



# Why US hide export figures were wrong for years

*All markets need information and one of the most frequently updated sources of information in the global leather industry is the data on cattle slaughter and hide trade that the US issues. For years, however, the statistics relating to the volume of hides and skins US packers and traders export have been flawed. This article examines where those numbers went wrong and what the US Hide, Skin and Leather Association has done to put matters on a firmer footing.*

In the first five months of 2015, tanners and traders in the US exported more than 11.1 million hides, which brought in export revenues of just over \$1 billion. Of these hides, wet blue accounted for 30% of the volume and 35% of the value, with fresh and wet salted hides making up the rest. The figures represent a fall in volume of 39% and a decline in value of 11.2% compared with the same period in 2014.

This fall in numbers will come as little surprise to anyone who has kept an eye on the actual slaughter figures published each week by the US Department of Agriculture (USDA), which week after week show that cattle slaughter in the US is in a downward cycle.

For a number of years, the US Hide, Skin and Leather Association (USHSLA) has been trying to make the statistics that circulate throughout the global industry on the volume of hides available from the US

more meaningful and accurate. When he took over as president of the organisation at the end of 2013, Stephen Sothmann decided to open up to a wider public the monthly statistics that USHSLA has long put together for its members and began to send journalists covering the leather industry updates showing the export numbers for fresh, wet salted and wet blue cattle hides from the US for each month, along with the value of these exports.

## Over-inflation

The numbers have always been interesting to look at, but from the outset they came with a major caveat: a note from Mr Sothmann, saying: "Please note, in the past, the number of pieces [the volume of hides exported in a given month] was inaccurate, typically over-inflating the actual amounts exported. In 2015, the US government made changes to its reporting

system, which we are hopeful will fix this problem." In mid-April this year, USHSLA explained what these changes consisted of. "The export values reported are considered accurate," the organisation insisted, "since they are declared for customs purposes by exporters at the time of export." It went on to say clearly that the hide volumes being reported for export "have not been in sync with US cattle slaughter numbers or other export datasets for a number of years".

Taking a concrete example, export data suggests that the US exported nearly 51 million wet salted or wet blue hides in 2013, but total US slaughter for that year was around 32 million head. USHSLA said at the time that it realised this discordance in the numbers has led to "some significant confusion" in the industry regarding the true size and value of the market for US hides. This matters because the regular

*Hereford cattle in Montana. US cattle hides are an in-demand and widely traded commodity.*

CREDIT: USDA





monthly updates examine the figures for shipments to almost 50 countries around the world: US hides are a widely traded and in-demand commodity.

### “Catastrophically inaccurate”

USHSLA made it clear in April that it has tried to bring the problem of these numbers that refuse to add up to the attention of the US Department of Agriculture and the US Census Bureau (the government’s primary statistics-gathering agencies for the data). “Finally, in early 2015, the agencies agreed to audit the data and make changes to more accurately represent the trade,” it said. The source of the original problem, USHSLA said, was that the Census Bureau, for years, had looked at the declared monetary value of each shipment of hides and then estimated the volume of hides represented by this value based on a benchmark price. The problem with this method is that the benchmark price had remained the same for many years and was badly in need of revision. “The Census was essentially using 2008 or 2009 hide prices as a reference over the last several years,” USHSLA said. “Obviously, given the changes in the hide market, this method led to catastrophically inaccurate piece counts.”

### A step in the right direction

The government agencies have made corrections to the data they held for 2014 and incorporated a new benchmark price into the data for 2015 onwards. They have not revised the data for earlier years, so the available information on the volume of hides exported from the US in years before 2014 remains questionable. “It is not perfectly accurate,” USHSLA has said (it still shows 34 million hides being exported in 2014, whereas US cattle slaughter levels were closer to 31 million head last year), “but it is a step in the right direction.”

