Flanders
State of the Art

TEXTILE, CLOTHING, FOOTWEAR AND LEATHER SECTORS

IN RUSSIA AND NORTH-WEST REGION

FLANDERS INVESTMENT & TRADE MARKET SURVEY

Russia and North-West Region

Textile, clothing, footwear and leather sectors

Overview 2017

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FLANDERS INVESTMENT & TRADE

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1. INDUSTRY PROFILE

Russia's light industry includes the following sub-sectors:

- Textile (cotton, wool, silk, flax, hosiery, knitwear, carpets, thread, nonwoven materials)
- Clothing
- Leather (leather tanning and finishing, leather goods production)
- Footwear
- Fur

The given overview provides a brief description of the following sectors: textile (production of fabrics), clothing, leather and footwear.

The Russian textile, clothing, leather and footwear sectors play an important role in the Russian manufacturing industry. The textile sector consists of 458 large and medium-size enterprises including 211 clothing companies. There are about 300 large footwear manufacturing companies that produce a wide range of shoes (men's, women's, children's, safety) in the low- and middle-price segments. As for the Russian leather industry, there are about 40 tanneries that employ 6.000 people. Tanneries produce different types of genuine and synthetic leather for footwear, leather goods and haberdashery, apparel, furniture and automobile industries.

2. RAW MATERIALS

Russia's raw material base is limited, and therefore it does not fully supply the light industry. Cotton crop is not harvested in Russia. Russia sources its raw cotton mainly from Uzbekistan, Tajikistan and Turkmenistan.

Wool, fur and leather are produced in Russia, but the supply of these materials is not sufficient.

Flax is a very traditional crop for Russia. It can be grown in many regions and is environmentally friendly. Russia used to be a global flax leader at the begging of the 20-th century, but now the flax sector is suffering losses and stagnation. Over the last two decades, the crop area has declined from 418 thousand ha to 55 thousand ha. Russia ranks now third accounting for 16,5% of the global flax harvest. The global leaders are France and Belarus accounting for 32% and 21% of the global yield respectively.

Flax used to be cultivated in the central part of Russia (Tver, Yaroslavl, Vladimir) and North-West Russia (Pskov, Novgorod), but now it moves over to Siberia and the Ural region. There are 13 flax farms in the republic of Udmurtia, 9 flax farms in Vologda region and 8 flax farms in Omsk region.

The equipment and machinery used in the flax sector are worn-out (70%), flax seed breeding is also a big problem. Russia is dependent on flax imports from Belarus.

In general, the Russian flax sector is backward and unprofitable irrespective of the governmental support.

3. TEXTILE AND CLOTHING PRODUCTION

In recent years, Russia's light industry has demonstrated a stable growth. Some subsectors are developing well, others remain in stagnation. In 2016, the textile and clothing sectors grew by 4,2%, the leather and footwear sectors grew by 6,2%. The growth spurt of 2016 could be mainly attributed to the government's commitment to strengthen Russia's light industry and the import substitution trend.

The structure of the Russian textile production is shown below. The given table suggests that Russia produces mainly nonwoven materials, cotton and cotton blend fabrics.

Table 1. Structure of Russian Textile Production in 2015

Textile	Share (%)	Production (million m²)
Nonwoven materials	68%	3084
Cotton	26%	1176
Synthetics	5%	237
Linen	1%	25,9
Wool	0%	9,26
Silk	0%	0,25

Source: http://www.rosflaxhemp.ru

Figure 1. Structure of Russian Textile Production in 2015

Most of the textile and clothing companies are located in 7 federal districts (see table 2 below). **Moscow region** and **Ivanovo region** have the largest concentration of textile and clothing producers.

