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State of the Art

TEXTILE AND CLOTHING

IN CROATIA

FLANDERS INVESTMENT & TRADE MARKET SURVEY



Textile and clothing in Croatia



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1. Introduction

The textile and clothing industry is a diverse and heterogeneous industry which covers an important number of activities, ranging from the transformation of fibres to yarns and fabrics to the production of a wide variety of clothing products.

The global position of the textile and apparel industry is a very complex issue, although Croatian tradition is connected with the beginning and development of the industry.

The overall importance of the textile and apparel industry in Croatia is defined to a great extent by the total number of employed workforce and foreign trade of the manufacturing industry. This area of the industry faces strong competition, both from local and foreign markets. However, the Croatian textile and apparel industry has been an acknowledged partner of European and worldwide customers for many years. Exports are mostly based on services whose current price is low and insufficient to cover gross operating costs. Therefore, the industry management has been warned about giving constant attention to:

1. Reducing manufacturing costs
2. Developing and creating their own collections and
3. Promoting their own brands.

For that purpose, it has been important to reduce a number of important guidelines (number of employees, type and volume of industrial production), especially during the past eight years.

The main characteristics of the textile and clothing industry are:

- Wide distribution of factories throughout Croatia
- Labour intensiveness
- Strong export orientation
- Manufacturing in small, medium and large companies
- Openness to international co-operation
- Readiness to rapidly respond to fashion trends
- Observance of delivery deadlines
- High quality of work and, to a considerable degree, also design of finished textile products and ready to-wear clothing
- Traditional business operations within market structure
- Almost completed privatization process
- In most of the companies, the owners directly and indirectly manage business operations and development
- Reduction in basic production
- Present problems in end product placement via various distribution channels
- Significant structural problems within the profession.

The textile and clothing industry is today one of the most globalized industry branches in the world. As Croatian clothing and textile industry is liable to market conditions, its profitability is questionable due to fierce price competition. Precisely, this growing international competition as well as the popularity of large sales chains in Croatia direct local textile and clothing manufacturers towards new strategic trends especially considering marketing, technological development, creation of local brands and finally various distribution channels. However, Croatian

textile and clothing manufacturers are burdened with numerous restrictions, mostly regarding labour costs and lack of capital.

Hence, the Ministry of Economy, Labour and Entrepreneurship has adopted the Development Strategy for Croatian Textile and Clothing Industry for the period 2006-2015, which is primarily based on constant repositioning of this industrial branch.

The Development Strategy is defined by:

MISSION

Croatian textile and clothing industry insists on constant technological improvements. It is both highly specialized and competitive on the market as it manufactures goods with a higher share of added value.

VISION

Croatian textile and clothing industry is based on product and business networking, which is innovative, multidisciplinary, scientifically based, flexible and customer oriented.

GOALS

- To change production structure according to higher quality price brackets
- To constantly improve business operations and apply adopted innovations and knowledge
- To adapt personnel structure and provide for laid-off workers
- To implement clustering of this branch of industry.

In order to secure the implementation of the abovementioned goals, which are a part of Development Strategy for Croatian Textile and Clothing Industry, the following actions need to be performed:

1. Promotion of development concept
2. Entrepreneurial market strategies
3. Partner coordination of vision and development goals
4. Government subsidies for development programs

2. General overview of Croatia

The general overview of Croatia will be depicted in this chapter in terms of 'General figures and economy'.

2.1. General facts and figures

The following table presents the general figures about Croatia:

Inhabitants	4 470 534 (126th largest amount in the world)
Population growth	-0,12%
Ethnicity	Croat 90.4%, Serb 4.4%, other 4.4% (including Bosnians, Hungarians, Slovenes, Czechs and Roma) (2011)
Religions	Roman Catholic 86.3%, Orthodox 4.4%, Muslim 1.5%, other 1.5%, unspecified 2.5%, not religious or atheist 3.8% (2011)
Languages	Croatian (official) 95.6%, Serbian 1.2%, other 3% (including Hungarian, Czech, Slovak and Albanian) (2011)
Age structure (population pyramid)	<p style="text-align: center;">Croatia - 2014</p>
Life expectancy at birth	76.4 years
Birth rate	9,49 births/1000 population
Death rate	12,13 deaths/1000 population
Maternal mortality rate	13 deaths/100 000 live births (2010)
Physicians per 1000 inhabitants	2,48 (2011)
Literacy - age 15 and over can read and write	99,1%
Capital	Zagreb
Government type	Parliamentary democracy
Administrative divisions	20 counties and 1 city (Zagreb) with special county status
Independence	25 June 1991 (from Yugoslavia)
Legal system	Civil law system influenced by legal heritage of Austria-Hungary; note - Croatian law was fully harmonized with the European <i>Acquis Communautaire</i> as of the June 2011 completion of EU accession negotiations

Table: General and political figures; Source: CIA (2015)

The Prime Minister of Croatia is the head of government in a multi-party system. Executive power is exercised by the government and the President of Croatia. Legislative power is vested in the Croatian Parliament.

