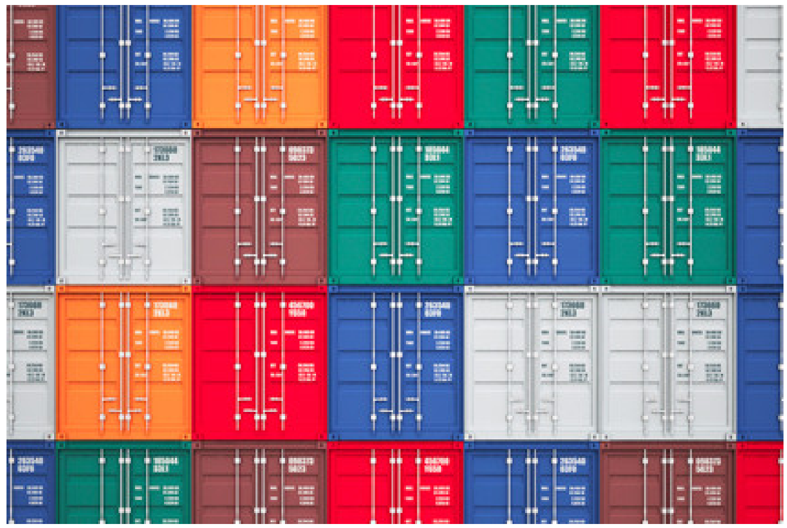
EU textile and apparel trade – four key things to know

3 May 2018 | By: Dr Sheng Lu

Based on an analysis of the latest Eurostat data, Dr Sheng Lu, assistant professor in the Department of Fashion and Apparel Studies at the University of Delaware provides a big-picture overview of the state of the EU textile and apparel industry and trade. Understanding these critical patterns is key to helping companies better explore the region's huge sourcing and market access opportunities.



The EU region remains a leading producer of textiles and apparel

The European Union (EU) is a major player in the global textile and apparel industry, accounting for around one-third of the world's total value of exports and close to 40% of imports in 2016.

Because of the presence of both developed and developing countries in the EU region, the sector also demonstrates some unique patterns of production and trade.

#1: The EU region remains a leading producer of textiles and apparel

The value of EU textile and clothing production totalled EUR141.2bn (US$169.9bn) in 2016 (Statistical Classification of Economic Activities or NACE, sectors C13 and C14), which was divided almost equally between textile manufacturing (EUR75.8bn) and apparel manufacturing (EUR65.4bn).

With regards to textile production, the Southern and Western EU where most developed member countries are located – such as Germany, France and Italy – accounted for nearly 80% of the total in 2016. Furthermore, the share of nonwoven and other technical textile products (NACE sectors C1395 and C1396) has increased from 18% of the EU's total textile output in 2008, to 21% in 2015, which reflects the structural change of the sector.

Apparel manufacturing in the EU includes two primary categories. One is medium-priced products for consumption in the mass market, produced mainly in developing countries in Eastern and Southern Europe, such as Poland, Hungary and Romania, where cheap labour is relatively abundant. The other category is the high-end luxury apparel produced by developed Western EU countries, such as Italy, UK, France and Germany.

In 2016, each garment worker in the Eastern EU generated an average output value of around EUR19,533, compared with EUR163,720 in the Western EU. The high value added created by their workers explains why high-wage countries such as Italy and France remain important apparel producers and exporters today.

It is also interesting to note that in Western EU countries, labour only accounted for 22.8% of the total apparel production cost in 2016 – substantially lower than the 30.1% back in 2006. This change suggests garment manufacturing is becoming capital and technology-intensive in some developed countries because of increased investment in automation technology.

#2: Robust intra-region trade is an important feature of the EU industry

Intra-region trade refers to the import and export of textiles and clothing between EU members. Despite increasing pressure from cost-competitive Asian suppliers, statistics from the World Trade Organization (WTO) show that of the EU region's total US$89bn textile imports in 2016, as much as 64.1% (or US$57bn) was in the category of intra-region trade.

Similarly, of the EU's total US$198bn apparel imports in 2016, as much as 55.6% (or US$110bn) came from other EU members. In comparison, close to 97% of apparel consumed in the United States was imported in 2016, of which more than 75% come from Asia.

