

PACT II PROGRAMME
INTRA-REGIONAL TRADE COMPONENT

PROMOTING INTERNATIONAL AND INTRA-AFRICAN
TRADE IN LEATHER

SUPPLY / DEMAND SURVEY

EGYPT

By
M. Maher Abou El-Khair
International Consultant

July 2010

Overall Coordination by



Background/rational

The Programme for Building African Capacity for Trade (PACT II) is a Canadian International Development Agency (CIDA) funded Pan–African programme encompassing three Regional Economic Communities (RECs) namely COMESA, ECCAS and ECOWAS, implemented by the International Trade Centre (ITC) in partnership with the respective RECs as well as other stakeholders at the regional, sub-regional and national levels. The programme focuses on five key outcomes, namely:

- Policy dialogue among the RECs
- Regional trade development
- Trade support networks and business institutions
- Sector specific business skills and market linkages
- Women entrepreneurship

The Eastern and Southern Africa Leather Industries Association (ESALIA) Secretariat is one of the partners and beneficiary Trade Support Institutions in the PACT II programme. The PACT II Programme is being implemented in three components namely: Intra-regional Trade Component, International Trade Component and Ethical Fashion Component.

The activity that is underway is conducting Supply / Demand Surveys under the Intra-regional Trade Component. ESALIA has the overall coordinating responsibility for the Supply / Demand Surveys and will be collaborating with COMESA/LLPI.

It is within this context, that the Consultant was contracted by ESALIA to undertake the task of Supply/Demand survey of the Leather Sector in Egypt within the prescribed Terms of Reference

Objectives and Methodology

Objectives

- ▶ To describe the characteristics of the sector in each country
- ▶ To identify the key enterprises producing, exporting and importing the products under consideration.
- ▶ Assessing the potential for increasing the demand (dynamic demand) and to changing for new sources of supply
- ▶ Assessing barriers affecting imports
- ▶ Determining in which areas assistance to importers may be requested: import licensing, custom duties such as import tariffs, quality control, sanitary and phytosanitary requirements
- ▶ Identify the key importing companies

Methodology

i. Coverage of the survey: products & services

The survey provide extensive coverage of the following areas of the sectoral activities in EGYPT :

- ▶ Hides and Skins (from raw to semifinished, eg. dried, salted, frozen hides and skins, or processed as Wetblue, pickled or crust)
- ▶ Finished leather (according to its final use: eg: footwear, garments, leather goods, automotive, upholstery)
- ▶ Finished Leather Products
- ▶ Footwear
- ▶ Garment and Gloves
- ▶ Leather goods
- ▶ Chemicals
- ▶ Machinery
- ▶ Components
- ▶ Services

ii. Stages of the survey in Egypt

The survey is carried out in two stages of research:

STAGE-I Desk Research

To provide the bulk of statistical data, the national regulations and policy for imports and exports, and the list of key importing and exporting enterprises. It covers the general profile of the sector, the choice of product groups and sectoral activities as based on the current actual situation of the different players at manufacturing, institutional levels and economic and policy environment bearing in mind the developments taking place in the sector. Completion of this stage has required as well initial Field Research in order to compile general and specific sectoral data.

STAGE-II Field Research

The field research is meant to verify the company data, obtaining information on local demand, local production, understanding the trading channels, product specifications, prices and competition.

Considering the large number of the companies in the leather sector, the field survey has focused on classified enterprises to cover : Tanneries being the supplier of leather material, Footwear,, Leather Goods , Leather Garments as well as as well as Supporting Services. Selection of the companies to survey is based on;

- Proportional size of sectoral activities, where footwear product line is dominant,
- Cross section representing Large, Medium & Small operations,
- Geographical coverage of the main industrial centres i.e. Cairo, Alexandria, Ismailia, Banha, 6th October, 10th of Ramadan.

As per completed the provided Company Profile Form.

STAGE I- DESK RESEARCH

CHAPTER I

TABLE OF CONTENTS

NATIONAL SUPPLY SURVEY

	<u>Page</u>
I. <u>OVERVIEW OF THE LEATHER INDUSTRY</u>	4
A. Structure of the leather sector.....	4
B. Recent and current trends.....	6
C. Prospects for growth in exports / plans for expansion.....	9
D. Location of major industrial districts in the country.....	10
II. <u>SUPPLY CAPACITY (by product category)</u>	11
•Raw hides/skins – •Leather Tanning- •Shoes – •Components- •Leather Goods- •Leather Garments	
A. Present national production in quantity and value.....	11
B. Present production capacity utilization.....	12
C. Share of national production exported.....	
D. Destination of output (domestic consumption versus exports).....	
E. Indicative export prices of outputs and production costs.....	
F. Availability of raw materials, intermediary products and components.....	
G. Experience in exporting to or partnering with other COMESA countries.....	31
Italy and India	
III. <u>COMMERCIAL PRACTICES</u>	32
A. Major transport routes utilized.....	32
B. Forms of payment generally required.....	32
C. Packaging utilized.....	32
IV. <u>EXPORT POLICY</u>	33
A. Free Export Zones.....	33
B. Incentives for export.....	36
C. Application of CITES regulations on export of exotic skins and leather.....	36
V. <u>SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS</u>	37

ANNEXES:

- A. Company profiles
- B. Contacts and links: eg. professional associations, websites and directories, training centres, research centres, etc.

I. OVERVIEW OF THE LEATHER INDUSTRY

A. Structure of the leather sector^[ibmi1]:

The leather products industry broadly consists of tanning companies, converting by-products from the food industry (animal hides and skins) into leather which is then converted by leather products manufacturers, predominantly into footwear, leather goods, garments, upholstery and sports goods.

In parallel there is a complimentary industry which uses so called synthetic leather (PVC and PU coated fabrics and polymeric materials) to make similar products. The converters (manufacturers) of leather and synthetics are also supported by a sub sector of component manufacturers and relevant parts of the chemical industry.

Like every country in the world the sector has a leather products' industry in one form or another and every country is a market for finished goods, the biggest of which is footwear. The manufacture of products, especially footwear, pulls through the development of the tanning industry. Tanners and leather products manufacturers are mutually interdependent.

The sector is covered by the services of the following Institutions:

Chamber of Tanning Industries & Chamber of Leather Industries

Both Chambers are members of the Federation of Egyptian Industries with about 3000 registered members under the umbrella of the Ministry of Trade Industry .

The Chamber of Leather Industry and the Chamber of Leather Tanning are the legal representative of the sector and are non profit organizations, providing services to more than 750 shoes ,leather goods ,apparel and components manufacturers and 300 tanneries in following areas: Providing technical and marketing assistance to their members, participation in local and international specialized fairs , strengthening the infra structure of the companies by providing training, seminars and workshops. Assisting companies in solving problems with governmental authorities and lobbying and addressing subjects and problems of interest to their members.

Both organizations are membership based and the majority of their board members are private business managers.

Export Council

Sectoral Export Councils are formed by the Ministry of Foreign Trade and Industry comprising members representing the varied sectoral activities with a mandate to work out focused strategies to foster the export development. This Government initiative has

proven to play an effective role with various sectors as showing impressive export growth.

Egyptian Exporters Association (Expolink)

A successful body established some 10 years ago with the initial assistance of USAID and is currently supported by the IMC. Activities are mainly focused on professional organization of overseas fairs as well as local exhibitions. Through its activities, it has also provided limited providence of expert services as requested by enterprises on the bases of share contribution. .