Table 2. Distribution of Textile and Clothing Producers by Federal District

Federal District	Region	Total Number	Textile	Clothing
Central Federal District	Moscow region Ivanovo region Tula region Tver region Vladimir region	245	143	102
North-Western Federal district	Saint-Petersburg Kaliningrad	40	20	20
Southern Federal District	Rostov region Volgograd region Krasnodar region	21	12	9
North Caucasus Federal District	Kabardino-Balkaria	5	3	2
Volga Federal District	Republic of Tatarstan Perm region Nizhny Novgorod region Republic of Bashkiria Republic of Chuvashia	101	43	58
Ural Federal District	Sverdlovsk region Chelyabinsk region Tumen region	23	6	17
Siberia	Irkutsk region Altai region	19	8	11
Far East	Khabarovsk region	4	2	2

The Central Federal District is the main textile centre of Russia. 90% of all cotton and wool fabrics are produced in this area. Ivanovo region accounts for 70% of all cotton fabrics produced in Russia. Cotton fabrics are also made in Chuvashia, Volgograd region, Saratov region, Krasnoyarsk region and Altai krai. Wool fabrics are made in Ivanovo region (Shuya), Bryansk region (Klintsy), Sverdlovsk region, Ulianovsk region, Tumen region and Penza region. Linen is mainly produced in Vologda region, Novgorod region, Yaroslavl region (Gavrilov-Yam) and Vladimir region (Vyazniki and Murom).

The biggest textile producers include the following:

- Rodniki Textile – Ivanovo region (https://www.rodniki-tex.ru)
- Bryansk Worsted Fabrics Manufacturing Plant – Bryansk (http://www.ruslana.ru)
- Sverdlovsk Worsted Fabrics Manufacturing Plant – Sverdlovsk (http://www.ckk.ru)
- Chaikovsky Textile – Perm region (http://www.textile.ru)
- Shuya Sistsy – Ivanovo region (https://sitsy.ru/)

Recently, these producers have rebuilt their equipment and facilities and doubled the production of fabrics. In 2015, the production of fabrics grew by 14.7% to 4.5 billion m². Local textile producers are mainly focused on domestic market exporting very little to neighbouring countries.

Textile producers have significantly improved the quality of fabrics produced and expanded their range. They participate in public procurement supplying fabrics for law enforcement authorities, defence and emergency ministries. This governmental support enables textile companies to plan recourses long-term and maintain production levels. The biggest growth area in the textile sector is the production of technical and protective fabrics for protective clothing. It is a niche market that is growing very fast (10% annually). The demand for these fabrics is growing around the world due to sensibilization of society and focus on safety. In Russia, the production of protective clothing has tripled since 2013 and reached 174,37 pieces.

As for the other textile sectors, they continue to experience stagnation due to declining household incomes and shrinking demand. In 2015, the production of bed-linen fell by 7.6%, hosiery declined by 5.6% to 199 million pairs and knitwear fell by 21.9% to 106 million pieces.

The Russian clothing industry is undergoing changes. This industry is characterized by high volatility and low profit margins. New brands and clothing companies have appeared over the last two decades (e.g. SELA, OODJI, SAVAGE, BAON, ZARINA, Be FREE, LOVE REPUBLIC). These brands belong to the mass market, the companies produce ready-to-wear garments using trends set by famous names in fashion. Usually, the production is subcontracted to suppliers from China, which enables to keep production costs down. Russian front offices design and market collections, manage and promote the brand. Additionally, this sector remains among the most labor-intensive industries, despite advances in technology and workplace practices. Most of the fabrics and accessories used are imported (70%), which makes Russian clothing companies dependent on foreign markets and exchange rates.

Another trend of the Russian clothing industry is the growing interest to young Russian fashion designers. Over the last decade, a lot of young and ambitious designers have appeared and set up their fashion brands (ULIYANA SERGEENKO, VIKA GAZINSKAYA, ALEXANDER TEREKHOV, IANIS CHAMALIDY). Russian fashion designers have become very popular not only in Russia, but also abroad.

As for Saint-Petersburg, there are 328 textile and clothing companies and 98 leather, haberdashery and footwear companies. The light industry employs almost 13 000 people (3,8%) and plays an important role in the city economy. Most of the companies use new or upgraded equipment (70%), produce goods for the domestic market, plan to invest and increase production.

Saint-Petersburg is the home city for many fashion designers, and that is why the city is often called Russia's fashion centre. The government of Saint-Petersburg is going to work out support measures (ex. business incubator, locations for showrooms, tax incentives, financial preferences) to encourage fashion designers and boost the clothing industry in the city.

The Ministry of Industry and Trade is planning to create an outdoor industry cluster in Russia - EQUIP. Firms that will be incorporated into the cluster will design, develop, manufacture, market and distribute fabrics, apparel and footwear for active outdoor recreation.

