



Commentary: across Northern Europe

Germany recovers as niche markets light the way further north



If you'd spent the last decade living in a bubble and now picked up the business pages of any newspaper, you'd be forgiven for coming to the conclusion that Europe is an almost obsolete dinosaur with a dwindling industrial sector, whilst Asia is the new powerhouse of the future that is expanding at an ever-quicken pace. Although this may not be a total misrepresentation of the real situation, the European manufacturing sector could easily cite author Mark Twain in stating that reports of its "death have been exaggerated".

It is true that the European leather and footwear industries now find themselves in a vulnerable position in the face of fierce global competition and whilst Southern European countries have survived thanks to higher domestic demand, the availability of raw materials, and their close proximity to other markets, Northern European countries including Germany, Austria, Sweden, Norway, Denmark, the UK, The Netherlands and Belgium have suffered a sharp decline in the leather and footwear sectors in recent years. But, although the industry may be down it's certainly not

out. In this snapshot of Northern Europe *World Leather* looks at the recovery currently boosting the industry in Germany—Europe's largest economy—and some interesting developments in niche markets in the most northerly areas of the continent.

The art of understatement— Germany's quiet recovery

Although, in recent times, Germany's economy may not have performed as well as in the past, it remains the largest economy in Europe and the third largest in the world... not bad for a near obsolete dinosaur. And what's more, rather than struggling to maintain this position, its economy posted a substantial improvement in 2006—with 2.6% growth and lower unemployment in spite of rising interest rates—as economic reforms implemented in recent years have begun to bear fruit. With the export-led recovery set to gather more speed in the future and experts forecasting growth of between 2.8% and 3% for this year, it would appear that, far from sliding towards oblivion, the future for the German economy looks

nothing less than optimistic.

But, far from having had an easy ride, Germany has had to weather its fair share of storms to achieve its current position in the global economy. Nearly two decades after the reunification of this European powerhouse, problems remain and the process of convergence between east and west negatively impacted the economy for longer than most expected. Growth rates in the former eastern states have been slower than in the west and productivity still falls far short of the ideal. Furthermore, although it may remain competitive, in spite of the surge in economic development in Asia, the German manufacturing sector has suffered huge losses as production has been relocated to lower cost countries. But, the country has proved resilient and has been willing to adapt to the changing industrial landscape in order to expand and excel in new areas, such as nano technology and bio sciences, whilst also ensuring the survival of a significant proportion of its traditional industries, including the leather and footwear sectors, which continue to serve as the backbone of its economy.

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The heart of Europe

The leather sector has a long history in Germany, as in many European countries, and whilst in the 21st century it may be a mere shadow of the burgeoning industry it was in its heyday, there is still positive news to report.

As the third largest leather producer in Europe, after Italy and Spain, the German leather sector has been witnessing an upswing in its fortunes. Far from having disappeared, there are still some 80 tanneries in operation, 25 of which are active in the international export market. And, although the number of people employed in tanneries may have fallen slightly last year to approximately 3,000, the sector posted turnover of €480 million, 8% higher than the €444 million reported in 2005. Production of finished leather reached 14 million square metres, approximately 70% of which was upholstery leather destined for the automotive market and the furniture market, another 20% was produced for the footwear industry where both upper leather and sole leather production remain stable, whilst the remaining 10% or so was used for leathergoods and garments. Small quantities of goat and sheep leather are also produced for niche domestic markets.

International appeal

Just as German brands and products have a reputation for quality around the globe it appears that its leather also has international appeal. Far from struggling in the global market place, leather exports increased a staggering 35% to account for 60% of the sector's turnover whilst domestic sales actually declined 17%. Exports of raw skins and hides grew 6.6% to 140,000 tonnes worth €211 million, whilst finished leather exports, including wet blue, improved 10.1% year-on-year to total 42,000 tonnes worth €549 million (+9.4% in value). Apart from the quality of the leather produced, some of this success in the export market can undoubtedly be attributed to Germany's geographical position at the hub of Europe. Located on the edge of both the Western and the expanding Eastern European markets it is perfectly positioned to service both. Furthermore, being at the heart of Europe, Germany is a hub for logistics and transportation, providing easy access to farther flung countries such as the USA and Hong Kong. Reflecting this, its main leather export markets are now Poland, Austria, Portugal, Romania, Hungary, the USA, Hong Kong, France, the Czech

The recipe for success

One area in which German, Dutch and Swiss companies still excel is in leather chemicals. Rather than the scenario seen in so many European manufacturing sectors where industries have been 'killed off' by competition from Asia, the opposite has been true for the chemicals industry, where the rapid expansion of leather production in developing nations has opened up a wealth of opportunities.

