

## WORKSHOP

Sub-regional workshop on  
Environmental Requirements, Market Access/  
Penetration and Export Competitiveness for  
Leather and Footwear

**Bangkok, 19-21 November 2003**

## PROJECT

Project on Building Capacity for Improved Policy  
Making and Negotiation on Key Trade and  
Environment Issues

## STUDY

**DRAFT**

Draft Study on Environmental Requirements,  
Market Access and Export Competitiveness for  
Leather and Footwear in

**Thailand**

# **Final Report**

## ***Thailand Case Study on Environmental Requirements, Market Access and Competitiveness in the Leather and Footwear Sectors***

**Submitted to**



**United Nations Conference on Trade and Development**

**Prepared by**



**Thailand Environment Institute**

October 2003

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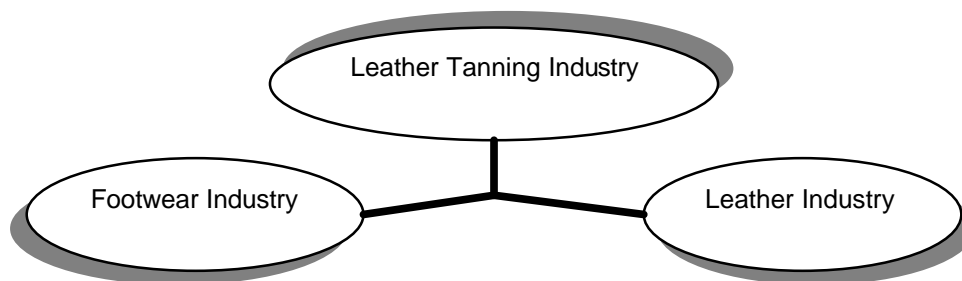
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## 1. Industry structure

Leather goods and footwear are one of the top 15 export products of Thailand. This industrial sector, including footwear, leather goods and tanneries consists of approximately 4,900 factories employing around 500,000 workers. More than 90 % of the factories are classified as Small and Medium-sized Enterprises (SMEs).

There are 148 tannery factories in Thailand. One hundred and thirty-eight of these factories are located in the tannery industrial estate in Samutprakarn province. In total 11,000 workers are employed with a production volume of around 93 million square feet of finished leather in 2001.

*Figure 1* Three sub-sectors linkage to compete in the domestic and global market



### 1.1 Footwear Industry

There are more than 2,000 footwear-producing factories in Thailand. Approximately 85% of those factories are SMEs. More than 1,000 factories are located in Bangkok. The total production capacity is approximately 500 million pairs of footwear per annum. Around 200,000 workers are employed.

The local producers of shoes can be categorized into two main groups;

#### 1. Producers of sports shoes

Most of them are contract manufacturers producing shoes for globally active companies such as NIKE, REEBOK, ADIDAS. These large-or medium-sized enterprises mainly feed their goods to the export market with modern process technology. Factories produce shoes that meet the quality standard in the international market. The supporting industries, i.e. tanning, shoe mould making, shoe parts and others, are encouraged to enhance cost consciousness, increase flexibility in production and improve quality control.

Some manufactures are joint venture firms supporting their parent company. The others are contract manufacturers and local Brand makers.

2. Producers of leather shoes, rubber & plastic shoes, slippers and other shoes  
Most of these are small- and medium-sized producers with their own brand names feeding domestic markets. With limited investment capacity, they gain obsolete machines and use simple technology, therefore, it is largely labor intensive manufacturing.

In terms of the cost structure for the footwear sector, the expenses are as follows:

Raw material	61 %
Labor	25 %
Others expense	14%

## 1.2 Leather goods

The leather goods industry comprises approximately 2,750 factories with 60% located in Bangkok. The total employment of the industry is more than 300,000 workers.

The leather industry produces a variety of products including bags, luggage, briefcases, and other small leather goods items. The main raw materials are leather, artificial leather textiles and others. Some manufacturers produce leather goods under their own brand names. Some are sub-contractors and the others are small-sized makers producing low-grade goods.

In term of the cost structure for leather goods, the expenses are as follows:

Raw material	59 %
Labor	24 %
Others expense	17 %

## 2. The market of leather and footwear goods in Thailand

The footwear industry produces mainly sports shoes, slippers, leather shoes, and rubber and plastic shoes. Major export items are sport shoes (46.8 %), followed by rubber and plastic shoes (30.6 %) and leather shoes (8.5 %). The export volume and value in each type of footwear is shown in table 1.

The footwear industry has been promoted from the Board of Investment (BOI) for a long time. At present, there are about 224 companies receiving privileges from BOI. Half of these are joint-venture companies with foreign investors, mainly from Taiwan and the Republic of Korea.

The export volume and value has been rising since 1990. The most important export markets for Thai leather include the United States, Taiwan, Province of China, Denmark, Australia and Germany.

In 2000, the export value of footwear and leather goods products was in the top ten list of all export products from Thailand. However, the industry experienced an

average annual decline of 4.8 %, from US\$ 2,057 million in 1997 to US\$ 1,692 million in 2000.

The export value in 2001 included US\$ 840 million of footwear and accessories, US\$ 440 million of leather goods, and US\$ 410 million of leather, representing an annual growth of - 7.5%, 3% and - 5.6% from 1997, respectively (Table 2 and Table 3). Major export markets for Thai footwear and accessories (Figure 2) were, the European Union (38%, including the UK 12%, Belgium 9%, Denmark 5% and the Netherlands 4%), the USA (36%), Japan (4%) and ASEAN (3%).

For the leather goods, the key export markets (Figure 3) were the USA (67%), the European Union (13%, where Germany, Switzerland, the UK and France took 4%, 3%, 3% and 2% from the total export, respectively), Japan (6%) and ASEAN (2%).

Approximately 26% of Thai leather went to Hong Kong, 17% to the USA, 18% to the European Union (in which Sweden took 8% of the total), ASEAN (15%) and Japan (4%). The export value along the border of Thailand and neighboring countries in 2001 was recorded at around US\$ 40 million, but unofficial figures including underground trade ranged from US\$ 100 to US\$ 200 million. Accounting for the recorded export, border trades, and domestic market, estimated to be around US\$ 900 million, the total value of Thailand's footwear, leather goods and leather production in 2001 was in the neighborhood of US\$ 2.7 billion.<sup>1</sup>

*Table 1* Thailand's exports of footwear and accessories between 1998-2001(Jan-Aug)  
(Volume: million pairs; value: US\$ million)

Product	1998			1999			2000			2001		
	Volume	Share of Volume (%)	Value	Volume	Share of Volume (%)	Value	Volume	Share of Volume (%)	Value	Volume	Share of Volume (%)	Value
Sports shoes	46.7	36.3	551.1	40.3	32.5	451	36.4	28.1	440.3	322	56.3	317.4
Growth (%)	-5.7		-14.6	-13.7		-18.2	-9.7		-2.4			-1.4
Rubber & plastic shoes	18.4	14.3	45.9	16.3	13.1	43.1	17.6	13.6	44.9	37	6.5	29.4
Growth (%)	-55.4		-65.3	-11.4		-6.1	8		4.2			-20.5
Leather shoes	12.6	9.8	156.5	14.9	12.0	181.4	17.4	13.4	177.4	125.1	21.9	127.5
Growth (%)	13.5		2.2	18.3		15.9	16.8		-2.2			1.9
Slippers	44	34.2	67.9	44.5	35.9	70.5	49.2	37.9	72.7	53.2	9.3	53.5
Growth (%)	-7.9		-13.6	1.1		3.8	10.6		3.1			0.6
Other shoes	7.1	5.5	21.4	8.1	6.5	27.6	9.1	7.0	45.8	34.3	6.0	17.9
Growth (%)	4.4		-32.7	14.1		29	12.3		65.9			-47.8
Total shoes	128.8	100.0	842.8	124.1	100.0	773.6	129.7	100.0	781.1	571.6	100.0	545.7
Growth (%)	-17.7		-19	-3.6		-8.2	4.5		1			-4.5
Shoe parts (000's tons )	3.5		85.6	3.8		83.4	3.4		52.8	34.5		38.8
Growth (%)	-10.3		-5.2	8.6		-2.6	-10.5		-36.7			12.5
Total shoes parts	N/A		928.4	N/A		857	N/A		833.9	606.1		584.5
Growth (%)	N/A		-17.9	N/A		-7.7	N/A		-2.7			-3.6

