



Brazil's leather sector gathers momentum

The US warns of the impact of declining herd sizes while South America weighs up shifting trade policies and hide shortages.

The Centre for the Brazilian Tanning Industries (CICB) warned last October of the country becoming less competitive once the European Union reduced the number of countries benefiting from its Generalised System of Preferences (GSP) from 177 to 90 on January 1, 2014. The deal allows developing country exporters to pay lower duties on their exports to the EU but was altered to focus on the countries "most in need".

"The change has made our costs between 3% and 4% higher compared to last year, so this is an important question," said CICB president José Fernando Bello in April, adding that it could mean the sector might struggle to maintain 2013's record levels. CICB is holding talks with the Brazilian government on the subject, and Mr Bello has hopes for an easier trading status with the EU, perhaps as part of a free trade agreement between the EU and South American trading bloc Mercosur, he said. All Mercosur countries lost their GSP status at the start of 2014, with the exception of Paraguay.

Reports from Uruguay suggest tanners there are being severely affected too. Automotive leather group Bader might be forced to pull out of operations in the country, according to local reports, finding margins squeezed despite an increase in its output this year. Its tannery in Ciudad del

Plata employs 430 people and processes 40,000 hides per month.

While the loss of GSP status is worrying for the industry, the record growth exhibited by the Brazilian leather sector in 2013 shows no sign of abating. Statistics for January show a 22.5% rise in exports of hides and skins to \$201.9 million. In February, they totalled \$248 million – 31% higher than last year – while in March, \$250 million of hides and skins was exported – another 31% increase.

Last year, the sector achieved export sales of raw and finished leather of more than \$2.5 billion – 20% higher than 2012's total. For the first time, the country exported more wet blue than finished leather, driven in part by favourable exchange rates.

"In 2013, the leather sector registered a high demand for hides and skins," Mr Bello told *World Leather*. "However, there are only two countries that can supply the international market: the US which produces 35 million hides annually, and Brazil, which produces 45 million. In this context, it is natural that large producers such as China and Italy depend on these two nations to supply their demands."

He went on to say that tanners in China and Italy requested large volumes of wet blue in 2013 and that, in contrast to the situation in 2012, currency exchange rates made Brazil their preferred option,

particularly in the later part of the year. A year ago, one Brazilian real was worth almost €50 US. Towards the end of August, it dropped to €40. It is now worth around 44 cents.

In the first nine months of last year, 51.7% of Brazilian leather exports left the country as wet blue, compared to 39.6% as finished leather. A year earlier, wet blue's share of the exports was 44.6%, while finished leather's was 45%. In the same period in 2011, wet blue accounted for only 35% of the total for the first nine months while the proportion attributable to finished leather was almost 42.3%.

"Wet blue is a commodity although, in recent times, there has been high demand for Brazilian wet blue and tanners have been able to make a good profit on it. Our aim is to make finished leather and we expect Brazil's tanneries to export more and more finished leather," added Mr Bello.

The parent company of the biggest player, JBS Couros, reported a 22% rise in revenue in 2013 to \$40 billion. The group said its biggest challenge is "to keep growing in a consistent way while keeping our commitment to simplicity". "We want our people to take care of our processes and not for our processes to start dictating the work our people do," said CEO Wesley Mendonça. As reported in our Tannery of the Year section in this issue, the group slaughters 81,400 cattle per day. ☉



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Mexico: Tanners struggle with supply issues

Mexican leather industry association CICUR has confirmed that buyers from the automotive industry are capturing a larger proportion than before of the finished leather produced in the state of Guanajuato, but that previous estimates of a 60% are exaggerated.

Its president, Fabián Collazo, who is chief operating officer of León-based tanning group Lefarc, winner of the Highly Commended award for the Americas in the third programme of Tannery of the Year, said statistics suggest that Mexico's tanneries process a combined total of 50,000 hides per day, with 42,000 of these passing through tanneries in Guanajuato. He estimates that 50% of Guanajuato's total leather production may now be going to automotive, with 30% going to footwear

and the remaining 20% to leathersgoods and furniture.

"Around 20 of the established tanneries in Guanajuato are working on automotive leather now, but without supplying automotive companies directly. What they do is carry out wet-end processing for big players in automotive leather."