Footwear Training Centre – Amereya

A vocational training centre was established with assistance of the German GTZ (The Egyptian German Footwear Training Centre) equipped with a design centre, a small testing laboratory and a very modern complete production line for shoes.

Following services are being offered to the industry with reduced costs:

- 1- A 2 years footwear training program covering cutting, stitching ,shoe assembly ,design according to German modules. Graduates receive a certificate as a footwear supervisor.
- 2- Short term training courses for upgrading labor skills of the industry's Workers in specific areas (stitching, cutting, skiving, splitting, assembly...)
- 3- Laboratory testing for components and finished products
- 4- Computer aided design systems and pattern making.

Footwear and Leather Industry Service Centre (FLISC)

Was founded in March 2000 under the Social Fund for Development (SFD) and the UNIDO as a design centre for shoes using latest 3D computerized design systems aiming to provide services to the leather industry. It provides fashion design and marketing information and direct assistance to the local small scale footwear and leather goods manufacturers.

In 2002 a testing laboratory for leather components and final products was established, equipped with basic testing machines from SATRA UK. The laboratory is aiming to be internationally accredited in 2003. Also a leather goods design program has been added to their services.

Leather Technology Centre

An established nucleolus body under the Ministry of Trade and Industry within series of Technology Centres. The centre provides assistance to the footwear and leather goods manufacturers on technology aspects through Spanish bilateral technical assistance.

Egyptian Organisation for Standardisation and Quality Control

Standardisation's official application in Egypt started in 1957, when the Egyptian Organisation for Standardisation was established by a presidential decree and entrusted to test products & materials, and industrial calibrations.

The organization is a governmental body that follows the Ministry of Foreign Trade and Industry. About 600 persons are employed in the organization including 160 technical experts, 250 executives, and 190 technical and vocational workers.

It has issued a set of standards and testing methods for different types of leather material, footwear and components. The organization has a fairly equipped testing laboratory with trained staff. The standards are mainly based on international standards as adapted to local conditions which are subject to periodical updating.

Chemical Department

An established body a century ago, with a basic mandate to provide official testing of material upon Government and/or industry request. The department among its several sections, has a well equipped laboratory for physical and chemical testing of leather .

Skills Standards Project

The project is financed by the Social Development Fund and aims at establishing skills standards for more than ten industrial and services sectors including the leather sector. Operating under the Industrial Federation of Egypt, it has established functional map for professions employed by the sector and is undergoing the establishment of learning elements in the form of Student Centred Learning Packages. The project aims, in the long run, to support the training institutions with adequately prepared training material in line with recognized professional international standards.

B. Recent and current trends:

i) Hides and Skins : Sauer recent reports on the raw material that : *“For hides the exception was the US market which kept moving almost every day but where steer prices may have reached a bottom and are turning upwards again (too recent to really judge). Another exception is the lambskin market which is on the run upwards for the new season in various countries and maybe lost touch with reality already according to some specialists in that trade.*

The general hide market trend is down or stable depending on what hides we are looking at and maybe even a bit firmer in the car leather sector. Prices are lower for normal qualities of wetsalted cows from average and better origins as Europe, USA, and Australia. All hide prices are down in the second division origins in Africa and Latin America. Many of these countries have disappeared out of view or reported (as in this report) inactive. For NON automotive quality ox/steer and bull hides we talk about weaker markets but we do not really see lower prices offered nor do we hear of

substantial business at whatever prices. Abattoirs do not yet cooperate is the word but will be forced to follow soon, is the other word. We wait and see. Goatskins keep showing minor changes up or down.”

China keeps quiet which is probably the main reason of all that is happening or rather of all that is not happening. If no real changes come up somewhere soon we could be looking at a dull summer with very little news to report.

EGYPT: *The run up of raw prices caused by speculators has finally run out of gas but the market remains unstable. Affected by a low kill rate and inflation one side and no significant demand from China and a weak domestic market due reduced purchasing power with consumers on the other side, market prices kept unpredictable.*

It seems that the once healthy active market years ago has become a dream today. Hope of improvement keeps tanners fighting to maintain their activity.

ITALY: *Work and ways of buying raw material are very different from tanner to tanner. In principle everything which is possible or interesting for one is not possible or not interesting for another. There is no red line which is followed by all. Players operate extremely individually at present. For a raw material seller this means a lot of work since all tanners have to be approached with a wide range of material in all possible qualities and price classes since one never knows! There are examples of tanners who produce exactly the same type of leather for which one tannery uses raw hide X while another tanner would not even look at X while for that same purpose. In the same manner one tanner would be prepared to pay a price Y for hide X while one of his colleagues would pay no more than Y-5 and yet another tanner possibly even Y+5. It is all the mystery of the magic Italian tanning world.*

INDIA: *On the market in Erode cowhide prices which went up are struggling to stay there. Prices are expected to fall but it is still not happening because of the limited arrivals. Demand for lower grades is on the rise. Buffalo prices which sky rocketed are slowing down a bit. Currency fluctuation is adding trouble to the markets..*

ii) Value Chain: The concept of the value chain is a central part of the entire complex process worldwide where the Egyptian Leather Products Industry is no exception . It provides a framework for the analysis of the general situation of the industry as leading to better understanding of the entire process in an integrated approach. The value chain, as presented below, begins with animal husbandry, the source of its raw materials throughout sequent processing stages.

VALUE CHAIN – LEATHER SECTOR



(Schmel, UNIDO-2010)

Stage 1: The recovery of hides and skins from slaughtered animals privately and/or in slaughterhouses.

Stage 2: The conversion of hides and skins into leather in tanneries, as semi-processed or up to finishing where the latter requires substantial investment in equipment.

Stage 3: Leather products are frequently manufactured in labour-intensive small workshops (with less investment in equipment), or in larger capital-intensive factories involving machines, components and services .

Stage 4: Marketing being the key to success in the leather products business for both domestic and export. This goes to the intermediate and end products at different stages of the value chain. At the global level it is tightly controlled by international marketing agents who have the market knowledge and the wide network of sales channels that allow them to manage the complex structure of the sector. Fashion trend for finished products play a vital role in the marketing mechanism.

C. Prospects for growth in exports/plans for expansion

i) A Brief Historical Background



Egyptian history has a traditional wealth in manufacture and use of leather and leather products as seen in the tombs of pharaonic civilization.

Top, the wooden statue of Niach-Pepi at the Cairo museum (from the old Kingdom of the 6 dynasty at the time of king Pepi II, 2235-2141 B.C.); demonstrates leather goods as part of the early Egyptian lifestyle. The design shows a back-bag with structured side gussets and convenient carrying straps-probably the first introduction of mankind offering combination of elegance and functional aspects. It keeps both hands free to carry another style of box-bag with a fixed handle to hinged top. The styles apply a variety of woven straw and coarse structured cloth resembling recent application of our times for environment friendly material.

