CBI MARKET SURVEY

The market for leather garments in Romania

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Introduction

This CBI market survey gives exporters in developing countries (DCs) information on some main developments in the leather garments market in Romania. The information is complementary to the information provided in the CBI market survey 'The market for leather garments in the EU', which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used, as well as information on other available documents for this sector. It can be downloaded from http://www.cbi.eu/marketinfo.

1 Market description: consumption and production

Consumption

Consumer spending in Romania rose 11% annually during 2004-2008 to reach € 56.5 million, including sales tax, in 2008. Romania ranked 16th in EU consumption of leather garments, behind Finland (14th) and the Czech Republic (15th), and accounted for 1.0% of total EU consumption.
Per capita expenditure on leather garments amounted to € 4.15 in 2008, which was far below the EU average and represents only 30% of the average amount EU consumers spent on leather garments (€ 13.75).

Table 1.1 Consumption of leather garments in Romania, 2004-2010, in € million

	2004	2006	2008	AAGR*	2010 forecasts
Total leather garments	**39.0**	**46.2**	**56.5**	**+11.2%**	**60.0**
Total outerwear	2,809	3,111	3,400	+5.3%	3,400
Consumption of leather garments in % of total outerwear	1.4%	1.5%	1.7%		1.8%

* Average annual growth
Sources: Derived from Eurostat (2009) and Euromonitor (2009)

An annual increase in the value of Romanian consumption of leather garments is estimated at 3% for 2009-2010.

Demand for leather garments is determined by several factors like type of product group, demographics, economic developments and the attitude of consumers towards fashion. These factors are discussed below. Other more general factors are discussed in chapter 2 of the CBI market survey 'The market for leather garments in the EU'.

Type of product groups

A detailed breakdown of the different types of leather garments is not available, as explained in appendix A of the CBI market survey 'The market for leather garments in the EU'.

However, it can be assumed that about 90% concerned jackets and coats. Other leather garments such as trousers, leggings, skirts and waistcoats will become more popular in the coming years. This trend will be stimulated by several foreign chains active on the Romanian market (as will be described in chapter 2 of this survey.

Demographics
The population size in Romania decreased from 21.7 million in 2004 to 21.5 million in 2008. In the four years to 2008, the population fell almost 1.0%. Romania has a higher number of children aged under 15 than adults aged 65 plus. In 2008, the dependent population accounted for over 30%. Unlike much of the rest of Europe, the proportion of adults in the mature age groups is low, partly because Romania has a relatively low life-expectancy rate.

Economic developments
Despite being one of the poorest Central and East European countries (CEECs), the economy has seen a rapid improvement in recent years. However, Romania still has a long way to go before GDP and retail sales per capita approach the rates of the other more developed CEECs economies such as the Czech Republic, Hungary and Slovakia. Real GDP grew by 6.0% in 2007 and 7.1% in 2008, followed by a contraction in real GDP of 7.2% in 2009. A modest recovery of 1.0% is expected in 2010.
Depending on (global) economic developments, future growth in expenditure on leather garments will be driven by the increasing levels of disposable income and more choice on the market.
Other economic developments were:
- Inflation is one of the main driving forces behind the strong growth in retail sales, along with foreign investment in the emerging modern retail sector.
- The unemployment rate decreased steadily from 6.3% in 2004 to 4.1% in 2008 but is forecasted to grow to 6.9% in 2010.

Trends
- Romanian consumers are becoming more familiar with the wide variety of imported products now available in all sectors of the market – from the cheapest to the most expensive. In fact, there is quite a high degree of polarisation between market segments. However, a mid-priced market will emerge, as disposable incomes continue to increase.
- Women represented the largest part of expenditure on leather garments. This is expected to rise further as fashion becomes more important and due to more fashion influences coming from other EU countries.
- The arrival of international retail chains and the building of shopping centres in Romania will further facilitate the growth in expenditure. Note, however, there is still a wide discrepancy between the large urban areas and the rural areas in terms of awareness of, and interest in, new styles of clothing.

