



## **INDECO – II International Workshop**

### **March 19<sup>th</sup> 2015 – 10 am to 4 pm**

MAI Room Washington - Rue Washington 40  
1050 Brussels

## **Report**

### ***Introduction***

COTANCE with the assistance of UNIC organised in Brussels on March 19, 2015, the II and Final International Workshop of the IND ECO Project on Energy Efficiency investments of SMEs in the European leather & footwear sectors. This Workshop was part of the activities entrusted to COTANCE in the context of the IEE project IND ECO sponsored by the European Commission.

A total of 30 participants from trade & industry, RTD centres, financial intermediaries, the European Commission and the European Parliament participated in this event. They reviewed the main IND ECO project activities and outputs, focussing notably on the energy savings and carbon emission reductions achieved through this initiative as well as the financial tools and instruments identified for SMEs and recommendations for improving this framework.

The Project Partners presented the IND ECO objectives and activities, Industry representatives explained their experience and speakers from the European Commission and Energy Service Companies, completed the exercise.

### ***Presentations***

Opening the event, Mr Gonzalez-Quijano, Secretary General of COTANCE, welcomed the participants and introduced the agenda for the day. He indicated that registered participants include representatives from other SME intensive sectors and from EU organisations trading with SMEs who are eager to learn how the European leather and footwear sectors have addressed the Energy Efficiency challenge. Mr Quijano commented that further to the intelligence that the IND ECO Project has made available over the 3 years of its development, the Workshop would be providing also a very useful insight into the Commissions future Programmes supporting energy efficiency as well as the EU financial instruments that the New Commission is making available to SMEs.





Ms Céline Tougeron, Project Officer in the Energy Unit at the Executive Agency for Small and Medium-sized Enterprises (EASME), presented the opportunities for EU supported projects under COSME, LIFE and Horizon 2020. In the latter, Ms Tougeron explained that Energy Efficiency would benefit from a specific call for initiatives developed over 2016 and 2017. She indicated covered actions would include research and innovation activities. Ms Tougeron commented that project proposals would be assessed against a Technology Readiness Level (TRL) where initiatives would be classed according to the distance to market of the technology to be developed or applied. She also commented the Coordination and Support Actions for with a deadline in June 4, 2015.

A question from the floor referred to the issue of thresholds in Programme Calls and how SMEs could possibly overcome the challenge. Ms Tougeron answered acknowledging that responding to the call requirements is clearly easier for large industries, but also that the calls specifically encourage the inclusion of SMEs. She also indicated that COSME is more likely to address the needs of SMEs.

Mr Paul Pearson, representing the project partner UK Leather Federation, introduced the IND ECO project targets and results. After indicating the main features of the project activities including the development of relevant instruments and databases, he presented the overall results achieved: there were 111 investment plans produced by 49 companies, of which 48 short term actions that were started during the project, 9 medium term actions that were started but not yet finalised, and 54 long term actions prepared during the project but that have not started yet. He indicated also the breakdown of actions by country and the calculated conversion of primary energy in CO2 eq saved with these investment plans. He concluded by saying that the project had achieved its target. Mr Pearson also commented the issues that the project has evidenced in the area of access to finance.

In the audience, the representative from Euratex, the EU Textile & Clothing organisation, commented that they have also developed a project in energy efficiency, SESEC. Information on the initiative can be downloaded from the Euratex web-site. Common features include the fact that the Euratex project also intended to reach companies, developed audits and benchmarks as well as a best practice package. Interestingly, Euratex developed a kind of self-assessment plan through which companies could receive the evaluation of their process. However, investment plans were not on their agenda. It was more a sensitising exercise.

Mr Giovanni Franco, representing SOGESCA, a company providing energy efficiency services to companies and public bodies in Italy, introduced the tools that were developed in the IND ECO project for promoting energy efficiency. He indicated that it was his responsibility to produce





various tools for assessing the energy consumption in tanneries and footwear plants and figuring out how to reduce consumptions and emissions. Mr Franco commented that he based the tools he developed for that purpose on the corresponding ISO Standards.