Source: Department of Business Economics, compiled by IFCT's Research Department

<sup>1</sup> Source: Master Plan and Industrial Policy for the Development of Thai Leather, Leather Goods and Footwear Industry. 2002.

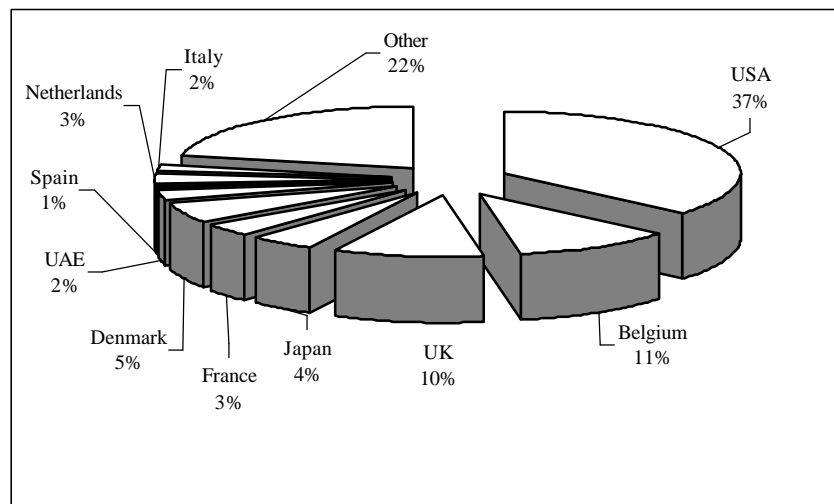
As shown in Table 1, relative share of sport shoes and leather shoes over the years has been increasing while those of rubber and plastic shoes and slippers has been decreasing.

*Table 2* Thailand's export market value for Footwear products and accessories between 2000-2002 (January)

	Value: million USD			Ratio: percentage		
	2000	2001	2002 (Jan.)	2000	2001	2002 (Jan.)
USA	309.07	275.27	25.69	36.63	35.66	35.28
Belgium	79.06	82.69	8.49	9.37	10.71	11.66
UK	102.49	77.44	4.84	12.15	10.03	6.64
Japan	32.76	33.79	3.63	3.88	4.38	4.99
France	25.15	25.48	3.62	2.98	3.30	4.97
Denmark	45.96	39.81	3.33	5.45	5.16	4.57
UAE	36.52	32.75	3.10	4.33	2.24	4.26
Spain	11.13	7.12	2.42	1.32	1.00	3.33
Netherlands	29.62	20.01	1.69	3.51	2.59	2.32
Italy	12.49	13.59	1.53	1.48	1.76	2.10
Total of 10 countries	684.25	608.54	58.35	81.09	78.82	80.13
Other	159.53	163.49	14.47	18.91	21.18	19.87
Total	843.78	772.04	72.83	100.00	100.00	100.00

Source: Department of Export Promotion

*Figure 2* Thailand's export market ratio for Footwear and accessories in percentage points in 2001

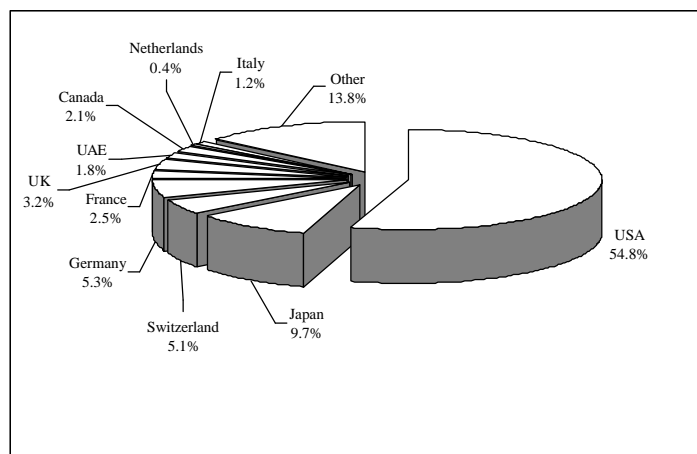


*Table 3* Thailand's export market value for Leather goods between 2000-2002 (January)

	Value: million USD			Ratio: percentage		
	2000	2001	2002 (Jan.)	2000	2001	2002 (Jan.)
USA	296.18	167.50	8.05	67.13	54.84	43.91
Japan	27.27	29.57	2.04	6.18	9.68	11.13
Switzerland	13.66	15.48	1.16	3.10	5.07	6.31
Germany	18.15	16.34	1.05	4.11	5.35	5.73
France	10.46	7.50	0.90	2.37	2.46	4.92
UK	12.05	9.86	0.84	2.73	3.23	4.57
UAE	6.96	5.64	0.57	1.58	1.85	3.10
Canada	7.14	6.40	0.48	1.62	2.09	2.62
Netherlands	2.22	1.27	0.40	0.50	0.41	2.19
Italy	3.00	3.63	0.37	0.68	1.19	2.01
Total of 10 countries	397.09	263.18	15.86	90.00	86.16	86.50
Other	44.11	42.27	2.47	10.00	13.84	13.50
Total	441.20	305.45	18.33	100.00	100.00	100.00

Source: Department of Export Promotion

*Figure 3* Thailand's regional export patterns for Leather goods in percentage points in 2001



## 2.1 Market Competition

Thailand's key competitors fall into the following categories:

### Low-end market

- China, India, Indonesia and Vietnam have competitive edges in lower labor costs and an abundance of raw materials.

### Middle to high-end market

- Taiwan, Province of China and South Korea employ more advanced technology and have better and more diverse raw materials than Thailand, allowing them to provide a wider range of quality products. However, their disadvantage is higher labor

costs.

- Italy has sophisticated technology. It is not only the leader in design, but also owner of several world-renowned brand names. Its shoes are of premium quality, but at very high prices.

*The following section will focus on three key export markets: USA, European Union and Japan.*

### **The United States' footwear imports**

The market for selling footwear to the United States market through importing wholesalers is limited. Although more than 500 firms import footwear, the majority of the value is controlled by U.S. manufacturers and retailers. Like apparel importers, these buyers have different purchasing scenarios and requirements, which must be understood by foreign suppliers to become successful vendors. Table 4 below shows the U.S. import of footwear with outer soles of leather etc and textile uppers, 50 % (wt.) rubber/plastics or textiles etc over \$2.50/pair for women. The market share for footwear with rubber or plastic uppers is shown in Figure 4.

