



The US leather industry can thrive in future if it can claim back some of the natural advantage it once had in having huge, high-quality hide resources on its doorstep.

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Country Commentary

US leather industry starts to grow back

For most of 2016 and the first months of 2017, the volume of wet blue that US tanneries have shipped overseas has diminished, with a higher volume now leaving the country as wet salted hides, which means without adding any value to this national natural resource. Around 90% of US cattle hides go to export markets. Last year, 28.1 million wet salted and wet blue hides were shipped from the US for processing in other countries according to figures from the US Hide, Skin and Leather Association (USHSLA).

Wet blue exports fell by 12%, with 6.6 million of them going to tanners outside the US last year. However, shipments of wet salted hides went up in volume, from 19.1 million pieces in 2015 to almost 21.6 million last year, a rise of 13%.

Leather Industries of America (LIA), which currently has nearly 40 members representing most of the segments in the leather value chain, from tanneries to finished product manufacturers, says it focuses on export value rather than volume. Its president, John Wittenborn, accepts the decline in wet blue production in the US represents a lost opportunity. He believes there is enough wet blue

Leather Industries of America is one of the country's oldest trade associations. It's smaller now than in the days before globalisation, when millions of US hides began to flow overseas, but its president, John Wittenborn, says the companies that remain are strong and optimistic about growing the industry back.

production capacity in the US for operators to semi-process more of the country's hides at home and add value to them in their country of origin.

"USHSLA tracks different statistics," he explains. "We get ours from the Department of Commerce and we don't track volumes, but I know it's true that exports of wet salted cattle hides did go up in volume last year, while wet blue numbers were down. China was



off, Brazil was off and Italy was off, three important wet blue markets. However, if tanneries overseas want to buy wet salted hides, producers will sell them. We have members producing finished leather and they want those hides to stay, of course, but our own wet blue producers would love to see some of these hides stay too. Big players like National Beef and Tyson sell the meat first and the hide is a by-product; I'm sure they would much rather get the extra value from that by-product themselves."

Mr Wittenborn explains that there was a time, even in the recent past, when US tanners and finished leather product manufacturers had an advantage: the hides were on their doorstep. They still are, but in the last 10 or 15 years the hide market has become a truly global market and US-based producers have been affected by that.

He thinks it is possible production on home soil could increase again, with two main factors contributing to that. The first is the increase in the cost of labour, materials and environmental management in China. China, including Hong Kong, imported 15.2 million US hides in 2016, half of all the hides produced in US slaughterhouses and more than 50% of exports. Slaughter numbers for 2017 are projected to be up by as much as two million hides and, if less of this material goes to China owing to environmental and financial constraints, it means more hides will be available to tanners in other geographies, including the US.

The second consideration Mr Wittenborn flags up is that a growing number of brands and consumers now favour products that are made in the US. One example is Ralph Lauren, which got in touch with LIA a couple of years ago specifically to ask for help in identifying suppliers of US-produced leather because it wanted to pursue a 'made in USA' marketing policy. He says LIA member companies are in a good position to use this movement as a platform for growth. Shinola, a US luxury company founded in 2011, is one finished product brand to have joined the organisation recently and he also points to the ongoing success at the other end of the value chain of tanners such as Horween Leather, SB Foot, Thiele Tanning and Tasman, and of other specialist companies such as leather shoelace manufacturer Auburn Leather. Hand in hand with 'Made in America', though, few around the world, and no one based in Washington DC, can have missed loud talk of changes to established free trade agreements that have served such an export-driven industry well.

"We are a little concerned about what might happen to trade," the LIA president says. "We were disappointed the Trans-Pacific Partnership (TPP) didn't get through, but we don't think the proposed renegotiation of the NAFTA agreement [linking Canada, Mexico and the US] will come to much because to give just one example the automotive supply chain, including automotive leather, is already so well established. Mexico is our biggest leather export and import customer. Big automotive leather producers such as Lear and GST have their own locations in Mexico and our hides or our leather go down there and then come back in finished seating panels or in a fully assembled automobile. I can't see the government slapping a 30% tariff on that trade. We would like to see tariffs come down instead of going up, all around the world."

