



## Sopite syndrome

**W**e are entering the summer doldrums, climate-change people notwithstanding. With symptoms of fatigue and mood changes, this year could be a form of sopite syndrome. We will succumb to an extended period of inaction and the perceived calm will have an opposite effect. There will be no wind in our sails, no waves to surf, no current to navigate. Therefore, our powerless yacht will be marooned somewhere in the Pacific, drifting aimlessly. While our nautical orientation struggles for a new direction we grab our sextant in the hope that some celestial configuration will give us an indication of what lies ahead. We are profoundly struck by the fact of "water, water everywhere and not a drop to drink".\*

According to campaign group Conservation International, one billion people are facing water scarcity. Demand for fresh water is outstripping supply and many water systems around the world are currently overtaxed. These factoids are becoming increasingly more apparent in several tanning regions, specifically in Leon, Mexico, where the growth industry is now in transporting water. On a daily basis there could be more than 200 tanker trucks delivering water to the various tanneries. Not a truly sustainable business model, especially as this region expands its leather production. Fresh water is a limited natural resource and we are quickly approaching the intersection where business and consumers converge. Already knowing the outcome of this confrontation, our industry must develop alternative means to reduce its utilisation of and dependence on water in converting hides to leather. We also need to address effluent streams, solid waste disposal, effluent treatment systems and the energy required for all these applications.

Meanwhile back on the boat. There is absolutely no reason why hide prices will increase over the next two or more months. There is also no evidence to indicate that prices can remain unchanged for the same period. Therefore, there is only one direction that the market can go. Brain surgeons and rocket scientists are restricted from responding. As a recently published USDA report indicated, global beef production is expanding with herd sizes exceeding one billion head. Excessive temperatures in Argentina and Brazil are resulting in cattle ranchers bringing their animals to slaughter in greater numbers and in the US the beef business is really, really good. This is supported by the summer barbecue season and a robust export business. The supply side is locked and loaded for at least the next three months.

**The demand side of the ledger** displays all the weakness of a container of hides decomposing on the pier in China, where several shippers no doubt struggle to convince their customer to accept the fifth renegotiation package. Oh, how we wish for the return of the domestic tanning industry. Dream on. In the shoe sector synthetics have supplanted leather as the core and preferred substrate and we have been relegated to a replacement material, positioned more on price

and less on aesthetics. A sad state of affairs, and something that we must use every tool in our arsenal to correct.

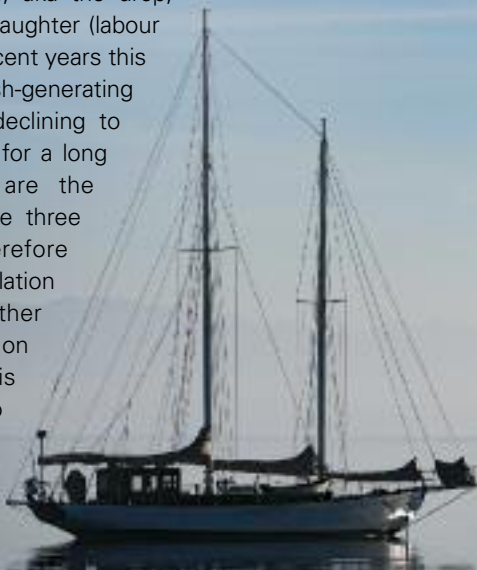
**We need to change the narrative.** Leather is good for society, it's good for the environment and it's good for the planet. Our industry is under attack on two separate and totally different fronts. Alternative materials that conjecture, suggest and assert that synthetics are better for the consumer. Second, we are receiving a barrage of fake news from campaign groups who categorically state that we are killing animals for leather. This assertion is groundless and is therefore a total fabrication. We need to go rogue. We need mavericks to step forward and lead the charge, promoting leather as a core material. We need companies and industry to lead this charge. We need all segments of the industry to engage.

The shoe leather sector is the core component of the leather and hide industry. Based on our calculation, in 2009 footwear consumed over 60% of all hides produced worldwide. In recent years this percentage has eroded by several points, dropping currently below 53%. While the reduction was offset by the growth in auto, furniture and handbag leathers, this shift is slowing down. It's also important to keep in mind that during the same period, namely from 2009 to 2018, we have seen a global expansion of beef production; therefore, we are drifting towards a surplus of hides.

Without a viable shoe leather segment, the beef business will suffer. This is not hyperbole, or an exaggerated claim. For the hide industry to remain viable we need the footwear industry to embrace leather, we also need the entire meat industry to get involved.

By-products fall into three categories: rendering, variety meats and hides. This segment of the meat packing industry is a vital cash cow (excuse the pun). Historically the income from the by-products, aka the drop, paid for the cost of slaughter (labour and utilities) and in recent years this has changed. This cash-generating segment has been declining to levels not witnessed for a long time. Hide values are the largest number in the three categories and therefore there is a direct correlation between shoe leather usage and the impact on beef margins. This should come as no surprise to the beef companies, as their focus has been on value-added initiatives.

The twentieth century produced



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the rise and fall of the trading companies. These institutions that spearheaded international trade provided liquidity for both producers and tanners alike. With progress in communications starting with the telex, and morphing into the iphone, manufacturing companies were able to bridge the gap between supply and demand and shorten their supply chains. The twenty-first century has given us absolute B2B, with producers and tanners engaging in direct commerce, with the traders consigned to retirement. Short-term gains have now transitioned to long-term policies for acceptable higher inventories. Risk management has been resolved by sidelining the precepts of customer service and replacing them with bloated warehouses full of material available to ship when the customer has funds. This approach is grounded in the theory that supply remains king and therefore akin to the Field of Dreams slogan: "Build it and they will come". This assumption predicates that demand is constantly bigger compared to supply, a true perception for the last 50 years, but alas it looks like this has now changed.

**Consider the general lack of leather utilised in athletic shoes.** When this segment burst onto the market in the eighties and nineties it consumed millions of hides, estimated at around 20 million annually, however today this number would struggle to reach one million hides. Likewise, alternative materials have overtaken leather as the substrate of choice in a multitude of categories, from pumps and hiking boots to dress shoes. Simply put, leather is out and synthetics are in.

Consider that each percentage point of market erosion is equivalent to three million hides. Due to the successful inroads synthetics have made in shoes, we could see the footwear leather segment fall from 50% to 35% of total hide consumption. In real terms this would release around 45 million hides onto the open market; this number is nearly as many hides as are currently being consumed by the auto-leather segment. This doomsday scenario is not unrealistic and would trigger a drop in hide prices not seen for nine years.

According to a recent article in *Footwear News*: "The most commonly

used material in the production of shoes is leather; however, recent sales numbers show that alternative materials are gaining popularity in the fashion industry. In fact, according to a 2017 report conducted by Grand View Research Inc., the global synthetic market is expected to reach \$85 billion by 2025. The footwear category in particular is expected to show the fastest growth over the next nine years, with an approximated compound annual growth rate of 9.7% from 2016 to 2025."

All hands on deck, sound the alarm, general quarters (not a reference to an individual), battle stations.

We need a broad-based initiative with engagement by the entire meat industry. Are our voices muted because our throats are dry? Are we too focused on an even tan to realise that we are being burnt? The preponderance of hides will potentially become the albatross around the market's neck. Let's not suffer the fate of the Ancient Mariner. ☹

*\*Samuel Taylor Coleridge*



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