



What is the hide market going to do in 2017? What is the direction and why? Regular columnist David Peters has consulted with industry insiders in almost 20 countries to find the answers.

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Cogitations, the New Year and Zorro

It was an easy year, 2016, things were so predictable. The Olympics, Brexit, US elections, strong auto-leather business, weak shoe leather orders. Don't forget the positive attitude towards bi-partisanship, global trade and strategic alliances. Yes, as the year reaches its grand finale we turn our thoughts to the future and realise that nothing that has occurred previously is any basis for what 2017 may portend.

January 20 will become an historic date marking the ascendancy of the big "D" to his majestic throne. Hopefully the constitution will protect us from his self-determining proclivities but first the document must be read; one wonders whether the manual that came with the job will be referenced. The lead-up to this auspicious day is strewn with bluster and verbosity specifically threatening the very core of our entire industry. Yes, we are looking at a potential fragmentation of global trade disintegrating into regional zones, and a complete dislocation of supply.

But, fellow purveyors of animal by-products, do not be frightened, don't be sad. This is yet another challenge that is before us and something that we, together, will figure out how to resolve.

Produce globally and sell locally is not a contradiction in terms. Tanners are the most flexible and inclusive group of entrepreneurs. They constantly search for the hide most suited for their purpose while navigating environmental, political and economic challenges that are thrown in their faces. They are constantly required to reinvent the wheel while managing sustainability and transparency issues that others ignore. This merry band of artisans are culturally diverse, understanding of shipping restrictions, exchange rates, and the benefits of global trade.

With the political landscape changing in the US and several EU countries towards nationalism, business leaders will need to re-examine their current supply chains and develop new strategies for historic industries such as leather. Traditionally raw materials such as hides have been regarded as essential resources for both civilian and military applications. As we move away from globalisation to a more protectionist society there will be a need to re-build depleted infrastructures and localised manufacturing, which undoubtedly should include tanning. However, hitting this re-set button will require individuals with the vision and passion to embrace potential

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resistance from fringe groups and government regulations.

Creating tanneries that meet and potentially exceed societies' expectations is only one aspect of this resurgence in localised manufacturing, the greater challenge will be in re-creating the shoe and apparel enterprises that can produce at a cost level acceptable to consumers.

Meanwhile we kicked off the current seasonal selling season in grand fashion. Black Friday is not the day after the general election but, ironically, the day after Thanksgiving in the US when the retail industry celebrates the start of the Christmas selling season by typically recording their biggest activity of the year. This year there was a featured article in the *Wall Street Journal*, describing an initiative entitled "Door-Buster" where certain shoe stores were promoting a heavily discounted ladies' boot for \$19.99. The Rampage boot is an attractive knee high boot, with an eye-catching design and photographed to emphasise the grain-like characteristic of the upper and shaft. Research revealed that the upper is made from synthetic material.

Producing this faux material is fraught with environmental and human life-threatening conditions and while we genuinely respect some people's choice for a vegetarian diet we must clearly state that the supply chain impact, carbon footprint, and ecological effect are substantially more repugnant compared to utilising real leather; which as everyone should understand is a totally recycled and sustainable substrate.

Let's not mince any words, polyurethane and polyvinyl chloride are dangerous and life-threatening products and are



made from petroleum-based materials. The manufacture and incineration of PVC-based synthetics produce some of the most toxic chemicals known to man: dioxins. Since plastic-based synthetics aren't fully biodegradable, they produce micro-particles that are ingested by animals and thus enter the food chain at all levels: even Arctic polar bears have been found to have dioxins in their bloodstream. (Is Coca-Cola aware of this?)

According to a great Jody McCutcheon article published by *Eluxe* magazine: "When it does break down, vegan 'leather' releases phthalates—initially added as a softening agent—which subsequently enter the food chain and the atmosphere, causing breathing problems, breast cancers, hormonal disruptions and birth defects. But make no mistake—there is no such thing as 'eco-friendly' polyurethane."

Fellow leather aficionados, let's get real: synthetics ultimately kill you (SUKY). Please feel free to utilise the new acronym SUKY when referring to synthetic materials. While pondering our new SUKY marketing plan, let's return to the hide business.