Stephen Sothmann says there are three main sets of data that USHSLA uses and shares. All three originate from the US government: the monthly export data from USDA, Customs and the Census Bureau, the weekly export sales data from USDA, and the actual slaughter numbers from federally inspected abattoirs, also from USDA. “The first set of data is where we have seen all of the problems,” Mr Sothmann explains. “I honestly don’t think the first data set ever had much of an impact on the market or transactions between suppliers and tanners, nor is it currently having much of an impact despite the changes to make it more

## Ecuador: Shoe firms should seek alternatives, says minister

An Ecuadorean government minister, Ricardo Zambrano, has surprised the country’s footwear manufacturers by telling them just to use “whatever raw material is available” if local leather is too expensive.

Asked what the government intended to do to help Ecuador’s shoe manufacturers address the issue of what footwear industry leaders insist is the most expensive leather in the region, the minister said: “Leather isn’t the only raw material shoe manufacturers can use. We would like them to diversify and use other raw materials, such as textiles. We can help footwear companies by keeping them informed of what alternative materials are available.”

Mr Zambrano, who is a minister in the department of industry, said there was nothing the government could do about the price of leather. “It’s a market thing,” he said. “Supply and demand are what determine the price.” ☉

## Raw material matters

The mayor of Quito, Luis Amoroso, formally opened the third FICCE (an international event showcasing footwear and footwear components) exhibition in the Ecuadorean capital at the start of July.

In an address at the inauguration, Mr Amoroso paid tribute to footwear manufacturing companies from the province of Ambato and to the tanners who supply them.

“Companies from Ambato are at the forefront of this exhibition,” he said, “because they are our national market leaders, they have professionalism, great designs, great variety and, most importantly of all, access to high-quality raw material.” ☉

## Colombia: Acicam slams sub-\$1 shoes

Leather and footwear industry association Acicam has said a high proportion of shoes coming into Colombia this year have a value of less than \$1 per pair. Acicam has calculated that 14.1 million pairs of imported shoes entered the Colombian market in the first four months of this year and that six million of these have come in “under market value”. The association continued by saying: “Even more alarmingly, 3.3 million pairs came into Colombia for less than \$1 per pair.”

It said that this was making a big impact on local production. Over the same period, January-April 2015, Acicam said Colombia’s own shoe production was down by 7.1% year on year. Its president, Luis Gustavo Flórez, said one of the reasons for this is a 25% increase in production costs in Colombia, exacerbated by the fact that almost 70% of Colombian hides are being exported. ☉

## Peru: Peruvian minister launches footwear contest

Government minister Carlos Carrillo Mora has launched the 2015 edition of a competition to pick out Peru’s 15 best footwear producers. Mr Carrillo, who is the minister in charge of small and medium enterprises, launched the competition in El Porvenir, a district in the city of Trujillo in which many of Peru’s tanners and footwear manufacturers operate. He said he expects around 800 El Porvenir manufacturers to take part, a substantial increase from the 490 who signed up to compete in the competition last year.

Fifteen companies will go forward to represent the footwear sector at the much wider Perú Moda event in 2016. This is the third time that the footwear event, called ‘El Porvenir Produce’, has run.

Mr Carrillo said: “The idea behind this is to increase competitiveness and productivity levels. We want to give El Porvenir manufacturers a shop-window that will allow them to expand their markets, domestically and internationally.” ☉



reliable. The other two data sets are fairly reliable and definitely market-moving, though.”

The reason he believes the weekly export sales and slaughter numbers have a greater impact on the market and on the interactions between suppliers and tanners is that the slaughter numbers are important to a number of industries outside of the leather sector and are “rock solid”, he says. These markets need information all the time on volumes and values. The weekly export sales values are “pretty reliable too”, though there is “definitely room for improvement”, he adds. This data is self-reported by companies when a sale of hides occurs. The companies are mandated by law to report this data to USDA, and are subject to random audit by USDA to ensure the sales figures they are reporting are accurate. One complication is that hides sold in year one may ship in year two and are sometimes misreported (you can clearly see this happening towards November and December of each year). Also sales reported to USDA in one week and subsequently cancelled and resold in another week may be reported twice (which is happening fairly frequently right now because of high numbers of contract cancellations in the market).

