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## The Big Zero

**Touted as the city of no unemployment, Damietta has a work culture unique from the rest of Egypt. But how is the city's famous furniture industry facing up to the forces of modernity and economic crisis?**

By Mackenzie Berg

The hammers, saws and awls never stop moving here, day and night, cutting and shaping wood like they have done for centuries. In a matter of hours, what were once giant trees cut down in the forests of Romania or Germany, are handcrafted into ornate pieces of furniture on which nearly half a million residents of the governorate build their livelihoods. In Damietta, where the eastern branch of the Nile meets the Mediterranean in a confluence of marshy lakes and canals, life moves at a faster pace than elsewhere in Egypt. The level of productivity here is not just high — it's reputed to be the highest in the country.

Touted as a “zero unemployment city,” Damietta is filled with industrious carpenters and carvers, as well as fishermen (see story page 86), dairy workers and sweet-makers. The claim, particularly among the furniture makers who are at the heart of the region's economy, is that everyone in the city has a job.

The governorate's reputation, however, may not be picture perfect. In March this year, one month before the BBC broadcast a feature story on Damietta's woodworking industry, highlighting the apparent 100% employment rate, an all but ignored Al-Jazeera report claimed quite the opposite: that unemployment in the furniture industry — on which at least half of the population relies for its livelihood — was “rampant.” True or not, a cloud hangs over this industrious city as the furniture industry faces an uncertain future.

### One Giant Factory

“They come like this, the solid wood,” says El-Sayed Ahmed Fayed, pointing to the unfinished parts of a blocky chair and several bed headboards. Now in his fifties and owner of a workshop that specializes in hand carving in Al-Senaniyah, a village just outside Damietta proper, Fayed has been making furniture since he was a young boy.

Fayed and his staff — his three sons and another boy — have tailored their work to deliver contracts from three carpenters in the village. Having been taught to carve by his father, Fayed is now passing the skills onto his sons, who work alongside him from 8am to 12pm everyday. “Everybody in this village works in furniture,” he says.

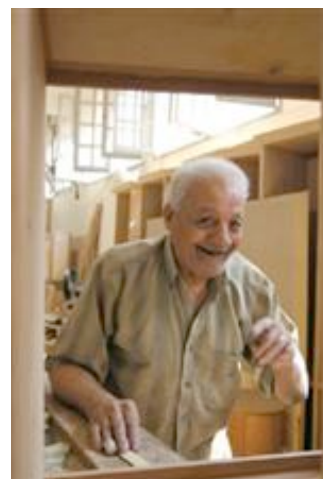
Damietta has long been a vital port and shipbuilding center with longstanding trade connections to Europe and the rest of the Middle East. It is shipping that was responsible for the rise of the furniture



By Ryan Luikens



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industry here. Introduced under French and later, British control during the eighteenth and nineteenth centuries, furniture making boomed as European techniques were imparted to local workers who capitalized upon growing demand for intricately designed hand-carved pieces.



While today large factories exist in Alexandria and Cairo, Damietta remains the chief location for the nation's furniture industry due to both its heritage and export connections. "Furniture manufacturers all over the world know Damietta," says Abd El-Razzak Hesn, chairman of the Furniture Development Association (FDA) and owner of Abd El-Razzak furniture.



The industry in Damietta is a symbiotic network of micro, small, medium and large enterprises. Big factories — producing whole sets of furniture for dining rooms, bedrooms, salons and kitchens — fill large orders, shipping 10 to 12 containers monthly, while smaller workshops typically specialize in one phase of the production process, such as design carving.

The industry is everywhere; it's not uncommon to see a worker crafting a piece in the alley between buildings or on the front steps of his shop. Likewise, in the villages surrounding the city, micro-level entrepreneurs like Fayed carry out segments of the manufacturing process in one- or two-room workshops with their families living above.

"They get up in the morning, and just have to walk downstairs to work. It's a short commute," quips Amr Orensa, design manager of Pinocchio Wooden Products. "Really, you can think of Damietta as one giant factory for furniture."

It's an accurate description. Damietta, the industrial zone of New Damietta, and outlying villages exist in an assembly-line of production and subcontracting that sees work flowing back and forth between larger companies and their smaller counterparts.

### **An Industry Built Under the Table**

According to Hesn, the region today exports nearly US\$500 million (LE 2.7 billion) worth of furniture annually to countries all over the world. This requires a lot of busy hands, but exactly how many is hard to say; all figures relating to the furniture industry in Damietta are only estimates and can vary significantly.

