



Rich in leather, Bentley's Continental GT Speed.

CREDIT: BENTLEY MOTORS



The rise of automotive leather

As car manufacturers around the world report record sales and expanding production, the future looks rosy for their leather suppliers. However, it is not all plain sailing: battles over raw material are set to intensify and leather will have work to keep its place in the hearts of consumers.

As a proportion of total leather output, the volume produced for the automotive sector is growing year on year. Many countries are increasing research and resources for the sector, keen to capitalise on a thriving industry. Light vehicle production in 2015 is forecast to reach 88.6 million units globally, according to research group HIS Automotive, 2.4% higher than last year. By 2021, production is expected to reach 106.3 million – all of which is good news for tanners.

Full-year 2014 sales figures for high-end auto brands have been impressive, with most of the big players reporting record volumes. In the super-luxury segment, Bentley announced record sales with 11,020 cars delivered, 9% higher than the previous year and with growth in every region, while Rolls-Royce reported its fifth consecutive record year with just over 4,060 cars delivered to customers, an increase of 12%.

Premium brands BMW, Audi and Mercedes also did well. It

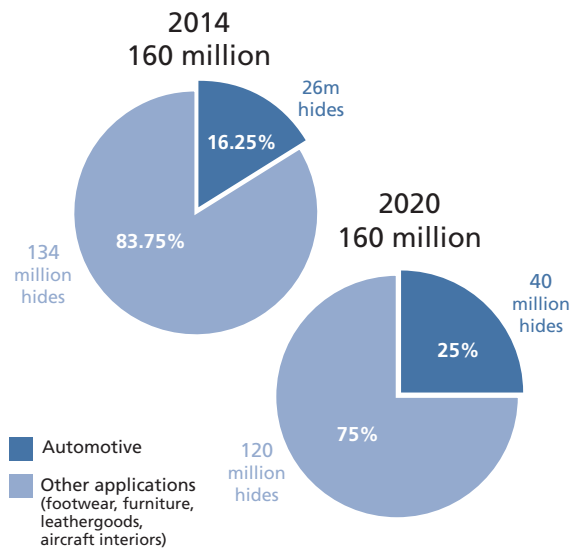
was another record for BMW, with 1.8 million vehicles delivered, an increase of 9.5% on the previous year. Audi exceeded its goal of 1.7 million deliveries, 10.5% more than in 2013, and Mercedes also hit a record: 1.6 million vehicles, up 13%, its fourth record year in a row.

Driving this growth is the obvious population growth, but also the expansion in wealth and disposable income, not least in China. The country now has the second highest number of millionaires – 2.4 million – according to research firm Boston Consulting Group. “More millionaires than every country except the US means there are also more half-millionaires in China, and more quarter-millionaires, and so on,” said a leather industry expert. “And, in China, they all want leather in their cars.”

The Chinese automotive market will contribute 35% of the world's car-market growth between 2011 and 2020, an increase of 33 million vehicles during the decade, according to



Panel 1: Global availability of hides and automotive leather's share



CREDIT: FAO

consultancy McKinsey. Chinese will buy 22 million new cars per year in 2020, compared with a projected figure of 19.9 million in Europe and 16.8 million in North America.

To provide leather for all these vehicles, a plentiful supply of hides is necessary. Meat consumption will continue to grow over the next decade by an average of 1.6% per year, according to the United Nations Food and Agriculture Organisation and the Organisation for Economic Co-operation and Development. However, most of this is expected to be chicken; beef consumption is likely to be flat.

Automotive tanners suggest that in the next five years, the amount of hides they will need to keep up with demand will increase by between 20% and 30%. Automotive's share of the raw material market, currently between 15% and 18%, is estimated to increase to at least 25%. This could lead to a conflict over raw material, with the most likely outcome that a bigger proportion of hides will become leather for car interiors, while fewer go into footwear.

"Slowly but surely, the original equipment manufacturers (OEMs) are paying a bit more now," a tanner we spoke with said. "This is essential because the increase in hide prices won't stop, so the price of leather can only go one way."

Automotive tanners currently take 20 million of the 160 million hides produced globally, but by 2020, the figure could be 40 million.