However, tanners in the country are suffering because they are having to import raw material from the US. "Mexico's tanning industry processes more hides than the country produces," he said. "According to government statistics, Mexico's slaughter level in 2012 was 8.9 million head, which is two million fewer hides than our tanners are processing. This is a situation that has been building up for the last two years," he said.

He added that this was affecting

revenues in the tanning sector because automotive leather is shipped to companies in Mexico, whereas other articles are exported overseas, attracting higher prices.

On the finished goods side, Guanajuato-based footwear industry association CICEG reported that shoe exports increased by more than 20% between 2011 and 2013. CICEG president, Ysmael López García, put the figure at 26.8 million pairs in 2013 - 22.4% higher than the 2011 figure, 21.9 million pairs. A delegation from the state, which is home to most of the country's manufacturers, travelled to Europe at the start of this year. "We want to bring León's leather and footwear tradition to the attention of as many people as possible," said the city's mayoress, Bárbara Botello, who led the delegation. ☉

Colombia: Caiman could prove lucrative

An Italian leather and luxury goods entrepreneur, Giuseppe Quinti, has said the department of Córdoba in north-eastern Colombia is "sitting on a goldmine" owing to its supply of exotic skins and has the potential to be one of the most important sources of luxury leathersgoods in the world.

Mr Quinti set up in the local town of Sahagún some years ago, operating first as a trader in caiman skins before opening his own tannery to add more value to the raw material on local soil. The company, CI Totaltrade, now sells between 12,000 and 14,000 finished or semi-finished skins per month to clients in Singapore, Thailand, Hong Kong, China, Mexico, Italy and the US.

Three years ago, he decided Córdoba should move even further up the caiman value chain and founded luxury goods brand Pazzi. The handbags and other leathersgoods local artisans are producing under the brand name are now shipping to markets such as Italy and the US. ☉

Bolivia: Demand for wet blue drives leap in leather exports

Official statistics from Bolivia show that the country's exports of leather more than tripled in value between 2009 and 2013.

Last year, the Bolivian leather industry achieved exports worth \$58 million, compared to a figure of just \$18 million in 2009.

The 2013 figure is an all-time record for the South American country. Last year, the Bolivian Institute for External Commerce measured the volume of hides and skins leaving the country at almost 68,500 tonnes.

Much of this material is being exported from Bolivia as wet blue.

One industry leader, Diego Antezana, managing director of Curtiembre Tauro in Santa Cruz, has said demand for Bolivian leather is strong. His company's exports increased by 20% in 2013 compared to 2012 and he expects further growth of around 15% this year.

Pablo César Talavera, finance director of Curtiembre Santa Cruz, has confirmed that demand is strong but has said raw material price increases of 20% in 2013 have hurt profitability. ☉

Chile: Artisan tanning courses for rural communities

A programme of helping people in rural communities in southern Chile to learn to tan hides and skins from their own livestock herds is continuing.

In mid-April, 11 people from the area around Coyhaique completed a course in artisan tanning methods, offered as part of a government programme called Productive Development.

Local mayor, Alejandro Huala, said: "We

are opening up employment opportunities for local people with this initiative, using material that used to be thrown away or sold very cheaply. Now local people are learning to use the material to make artisan products, which they can sell to help feed their families."

At the end of 2013, local women in Panguipulli, 1,000 kilometres to the north, but still in remote southern Chile, completed a similar course. ☉



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Uruguay: President weighs in on livestock row

The president of Uruguay, José Mujica, has stepped into a national row over cattle slaughter levels. Packer firms have been accused of putting pressure on livestock farmers to keep slaughter numbers down.

Mr Mujica warned meat companies not to try to “cash in” on low slaughter levels to boost margins. He said he understood that many meat companies had seen their margins “compromised” in recent months and could see why they were keen on a recovery, but he said this must not extend to meat companies using their influence to keep livestock herds low.

“To act in this way would bring them benefits in the short term,” the president said, “but it would be bad for the whole value chain in the long term. It would endanger the goose that lays the golden eggs.”