We currently have a multi-tiered hide market, which is adding confusion to an already muddled situation. Good hides are in demand, seemingly impervious to buyer pressures, while mediocre selections are going begging and as we move into the winter sourcing season, when hide quality typically takes a nose dive, the disparity in selections will only widen. So as we assemble around our seasonal traditions and listen to the prognostications of an older relative, the hide gurus polish their crystal balls and look for guidance.

What is the hide market going to do in 2017? What is the direction and why? We have contacted our sources in 18 different countries in search of answers and have drawn reasonable conclusions.

We have all come to accept that supply is king, although over the past couple of years there have been some serious challenges and in some specific regions a coup or two. But at the end of the day we are stuck with the basic fundamental that without hide supply we cannot make leather. Minus going into the protracted argument about cattle cycles, protein demand, corn supplies and consumer preferences, beef production in terms of total poundage produced and number of cattle slaughtered are all scheduled to increase in 2017. The US will be the largest beneficiary of increased numbers with estimates of an additional 1.5 million hides being produced.

On the demand side, auto, furniture, handbags and accessories look good for next year; however these product segments when added together do not equal the consumption of hides in the shoe sector. So we need to better understand the trend and demand for leather shoes as this continues to hold the key to the future hide market.

Seasonally beef production tapers at the end of the year; only to spike in January and then drift down during February and March. We believe that with the absence of decent leather orders for footwear, hide inventories will accumulate and the market will feel pressured. Expectations are therefore for an early 2017 adjustment in the 3% to 5% range which will bring US hides down into the \$60s. With the major leather buying taking place during the second half of Q1 and into Q2, we expect a slight bounce followed by a more sustained drift

downwards during the summer of next year.

Bringing hide prices down will encourage shoe designers and fashion gurus to re-discover leather, which for the past couple of years has been clearly absent. We need a healthy leather shoe industry without which leather development will be stifled. Unfortunately the auto tanners are not going to get it done as they chase vinyl replacement and only invest in resolving blue dye transfer, rattle and squeak and aroma issues. It's the old fashioned side leather sommeliers that add the sugar and spice necessary to create the next leather breakthrough.

There has been much discussion over the past couple of years about hide traceability. The concept has resulted in essentially two camps being formed, those who produce and market their products versus traders who wheel and deal their way around the periphery of standards. It is further noteworthy that while this initiative gained early traction there were certain individuals that felt constrained by the boundaries required to make a traceability programme viable and therefore resigned themselves to filibuster any attempt to legitimise this functional and reasonable concept. It appears now that this sensitive and perplexing topic has found a workable solution as finally we have a fool-proof traceability system for hides that is ironically endorsed and enforced by the major producers.

We suspect that the origins of the system currently employed is based on the story of Zorro, who often left his mark utilizing a rapier to make three quick strokes in the shape of a "Z". Today the process of marking the hide is more efficient in that the Animal and Plant Health Inspection Service applies a hot branding iron, not less than 2 inches nor more than 3 inches high, and shall be applied to each animal's right hip, high on the tail head (over the junction of the sacral and first coccygeal vertebrae). As a result we now have a fool proof method of identifying the approximately 1 million hides that originate from cattle that are born in Mexico and slaughtered in the US. Joining a litany of high-profile products (luxury autos and marijuana cigarettes) "M" branded hides are being marketed and promoted by virtually all the big packers as an alternative, cost-effective and value-defined product. Discounted to regular selections, these documented and legally imported cattle offer tanners clear transparency and therefore traceability.

So why limit this marketing programme to one specific type of hide? The genius in providing tanners with tangible evidence of a certain selection should form the platform upon which a full blown identification scheme should be developed. Creating a viable branding programme affixed to certain types of hides is an initiative welcomed by tanners and no doubt would become a valued-added proposition. Having an independently verifiable system would also be embraced by the various industry agencies that certify processes and facilities on behalf of numerous consumer product companies. Source verification helps all spectrums of the industry with one possible exception, the group that arbitrages the value-difference between steers, heifers, cows, heavies and lights. So in the words of the future leader of the free world, let's drain the swamp and make the leather business great again. Don Diego de la Vega would be proud. 🌐