Production
The clothing industry accounted for around 6% of total industrial production in Romania. In spite of its contribution to the economy, value addition in the sector is generally low. It uses a great deal of imported raw material and low-wage work force. Most companies work under the CMT (cut, make and trim) system, by which the Romanian companies supply labour and machinery and the customer supplies raw material, designs and marketing. Romania's clothing industry is highly export-oriented.
The Romanian (total) clothing sector accounted for around 4,900 companies and employed 176,700 workers. The number of specialised leather clothing manufacturers has not been encountered.

Romanian leather garments production amounted to € 30.6 million in 2008, which is 1.5% of total garments production.
Some selected manufacturers of leatherwear are Dorin Negrau (brand Don Fashion- http://www.dorinnegrau.com) and Vidra Confex (http://www.vidrahd.ro). The Romanian trade association for the textile, clothing and leather industries is Fepaius, of which the website - http://www.fepaius.ro – includes a list of members.

Trends
- Several Romanian clothing producers invested in own brands and/or own retail chains.

Opportunities and threats

+ Strong increases in wages in the clothing industry are expected in the coming years. As a result, it is expected that Romania will lose outsourcing orders, which will be shifted to countries like Belarus and Ukraine.
+ Opportunities exist to supply directly to the domestic market because Romanian consumers, especially younger women, look for more interesting styles of fashionable clothing. Most domestic production is destined for export, so increased import growth is forecast.

± Largely due to its reliability and price competitiveness, the Romanian leather garments sector is a significant producer and exporter to other EU member countries. It is expected that this position will continue for at least the next four years.

± Opportunities also exist for supplying leather garments to the lower-priced end of the market. This is a large segment in Romania, but there will be competition from market stalls and second-hand outlets.

- The only two transport days necessary for delivery are enough to give Romanian outerwear producers a competitive edge, when supplying their customers in major West European countries.

The same development or trend can be an opportunity for one exporter and a threat to another. Exporters should therefore analyse if the developments and trends discussed in this survey provide opportunities or threats. The outcome of this analysis depends on each exporter’s specific circumstances.

More information on opportunities and threats can be found in chapter 7 of the CBI market survey ‘The market for leather garments in the EU’.

2 Trade channels for market entry

The Romanian leather garments market can be entered in several ways, of which the most interesting for exporters in DCs are: manufacturing companies, either or not vertically organised; wholesalers; discount clothing stores or domestic hypermarkets. Which channel will be chosen, depends on factors like (among others):

- Which type of leather garments producer (CMT, FOB, private label or own brand producer) tends to export to Romania. These types of producer are described in chapter 1 and 2 of the CBI survey ‘Guidelines for exporting leather garments to the EU’.
- The resources available and the priority given to the Romanian market.

A list of manufacturers and importers/wholesalers can be found at http://www.romtextiles.com Another possibility is the list of exhibitors at the website of the international fashion trade fair Modexpo in Romania - http://www.modexpo.ro or at the general websites of trade directories.

Romanian retailers still thrive in the outerwear sector, which has not been as widely targeted by European clothing retailers. Small independent businesses still hold a large share of the market, but a number of retailers, which has achieved strong growth in the past few years, is emerging as national players. Traditional channels of retailing, such as street markets, are still a major source of shopping for many Romanians and, as a result, there is a significant ‘black’ economy.
The main groups of clothing retailer are domestic independents, domestic multiples and international multiples. A domestic chain is Tarnava, manufacturer of family outerwear (6 stores; http://www.tarnava.ro).
International clothing multiples are Kenvelo (the Czech Republic, 61 stores in Romania), Steilmann (Germany, 51 stores), New Yorker (Germany, 11 stores), Orsay (18 stores, Germany), Inditex (Spain, 24 stores, of which 5 Zara and 5 Pull & Bear), Marks & Spencer (UK, 8 stores), Mango (Spain, 7 stores) and C&A (Germany, 3 stores).