4. LEATHER AND FOOTWEAR PRODUCTION

In 2015, Russia's leather production grew by 14% compared to the previous year.

Over the last decade, all leading tanneries have rebuilt their equipment and considerably improved the quality of their leather products. All new and installed equipment and machinery have been imported into Russia. 30% of Russian leather is exported to other countries including Italy, China, Belarus, Spain, Portugal, India, Poland and Vietnam.

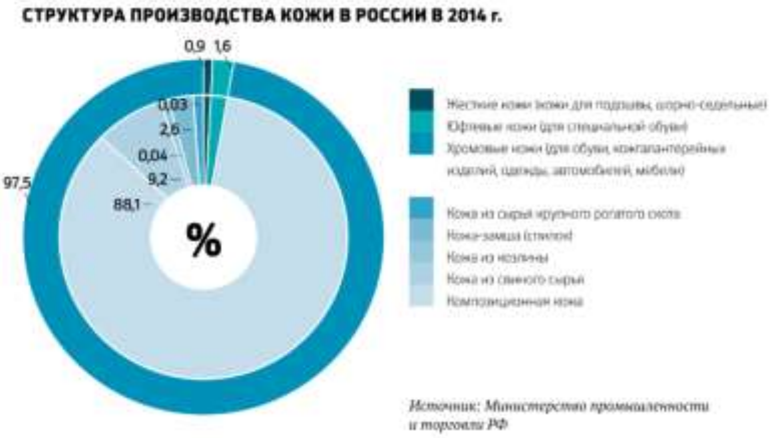
The total capacity utilization rate of all Russian tanneries is 60% chiefly because there is a significant shortage of animal hides in the country. There was a tremendous decline in cattle inventories in the 1990s. The cattle herd declined from 59 million heads to 28 million heads by 2000 and then below 21 million heads over the next decade.

Table 3. Structure of Leather Production in 2014, %

Type of leather	Share (%)
Tough saddle leather	0,9
Russian leather	1,6
Chrome-tanned leather	97,5
Type of leather	**Share (%)**
Cow leather	0,03
Split leather	2,6
Goat leather	0,04
Hog leather	9,2
Composition leather	88,1

Source: Russian Ministry of Industry and Trade

Figure 2. Structure of Leather Production in 2014, %



Source: Russian Ministry of Industry and Trade

The biggest tanneries are:

- Russian Leather – Ryazan (http://www.leather.ru)
- Khrom – Yaroslavl (http://khrom.ru)
- Vyazma tannery – Smolensk region (http://vkplt.ru)
- Volga tannery – Tver region (http://volgatannery.ru)

RUSSIAN LEATHER (http://www.leather.ru) is the biggest tannery in Russia that processes 3.000 000 hides annually. It accounts for 35% of the total leather production in Russia. The company has approved a large investment program and is building a new tannery in Altai region. The total investment will be 1,6 billion roubles. The investment project is due to be completed by the end of 2018. It is the only investment project in the sector since the 1990s. The region was chosen on purpose in order to have a better access to recourses. Antiquated tanneries located in Siberia and Altai region were closed in the middle of 1990s. This area accounts now for 27% of the total livestock population in Russia.

RUSSIAN LEATHER has started producing leathers for the automobile industry. The company has already developed and tested a product line for automobile companies.

Russia is trying to rebuild and boost its footwear industry. Many footwear manufacturers have rebuilt their equipment and facilities and have improved the quality of shoes. Russia has a huge chance to reduce its dependence on footwear imports. Due to declining household incomes and improved footwear quality, Russians start to buy shoes made in Russia, especially when it comes to rubber, children's or safety shoes. Local footwear manufacturers have increased their production and hope to significantly raise sales in the low and middle-price segments.

The table below demonstrates production dynamics in the footwear industry in the 6 years spanning from 2010 to 1H 2016. The year 2016 was quite successful for the footwear industry. The total production reached 114 million pairs, and 300 million pairs were imported into Russia.

