

# **Market Development**

**MARKET BRIEF**

**ON**

## **LEATHER FOOTWEAR**

**THE RUSSIAN FEDERATION**

**ITC**



**INTERNATIONAL TRADE CENTRE UNCTAD/WTO**

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ITC



INTERNATIONAL TRADE CENTRE UNCTAD/WTO

GENEVA

1997

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(Prepared by Mr A Goncharov)

**M.DPMD/97/0097**

## LEATHER FOOTWEAR - THE RUSSIAN FEDERATION

### Product Description

This market brief covers leather footwear which is classified under the following codes:

HS : 64.03                      other footwear with uppers of leather or composition leather  
SITC R3 : 851.4

The market for leather footwear in the Russian Federation remains important, despite a considerable decrease during the years of transition to a market economy. This can be explained by the size of the population (nearly 149 million) and the severe climate. The latter leads Russians to buy more varied types of footwear than the populations of many other countries.

### Production

In 1997 domestic production of leather footwear covered around 20% of the national demand despite the fact that Russia's annual production of leather footwear totals some 200 million pairs.

**Table 1**

Production of footwear with leather uppers  
(million pairs)

Years	1990	1994	1995	1996	1997
Production	219.0	48.6	31.1	25.6	24.9

Source: National Market Research Institute of Russia (NMRI), Moscow

These figures show that the Russian footwear industry is in deep crisis. Only 12-14% of production capacity is used. This is mostly due to the liberalization of foreign trade introduced into the Russian Federation at the end of the eighties/early nineties. The Russian footwear industry was unable to compete with imported products in view of the more modern technology and equipment and better management in foreign countries. Production also suffered from a lack of financial support from the banks.

However, there are reasons to believe that in 1998 footwear production in Russia will start to grow slowly. Some large Russian footwear enterprises have been bought by foreign companies who are introducing modern management technologies resulting in improved production and sales. In 1996 an Italian company bought Zaria Svobody, one of Moscow's largest footwear factories. British companies have invested in Burevestnik, the oldest factory in Moscow which has recently been modernized.

In 1998 a more favourable bank lending rate will probably be introduced and this will also favour the recovery of Russian footwear production.

### Exports

As can be seen from table 2, exports of footwear with leather uppers from Russia are low compared with the domestic production capacity and imports. However, according to expert estimates, exports almost doubled in 1997.

The figures below show that the bulk of Russian exports of leather footwear goes to former Soviet Union countries. Many of these have no factories equipped to produce modern footwear so it is reasonable to assume that their imports of Russian footwear will continue in future and probably even increase.

**Table 2**

### Leather footwear exports

(Q = '000 of pairs)  
(V = US\$ in millions)

	1994		1995		1996	
	Q	V	Q	V	Q	V
<b>Total including</b>	3,252	43,1	2,504	28,2	1,898	30,6
<b>Distant countries</b>	952	11,7	1,027	10,1	643	12,8
<b>CIS countries</b>	2,299	31,4	1,477	18,1	1,255	17,9

Source: NMRI, Moscow

Footwear is also exported to industrialized countries, particularly Austria, Germany and Italy when companies in these countries are either the owners of Russian factories or have entered into other forms of cooperation with Russian producers.

Small amounts of leather footwear continue to be exported to the countries which are former members of the Council of Mutual Economic Assistance, i.e. Poland, Romania, Bulgaria and Mongolia.

### **Imports**

Annex 1 shows official footwear imports by Russian legal entities on the basis of commercial contracts with foreign partners. They are cleared by customs as merchandise at rates and in accordance with the Russian tariff of customs duties.

According to expert estimates, these figures comprise only about 40% of total imports in terms of quantity; the remaining 60% are unofficial imports of footwear by shuttle traders. These are individuals, flying regularly between Russia and major exporting countries to purchase footwear for sale in Russian street markets.

Annual imports by Russian shuttles represent 50-60 million pairs of mostly low-quality footwear, purchased principally in Turkey, China, the Czech Republic, Poland and Slovakia.

Official footwear imports in 1995 were some 40% lower than in 1994, as shown in Annex 1. This may be explained by the shortage of foreign currency in 1995.

The Government announced import restrictions, including strict regulation of the shuttle trade, for mid-1996 causing a substantial increase in footwear imports in the first half in that year. (70% higher than in 1995). The improvement in Russia's foreign currency balance following World Bank credits in 1996 also contributed to the increase in imports.

According to experts, import restrictions are likely to decrease imports of leather footwear in 1997 by 15-20% compared with 1996.

The main suppliers of leather footwear to Russia are Italy, China, the Czech Republic, Germany, Austria and Finland. Eastern European countries such as Bulgaria, Hungary, Poland, Slovakia and Macedonia are also significant suppliers.