Other questions surround shipments of hides across the US’s borders with Canada and Mexico. Canada has hide traders and, in Vancouver, an important trans-Pacific shipping hub that some US material flows through on its way to Asia. Are the Asian tanners importing from the US or from Canada? Unlike Canada, Mexico has a huge tanning industry of its own and the flow of US raw hides, wet blue, crust and finished leather across the border to the south is big. In some cases, US packers or hide traders ship the material to US companies with tanning operations in Mexico and the material often comes back

across the border as finished leather or as part of an automotive interior kit. This complicates the picture even more.

### Need for ongoing checks

USHSLA had been lobbying for years to persuade the government agencies to change their approach, but one reason why the inaccuracies continued is that the association itself used to present the figures for the hides and skins of various species of livestock in the meat value chain as one number: cattle, pig, sheep and goat were all lumped together. Plus, the statistics only went to USHSLA members, a knowledgeable but narrow audience. In the months following Stephen Sothmann’s appointment, the numbers continued to circulate (with his warnings about the likely confusion they would cause) because the export values they contain, which are much more accurate, are the basis for the funding USHSLA receives from the US government and which it uses to take part in industry exhibitions and trade missions.

Since late 2014 as well as the early part of 2015, hide prices have changed again, dramatically, which Mr Sothmann worries may also distort figures that are “finally starting to look pretty good”, unless the government (whose agencies face resource pressures of their own) checks and updates the basis for its calculations regularly. “I’m doing what I can to alert the same people at USDA and the Census to this issue in an effort to avoid the problem,” he says. “I’m afraid of what the current hide market is going to do to all of this work on the monthly numbers. We may be back to square-one in a few months if they don’t update the underlying index again to reflect the current market prices. If we can get the monthly data to a level where everyone feels comfortable trusting it, then maybe in the future it will be market-moving, but I just don’t know if we are at that point yet.” ©

## Mexico: Jalisco footwear manufacturers lament lack of leather

**T**he president of the footwear manufacturers’ association of the Mexican state of Jalisco, Salvador González Rodríguez, has said his member companies are finding it more and more difficult to source leather of the type they use most frequently.

Jalisco is Mexico’s second biggest footwear-producing state, after Guanajuato, and has long had a reputation as an important producer of women’s shoes in particular.

Salvador González Rodríguez said Jalisco producers’ specialism is making shoes using leathers of thin substance from raw material such as sheepskin, but he said supply is becoming difficult to come by.” ©

Where technologies  
and experience  
converge in felts  
for tannery

**ALBANY**  
Tannery

[www.albanytannery.com](http://www.albanytannery.com)



# Finished leather forces wet blue into second place in Brazil

*Brazilian leather showed a decline in its export results in the first six months of 2015 but the country's principal industry association, CICB, took encouragement from finished leather's share of export volumes compared with that of wet blue.*

Brazil's tanning industry association CICB reported disappointing figures for the sector's exports in the first half of 2015, with a decline in value of 15.2% compared with the same period last year, with export revenues of just over \$1.2 billion. However, closer examination of the statistics offers positive news too. For the first time in several years, finished leather exports were greater in volume than those of wet blue.

In volume terms, tanners shipped 15.8 million hides to customers outside Brazil between January and June 2015, a decline of 10.9% compared with the corresponding period in 2014. This year, 6.8 million were finished hides, a little more than 6.6 million were exported as wet blue and 2.2 million as crust. Year on year, finished leather exports were down in volume by 8.8%, but the decline in wet blue exports was much steeper at 22.9%. Crust exports grew considerably, up by 45.4% compared to the first half of 2014 and by 71.7% compared with the same period in 2013.

CICB president, José Fernando Bello, who has been urging Brazilian tanners for a number of years to add as much value as possible on home soil to Brazilian raw material, has told *World Leather* that, in terms of value, finished leather's contribution to the overall performance of the Brazilian tanning industry in export markets has been greater than that of wet blue in each of the last five years, even though wet blue edged ahead slightly.