Table 4. Footwear Production over the Period 2010-1H 2016

	2010	2011	2012	2013	2014	2015	January-June 2016
Production output, million pairs	96,4	102,1	102,7	113,4	114,1	90,1	46,5
Production growth, %	-	105,9%	100,6%	110,4%	100,6%	79%	103%
Production output, billion roubles	38,0	39,4	41,9	46,8	42,2	44,0	26,4
Production growth, %	-	103,6%	106,6%	11,7%	90,1%	104,2%	138,8%

Source: RosStat

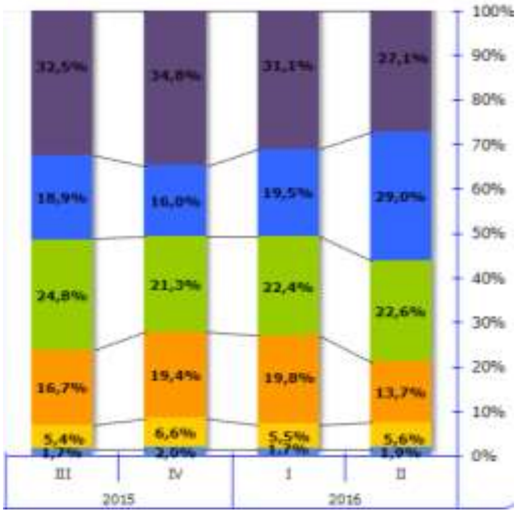
Table 5 suggests that most of the shoes produced are made of textile, synthetic or genuine leather. The production of footwear grows 4-5% on average annually, but reduced spending power and low footwear consumption among Russians (2 pairs annually) restrain the industry growth.

Table 5. Structure of Footwear Production over the Period 2015-2016, (%)

Material		III Q 2015	IV Q 2015	I Q 2016	II Q 2016
Textile		32,5	34,8	31,1	27,1
Synthetic leather		18,9	16,0	19,5	29,0
Genuine leather		24,8	21,3	22,4	22,6
Rubber		16,7	19,4	19,8	13,7
Safety		5,4	6,6	5,5	5,6
Sports		1,7	2,0	1,7	1,9

Source: RosStat

Figure 3. Structure of Footwear Production over the Period 2015-2016, (%)



The biggest footwear manufacturing companies include the following:

- Bris-Bosfor (http://bris-bosfor.ru)
- Unichel (https://unichel.ru)
- Ralf Ringer (https://ralf.ru/)
- Obuv Rossii (http://obuvrus.ru)

These companies produce a wide range of shoes in the middle- and low-price segments and distribute them in their own retail chains.

Russia's leading footwear producers try to rebuild the existing equipment or to install new equipment to increase production. OBUV ROSSII (http://obuvrus.ru) will invest 5 billion roubles in new capacities and modernization. ZENDEN GROUP (https://zenden.ru) is building a new shoe factory in Crimea. The company will invest 1 billion roubles into the new production and create

500 jobs in the region. This is in line the general policy of import substitution and industrial modernization.

In general, the footwear and leather industries have a lot of growth potential. Russian leather has become competitive in terms of quality and is in demand on the domestic and European markets. These sectors have become more efficient and profitable and show a stable growth every year.

5. APPAREL AND FOOTWEAR RETAIL

The main distribution channels for apparel and footwear are shown below:

Figure 4. Apparel and Footwear Distribution Channels

Source: Committee for Industrial Policy and Innovations of St-Petersburg

Despite the economic crisis, the apparel and footwear retail chains are developing well. Many of them continue to open new stores and expand into regions.

In 2016, retailers that operate mainly in the low-price segment increased sales by 20-30%. As income availability decreases, more people purchase things that are lower in price. As a result, the low-price segment has considerably grown over the last two years compared to the middle-price segment (see figure 5).

Figure 5. Dynamics in Apparel Retail over 2014-2016 by Segment, %

Table 6. Dynamics in Apparel Retail over 2015-2016 by Number of Stores

Retail Chain	Number of store in 2015	Number of stores in 2016	Result
O'Stin	629	632	+3
Gloria Jeans	504	511	+7
Sela	334	333	-1
Incity	319	275	-44
Oodji	353	236	-117
Befree	236	220	-16
Zarina	198	179	-19
Love Republic	171	138	-33
Baon	131	132	+1
Modis	139	121	-18
Mango	115	117	+2
H&M	96	103	+7
Bershka	87	97	+10
Zara	88	94	+6

