

DOES THE SHOE FIT?

An overview of global shoe production

Introduction

The footwear industry is a constantly growing global economic sector. It's continual growth is due to several factors including the steadily increasing demand of consumers in Europe and the USA, as well as the increasing demand in producing countries like China or India. Furthermore, footwear does not simply include functional wear with work and everyday clothing. Rather, shoes are increasingly being purchased as important fashion items. Footwear is therefore subject to certain fashion trends of the current season, which also impacts demand.

Similar to the garment industry, links in the supply chain of the shoe production has become increasingly global since the 1970s. Footwear production has declined in Europe¹ but remains relevant for the European consumption. Production is generally moving to so-called low-income countries. This is due to the fact that some elements of shoe production are extremely labor-intensive, especially in the early production stages. Several areas of shoe production, such as sewing the uppers² are still manufactured only by manual labor and often by homework. This can be very cost-intensive in regulated labour markets, where wage and labour standards are higher. In unregulated labour markets, such as in India, homeworkers responsible for the most labour intensive aspects of shoe production are often among the most precarious workers subjected to insecure and unprotected work, very little pay and unsafe working conditions.

This fact sheet provides a brief overview of global shoe production, the serious consequences it has on human rights and the environment, and what changes are urgently needed.

1 With the exception of Romania. ILO, 2014, page 5: http://www.ilo.org/wcmsp5/groups/public/@ed_dialogue/@sector/documents/publication/wcms_300463.pdf

2 The upper of a shoe consists of all parts or sections of the shoe above the sole. <http://allaboutshoes-toeslayer.blogspot.co.uk/2009/10/anatomy-of-shoe-according-to-mcphoil.html>



Global shoe consumption – facts and figures

In 2013 there were over 22 billion shoes produced worldwide.³ This is equivalent to three pairs of shoes per person worldwide.⁴ The majority of shoes, about 40%, are sold in Europe, followed by China and the USA. The USA has the highest shoe consumption rate in the world with an average of 7 pairs of shoes purchased per person each year. This is followed by Germany, Japan, and Great Britain, with an average of 5 pairs of shoes per person each year.⁵

87% of global footwear production occurs in Asia. China is by far the largest production country with approximately 14, 6 billion pairs of shoes produced in 2014, followed by

India, Brazil, Vietnam and Indonesia. Italy, while the leading country of shoe production in Europe, ranks 10th among global footwear producer countries.⁶ The number of producing companies in Europe has decreased, with an increase in outsourcing to countries with lower labor and wage standards.⁷

In sum, Asia is the world's leading exporter of shoes, while Europe is the main importer of shoes.⁸ The following charts illustrate how Asian shoe production is largely exported to other continents, whereas most of the footwear produced in and imported to Europe is distributed in Europe and only a small part is exported to other continents.