Bottom right, Egyptian sandal workshop, drawn after a painting in the tomb at Beni-Hassan from the period of Middle Kingdom, 12th Dynasty (2,300 B.C.). The first shoe maker cuts the sandal standardized components from the leather material into soles and strings. The second shoemaker is pressing the leather flat. The third threads the strings with his teeth and the fourth bores through the wings of the sandal. Each shoemaker has his tools placed at the working position. The painting features the earliest example of rationalization and division of labour in footwear – by the mankind. **Bottom left**, rural old pit tanning operation, demonstrating stages of tanning and featuring a tanned hide on the wall.

ii) The tanning industry: It has a reputation for not being environmentally friendly. Large amounts of solid and liquid waste is produced in the tanning process but as technology improves this becomes less and less. In the developed world the operation

of a tannery is strictly controlled and the regulations for effluent control are well defined. In the future this same sort of regulation will apply to all countries. Egypt is no exception to this process. The process of change is being imposed either by Government or by external market forces in the developed countries as demanding products to be made in an environmentally friendly manner.

Egypt has a firm plan to upgrade and modernize its tanning industry. This is due to the fact that the interests of the tanneries in countries of high regulation which encourages the production of leather up to the wet blue or crust in less regulated countries has no future. Therefore, plans are being implemented for all Egyptian tanneries to modernize operations so that they can then concentrate on making finished leather with its added value to pay for the increased costs of pollution control.

Both production and marketing for footwear and leather products tends to be rather complex where the companies need to manage the supply chain being an integral part of the whole process

iii) Sectoral exports:

Product	Code	2007	2008	2009
Leather	41	682,247,467.28	789,384,656.29	650,779,529.06
Leather Garments	42	68,439,128.37	109,690,503.68	51,808,198.29
Fur and Leather with fur	43	53,954.63	8,926,603.61	287,489.95
Shoes	64	102,437,039.43	113,190,784.38	95,685,634.43

Export plans cover full conversion of leather material into finished leathers at the leather city together with the planned transfer of leather products for full utilization of the finished leather production. This is supported by concluded preferential trade agreements with COMESA, Aghadir agreement, Arab countries agreement, EU agreement and recently Latin America agreement.

D. Location of major industrial districts in the country:

There exists several clusters and industrial districts in the country as follows:

1. Old tannery district in Cairo with firm plan for transfer to Badr City (a new leather city).
2. Artisan shoe makers in down town Cairo (Bab El Sherya) with plans for relocation:
 - 100 factories to 10th of Ramadan city .
 - 1000 workshops to a new location being planned.
3. 10th of Ramadan city, 60 km west of Cairo.
4. 6th of October city, a new industrial district.
5. El obour city – industrial district.

II.SUPPLY CAPACITY (by product category)

Raw Material Base:

A. Present national production in quantity and value

Egyptian wealth of cow hides, sheep and goat skins are characterized by high quality fibrous structure as well as unique grain pattern- well known at the overseas markets.

The animal wealth of the country is estimated at 8 M. bovines (cow/buffaloe), 6 M. sheep and 5 M. Goats - which follows –in general- a small scale pattern of animal husbandry rather than large scale herds raising.

Leather Raw Material Base



Veterinary services are well provided at village level in a network throughout the country as keeping anti-mortem defects the minimum. The current extraction of the hides/skins from the animals carcass is undertaken manually where it estimated that over half of the slaughtering occurs privately leading to a lack of conformity of the flesh side of the hides and skins due to the manual flaying. It is estimated that up to 30% of the hides are damaged due to post-mortem defects representing a serious loss to the entire supply chain. Most of the post-mortem defects occur in the bovines slaughter with noticeable flaying defects with an estimated total loss of hides value at some \$ 6 M.

B. Present production capacity utilization

Current slaughter and flaying takes place both at Formal recognized slaughter houses and Informal village private slaughter at varied proportions:

TYPE	PROPORTION %		UNITS FORMAL	UNITS INFORMAL	UNITS TOTAL
COW	50:50		838,886	838,886	1,677,772
BUFFALOE	50:50		396,520	396,520	793,040
CAMEL	40:60		78,496	117,720	196,216
CALF	40:60		340,237	510,355	850,592
SHEEP	80:20		348,535	1,394,140	1,742,675
GOAT	80:20		15,539	62,155	77,694
TOTAL	Informal	Formal	3,018,313	3,319,776	5,337,989

As clearly seen that 50 per cent of the country's wealth of hides and skins is subject to serious post-mortem defects at the informal village private slaughter - with eventual marked reduction in the raw material value and sequent lower grade/value of manufactured leather whether semi- processed, crust or finished.

C. Share of national production exports:

No exports take place for raw hides and skin.

Leather Tanning:

A. Present national production in quantity and value

Some 300 tanneries are located in the "Old Cairo District" in Cairo city centre, supplying the needs for the local market and exporting wet blue and crust leather of cow and buffalo hides and sheep and goat skin to Europe and Asia. Egyptian hides are known for a unique leather texture due to the moderate climate. The total labour force in the tanning sector is estimated at 15,000 workers.

Leather Manufacture- Basic Component



Medium scale operation

Small scale operation

B. Present production capacity utilization:

Total Output of Leather

TYPE	AVERAGE AREA SQ.FT	TOTAL OUTPUT SQ.FT	PERCENTAGE
COW	45	75,499,740	50.53%
BUFFALOE	50	39,756,000	26.54%
CAMEL	50	9,810,800	6.57%
CALF	12	10,207,104	6.83%
SHEEP	8	13,941,400	9.33%
GOAT	4	310,776	0.21%
TOTAL		149,431,830	100%

C. Share of national production exported

It is estimated that continued increase occur in supply by 2.4 per cent a year - being the highest of any country in the region. Bovine material (hides) represents 70 % against ovine (skins) representing 30 % as reverse to the North African countries. In terms of production activity, Egypt ranks the 4th just behind Italy, Spain and Germany within the EU tanning activity.

Thirty years ago, virtually all of Egypt's raw hides and skins were processes into finished leather, with about half sold in the domestic market to Egypt's Leather Products Sector

and the other half sold to the for former Soviet Union to be processed into leather products in these countries. The prevailing situation in Egypt (protectionism and keeping costs of finished leather down) and in the former Soviet Union where the buyers did not emphasise quality, Egypt's Tanners Sector got away with having customers that accepted low quality finished leather.

With the collapse of the Soviet Union market, Egypt Tanners Sector had to find new markets for 70% of its output whilst the buyers from the new international markets knew that Egypt tanneries lacked modernization and were, on the whole, only capable of producing wet blue. Therefore, the sector went through a transformation from virtually most of the raw hides and skins being processed to finished leather to only 30% reaching this final stage of production.

Overall Sectoral Contribution to Exports

Sector	Value (\$)	Percentage
Leather and Semi Processed	99,719,000	98.32
Raw Hides/Skins	103,000	0.01

D. Destination of output (domestic consumption versus exports)

Egypt's tanneries are being squeezed by three market pressures/challenges.

- international customers want to buy only wet blue for environmental reasons
- international customers are not prepared to buy crust, or finished leather , due to quality and fashion issues
- domestic leather products manufacturers demand leather at low prices and tedious payment conditions- due to their weak position

This squeezing has induced restructuring within the sector over the last 10 years: smaller tanneries closing, working part-time or undertaking jobbing activity from the larger tanneries; and an increasing concentration of production activity in a small number of large tanneries. However, such restructuring does not demonstrate a healthy pattern where some 70 % of exported material are in the semi-processed – the bulk goes to wet-blue. It is even reported that one large scale tannery captures some 70 % of raw material for conversion into wet-blue through unrealistic exaggerated prices for the raw hides .

The following table illustrates the current situation of domestic leather supply in million sq ft.