Several factors are behind the EU's robust intra-regional trade. The first is the presence of a relatively complete textile and clothing supply chain within the bloc, with member states in the Western EU important suppliers of textiles for apparel made in developing Southern and Eastern EU countries. For example, in 2016, Romania, Hungary and Poland sourced more than half of their yarns and fabrics from Germany, Italy, the UK and Belgium.

Meanwhile, Western EU countries also actively engage in the production and trade of high-end apparel products with each other. Additionally, there is strong local demand for clothing made in the EU since the EU is itself one of the world's largest consumer markets. Because of their relatively high GDP per capita and population size, the UK, Germany, France, Italy and Spain together accounted for 63.6% of the EU's total apparel retail sales in 2016.

Other than economic factors, the EU's single market policy also has provided critical financial incentives for members to source textiles and clothing from within the region. In particular, it allows for free movement of products between EU countries, whereas EU-based companies have to pay an average 6.5% tariff rate for textiles and 11.8% for apparel sourced from outside the EU.

#3: Most EU free trade agreements adopt 'double transformation' rules of origin

This is because the spinning sector is a weakness in the EU textile and apparel supply chain. Data at the 4-digit NACE code level shows the EU was short of around EUR6.34bn worth of locally supplied yarns (NACE sector C1310) for its fabric manufacturing (NACE sector C1320) in 2015. This figure matches the total EUR4.52bn in yarns that EU countries imported from outside the region that year.

A recent European Commission study further suggests that except for spinners of specialty yarns, the EU spinning sector overall faces the challenge of a narrow fibre supply base in the EU and increasing costs of raw materials.

Because most trading partners that have free trade agreements (FTAs) with the EU do not have the yarn spinning capacity either, EU FTAs typically adopt the so-called 'double transformation' rules of origin. This rule means that fibres and yarns may be produced anywhere, but each component starting with the fabric used to make the apparel must be formed within the free trade area.

In comparison, most FTAs enacted in the United States adopt the so-called 'yarn-forward' rule of origin, which more strictly requires that spinning of the yarn or thread, weaving or knitting of the fabric, and assembly of the final garments must all occur within the free trade area.

The US textile industry favours the 'yarn-forward' rule largely because its yarn production far exceeds domestic demand. For example, in 2016, yarn production in the US totalled US$7.173bn (North American Industry Classification System, NAICS code 3131), exceeding the country's US$5.98bn fabric production (NAICS code 3132, excluding the production of nonwoven fabrics) that year.

Approximately 60% of US yarn exports currently go to members of the North American Free Trade Agreement (NAFTA) and Dominican Republic-Central America Free Trade Agreement (DR-CAFTA).

If EU FTAs were also to adopt 'yarn-forward' rules of origin, EU apparel companies and fashion brands that source yarns from non-FTA countries, particularly China and India, would be unable to meet the FTA rules of origin requirements.

#4: The prosperity of the EU textile and apparel industry increasingly relies on its global performance

While the EU textile and apparel industry remains in good shape, the local business environment is far from ideal. Stagnant economic growth and sustained high youth unemployment rates, as well as policy uncertainties caused by Brexit, are pushing companies to explore market opportunities beyond the EU region.

As a reflection of EU textile and clothing companies' going-global efforts, in 2016, over 24% of the EU's total textile output and nearly one-third of its apparel production are sold outside of the EU region, up from less than 20% ten years ago.

Other than the US as a traditional export market, the Asia-Pacific region is quickly becoming a new spotlight for EU exports. For example, between 2000 and 2017, apparel exports to China (up 221.6%), South Korea (up 143.3%), Hong Kong (up 95.6%), Mexico (up 71.0%) and Canada (up 73.2%) grew much faster than the world average of 37.0%.

Not surprisingly, the EU is strategically developing new free trade agreements with countries in the Asia-Pacific region to help companies access to this critical market more easily. With the final implementation of the EU-Vietnam Free Trade Agreement (EVFTA), EU-Canada Free Trade Agreement (CETA), EU-Japan Free Trade Agreement and a potential EU trade agreement with ASEAN members, the 'global' aspect of the EU textile and clothing industry will continue to strengthen.