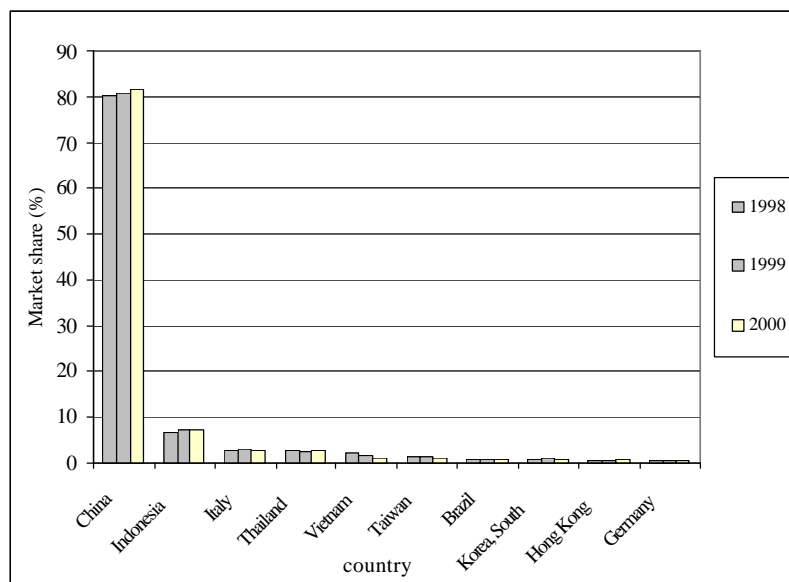
*Table 4* U.S. Imports of footwear with outer soles of leather and textile uppers:  
December 2002 and 2002 year-to-date, not seasonally Adjusted  
(Customs Value, in US millions)  
(Units: Pairs)

	December 2002		2002, through December	
	Quantity	Value	Quantity	Value
WORLD TOTAL	1,469,255	19,811	14,377,407	187,858
Austria	0	0	461	17
Belgium	107	9	988	79
Brazil	54,277	657	452,126	6,108
Canada	24	1	548	12
China	1,121,606	10,248	11,207,094	102,912
Christmas Island	0	0	384	4
Dominican Republic	0	0	1,320	14
Ecuador	0	0	36	1
Federal Rep. of Germany	190	6	3,926	142
France	1,743	144	12,270	592
Hong Kong	1,284	18	88,274	755
Iceland	19	2	19	2
India	29,118	273	63,390	483
Indonesia	1,088	10	3,495	26
Italy	119,266	5,383	1,030,527	46,152
Ivory Coast	0	0	3,015	32
Japan	4,108	77	25,489	466
Lebanon	0	0	326	5
Malaysia	0	0	25	0
México	0	0	75	5
Monaco	0	0	48	5
Nauru	0	0	2,274	36
Portugal	372	7	1,581	67
Russia	475	1	1,075	3
Senegal	0	0	18	0
Slovakia	0	0	36	1
Spain	117,750	2,750	1,182,319	25,879

	December 2002		2002, through December	
	Quantity	Value	Quantity	Value
Switzerland	10	1	432	20
Taiwan, Province of China	0	0	39,074	369
Thailand	14,034	107	165,868	1,140
Turkey	0	0	549	4
United Kingdom	3,784	116	90,115	2,524
Vietnam	0	0	230	2

Source: <http://www.ita.doc.gov/td/industry/otea/Trade-Detail/Latest-December/Imports/64/640420.html> - After4060

Figure 4 Market share for footwear with rubber or plastic uppers in the U.S. market between 1998-2000



### European Union's footwear imports

In the 1990s, for the first time, the volume of footwear imported from outside of the EU has exceeded internal trade in footwear. Imports from non-EU countries increased by 41 per cent between 1976 and 1981. Between 1986 and 1994 extra-EU imports rose by 168 per cent whilst the volume of EU production increased by 25 per cent and domestic consumption was 43 per cent higher. Thailand's share of total EU imports was 3.7 % (Table 5). Figure 4.2 shows the market share in the Belgium market, one of the 15 EU countries.

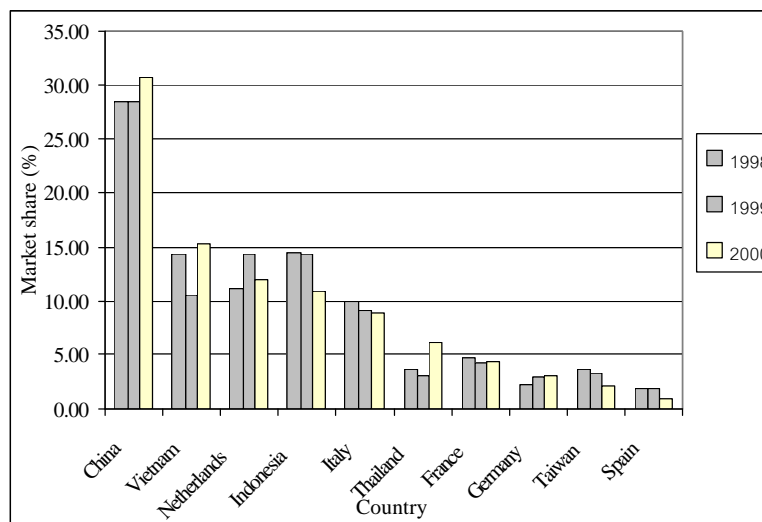
Table 5 Regional patterns of footwear imports into the EU

(Unit: in 1000 pairs)

	1996	1997	1998	1999	Share of imports
World	813,990	814,279	821,607	916,687	100.0%
China	338,224	265,899	272,251	304,135	33.2%
Vietnam	96,983	136,462	146,808	178,020	19.4%
Indonesia	99,786	84,807	66,976	65,051	7.1%
Romania	23,214	37,277	37,560	44,782	4.9%
Taiwan, Province of China	22,098	35,564	37,845	44,567	4.9%
Thailand	32,113	37,038	38,093	34,174	3.7%
India	21,967	23,964	23,688	28,584	3.1%
Hong Kong	12,950	11,020	14,776	18,826	2.1%
Poland	12,196	2	13,540	16,750	1.8%
Hungary	10,848	12,510	13,306	14,069	1.5%

Source: Eurostat *Products covered: CN Codes 6401-6405*

Figure 5 Market share for footwear with rubber or plastic uppers in the Belgium market during 1998-2000



### Japan's footwear imports

Many leading Japanese, European and American manufacturers have shifted production to Asia in an effort to take advantage of lower labor costs. As a result, most sport shoes imports come from other countries or areas in Asia. Only a very small number of sports shoe imports come directly from developed countries. Thailand has a share of 3 % in the volume of athletic shoe imports into Japan (Table 6).

