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THE PLACE AND ROLE OF THE LEATHER INDUSTRY IN THE ROMANIAN ECONOMY

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Abstract: The structural changes that have taken place in the world economy in the last two decades, due to the progress in the field of information and communication technology; the liberalization of international trade, capital and technology flows, the labor force supply increase in global plan and the liberalization of its market, left their mark on the leather industry in Romania. Given the fact that the leather and footwear industry represent an important sector of the national economy, we considered it opportune to carry out a detailed analysis of the role of the leather industry in the Romanian economy.
Keywords: leather, tanning, industry

1. INTRODUCTION

The leather industry consists of several different sectors, starting with the raw leather markets, which supply tanneries with raw materials from meat slaughterhouses for consumption, and ending with the production of leather consumer goods. Some of the sectors are highly industrialized, others require a high degree of craftsmanship, while for others, the core business is trade and support services.

In a narrow sense, the leather industry refers to the leather tanning sector. The leather is the result of recycling the skins of large and small animals slaughtered for human consumption meat production. [6] Without tanning, this organic residue would pose a major health risk, therefore, the leather industry could have easily been distinguished as an environmentally friendly industry, since it processes waste products from meat production.[8]

In a broader sense, the leather industry also includes the other segments of leather production (footwear, upholstery, clothing, car interiors, etc.), as well as related sectors (chemicals, machinery, etc.). [2]

The leather industry has the potential to develop the entire supply chain starting from raw leather to leather processing, to production of footwear and leather products.[3] Moreover, tanneries offer a high value-added material to a series of value chains, especially in the fashion, furniture and automotive sectors. The raw materials of tanneries are raw hides and skins, of which over 99% come from animals that have been raised primarily for wool, milk and / or meat production.

This clearly illustrates the ecological role of tanneries because they capitalize on a by-product, which, in the absence of the leather industry, would have been eliminated, thus having similarities with the recycling industry.

Currently, the leather industry covers diverse products and industrial processes. Leather tanning covers the treatment of raw materials, i.e. the conversion of raw hide or skin into leather and finishing it so that it can be used in the manufacture of a wide range of consumer products. The footwear (41%), furniture (17%), automotive (13%), leather goods industries (19%) and garment (8%) are the most important outlets for Romanian tanners' production. [16]

The processing of hides and skins also generates other by-products, which find outlets in several industry sectors such as pet and animal food production, fine chemicals (including photography and cosmetics), and fertilizers.

The main aim of this paper is conducting a detailed analysis of the role of the leather industry in the Romanian economy, in the 2014-2019 period.

Methods of the scientific research that have been employed in the paper are scientific analysis and summarizing of literature, mathematic calculations and comparative analysis of statistic dates.

The information for this paper was gathered from literature, from the EUROSTAT database and INSSE database analysis and by Internet.

2. PARTICULARITIES OF ROMANIA'S TRADE IN LEATHER PRODUCTS

The Romanian footwear industry is a traditional and innovative manufacturing industry that produces a high-quality product which enjoys global recognition. This success stems from the ability of Romanian footwear companies to bridge craftsmanship, creativity and innovation with the support of the latest technologies, resulting in a product that is unique in terms of quality and design. [13]

The leather industry in Romania had a more accentuated development in the 1965 – 1980 time period with equipment, installations and technologies mainly from the country. The level of production and the manufacturing structure of the '70s and '80s was dimensioned in such a way as to satisfy the needs of the internal market, and the surplus to be exported especially to the CAER countries. The export of footwear with natural leather uppers and leather and fur garments were the barter's equilibrium products for oil, natural gas, electricity and coal. After 1989, the Romanian leather and footwear industry faced the greatest challenges in its history, created by entering into direct competition with products made worldwide in similar high-performance industries.

The technical and technological endowment of this industry, which presents a gap of 15-20 years compared to the world performances, having a degree of automation of equipment and installations of only 5% in tanneries and 20% in the footwear and leather goods sections, together with the total liberalization of exports and imports of raw and finished hides and skins and finished products of leather and footwear, but also the significant increase in energy resources prices, has led to the insolvency of many economic agents.

In order to face the competition on the market of these products, in the leather - footwear industry a wide and complex process of industrial restructuring has started, consisting mainly of the replacement of old and non-performing technologies and equipment; changing production structures in accordance with the requirements of new markets; accomplishing new capacities for the production of footwear and leather goods. Emphasis was placed on the activities of reorganizing the technological flows, the modernization of some production capacities, but also on the restructuring of the personnel and the correlation of the number of employees with the production possibilities. During this period there was a substantial increase in the lohn regime activity, in the fields of footwear, shoe cover sewing and leather goods; significant mutations in the structure of processed raw materials; the accentuated decrease of the indigenous resources of raw hides and the increase of the imports of finished skins for footwear, shoe covers and leather goods.