Hesn believes that there are roughly 450,000 people working in the furniture trade in Damietta — whose population is around 1.2 million — and who are employed by 30 to 35 larger factories and about 35,000 small workshops.

A 2002 analysis by consultant Tamer El-Meehy, contains the most recent independently compiled industry statistics, taken from data supplied by international research firm Infonex, CAPMAS and the Ministry of Trade and Industry. It cites much higher estimates "ranging from 36,000 to 60,000 establishments, if not more."

In contrast, German Arab Trade (GAT) magazine, published by the German-Arab Chamber of Industry and Commerce, said in its May/June 2009 report that "the Egyptian furniture industry currently employs almost one million persons (600,000 directly and 400,000 indirectly) within 200,000 establishments." The report estimated that Damietta City had some 32,000 workshops and 130 factories.

There is clearly a discrepancy in statistics for the industry, and not without good reason. Records for numbers such as direct and indirect workers, production outputs, revenue and profits, along with the total number of enterprises are scarce, chiefly because of the desire to evade taxes and regulations.

"If I ask the furniture manufacturers in Damietta to come and report their numbers, I will get false numbers," says Hesn. Instead, he says, the FDA gets its information from custom records on the amount of raw materials coming in and merchandise going out through the port.

Amr Orensa says that income tax is the main reason companies neglect to report accurate figures. "It starts from zero [and goes up] to 40%, based on an income tax bracket. [] It's normal in Egypt to be this way," he says.

"If you can hide information and have more profits, [many will try.] In Damietta, most of the 60,000 workshops are very small with very few workers and most of them do not even have a commercial

license, so they are not recorded officially, [nor are] their workers,” he explains. “Because they do not have a commercial license, they cannot export what they make, [but instead they] go to exporting companies or offices who buy furniture from these people and can make [legitimate] invoices for customers. Also, the larger firms make orders from the smaller ones as subcontractors.”

Regardless of the figures, the furniture trade in Damietta is a significant driving force in Egypt’s economy. Estimates put Damietta’s share of national furniture production between 40% and 75%, equating to about \$1 billion per year.

### **Informal Means Survival**

For much of the furniture industry it is not just taxation that keeps businesses in the informal sector — regulation and its shadow, corruption, play a role as well. This is in spite of the fact the furniture industry is one of Egypt’s most highly protected sectors, according to El-Meehy. Tariffs on furniture imports average 40%, “ranking fourth after automobiles, liquor and tobacco manufacturing,” he says.

Registration and licensing procedures for furniture enterprises — administered by 18 different regulatory bodies that often have overlapping, if not conflicting mandates — can take longer than a year to complete. And the problems are not just at the establishment stage for a business, but continue to affect companies throughout their operations.

Like Egypt’s other industries, over-regulation paves the way for corruption. Amr Orensa says that his factory is periodically visited by government inspectors, many of whom expect bribes. “They expect that people will not be following the rules since they can pay off inspectors [to avoid fines], so they are surprised when we tell them we are not going to pay them,” he says.

Business that refuse to pay bribes often end up battling fines in court, a costly interruption for those legitimately registered in the industry — and a burden that can be fatal for micro and small enterprises.

According to El-Meehy, high taxes on imported materials, and the slow operation of a system to reimburse companies exporting products containing imported components (that can take up to a year) are also a dampener on the industry, as are sales taxes, especially where production processes are divided between various specialized workshops — with each stage taxed, the overall cost of production is forced up even more.

Together these factors provide little incentive for businesses to move into the formal sector. “[This is why] small enterprises don’t register: For their tiny scale of work, their income is already very small,” says Ahmed Orensa, who co-owns Pinocchio with his cousin Amr.

### **Zero Unemployment?**

In factories large and small, workers and owners claim that despite the global recession, no one in Damietta has lost their job. Quite possibly this is the truth. Or perhaps the city’s work ethic makes its citizens uneasy about discussing idleness.

The BBC coverage back in April painted a rosy picture of the industry’s health, but neglected to interview a representative sample of all the players in this sector. Even if everyone has a job today, not everyone shares the same standard of living or security of income.

“In Damietta, it’s different because there is special cooperation between the smaller workshops and the factories,” asserts Hesn. “If a factory has a lot of orders they can [outsource], and the workshops can pass the recession if they cooperate with the big factories.”

Hesn says that while the global crisis has affected everyone in Egypt, in Damietta he does not see that it is significantly affecting people. “We did not hear about [workshops closing down]. Maybe if it happened, it was from another cause, but not the crisis. Maybe from personal causes.”