Responding to a question from the floor concerning the time that it takes for an SME to produce sensible figures according to his tools, he said that it depends on how readily the SME has the information required, or in other terms, on how much under control the SME has its energy consumption. Mr Franco commented that the project offered therefore a very useful assistance to the sectors companies. Regarding auditing costs, Mr Franco indicated that these might vary, but that they would be in the region of 3 to 5000 Euro for an external consultancy.

Ms Maria José Ferreira, representing the Portuguese Footwear Technology Centre (CTCP), presented the benchmark developed for the footwear sector in the IND ECO project. She commented that the benchmark should serve companies to have figures against which to compare their own performances. Ms Ferreira explained that a total of 25 questions were prepared as a kind of self-diagnosis of companies for obtaining a relevant picture of the situation in about half an hour. She reported having collected some 32 filled in questionnaires from Portugal, Spain, Bulgaria, Italy and UK. 80% of the respondents, she said, were companies with less than 100 employees. The benchmark developed for Footwear companies represented a relevant average, she noted, as the composition of the sample was not very homogeneous.

Mr Ioannis Ioannidis, attending on behalf of UNIC, the project coordinator, introduced the benchmark developed for the tanning sector. He explained that the sample on which the benchmark was taken consisted of 85 inventories from 6 countries. These, he said, were widely heterogeneous, mixing different tanning technologies, animal raw materials and sector destinations. However, he indicated, that applying a number of statistical normalisation factors, he arrived to very interesting unexpected results. Indeed, he reported that having regard to the variety of the sample, the CO2 eq emissions showed however a high consistency.

As time was running short the question and answer session was left to the lunch break.

Dr Georg Raab, Project Manager in the DG Growth Unit SME Access to Finance, provided an overview of the European Commission instruments available to SMEs in the EU. He acknowledged that the lending situation in the EU had further deteriorated, with a -40% in lending activity to businesses in the Eurozone over the last 7 years. He commented that SMEs in Southern European member States have more difficulties. He stressed that loan rejection rates are less sector driven, than for reasons of company size and age. Dr Raab went on presenting the financial instruments centrally available and those provided via the European





structural and investment funds. He explained how the funds were made available to businesses through financial intermediaries and gave a number of examples and success stories. Dr Raab concluded his presentation with a more detailed presentation of COSME, the programme available until 2020 as well as on EFSI.

Answering to questions from the floor, Dr Raab indicated that COSME was rolled out last year and intends focussing primarily on SMEs. He said that most of the beneficiaries so far were micro-enterprises. On another question, he answered that the EU does not make money available directly to companies. The chosen procedure to work with financial intermediaries is, he aid, for reducing paperwork to the beneficiaries, but he also acknowledged that about 20% of requests are not satisfied. An other question was looking on whether the Commission was monitoring the success rate of sectors to get access to finance through financial intermediaries. On that he admitted that it was not possible.

Mr Massimo Galli, representing CISE, an Italian ESCO, explained its approach to the sector and its experience with UNIC. He introduced CISE as a not for profit consortium focussing on energy efficiency. He explained that their approach is to work with the companies bottom-up. He indicated that CISE starts spending time with the workers (50%), a practice that they adopt in their activities, both in Italy and in the USA. He commented that this practice teaches the auditor much more than reading the reports of larger companies were the information on energy consumption is readily available. In small - micro - companies the owner is often hands on at work, and it is easier to understand what is going on. In a study made recently in Italy of 55 companies with less than 50 workers, it results that 25 are ready to change for higher energy efficiency.

Answering to questions from the floor, Mr Galli indicated that the changes implemented were e.g. the change of a 30 years old steamer (upgrading it saves 25% of energy). On the question whether CISE was performing audits and whether the IND ECO tools were useful, Mr Galli responded positively. He said that they were working with a University in their consortium.

The morning session ended with a common networking lunch. During the afternoon several examples of good practice as well as recommendations to stakeholders were highlighted.