Romania was considered in the 1990-2000 period among the most important "tailors" and "shoemakers" in the world, known for its cheap, skilled labor and for lohn production. After the 2000s, however, the Asian continent rose sharply, making a name for itself in the textile and footwear industries, especially given that the monthly salaries of local tailors are several tens or just over 100 euros (with an accelerated growth trend, however, in recent years). [9] In the fight with the Asian countries, Romania lost ground precisely on the background of the salary differences, in the context in which on the local market a shoemaker earns on average 200-250 euros net.

However, due to its favorable geographical position, expertise, well-qualified and lower-paid workforce than in the West, Romania remains one of the largest footwear manufacturers in Europe and the world. [12] Romania is known as one of the largest shoe manufacturers in the world, ranking 14th globally in the top of the largest exporters in the field, with a value of 1.189 billion Euros in 2019. Romania ranks 5th in the top of the biggest producers in Europe after Italy, Spain, Portugal and Germany.[13]

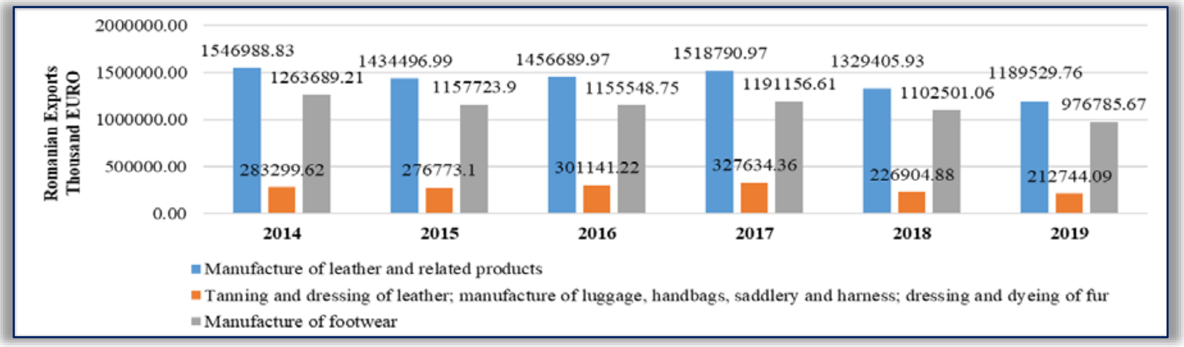

Figure 1 – Evolution of Romania's exports of products of the leather and substitutes manufacturing industry [15]

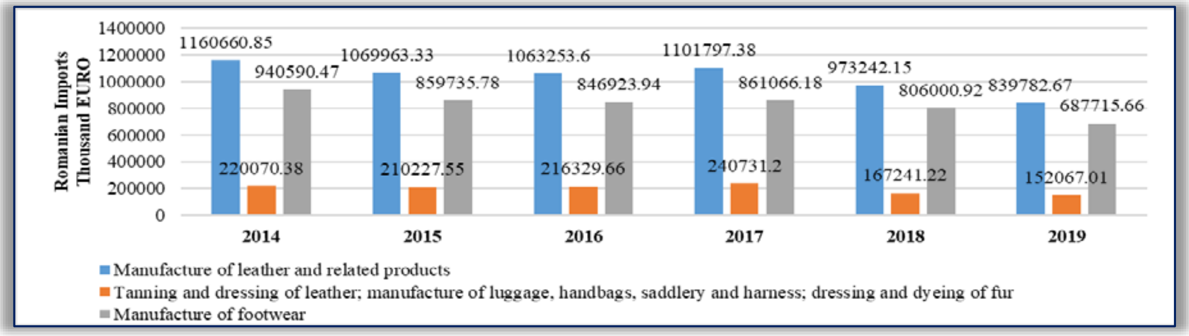

Figure 2 – Evolution of Romania's imports of products of the leather and substitutes manufacturing industry [15]

Statistical data from recent years indicate that Romania's leather and substitutes manufacturing industry's exports have steadily declined since 2017. This decline can be seen both in footwear exports and in products made by other sub-branches of this industry. The evolution of Romania's imports of products made by this industry is similar to that of exports. It is noteworthy that Romania registered a surplus of the trade balance throughout the entire analyzed period and in all sub-branches of the leather and substitutes products manufacturing industry, this being 289,070 thousand EURO in 2019.[15]

Romania's main partners in the footwear trade are presented in table 1.

