LEATHER & SHOES INDUSTRY PROFILE

A. Definition of Industry

SIC code (Standard Industry Classification)

19 Tanning and dressing of leather; manufacture of luggage, handbags, saddlers, harness and footwear
191Tanning and dressing of leather
1910 - Tanning and dressing of leather
192 Manufacture of luggage, handbags and the like, saddlers and harness
1920 - Manufacture of luggage, handbags and the like, saddlers and harness
193 Manufacture of footwear
1930 - Manufacture of footwear

1. General overview

The leather/shoes industry has been an important sector of country's economy with many factories located in Tirana, Korca, Gjirokastra, Shkodra and Vlora. This industry continues to be one of the leading industries even after the transition; with new lines of production established in Kavaja, Durres, Rrogozhina and Berat for shoes production.

The following table summarizes the main economic data of the industry.

Table 1: Main data of the leather/shoes industry

Description	1999	Share to total manufacturing	2000	Share to total manufacturing	2001	Share to total manufacturing	2002	Share to total manufacturing
Production (mln leks)	3681	9%	4462	11%	5530	10%	5972	10%
No. of employees	4431	12%	4560	12%	5158	14%	5942	15%
No. of firms	67	2%	62	2%	76	2%	72	2%
Investment rate (mln leks)	1133	31%	165	2%	925	8%	961	12%

Source: Instat, Annual Structural Surveys, various publications.

In terms of production, the industry continues to be one of the leading industries in the manufacturing sector, contributing to around 10 per cent of total manufacturing production. These dynamics have enabled the industry to create new jobs in addition to efficiency improvements due to new technologies employment and management techniques. Compared to textile/garment industry, this one is a more capital intensive one, as demonstrated by the much lower number of companies operating, which represent only 2 per cent of companies operating in the manufacturing sector. In terms of investment, the industry has attracted considerable investments, however, the dynamics are not stable and the general feeling is that the industry is under invested.

The contribution of the industry to Albania's foreign trade is of major importance, being the leading one in export revenues. In a five years period (1999-2003), exports increased by 40 per cent, with an average volume of USD 100 millions, as indicated in table 2

Table 2: Exports and imports in the leather /shoes industry during the years, in 000 of USD

Trade indicators	1999	2000	2001	2002	2003
Export	72,971	51,387	53,402	78,019	101,900
Import	52,797	37,181	52,589	73,354	95,986

Source: ACIT, General Customs Directorate

Note that the import and export figures mentioned above do not include shoes with textile and/or other material uppers, other than leather. Export structure of the industry is mainly consisting of footwear uppers, with 80-90 per cent of total exports of this industry during the past years and raw hides (unprocessed or wet-blue) with 8-20 per cent, which are mainly exported to Italy, Turkey and Greece. Footwear exports are re-exports under the outward processing regime. Processed hides of bovine (especially calf hides) are the most important ones among hides' exports as raw material, due to low processing costs as a result of cost factor conditions and relaxed environmental requirements or violations of the legislation in force.

Main reasons for the development of the industry:

- Local resources availability due to a sustainable number of livestock (see Appendix 3). This has induced an increase of the leather production and processing by almost doubling the turnover of the industry.
- An increased demand of leather products in the main exports markets and domestically (see Appendix 4, Tables 4.3 and 4.4).
- Low operation costs for the business due to cheap labor and other factors of production;
- Relaxed and/or violation of environmental regulations by the companies, which also contributed to lowering the operations costs. Although this is a great concern for the sustainability of the future development and is a highly negative externality on the economy, it is still an incentive for the establishment of companies in this industry.
- Stimulating government policies, particularly tax relieves offered for the outward processing industries