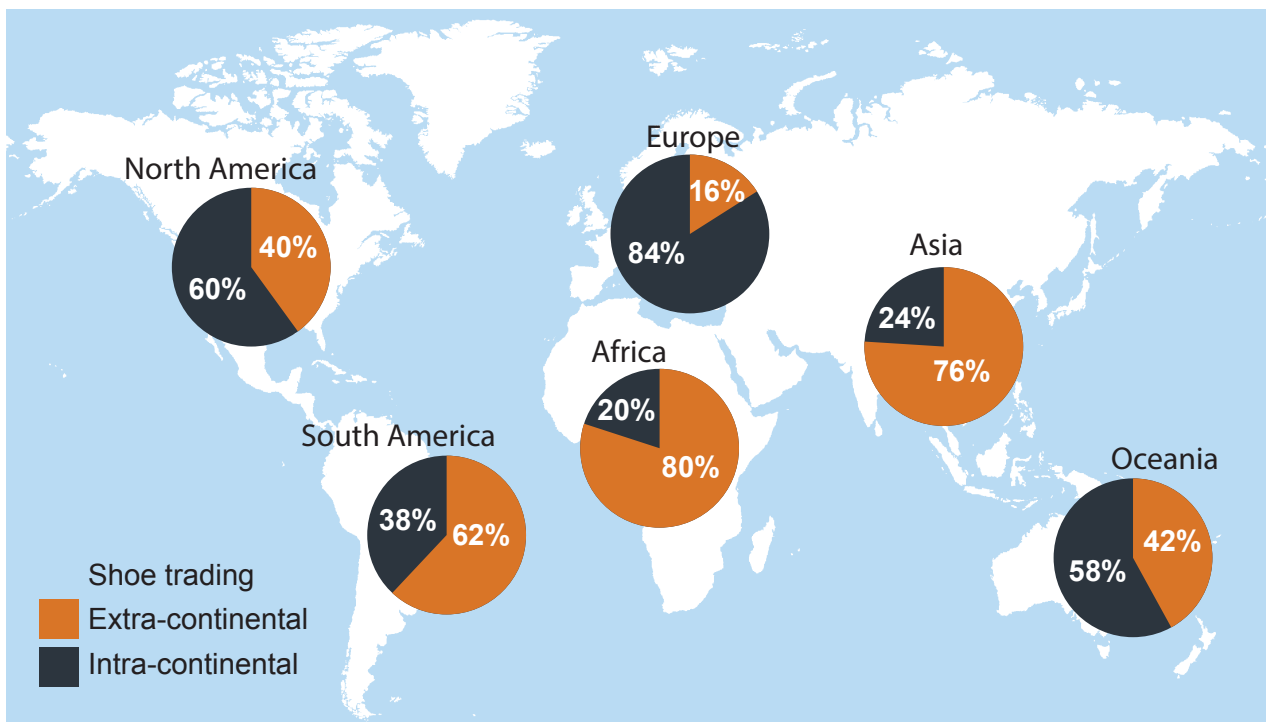


Chart 1. Shoe trading, extra-continental and intra-continental

Source: Own illustration following the calculations in World Footwear Yearbook 2014: p.14



The global average export price⁹ of shoes has constantly increased over the last few years, largely due to increased production costs.¹⁰ The prices differ dramatically from Asia to Europe, the two most important exporters of shoes. For example, in 2013, the average export price for shoes in China was 3,45 Euro per pair of shoes, while in Germany the average export price was 17,97 Euro.¹¹

As Chart 2 shows, intra-European trade is the largest component of international footwear trade, representing almost one third of world-wide exports. And despite the fact that Europe is the main importer of shoes from Asia, the trade from Asia to Europe only accounts for 19 % of the total world trade.

4 Based on the calculation: 22 billion pairs of shoes divided by 7, 278 global population

5 Based on the calculation: Numbers of shoes sold divided by number of inhabitants

6 World Footwear Yearbook 2014: p. 5

7 Europäische Kommission, 2015: http://ec.europa.eu/growth/sectors/fashion/footwear/eu-industry/index_en.htm

8 <http://www.shoepassion.de/blog/statistiken-der-schuhwirtschaft-europa-ist-groester-schuhimporteur>

9 Export price means the price actually paid or payable for the pair of shoes sold for export

10 Higher production costs result from increased prices for raw materials such as raw hides and skins for leather production and a slight increase in wages.