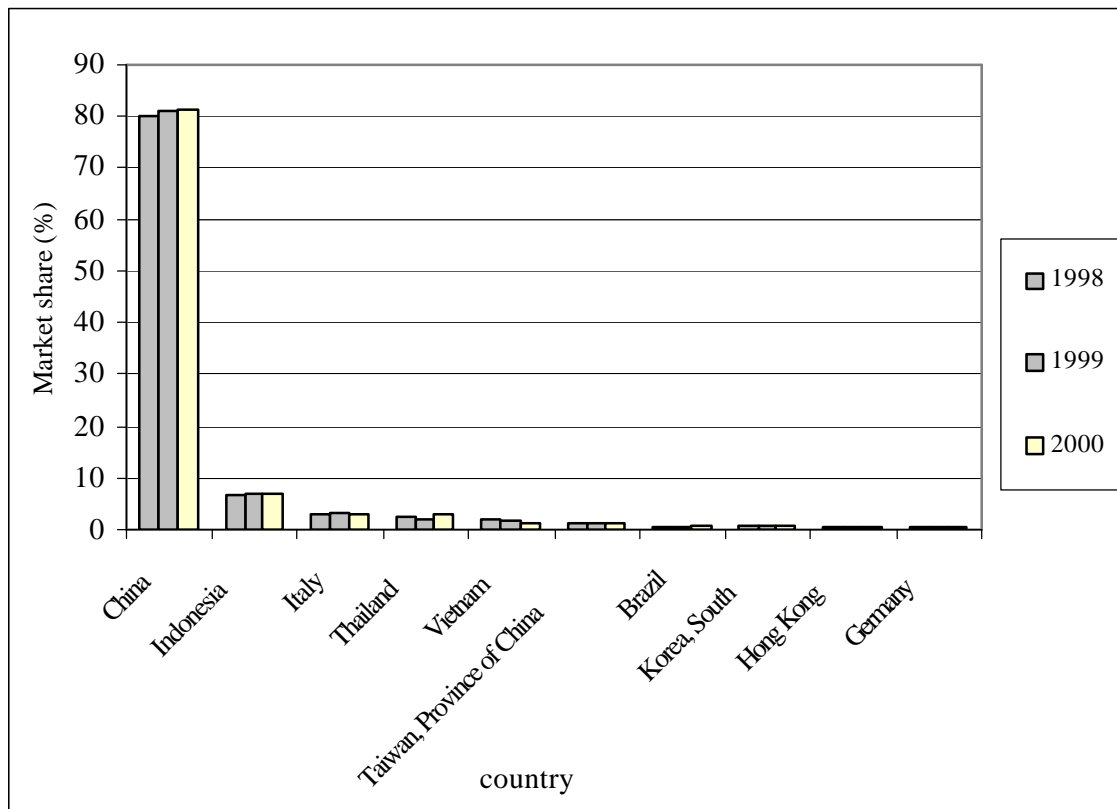
Table 6 Share of athletic shoe imports from individual countries between 1997-2001

Unit: 1,000 pairs, Yen million

	1997	1998	1999	2000		2001			
	Volume	Volume	Volume	Volume	Value	Volume		Value	
China	12,749	9,309	10,435	7,878	15,301	8,534	56.4 %	19,093	54.5 %
Indonesia	1,912	1,099	982	935	1565	2093	13.8	3941	11.3
Vietnam	375	668	917	688	1093	1167	7.7	2117	6.0
R.Korea	2,168	1135	1063	907	2223	708	4.7	1777	5.1
Thailand	521	306	412	356	584	459	3.0	799	2.3
Others	2,751	2874	2598	2184	6105	2183	14.4	7303	20.8
Total	20,477	15391	16406	12948	26871	15144	100.0	35030	100.0
(EU)	691	539	587	510	2110	537	3.5	2696	7.7

Source: Japan Exports and Imports

Figure 6 Market share for footwear with rubber or plastic uppers in the Japanese market in 1998-2000



## 2.2 Market Trend

The footwear industry decelerated in both local and export markets in 2001 but was expected to grow slightly in the next couple of years. Based on the International

Monetary Fund's forecast of the world economy which has an effect on the worldwide purchasing power, the global economic growth will slow down at the rate of 4.5% on average during 2003-2006 (Table 7).

As such, the overall purchasing power is likely to increase minimally and hence the price competition will remain stiff, caused by massive oversupply worldwide. In the local market, the price competition among the large producers and distributors of shoes under renowned brand names such as NIKE, ADIDAS, REEBOK, etc. is likely to intensify as in last year and be more violent than among the small and medium producers. Those who introduce shoes of new designs at reasonable prices will gain a competitive advantage. For the small and medium producers, most of them serve the middle to low-end market; those who can switch to produce trendy shoes will have an advantage.

*Table 7* World economic growth rate during 1999-2006

	Economic growth rate (%)				
	1999	2000	2001	2002	2003f-2006f
World	3.5	4.8	3.2	3.9	4.5
The US	4.2	5.0	1.5	2.5	N/A
EU (15 nations)	2.6	3.4	2.4	2.8	N/A
Japan	0.8	1.7	0.6	1.5	N/A
Thailand*	4.2	4.4	1.8	3.6	N/A

Source: International Monetary Fund

Note: \*Forecast by IFCT

However, the overall profit is likely to drop as the producers cannot raise selling prices while the production costs tend to scale up due to upward trends of labor, energy and raw material costs.

The exports in 2001 remained steady or contract a little from 2000 due to weakened purchasing power in such leading export markets as the US, the EU and Japan, notably the US market. The exports of Thailand were anticipated to expand about 3%-4% parallel with the world's increased purchasing power, with the Baht value expected to remain favorable to exports during 2002-2003.

### **2.3 Market strategy**

A clear marketing strategy is very important to the national competitiveness. To gain more export value, it is necessary that export manufacturers

- Improve their competitive advantage
- Enhance production efficiency

- Develop brand names
- Pay more attention to high-end markets
- Building capacity on product design

### **3. Mechanisms of information management**

The responsibility in each organization related to the structure of leather and footwear sectors is as follows:

#### **3.1 Role of Government**

There are three key public agencies, which are involved in the processing of information. Within the leather and footwear sectors they are: the Thai Industrial Standard Institute (TISI), the Department of Industrial Promotion in the Ministry of Industry (MOI) and the Department of Export Promotion (DEP) in the Ministry of Commerce.

##### **Role of TISI, Ministry of Industry**

TISI is a large-scaled public agency under Ministry of Industry working in the area of formulation, implementation and harmonization of Thai industrial standards. Consumer goods standards are excluded. Followings are the role of TISI:

- To recommend policies, guidelines and measures for the promotion and development of standardization work in the country;
- To implement the Thai Industrial Standards law and other relevant laws;
- To cooperate and coordinate with relevant local, foreign and international organizations and agencies on standardization, including entry into relevant technical cooperative agreements;
- To deal with certification and conformity assessment systems, and accreditation of the competence of testing and calibration laboratories, and registration of personnel, training courses and training course providers;
- To undertake matters relevant to gathering data and information on standards;
- To promote and undertake organization and personnel development in both the public and private sectors related to standardization;
- To operate any other tasks as mandated by law or entrusted by the Ministry or the Cabinet.
- To be an enquiry point for TBT and information dissemination.

##### **Role of Department of Industrial Promotion, Ministry of Industry**

The key roles of the Department of Industrial Promotion are as follows:

- To promote and develop the essential know-how for the industrial sectors
- To develop the competency of the industry on leather and footwear design
- To facilitate training and knowledge and technology development

**Role of Department of Export Promotion, Ministry of Commerce**

The Department is entrusted with the following duties and responsibilities to:

- Promote and expand the market for Thai exports in goods and services by penetrating new markets and to preserve existing ones.
- Develop and perform activities that promote trade and increase the competitiveness of the export sector, for instance, the expansion of production bases overseas.
- Reinforce the ability of Thai exporters to deliver goods and services that are of international standards and meanwhile increasing the competitiveness of Thai exporters to further penetrate the international market.
- Build a positive image of Thai goods and services and thereby increases the market's confidence in Thai product, in terms of quality and prompt delivery of service.

On a regular basis, DEP provides general information about the market to the industry upon request. Recently, DEP plays a key role in exploring new export markets for the leather and footwear industry. By using “Product quality-oriented strategy”, trade exhibitions have been organized occasionally in cooperation with local Brand makers at the potential export markets. These events, however, were initiated by the industry.