His view is that there is clearly capacity among US leather companies to make more of the country's growing hide resources and appetite among many of them to add more value. The difficulty he foresees is that this would be something of a shot in the dark because although many US consumers may like the idea of 'Made in the USA', no one yet is hammering on US factory or tannery doors to demand product. "Demand is a problem," he confirms. "A few years ago the price of hides went very high very quickly and it took until 2013 or 2014 for tanners to get some price increases. Many brands reacted by removing leather and using synthetics instead, or lots of shoes appeared with leather on the vamp and synthetic material on the side. We've got to recover that market."

Nothing is certain yet but he explains that efforts are under way to secure funding from the US Department of Agriculture to help stimulate the export market for leather. He recalls a campaign in the 1980s to promote US lifestyle leather and says it generated "a great market" for about five years "until other people figured out how to make the same leathers cheaper". The plan is to run a similar campaign now.

The US leather industry is still alive and well, Mr Wittenborn insists, with most of the companies that are left functioning strongly, often in niche markets they have found, so there is a lot to be optimistic about. He says: "We're very excited about Mississippi TanTec Leather becoming the first new tannery in the US in several decades, for example. The threat from synthetics remains a cloud on the horizon, but things have turned around. We are starting to grow back." 🌐

Friends in high places

Hide exports from the US earned \$2 billion in 2016, which is a handsome amount of money, but perhaps not a big enough sum for the US Hide, Skin and Leather Industry Association (USHSLA) to turn important heads in Washington DC. Asked about this, the organisation's president, Stephen Sothmann, points out that the hides business might struggle on its own, but that it has "friends in high places" in the form of the powerful US meat industry, even sharing an office in the capital with the North American Meat Institute. "We can ride on their coat-tails to some extent and swing above our weight-class," he says, "but it's not always easy for us. I would say the biggest obstacle is explaining the basics about the hide industry; educating people is half the battle."

Around 90% of the cattle hides produced as by-products by the US meat industry go for export. Inevitably, this makes the US's trade relations with other countries of paramount importance to the US Hide, Skin and Leather Industry Association.

On releasing full-year figures for 2016 for US hide exports, Stephen Sothmann said hide industry leaders in the US are confident of a good year in 2017 because of increased demand for leather, especially in footwear. It is also likely that more hides will



USHSLA hopes companies in the US that have invested in the capacity to process hides to the wet blue stage will be able to claim a larger share of hide resources, but warns that "the market will dictate".

CREDIT: MISSISSIPPI TANTEC LEATHER

come to market than last year, possibly as many as two million more.

Around 90% of these hides go to export markets. Last year, 28.2 million wet salted and wet blue hides were shipped from the US for processing in other countries and, given its dependence on trade with overseas markets, USHSLA says it is monitoring the global political situation closely.

"We have concerns about the political rhetoric surrounding international trade," Mr Sothmann says. "It is our hope that any policy revisions to the existing international trading system will not negatively impact on a thriving US industry's ability to compete, just as our market is beginning to expand."

He makes it clear that a decision to pull out of the North American Free Trade Agreement (NAFTA) that the US shares with neighbours Mexico and Canada, for example, would have major repercussions. "If the US administration were to pull out of NAFTA with no alternative plan in place it would blow things up," he says, "but I don't think it's likely to do that. It's making noise about reviewing NAFTA and upgrading it so maybe it will just tweak it around the edges. A feeder calf could easily be born in Mexico and cross the border for finishing at a feedlot at slaughter at an abattoir in the US. The hide would often go back to Mexico for tanning and

to be put into a car seat, which in turn becomes part of a car that will have its final assembly in the US before being shipped back to Mexico to be driven by a consumer there. Are they going to apply a 30% tariff each time the material crosses the border? It's not going to happen."

There is a second major consideration for the US government to take into account if it really is contemplating turning its back on existing trade arrangements and imposing new tariffs on trading partners: China. "The hide industry would be unable to fly under the radar if a new tariff regime between the US and China came in," the USHSLA president says. "We would face retaliatory measures. And this is coming at a time when we have been talking in depth to the China Leather Industry Association about shipping more wet blue to tanners in China and fewer wet salted hides for environmental reasons."

More wet blue and less wet salted would be good news for the US leather industry because it would mean adding more value on home soil to a natural resource. This would buck the current trend. The total exports of hides from the US in the first two months of this year reached more than 4.6 million, which represents an increase of 6.9% compared to the figure for the same months in 2016. However, the figures are dominated by wet salted hides because exports of wet blue have declined year on year.