Meanwhile, sheepskin shipments to overseas markets have all but dried up and hide traders in the country are finding it difficult to find buyers. Daniel Cabrera, director of trading company Zelenko, said the problem was a lack of buyers from China. “For two or three months we have been receiving few orders from overseas. Until then, between 80% and 90% of shipments were to China. Now we just don’t know what’s going to happen.”

Montevideo-based Bray Paul, a specialist in processing sheepskin, has sought bankruptcy protection because of the decline. ☉

Peru: President picks former tanner as new prime minister

Peru’s president, Ollanta Humala, has chosen a former tanner as his new prime minister. René Cornejo Díaz took up the post in February following the resignation of his predecessor, César Villanueva.

Originally from Arequipa, in the south of the country, Mr Cornejo’s family ran a tannery in the Cercado area of the city. Before the age of 20, he had branched out and, with his brother, Ronald, set up a tannery of their own, Hermanos Cornejo Díaz, in the Cerro Colorado area of Arequipa, which operated until 2006.

Long before then, the new prime minister had moved to Lima, completed university studies in electrical engineering and mathematics and entered politics. While in Lima, though, fellow students have said they recall that René Cornejo often took time to buy raw materials and send them back to Arequipa for his family to use in leather production.

Observers believe he will come under pressure to continue a process of decentralising budgets and power to the regions of Peru. ☉

Argentina: Government mulls hide export ban

Following on from Colombia’s announcement at the end of 2013 that it is banning the export of raw hides to secure a supply of raw material to the country’s tanners, Argentina is looking to do the same.

Despite record slaughter, Argentinian tanners are suffering because hides are worth more to packers when they are exported. Industry and commerce ministries have asked packers to lower hide prices in recent months, but the calls have largely gone unheeded, with local reports quoting price rises as high as 50%.

To counter this, the government is looking at a temporary ban on exports of raw hides and wet blue. This move would guarantee a supply at relatively affordable prices of raw hides for tanners and of finished leather for footwear and leathersgoods manufacturers.

But livestock farmers have complained, saying that if raw hides have to go to customers in Argentina, suppliers will be unable to charge the high prices currently available on international markets.

The country’s minister for industry, Débora Giorgi (right), believes the ban will help boost the value of leather-sector exports, as leathersgoods with a value of \$140 million were exported in 2007, slumping to \$34 million in 2013.



CREDIT: EUROPEAN UNION

“We are unable to meet demand because we cannot get hold of enough hides,” said tanning industry leader Raúl Zylberstein. ☉



US: Hide exports grow but declining herd size could lead to supply shortages

Exports of fresh or wet-salted hides from the US in the first two months of this year surpassed 5.9 million pieces, an increase over the same period in 2013 of 4%. In terms of value, fresh and wet salted hides brought in \$297.4 million in January-February 2014, year-on-year growth of 1%, according to the US Department of Agriculture (USDA).

Exports of wet blue over the same two-month period grew by 11% year on year, reaching a total of just over 2.5 million hides. Wet blue exports grew in value by 12% compared to January-February 2013, reaching almost \$143 million this year.

The figures carry on the momentum of 2013, a record year for hides, skins and leather exports from the US. Exports of wet salted cattle hides rose 12% to \$1.85 billion in 2013, exports of wet blue increased in value by 27%, to reach \$800 million, while exports of pigskin increased by 15% in value to reach \$57 million. Since 2009, the US hide, skin and leather industry has increased the overall value of its exports by 90%.