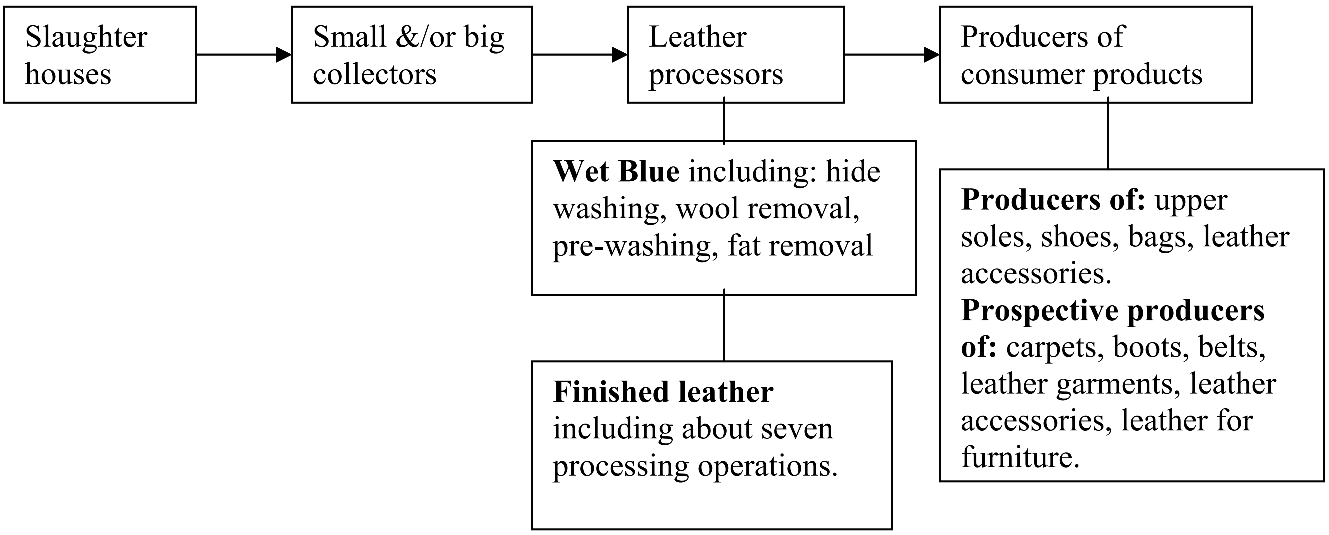
2- Main products

- Imported raw hides, which undergo physic-chemical transformations in Albania before being re-exported
- Domestic raw hides – mainly bovine hides exported processed wet-blue or unprocessed.
- Shoes upper, semi-finished products, and finished product

B. INDUSTRY STRUCTURE

Value added chain in the leather/shoes industry in Albania is demonstrated on figure 1. Following is a short view of the industry throughout the chain.

Figure 1: Leather industry production chain



1. Slaughter houses

There are three new slaughter houses operating in Korce, Patos and Vlore. Although processing capacities are estimated to cover the whole needs, the industry is not yet organized. Operations usually takes place outside the slaughter houses, which badly affect the quality of leather and impede the industry upgrading and sophistication.

2. Small &/or big collectors

This part of the industry chain is also not organized; there are small and/or big collectors in various districts, but not formally registered as companies. They collect directly from the farmers or slaughter houses for export and/or domestic markets. Table 3 provides data on volumes of exports of unprocessed and processed leather. While Appendix 4 gives details according to HS codes of hides' exports.

Table 3: Exports of unprocessed and processed leather, in 000 USD

1999	2000	2001	2002	2003
5,922	7,651	10,613	11,211	7,544

Source: General Directorate of Customs; ACIT database.

3. Leather processors

Leather processing is performed in two main forms: production under outward processing regime (imported raw hides, which undergo physic-chemical transformations in Albania before being re-exported) and domestic raw material processing (domestic raw hides – mainly bovine hides). Given the decrease of global demand in the last two years (see Appendix 4, Tables 4.3), a reduction of exports of processed leather (wet blue) is registered in Albania too (see Appendix 4, Table 4.1).