2.2. Economy

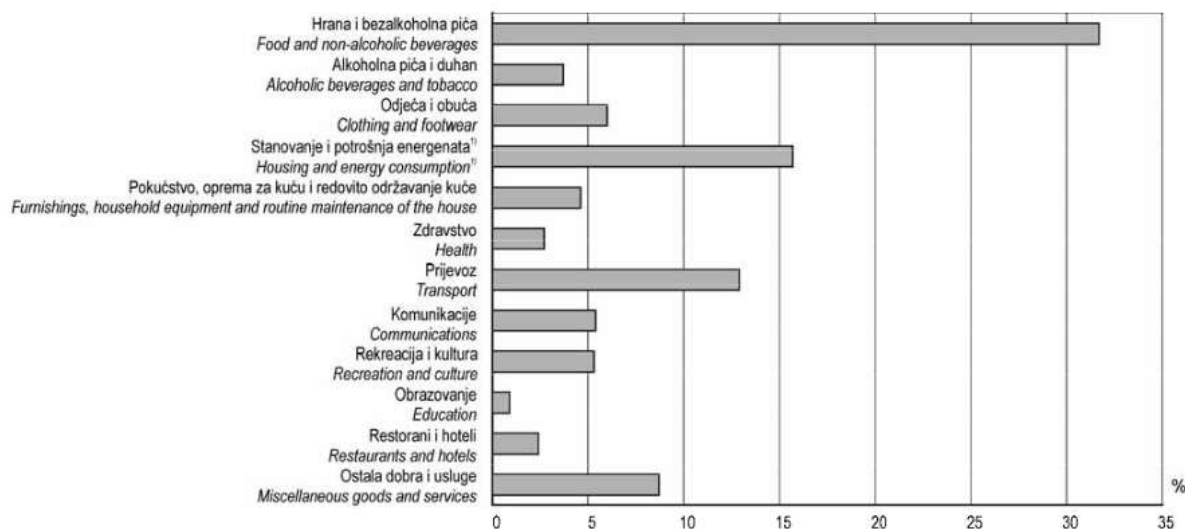
The next table shows Croatian main Economic indicators (2014).

GDP	\$58.33 billion
GDP per capita	\$20,400
Average monthly salary (Net)	5700 kn (2015)
Annual growth	-0.8%
Inflation	-0.2%
Unemployment	21%
Exports	\$14,08 billion
Imports	\$22.44 billion
Exchange rate Euro/Kuna	1€ = 7.57Kn

Table: Economic indicators; Source: CIA World Factbook

The structure of consumption in Croatia, during 2011, can be represented in the following chart:

G-1. STRUKTURA IZDATAKA ZA POTROŠNJU U 2011.
STRUCTURE OF CONSUMPTION EXPENDITURES, 2011



Graph: Structure of consumption, 2011; Source: www.dzs.hr

The largest percentage of consumption, in households, goes to 'Food and non-alcoholic beverages', which covers about 31.7% of the consumption expenditures.

The textile industry, which is depicted by 'Clothing and footwear', makes 6% of the overall consumption structure.

3. Situation on the Croatian textile market

3.1. General situation

Too long conservation of the socialist and planned economic policy instead of a liberal market economy has resulted in a lack of private Croatian brands. To preserve jobs, companies have turned to foreign processing operations clients, mostly from the European Union. With domestic wage increases and the simultaneous opening towards the markets of Central and Eastern European countries with lower labour costs, a big share of the clothing industry moved from Croatia to Poland, the Czech Republic, Hungary and Romania. From 1991 to 2002, the number of workers fell from 81,200 to 32,917, and the number of companies in the textile and clothing industry decreased from 857 to 679.