Domestic Leather Supply

	Domestic Market		Exports		Total	
	Quantity	%	Quantity	%	Quantity	%
Wet blue	-	-	92.16	84.6	92.16	60.0
Crust	-	-	15.36	14.1	15.36	10.0
Finished Leather	44.7	100.0	1.38	1.3	46.08	30.0
Total	44.7	100.0	108.9	100.0	153.60	100.0
Total		29.1		70.9		100.0

E. Indicative export prices of output and production costs

The current average prices for the Egyptian leather as follows:

Domestic/Export Leather Prices

Wet Blue	Crust	Finished Leather
\$ 1.65 per sq ft	\$ 1.48 per sq ft	\$ 2-2.5 per sq ft
EGP 9.50	EGP 8.50	EGP 12.60

It is also reported that: should the leather products sub-sectors be developed to an efficient level in all aspects, an intermediary solution to the second and third challenges is made. It is much easier to sell finished leather in the form of finished products rather than exporting finished leathers at the competitive international market.

F. Availability of raw material, intermediary products and components:

Manufacture of leather is dependent on domestic raw material supply supplemented by imported raw hides and skins mainly from Sudan, Kenya, Ethiopia and Uganda.

All components as chemicals are imported from different sources of major chemical suppliers.

G. Experience in exporting with or partnering with other COMESA countries, Italy and India:

No export experience so far to COMESA countries for this product category, with plans for export of wetblue to Ethiopian countries.

Massive exports of wetblue crust and limited finished leather to Italy, Spain and India.

Footwear:



A. Present national production in quantity and value

It represents a significant amount of the activity with annual production around 70 Million pairs with a maximum capacity reaching 120 Million pairs. It represents almost 75% of the Egyptian leather sectors, divided to 2 main categories:

Footwear Production Summary

Type of Shoes : Classic –Casual – Sports- Men- Ladies and Children Shoes , Slippers ,Safety and Military Shoes

Current Manufacturing Capacity : 120 Million Pairs

Annual Production : 75 Million Pairs

Export Capacity : 50 Million Pairs

Export Markets : Ex- East Block Countries and Russia , Euro Countries , Arab and African Countries

No of Export Oriented Factories : 60 Factories

No of Medium to Small Factories : 200 Factories

Production Units employing less than 10 workers : 3000 production units- estimated

B. Present Production capacity utilization

The footwear manufacturing industry can be classified into two basic sections

- informal or artisanal production
- semi and mechanised production

a) Small and Micro enterprises

Recent statistics suggest that the number of workshops active in shoemaking is around 19,000 employing some 42,000 workers. They tend to be clustered in central areas of major towns and cities and are served by a support structure of retailers of components

and materials. Also located in the cluster are the makers of ancillary equipment, cutting dies, lasts, punches, embossing etc. Also certain types of simple machines are made or adapted locally. 75% of the sub sector is located in Cairo with 10% in Alexandria. Few workshops are scattered in other cities as Tanta, Banha and Dumietta.

Often the production involves sub contractors in the cluster. People who only stitch uppers or a person with a particular machine who can service many workshops because it is not possible to invest in the machine as an individual.

The main characteristic of this section of the industry is that the workshops are nearly all the same. They use the same (antiquated) production methods, with the same machines and produce very similar shoes which are sold either informally through shops or on the street markets. Competition between the workshops is fierce, selling price plays an important part. The sub sector produces cheap synthetic shoes and sandals usually of indifferent quality. In many ways they compete directly with Chinese imports.

A pipeline project is planned aiming at establishing a new industrial park to accommodate 1000 workshops working mainly in footwear and partially in the leather goods and garments who are already working in different areas of Cairo and Alexandria. These workshops, are categorized as Micro enterprises; consequently they are in the non-formal sector as targeting to induce an upgrading of the informal sector's performance

b) Mechanised and Semi Mechanised Companies

According to the Chamber of Leather Industries there are 53 formal shoe making enterprises operating in the market. In the past (1970's) some 39 of these companies were active exporters mostly to the planned economies of the Eastern block. Since the demise of this market, companies, have found it difficult to successfully make the transition to an open market economy. Installed capacity for these companies is 500 – 1500 pairs per day. Many companies are operating at low levels of production capacity some as low as 20-30% and some have switched to a workshop status.

The companies are well equipped with machinery to produce good shoes, even the machines are of the older type but are still performing. One company in Egypt operates a CAD system for pattern development and grading. In the area of stitching uppers, very few automatic/computer controlled stitching machines are in operation. One of the main concerns is that the informal sector can easily copy the styles in cheap synthetic materials.

In a new Industrial Zone at the 10th of Ramadan City, a share holding company has been formulated to accommodate 100 shoes and leather products factory units comprising :

- standard area of 600 sq.m. per factory
- Workshop for soles
- workshop for insoles, heels & socklining
- workshop for lasts and maintenance

- common storage for exported goods
- administration and exhibition building
- material supply building
- training centre
- waste collection/disposal building

It is reported that 70% of the allocated spaces are booked and practical steps taken for implementation.

C. Share of national production exported

The general pattern in Egypt still follows traditional manufacture of all components under one roof with a resultant low output capacity and higher production cost. Upper closing being the most crucial operation, is still made by the same units. This is with the exception of one successful foreign company as subcontracting this operation to more than 20 workshops; thus overcoming more than 80 per cent of the manufacturing difficulties. In this way, the company with access to the Italian market is exporting some 1000 pairs per day.

Sectoral Contribution to Exports^[ibmi2]

Sector	Value (\$)	Percentage
Footwear	1,500,366	1.4

D. Destination of output (domestic consumption versus exports)

Exports^[ibmi3] are destined to Middle East mainly Saudi Arabia as well as to Italy.

TOTAL POPULATION	80 MILLION
PER CAPITA CONSUMPTION	1.38 /ANNUM
LOCAL PRODUCTION	101,140,383 PAIRS
FORMAL SECTOR :	4,770,000 PAIRS 4.7%
INFORMAL SECTOR	96,370,383 PAIRS 95.3%
IMPORTS SHOES & UPPERS	8 MILLION \$
	AVERAGE PRICE \$ 2.7/PAIR
EXPORTS SHOES & UPPERS	0.3 MILLION \$
	AVERAGE PRICE \$ 5.00/PAIR

E. Indicative export prices of output and production cost

DOMESTIC RETAIL PRICE	\$ 15 – 75 /PAIR
RETAIL MARK-UP	30-40 %
EX FACTORY SELLING PRICE	\$ 19
CONSUMABLE MATERIAL	\$ 14
ADDED VALUE	\$ 5/PAIR
AVERAGE TOTAL ADDED VALUE	\$ 350 MILLION
AVERAGE PRODUCTION COST	\$ 1.1 - 2.0 per pair
CONTRIBUTION TO EMPLOYMENT	95,000 JOBS \$ 120 MILLION
CONTRIBUTION TO INVESTMENT	\$ 55 MILLION

F. Availability of raw materials, intermediary products and components

- i) Leather: Available from local tanneries.
- ii) Synthetic leather: available combination of local production and imports from China for cheaper grades, Italy, Spain for high grades and Turkey for medium grades.
- iii) Soles and insoles: Combination of local supply and imports from the above sources.
- iv) Other components as adhesives, metal accessories, threads, zippers: combination of local production and imports from above sources.