11 World Footwear Yearbook 2014: p. 8-9.

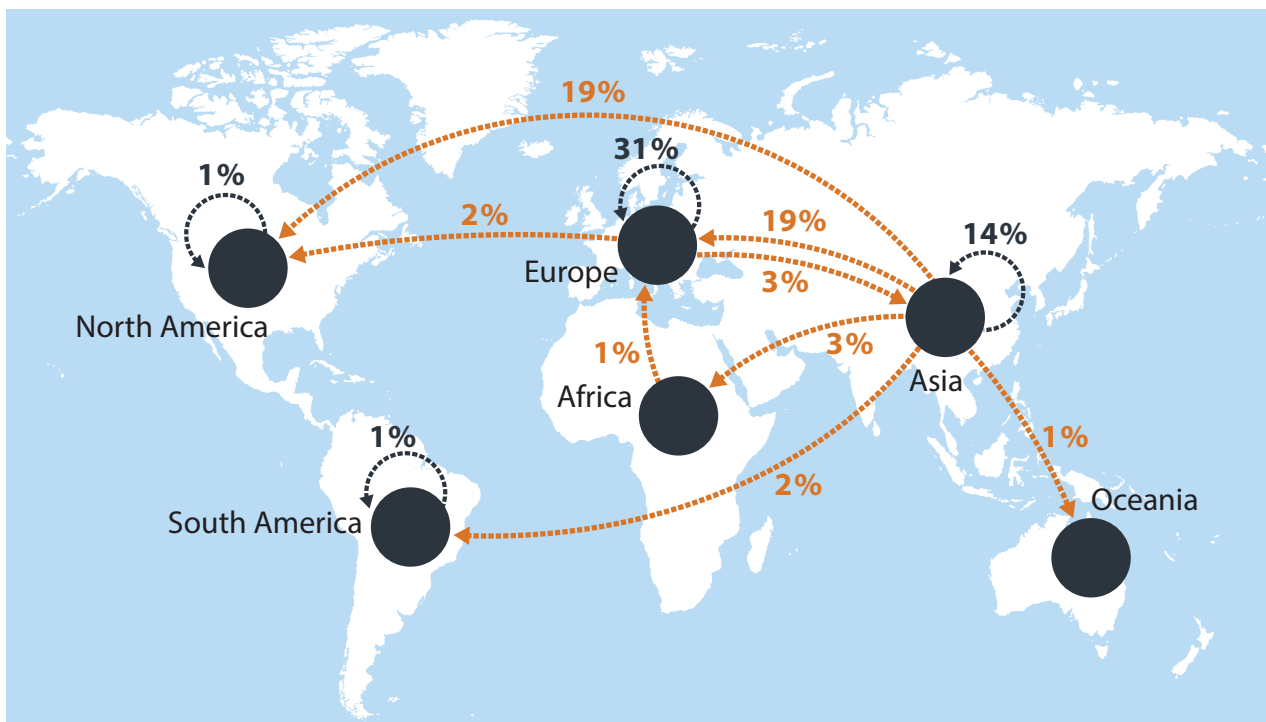


Chart 2. Added value stream in the global shoe trading

Source: Own illustration following the calculations in World Footwear Yearbook 2014.

Chart 3 provides a clear breakdown of the cost of a sneaker, and the impacts of the retail markup on the overall cost. By analyzing the cost breakdown of a sneaker, which was produced in Indonesia, it becomes obvious that brand companies and retailers profit most from retail markups, and that the profits are not shared fairly with the workers responsible for shoe production.

As outlined in Chart 3, the brand company purchased the pair of sneakers from the manufacturer for 20 Euro. The brand com-

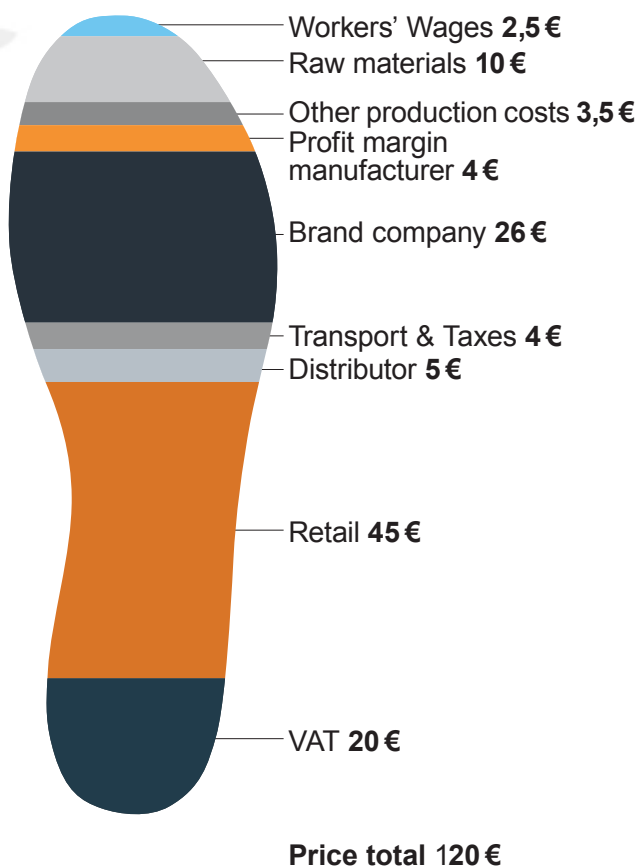


Chart 3. Price analysis of a sneaker

Source: Own calculation¹² based on calculations by CCC 2013¹³

pany then sold the sneakers to the distributor for 50 Euro. The sneakers were then sold to a retailer for 55 Euro. Finally, the customer purchased the pair of sneakers for 120 Euro in the store.