Generally domestic leather is processed until the Wet Blue phase, and then it is exported for further processing, imported for shoes production and then re-exported.

There are 17 firms of leather processing registered and they are located in different cities like Tirana, Durres, Gjirokastra, Korca, Vlora, Elbasan, etc. Appendix 1 offers some information on the companies operating in this industry.

Through our field work with companies, we learnt about some very new initiatives in shoes production by some local investors (2 firms) producing shoes with the recognized local origin. We also learnt that two to three leather processing companies have interest in establishing a new line of processing of leather (the Wet Blue) and therefore having a closed cycle of processing.

Albanian leather tanning has the following characteristics, which affect both positively and negatively its competitive position in the international market:

- sustainable number of bovines (+) and unique hide qualities, which enables positioning on the international market at the best possible price (+);
- slaughtering techniques that artificially reduce natural leather quality and market price (-); equipment and training for techniques that meet slaughters standards are required;
- lack of shared or individual appliances for processing industrial wastes, causing it to be noncompetitive in the long term (-); application of relevant EU aligned legislation will be faced in the short-run;
- existing demand of leather goods producers for tanned domestic leather (+)
- lack of marketing strategies (-); active participation in fairs, product promotions, etc is required;
- non-developed relationships between the Ministry of Agriculture, the Ministry of Industry, universities, authorities concerned with quality standards, leather processors, collectors, footwear producers, export agents, local government (-);

4. Producers of consumer products

Production of shoes is almost totally exported, and mostly based on imported leather (with import volumes of about USD 37 millions in 2003, see Appendix 4, Table 4.2) . Others raw materials for shoes production and accessories for the most part are also of import origin. Production is also almost totally owned by foreign investors or contracted by foreign buyers. Footwear and its part, as well as a small value of other leather goods, are produced in Albania currently (see Appendix 4, Table 4.5). As noted by the interviews with several companies, there is an interest for new products such as of tailors (for leather garments) and upholstery producers (for carpets, armchair). One company is currently projecting such collaboration.

5- Supply firms

i. Packaging materials

Packaging industry is very recent and most of operations take place within the leather/shoes companies. Most of packing materials are imported and few of them are of local origin.

ii Advertising

Advertising /promotion - No specialized agencies in marketing have been identified in the leather processing industry. Big firms have invested a lot on advertising and promotional campaigns and participated in important fairs inside and outside Albania.

iii-Equipment suppliers

Machineries inherited from state owned enterprises were outdated and these firms have invested a lot of money in replacing old machines with new equipments. The new machineries work with big leather while the old ones are used only for small leather (up to 18 kg). New technology is also invested for shoes production. Machinery and equipment are all supplied by imports.

iv- Transport firms

Usually the transport is done by specialized transport companies, but in case when the cargo is not big enough to justify its use, the firms use they own vehicles.

v - Design

In the shoes industry design is provided by foreign investors, although some companies are starting to use the local designs. However, this is a very recent and new phenomenon which could be promoted.

C. Key competitors

1. Domestic

The leather processing/shoes companies are quite developed and they compete with each other with regard to quality of product and the technologies that they use. The number of companies operating is large and the competition is considered to be high. Since the industry is mainly based on export market developments, competition on domestic market is of limited relevance.

2. Import

For the leather industry, Latin America leads the world production of raw materials (20.6%). Leather processing massively utilizes bovine hides, used to produce shoe uppers and other final leather products. China is the main supplier of heavy processed bovine hides (36%) followed by the former Soviet Union area (17% of world production), Europe (16%), Latin America (14%) and North America (8%). China is also a leader in the production of light processed bovine hides, followed by Europe and Latin America.

Developing countries, such as China, Vietnam, Romania, Poland, Bulgaria, Tunisia, etc, are direct competitors in the footwear market of Albanian exports in this industry. Referring to Eurostat data the EU market share of these countries is about 35%.

D. Potential substitutes

Leather substitute are products like textiles, jeans, cotton. Their substitution size is related to prices, and fashion trends.