G. Experience in exporting to or partnering with other COMESA countries, Italy and India

Minimal exports to COMESA countries with plans for expansion. One company in free zone regular exports of shoes and uppers to Italy

Leather Goods

Leather Goods Making



A. Present national production in quantity and value

The manufacture of modern type(s) of leather goods is deeply rooted in the country with concentration in Cairo and Alexandria being the main centres of the sub-sector's industrial and trading activities. Generally, the industry exists at small and medium scale levels where product lines follow the western styles as mainly orientated towards a certain class of the Egyptian society and foreigners living-in or visiting the country.

The industry general orientation is directed towards the domestic market with three distinctive categories at the market outlets; i) product range with peculiarities adapted for the Egyptian consumer's taste as representing the bulk of displays, ii) seasonal product groups made for the Middle-East tourists and iii) a limited category coming-up to meet the western tourists demand. Among the three product categories, the latter represents the closest taste to the world market trends.

According the Industry Chamber, the sub-sector encompasses 13 companies classified as the golden list as well as 10 companies in the second category of a silver list. This group is clearly specialized in the main categories of leather goods i.e. bags, small leather goods, belts and gift items. This is with the exception of a handful of fairly large companies covering the entire range in different production lines which represents a category on its own.

However, in the unrecognized sector which has no record, the number of workshops is estimated to exceed some 500 enterprises representing the wider base of manufacture. Actual number of artisan workshops might exceed this estimate by a large margin if the

sub-sector's activity is estimated at 10 per cent of that for footwear i.e. 1900 workshops. At an average employment of 2 – 5 workers/unit , one would estimate a workforce in the order of 6,000 people. Unlike footwear, the workshops distribution exists all over the two cities with no clear cluster- making the estimate a difficult task.

Manufacture

At production level, the pioneering generation which started the business during the fifties has gained extensive experience through close contacts with the west. As an example- *Rivoli*, a joint venture with the German known *Goldfile* back in the fifties, has been a major source of skilled labour which spread into small workshops after its closed down. By then, leather goods was an important subject at two vocational schools namely; Ahmed Maher School in Cairo and Mohamed Ali School in Alexandria where the remaining skilled generation have received their formal craftsmanship education. These two institutions are currently closed.

Leather goods/Garments Production Summary:

Products : Wallets–Purses–Attaché and Business Bags Gifts, Souvenirs and Promotional items of genuine leather ,Small Leather Goods, Ladies Bags ,Casual and Classic Belts

Men ,Ladies and Children Leather Garments according to latest fashion trends .

Home and Car Upholstery

No of Export Oriented Factories : 25 Factories

Small factories or production units : 1500

Export Markets : Germany and other EU Countries , Arab and African Countries , USA and Canada ,Russia

Design

Design abilities are limited to copying from catalogues and/or prototype sample offered by domestic and/or overseas buyers where limitations on design analysis and collection building tasks are experienced by the sector. Under the circumstances, the profession of leather goods designer does not exist in the sector These duties are mainly undertaken by the factory owners according to their own judgement.

Management

At the recognized high level, modern management techniques apply together with continued serious attempts for export and/or a healthy stand at the domestic market as demonstrated by professional window shops displays.

At the artisan level, the operation follows the same pattern of footwear where the owner resumes all functions including design selection and even some production tasks as design and pattern making. Production pattern generally requires a minimal management role in manufacturing organization where the work follows a piece rate system and consistency in quality is difficult to achieve. The middle management at supervisory level does not exist which is loading the management with excessive duties.

Human Infrastructure

In the absence of training facilities for skills reproduction, the industry is dependent on high level skills as acquired by the old generation and inherited to the new generations- with some wrong and/or old practices and eventual shortcomings on possible progress.

B. Present production capacity utilization

With the exception of newly established modern factories, the wide base of leather goods manufacture has a range of outdated machines and equipment for the mechanized operations whilst lacking a wide range of appropriate hand tools necessary for the perfection of the manual operations. A general tendency to piece work manufacture had a negative impact on production organization as well as the workers attitudes which are necessary elements for a modern pattern for consistent quality and efficient manufacture.

Productivity in Leather Goods

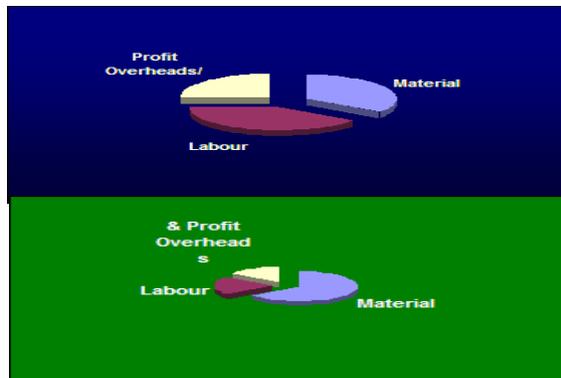
Leather Goods Item	Productivity at Modern Level pcs/worker/day	Productivity at Artisan Level pcs/worker/day
Wallets	8	4
Bags	4	2
Belts	20	12

As seen, the level of productivity at the artisan level of operation is almost half of that at modern level which is explained by the result of sectionalized operation at the latter .

Machines maintenance has proved to be a serious weakness for the realization of a modernized operation particularly for sewing machines mechanics. Agents of machinery suppliers are not in a position to provide this service as expected whilst the increased number of modern sewing machines as employed by single factories urges the need for full/part-time experienced mechanics where resources are not available to offer

Av. Cost Structure- Wallet		
Material	Labour	Overheads/ Profit
35	40	25

AV. COST STRUCTURE-BAG		
Material	Labour	Overheads & Profit
65	20	15



Proportional Added Value For Leather Goods/Garments

Product Line	Average Cost Structure			Average Added Value
	Material	Workmanship	Overheads/profit	
Wallet	35	40	25	65
Bag	65	20	15	35

CONTRIBUTION TO INVESTMENT	
Leathergoods	
13 modern factories, golden list x \$ 100,0	= 1,300,000
10 factories silver list x \$ 70,000	= 700,000
500 artisan x \$ 5,000	= 2,500,000
Estimated total contribution to Investment= 4,500,00	

C. Share of national production exported

For Leather goods and Leather Garments, there are some 50 leather goods factories supplying the upper market segment for ladies handbags, attaché cases and business bags as well as belts, wallets, purses and other small leather goods and gift items as well as leather garments. Many of those factories are exporting to Germany, Belgium, Dubai , Saudi Arabia and other export markets. Companies ,employ between 30-150 workers and they are interested in developing relationships with manufacturers and retailers in Europe and in new sourcing contacts in Europe, Middle East and Africa. Also a large number of informal small production units are covering the lower market segments applying mostly man-made material as estimated to exceed 8000 units.

IMPORTS LEATHER GOODS	\$ 300,000	AVERAGE PRICE \$3.5/PC
EXPORTS LEATHER GOODS	\$ 95,000	AVERAGE PRICE 20.00/PC

Overall Sectoral Contribution to Exports

Sector	Value (\$)	Percentage
Leather goods/Garments	99,336	0.09

D. Destination of output (domestic consumption versus exports)

During the late sixties and in the early seventies, the export boom with massive orders from countries of centrally planned economy has brought sudden structural changes to the manufacturing pattern of the industry. The demand for large export orders of limited design range as well as long ban on the import leather goods, made the sector operating

in isolation from world developments in trends as well as in manufacture. With the eventual closing down of the vocational training facilities in the trade, the workforce had to obtain experience through inherited skills which were subject to further deterioration due the reduced demand for modernization and quality whether for domestic and/or export markets at the time.