China exports up to 10 million pairs annually to Russia although the quality is much lower than that produced in European countries. (They cost from 5 to 10 times less than footwear from Europe and the USA.)

Other major exporters of leather footwear among developing countries are India, Indonesia and Turkey. Bangladesh, Cambodia and Laos are the main suppliers among the least developed countries (LDCs).

### **Demand**

Decrease in the average Russian per capita income, due to the difficult economic conditions during the period of transition, led to a sizeable reduction in the demand for footwear with leather uppers. Exact figures for the Russian leather footwear market are not available. However, some Russian experts estimate the total leather footwear market at 120,000,000 pairs a year.

Taking into consideration a certain stabilization of the economic situation, possible economic growth from early 1998 and an increase in per capita income, there are reasons to expect an increase of 1-3% in the demand for footwear.

The major characteristic of the modern Russian market is greater segmentation of demand, including that for footwear, as a result of differing income levels of consumers, resulting from the economic reforms undertaken in Russia. The demand differs according to region and the quality of consumer goods, footwear included.

At the upper end of the market, consumers prefer to purchase imported footwear which differs from domestically produced brands by being more modern, fashionable and comfortable and of better quality. It can be estimated that 70-80 million Russians buy at least one pair of imported leather footwear a year.

Thus, demand is concentrated in Moscow, St Petersburg and other large Russian cities where the general income levels of the population are higher than the national average and include "newly rich" groups of people. These groups buy luxurious leather footwear made by the most famous companies in Germany, Italy, Switzerland and other Western European countries.

However, Russians nowadays have a moderate income and mainly buy footwear from CIS countries and developing Asian states as this is much cheaper than that produced in developed countries, although of comparatively lower quality.

Of the total volume of leather footwear purchased in Russia, the most popular is that with plastic soles, which comprises around 50% of the total market. Sales of leather footwear with rubber soles account for 24-30% and with leather soles, up to 13-15%. The share of the latter has been rising considerably during the past few years.

Youth and sports footwear with leather uppers, particularly for running and jogging, is in great demand. According to some experts, this sector of the market would appear the most promising for exporters from developing countries.

### **Import regulations**

A new regulation regarding footwear imports by shuttle traders was introduced with effect from 1 August 1996. This provided for differentiation of taxation depending on the cost or weight of the merchandise as well as the time the shuttle trader spent abroad. Someone staying abroad for less than six months is allowed to import tax-exempt luggage (which may include leather footwear) if the value of that luggage as estimated by customs is less than \$1000 and does not exceed 50 kgs.

Should the estimated value fall between \$1,000 and \$10,000 and its weight less than 200 kgs, the owner is liable for duty equal to 30% of the total weight, with a minimum of 4 Ecu for 1 kg.

Should the luggage weigh more than 200 kgs and the cost exceed \$10,000, the taxable amount is estimated at rates and according to the rules applying to official imports.

Import duty on footwear with leather uppers is 20% of its import value plus 2 Ecu per pair. A preferential allowance of 25% duty is applied to imports from developing countries. Imports from the least developed countries are exempt from duty and other taxation.

It is not yet possible to assess the impact of the new regulations on imports of leather footwear.

### **Price**

A special feature of the Russian footwear market is the elasticity of its demand. Even a modest growth in prices of imported footwear automatically leads to an immediate decrease in sales.



**Trade channels**

To promote imports, a number of well-known footwear producers in Western European countries have established commercial representation in large cities. In general they sell to wholesalers who supply retailers. Foreign representatives conduct market research and keep their headquarters informed as to changes in demand and fashion trends. Some European exporters sign sales contracts with Russian wholesalers who retail to city street markets. A few years ago these markets opened in practically every Russian city, mainly for the sale of foodstuffs and consumer goods such as fabrics, footwear and household goods. Nowadays these outlets sell food and consumer goods to the middle and poorer classes of the Russian population. (Annex II gives a list of importers and trade promotion organizations which can be contacted for specific information.)

Of the total amount of footwear offered, Russian consumers purchase around 60% in these outlets and only 40% in shops, supermarkets and from other types of retailer.

**Market prospects**

Exporters from developing countries should consider the following points when selling to the Russian Federation.

The Russian market for leather footwear diminished considerably in the year of transition from a centralized to a market economy but still remains one of the largest in the world for developing countries. This market is expected to grow in the near future, but only moderately.

At present most of the Russian population purchases inexpensive modern footwear.

Russian footwear industries which have survived the crisis caused by the transition will gradually capture an increased share of the market.

Imports are expected to decrease as a result of the new import regulations. This will not favour imports from developing countries, which mostly sell cheap footwear. The 25% rebate from customs duty provided to developing countries will be insufficient to offset the impact of increased tariffs.