E. Key policy issues.

One of chief business concerns of the investors of this industry (of export sector in general) relates to the VAT re-imbursement. Other concerns relates to outsourcing some production activities from big companies to smaller factories and small business units. In this case the VAT problems still impede the development of such operation which could have a large impact on employment. The issue rises due to the fact that such small business firms are not eligible for VAT re-imbursement and therefore this harms the big factories in case of outsourcing. On the other hand, the big factories may ensure new market opportunities but they suffer from the production capacity constrains.

Other problems are related to environmental considerations and the fact that government has no environmental criteria fro the location of such industries and operators. Therefore, the companies find it hard to start the business

In addition to the problems related with the overall business climate, the industry suffer particularly from the lack of trained work force and therefore, it may be targeted as a government priority in its training programs already funded through the Ministry of Labor and Social Affairs and other donor programs.

The government is in the process of drafting a strategy on light industry, covering amid others also the leather/shoes industry, textile/garments and wood processing/furniture industry. As soon as ACIT will have access to this draft document, we will be able to comment on it.

F. Key economic issues

Trade in leather products is almost totally liberalized; for outward processing trade of leather and other production inputs may be imported tariff free. In addition several Free Trade Agreements are in various stages of implementation

There are no special topics on the economics that directly favor or inhibit the development of this particular industry.

Beside direct employment as stated in Table 1 of this profile, a wide range of indirect employment is currently identified or can be created in related industries as follow (impossible to evaluate the current portion of employment caused by leather/shoes industry):

Current indirect employment existing	Potential indirect employment (forgone employment)
farmers in the livestock production all over the country (see Appendix 3 for livestock production) **drivers** in the internal transportation (of raw hides/skins and leather) + external transportation (of shoes) **mechanic & electric specialists** for repairing of electro motors, generators, shoe machineries, etc **iron and steel processors** for machinery parts in the tannery **traders of accessories,** such as yarns, chemicals .. **wood processors** for wooden parts of technological lines in tanneries and shoe lines **packaging factories** providing wooden palette for tanned leather or cartoon/paper for shoes **insurance companies** providing goods, real-estate,	**shoes accessories** production from existing plastic factories **shoe packaging** from cartoon producers in Albania **waste processing** of tanneries for reuse of fats as soap for tanneries, wool as yarns for carpet and/or mattress production, solid wastes for other recycling purposes **stylists & fashion houses,** if dedicated to the creation of new leather products (garments, bags, shoes, upholstery, etc) **retailers,** if leather products are sold domestically **agents,** if leather products are sold **marketing & consulting companies**, if employed in market research & consulting of Albanian leather made products

car and social insurances **salt producers** in Vlora **fat/oil refiners** for the tannery **textile, chemistry, veterinary faculties** graduating annually specialists **slaughterhouses** all over the country **public offices** such as veterinary, environment, tax, and customs offices all over the country **etc**	**environmental and chemical specialists**, if EU norms will be adopted by companies **salt producers** are not currently filling the needs of tanneries **chemicals,** such as soda or acids that are currently being imported from Macedonia **patent office,** if innovative products will appear in this sector **etc.**

G. Key regulatory issues

Legal framework of veterinary services is complete but there are limited capacities from the administration in law enforcement and therefore this leads to deteriorating of leather quality. As regard of chemical analyses and the water used in the leather industry they are regularly done by the chemic laboratories two or three times per year.