E. Indicative export prices of output and production cost

Wallets \$18

Bags \$ 20

Targeting medium/high market segments.

F. Availability of raw materials, intermediary products and components

The modern and the export oriented companies apply quality leathers whether locally produced and/or imported leathers from Italy and Spain – together with imported components and accessories.

The artisan manufacture applies mainly man-made material together with cheaper grades of imported components and accessories.

G. Experience in exporting to or partnering with other COMESA countries, Italy and India

A completed phase of an EU assisted project followed by GTZ assistance for the Export Development and Promotion Project for Egyptian leather goods had had a fairly positive impact at a pilot scale within the sector. The programme as designed has incorporated a package of technical and marketing assistance addressing the weak position of the industry being at a small-scale level. It has induced specialization into specific product lines and has created a certain level of awareness with the market needs as well as an eye-opener for production organization at the manufacturing floor.

As a direct result of the project impacts, a participating company among the group being rated as the smallest at the project start has established an excellent modern factory with an initial investment of some LE 1 million. In recent years, the business realization of the sector's potential have motivated additional companies to make a new total investments for establishment of modern leather goods factories.

Penetration has started at a limited scale to COMESA markets mainly to Kenya. Steady growth in exports to Italy, France and Spain.

Leather Garments

A. Present national production in quantity and value.



The manufacture of leather garments in the country has coincided with the export boom to East-European countries – back to the sixties- through tailor’s type workshops which have expanded into larger industrialized operation. Manufacturing units are concentrated in Cairo and Alexandria operating at a small and medium levels, with the exception of one factory which is considered as fairly large. The industry Chamber has a golden list of six companies employing an average of 40 workers/unit in addition to three companies in the silver list employing some 20 workers/unit . They all In the have been export oriented with a currently shrinking operation. In the unrecognized sector, estimates suggest additional 100 workshops employing an average 5 people/unit. This gives an estimate at a total of 1000 workforce in the sub-sector under the present situation.

Design

Designs are copied from catalogues or prototypes with no real concept for collection building. This is followed by manual size grading which applies principles of textile garments.

Only one company has procured the equipment for modern computer design, size grading and accurate pattern plotting which is successfully applied even at a limited level of output.

Human Infrastructure

No formal training facility for leather garments exist in the country – which does not seem to be justified under the current size of operation. However, formal education of Home Economics provides professional basis for textile pattern making which needs to be further adapted to leather garments.

B. Present production capacity utilization

At production level, the generation of leather garments manufacturers has gone through self development being a branch of textile garments – where no specific training facilities exist so far for leather garments. The demand for quality items has catalyzed to some extent the supply of quality leather whether for sheep nappa and/or suede.

However, fairly large scale operations in leather garments business with an average of 40 – 60 sewing machines have ceased and/or shrinkage operation down to a cottage level.

Due to the size limitations at manufacturing level, the operation –with one exception- is featuring a piece work pattern where the responsibility is totally passed to the workers group against piece rate payment for cutting and stitching. At the only company with moderate healthy operation, modern management techniques apply through self development with computerized records. As in modern factories, the leather is cut by hand in order to have full control over the material yield and waste being a determinant costing element in the leather garments.

Only few factories of medium scale apply the appropriate sewing machines with alternating transport system as essential for quality stitch. The rest apply light duty sewing machines which are meant for textile garments.

Productivity at a medium modern scale is 2 garments/worker/day which follows international norms. Whilst that level of productivity goes down to 0.8/garments/worker/day at the small scale level. The difference is explained by the production pattern of group or chain work at the first operation and piece rate work at the second operation

AV. COST STRUCTURE- GARMENT				
Material	Labour	Overheads & Profit		
80	10	10		
Proportional Added Value For Leather Goods/Garments				
Product Line	Average Cost Structure			Average Added Value
	Material	Workmanship	Overheads/profit	
Garment	80	10	10	20
CONTRIBUTION TO EMPLOYMENT			14,159 jobs- annual wage bill of \$ 17,729,975	
CONTRIBUTION TO INVESTMENT				
Leather Garments				

1 large factory x \$ 150,000 = \$ 150,000
3 silver list x \$ 70,000 = \$ 210,000
100 small factories x \$ 15,000 = \$ 1,500,00
Estimated total contribution to investment = \$ 2,460,000

C. Share of national production exported

The manufacture is focused on the domestic market outlets with a fairly limited consumption as well as the tourist market with occasional minor exports.

IMPORTS LEATHER GARMENTS	\$ 285,000
EXPORTS LEATHER GARMENTS	\$ 65,000

D. Destination of output (domestic consumption versus exports)

Leather Garments/goods	99,336	0.09
---------------------------	--------	------

Despite the warning of climate, however tourist market represents the major clients bearing in mind that the current size of tourist market is 8 Million in 2009.

E. Indicative export prices of output and production cost

Garments, the average jacket is \$65, average skirt is \$40

F. Availability of raw material, intermediary products and components

Manufacture of quality leather garments relies on reliable supply of the leather material at the right quality. Prices generally follow the world market for the offered quality. However, the supply is rather limited to basic colours rather than fashion colours as putting limitations of the marketability of the garments – even at the domestic market.

As the case with leather goods, other inputs as accessories, threads, linings, interlinings, fusing material are mainly imported, with very limited local made substitutes which puts further limitations on manufacturing quality.

G. Experience in exporting to or partnering with other COMESA countries, Italy and India.

Limited exports to COMESA countries with a steady penetration of EU markets including Italy.

Components

A. Present national production in quality and value

Non-Leather material components for the entire leather products sub-sectors are crucial for a healthy performance. They cover an extremely wide base of material with specific requirements for footwear, leather goods and leather garments. Italy and Spain dominate the quality components supply to Egypt with continued innovations in line with the trend. Far-Eastern supply is mainly copies at much cheaper price. This goes to adhesives, finishing agents, toe-puffs, stiffeners, unit soles, insoles, linings, interlinings, shaping material, stuffing material, zippers, metal accessories, threads and many others. Usually, the suppliers are specialized in certain lines in order to justify the mass-production at reduced prices.

i) SHOE COMPONENTS EXAMPLAR



ii) LEATHER GOODS COMPONENTS/TOOLS

Metal accessories, Adhesive tape, threads, foam, interlinings, pipings, sissors, thread trimmers, folding hammer, puncher

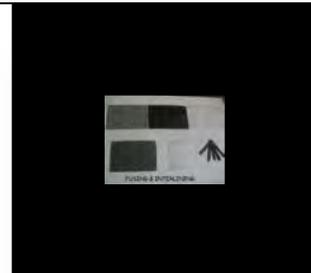


staining, tapes

Latex glue, edge



iii) LEATHER GARMENTS COMPONENTS



In recent years attempts have started for local manufacture and supply of components at varied quality levels. Several types of adhesives, unit soles, rubber sheets, YKK zippers, man-made leathers for increased application to shoes and leather goods and a limited range of metal accessories.

B. Present production capacity utilization

In view of the extremely wide diversification of components no statistics and/or precise information is available on production capacity utilization. However, it is reported by survey suppliers that capacity utilization varies according to the domestic market absorptive capacity against imported components. Therefore, capacity utilization fluctuates accordingly.

C. Share of national production exported

In general it is estimated that 20% of national production is exported.