Figure 7 The structure of Department of Export Promotion



The functions of the Department are to:

- Formulate policy recommendations and action plans on issues related to trade and marketing and in this process, provide strategic directions and measures for promoting export.
- Provide Thai manufacturers and exporters as well as foreign importers with trade information services and to strengthen the role of information technology in export promotion.
- Utilize the media and public relations as a mechanism for promoting Thai products.
- Improve the knowledge and skills of the private sector personal in the field of international trade ensuring that competitiveness in the export sector is adequately enhanced.
- Reinforce coordination and cooperation with the relevant international institutions and organizations in support of export expansion.

By the major roles of the key public agencies described above, it can be seen that they are concerned with supporting the meeting of standards, including environmental requirements for the leather and footwear industry in foreign markets. The Department of Industrial Promotion focuses on how to strengthen the competitiveness of production. At the other end, the Department of Export Promotion plays a supporting role in marketing aspects. The DEP is mainly involved in identifying market trends. TISI is involved in the area of product standards so it mainly supports the industry related to information and services.

### **3.2 Role of Industry Associations**

There are five associations that are relevant to the Thai leather and footwear sector as follows:

- Thai Tanning Industry Association
- Thai Footwear Association
- Thai Leathersgoods Association
- The Footwear Industry Club, The Federation of Thai Industries
- The Leather Based Industry Club, The Federation of Thai Industries

#### **Role of Thai Tanning Industry Association**

The role of Thai Tanning Industry Association, established in 1965 is:

- To promote the tanning industry in Thailand.
- To manage and provide members with tanning techniques, industrial waste management, environmental control, trade co-operation, and foreign business development.

At present, the Thai Tanning Industry Association is concerned with the following activation:

1. Operating two modern water treatment plants, for supporting the production of 141 member firms. All of them are SMEs.
2. Setting up a Laboratory Center for research on leather products and technology development.
3. Promoting the improvement of new skills and new technology in the Leather Business. This should improve product quality enabling companies to be competitive in the global markets and improve meeting of standards in external markets.

### **Role of Thai Footwear Association**

Thai Footwear Association (TFA) was established in 1977 in the name of “Thai Footwear Industries and Trade Association” and has changed to the present name, TFA, in 1997. Of 300 members, most of them are small-sized producers of parts and finished footwear products to be sold in the domestic market. The primary objective of TFA is to create a forum for information exchange, market finding, trade discussion, negotiation and dispute solution among members. In addition, by forming the Association it enables members to gain more bargaining power with the government in some special issues. TFA has occasionally been requested by public agencies to implement some activities according to their policies.

Information from the governmental agencies, e.g. tax, factory laws, as well as requirements from major customers, has been disseminated through members. However, it should be noted that members of TFA have far less information for export market access in comparison with joint venture firms. One reason is that acquiring market information is not TFA priority. Most members focus on their daily business matters and barely contact with the governmental agencies who generally provide information upon request.

### **Role of Thai Leathergoods Association**

Thai Leathergoods Association (TLA) ([www.thaileathergoods.net](http://www.thaileathergoods.net)) was established in 1977. The role of TLA is to enhance quality, marketing, design and competitiveness of Thai leather products. At present, The Association emphasizes two major points: (1) market penetration through building of brand names and (2) organization of exhibitions in this context.

There are 214 members at present. Most of active members are medium-sized local Brand makers who are ready for the new markets that require quality products but medium price. They proactively contact with and get information from all relevant parties that could support them on the product-oriented strategy, e.g. FTI, DEP, DIP, thus making TLA one of the most information providers.

**Role of The Footwear Industry Club and The Leather Based Industry Club,  
The Federation of Thai Industries**

The Federation of Thai Industries is a juristic person fully authorized by law to pursue the objectives as set forth in the F.T.I. Act, 1987. Their roles are:

- To act as the sole representative of all leather and footwear enterprises in Thailand in co ordination with the State in both policy and operational matters.
- To promote and develop the industry.
- To identify, analyze and solve problems and issues arising in the conduct of industrial production.
- To encourage and support study, research, training and dissemination of technical knowledge and technologies related to industry.
- To conduct product tests and issue certificates of origin and quality assurance.
- To offer appropriate advice and recommendations to the Government for the overall benefits of the industrial circle.
- To act as a focal point for exchanging information and experience among industrialists for the mutual benefits of the entire industrial community.
- To exert control and oversee the operation of all members to ensure compliance with the respective laws relating to industrial enterprises.
- To conduct any other business as the law may prescribe.

Practically, FTI is a center of information for all industrial sectors, especially for large-sized enterprises. The contract manufacturers of shoes, parts or footwear accessories are active in the FTI Footwear Industry and Leather-based Industry clubs, which consist of 37 and 39 members, respectively. The group has ample information for export market access.

The level of information access and export market access of each association are summarized in Table 8.

*Table 8* List of Associations in the leather and footwear industrial sector

<b>Organization</b>	<b>Year of Establishment</b>	<b>Number of Members</b>	<b>Level of Information Access</b>	<b>Level of Export Market Access</b>
Thai Tanning Industry Association	1965	141 SMEs	High	Low to medium
Thai Footwear Association	1977	Around 300 SMEs	Low	Low
Thai Leathergoods Association	1977	214 Medium-sized firms	High	Medium
Footwear Industry Club, FTI	1987	37 Large-sized firms	High	High
Leather-based Industry Club, FTI	1981	39 Large-sized firms	High	High

### **3.3 Route of Information for export market access**

Thai enterprises in leather goods and footwear export could be classified into two different groups: original equipment manufacturing (OEM), which mostly are joint-ventures with parent companies abroad, and Thai-brand companies. Both of them have a different business structure, so their communication avenues are not the same.