Quality issues

On top of the projected shortage, the general quality of hides is declining. Cattle farmers are producing bigger animals to make more meat. US-based cattle industry information service AgCenter last autumn reported record average carcass weights, which are still high despite the seasonal decline.

One reason is that corn prices have fallen recently, making it cheaper for farmers to bulk up their cattle. However, tanners are finding that the yield from the hides is not necessarily bigger. Drought in the US between 2010 and 2013 hit cattle producing states hard, including Texas and Oklahoma, and tanners began to

find that the hides had clearly come from cattle that were being less well looked after: access to food and water had become more difficult, hides were sunburnt and livestock farmers sought to save money by cutting back on treatment for insect damage. Even though drought conditions have eased and hide prices are high, those in control of the upstream supply chain seem reluctant, tanners say, to return to spending money on higher levels of care.

Automotive suppliers usually face stricter criteria concerning what their customers will and will not accept and are rarely afforded leeway, so scratches, insect bites and other marks on the hide affect their cutting yield more, although clearly this can vary between OEMs and models. At the lower end of the automotive market, typical cutting yields might be 60% of each hide; in luxury automotive, it's more likely to be between 50% and 55%.

If car brands could allow their seat manufacturers to include more leather with defects and promote this as something positive, this could be a solution, although "we haven't seen too much of this happening yet," the tanner admits. Another suggestion is to make the leather panels for car-seat kits smaller, which would increase the cutting yield and reduce waste.

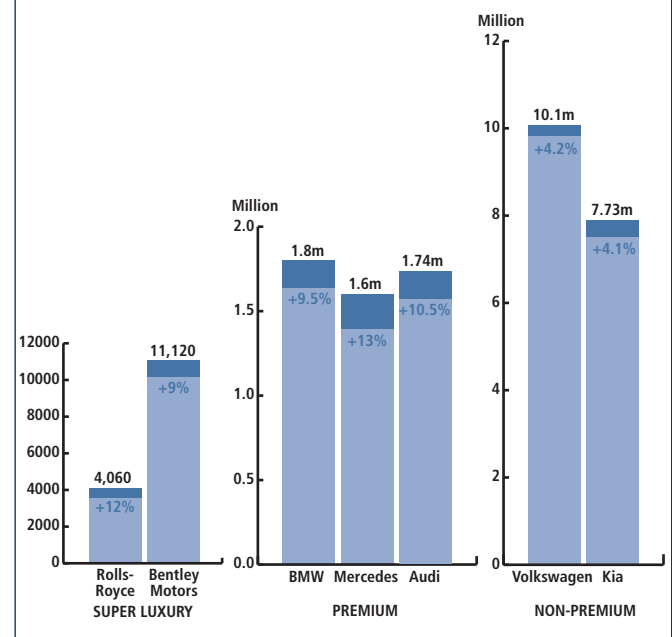
Despite good news from the auto-makers, there is still the threat from increasingly sophisticated alternative materials. "A few years ago leather furniture was everywhere, but it became difficult for consumers to be able to tell the difference between leather and synthetic substitutes, partly because the leather that many furniture manufacturers were using was so heavily engineered it bore little resemblance to natural leather," our sources have said. "Automotive tanners have got to watch that we don't fall into the same trap. I don't think we will, because I simply cannot imagine a luxury car with fabric on the seats, but we have to be careful."

Look ahead

BMW has invested \$1 billion in its plant in Spartanburg, South Carolina, to increase annual production capacity to around 450,000 vehicles by the end of 2016. It plans to make around 30,000 cars a year at a new plant at Araquari, Brazil, and

Panel 2: Growth in car sales in 2014

Compared with 2013.



**Panel 3:****Automotive leather distribution***All volumes in square-metres***US****Total: n/a / Automotive: n/a**

The leather export and import data for the US are skewed by the volume of material shipped to Mexico for final processing and reimported, especially as cut pieces for auto upholstery. In 2013, the US exported \$1.72 billion and then reimported \$2.1 billion of leather, of which \$1.43 billion was from Mexico.