Imports from the least developed countries will, on the contrary, remain stable or increase as these countries enjoy a special duty-free regime when exporting to the Russian Federation. Developing countries should study joint venture possibilities in LDCs who export to Russia.

To maintain and develop their market share, developing countries should improve the quality of their exports and endeavour to meet other requirements through regular information on the target market and understanding of its needs.

**Annex 1**  
**Leather footwear imports**

Q = 1000 pairs V = 1000 US\$	1994		1995		1996	
	Q	V	Q	V	Q	V
<b>Total</b>	46,102.4	424,671.1	27,369.0	227,216.0	47,089.9	296,409.4
<b>Austria</b>	1,041.5	16,094.5	663.9	11,683.3	923.7	21,379.7
<b>Bangladesh</b>	194.7	800.4	216.0	259.4	1,503.9	257.0
<b>Belarus</b>	2,635.0	25,496.1	-	-	-	-
<b>Brazil</b>	450.6	5,149.3	122.5	311.3	36.4	149.8
<b>Bulgaria</b>	238.5	2,021.7	139.9	1,693.2	202.6	1,947.9
<b>Cambodia</b>	-	-	-	-	5,403.9	2,197.2
<b>China</b>	9,163.9	39,054.3	6,066.0	22,521.2	11,526.9	30,837.7
<b>Czech</b>	1,711.2	22,079.7	1,372.6	9,043.9	2,900.2	45,409.2
<b>Finland</b>	2,113.6	19,920.3	1,210.9	7,945.2	1,798.8	10,575.5
<b>Germany</b>	3,476.5	49,713.6	2,221.4	30,952.2	2036.1	28758.1
<b>Greece</b>	133.1	1,494.4	125.5	2,558.8	79.8	1,114.7
<b>Hungary</b>	446.1	5,383.7	292.6	2,147.6	457.9	5,203.9
<b>India</b>	1,470.4	14,207.5	775.8	5,946.5	397.3	1,450.6
<b>Indonesia</b>	107.4	780.3	376.9	924.9	354.3	2,096.1
<b>Italy</b>	5,565.4	69,083.6	3,649.3	32,382.2	5,307.5	59,532.3
<b>Korea, N.</b>	121.7	444.9	12.0	19.3	53.3	1,073.2
<b>Korea, S</b>	293.3	444.9	12.0	19.3	53.3	1,073.2
<b>Laos</b>	-	-	675.2	415.7	6,352.1	3,286.6
<b>Macedonia</b>	635.9	7,664.3	455.1	3,983.3	289.6	4,635.8
<b>Moldova</b>	434.9	4,584.4	167.2	2,188.3	170.7	3,197.0
<b>Netherlands</b>	346.9	3,033.8	7,029.6	8,129.5	292.9	3,975.0
<b>Portugal</b>	938.1	19,344.5	377.7	8,537.7	244.8	5,456.6
<b>Singapore</b>	283.8	832.0	160.1	218.3	20.2	27.1
<b>Poland</b>	559.4	3,580.4	462.1	3,353.4	241.5	2,510.3
<b>Slovenia</b>	297.3	6429.2	259.2	3,823.1	235.0	3,315.0
<b>Syria</b>	248.6	121.2	177.2	95.2	-	-
<b>Switzerland</b>	120.5	4,189.8	287.2	7971.2	328.7	6,689.0
<b>Taiwan</b>	715.8	1,788.2	143.0	630.3	199.1	488.9
<b>Thailand</b>	1,161.9	3,450.0	351.8	574.1	149.7	378.1
<b>Turkey</b>	824.2	9,458.5	482.1	9,255.2	582.5	3,676.0
<b>Utd Kingdom</b>	306.2	3,161.0	239.6	2,325.0	485.0	5,837.1
<b>USA</b>	1,441.7	9,749.1	526.2	3,380.9	319.0	2,680.0
<b>Vietnam</b>	186.5	801.9	33.3	82.3	87.0	153.6

Source: NMRI, Moscow



**ANNEX II**  
(the list is non-exhaustive)

**EKATERINBURG**

Passage  
9, Vainera Ulitsa  
tel.-(3432)53-1367

Odejda ovimex  
39, Krasnoflotcev Ulitsa  
tel.-(3432)34-6678,  
fax-(3432)51-7456

**KAZAN**

Spartak  
80, Baumana Ulitsa  
tel.- (8432)32-1509

Itil  
9, Tatarstan Ulitsa  
tel.- (8432)32-9054

**KALININGRAD**

Baltiiskaya zvezda  
43, K.Marxa Ulitsa  
tel.- (0112)21-1826  
fax- (0112)27-9571