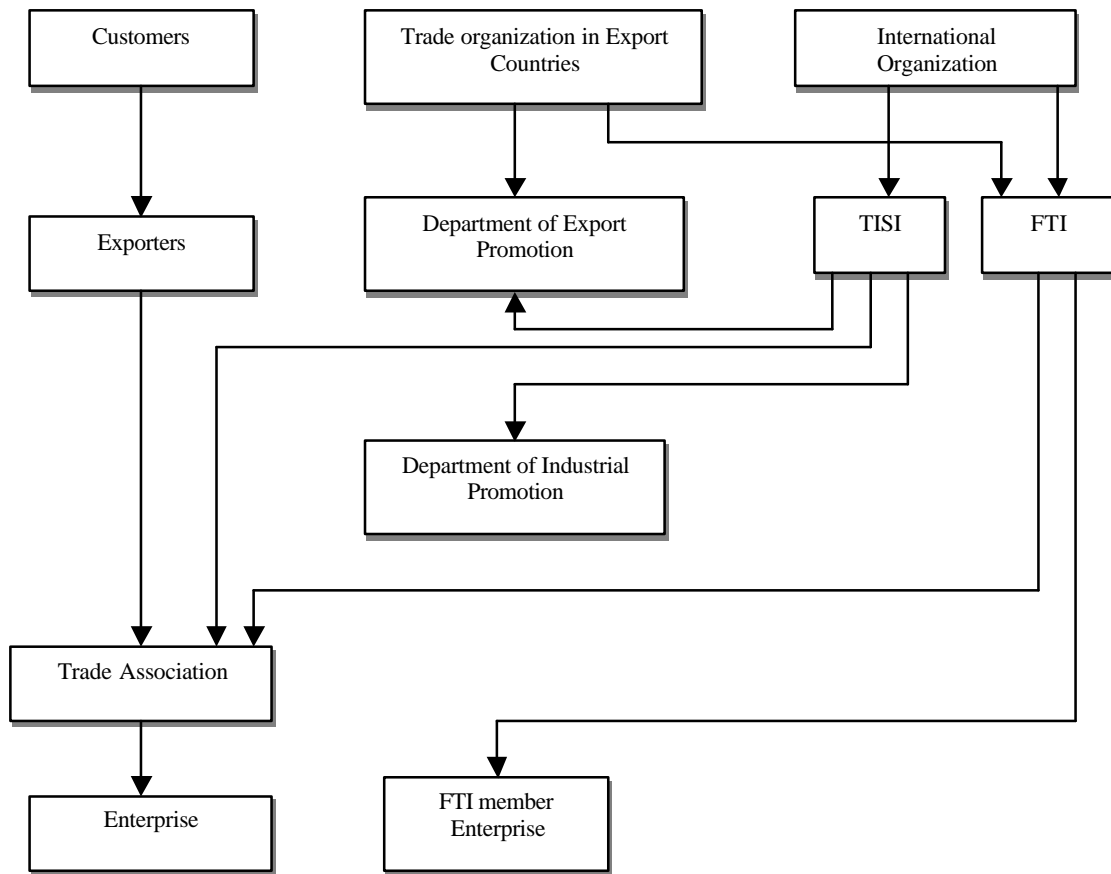
For OEM that produces goods for world-class brand companies can directly access information on environmental requirements, from their customers and /or the investment partners. When they can sense any significant signal, the proper information will be sent to the trade association, most likely, FTI, to further investigate the issue. FTI, a huge organization, will use its communicating channels to explore the requested issue. It can use its internal resources to study the requirement by establishing a specific working group to determine appropriate response measures. Based on feedback from enterprises, it will also network with other trade or industry associations overseas. The FTI will also provide the essential information to its members to prepare themselves for future changes that may impact them. In specific situations, the FTI may initiate a discussion forum to push a large amount of information to external groups, relevant public agencies and NGOs, so as to solicit solid response measures.

In spite of these existing mechanisms being used for leather and footwear industry, those who gain benefit from the results are only active FTI Club members who directly involve in the discussion forum. FTI does not report meeting results and response measures publicly nor having follow-up system. Local SME makers have undoubtedly

not accessed these results and other information via such mechanisms.

The Thai brand companies export a smaller volume of goods to several customers so they can partly check the new requirements from themselves. They usually seek support from the relevant public agencies, Department of Export Promotion and Department of Industrial Promotion, to update information on environmental requirements in key export markets. Some of these enterprises may use FTI channels for further investigation. For small producers that provide parts or are subcontractors for entire goods of large companies information on new environmental requirements will flow through the big company in the supply chain. Normally this kind of enterprise will not establish connections directly with the association or any public agency.

*Figure 8* Representative diagram showing information flow on export requirements to Thai producers of leather goods and footwear



As shown in Figure 8, there are many parties involved in information flow on export requirements to Thai producers of leather goods and footwear. The International Trade Information Center, DEP and the Office of Industry Economic, Ministry of Industry are in charge of analysing key trends and alerting stakeholders. But it lacks continuity and commitment. Export data and trends can be obtained from Thai Customs

department upon request. The Industrial Finance Corporation of Thailand (IFCT) and Bank of Thailand have published the survey results of industry situation and key trends from time to time. Environmental requirements from other national/international organizations may come from different public agencies, e.g. Department of Pollution Control, Ministry of Natural Resources and Environmental Conservation.

TISI plays the role of national inquiry point for WTO notifications and circulation of such notifications among relevant organizations, mainly public agencies and large trade associations. The feedback will however depend on interests and time availability of each organization/expert because TISI has not established follow-up system. It is likely that the rate of response is very low. It should be noted that leather and footwear SMEs and small associations have not been consulted in this mechanism.

The co-operation among these institutions, in particular between FTI and the public agencies is moderately high. The main challenge is due to different paces of information response and dissemination from each party. In many governmental agencies, it goes through complex bureaucratic procedures just to get information released or take action, thus unintentionally delivering information to FTI and other enterprises after expected time. Changes in rules and regulations are sometimes undertaken without prior consultation with the private sector.

The bigger challenge is that there is no public agency that is directly responsible for the leather and footwear industry, so-called “host” or “coordinating agency”. Therefore, there is no integrated strategy and implementation plan to compile and disseminate information for export market access. No public agency is responsible for making sure that there is adequate representation in pre-standard setting consultations in overseas markets.

There is an intention to establish a new public agency to be the host and enhance competitiveness of the industry, in respond to the vision determined by both private and public sectors. According to the vision, the industry will be the Asian Footwear & Leather Goods Center” or “Italy of the East” in the next ten years (2003-2012). This vision is in continuity of the vision of Thai government for industrial sector in the National Plan for Economic and Social Development No. 9 (2002-2006) indicated that Thailand would be the center of fashion goods (as called “Bangkok Fashion City”) in Southeast Asia region in the next three years. Route of information for export market access should then be improved accordingly.

## **4. Environmental and health requirements in key export markets**

### **4.1 Requirements in the European Union (EU) market**

The most important in the case of leather and footwear products is the European Union ban on the use of dangerous azo dyes as shown in table 9.

Table 9 The measure for European Union on Leather and footwear products

Products	Non-tariff Barrier	Detail	Present Situation
Leather	Healthy	- Prohibited azo colorants for dyeing in leather industry because of cancer risk	-
Footwear	Special fee	- Minimum rate is 5.70 ECU (March 1, 1998), the difference between export price and minimum price is collected as special fee	- Notice on February 23, 1998 and has forced since February 1998 during 5 years and it will be revised on January 2003 - It is temporary measure during final decision

The footwear is affected by a number of European Directives that do not have product specification, but that establish safety and environmental requirements to be met by industry in general. This concerns:

- General security of products (92/59/EEC)
- Waste and dangerous waste (75/442/EEC, 91/689/EEC)
- Restriction on marketing and use of certain dangerous substances (76/769/EEC)
- PCP emissions (91/173/EEC)
- Packaging waste (94/62/EEC)
- Emission of volatile organic compounds (Common Position N<sup>o</sup>40/98, Doc. 98/C 248/01)
- Endangered species (Regulation 338/97/EC)
- Protection of workers from the risks related to exposure to chemical, physical and biological agents at work (80/1107/EEC)

The above of the environmental requirements for the EU market are mandatory. In the markets, customers are becoming increasingly sensitive to the potential health benefits of the product. The European Eco-label, which is the only sign of environmental quality both certified by an independent organization and valid throughout Europe, presents a unique opportunity to satisfy the customers' expectations. The EU-eco-labelling scheme is voluntary in nature, whereas the other regulations are mandatory (The details of Eco-labelling are shown in section 5.

#### 4.2 Japanese Requirements

The key requirements for imported footwear and leather goods are:

- *Foreign Exchange and Foreign Trade Law (Import Trade Control Order)*

Under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), the Foreign Exchange and Foreign Trade Law regulates imports of species of wild fauna and flora listed in the Convention<sup>2</sup>. Footwear made from the leather of lizards, snakes and certain other animal species is sometimes subject to provisions of this Convention. It applies to three categories of species, as discussed below.