GERMANY**Total: 10m / Automotive: 6.3m**

For tanners in Germany, the automotive leather sector is the most important. German car brands are responsible for around 13 million vehicles per year (17% of global production). The country has the highest concentration of car factories in Europe – 43 – as well as the biggest auto market.

AUSTRIA**Total: 14m / Automotive: 10.25m**

The automotive industry is one of the top five industrial sectors in Austria. More than 700 companies with 200,000 employees generate annual revenues of €21.5 billion. Most of these are component suppliers – a sector growing at 8% annually. Tanneries count high-end car companies such as BMW, Mercedes and Porsche among customers.

ITALY**Total: 128.4m / Automotive: 11.3m**

While Italy is home to around 1,270 tanneries, many of them are small companies making high-end leather for leathergoods and footwear. However, automotive is growing. In 2013, the proportion of total output was 8.8%, up from 6.2% in 2008. Despite the growth, the volume of cars produced in Italy has been slowly declining.

MEXICO**Total: 51.6m / Automotive: 20.7m**

Most major global automotive tanning groups are represented in Mexico, making cars for the US market, often with finishing, cutting and sewing operations. Many source wet blue from partner tanneries in León, home of the footwear industry.

BRAZIL**Total: 350m / Automotive: 27m**

Brazil is home to the world's largest commercial cattle herd at 206 million head and 34.3 million hides were exported in 2014. Investments in the automotive sector have been growing. Leather destined for automotive accounts for 11.2% of sales to the external market and 3.5% of sales in the internal market.

ARGENTINA**Total: 50m / Automotive: 10m**

Argentina has a strong automotive industry, with 791,000 vehicles manufactured in 2013, an increase of 3.5% year on year. While the number of automotive tanneries is small, companies are among the country's biggest leather producers. That said, local tanners often take production as far as the wet blue and crust stage and ship to partners to finish.

SOUTH AFRICA**Total: 10.8m / Automotive: 5.4m**

Tanneries mainly produce for the footwear and fashion sector; however, the automotive manufacturing sector is one of South Africa's most important, and automotive-focused tanneries together produce half of the country's output. Some of the biggest car makers operate plants in the country, mainly in special clusters.



9.1%

CHINA**Total: 550m / Automotive: 50.3m**

In 2011, 1,800 tanneries were operating but by mid-2014, this had fallen to 650 medium or large tanneries (annual revenues over \$30 million), and only a comparatively small number service the automotive sector. This is somewhat surprising given that China is estimated to produce 19 million vehicles per year.

13%

JAPAN**Total: 13m / Automotive: 1.8m**

Midori Hokuyo is the only one of Japan's 15 tanneries to supply automotive leather. The spread of Japanese OEMs has meant Midori now has more employees in China, Brazil and Mexico than it does in Japan. Automotive leather will continue to be in demand because Toyota and Nissan have pledged a commitment to the country.

THAILAND**Total: 17m / Automotive: n/a**

About 80% of Thai tanneries' total export value comes from wet blue and cow and buffalo leather. Nine tanneries supply to car makers including Toyota, Honda, Nissan and Mitsubishi – all of which have operations in the country. Total annual production is around 2.5 million vehicles, 1 million of which are exported.

5%

SOUTH KOREA**Total: 92.9m / Automotive: 4.6m**

The Korean tanning industry is dominated by footwear, but a number of strong automotive tanners have emerged. Some automotive leather tanning groups have recently moved production to China for cost reasons but growth is possible as Korean car makers are likely to continue to produce cars on home soil.

5.7%

INDIA**Total: 186m / Automotive: 10m**

India's leather industry is growing strongly, with turnover estimated at \$11 billion per year. There are 15 CLE member exporters making automotive leather and its share as a percentage of finished leather exports was 4.6% in 2012-13 and 5.7% in 2013-14. Tata and Magna's joint-venture is expected to boost output by 1.6 million sq-m per year.

AUSTRALIA**Total: 13.7m / Automotive: n/a**

Despite being one the main global suppliers of hides, Australia's leather industry has been in decline for 30 years. In terms of automotive leather, the only supplier is Melbourne-based Howe. It has been impacted by the strong Australian currency in recent years but is anticipating increased volumes.