Data concerning the textile and clothing sector in 2013 are found in the next table:

	Number of companies				Total earnings (kn)	Number of employees
	<i>Small</i>	<i>Medium</i>	<i>Big</i>	<i>Total</i>		
Production of textile	225	10	0	235	1,151,777,014.00	3239
Production of clothing, leather etc.	582	19	5	606	6,635,138,789.00	24288

Source: HGK, 2015

3.2. Association and institution

3.2.1. Croatian Chamber of Economy (CCE):

The basic task of this organisation is to promote the work and business activities and to protect the interest of Croatian manufacturers both in Croatia and abroad. The Association represents the interest of the members before the government bodies in order to improve the business terms, continuously monitors legislation and starts the initiatives for making and changing of both laws and measures important for Croatian economy.

For further information: <http://en.hgk.hr/>

3.2.2. Faculty of Textile Technology, University Of Zagreb

The Faculty of Textile Technology is the only institution of higher learning in the field of textile technology, with the aim to train research and highly educated experts in this field. The courses proposed here are highly ranked regarding their purposefulness, having in mind the active and developed labor market in the fields of textiles and fashion design, both in the state-owned and the private sector.

For further information: <http://www.unizg.hr/homepage/>



3.3. Competition

The market is currently dominated by a few international players. Italian hosiery and beachwear company *Calzedonia* has manufacturing bases in Croatia and is selling to Croatian consumers through its *Intimissimi* and *Tezenis* brands stores, along with a recently launched cash-and-carry brand outlet. Austria-owned *Boxmark*, which specializes in car seat upholstery, has set up a manufacturing base in the country and is one of Croatia's largest exporters. A last company worth to mention is the Italian enterprise *Benetton* who employs hundreds of workers directly in Croatia, in retail and production.

3.4. Employment

The textile sector is the second largest employer in the manufacturing industry. The most important centres are in Zagreb, Varaždin, Vukovar, Čakovec, Karlovac, Duga Resa and Garešnica.

Some facts about employment in the textile and clothing industry:

- 68% of all the people employed in the sector are women. When analysing only the clothing industry, women count for 88% of the total employment.
- About 85% of all employees have a low educational background.
- The average age is quite high (45 years).



Female Workforce in the Croatian textile industry

4. Exports and imports

4.1. Export and import general features

In the eight first months of 2014, the export concerning the Croatian clothing industry increased with 47 percent to a total value of 363 million euro, compared with the same period of 2013. Textile production increased with 38 percent to a total of 84 million euro.

The same trend occurred regarding the import. Compared with the first eight months of 2013, the textile sector knew a small increase from 212 million to 257 million euro in the same period of 2014. The clothing sector went from 287 to 478 million euro.

But it is still too early to conclude that the textile industry has put the bad results of the past years behind itself although the EU membership of Croatia has been beneficial for the textile industry so far, and the fact that doing business with Croatian companies has become more striking for European companies is very promising for the future.

4.2. Import documentation procedure in Croatia

Since Croatia is a member of the European Union (2013), the transport of goods between Belgium and Croatia has been simplified.

In general, the requirements for intra-community trade are harmonized between the Member States. To ensure harmonisation is maintained, products of animal origin (articles of leather, wool or coarse animal hair, horsehair yarn and woven fabric) must be produced in an authorised establishment, usually under the supervision of an official veterinarian. Further random checks on the products may also be carried out at the final destination.

In addition to the general health requirements, specific requirements for animal products may also be required which take account issues as evolving disease situations in the Member States. In such instances specific animal health certificates may be required.

4.3. Standards in Croatia

In the past few years, the Croatian Standards Institute (HZN) harmonized the technical standards legislation with the European Union (EU) Directives. This was a requirement for Croatia to become a member state.

HZN is responsible for preparation, adoption, editing, and publication of Croatian standards and it maintains an online catalogue of Croatian and other standards (<http://www.hzn.hr/>).

5. Fairs and exhibitions

5.1. Overview

The textile and clothing industry has been exhibiting for many years at the Zagreb Fair annual event. Also Croatian textile and clothing manufacturers attend specialized fairs and exhibitions throughout Europe.

5.2. DREFT Fashion Week Zagreb

Is the biggest, oldest and most important international fashion event in Croatia, which connects cultures of different countries through fashion expression of various international and local designers. Twice a year, DREFT Fashion Week Zagreb shows trends for the upcoming season, presents numerous local and international designers, hosts important fashion names, attracts many public figures and takes every season even more significant place on the world rankings list of the most successful Fashion Week's. Beside that DREFT Fashion Week Zagreb was admitted as a full member in many world fashion associations.

<http://www.fashionweekzagreb.com/>



5.3. Cro-A-Porter

The first domestic fashion week founded in 2003 with clearly set standards for presenting original collections of local designers.