The cost breakdown in Chart 3 clearly shows that just a little over 2 % of the final price goes towards the wages of workers who are manufacturing the shoe, whereas about a quarter of the price remains with the brand company and a good one third with the retailer. Therefore, a large part of the value captured through shoe production occurs outside of those countries where shoes are produced, and rather in those countries where other activities, such as advertisement and design, are being carried out. Ultimately, the smallest part of the final price is allocated to those who actually engage in the essential physical work of producing the shoe.

¹² The figures are based on a recalculation of a value capture analysis of a sneaker by the Clean Cloth Campaign (CCC), taking into account case examples and other factors, namely considering distributors and increased production costs in the last years. The calculations were carried out in the context of a master thesis at the University Hohenheim, Faculty of Economics and Social Sciences. The case examples refer to expert interviews which have been conducted in the context of this master thesis.

University Hohenheim, 2013: Tracing the Geography of Value Capture / Global Commodity Chain in the Sport Equipment / Sport Shoe Industry

¹³ CCC, 2013: <http://www.cleanclothes.org/img/PriceMarkUpShoe.jpg/view>

The supply chain of shoes

The supply chain of shoes can be roughly divided into the 3 steps: conception and design, production, and retail.¹⁴ It's important to note that specific characteristics of individual supply chains can vary significantly from shoe model to shoe model. Therefore, depending on the respective characteristics and shoe prices, workers' wages and labor conditions can vary significantly.

1. Conception and Design

The first step of the supply chain is carried out by the brand company and consists specifically of research and development activities. The product manager in a company initiates the development process for a shoe approximately 18 months before its market launch. If the shoe is part of a global marketing campaign, the development process can even start up to 24 months before the launch. The selection of production sites is dependent on the materials necessary to produce the shoe, which is determined after the specific product is conceptualized. After the conceptualization, designers start to specify the drafts of the shoe, which then can be ordered as first samples by the brand company at the supplier.

2. Production

Footwear production can largely be divided into two stages: the processing of the raw materials like leather, and then the manufac-

turing of the shoes, which includes the cutting, sewing and bonding of various components.

The first production stages contain numerous labor-intensive steps, which can vary depending on the materials that are processed. The leather tanning process alone involves many different preparatory steps, including tanning, post-tanning, drying, crusting and finishing. Chromium, a toxic chemical, is used in the tanning process for 85 % of the world's leather shoes. The use of chromium often corresponds to severe violations of labour and human rights, since safety and health standards are often ignored in tanneries around the world.

After the raw materials are processed, the manufacturing of shoes roughly involves two distinct areas of work. On the one hand, the mechanized working processes completed in factories, and on the other that which is highly labour-intensive, requiring precise and individualized labour, often done by homeworkers. Frequently, most of the shoe is manufactured in a factory, with only one production step, for example the sewing of the uppers being outsourced to homeworkers.

In general, a multitude of different working processes is needed for the production of one shoe. For example, one sneaker (Gel Kayano, Asics) can contain 26 different materials, 65 separate components that require about 360 processing steps.¹⁵



Foto: SÜDWIND / Regina Webhofer & Christina Schröder



Naga Bai*, 65 years, homemaker – sewer. Region of Ambur, India.

For over 20 years, Naga Bai has sewn shoes from home. Every morning she receives shoe uppers from a middleman which she sews together throughout the day. In the evening the middleman collects her day's work.

For every pair of shoes she sews, she earns just 14 cents. She can sew a maximum of 10 pairs per day, which provides her with a daily income of about 1,5 Euro. This is far too little to live on - a kilogram of rice costs up to 60 Cents. Due to her status as a homemaker, Naga Bai is not eligible to receive any employment benefits, such as a pension or medical insurance.

* Naga Bai, is not her real name, her name has been changed due to her safety. Her real name is known by the 'Change Your Shoes' project.