USHSLA's figures show that tanners and traders in the US exported just over 970,000 wet blue hides in January and February 2017, compared to more than 1.1 million for the same months in 2016, a decline of 12%. In terms of value, wet blue exports brought in \$91 million over the two-month period, which represents a decline of 10% year on year. At the same time, wet salted hides brought in \$246.5 million, an increase of more than 20%. The automotive industry is driving this dynamic, Stephen Sothmann says. "We hope that firms who have invested in capacity will get to make more wet blue here in the US," he adds, "but the market will dictate."

Another question that arises from this is the widely held perception that the quality of US hides is declining. It's a difficult issue to tackle, the USHSLA president admits. "There are things we in the hide industry can control and other things we can't," he says. "If a hide isn't cured correctly or if the flaying causes unnecessary damage, these are issues that should be rectified. But the breed of cattle packers prefer is not something we can control. We now have more Angus in the herd and fewer Herefords. What difference does that make? What difference does it make if the hides are from cattle raised in Texas or in the north? How are they fed? When are they fed? We cannot control any of that but we are actively trying to get funding to carry out scientific studies to see what answers there are to these questions. It would be good, for example, to show farmers how much value they lose by insisting on branding their cattle."

Mr Sothmann confirms that USHSLA and Leather Industries of America want to work together to raise awareness of this \$2 billion sector in Washington DC and secure some funding for a promotional campaign. He says that with hides and leather representing roughly 4% or 5% of the economic value of the cattle industry, the sector has been under-represented, which can make it hard to access government dollars for promotion. Some unity and joint-effort on the part of the two industry bodies could help to change that. 🌐



The casualness and (some might say) irreverence of athleisure have made an enormous impact on the US shoe market. People no longer feel the need to combine formal shoes with formal outfits.

CREDIT: MESSE DÜSSELDORF, CONSTANZE TILLMANN

A fundamental footwear shift

Being elected is one thing, but governing is a completely different container of shoes. This gives Washington DC-based footwear industry consultant Peter Mangione hope that all the recent talk of increased trade barriers and their potential effect on the shoe industry may come to little. "All presidents become free-traders in office," he says. He has faith that, if not President Trump himself, the cabinet he appointed at the start of 2017 is a "strongly trade-expansionist cabinet". There has been a high level of rhetoric about abrogating the North America Free Trade Agreement (NAFTA) and so on, but Mr Mangione points out that to address the US's trade deficit (more than \$500 billion in 2016 according to the US department of commerce) what's needed is an increase in exports and not "throwing bombs at our friends". For this reason, not only does he believe NAFTA will survive, but insists it will be better following a round of negotiations that the US government seems intent on embarking upon. On top of that, he feels sure of free trade agreements with Japan and Vietnam further down the road: the Trans-Pacific Partnership may have failed, but elements of the deal, which took years to negotiate, can come into these treaties.

The US will hope to export more cars, oil, passenger aircraft, pharmaceuticals and so on to its trading partners, but they, too, want to ship the goods they produce to the attractive US market. For a number of these trading partners, shoes are an important export product. The US remains a huge market for importers, but the picture is changing.

Mr Mangione's figures suggest that US importers brought in leather shoes worth \$11.3 billion in 2016, a decrease of almost 12% compared to the year before. Almost 50% of this total came to China, but if US shoe importers ploughed \$5.6 billion into the

Seasoned industry observer, Peter Mangione, says athleisure means the US shoe market may never be the same again, but that for short lead-time segments such as women's fashion footwear and lower-cost shoes, the established shoe supply chain in China will continue to play a crucial role.

Chinese leather footwear sector in 2016, this represents a decline of 18.4% on the amount they spent on leather shoes from China in 2015. These are important declines and owe much, according to Mr Mangione, to the phenomenon that is athleisure.

He explains: "I took part in a recent event in Las Vegas and a fellow-speaker, representing research firm NPD Group, took us all to task for referring to athleisure as a trend. She said it isn't a trend, but a fundamental shift in US lifestyles. This is important because, in athleisure, shoes are all about bright colours and fabrics. Knitted uppers are also a big thing now. Most people in the US are now comfortable wearing these shoes with any outfit and this means you don't need to have shoes that match each outfit any more. You don't need lots of outfits any more and you certainly don't need lots of shoes." Even sales of sports shoes are slowing, he warns, with Under Armour's footwear sales growth easing and adidas "on thin ice", while it's many quarters now since growth at Nike has been more than single-digit.