With two collections per year, it is also the project with the longest tradition in Croatia, according to these standards. It introduced revolutionary breakthroughs in production and brought Croatian fashion closer to world standards. In addition to presenting the already established designers like Ivana Popovic and-behold, Linea Exclusive, XD Xenia Design, MAK, Matthew Vujic launched and affirmed names that today are key in the local fashion scene like Amarie, Boudoir, Klarić, Boris Pavlin, Hippy, Elfs, Zigman, Ivona Martinko, Tihomir Krznarić, Fjaba, Arileo, Ivan Ledenko, Madame de Mode Design Marine, Port Clement and others.

Recognized by the public, the media, customers, visitors, partners, sponsors, participants and economic scene, the Cro-A-Porter has left an indelible mark on the culture, the economy and the media, where Croatia and Zagreb are positioned on the fashion map of the region and Europe.

Viktor Drago, founder and creative team leader with experience gained in production outside Croatia, and the active participation on the fashion scene through creative directors, stylists, photographers and contributors of numerous media, make Cro-A-Porter happen, giving it every season a new life, visual identity and artistic/aesthetic value.

<http://www.cro-a-porter.hr/>

CROÀPORTER

5.4. Fashion.hr.

The project Fashion.hr industry, which aims to revive the Croatian fashion industry and is linked with Croatian designers, was launched at the Zagreb Fair.

<http://www.fashion.hr>



5.5. Fashion Day Zagreb

Trade fair for textiles, leather, footwear and clothing

Fashion Days is an international specialized fair with a rich programme and exhibition part gathering manufacturers and traders from textile, clothing, leather and footwear companies that are offering various fashion accessories and the supporting equipment. By participating in Fashion Days exhibitors will present their designer solutions, confirm their recognisability on the market and actively create fashion trends for the next season. Apart from business people, this fair is also very interesting for the general public that is attracted by events taking place at the fair grounds.

5.6. The Golden Needle

The traditional Zagreb Craftsmen Fashion Show attracts Croatian fashion designers, milliners, shoemakers, bag manufacturers, beauticians and leather designers since the early 1930s. Today the Golden Needle not only represents a mixture of traditional values and new trends, but forms a prestigious event for all those who have the opportunity to participate. The tradition emerged

many decades ago as a result of a desire of Zagreb's fashion trade to initiate something similar to what they had seen in foreign countries. They wanted to make Zagreb one of the fashion centres of Europe, reach out to a broader audience and let them know about the quality of domestic fashion products.



5.7. Designers in Croatia

Some of the most important and recognized designers in Croatia are listed below.

Robert Sever

Robert Sever was launched in 2001 and until now has presented numerous collections. With the presentation of the first collection for fall/winter 01-02 called SeverForever the direction of the brand was defined. The brand is about the bond between simple and modern shapes of clothes with emphasis on the artistic details (contouring, hand colouring, embroidering, etc.) and mixing different cultures and references in each collection. Through different fashion stories and artistic interpretations Robert Sever constantly evolved also through fashion accessories like hats, belts but most of all recognizable Robert Sever bags. Except the main line, Robert Sever has designed, in cooperation with the acknowledged Croatian brand Jana, a limited t-shirt edition Jana by Robert Sever and for the store in Zadar presented his first resort collection. The brand uses high class materials and also has the best manufacturing. Private luxury is the guideline of this young Croatian brand.



Martina Felja

Martina Felja was born in Zagreb in 1977. Interested in fashion since the age of 15, Martina received her degree in fashion design in 2003. While studying, she began creating handmade jewellery and

working as an assistant costume designer in the main theatre in Zagreb. In 2004 Martina moved to Ferrara, Italy, where she got married and opened up her trademark 'FELJA'.

<http://www.felja.com/>



Hippy Garden

Hippy Garden is one of the most successful Croatian fashion brands of woman apparel. In 2002 they opened their first boutique in Zagreb. Creativity combined with sustainable development and environmental care is the main priority in their business policy.

www.hippygarden.net



I-GLE

Studio I-GLE was established in 1997 by two established fashion designers Martina Vrdoljak Ranilović and Nataša Mihaljčičin. Offering a strong visual experience and unique dedication to each individual, I-GLE achieved a cult status in Croatia and abroad. Conception of I-GLE design is characterised by an autonomous and carefully thought answer to fashion's basic necessities and demands in all its aspects. I-GLE is promoting recognizable identity bestowing the originality of its aesthetic by constant experiment and research in tailoring process.