- All species threatened with extinction
- All species requiring strict international regulation to prevent danger of extinction
- All species which any party identifies as being subject to regulation and as needing the cooperation of other parties in the control of trade

It can be difficult to determine whether leathers under its common name corresponds to a species covered under CITES, or whether the material came from animals that stem from captive breeding. Accordingly, it is preferable when importing leather footwear to list the scientific name on the invoice, even if the leathers indisputably came from a species not covered by the Convention.

There are no labeling requirements for leather footwear itself. But packaging material for wrapping of individual product items, or for labels, tags, external packaging or else, a material identifier mark must be displayed. This labeling is under the Law for Promotion of Effective Utilization of Resources.

### **4.3 US Requirements**

According to California Proposition 65 regulation, it is forbidden to use dangerous azo dyes for footwear and leather products (Office of Environmental Health Hazard Assessment (OEHHA))

In the case of footwear and leather products a code of ethics must be followed which stipulates that the number of working hours per week must not exceed 60 hours and employees must have one free day. This business ethics in the textile, clothing and footwear (TCF) industries is to be consistent with the International Labor Organization (ILO) philosophy for enterprise (Convention on C001, 28 November 1919).

No particular environmental or health requirements is present in U.S. market

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<sup>2</sup> CITES, signed at Washington, D.C., on 3 March 1973 and amended at Bonn, on 22 June 1979 (on-line material on CITES, in particular the three Appendices of the Convention at [www.cites.org](http://www.cites.org))

## 5. Eco-labeling in leather and footwear products

The European Eco-label, which is the only sign of environmental quality both certified by an independent organization and valid throughout Europe, presents a unique opportunity to satisfy the customers' expectations. To receive the EU Eco-label, footwear must meet the following ecological and performance criteria<sup>3</sup>.

### **Use of recycled material**

- If cardboard boxes are used for the final packaging of footwear, a minimum of 80% -recycled material should be applied.
- Plastic bags need to be made from recycled material only.

### **Water pollution**

- At least 80% reduction of COD (Chemical Oxygen Demand) content in wastewater from leather tanning sites
- Tannery wastewater after treatment shall contain less than 5 mg of Chromium III/I

### **Use of Volatile Organic Compounds (VOCs) during assembly of shoes**

- The total use of VOCs during final footwear production shall not exceed on average 20 to 25 g/pair (according to type of shoes)

### **Use of substances harmful for health and the environment**

- Pentachlorophenol (PCP) and Tetrachlorophenol (TCP) and its salts and esters shall not be used.
- No azo dyes shall be used
- N-Nitrosamines shall not be detected in rubber
- C10-C13 chloralkanes shall not be used.
- PVC use (except recycled PVC for outsoles) is banned. There is a limitation of certain substances used for recycled PVC.

### **Limitation of another toxic residues**

- Cr (VI) shall not exceed 10 ppm.
- As, Cd and Pb shall not be detected in the final product.
- Formaldehyde in leather shall not exceed 150 ppm.
- Any electric or electrical components should not contain in footwear.

### **Performance and durability criteria**

- Occupational and safety footwear must carry the CE (European Conformity) mark (Directives 89/686/EEC)
- Other footwear must be tested for the following parameters:
  - Uppers flex resistance
  - Uppersole adhesion

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<sup>3</sup> Source: Official Journal of the European Communities 2002/231/EC of 18 March 2002.

- Uppers tear strength
- Outsoles flex resistance
- Outsoles abrasion resistance
- Outsoles tear strength
- Colour fastness of the inside of the footwear

## 6. Standards and regulations for leather and footwear products in Thailand

### 6.1 Standards

Thailand has eighteen (18) Thai Industrial Standards (TIS) related to the leather and footwear sector. These standards, 9 for leather products, 2 for leather testing and 7 for footwear products were developed by Technical Committees of the Thai Industrial Standards Institute, Ministry of Industry (Table 10). Each Technical Committee consists of approximately 8-12 people who are representatives from 3 parties, i.e. academic, consumer groups and producers.

Since these standards are voluntary, leather and footwear producers show less interest in applying for the standard mark. Only 925 footwear companies have been awarded the mark (no leather companies).<sup>4</sup> Of them, 505 companies are in the leather safety footwear group. This is due to the labor safety law that requires factories to provide quality safety shoes to their employees.

Table 10 Thai Industrial Standards related the leather and footwear sector

Type	Code	Item
Leather	TIS 139-2530 (1987)	Insole leather
	TIS 140-2530 (1987)	Chrome retan upper leather
	TIS 184-2527 (1984)	Lining leather
	TIS 185-2527 (1984)	Sole leather
	TIS 186-2529 (1986)	Full-chrome upper leather
	TIS 204-2527 (1984)	Cattle hides
	TIS 232-2527 (1984)	Upholstery leather
	TIS 681-2530 (1987)	Polyvinyl chloride coated fabric
	TIS 892-2532 (1989)	Polyurethane coated fabric
Testing	TIS 160-2528 (1985)	Methods of sampling and testing for leather
	TIS 726-2530 (1987)	Basic chromium sulphate (for tanning)
Footwear	TIS 131-2523 (1980)	Rubber slippers
	TIS 132-2528 (1985)	Canvas shoes
	TIS 523-2528 (1985)	Leather safety footwear
	TIS 809-2531 (1988)	Rubber boots
	TIS 810-2531 (1988)	Polyvinyl chloride boots

<sup>4</sup> Source: TISI catalogue for buyers. 2000.

	TIS 1034-2534 (1991)	PCV sandals
	TIS 1049-2534 (1991)	School shoes

## 6.2 Regulations

There are no legally binding regulations on footwear and leather products. The regulations in force are mainly on wastewater management of the tanning industry summarized in the following table 11.

*Table 11* Environmental standard for tanning industry in Thailand

Parameter	Beamhouse	Tanyard	Standard for central treatment system
pH	-	-	5.5-9.0
Sulfide	2	-	1 mg/l
Chromium	-	30	-
Cr-III	-	-	0.75 mg/l
Cr-VI	-	-	0.25 mg/l
SS	-	-	50 mg/l
BOD	-	-	20 mg/l
COD	-	-	120 mg/l

Source: Department of Industrial Works, Environmental Management Guidelines, December 1997.

## 6.3 Voluntary Measures

Thailand established the “Thai Green Label Scheme” – a voluntary environmental labelling project in 1993. The Green Label is an environmental certificate awarded to products and services that meet specific criteria based on life cycle consideration. The scheme aims to create opportunities for consumers to make environmentally conscious decisions, thus creating market incentives for manufacturers to develop and supply more environmentally sound products. As of October 2003, there are 33 established criteria available for the award of the Thai Green Label. Applications for the use of the Label have been made for 15 product categories by 30 companies for 161 brands/models.<sup>5</sup> However, no criteria for footwear and leather products are available because there is no request from producers and consumers.

Another voluntary measure relating to the industries is the ISO 14001: environmental management system standard. There are 23 companies in footwear and leather industries that have been certified ISO 14001 by third-party certification bodies as of December 2002.

<sup>5</sup> Brochure, Thai Green Label Scheme and [www.tei.or.th/Program\\_Projects/bep/GL\\_home.htm](http://www.tei.or.th/Program_Projects/bep/GL_home.htm)

## **7. Analysis and Recommendations**

### **7.1 Effectiveness of information management**

The existing structures as mentioned in section 3, have been fairly acceptable instruments for information gathering and dissemination. However, it is not sufficient for SMEs and the industry as a whole to compete in the global market. There are many public agencies involved in the information dissemination, program development as well as policy and measures implementation. However, communication and cooperation among these agencies are inadequate. The support from the public agencies does not provide in the regular term as well.