Hypermarkets come mainly from abroad, like from France: Carrefour (18 stores), Cora (3) and

Auchan (5) and, from Germany, the Real formula of the Metro Group (15). The number of discount stores increased strongly, coming mainly from Germany: Plus Discount (64 stores), Kaufland (36), Penney Market (55), Profi (42) and MiniMax (16).
The Metro cash & carry formula of the German Metro Group takes a major position in the Romanian retail structure and operates through 23 stores. Another German cash & carry formula active in Romania is Rewe's Selgros (17 outlets).

Margins will vary depending on which market segment is being approached. Price is an important selling factor, especially in the lower segments of the clothing market (hyper- and supermarkets and discounters), whereas in the higher segments, factors like quality and fashion are more important than price. An indication of differences in price levels by types of outlets has been given in chapter 1 of 'The leather garments market in the EU' and an overview of margins valid for the levels distinguished in the leather garments market can be found in chapter 3 of the same survey.

3 Trade: imports and exports

Imports
Romania imported 739 tonnes of leather garments, valued € 10.1 million in 2008. Total imports increased 33% annually in terms of value in the period 2004-2008. Romania is the 17th largest importer of woven outerwear in the EU, behind Finland (15th) and Slovakia (16th), and accounted for 0.6% of EU total imports in 2008.

57% of Romanian imports came from EU countries, mainly under the regime of outward processing trade (CMT activities). Turkey remained the leading supplier to Romania, accounting for an import share of 27% (in terms of value) in 2008, followed by Germany (15%), Italy (14%), Austria (11%), China (10%) and Spain (4%).
Imports from Germany, Italy, Austria and Spain boomed during the period 2006-2008, just like imports from other EU countries such as Greece, The Netherlands, Hungary, France and the Czech Republic, while imports from countries like Turkey (-35%), China (-32%) and India (-44%) fell in the same period.
Total Romanian imports from DCs more than doubled during 2004-2006, fell 37% in 2007 and increased 9% in 2008 (compared to the previous years) to an import share of 41% (in terms of value) in 2008, against 81% in 2006. This fall can mainly be ascribed to decreasing imports from China and Turkey during the period 2006-2008, as mentioned above. Besides declining imports from China and Turkey, imports from India and Pakistan decreased, while imports from Macedonia increased.

Exports
Romania exported 290 tonnes of leather garments valued € 18.4 million in 2008. Total leather garments exports (in value) fell on average 0.2% per annum, during the period 2004-2008. Romania is the 11th largest exporter of leather garments in the EU, behind Austria (9th) and Sweden (10th), and accounted for 1.7% of EU total exports in 2008.

Destinations were almost completely (99.8% in value) other EU countries. Italy remained the leading destination for Romanian leather garments exports in 2008; 80% of total exports went to this country. Other destinations were Spain (13% of total exports), Germany (4%), Austria and Hungary (each 1%).

Re-exports
The size of re-exports cannot be derived from the available trade and production statistics.

Opportunities and threats
± During the period January-November 2009, Romania's imports of leather garments decreased by 13% in terms of value (compared to the same period in 2008), while total EU imports fell by 11%.

+ Based on the value-for–money concept, the largest lower range market segment and, in the long term, the middle-range market segment, may offer good opportunities for exporters in DCs.
- A very sharply decreasing share of Romanian imports came from DCs and accounted for 41% in 2008, against 81% in 2006.

Useful sources:
- EU Expanding Exports Helpdesk - http://exporthelp.europa.eu ➔ go to: trade statistics
- Eurostat – official statistical office of the EU - http://epp.eurostat.ec.europa.eu ➔ go to ‘themes’ on the left side of the home page ➔ go to ‘external trade’ ➔ go to ‘data – full view’ ➔ go to ‘external trade - detailed data’
- Understanding Eurostat: Quick guide to easy Comext ➔ http://www.eds-destatis.de/en/database/download/Handbook_Comext_Database.pdf
- Euratex bulletins - http://www.euratex.org

4 Price developments

Consumer prices

Prices grew very fast in Romania’s retail sector, partly driven by the high inflation rates. Growth has been very strong both in the food and non-food sectors, which have increased by similar rates, and it is expected that growth will have continued in 2009 but at a lower rate. High inflation has been a major problem for Romania, although it did fall into the single digits for the first time in 2005. Inflation growth percentages decreased from 9.0% in 2005 to 6.6% in 2006 and to 7.8% in 2008. After slowing to 5.6% in 2009, average consumer price inflation is forecast to decelerate further, to around 4.3% in 2010 and to 3.3% in 2011.

