



Does the record fine of around \$3.2 billion imposed on JBS, Brazil's giant meat processor, reflect a general decline in integrity, honesty and values, in society and in business, including the leather and hide business?

David Peters, DLP Advisors
Dlpeters99@gmail.com



"Blame It on the Bossa Nova"

Not since "the shot heard around the globe" has an event resonated so much with the hide and leather industry. The recently announced leniency settlement of roughly \$3.2 billion by the largest shareholders in JBS will no doubt have unintended consequences. But is this a single and unique event or perhaps a reflection of a condition prevalent throughout our current society? What is the meaning of integrity, honesty and values?

The human race functions by a code of ethics and morals that are often bound or encased in laws that protect the individual and create the environment for a protected and safe society. I am not naïve to the point of suggesting that we all live in this type of society as obviously events, or greed, can overtake a person's perspective of following prescribed laws. During the last general election in the US we listened intently to cries of 'drain the swamp', and the so-called corruption of one side versus the other. So what does this all mean to the hide and leather business? While the contractual paper provides the legitimised agreement between two parties it is always relegated to a lower level on the scale of intention as the connection or relationship between the parties, trump (excuse the pun) the legality of the transaction.

The so-called spirit of the law, compared to the letter of the law, has been the guiding principle in our industry for the past many years. With this so-called hand-shake, or gentlemen's agreement between supplier and customer, commitments and honour are apparently directly proportionate to the financial impact of a given deal. More simply put, during the debacle of 2009 certain buyers in the face of a rapidly declining hide market chose to turn their backs on contracts and deliveries without risk of recourse. The subsequent reaction to the crash of 2009 was a hide and leather market cluttered with the debris or detritus emanating from contracts, invoices and claims strewn across the highways and shipping lanes around the globe.

'Revenge is a dish often best served cold,' was repeatedly whispered amongst hide shippers as they waited for opportunities to regain losses. The ensuing bull market provided the backbone necessary for sellers to occupy the higher ground, from which renegotiation was possible. Fast forward five years to 2014 when the next adjustment took

"Our industry prides itself on the transparency of price discovery and over the past several years, businesses have been established to independently report hide values. "

place, and the buyers took their turn to exercise their quasi-acceptable behaviour to not take delivery. Some used reasons or excuses of tardy delivery schedules and inconsistent quality aspects, all of which provided sufficient cover to abandon the contract. Many sellers were flabbergasted when confronted with accusations of "Contractus interruptus" as they held firm to their script, which stated no contracts had been dishonoured. Obviously a reflection of fake news.

But this synopsis of actions taken on both sides clearly suggests that our standards and therefore ethics have been eroded. Our industry prides itself on the transparency of price discovery and, over the past several years, businesses have been established to independently report hide values. These so called self-governing and more correctly self-regulating enterprises declare values that establish and influence a multitude of products and affect the economic results of numerous companies. But are these reports a true reflection of the business being concluded when over 90% of US hides are exported, and the transaction price is fixed on a delivered basis, including freight, commissions and bank costs, while the reported price is possibly a back-of-the-envelope calculation, possibly influenced by personal preferences?

The arbitrary calculation that results in establishing market



prices is typically absent from the volume associated with the transaction. These reports could be described as subjective and motivated by the lack of impartiality. We rely upon individuals in positions of leadership that share morals, principles and ethics above reproach and are simply honest. But, without casting aspersions, is this role or responsibility too great a burden to bear or as in the case of the recent leniency settlement, potentially influenced by personal or corporate gain?

Each week members of the US hide trade huddle around their individual computer screens eagerly awaiting the publication of the export sales. This weekly event becomes a regular headline as one country contracts more hides compared with others and pundits opine as to the veracity of the news. Comparisons with previous reports result in seismic shifts in percentage comparisons, all of which obscure the underlying facts that this regulated requirement is basically unregulated.

In researching for this column we attempted to ascertain when the last audit was conducted to verify compliance with the government regulations for export sales, and the result reflected a broad case of amnesia. Seemingly, due to consistent cuts in funding for the relative department, the export reporting service operates on a good-faith basis. Further examination and research reflects an industry that can be described as reporting through interpretation.

As more overseas buyers contract directly with suppliers, there is general confusion or even an apparent absence of compliance. This is easily verified when comparing the export sales to the numbers supplied by the department of commerce, the latter being reflective of actual shipments and their associated export documents. So is there an absence of malice? Or is the system being gamed? Whatever the answer, the acceptance of a wishy-washy type approach to creating information utilised by the trade is another accident waiting to happen. The major corporations who house a number of hide-producing entities require all employees to adhere to a set of corporate standards covering ethics, conflict of interest, environmental stewardship, sustainability, workplace

respect and so forth. Typically these principles are top-down driven but based on the recent news there appears to be a double standard. In the US the government requires all suppliers to be in compliance with similar values and failure to adhere to these standards often results in the forfeiting of government contracts.

The leniency settlement in Brazil would suggest that standards have been violated and in turn lowered. It therefore would suggest that the rule of law as we know it has fundamentally changed. Virtually every country has its own dance: Argentina has the Tango, China the

dragon dance, Tarantella in Italy, the US the square dance. In all cases we dance for physical fitness. We dance for mental clarity. We dance for emotional stability, and other such benefits. But as demonstrated there is a growing habit of dancing around the issue, whether political, social or economical. But with the recent record-breaking settlement we sense that there is a new trend so... "Blame it on the bossa nova with it's magic spell, blame it on the bossa nova that he did so well."

'Blame It on the Bossa Nova', by Barry Mann & Cynthia Weil. 🌐

QUAKER COLOR
A Step Ahead in Automotive Finishing

A family owned and operated company supplying innovative finishes to the automotive industry for over six decades

www.quakercolor.com

Quaker Color is a division of McAdoo & Allen, with roots in the leather industry for over a century