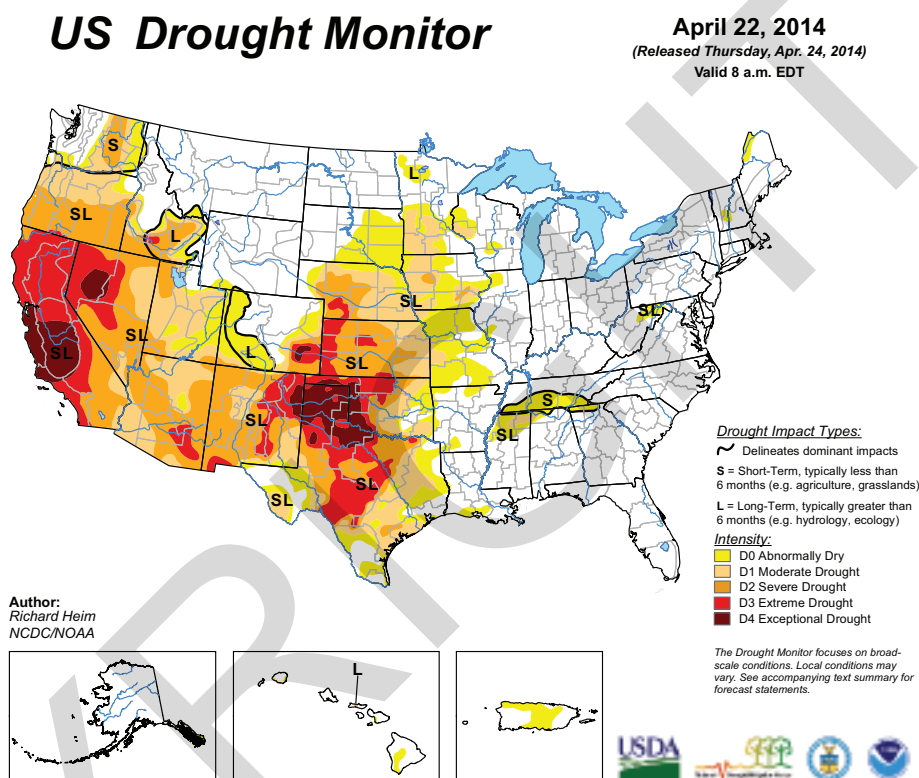
However, despite the rosy figures, USDA has warned that low cattle inventories will limit recovery from recent drought conditions for several years. In its 10-year agricultural projections on beef consumption and cattle prices it said total cattle inventory will drop below 88 million head at the start of 2014 before expanding to about 96 million in 2023.

"US imports of processed beef will increase as herd rebuilding and relatively low beef cow slaughter in the United States raise import demand. This demand will likely be met by increased purchases from Australia, New Zealand and NAFTA countries," it said.

Stephen Sothmann, president of the US Hide, Skin and Leather Association, echoed the sentiment. "As expected, the first few months of 2014 have seen lower US cattle slaughter levels and resulting tight hide supplies," he said.

"Through April, USDA estimates total slaughter rates to be down about 6%, while beef production is down around 5% compared to the same period in 2013. The April 2014 inventory of cattle and calves on feed in feedlots for future slaughter was 1% below 2013 levels at 10.9 million head.

"However, this is a significant improvement over the much lower levels



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seen earlier this year as the US suffered through difficult winter conditions and cattle were held back from placement in feedlots. The supply of market ready cattle, though, or cattle that are available for slaughter in the near term, is still very small compared to year ago levels (-11% by some estimates). The large drop in cow and bull slaughter levels (down an estimated 15% compared to 2013) indicate some hide selections are more severely impacted than others by the current cattle and beef market conditions."

Total US cattle inventory at the beginning of 2014 was 87.7 million head, down 2% from 2013 and the smallest herd size since 1951. "Early signs of herd rebuilding are beginning to emerge, including the all-import low feed prices, but much of these efforts will depend on weather and climate conditions as we enter the summer months," added Mr Sothmann.

"If drought conditions in California and the panhandle of Texas spread to other areas of the country, the resulting spike in feed prices will likely have a negative

impact on herd rebuilding. If rebuilding efforts do not take hold, the global leather industry should continue to expect reduced slaughter levels and US hide availability in the coming years."

On other issues, the US hides and skins industry is closely monitoring the progress of labour negotiations between West Coast ports longshoremen (dock workers) and the Ports Authority management.

The current six-year labour contract is set to expire on June 30 and the parties have not yet begun negotiations for a new contract.

Should the expiration of the current contract occur without an extension or new agreement, labour slowdowns and strikes could lead to major interruptions of all cargo moving through US West Coast ports. The last large-scale labour strike on the West Coast ports occurred in 2002.

"A large majority of US hides and skins products are shipped to Asian markets through West Coast ports, especially through Los Angeles and Long Beach, so it is an issue the industry is monitoring very closely," added Mr Sothmann. ©