Although bigger players weathered the crisis well, it may not be the same story for the smaller businesses that make up most of the informal sector. According to Fayed, the number of contracts he received from larger companies — in what is usually the high season — has declined. Despite this he is not concerned.

“The carpenter is bringing less pieces to be carved,” says Fayed. “But we don’t have to replace our work with [another trade or occupation], we still have work to do even though the numbers are less.”

Hany Elkhayat, sales manager at Asal Furniture, one of Damietta’s largest furniture producers, says

that for smaller enterprises the situation can be much more precarious during an economic slump.

“At Asal, we have an organized work system [] we have stock, we have connections with importers, good connections with [clients]. The smaller shops don’t have the quantity or the finance to go out into Egypt and offer their products at fairs,” says Elkhayat, adding that the informal nature of most smaller producers also bars them from access to government support mechanisms and free zone benefits.

### **An Uncertain Future**

The current economic situation aside, Egypt’s furniture industry as a whole faces an uncertain future. In his 2002 report, El-Meehy stated bluntly: “The furniture manufacturing industry is an industry in crisis, [] [and while] the local market has proven more lucrative in the recent years than export markets, Egypt is also rapidly losing the local market as well.” The bottom line, he wrote, is that “the livelihood of those working in this segment of the furniture sector will be severely compromised.”

El-Meehy warns that modern technologies can, and inevitably will, replace the work of many of the manual craftsmen, threatening employment across the labor-intensive sector. “[These] technologies are now able to produce the output of the manual carver more efficiently, accurately, on a much larger scale, and at a lower cost,” he says. For their part Elkhayat and Hesn disagree, saying that while machines may be faster, they will never equal the quality of manual labor.

Labor costs in Egypt remain low, but there may come a time when mechanization becomes more cost effective, or the demand for furniture shifts to more modern, simpler designs, reducing demand for the traditional methods and ornate furniture that dominate Egypt’s exports.

Most of Damietta’s factory owners shrug off the possibility of this inevitable change being a threat to their businesses. “The industry here has increased every year. Each year we have a lot of new factories,” says Hesn. “We can make whatever the customer wants,” adds Elkhayat.

Hesn argues that in the international furniture market, the type of classical furniture produced in Egypt accounts for 7% of total demand, while the world’s suppliers are only producing 4%. “So we still have the opportunity to export more,” he says.

While this may be true, demand is shifting away from classical styles — both in the export and domestic markets, according to El-Meehy and others in the global furniture trade — meaning that the entire industry in Damietta could be forced to adapt its production process to changing customer demands. Niche players within the industry already tailor to specific customer orders, but the impact of a wide-scale shift in production on employment is uncertain.

This is not the entirety of the problem though. “The problem is not shifting [operations] from classical to modern,” says Ahmed Orensa, whose company produces modern furniture. “This can be done but it takes a lot of effort. Maybe for 400 factories, okay you can make it [happen]. The problem is that Damietta is exporting classical furniture because [it is] competitive. At Pinocchio, we have been producing modern for three years now, and our sales are 100% local market. We don’t export, because our sales are not competitive outside.”

This is the risk of specialization: By becoming competitive in a niche industry, Damietta may be unable to compete in a broader market that, like all manufacturing industries, is under pressure from low-cost Chinese exports.

“Our goal is to try to go side-by-side with imported furniture from the Italian and German market,” says Ahmed Orensa. “It is too difficult to compete with China because of the price, so we are producing mainly [higher quality] furniture. [] We change the color and products in our production lines to produce higher quality and somewhat difficult designs in order to get away from the Chinese market. Now we compete with the Italians and the Germans [] we are nearly the same, a little bit lower in quality with a very wide range in price.”

It seems that change will eventually come, but for now, the residents of Damietta are not concerned. And maybe it doesn’t matter whether Damietta truly has zero percent unemployment or not. What does matter is that this governorate-sized factory on the north coast showcases how informal niche economies and cultural legacies can become a key factor in an increasingly competitive world.

Whatever happens in the coming years, history has shown that the dynamics of life here, where social and workplace values go hand in hand, will probably carry Damietta through any transition that comes along.

“Some factories are working less hours, some small shops are closing, yes. Some importers are closing,” says Ahmed Orensa. “But I think we can withstand it for a couple of more years. It will not affect the whole industry, I mean it will survive [] It’s a hard time but I think we will survive.” **bt**

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