3. Retail

At the end of the supply chain there are various retailers, branches and stores, where the shoes are sold to the public.

A shoe is first presented to retailers six to nine months before the market launch at retailers'

wholesale order fairs. A shoe will only be ordered from the manufacturer for large-scale production, meaning orders from retailers must exceed a certain threshold value. There can be significant time pressures on workers depending on when orders are received.

As Chart 3 illustrates, a substantial part of the final selling price is dependent on and calculated by the retailer. Consequently, a growing number of brand companies are acquiring their own retail structures and stores, which then increases their percentage of the share of the final selling price. Approximately two thirds of the final selling price goes to those shoe retail companies that produce and sell brand name shoes – such as Salamander by ara Shoes AG or Elefanten by Deichmann.

Serious consequences of shoe production

Similar to the garment industry, numerous violations of human rights are also commonplace in shoe production.

Oftentimes workers in producing countries are not paid the national minimum wage, let alone a living wage, which is clearly exemplified by the case of the Indian homemaker Naga Bai.

Shoe production involves dangerous work, especially in the tanneries, and necessary safety standards are frequently ignored, which can have devastating consequences.

On January 15, 2015, nine workers and one watchman died in a tannery in Tamil Nadu, India, after the wall of a neighboring treatment plant collapsed at night while the workers were asleep.¹⁶ All ten men died in the highly toxic sludge. Later tests of the leaked sludge discovered that it contained chromium as well as many other hazardous substances.¹⁷

In addition to the chronic abuses of workers' rights endemic in the industry, footwear production also has far-reaching ecological implications. The production of leather shoes requires significant land and water resources. It is estimated that in 2015 the production of one pair of leather boots can require up to 25.000 liter of water and 50 square meter of land.¹⁸

What needs to change?

The globalization of shoe trade has resulted in the relocation of shoe production to so-called low-income countries where poor working conditions are often the norm.

Both companies and political decision makers have the responsibility to improve these conditions. Of utmost importance is for wages to be sufficient to meet the needs of workers and their families, and for the use of chromium tanned leather to be banned.

Furthermore companies and political decision makers must actively engage in initiatives that increase transparency of the footwear supply chain as a whole, all the way from the very first stages of production, such as leather processing, through to the final stages when shoes are purchased by the public. We all have a right to know how our shoes are produced. This includes knowing the working conditions in tanneries and factories and that workers are paid a living wage. It is also critical to know that the production



of our shoes is not having far-reaching and potentially irreversible negative effects on the environment.

It is absolutely essential for all stakeholders in importing countries – including brands, governments, and consumers – to act and fulfill their responsibilities towards ensuring a fully sustainable footwear industry. Only through taking action together will the necessary change come and we will see an industry which provides just, safe, and humane working conditions. Ultimately it is the responsibility of brands, governments, and consumers to ensure that the footwear industry does not continue to imprison its workers in poverty but rather provides a viable route to a secure and dignified life.

14 A fourth important step could be called transport and logistics. Concerning the transport and the terms of delivery between supplier and transport company, there is a non-transparent and complex network of trade relations, trade flows and payment terms, which varies from shoe to shoe. This step of the value added chain is left out here.

15 Cheah et al. 2013: S. 20

16 The Indian Express, 2015: http://www.newindianexpress.com/states/tamil_nadu/10-Workers-Die-as-Effluent-Tank-Explodes-in-Ranipet/2015/02/01/article2646963.ece

17 The Hindu, 2015: http://www.thehindu.com/news/national/tamil-nadu/ranipet-tannery-tragedy-safety-trapped-in-negligence/article6844997.ece?utm_source=MostCommented&utm_medium=Homepage&utm_campaign=WidgetPromo

18 Friends of the Earth, 2015, pages 11-14: <https://www.foe.co.uk/sites/default/files/downloads/mind-your-step-report-76803.pdf>

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**our world
our dignity
our future**

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CHANGE YOUR SHOES is a partnership of 15 European and 3 Asian organizations. We believe; that workers in the shoe supply chain have a right to a living wage and to safe working conditions, and that consumers have a right to safe products and transparency in the production of their shoes.