D. Destination of output (domestic consumption versus exports)

This goes mainly to unit soles being exported to Italy by one company, the rest of other components are locally consumed. Also, zippers are produced in a free zone company is exported mainly to the Middle East markets.

E. Indicative export prices of outputs and production costs

As indicators on prices:

- i) Solvent base adhesives: 1 \$ /kg
- ii) Zippers: 1\$ /m
- iii) Unit soles: 1.2\$ /pair
- iv) Plastic heels: 0.75\$/pair
- v) Synthetic leather: 2-3\$/m

As almost most of the required materials are imported, it is rather difficult to estimate the production cost.

F. Availability of raw materials, intermediary products and components

Most of the raw material for locally fabricated components are imported.

G. Experience in exporting to or partnering with other COMESA countries, Italy and India

Firm plans are made for penetration of COMESA countries with components.

Supporting Services



Shoe Lasts

In Egypt recently there were 20 last workshops in operation today there are about 12 that continue to manufacture. These exclusively use wood. The equipment used is antiquated (1955 German and Italian turning machines). Much of the finishing work is done by hand. It is estimated that output is around 400,000 pairs per year. This problematical production of lasts accounts for many of the quality problems in the finished shoes. The only advantage is that the lasts are cheap (\$ 5.00 -LE15 -20) compared to imported plastic lasts at (\$25 = LE145.00) per pair. The life span for a wooden last is around 50 to 100 pairs before it has to be replaced. (Due in the main to the prolific use of nails by the workers). For a plastic last the life span is years, fashion changes before the last has worn out. However, mechanized medium/large shoe companies are using either imported lasts and/or copied plastic lasts for machine lasting .

Cutting / Embossing Dies

These are used by companies who have clicking machines. Dies are made from strip steel (imported) and shaped to the various pattern parts of the leather uppers. The machines used are very simple. The supply of cutting dies by the local workshops is good and up to

A number of companies at least three in Cairo and similar in Alexandria are fully equipped with computerized facilities for embossing dies at international quality and much competitive prices . Other companies acquire high skills in manual engraving for special jobs.

Machines/Tools

There is a limited range of locally fabricated machines as copied from the imported ones. This goes to hand clickers, edge ironing, buffing, edge staining, embossing and finishing. The full range of hand tools is successfully copied locally by specialized small companies.

Machines Services/Spare Parts

There is no formal set-up for machines services. For the range of employed machines by the leather products sub-sectors, maintenance is carried out by individual mechanics. A good number of spare parts is successfully copied locally at specialized machine shops. However, certain range of spare parts still has to be imported.

Maintenance of sewing machines follows the same pattern, as the sewing machines agents have failed to provide an efficient service. Likewise, simple range of sewing machines spare parts is successfully copied locally as sewing guides, spool holders, motors renovation etc. Meanwhile, complicated parts as bobbin cases are imported.

III.COMMERCIAL PRACTICES

A. Major routes utilized

Major transport routes utilized are by sea, either Mediterranean or red sea.

B. Forms of payment generally required

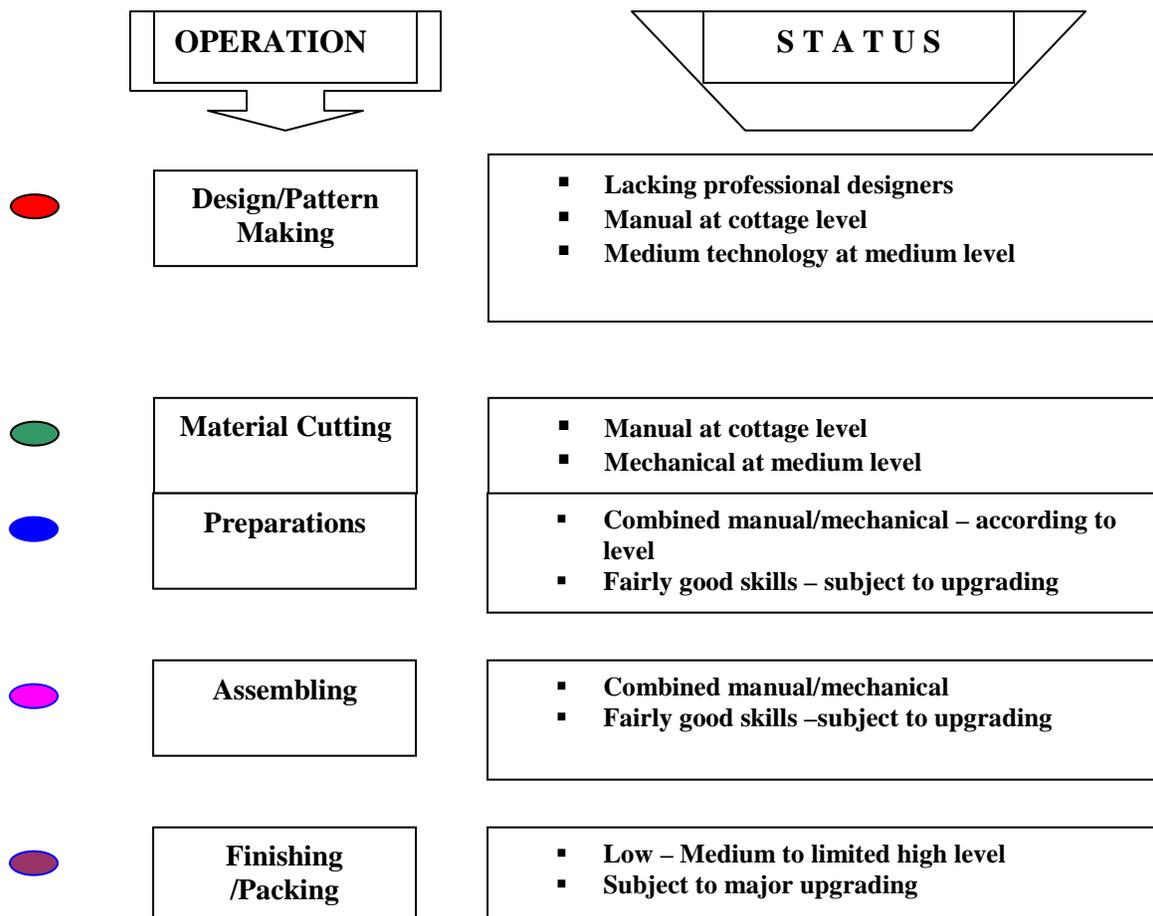
The forms of payment are by L/C or against documents.

C. Packaging utilized

Packaging is by container.

The following common status is reported despite sub-sector's own peculiarities:

General Sequence and Status of Operations



IV. EXPORT POLICY

A. Free Export Zone

The environment for investment and business including free export zones is covered by the following set of laws :

- General Company Establishment law No. 159 / 1981
- Investment law No. 8
- Monetary law
- Labour law
- New taxation law
- VAT law
- Social security law

The said laws determine the regulatory framework for the business establishments as applies to leather products companies whether new or already established.

The law No. 159/81 is the basic for companies formation including companies established within the investment law. It is considered the blanket law for company formation which suits the small and medium scale and enables legalization of all types of companies.

Investment law offers several facilities especially to foreign partners, including free transfer of funds in/out of the country, foreign employment and tax exemptions at the new industrialized locations. Companies formed under this law are quite limited in the area of footwear and leather products- whilst obstacles of red tape and bureaucracy are often encountered by most investors whether local and/or foreign. Here it should be noted that Egypt ranks the 9th country in the region for the attraction of foreign investment.