Environmental impacts of this industry are currently covered by an old law of 1973. The Albanian government is working in aligning domestic legislation with EU norms of pollution in this sector. As reported by the Ministry of Environment, it is foreseen that EU norms will be adopted by 2005 and the domestic tanneries should find ways in implementing environmental pollution norms and stay in the market. An emergent need is already identified by ACIT for raising awareness and providing assistance to the existing tanneries, whose existence is vital not only for the tanning industry itself in Albania, but also for the prospective of shoes producers in Albania, who can greatly rely their long term competitiveness upon the domestic value added production of leather, while cheap labor won't keep them in the market anymore. The law "For the protection of environment", which is an EU aligned law in force in Albania, is guided by and stipulates the principle of environmental decision-making with the participation of the public and business associations. The potential leather/shoes cluster can help in implementing this provision. The law also foresees facilitating practices for companies that adopt best environmental practices in their productions and management systems, such as EMAS, which should be ultimately adopted by companies in the medium term. All these issues, can be addressed in a cluster context, since no public and/or other donor program is addressing these issues in the leather/shoes sector.

Currently 5 tanneries are located along Erzen river (going through Tirana and Durres Districts) and many shoes producers are located in Tirana-Durres area, who represent one of the most intensive geographical concentrations of this industry that can benefit from the cluster environmental best practices, if collaborate for waste treatment. Other concentrations can be found in Shkodra and Korca areas, while no local government plans in these areas for this industry have been identified so far.

H. Infrastructure issues

The energy crisis has been one of the key infrastructural impediments to business development, particularly since 2000.
The poor quality of rural infrastructure makes it difficult to reach interior areas, resulting in higher costs of domestic raw materials. Investments are also required in the four Albanian port's. The lack of adequate appliances that process technological wastes does not encourage long term competitiveness, even though current production costs might be lower. Communication lines are sufficiently present in urban areas (yet, mobile communication costs are still high), while the quality of telecommunication is still poor in rural areas. The Internet can be accessed from almost any major Albanian city.

J. Key technology issues

Generally, there are no technological problems, meaning that the machineries are new and the big factories have invested a lot of money on them.

Natural qualities of hides and skins are suffering the lack of good equipment and training of slaughterers. This is strongly affecting the competitiveness and price margins forgone by slaughtering techniques. The potential cluster can address this issue by raising awareness of slaughterers and execute bulk purchases of equipments and technical trainings.

K. Industry trends

This industry is a dynamic one both in international trade and domestically. In this respect, the Albanian production of leather/shoes had been successfully competing in European markets with products of a good quality and reasonable prices. For details on trade in this sector, please consult Appendix 4.

There is a good resource base for using local leather as input for the industry, thus having a much larger multiplicatory effects than any other industry in terms of local resource mobilization. This could have an important effect on job creation and contributing to reducing of poverty in remote areas offering new opportunities for occupying in livestock growing.

Of great importance are the secondary products obtained by the leather processing work (wool, gelatin, fuel materials and cleaning materials for glasses). Actually they are exported to the foreign market, because it does not exists domestic market for these products. They could be used in other industries and therefore developing linkages with other firms specialized on leather production like boots, leather coat, carpet, etc.

M. Five- force analysis

Industry competitors

The number of firms in the leather industry is smaller. They share local markets within the country supplying them with raw materials and operate with various foreign partners. Competition relies mainly on European markets with competitors from many developing countries and transition economies.

New enters

Although there are no special barriers for starting a business in this industry, high start up costs serve in itself as barriers to new entrants. This is observed in the number of new established companies which is very low compared to any other manufacturing industry.

Buyers and suppliers

There are only few foreign firms that dominate the market; they provide the raw materials, accessories, machineries, technical assistance and do the training of the labor. Thus they appear to be the main/only suppliers and buyers of the products.

Threat of substitute products

A possible substitute to the products of this industry could be textile garments, inkelit, jeans, etc.

Conclusions

Clustering potentials seems to be feasible in the leather/shoes industry. Better relationships between key actors in all stages of product development seem to be present in this industry as compared to others studied by ACIT. In addition to foreign companies, there is a large number of local firms operating in the industry. Multiplicatory effect due to local resource mobilization might be higher than in other industries. Therefore, the potential for job creation and poverty reduction seems much more optimistic compared to other industries. Vertical integration or efforts to raise the industry's production level in several stages of the value added chain are a good promise to clustering potential.