The Romanian leather garments market can be characterised by a very strong increase in consumption and strongly increased prices, despite decreasing import prices. Clothing consumer prices showed a declining growth in the review period: 7.6% in 2004, 3.9% in 2006 and 2.5% in 2008.

According to a price level study by Eurostat, clothing prices in Romania were 14% below the EU average in 2008. This price level of clothing was lower only in Bulgaria and the UK.
The VAT rate for leather garments in Romania is 19%.

Import prices

Prices of imports into Romania fluctuated during the period 2006-2008, as table 4.1 indicates. Prices movements were strongest in 2007 compared to 2006: prices of intra-EU trade increased 90%, mostly caused by prices of imports from Germany and Italy, while imports from Turkey and China were much lower priced in the same year. A possible reason could be the change from CMT activities for EU countries to direct imports and sourcing of low-priced garments in DCs.
Import prices from DCs are only 15% of the level of intra-EU import prices.

Table 4.1 Average import prices of leather garments in Romania (in € per kg.), 2006-2008

	2006	2007	2008	AAGR*
Total imports	11.93	10.91	13.64	+7.2%
Intra-EU	22.46	42.66	44.80	+49.7%
DCs	10.87	5.39	6.87	-18.4%

* Average annual growth
Sources: Eurostat (2009)

Useful sources:
An impression of average prices can be formed by browsing through the catalogues of large multiples; the websites of some distributors listed in chapter 2 also make it possible to retrieve price information on specific products.

5 Market access requirements

As a manufacturer in a DC preparing to access Romania, you should be aware of the market access requirements of your trading partners and the Romanian government.

For information on legislative and non-legislative requirements, go to 'Search CBI database' at http://www.cbi.eu/marketinfo, select garments and Romania in the category search, click on the search button and click on market access requirements.

There are several aspects to the **labelling** of leather garments of which you should be aware:

- Basic information includes brand marking and sizing.
- Labelling has to be formulated in the Romanian language.
- Outer material and materials used for lining and eventually interlining must be mentioned separately.
- In the case of leather garments, labels of 'genuine leather' are found on most products.
- Country of origin labelling.
- Care labelling, i.e. the inclusion of cleaning instructions. The recommendation 'special dry cleaning' has to be mentioned on a label to avoid claims. Therefore use Ginetex symbols, the system used throughout Europe (see: http://www.ginetex.net). Leather garment care can give additional information like storage, drying, cleaning, advice to prevent damage.

General information on **packaging** can be found at the website of ITC on export packaging: http://www.intracen.org/ep/packaging/packit.htm. More information about packaging of leather garments can be found in chapter 6 of the CBI market survey 'The market for leather garments in the EU'.

Information on **tariffs and quota** can be found at http://exporthelp.europa.eu.

6 Doing business

Information on doing business like approaching potential business partners, building up a relationship, drawing up an offer, handling the contract (methods of payment, and terms of delivery) and cultural differences can be found in CBI's export manuals 'Export Planner', 'Your image builder' and 'Exporting to the EU'. These can be downloaded from http://www.cbi.eu/marketinfo - go to search publications.

For more information on doing business in Romania, visit the following websites:

- http://www.modexpo.ro; Modeco is an international trade fair for textiles, clothing and footwear in Romania, held twice a year.
- http://www.fepaius.ro; Romanian trade organisation for apparel, textiles and footwear industry.
- http://www.romtextiles.com; search engine for clothing suppliers in Romania.

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