A typical DSW store might have 30,000 pairs of shoes in stock, but the range online is even bigger.

CREDIT: PRNEWSFOTO/DSW INC

The death of recreational shopping

Traditional shoe retailers are also suffering in the US, with one major group, Payless Shoesource, filing for bankruptcy protection as recently as this April. "Shopping malls," Peter Mangione says, "are dinosaurs. They are too big, it's too hard to park and the shops change from one month to the next, partly because the rents retailers have to pay are so high. People go to the mall in the evening to see a movie or go to a restaurant, but recreational shopping in the US is mostly gone."

Gone online, at least. Online is winning over shoe shoppers of all ages, he insists, and he points to DSW, a shoe retail group he admires greatly, as an example. Of all the shoes DSW stocks, 95% are from "famous brands", he says, and now, 25 years after the retailer's launch, its status is such that even these brands are happy to produce discrete short lines of shoes specifically for this retail customer. "There is no mark-down money, and everyone gets paid," Mr Mangione says. "The selection in the stores is fabulous, typically around 30,000 pairs per store. But online, its selection is even better."

His explanation of the situation is that consumers have figured out that they simply do not need to go all the way to a mall or to a store to achieve a feeling of satisfaction; you can find just the right pair of shoes in the right shade and the right size from your own sofa. Online retailers offer quick delivery and high levels of customer service. Online only companies, such as Zappos, are entirely devoted to customer service, he says.

Impact on the global market

This combination of shoppers in the US buying fewer shoes and convincing themselves that they need fewer shoes is making a big impact on the global footwear industry. The reason is that, for decades, the US has been by far the biggest shoe consumption market, per capita, in the world. Peter Mangione's analysis of full-year figures for 2015 leads him to conclude that the 15 most important shoe producing regions of the world (taking the European Union as a single source) had a combined output of 21 billion pairs of shoes that year.

According to the Mangione numbers for the top five countries (who together account for 90% of the global total), Vietnam

increased its production by 20% year on year in 2015, producing more than 1.2 billion pairs, and Indonesia's figures were up by 6.2% to just over 1 billion pairs. But India's were flat at just over 2 billion pairs and Brazil's were down by 3.1% to 850 million. The biggest producer of shoes by far in 2015 was, of course, China, with total production figures of 13.7 billion pairs. This represents a decline in shoe manufacturing of 5.5% compared to the previous year and the fall in the volume of shoes that China has exported in recent times is even steeper. Chinese footwear manufacturers exported almost 9.9 billion pairs during 2015, a decline of 8.1%.

"In the last two years, export markets have received 1.4 billion fewer pairs of shoes from China," Mr Mangione continues, "and about 300 million of those pairs were leather shoes. The main thing is that not many of those missing shoes were picked up by anyone else and that is an earthquake in the global footwear market."

Only China will do

One reason why there was a sharper fall in exports than in production is that more Chinese-made shoes are being bought and worn in China. China for China is, Mr Mangione says, "massive".

Nevertheless, he is convinced that, in the segments of the global footwear market for which short lead times are still of vital importance, China will continue to be the main source of product. Which segments are these? Principally those offering women's fashion shoes and lower-cost footwear, both fiercely competitive markets that offer little room for error. Companies offering these types of shoes "need to get it right", he argues, which means relying on shorter lead times. He comments: "Those lower-price shoe brands are still selling fashion, you know. And the quantities are huge. It's a just-in-time business and the factories need to be close to the supply chain." This is the only way the model can work: the factories that assemble to final product have to be close to their suppliers. As soon as customers (brands or retailers in the US, for example) decide what they want, the footwear factories they work with must be able to source quickly all the leather, heels, buckles and other components they need.

"It's still China for that," Peter Mangione concludes. "There's only a little bit of this in Vietnam and I think Vietnam is already at full capacity, meaning it's too late for new investment in the footwear sector there, too late for new projects. There are people who talk about setting up new factories in the jungle but it would be too hard to find workers. That's why China's exports are still five times higher in volume than Vietnam's and 17 times higher than Indonesia's. If you have a short lead time, you still need China. The advent of more automation in footwear production will not change that: China wants to win that battle, the battle to bring in automation, too." 🌐

Country	Total production (millions of pairs)	Exports (millions of pairs)
China	13,700	9,874
India	2,065	130
Vietnam	1,242	1,104
Indonesia	1,012	240
Brazil	850	124.1
Estimated figures 2015		