Source: Delovoy Saint-Petersburg, Issue No.124 dd. 2 August 2017

Table 7. TOP-5 Footwear Retailers by Number of Stores:

Retail Chain	Number of Stores	Website
Centro/ TsentrObuv	1050	http://center-obuv.ru/
Kari	648	http://kari.com/ru/
Unichel	500	https://unichel.ru
ObuvRossii	450	http://obuvrus.ru
Zenden Group	350	https://zenden.ru

Source: DISCOVERY Research Group

The Russian footwear retail market is characterised by high M&A activity level. In 2016, ZENDEN GROUP took over 2 chains operating in the middle-price segment: THOMAS MUNZ and MASCOTTE. As a result, the company increased its market presence and sales to 18,2 billion roubles.

OBUV ROSSII is also very active on the footwear market. In recent years, the company has rebuilt its equipment and facilities and increased its market presence. OBUV ROSSII plans to increase the number of stores to 650 and raise sales to 18 billion roubles by the end of 2018.

The structure of the apparel and footwear market is also changing. Whenever possible, purchases of apparel and footwear are postponed or reduced to the most essential and basic types and the plainest colors. Russian consumers remain generally conservative and tend to prefer casual, everyday and basic models.

According to FASHION CONSULTING GROUP (http://fashionconsulting.ru/), retail sales continue its upward trend in 2017. In a worst-case scenario, retail sales would grow 5% reaching 2,41 billion roubles. In a best-case scenario, retail sales would grow 9% reaching 2,5 billion roubles respectively.

Increasing levels of smuggling and counterfeiting from China threaten the apparel and footwear sectors (35-40%).

6. EXPORT AND IMPORT

Russian textile and apparel companies export very little and mainly to neighbouring coutries. The main export destinations include Belarus, Ukraine, Kazakhstan and China. Export accounts for 5-6% of the total textile and clothing production in Russia. In 1H 2017, textile, apparel and footwear exports have shown growth of 9%. Some textile companies have made a considerable contribution to this figure. For example, Kirov Spinning Mill from Saint-Petersburg (https://pnk.ru/) increased export sales by 30%. This growth spurt can be mainly attributed to the fact that local producers have rebuilt their equipment and plants, have increased production and managed to meet the domestic demand. As a result, Russian textile and leather products have become competitive in terms of quality and price.

Footwear exports are also insufficient, footwear imports exceed footwear exports fifteen-fold. The main export destinations include Belarus, Kazakhstan, Poland and Ukraine.

Russia's footwear sector is dependent on imported shoe leather and accessories (soles, heels, zippers, etc.). The share of imported materials used in production is 40%. Leather is mainly imported from Italy, Turkey and Latin America.

The footwear retail strongly depends on imports. The share of imported shoes is 70% which includes luxury and designer shoes, shoes in the middle- and low-price segments.

Major footwear exporters to Russia include China (80%), Italy, Turkey, Vietnam and Brazil.

The apparel sector is also dependent on imports. Despite the fact, that Russian apparel companies are trying to meet the domestic demand, most of Russians buy imported clothes. The share of imported clothes ranges from 70 to 78%. Russia's main apparel exporters include China (80%), Italy and Turkey.

As for textile imports, most of the fabrics are imported from China, Turkey and EU countries.

7. MAIN PROBLEMS IN THE RUSSIAN TEXTILE, CLOTHING, FOOTWEAR AND LEATHER SECTORS

In 2015, the government of Saint-Petersburg made a thorough research of the textile, apparel and footwear sectors in the city. The focus group included producers based in the city and Leningrad region. The textile, apparel and footwear companies pointed out the following challenges:

- Lack of skilled personnel (sewing, textile, leather and shoemaking specialists)
- Declining household incomes that influence consumer spending
- Shortage of funds
- Shortage of domestic raw materials (wool, flax, cotton, hides)
- Counterfeiting and cheap illegal imports from China
- Antiquated equipment and technologies resulting from inadequate capital investment and technology upgrading
- Low export activity
- No direct foreign investments
- Historical deficit with respect to innovation, research and development.

8. SOURCES

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10. Marketing agency "Discovery Research Group" (http://drgroup.ru/promyshlennost-obrabatyvayushchaya-65/ljogkaya-promyshlennost-76.html)
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15. Obuv Rossii (http://obuvrus.ru/)

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