Leather abounds in BMW's 2 Series Gran Tourer.

CREDIT: BMW

is setting up an additional factory in San Luis Potosi in Mexico, where it will have an estimated production capacity of 150,000 cars a year. It is also expanding capacity at two plants in China to a total of 400,000 units a year over the course of the next two years and it will focus “even more strongly” on the demands of Chinese customers.

Audi is expanding the biggest investment programme in its history, pledging €24 billion from now until 2019, €2 billion more than originally planned. The workforce will grow in the main plants in Germany where it has recruited 3,000 people in the past 12 months.

Similarly, Rolls-Royce, Mercedes and Aston Martin have all announced plans to increase production, placing orders for increasing volumes of leather with automotive tanners.

To service this, tanners' associations tell us they are seeing increased activity in their respective countries: India's Council for Leather exports said the share of automotive leather as a percentage of finished leather exports was 4.6% in 2012-13 and 5.7% in 2013-14. However, the proportion is expected to grow substantially this year after Indian conglomerate Tata Motors formed a joint-venture with GST Autoleather, headquartered in Mumbai with operations in Dewas. Tata's tannery in Dewas was a finalist for Tannery of the Year in 2009 and employs more than 900, making finished leather from wet blue. It will be reducing the output of furniture leather to make room for automotive and, from a total of two million square feet a month, three-quarters will be destined for the sector by mid-2015.

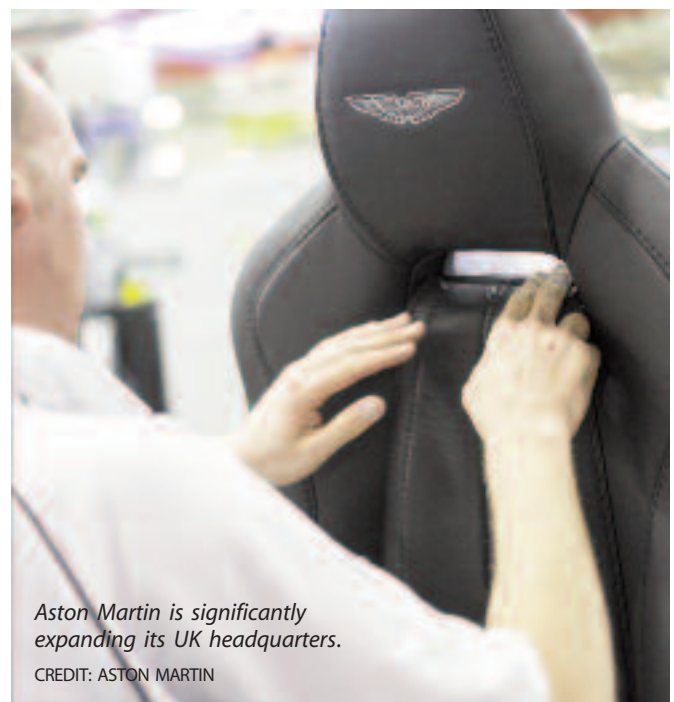
Brazil, which exported a record \$2.9 billion of hides in 2014, has also been investing in the automotive sector. Companies are focusing on technological improvements, certifications and sustainability, industry association CICB tells us.

Argentinian politician Débora Giorgi has said the government would help tanners fund upscaling of their operations to produce more finished leather for automotive through favourable loan schemes.

In Italy, traditionally a leathergoods and footwear-producing

country, the percentage of automotive leather produced is growing every year. In 2013, the proportion was 8.8%, up from 6.2% in 2008, while in Germany, turnover at tanneries grew by a quarter in 2014, according to the German Leather Association, VDL. Most of the leather they produced – between 60% and 70% – was destined for the automotive sector.

On top of this, falling oil prices – which have halved since June last year – make consumers more willing to spend, as they are saving money on fuel and confidence grows. “It's an easy judgement,” commentators say of the sector. “The numbers are great and leather consumption will continue to grow.”



Aston Martin is significantly expanding its UK headquarters.

CREDIT: ASTON MARTIN