Baltiiskaya trgovo  
-promishlennaya kompaniya  
117/2, Leninski prospekt  
tel.- (0112)47-2444  
fax- (0112)44-6991

**KRASNOIARSK**

Kompas Sibir International  
78, K.Marxa Ulitsa  
tel.-(3912)27-6261

Kano  
55, Kalinina Ulitsa  
tel.-(3912)45-6515  
fax(3912)45-5533

**MOSCOW**

Ekko-Ros  
20, bild. 2, Piatnickaya Ulitsa  
tel.-(095)233-8707  
fax-(095)231-8665

Olexa International Company  
20, bild. 2, Ousacheva Ulitsa  
tel.-(095)245-7389  
fax -(095)247-0310

Expert  
59/1, Bolshaya Pirogovskaya Ulitsa  
tel.-(095)246-5087  
fax -(095)246-9897

CEBO  
2, Eizenshteina Ulitsa  
tel.-(095)181-1703  
fax-(095)586-0353

Armada  
127, prospect Vernadskogo  
tel.-(095)433-0550  
fax-(095)438-6444



Korona  
44/2, Bolshaya Polianka Ulitsa  
tel.-(095)238-1598  
fax-(095)238-1031

Edam  
21, Loubyansky proezd  
tel. - (095)926-4366  
fax-(095)926-4366

Sajmo  
49, Leningradskiy prospekt  
tel.-(095)943-9308

Kraton  
4/2, Preobrazhenskaya ploshad  
tel.-(095)963-3766  
fax-(095)963-0397

Strik  
48, Prospekt Mira  
tel.-(095)280-8965

Dar Plus  
10, Volokolamskiy proezd  
tel.-(095)196-6280  
or (095)190-4980

#### **NIZHNY NOVGOROD**

Nizhegorobuvtorg  
1, Fedoseenko Ulitsa  
tel.-(8312)23-9422  
fax-(8312)23-9772

Privoliskiy  
2, Shmidta Ulitsa  
tel.-(8312)31-3970

#### **NOVOSIBIRSK**

Azij oldis  
18, Sovetskaya Ulitsa  
tel.-(3832)22-6144  
fax-(3832)22-1903

Kvinta  
81/2, proezd Dzerzhinskogo  
tel.(3832)77-0701  
fax(3832)77-0711

#### **ST. PETERSBURG**

Metropolis  
Room 126  
1 Prospekt Gagarina  
tel.-(812)294-6524

Spradi  
52, Ligovsky prospekt  
tel.-(812)164-3229

Kait  
9, ploshad Chernishevskogo  
tel.-(812)298-3700  
fax-(812)249-1103

**Trade promotion organizations - Russia**

National Market Research Institute (VNIKI)

Pudovkina 4

Moscow

tel-(7095)1430261

fax-(7095)1430271

tlx-64411380 su

Trade Point Moscow

18/1 Ovchinnikovskaya Street

Moscow 113324

tel-(7095)2339968

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tlx-411932 ives su

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18 Egorova Street

PO Box 8

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### LEATHER FOOTWEAR

<b>1. PLEASE INDICATE HOW THIS BRIEF WAS OF USE TO YOUR ENTERPRISE.</b>	<i>Very useful</i>	<i>Fairly useful</i>	<i>Not useful</i>						
<i>Overall rating of this market brief</i>									
<i>For taking marketing decisions</i>									
<i>For establishing market contacts</i>									
<i>For market research</i>									
<b><u>Comments</u></b> (use reverse side, if necessary):   									
<b>2. PLEASE INDICATE WHICH SECTIONS OF THIS MARKET BRIEF WERE THE MOST USEFUL.</b> (Ranking : 1 = most useful to 9 = least useful)	1	2	3	4	5	6	7	8	9
<i>a) Market characteristics</i>									
<i>b) Market access</i>									
<i>c) Prices</i>									
<i>d) Packaging</i>									
<i>e) Distribution channels</i>									
<i>f) Market prospects</i>									
<i>g) Useful addresses</i>									
<i>h) List of importers</i>									
<i>i) Statistics</i>									
<b>3. WHAT OTHER MARKET ASPECTS SHOULD BE COVERED?</b>									
<b>4. WHAT IMPORT MARKETS ARE OF PARTICULAR INTEREST TO YOU?</b>									
<b>5. WHAT PRODUCTS WOULD YOU LIKE COVERED IN THE FUTURE</b>									

*(Please turn over)*



<i>NAME:</i>	
<i>TITLE:</i>	
<i>COMPANY:</i>	
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<i>POSTAL ADDRESS:</i>	
<i>CITY:</i>	<i>COUNTRY:</i>
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