For these reasons, we recommend the USAID for targeting of this industry in the clustering project to be undertaken by ACIT.

Appendix 1: Information on main companies operating in the leather/shoes industry

1.TIRANA

Nr	Name of the firm	Square of Building	Year of Establishment	Type of Production	Equipment Number	raw mater Source	Monthly Production Kg	No. of Employment	Selling Domestic	Export
1	MR	1000	2001	leather	12	bovine	20 000	18		100
	International			processing		leather				
	onal									
2	F.P.	2000	1996	leather	15	bovine	8 000	20	10	90
	Lekureve			processing		leather				
3	Blu	800	1997	leather	8	bovine	15 000	10		100
	Taner			processing		leather				
	Berxull									

2. DURRES

Nr	Name of the firm	Square of Building	Year of Establishment	Sort of Production	Equipment Number	raw mater Source	Monthly Production Kg	No. of Employment	Selling Domestic	Export
1	Sinjari	500	1997	leather	5	bovine	75 000	5	10	90
	Shijak			processing		leather				
2	Euro	1200	2001	leather	7	bovine	200 000	24		100
	Conceria			processing		leather				
	Sukth									

4. KORCA										
Nr	Name of the firm	Square of Building	Year of Establishment	Sort of Production	Equipment Number	raw mater Source	Monthly Production Kg	No. of Employment	Selling Domestic	Export
1	SIA-PEL	10 000	1992	leather		Bovine				
				processing	40	leather	100 000	50		100

4. SHKODER										
Nr	Name of the firm	Square of Building	Year of Establishment	Sort of Production	Equipment Number	raw mater Source	Monthly Production Kg	No. of Employment	Selling Domestic	Export
1	Ish fab.	2000	1990	leather	10	bovine	1250	5	10	90
	Lekureve			proccessing		leather				
2	Per-Luc	400	1995	leather	7	bovine	300	3	10	90
				processing		leather				

Appendix 2

Table. **A summary of technical-economical data about important shoes factories in Albania**

No	Name of company	Industrial square	Type of production	Number of equipments	Number of employees	Production capacity per 8 hours
1	Filanto	30 000 m2	Shoes production	450	800	8 000 - 10 000
2	Doniana	15 000 m2	Shoes production	540	1200	9 000
3	Miral	n.a	Shoes production	50	80	1000
4	Beme	600 m2	Shoes production	58	85	250 - 400
5	Angelo shoes	1500 m2	Shoes production	60	40 - 70	200 - 300
6	Adelki	2 500 m2	Shoes production	264	430	4 000 - 5 000

Source: Ministry of Industry and Energy

Appendix 3

Number of livestock related to leather products industry (in thousands)

Items	**1990**	**1992**	**1994**	**1996**	**1998**	**2000**
Cattle: of which cows	632.6 300.5	616 324	820 451	705 423	720 432	728 448
Sheep	1,646	1,796	2,460	1,872	1,941	1,939
Goats	1,145	1,234	1,717	1,051	1,120	1,106

Source: MOAF, Statistical Year-Book

Appendix 4

4.1 Albania's exports of leather, '000 US$

Leather categories	1999	2000	2001	2002	2003
Unprocessed leather (4101, 4102, 4103)	424	297	1,607	4,212	3,325
Tanned leather, including wet-blue (4104, 4105, 4106)	5,327	7,354	8,847	6,999	4,114
Processed leather further wet-blue	171	-	158	-	105
TOTAL	5,922	7,651	10,612	11,211	7,544

4.2 Albania's import of leather, 000 US$

Leather categories	1999	2000	2001	2002	2003
Unprocessed leather (4101, 4102, 4103)	419	427	918	2,577	1,620
Tanned leather, including wet-blue (4104, 4105, 4106)	19,834	17,031	24,612	5,184	17,312
Processed leather further wet-blue	152	211	188	5,080	17,384
TOTAL	20,405	17,669	25,718	12,841	36,316