Workers rights are regularized by the Labour Law as specifying annual leave, sick leave, incentives/penalties and rules of dismissal through the judgment of a special committee representing the Labour office and the company.

A new taxation law has been recently issued which has cancelled all types of tax exemptions as replaced by smoother procedures and lower income tax rates. However, it is viewed by most companies at the small and medium scale that the said law provides advantages to the large scale enterprises whilst loading the small ones with additional duties. Adjustments of the law articles as demanded by the industry chamber are still pending a response.

Social security law as applied does not necessarily provide safety coverage neither to the workers nor to the companies owners as featuring fairly high deductions on the one hand and extremely low return to the worker on the other hand. The medical insurance component of the law is viewed by the subscribers to be the least effective.

B. International Trade Agreements

Egypt has signed several bilateral and multilateral agreements to promote and develop competitiveness of the Egyptian exports, enhance trade, and improve the balance of Trade. The Ministry of Foreign Trade and Industry displays a summary of key agreements on this page of its website for the use and benefit of the Egyptian exporters:

i) Free and Preferential Trade agreements between Egypt and the Arab countries:

A series of bilateral Tariff and Trade Agreements have been signed during the last decade of the last century between Egypt and Libya, Syria, Tunisia and Morocco. Executive programmes to support trade have also been laid down between Egypt Jordan, Iraq and Lebanon.

ii) Comesa Agreement

In July 1998 Egypt joined the Common Market For Eastern and Southern Africa (Comesa) Free and Preferential Trade Area agreement, aimed at establishing a free trade area between member states.

In October 2000 the free trade area was created (Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe). The FTA has contributed not only to the elimination of custom duties but also to the streamlining of all trade barriers (custom regulation, harmonization of standards etc.).

The objective was to enhance the competitive advantage of the Comesa region as a regional market. The FTA will favor internal competition as a tool to prepare SMEs to the global competition. Egyptian SMEs' are comparatively better prepared than other member countries SME's to face competition. They will be in the best position to benefit from the opportunity of this huge regional market.

There will be more impact on the sector from the special agreement with the South Mediterranean countries (Jordan, Morocco, Tunisia etc.).

iii) EU Partnership Agreement

The Egypt-EU Association Agreement that was executed in May 2004 consists of 92 Articles

Egypt started negotiations with EU for concluding a partnership agreement in 1995. Its initial signature was made on January, 26th 2001 in preparation for the final signature that was effected on June, 25th 2001.

According to the Agreement, a FTA will be established during a 12-year transitional period, from the date the Agreement enters into force. During the third year both parties will decide upon the procedures - to be implemented on the following year - to further liberalize their trade in agricultural products, maritime products and processed agricultural products.

The Agreement permits Egypt to take certain exceptional measures for specific periods during the transitional stage, if and when certain domestic industries face a threat as a result of liberalization of imports of similar goods from the EU.

It also includes implementation of WTO and GATT regulations against anti-dumping, subsidy and safeguard measures. The Agreement allows each party to enjoy Most Favorite Nation treatment from the other party in trading services.

The Agreement aims at increasing the flow of foreign capital, expertise and technology to Egypt. Egyptian exports of manufactured goods to the EU will be exempted from tariffs once the Agreement enters into force, meanwhile, EU exports of manufactured goods to Egypt shall be tariff-exempted according to the lists and time frame specified in the Agreement.

In order to speed up the implementation of the Association Agreement, an exchange of letters was signed between Egypt and the EU to allow the trade provisions of the Association Agreement to enter into force as from 1 January 2004.

The Association Agreement as a whole entered into force on 1 June 2004 after ratification by all EU Member States and Egypt.

According to the Agreement both parties will enjoy trade liberalization from all barriers of quantity and tariffs based on the time frame and the specific lists incorporated within the Agreement.

Manufactured goods exported from the EU to Egypt are to be exempted from all quantity, tariffs and any other barriers having the same effect according to a time frame established for each category of goods.

iv) Aghadir Agreement

This trade agreements has been concluded between four countries : Egypt-Jordan- Tunis & Morocco aiming at waving the trade barriers between the four countries on the one hand and to establish a complimentary cooperation at the supply level on the other hand . Steps are taken for the detailed execution of the agreement.

B. Incentives for exports

As already stated that the economic liberalization enabling market forces to apply has put the industry at a real disadvantage. This is against tough competition from imports taking advantage of limitations on the purchasing power on the one hand and the vacuum in coherent sectoral strategy focusing on the sector on the other hand. Massive exports of semi-processed leather material against minimal exports of finished goods shows a clear example of a lack of strategy coherence in order to fully exploit the sector's overall potential, particularly for exports.

Trade policies in general reflect a healthy direction towards supporting export efforts in various sectors. This is demonstrated by an increase in export performance of other sectors such as furniture, ready-made garments and food. However, these supportive measures have not yet been taken advantage of by other leather products sub-sector so that it can make its rightful contribution to the national economy. Apparently, the industry players of the sector have not yet been able to present the industry to the controllers of these programmes with its true potential. This is mainly due to the dominant presence of the artisanal workshops with its educational limitations as compared with other sectors. Even at a medium scale, many companies follow a small scale pattern rather than the application of modern professional management techniques.

An excellent export performance of one shoe company operating with a free trade zone where healthy environment pertains, demonstrates clearly the result of coherent FDI strategy with trade policies. This has enabled the said company to successfully apply a sub-contracting pattern employing several cottage workshops for major components supply under strict and well organized management.

A positive step has been taken recently in this direction through an embryonic successful organization of the Cairo International Leather Fair (CIL), with IMC support as providing an appropriate platform for interaction for FDI promotion. This is being followed by hosting the Meet in Africa leather fair in the year 2006-2009 as focusing on the continent's markets as well as potential overseas businesses .

C. Application regulations on export of exotic skins and leather

No exports take place from the country for exotic skins and leather and therefore, cites regulations are not applicable.

V.SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

The supply survey reveals several points of strength and weakness where opportunities exist for intra-regional cooperation at institutional and business levels with mutual benefits to the COMESA region countries, more specifically;

- intensified relations among regional training and development institutions
- specific opportunities for regional supply with shoes component as well as other accessories and auxiliaries- where the Egyptian supply would be in a position to provide support to the development of finished products manufacture
- organize more frequent Meet in Africa fair and other regional fairs to provide a strong platform for intra-trade cooperation among the COMESA region
- strengthen the stature of regional industry institutions for intensified ties at business Level with the organization of frequent business meetings

[ibmi4]

ANNEXES

ANNEX 1:

COMPANY PROFILES

ANNEX 2:

Important Contacts

- Chambre of Leather Industries
Tel: + 202-25759303 e-mail: info@leathergypt.com
- Chambre of Tanning Industries
Tel: +202-25773915 e-mail: clt@idsc.net.eg
- Export Council
Tel: +2010-1679290 e-mail: lec@mti.gov.eg
- Leather Technology Centre
Tel: +2012-3462796 e-mail: hamdyhassouna@hotmail.com
- Footwear & Leather Goods Industry Service Centre FLISC
Tel: + 202-3049144 e-mail: flisc@sfdegypt.org
- Egyptian Exporters Association EXPOLINK
Tel: +202-3046886 e-mail: expolink@expolink.org.eg
- Footwear Training Centre- Amerya
Tel: +202-26026455 Fax: +202-24540068