### Stronger foothold

He says, however, that several factors combined in the first half of 2015 to give finished leather a lead at last in terms of volume too over wet blue.

Perhaps the most important is his claim that Brazilian tanners are making progress all the time in terms of technological innovation and machinery development. This, boosted by the wide-ranging Brazilian Leather promotions project that CICB runs with the support of export

development agency Apex-Brasil, has given the industry a stronger foothold in international markets now, Mr Bello insists. The project has included Design na Pele, an initiative that aims to show how creative Brazilian tanners can be; another important component has been the series of overseas trade missions in which tanners from all parts of Brazil have been invited to take part (a trade mission to Vietnam in July 2015 is the most recent example).

### Relationships count

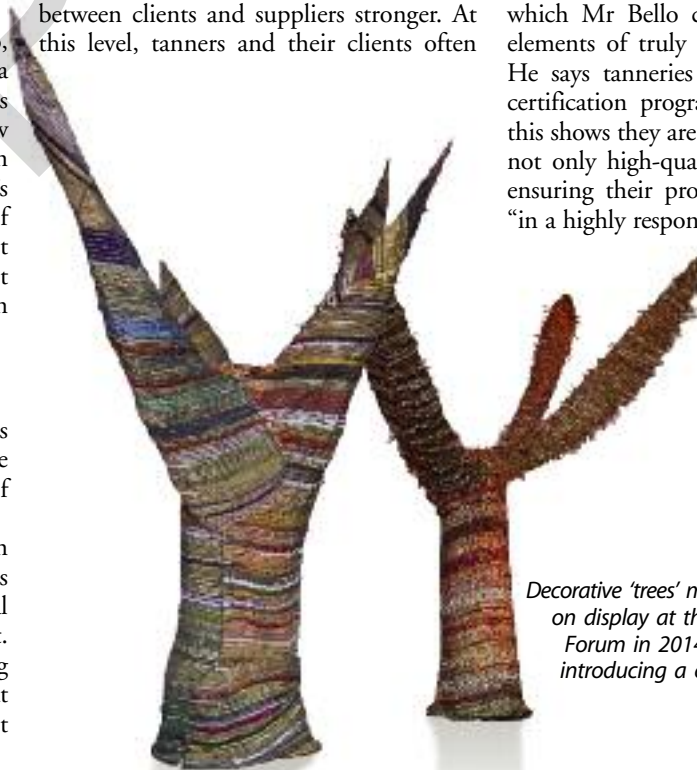
Global market conditions have contributed too. If there is a fall in market values and a decline in orders, the product that is going to suffer most is wet blue, the CICB president explains. This is because wet blue is the product that is most susceptible to a weakening of trading relationships. "Wet blue has fallen while semi-finished and finished leather have maintained their performance levels," he says. "Semi-finished and finished leather add value and make the relationship between clients and suppliers stronger. At this level, tanners and their clients often

work jointly on product development, making decisions together on colours, the thickness of articles and other technical requirements, as well as on quantities, delivery times and so on. There is a joint commitment and because of that these products keep performing well, even in a falling market."

As a footnote to this, he says crust enjoyed such strong growth in the first six months of this year because there is a shorter lead-time to finish it and also offers buyers savings in water and energy compared to wet blue.

### Sustainability certificate

Encouraging tanners to work towards high levels of environmental performance is at the heart of a new initiative the Certificação de Sustentabilidade do Couro Brasileiro (CSCB), or 'Brazilian Leather Sustainability Certificate'. CICB aims to give the certification to tanners performing well in business strength, social responsibility and environmental performance, which Mr Bello calls "the three essential elements of truly sustainable production". He says tanneries are signing up for the certification programme now; he believes this shows they are committed to supplying not only high-quality material but also to ensuring their products are manufactured "in a highly responsible manner". ☉



*Decorative 'trees' made from scraps of leather on display at the third CICB Sustainability Forum in 2014. The organisation is now introducing a certification programme in sustainability for tanners.*

CREDIT: CICB