



Semi-aniline leather seating in the 2014 Buick LaCrosse 'ultra luxury interior package'. Automotive's share of the global leather market is going up.

CREDIT: BUICK

Cars claim a bigger share as the cake gets smaller

Industry expert David Peters says the producers of automotive leather are enjoying some of the best times in their history at the moment, but that securing the ongoing availability of the right kind of raw material to keep meeting OEMs' needs is a challenge the industry must face up to.

Last year, 2015, was “an excellent year” for automotive leather, according to *World Leather* columnist David Peters, a headline speaker at the second annual Automotive Leather Event hosted by cutting technology provider Lectra in Bordeaux on April 5.

Addressing an audience of tanners, automotive original equipment manufacturers (OEMs) and tier-one and tier-two suppliers, Mr Peters, who runs the DLP Advisors industry consultancy, pointed out that OEMs added capacity and that automotive companies grew sales of finished vehicles in the US and in many other countries. The spin-off benefits for automotive leather producers were impressive, Mr Peters says, adding: “Every automotive tanner around the world achieved record profits in 2015.” The volume of hides going into automotive increased by 10% in 2015 compared with the

previous year, reaching 156,000 hides per working day, or 45 million hides for the year.

“Leather is a very challenging raw material,” he says, “but it’s unique and sustainable. But is it sustainable for inclusion in the automotive seating business? As we grow the automotive seating business, we have to be concerned about the availability of raw material supply. It’s a fascinating product, but is it available in sufficient quantities to supply everything the automotive industry needs as it grows?”

Eating habits

Leather, of course, is a by-product industry: no one kills cattle for the hides. Therefore, availability of the material is influenced by people’s eating habits in general and driven by beef sales in particular. If consumers eat less meat it will affect the availability



Fewer cattle are going to slaughter, but the animals are more than 30% heavier today than they were in the 1970s, allowing meat companies to keep growing revenues.

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of the raw material; and even if those who continue to eat meat but choose chicken or pork in favour of beef, it will also have an effect. This means, David Peters says, that automotive leather producers have to create “flexible sourcing strategies” as they move around the world.

Big meat companies, especially JBS, Tyson and Cargill, control supply of all three of these protein sources and are in a position to encourage sales of whichever is most profitable. Tyson’s current level of chicken slaughter, 35 million per week, represents a good example, he says, compared to 128,000 beef cattle. And with the difference in pricing on supermarket shelves between these different kinds of meat now widening, David Peters feels that beef is becoming “something of a luxury”. Meanwhile, the worldwide supply of hides is “stagnating”, he warns. “There is a competition going on between animals and humans,” he explains. “We want more land, we want more housing, and cattle take up land. The cattle are not going to win this competition, and more and more of them will go into feedlots instead.”

Of all the hides produced in the US, 94% of them go for export, with China the biggest buyer. A new decree from China’s General Administration of Quality Supervision, Inspection and Quarantine body, AQSIQ, is also going to make an impact, Mr Peters says. All companies that process or store hides will have to register with AQSIQ if they want to export hides to China. Abattoirs will have to register with their own national health authorities first and apply for AQSIQ registration. National bodies will then submit a list of approved premises to AQSIQ in Beijing and AQSIQ audit inspection teams will select sites to carry out inspections. What China wants, according to Mr Peters, is certification of every source of hides around the world, and he adds: “This is going to change dramatically the movement of cattle hides to China. What this means from a commercial point of view is that, if the authorities in China have an excuse, they could ban hides from a specific location, so there is a changing dynamic in the marketplace.”

Hide supply stagnating

Across the world, we have approximately one billion head of cattle. India has the largest cattle population, followed by Brazil, China and the US. In terms of hide production, the official statistics give a total of approximately 250 million worldwide per year. The lists put China at the top with a domestic hide volume of 46.7 million. “It’s not true; I don’t believe it,” says Mr Peters. “I think the number is close to 25 million or less. They’re extrapolating the numbers based on cattle population and other formulations.” Brazil’s official number of 42.2 million hides a year is closer to the mark, he believes, but India is another story: “People say there are a lot of cattle in India but they don’t kill them; they are a protected species in most Indian states.” Five years from now, there may be small increases in some of the important geographies, such as the US and the European Union, but the overall numbers will not change, he insists.

With supply stagnant rather than expanding, the meat companies are bulking up their animals more. He explains that in 1978, the live weight of a US steer was around 470 kilos. Packers there produced 11 billion kilos of beef and abattoirs slaughtered 39.5 million head of cattle. By 2015, the live weight of a US steer was 620 kilos; it was 31% heavier than its comparatively puny forebear. Producers are raising bigger animals to keep levels of meat production as high as they can. “It’s the meat they care about,” he adds, “not the wrapper, not



No matter how much leather they believe they can sell, tanners can do nothing to increase supply of hides.

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Wollsdorf Leather's award-winning automotive tannery in Austria.