Table 1 - Romania's main partners in the footwear trade [12]

EXPORT	IMPORT
Italy (891,8 million dollars)	Italy (283,9 million dollars)
Austria (186,5 million dollars)	Poland (142,6 million dollars)
Germany (117,4 million dollars)	Hungary (83 million dollars)
Slovakia (67,8 million dollars)	China (73,1 million dollars)
France (40,4 million dollars)	Slovakia (72,3 million dollars)
Hungary (37,2 million dollars)	Ukraine (59 million dollars)
Spain (30,7 million dollars)	Germany (46,2 million dollars)
The Netherlands (22,5 million dollars)	Spain (42,6 million dollars)
Turkey (20,6 million dollars)	Turkey (25,6 million dollars)
United Kingdom (17,3 million dollars)	France (20,6 million dollars)

It's interesting to remark the fact that on the footwear market there is a mix of Romanian and foreign players, domestic names like Benvenuti, Musette, Marelbo or Anna Cori having strong positions. However, Deichmann and CCC are the leaders, the German and Polish retailers being active in the same low prices segment. Romanian retailers, except Marelbo, are positioned higher.

The footwear market is full of competition, with tens of domestic and international brands fighting for the approximatively 65 euros that a Romanian spends on average on shoes each year. This can be seen from the fact that the first 5 players own only 17% of the total sales. There are considerable differences from a segment to other, in the case of kids' shoes existing a lower competition, more exactly the first 5 brands owning together almost 30% of the total sales.[10]

Table 2 - The first 5 players on the shoes market, in 2019 [10]

Total footwear market		Kids' footwear		Men's footwear		Women's footwear	
Brand	Market share	Brand	Market share	Brand	Market share	Brand	Market share
Deichmann	5.5%	Deichmann	8.8%	Deichmann	4.9%	Deichmann	5.3%
CCC	4.9%	Decathlon	7.9%	CCC	4.7%	CCC	5.0%
Benvenuti	2.4%	CCC	4.9%	Nike	2.7%	Benvenuti	2.6%
Decathlon	2.3%	Adidas	4.5%	Benvenuti	2.6%	Zara	1.3%
Nike	1.9%	Nike	3.6%	Decathlon	2.4%	Decathlon	1.2%
Top 5	17%	Top 5	29.7 %	Top 5	17.3 %	Top 5	15.4 %

3. ROMANIAN MANUFACTURE OF LEATHER AND RELATED PRODUCTS INDUSTRY

Romanian footwear companies manufacture a wide range of products, from everyday shoes to luxury items. Creating a shoe follows several processes than include more than 200 operations in which skills and competences are essential. Moreover, a shoe is more than fashion: its high quality and standards are key to ensure a prolonged and healthy life by reducing risks of future back/ foot problems. Romania also produces some of the most expensive shoes in the world, with an average export price of $ 25.3. By comparison, Switzerland ranks first in this top, with an average export price of almost $ 92.4 a pair, followed by Italy, with an average export price of almost $ 57.1 a pair. China is at the bottom of the rankings with $ 4.4 per unit. According to the value of the export price, Romania ranks 9th in the world, along with countries with a tradition in the field. [12]

In 2019, the sector was composed of 1,449 companies, 1,058 of these being in the footwear manufacture field and 392 in tanning and dressing of leather; manufacture of luggage, handbags, saddlery and harness; dressing and dyeing of fur.[15]

Table 3 - Evolution of the number of Romanian footwear enterprises [15]

Size classes	Number of enterprises CANE Rev.2 – classes - Manufacture of footwear											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total	1553	1408	1249	1187	1209	1228	1255	1237	1206	1183	1144	1058
0-9 persons	761	726	612	496	534	557	584	598	593	596	626	578
10-49 persons	466	420	375	403	410	418	421	402	391	386	333	320
50-249 persons	276	222	220	243	219	211	209	200	188	173	155	142
250 persons and more	50	40	42	45	46	42	41	37	34	28	30	18

The evolution of the number of companies in Romania whose field of activity is the production of footwear products shows that at present there are about 400 fewer companies than they were in 2008.

The number of companies in the footwear sector has been declining in the past decades due to manufacturing moving to economies with lower labour costs.[16] In terms of structure, the sector is predominantly composed of small and medium-sized companies, only 18 having over 250 employees.[15]

In tanning and dressing of leather; manufacture of luggage, handbags, saddlery and harness; dressing and dyeing of fur industry, there is a slight variation around the value of 400, in 2019 being active 391 companies. Tanneries in Romania are typically family-owned, predominant being the micro-enterprises that represent 75.19% of the total and the fewest, ie 6, are from the category of large enterprises. [15] Regional concentration is strong, and the industry often plays a key role in the local economy, being the predominant creator of wealth and employment.