The world's leading names still hail from along the River Rhine in Europe including BASF, Lanxess, Trumpler, TFL, Münzing and Dr Böhme in Germany, Stahl and Smit & Zoon in the Netherlands, and Clariant in Switzerland. All of these companies have prospered from Asia's rise in significance as a result of the increased demand for quality products in the booming market and their expansion eastwards looks set to continue.

In the past month or so alone, both BASF and Lanxess have opened new leather facilities in Asia. BASF broke ground for a new leather chemicals facility in Pudong near Shanghai in March to service the still expanding Chinese market. Scheduled to come on stream in the first quarter of next year BASF will produce its Basyntan, Relugan and Tamol tanning chemicals at the plant. Meanwhile, Lanxess recently opened its first leather application laboratory in the leather industrial zone in Karachi, Pakistan, and is already planning a second such establishment. Although China remains the main market in Asia, ranking fourth in terms of Lanxess' leather chemicals sales, Pakistan has been an important market for the German company for many years, and with the future focus now on expanding the finishing segment and fashion applications, it is hoped that the lab will further strengthen the firm's presence in this burgeoning market.

Moving to another level

As the Asian market begins to expand into the higher-end leather market and China pushes hard to develop domestic brands, European companies are also extending their Asian presence beyond simple manufacturing activities. Having already opened an \$18 million acrylics, pigments, and lacquer emulsions manufacturing facility in Suzhou, China, Netherlands-based Stahl continues to strengthen its involvement in the Asian markets through numerous events and seminars. The most recent such event was its 'Fashion Future' symposium in Guangzhou, in March, when Stahl Asia Pacific presented its latest fashion ideas and leather innovations to over 250 Asian leather technologists and tanners. Meanwhile, Smit & Zoon chose Vietnam as the location for a technical seminar in March, where it presented the company's latest product developments as well as global and Vietnamese trends. As Vietnam's leather industry only really began to expand on a significant scale four years ago, Smit & Zoon is heavily promoting its products there as it believes that there is still a great deal of potential to be tapped.

Just as these companies have succeeded in developing the highest quality chemical products, it appears that they have also found the right recipe for success in Asia, not to mention Latin America and the rest of the world.

Republic and Slovakia.

In spite of a 1.6% increase in the German cattle slaughter to 3.5 million head in 2006, the production of calf skins declined 4.7% to 340,000 and the total bovine herd was further reduced by 1.2% to 12.6 million head. As a result, Germany imports a significant volume of raw hides and skins. Imports increased 3.2% in volume last year to reach 76,000 tonnes and by 13.5% in value to €112 million. Total leather imports increased 12.5% in volume to 38,000 tonnes and by 9.8% in value to €578 million. The country mainly imports leather from Italy, Poland, Austria, Uruguay, India, Brazil, Netherlands, Pakistan and China and the importance of its trade with developing nations such as China and India continues to grow.

According to the Indian Ministry of Commerce and Industry, Germany was ranked as the top export market for Indian leather and leather goods in the period April to October 2006, importing goods worth \$215.19 million and, although this is without doubt a positive trend for the Indian sector, Germany also benefits through this trade as, by importing raw materials from Asia, its own finished products and exports remain competitive in the international market.

The success of this is highlighted by the fact that it is still producing and exporting a significant volume of finished leather goods. In line with the global consumer demand for handbags, German leathergoods manufacturers also witnessed a 6.9% rise in domestic sales in 2006 to ➤



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reach €341 million, with luxury branded goods leading the way, although exports slipped 9.7% to €129 million.

The upholstery furniture sector also reported more encouraging results last year, following three years of recession. In spite of stagnating salaries, furniture sales increased, although some of these purchases may have been made in anticipation of the increase in Value Added Tax (VAT) that was implemented in January this year. Nonetheless the sector remains positive and is expecting the market to strengthen further in the second half of 2007.

A step in the right direction

2006 brought mixed fortunes for the German footwear industry. On a positive note, turnover increased 3.1% to €2.9 billion and foreign trade improved 9% to reach €800 million to account for 28% of sales, but domestic sales fell due to lower consumer confidence and a particularly mild winter, as did production.