All associations of leather and footwear industry are a type of trading association, which were mainly established to empower their members in trade negotiations. The associations provide support to a limited group of enterprises. The most benefit gainers are medium-to-large-sized firms who actively participate in the discussion meetings. Information has been communicated via the networking of associations.

There is little integration and cohesion between the tanneries, as upstream sector, and the downstream segments of leather and footwear goods manufacturing. Each group appears to have some reservations and lack of trust in others. Communication between the upstream and downstream industries is not continuously, which can be shown from the values of export and import of finished leather. While the tannery industry exports approximately 11.3 billion Baht (i.e. about US\$ 270 million), the footwear and leather goods industries together import raw material around 11.5 billion Baht (i.e. about US\$ 273 million) annually.

The government should appoint one agency as the host to coordinate with other agencies on information gathering and dissemination in order to secure the continuity and commitment of all relevant agencies. The government should also encourage continuous communication between upstream and downstream industries. Measures to make raw material competitively available in the domestic market should be implemented to reduce dependence on imported raw material and reduce production cost.

### **7.2 Implementation and Harmonization of Activities in a Master Plan**

The Office of Industrial Economic, Ministry of Industry has established a master plan and policy for the development of Thai leather and footwear industry in 2002, to correspond with a ten-year vision of “Thailand: Asian Footwear and Leather Goods Center” or “Thailand’s Leather Goods: Italy of the East”. One goal is to increase export value from approximately US\$ 1.7 billion to US\$ 2 billion in 2005 and to US\$ 3 billion in 2012 or after the implementation of the program. The six key strategic areas have been identified as follows:

- 1) proactive marketing
- 2) products research and development

- 3) brand and country image creation
- 4) production and management sector development
- 5) cluster or linkage creation and
- 6) rule and regulation development.

The above six strategies required for the development of footwear, leather goods and tannery industries are in congruence with three previously established national industrial development strategies to increase the competitiveness of Thai industry. They are (1) improvement of labor quality (2) development of technology and (3) increasing the value and reducing the cost in the value chain<sup>6</sup>.

There are sixteen programs and fifty-seven projects for the implementation phase that requires many public agencies to cooperatively participate. However, no agencies have taken this master plan into account because they also have some ongoing projects that are similar with those in the plan, i.e. training on product design, trade exhibition and campaign to promote Thai brand name products in new markets. These dispersed activities have created confusion among producers and discouraged them to participate in the projects or communicate with public agencies.

The government should prioritize projects under a master plan, develop action plan and implement them in harmony. Projects developed by other agencies should be in line with a master plan and contributed toward the same goal, which is to increase competitiveness of the industry in the global market.

### **7.3 Need for institutional capacity building**

From the interviews of stakeholders in the leather and footwear industry, it seems that all contracted manufacturers and large-sized local brand name producers are competent to comply with national TIS standards and international requirements, in contrast with some small- and medium-sized producers. However, the latter tends to focus on competition in the domestic market and avoid exporting goods to countries that have stringent environmental regulations. That means they are not able to enjoy better price in the high-end foreign market and decrease an opportunity to sell their products in a wider market.

Since there is a few environmental regulations and voluntary measures from countries that import Thai leather and footwear goods, impact on trade in this regard has not yet appeared. However, there is a need for institutional capacity building for producers on product design, technical know-how and market access, as well as for the governmental agencies on trade negotiations, in order to enhance competitiveness of Thai leather and footwear products in the global market.

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<sup>6</sup> [www.oie.go.th](http://www.oie.go.th)

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29. [www.tisi.go.th](http://www.tisi.go.th)

## **Appendix 1: Relevant addresses in leather and footwear sector**

- 1. *Thai Footwear Association***  
1143 Palittaphol Building,  
A college of Art and Handicraft of Bangkok,  
Soi Ladprao 101, Klongjun, Bangkok, Bangkok 10240  
Telephone: (662) 376 0145-7  
Fax: (662) 376 0148
- 2. *Thai Leathergoods Association***  
184/72 16th Floor Forum Tower Building,  
Ratchadapisake Road, Huaykwang, Bangkok 10320  
Telephone: (662) 645 3505 to 7  
Fax: (662) 645 3509  
E-mail: [yingkiat@thaileathergoods.net](mailto:yingkiat@thaileathergoods.net)  
Home Page: [www.thaileathergoods.net](http://www.thaileathergoods.net)
- 3. *Thai Tanning Industry Association***  
226 Moo1, Sukhumvit Rd, Km.30 Taiban,  
Muang, Samutprakarn. 10280 Thailand.  
Tel: (662) 703-9009-10, 703-8886, 703-8878  
Fax: (662) 703-8431, 387-2162  
E-mail: [vilai@thaitanning.org](mailto:vilai@thaitanning.org)  
Home Page: [www.thaitanning.org](http://www.thaitanning.org)
- 4. *The Footwear Industry Club***  
The Federation of Thai Industries  
4th Floor Zone C Queen Sirikit National Convention Center,  
60 New Rachadapisek RD, Klongtoey, Bangkok 10110  
Telephone (662) 2294255 ext. 145  
Fax: (662) 2294941-2  
Home Page: [www.fti.or.th](http://www.fti.or.th)
- 5. *The Leather Based Industry Club***  
The Federation of Thai Industries  
4th Floor Zone C Queen Sirikit National Convention Center,  
60 New Rachadapisek RD, Klongtoey, Bangkok 10110  
Telephone (662) 2294930  
Fax: (662) 2294941-2  
Home Page: [www.fti.or.th](http://www.fti.or.th)
- 6. *Thai Industrial Standards Institute, Ministry of Industry***  
Rama 6 Street, Ratchathewi, Bangkok 10400  
Telephone: (662) 202 3301-4  
Fax: (662) 202 3415  
Home Page: [www.tisi.go.th](http://www.tisi.go.th)

E-mail: thaistan@tisi.go.th

- 7. *Department of Industrial Promotion, Ministry of Industry***  
Leather Division, Bureau of Industrial Sectors Development  
Soi Trimitr, Kluaynamthai Rama IV Road, Klongtoey Bangkok 10110  
Telephone: (662) 3678287  
Fax: (662) 3678226  
Home Page: [www.smethai.net](http://www.smethai.net)
- 8. *Office of Industry Economic, Ministry of Industry***  
75/6 Rama VI Road, Rajdthavee, Bangkok 10400  
Telephone: (662) 202-4395, 644-8397, 644-8405  
Fax: (662) 202-4346  
Home Page: [www.oie.go.th](http://www.oie.go.th)
- 9. *Department of Export Promotion (DEP), Ministry of Commerce***  
44/100 Nonthaburi 1 Road, Bangkrasor, Muang, Nonthaburi  
Telephone: (662) 5077999  
Home Page: [www.thaitrade.com](http://www.thaitrade.com)  
[www.depthai.go.th](http://www.depthai.go.th)
- 10. *Department of Foreign Trade, Ministry of Commerce***  
10<sup>th</sup> Floor 44/100 Moo 1 Sanam-binnam Road,  
Bangkaso, Muaung, Nonthaburi 11000  
Telephone: (662) 547 4771-86, 547 4803  
Fax: (662) 547 4802  
Home Page: [www.dft.moc.go.th](http://www.dft.moc.go.th)
- 11. *Thai Customs Department, Ministry of Commerce***  
Klongtoey, Bangkok 10110  
Telephone: (662) 249-9017, 249-0431-40  
Home page: [www.customs.go.th](http://www.customs.go.th)