Table 4 - Evolution of the number of Romanian companies in the Tanning and dressing of leather [15]

Size classes	Number of enterprises CANE Rev.2 - classes - Tanning and dressing of leather; manufacture of luggage, handbags, saddlery and harness; dressing and dyeing of fur											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total	409	381	342	318	327	329	344	357	368	363	382	391
0-9 persons	273	275	234	211	223	211	231	248	261	253	272	294
10-49 persons	90	66	71	65	58	65	58	55	56	63	61	50
50-249 persons	44	39	36	41	44	49	51	47	45	40	42	41
250 persons and more	2	1	1	1	2	4	4	7	6	7	7	6

The evolution of the number of employees in the leather and substitutes products industry has registered a downward trend in recent years. The biggest decrease in the number of employees is in the shoe factories due to the fact that many companies have moved to high-quality and high-added value segments and niche markets. Exception is the leather tanning and finishing industry; manufacture of travel, leather and harness products; fur preparation and dyeing, where the number of employees has remained approximately constant in recent years, varying slightly around 8500 employees. [15]

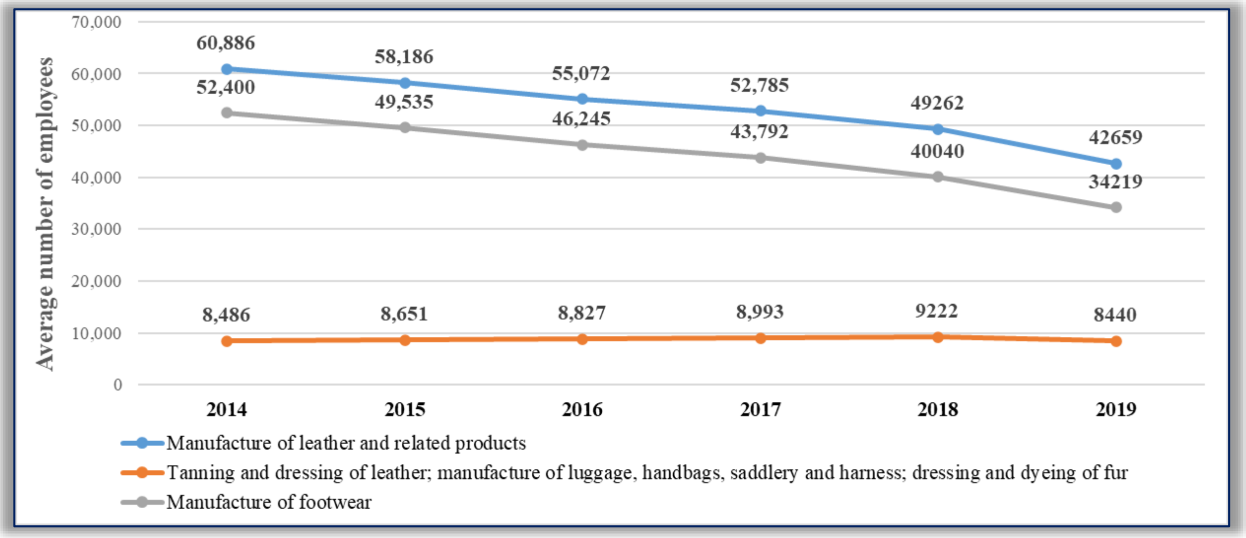

Figure 3 – Evolution of the number of employees in the leather and substitutes products manufacturing industry in Romania [15]

In terms of labor productivity, it has increased year by year, an increase imposed by the competition in this industry's market of products. The highest productivity is in the leather tanning and finishing industry; manufacture of harness, travel and leather goods; preparation and dyeing of furs.

Table 5 - Evolution of labor productivity in the leather and substitutes industry companies in Romania [14]

Apparent labour productivity (Gross value added per person employed) - thousand euro				
	2015	2016	2017	2018
Manufacture of leather and related products	6.4	7.2	8.1	8.8
Tanning and dressing of leather; manufacture of luggage, handbags, saddlery and harness; dressing and dyeing of fur	8.5	9.1	9.9	10.6
Manufacture of footwear	6.0	6.9	7.7	8.4

4. CONCLUSIONS

Currently, Romanian footwear manufacturers face two challenges. On one hand, they have to face the competition coming mainly from China and Turkey, countries that make very cheap shoes, and on the other hand, the growing competition in the fashion, elegant footwear segment.

On the domestic market there is a strong competition, in which both domestic and foreign companies participate. The top footwear brands on the domestic market indicate that consumers' options are geared towards good quality footwear, the purchase decision being influenced by the style and materials used but also by the price of the products.

Even if in the fight with Asian countries Romania lost ground mainly due to wage differences, due to favorable geographical position, expertise, well-qualified and much less paid workforce than in the West, Romania remains one of the largest footwear manufacturers in Europe and in the world.

Given the fact that the leather tanning industry is a global industry, and Romanian tanners are highly dependent on access to raw materials and to export markets, it is essential to find new suppliers of raw materials.

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