Footwear production declined approximately 15% from 28.8 million pairs in 2005 to around 24.5 million pairs in 2006 as further manufacturing facilities were moved offshore to more cost efficient countries. This could be attributed in part to a 0.6% rise in domestic production costs combined with a 1.1% decrease in consumer prices. This trend was particularly marked in the production of men's and women's casual leather footwear which reported declines in domestic production of 20% and 30% respectively. The production of children's footwear saw a less negative

trend as the manufacturing figures for shoes with leather uppers only decreased about 4%. The number of the firms in the German footwear industry also decreased (-6.2%) from 102 in 2005 to 95 in 2006, although the number of the employees remained fairly constant, slipping only slightly to 13,258 from 13,313.

Although there has been a rise in footwear imports from China in recent years—it now accounts for 45% of Germany's footwear imports—the slight downturn in the German industry was not due to an influx of 'cheap imports'. In fact, for the first time in years, Germany witnessed a 5.5% reduction in imports to 438 million pairs. Whilst China remained the main exporter at 197 million pairs, this figure was 12.4% lower than the 225 million pairs imported in 2005, although in terms of value, there was a clear upward trend. 2006 saw a rapid price push in Chinese footwear imports as average prices increased 22% from €4.32 in 2005 to €5.27 in 2006. This increase was even more marked in leather footwear imports where average prices increased 36% to €10.51, compared with €7.73 in 2005.

Imports from the second largest importer, Vietnam also fell 1.6%, followed by Italy (-0.8%). Spain's exports to Germany saw the largest decrease, falling 31% whilst Portugal gained significant ground with its exports increasing 34.1%.

In terms of exports, Austria remains Germany's main market, posting a 16% increase in 2006 to 23 million pairs; in spite of stagnant exports to Poland in 2006 at 16 million pairs, it remained the second largest destination; Russia posted a

significant 41.1% increase in the volume of German footwear imported at 3.8 million pairs, with the average price also improving 5.5% to €32.87; exports to Japan also increased from 918,000 pairs to 979,000 pairs in 2006.

The next step?

Speaking at the giant GDS exhibition in Düsseldorf in March, Philipp Urban, chairman of the Federation of the German Footwear Industry painted a bright future for the German footwear industry, an opinion that was underscored by the 5% higher attendance and the increased presence of higher end brands at the show.

Addressing attendees at the event, Mr. Urban laid down his vision of the future, outlining the recent positive trend seen in footwear sales in Germany and foreign exports, following four years of stagnation. However, far from attributing this change in fortunes to protectionist measures taken by the EU against Chinese and Vietnamese imports, he called for an end to these punitive tariffs in order to further open the global market and safeguard the domestic industry.

Opposing the implementation of EU anti-dumping duties, stating that they do not support the necessary structural transformation of the German footwear industry, he argued that by offering better access to the market, not only in China but across the whole East Asian area, would be for more beneficial for the European industry as it would be able to exploit the quality of its products. Although this may appear somewhat controversial, it is in line with Germany's general industrial strategy. As an export-led economy with brands and products that are globally recognised for their quality—whether it be cars, mobile phones or shoes—it is in Germany's interests to operate in an open market. As a result Mr. Urban suggested that labelling of origin from individual countries (rather than the generic "Made in Europe" labels that are often used nowadays) would improve the competitiveness of European footwear on the global market rather than merely imposing punitive charges. It is Germany's reputation for quality that will secure its future and, at present, that future appears to be positive. As Kirstin Deutmoser, director of GDS, comments, "Business is picking up again in Germany—as is consumers' awareness about quality. High-quality prime brands are posting marked sales growth again both in the apparel and footwear segments." And, as the old adage goes, it is quality not quantity that counts.

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Chasing deer in Scotland

Scotland's national poet, Robert Burns, had to work as a customs officer for a time in the south of the country. He composed many of his most famous works during this period including the well known lines: "My heart's in the Highlands, my heart is not here. My heart's in the Highlands, chasing the deer."

The same desire to return to what is most typically Scottish has driven one of the country's handful of tanneries to change its focus in recent years, moving away from the world of cattle and sheep, and to concentrate on the traditional craftsmanship involved in tanning deer hides and using them to produce a wide range of finished leather goods.