Ms Raluca Pache, representing Romania's PROCOMOD, started her presentation introducing her business. She indicated that she was working in the financial sector abroad when she took the decision to come back for working in the family business. It is a children footwear manufacturing plant employing about 100 people and producing some 600 pairs/day under the PJ Shoes brand. Ms Pache commented that only the best quality leather and materials are





used and that the shoes are mainly sold on the Romanian market, although exports are starting to develop to Italy, Luxemburg and Greece. She said to have enjoyed participating in the IND ECO Project for the lessons learned. PROCOMOD made its investment plan based on the SOGESCA tool and tried to go for funding. However, she said, the financial solutions were quite disappointing and the company is more likely to implement the improvements with their own resources. Ms Pache indicated also that it is the company's understanding that the building itself would need improvements as a source of energy savings. She commented that PROCOMOD's most important role was to serve as a study case with regard to CO2 reductions in the footwear sector. As such, she said, that she could make a number of recommendations for further action: more focus on improving industrial buildings (39% of CO2 emissions and possible savings); more funding options for SMEs.

Mr Guido Zilli, representing DANI, one of Italy's most renowned tanneries, introduced the successful example of the tanning industry. He started indicating the key figures of the European and Italian leather industry for placing the DANI company in the picture; Italy represents 65% of the European leather production and 17% of the world total. DANI produces in the Arzignano Tanning district near Venice. Arzignano represents 50% of the Italian total leather production and DANI produces 7-12% of the total of Arzignano. He indicated that DANI produces 50% for the automotive industry and the other 50% for a variety of downstream sectors including footwear and leathersgoods. Production involves the wetting of 500 bovine hides/day and an output of 3000 sqft/day of leather for the EU and US markets mainly. Mr Zilli stressed that DANI is committed to merge environmental and economic efficiency. He said that for the company sustainability covers transparency, research & development, management systems, environmental product certification, etc. Mr Zilli indicated that DANI has achieved certifications even from the German "Blauer Engel", but that they routinely get involved in innovative actions such as IND ECO, their sustainability report, ISO 26000 Guidelines for CSR, their Green Life project. Mr Zilli went on commenting DANIs participation in the IND ECO project: he indicated that the audit result identified some areas for improvement, namely in the area of compressors; they ought to be replaced by inverters. From their 25 tanning drums, 20 were equipped with inverters and more are programmed. Light bulbs were replaced with led at the tune 5% of the total and by 2017 there will be 50%. DANI has also a replacement programme for their forklifts; in 2014 5 were replaced and in 2015 the replacement will involve another 10. DANI introduced also new low pressure guns in the finishing department.

Answering a question from the floor, Mr Zilli explained that what really convinced the company to pursue so fiercely environmental efficiency was the ownership's commitment to the cause; they live where they work and they understand that environmental care is important. The





second reason, he said, is also the audit result that unexpectedly revealed that further efficiencies could be operated.

Mr Gustavo Gonzalez-Quijano, Secretary General of COTANCE, took then the floor for introducing the lessons learned throughout the project with regard to access to credit for financing the energy efficiency solutions identified. He provided some key figures on the European leather and footwear industry and on its importance in the EU economy. Some 24 000 enterprises in the tanning, footwear and leathersgoods sector providing nearly half a million jobs in the EU generate a yearly turnover of about 31 Billion Euro of which a third in extra-EU exports. These figures constitute a cautious approximation to Europe's leather industry as they do not include all the sector's categories such as leather car interiors, leather clothing and gloves or leather furniture. Mr Gonzalez-Quijano commented that the leather and footwear sector in Europe demonstrated a high level of resilience during the worst phase of the financial crisis and the subsequent credit crunch; with consumer spending at low levels in the domestic markets, the sector's companies increased efforts in export markets. The increases in the costs of raw materials, he said, impacted notably the sector's margins and profitability. He commented that the originality of IND-ECO was to present to financial intermediaries a trustworthy ready-made package in the leather and footwear sector where to channel and support investments. Mr Quijano draw the attention on some specific problems at national level:

- Financial institutions under the EBRD umbrella apply strict rules, which don't permit any flexibility regarding any type of Agreement. Moreover they want to discuss only with the potential client in the banks' offices, which is an impossible task for representative organisations
- The companies in Bulgaria are more willing to make short-term investments and in general smaller investments
- Italian Tanneries usually would opt for self-financing solutions regarding investments
- UK companies in the leather and footwear sector are often reluctant to borrow money for investments with payback periods of more than two years

Mr Quijano proposed the following recommendations:

*- To SME's*

Competitiveness requires continuing business investments. In Europe business investments that do not integrate sustainability objectives will fail to bring about competitiveness. Energy efficiency and improved CO2 emissions are key criteria for supporting the development of businesses, notably in traditional industrial sectors, such as the leather and footwear industry.

*- To Representative Industry Organisations*

SMEs in the leather and footwear industry require special care for overcoming the challenges emerging in an ever environmentally conscious market. Industry representative organisations





are prepared for providing such special care and harnessing the challenges and opportunities for their sectors. SMEs ought to mobilise and federate around specific objectives to entrust to their representative industry organisation.

*- To Public Authorities*

a) When setting environmental targets, public authorities ought to take into consideration the sector dimension.

b) Industrial sectors composed mainly by SMEs need a dedicated Industrial Policy and instruments that are adapted to the specific sector characteristics.

c) Support mechanisms made available in the economy ought to be checked on their consistency, complementarity and coherence (tax incentives, subsidies, credit guarantees, etc.).

d) Municipalities with a significant concentration of tanneries or footwear manufacturing plants on their territory can adopt targeted actions as part of their sustainable energy plans

*- To Banks and Financial intermediaries*

Evaluating risks of loans and credit in a given economic sector should be based on a thorough assessment of the economic intelligence that is available. Contrasting general Bank information on sectors with the economic analysis of the sector's representative organisations provides a balanced picture of creditworthiness over and above the specific company information.

Finally, Mr Ioannis Ioannidis, on behalf of UNIC, summed up the IND ECO workshop. He said that the IND ECO project with its 31 deliverables, 16 partners and 7 participating countries was a challenging exercise. He indicated that the energy savings and correspondent cost savings are significant and important for improving the competitiveness of this industrial sector. He commented that the economic recession that has accompanied the development of the project has not helped to achieve an even higher result. Now, he said, the consortium is to address the communication and dissemination by stretching out to other sectors and promoting the tools that have been produced.

Mr Ioannidis concluded by saying that the IND ECO project has been a clear success and he expressed his desire to continue cooperating with the partnership.

### ***Conclusion***

This II international workshop aimed at reviewing with project partners, other economic sectors and public and private stakeholders an overview of the energy efficiency initiatives for small and medium sized leather and footwear companies performed and recommendations on how these could possibly get better access to finance.





The leather and footwear sectors in Europe are leading in terms of image, quality and fashion. Their companies are firmly placed on top of the ranking at international level. Major brands and retail outlets in the most demanding markets worldwide are well aware of Europe's superiority in quality. Now it becomes increasingly important that the sectors stakeholders perceive the Leather and Footwear sectors also as frontrunners in environmental performance. In this context Energy Efficiency is particularly profitable, as it combines the improvement of the sector's image together with an improvement of the companies' profitability.

However, operators have identified access to credit in numerous occasions as the single most pressing problem in the industry. SMEs of the European leather and footwear value chains are particularly penalised because of the general perception that the industry is a traditional sector with little prospects for growth.

Yet with the significant liquidities that the EU is putting into the economy there is reason for hope that Banks, the main providers of loans to the sector's SMEs, and credit institutions in general, increase lending to traditional sectors with a high potential, such as European leather and footwear.

All participants considered the IND ECO Workshop as a highly useful event that contributes to evidence the importance of energy efficiency in economic sectors with a high number of SMEs and the need to sort out critical bottlenecks in finances for their sustainable development.