Table: Albania's import of leather during year 2003 in value and quantity

HS code	Description	Value	Quantity
4101	Raw hides and skins of bovine (including buffalo) or equine animals (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment-dressed or further prepared),	1,205.88	584,304 kg
4102	Raw skins of sheep or lambs (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment dressed or further prepared), whether or not with wool on or split, other than those excluded by note 1(c) to this chapter:	247.03	603,521 piece
4103	Other raw hides and skins (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment dressed or further prepared), whether or not dehaired or split, other than those excluded by note 1(b) or 1(c) to this chapter:	167.42	726,509 piece
	TOTAL	**1,620**	
4104	Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on, whether or not split, but not further prepared:	17,141.92	1,055,505
4105	Tanned or crust skins of sheep or lambs, without wool on, whether or not split, but not further prepared:	68.00	18,659
4106	Tanned or crust skins of other animals, without wool or hair on, whether or not split, but not further prepared:	101.78	19,197
	TOTAL	**17,311.70**	**1,093,361**

4107	Leather further prepared after tanning or crusting, including parchment-dressed leather, of bovine (including buffalo) or equine animals, without hair on, whether or not split, other than leather of heading 4114:	17,384.45	2,515,576
	TOTAL	**17,384.45**	**2,515,576**
	TOTAL (over all)	**36,316.15**	

4.3 World's imports of leather

HS chapters	Value imported in 2002, in US$ thousand	Annual growth in value between 1998-2002, %	Annual growth in value between 2001-2002, %	Main world importers
Unprocessed leather	**5,461,669**			
4101	4,076,878	6	-8	Italy (23%), China (13%), Korea (12%)
4102	1,073,587	9	4	Turkey (37%); Italy (16%)
4103	311,204	4	0	Italy (13%), China (11%)
Tanned leather, including wet-blue	**14,987,130**			
4104	12,637,959	5	1	China (16%), Hong Kong (15%), Italy (11%)
4105	1,471,415	11	-14	Italy (19%), Kina (18%)
4106	877,756	12	5	Italy (28%), Hong-Kong (14%)
Processed leather further wet-blue	**1,650,216**			
4107	743,792	0	-3	Italy(16%), China (12%)
4108	121,079	-4	23	Hungary (14%), Italy (11%)
4109	485,009	13	14	Mexico (49%), France (5%)
4110	135,355	15	-9	Hong Kong (80%)
4111	164,981	17	11	Tunisia (17%), China (11%)
Totali	**22,099,015**			

4.4 World's imports of leather products

Leather products	Value imported in 2002, in US$ thousand	Annual growth in value between 1998-2002, %	Annual growth in value between 2001-2002, %

TOTAL footwear (HS 6401 …. 6406)	**54,562,806**		
6401	457,529	1	0
6402	11,559,984	5	1
6403	30,559,001	3	6
6404	6,013,492	-1	-2
6405	1,279,079	2	17
6406	4,693,721	-2	-5
Leather garments (HS 42.03.10) –	**4,195,802** US main importer (36%), Germany (11%), UK (6%)	**10**	**-12**
TOTAL Leather goods (briefcases, suitcases, hanbags, belts)	**20,614,809**		
420211	428,195	-3	-3
420212	2,421,289	2	-5
420219	196,413	3	2
420221	2,042,811	5	5
420222	3,186,923	8	3
420229	173,993	8	10
420231	1,384,389	1	1
420232	1,123,117	6	4
420239	114,609	1	4
420291	879,750	6	8
420292	7,305,364	1	-2
420299	401,900	4	7
420330	992,056	11	19

4.5 Albania's exports of leather products, '000 US$

Leather products	**2000**	**2001**	**2002**	**2003**
Footwear	43,073	42,473	63,169	90,671
Leather garments	-	-	-	-
Leather goods	386	238	3503	888