Barrhead Leather, based just to the south of Glasgow, has gone through many changes in its 70-year history. It has had wide involvement in the international leather sector, most notably carrying out pioneering work with partners in Africa in the 1990s. Now, under third-generation owner and managing director, Anthony Wright (whose grandfather founded the company in 1938, and whose father also ran it before passing it on to him), it has its sights set firmly on home turf.

Scottish venison is making a tremendous comeback at the moment, featuring prominently on menus in the country's top restaurants, in butchers' shops and supermarkets throughout the land and, increasingly, in other European countries. With trade flourishing, deer farmers have been happy to let their herds increase substantially in numbers.

Now, deer are so common in those Highland areas that Robert Burns yearned for that the Deer Commission for Scotland—a government body—has



estimated that as many as 10,000 of the animals a year are dying on the roads.

Through this and the growth in slaughter for meat, venison traders have found themselves with large numbers of deer hides on their hands and this prompted Mr. Wright to bear the skins off to Barrhead and convert them into high class, high quality finished goods.

His contention is that the best thing about the whole set-up is that his company is keeping alive—if not resurrecting—traditional Scottish craftsmanship, converting an indigenous raw material into beautiful objects for the local Scottish market (at least to begin with).

So far, his idea has attracted interest from a ferry company, golf clubs and whisky distilleries, making exclusive deerskin souvenirs for them ranging from hip-flasks to golf-bags. A more recent approach has come from the museums department of one of Scotland's big cities. Barrhead Leather will make a range of bags—including holdalls and women's shoulder-bags—carrying the city's coat-of-arms—for sale in the attractions' gift-shops.

"I would ultimately like to keep producing finished products with this traditional Scottish material," Anthony Wright explains. "We have the traditional craftsmanship and skills in our own factory and we want to use them to add value to our local deerskins. We are making high-quality products; there is just no comparison between what we can offer and cheap imports."

Finland finds its niche

As in so many other European countries the leather industry in Finland has a long tradition spanning many centuries, and just as in so many other traditional leather-making centres the sector is now struggling. Finland boasted a bustling industry after the Second World War, with some 100 tanneries that were mainly clustered in the western part of the country but, by 2000, this had dwindled to a mere nine. Although Finland's exports of leather, textiles and clothing industry products began to increase again last year, rising 14% to reach €1.1 billion, this was mainly thanks to the fur industry which continues to thrive and improved exports by a third in 2006. Meanwhile, import volumes have been continually increasing for the past decade and reached €2.2 billion in 2006.

This may sound like a familiar scenario seen right across the developed world in the 21st century but, whilst the industry may be a shadow of its former self, there

are still pockets of production where Finland has carved out its own a niche and continues to do well. One such area is reindeer leather.

Reindeer reigns supreme

A family tanning company based inside the Arctic Circle is making good use of the hides it has most to hand—reindeer. Pokka Reindeer Hides was founded in 1969 in Rovaniemi, the capital of Finnish Lapland. The city is an important trading centre for the whole of the north of Finland, but while there are only 1,300 cows and even fewer sheep (1,100), the reindeer population stands at 13,300.

Pokka's aim is to provide the highest possible quality reindeer hides and furs by developing new methods and processes for treating the hides, as well as new chemical processes. For example, the company claims to have introduced the method of preserving raw reindeer skins and salting them by using a drum.

It has passed this idea on to the slaughterhouses in the whole region (those in Sweden, Norway and even Greenland, as well as Finnish sites), which means the quality of the raw material reaching its facility is very high.

The company introduced the drum method about 17 years ago and, through it, has all but consigned the traditional Lapland method of freezing, drying and salting reindeer skins by hand to history. Mariela Pokka, who runs the marketing operations at the company, explains that the old method was not only time-consuming, but also flawed because it was almost impossible for the salt to penetrate every part of the skin. This meant that in the past skins could arrive at the tannery with serious signs of damage.

With hides arriving from all parts of the Nordics, output at the Rovaniemi tannery currently stands at around 50,000 pickled or wet blue hides a year. This is around half of the total reindeer hides going into the leather industry from Finland, Sweden and Norway in any given year.

"Reindeer hide is a gorgeous product," Mrs. Pokka explains, "for use, principally, in home decoration. In this part of northern Europe, people hang the hides on the walls of their homes, or use them as decorative rugs. We mostly avoid walking on them to prevent shedding."