CREDIT: WOLLSDORF LEATHER

what the animal comes covered in." In 2015, US packers produced 10.6 billion kilos of beef, a volume that was 3% lower than 1978's, but the total slaughter was 27% down in terms of animals slaughtered, with a figure for 2015 of 28.7 million. "That means a lot fewer hides for us to make into leather," Mr Peters says, "with 10.8 million hides having been taken out of the supply chain in the US since 1978, and the trend is similar in other parts of the world. In most regions, livestock farmers are moving to this industrial-type cattle raising, with fewer but bigger animals." Yes, the hide of a bigger cow or bull can yield more finished leather, but no matter how big the hides become, it will not make up for lost volume like the 10.8 million hides the US has lost, Mr Peters insists.

Not all suitable

Returning to automotive specifically, he believes 2016 looks like being another good year, with OEMs continuing to report strong sales figures in many markets and positive projections for the months ahead. Production of automotive leather is concentrated in five countries: Mexico, Italy, Austria, South Korea and China. These major producers of automotive leather are finishing and cutting a collective total of 160,000 hides per day. There was a 10% increase between 2014 and 2015 and in 2016 the volume of hides consumed by the automotive industry "will most likely go up again by another 8%", says Mr Peters.

This equates to the 45 million hides per year figure mentioned above and gives a projection for a 2016 total of almost 49 million (and all this, remember, in the context of decreasing supply).

Furthermore, not all hides are suitable for making leather for

cars, owing to natural defects, size and so on; Mr Peters gives a figure of 125 million a year that is 50% of the world's total. Therefore, while half of the world's supply of hides is suitable for use in automotive interiors, the other half is not. "The frustrating thing is that if you are in the leather business, you cannot influence supply," he explains. "It's not like steel or resin or plastic, for which, if you have more demand, you turn up the volume. In our business, even if you can sell more leather, you cannot create more supply."

In competition with the shoe sector

There is an elephant in the room. Tanners who supply the automotive industry are not the only ones vying for the declining supply of high quality hides. Shoe companies want them too. In 2009, 63% of available hides in the world went into footwear, he says, while automotive's share was 8%. By 2012, footwear accounted for 61% of the pie and automotive's portion had increased to 13%. His figures for 2015 suggest that, last year, 55% of the hides tanners processed ended up in pairs of shoes and boots and automotive's share by then had grown to 18%. "Some people say 17%, others 19%," he explains, "but let's stick to 18%. Automotive is growing and footwear is getting smaller, and this trend will continue. There's this thing going on called 'athleisure', in which Nike, adidas, Puma are making shoes to accompany clothes that can



be worn in and outside the gym and they are all synthetic. All of these shoes have to be very light and leather doesn't comply with that. Another reason for decontenting is that shoe companies were shocked by the prices we saw for leather in 2014 and early 2015 and they used less leather in their shoes to maintain their margins."

A complete change

Across the piece, then, what we have is what David Peters refers to as a zero-sum game. Tanners are constrained by consumers' protein demands and the market segments are shifting around. He says it's time for people in the leather industry to "redefine the value proposition". He explains: "Tanners today are changing what they do. There used to be a concept that the leather was made in the beamhouse, but today more and more tanners are outsourcing that, and there are a lot more bluing operations in the industry than there used to be. Tanning, taking the hide to wet blue or wet white and splitting the hide, is being outsourced. This applies to retanning too. So, most of the big automotive leather producers are relying on outsourcing and have retained control only of finishing, cutting and sourcing. This represents a complete change from where things used to be 25 or 30 years ago when automotive tanners did local sourcing and had integrated tanning operations. Tanners today need to have a supply chain that can live up to their needs and meet their quality requirements. For example, if you want to make full-grain leather rather than corrected-grain, you need a different substrate; if you want to make aniline leathers as opposed to stucco-buffed, corrected grain, it's different."

This throws up a question for him about research and

The Mercedes GLC Coupé. Consumers want cars to offer luxury.
CREDIT: DAIMLER AG

development, something else many automotive tanners have outsourced, in this case to the manufacturers of leather chemicals, with whom tanners often have what he calls "a love-hate relationship". Other changes are coming from technology providers and from regulatory bodies. Automotive is particularly strict, he points out, in its rejection of perceived flaws on hides, including natural markings. Another issue is OEMs' insistence that tanners or seating suppliers cut leather in sets, which he feels needs to change immediately because it fails to "maximise utilisation [of the hide]"; he acknowledges that this is a controversial subject and that it merits further debate. What would be better, he believes, would be to scan and inventory all finished hides and when you want to cut, you cut in parts, bringing out of inventory at the right time a hide that is just right for cutting parts for whole seats and then a completely different one that the scan has identified as being well suited to headrest covers.

Buyers of cars, drivers and their passengers are now "moving towards a vehicle experience", David Peters says, pointing out that most of the time now the consumer will not bother looking under the hood at a car's engine, the way they used to. They are more interested in sitting inside the vehicle before making a buying decision. He is convinced that this proves that high quality leather in the interior has an important role to play. 🌐