast, flexible response capability is of course essential).

(ii) Technology, Production & Supply Chain: In this area recommendations range from the specific to the more general. The High Level Group stresses the need to achieve a breakthrough in clothing technology; Strengg identifies a/the key requirement as the ability constantly to enhance competitiveness through, for example, innovation and the use of IT. And Dunford calls for a permanent process of restructuring and modernisation, to include the adoption of new techniques/ modes of work organisation;

⁷ The aim is to enhance, inter alia, prosperity, peace and stability through the completion, by 2010, of a free trade area that will include with the EU, countries in the Mediterranean basin and much of the M.East.

and more efficient supply chain organisation, with more effective use of EDI to respond to market trends.

(iii) Enhanced Skills: Though all kinds of advanced skills, including IT/ICT and top-level management, are clearly needed for effective competition by EU producers, the High Level Group stresses the enhancement of the skills of redundant staff to facilitate their re-deployment. (See also above Paras 2.4.14, 2.4.18 et seq)

(iv) Intellectual Property Rights: EU intellectual property rights need to be protected in design, fashion and branding. EU produced garments are frequently pirated, often in the Far East. Indeed, UK knitwear producers complain that their own samples have been sent by their UK retail customers for making up there (reported to this writer). Given the speed and sophistication of IT technology, there is a clear perceived need for proper legal protection of intellectual property rights in these products and processes - though doubts must remain about the likely effectiveness of enforcement.

(v) Outward Processing: Delocation of production is recommended for those remaining areas of high labour intensity, particularly for operations that cannot be automated); (official bodies in the East Midlands are promoting controlled outward processing trade).

(vi) Reducing barriers to fair competition: One key objective is to gain access, by securing a reduction in existing tariff and non-tariff barriers, to the numerous markets that are currently partly or wholly closed to exports, especially those with high levels of consumer income; for which task the services of high-powered EU negotiators are recommended. Another is to prevent foreign states from subsidising or otherwise

protecting their own home textile and clothing industries. This one has of course implications for both exports and imports. (*High Level Group, p4 ; Stengg, W., p2,6,7; Dunford, M., p17,18*)

2. 5. 5. All elements of the strategy must of course be actioned vigorously. But, given that continuous innovation by the EU15 is essential, available evidence on progress in one key area is cause for concern. Though optimal use of ICT is crucial to the success of this strategy, specialist researchers have found that textiles and clothing ranked only fifteenth out of the seventeen sectors benchmarked by its E-Maturity index. There has not yet been a decisive move towards supply chain integration and online trading- and the gaps in the use of ICT and e-business are chiefly in the more sophisticated applications: Supply Chain Management (SCM) and Customer Relationship Management (CRM). Thus the level of e-business activity in textiles and clothing is below average compared with other manufacturing sectors; and firms' investment plans also suggest a slow pace of change (*E-Business Watch, 2005, p1,2*). It appears unlikely that China and India are taking a similarly relaxed stance towards ICT..

2. 5. 6. Competing effectively in the new world trading environment poses for the EU apparel sector almost certainly the greatest challenge it has ever faced. Manufacturers in China and India in particular already possess, or are well on the way to acquiring, the design, marketing, branding and other technical skills which they are marrying-up with the latest technology and very low production costs to produce highly attractive and competitive garments, for sale in the EU and other markets. The best hope of success for the EU lies in the full implementation of the multi-element strategy outlined above, of which, it would seem, the opening up of presently closed, or partly closed export markets will have a very important role to play.

2. 5. 7. But not all of the EU15 members are starting from the same position. As has been noted above, some members are already more competitive than others. The UK knitting apparel industry would appear to face the greatest difficulties. Although subsectors of its apparel industry and particular firms may well continue to thrive under the new dispensation, for others the problems discussed above are collectively likely to constitute major obstacles. Compared with its EU15 partners, these include; lower productivity and capital investment, less effective use of design, lesser skills, qualifications and training levels, later resort to outward processing; a high level of low-cost imports and a number of other effects of the most highly concentrated retail system in Europe. (Para 2. 4. 8 *et seq*).

2. 5. 8. Conclusion:. The new global quota-less regime for textiles and apparel will require all EU producers to apply themselves continuously to the complex task of maintaining their competitiveness *vis a vis* those who enjoy major comparative advantages , mainly by providing constantly varied offerings of differentiated upmarket, niche market fashion products via a fast response regime. On the evidence presented above, it seems likely to be a continuous struggle, and perhaps most of all for the UK knitted apparel industry.

2. 5. 9. Chapter 2, in describing the main facets of the United Kingdom's knitted apparel industry, its present position, main customers and EU15 competitors, has set the scene for our investigation of the determinants of export success in this sector. Chapter 3 develops an appropriate methodology and goes on to describe how the study was carried through.