Pokka distributes reindeer hides and reindeer furs to domestic retail outlets, wholesalers in other countries and also directly to customers from its Rovaniemi site. At the moment, it exports to ➤



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around 20 countries including Japan, China, Russia and the United States. For Mariela Pokka, discerning consumers in these markets are beginning to see, in the way Nordic citizens have for generations, the attraction of reindeer leather. "It's soft, but very strong," she continues, "So much so that some people use it to make drums. The main finished products, though, are shoes of various kinds, gloves and jackets. The jackets seem to have a special appeal, perhaps because the raw material is so scarce."

Whilst the leather sector may have enjoyed better days, thanks to the innovation of companies such as Pokka, combined with the 'rarity' appeal of reindeer, the industry is far from finished yet.

Sweden's secret success

Ask most people what is happening in the Swedish leather sector and they will probably reply something along the lines of "Not a great deal" and, looking at the overall picture, it is fair to say they would not be far off the mark, as only three leather tanneries and one sheepskin production facility remain in the country. Three of them are also relatively small, with one, which produces vegetable tanned leather, employing between 25 and 30 people, another, which specialises in reindeer, with only 12 staff, and the sheepskin facility with only around ten workers. It may therefore come as somewhat of a surprise that Sweden is also home to the one of the world's largest manufacturers of exclusive furniture and automotive leather with an annual turnover of about SEK 750 million (\$111.1 million) and over 300 staff.

Based in Svenljunga, Elmo Leather produces 12,000 hides a week, 60% of which are destined for the international

automotive market and 40% for the furniture sector. It specialises in the production of naked aniline and automotive leathers—95% of which are sold outside Sweden—and sources some 90% of its raw hides from Scandinavian countries. But how has this one company not only survived, but flourished whilst so many others have disappeared?

Constant change

The short answer is through constantly adapting and innovating to stay ahead of the game—a business concept that was conceived and adopted by the owners of Elmo way back in the early 1970s. When the footwear industry dwindled and died in the 1960s Elmo changed production to high-end furniture leather based on quality Scandinavian raw hides, introducing automotive leather production a few years later, and this has proved to be a winning combination for the company, which is now present in over 40 markets around the world.

This concept of constantly changing is an ongoing ethos at the company too as it continues to adapt to different situations in order to ensure its success. Whilst many European companies have moved production offshore, thus closing the door on the industry in many traditional bases, Elmo always leaves the door, and its opportunities, wide open. Faced with a reduction in demand, and therefore production, of furniture leather Elmo placed more focus on automotive leather, the production of which has since increased thus maintaining the company's position and securing its future.

It may therefore appear a little strange that Elmo has remained in Sweden when it is so willing to adapt to the changing leather sector and could so easily move production elsewhere to more cost-

competitive countries. But its decision to remain in its native land has by no means been an altruistic one made on a sentimental whim; it is based purely on maintaining a solid and profitable business. The company has previously set up manufacturing facilities in both the USA and Denmark, neither of which it has maintained, having relocated back to its Swedish facilities. Speaking to *World Leather*, Elmo's president, Nalle Johansson stated that the US production site was never profitable, due in part to the fact that the company was unable to produce the level of aniline quality it required using US raw material and, as the company was able to service the global market just as well from its Swedish base, it moved production back to the parent company.

Its plant in Denmark was a different scenario, but goes some way to prove just how adaptable the company is. As Elmo did not have approval from the authorities to expand its production in Sweden when it could not meet the increased demand for automotive leather, it bought a Danish tannery that was in financial trouble and used the extra capacity to fulfil its orders and maintain its position. Once the relevant paper work had been put in place in Sweden a couple of years later in 2003, the company increased its capacity and moved production back in-house. This does not mean that it has ruled out the possibility of moving certain production processes offshore in the future, it is just that, for the present time at least, it views Sweden as the best possible location for the business and one of the main reasons for that is the quality of the leather produced.

Quality control

As Johansson states, "We cannot compete with low price bulk production," but Elmo can offer the highest quality available and, as he does not believe that the tanning industry will ever move entirely to Asia or South America, there will always be a niche for producers of exceptionally high quality product. This is the area where the company plans to remain and expand further, with 20% growth planned over the next three years alone. As Johansson himself says, in the tanning industry today it is a case of survival of the fittest. And, thanks to a great deal of hard work, attention to quality and a willingness to adapt, Elmo not only looks to be in very good shape but is an example of how some Northern European companies are not only surviving but are thriving. 🌐