



You can't handle the truth

Protecting hide values is an exercise in futility as the majority of evidence clearly reflects a market burdened with a surplus amount of product and a diminishing demand. We don't have the luxury of an expanding customer base, a resilient shoe business nor a slowdown in hide production. The suggestion that prices are about to rebound and so it is best to buy now when prices are cheap is just a misrepresentation of the facts. And, as we in America know well, facts matter.

On a positive note, we can state that the biggest declines are in the rear-view mirror and as we move forward we can expect a consolidation of prices for certain selections, namely cows. Steer hides should continue to make nominal adjustments and begin to form a new (lower) trading range. Pedigree origins and their corresponding selections will remain in vogue as demand for better quality leathers, requiring clean and tight grain characteristics, will defy downward pressure, at least for the next 90 days. However, once winter arrives, the typical trappings will weigh heavily on both the hide and price.

While not surprising to many, the age-old argument is that at a certain price leather becomes popular. Well, global citizens, this ship has sailed. The commodity end of the footwear and associated apparel segments is now fully occupied by our archnemesis, the polluting and environmentally destructive petrochemicals, aka synthetics. No amount of plastic water bottle recovery programmes will avert this growing pathogen.

Car shows don't exhibit ships

It's easy to get depressed and confused, especially when you visit a leather fair only to discover that the massive location, which covered 92,000 square meters and was housed in eight exhibition halls, was a classic 'bait-and-switch' operation. The All China Leather Exhibition (ACLE) did a better job at representing synthetics, cotton, denims, wool, and a multitude of fake, faux and forged leathers. Yes, there was a collection of hides, wet blues and crust purveyors from various origins, but this was more of a sideshow compared to the overwhelming presence of non-leather vendors. There were reported to be nearly 1,100 exhibitors, but realistically how many were grounded or focused solely on leather? My guess would be around 250 companies. Forgive me if these frank and brutal comments are offensive, but let's not get caught up in the polite discourse of suggesting that the ALCE is a grand showcase for leather, because it isn't.

Car shows don't exhibit ships, footwear events don't feature furniture and food conventions don't display ballistic missiles.

We need a forum where leather and all its affiliated supply chain relatives are represented exclusively. We do not need to share the stage with competing products, especially segments that are environmentally wrong and lacking in ethical clarity. We need to focus on the reality that all plastic, vinyl and polypropylene based materials are the enemy of the people and they are eroding leather's market share. Leather and its corresponding supply chain is a viable, healthy and proactive solution for all apparel and furniture segments. We need to promote the positive aspects of our carbon footprint and life



Synthetics are second-best. Footwear brands can promote a connection with nature by using leather.

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cycle assessment, which is especially positive in comparison to petrochemical-based products. Using a by-product derived from fossil fuels that has carcinogenic implications instead of a natural raw material like leather is simply inappropriate. With the declining hide values, it is amazing to me that the beef industry has not inspired a strategy to promote the advantages of cattle by-product utilisation.

To state the obvious, the only reason we have leather is due to the human race's requirement for protein. Without leather the beef industry would have an unresolvable disposal issue, therefore the cattle industry, beef packers, food processors and restaurateurs need to join this fight. They have a clear and vested interest in not only supporting the leather industry but also in protecting the value created for this incredible and unique raw material.

For example, steak houses should discard their Frank Sinatra-inspired décor and replace with 100% leather seating and wall panels. All menus should be leather-bound and take-home goody bags should also be leather themed. With the US housing over 700,000 restaurants this should be an easy forum to promote beef and its wrapper. The same logic should apply to the numerous car showrooms, furniture stores and footwear outlets.

No rebound on the horizon

Our industry, for the sake of clarity, I am only describing the hide and leather business, is in a total recession. This started at least four years ago, but the collective "we" has been in denial for too long. This year will be remembered as the year that the leather shoe stepped out the building. This Elvis event, together with increases in hide supply, created the environment for prices to simply dissolve and with the collapse in values, numerous sales contracts disintegrated. There should have been no surprise when shippers were confronted with disgruntled buyers who whined about quality, delivery and, of course, price. The market differences when compared to the Hong Kong Leather Fair are 40% to 70% lower, depending on origin and selection. Therefore, the incentive to back out of contracts was obvious—

without a unified industry policing apparatus—amnesia became an epidemic.

So, where are we today? For starters, continuing to operate along historic precepts is insanity. Expecting prices to rebound is wishful thinking. Casual, comfort, athletic and sneakers are styles of footwear that no longer use leather as a core material. We have lost this battle to synthetics. On the supply side we have seen an expansion in cattle inventories, which will provide sufficient availability to keep an ample supply of hides through all of 2019. With the popularity of beef on both the domestic and export markets, packers will enjoy healthy balance sheets. These facts alone support the contention for continued low hide prices for at least the next 12 months.

If we are to change the existing paradigm and reposition leather as a market disrupter, we need to accomplish several things: Counter the argument for synthetics; promote the human connection with this luxury material; expand the value proposition; and endorse the various attributes of this recycled product.

It is essential that we rebuild the connection with the consumer as it appears that this relationship is fractured. Conference chatter amongst the alphabet soup of trade organisations heralds lofty proclamations and captivating initiatives, only to be drowned out by a diversity in opinions and a general lack of unification. Seemingly, the only consensus is to schedule the next meeting at an appropriate convention site at which time the same topics can be reviewed. There is a general hope or expectation that some group or organisation will seize the mantle and reverse our current direction; this is a dubious and imperfect strategy. Getting all sectors of the leather industry to form a cohesive strategy or opinion is more challenging than herding cats.

The reality of our predicament was recently stated by the secretary general of the China Leather Industry Association, Chen Zhanguang. "Finished leather production for the first six months of 2018 was down 11.4% compared to the previous year," he said. Extrapolating that number for the full year would

reflect a reduction of 1.6 million hides for the US alone. With China representing nearly 60% of all US exports and a similar percentage from the other main producing regions, any slowdown in consumption will have a serious effect. Initiatives to diversify are obviously a high priority for all sellers, but how effective can this strategy be when leather manufacturing in other regions has succumbed to the China syndrome.

Yes, there are segments where good news abounds. The auto leather industry has enjoyed historic years with strong demand and both the bearish hide market and component suppliers reporting record results. In addition, the residential furniture and handbag sectors have also prospered on the back of a recovery in the housing market and continued demand for luxury leathers. However, these good news stories combined do not represent the volumes required to absorb hide production.

So, our problems are opportunities pending a solution. If we acknowledge that the lightweight footwear market has been surrendered to synthetics, then we should turn our focus to leathers that currently have little competition from manmade substitutes, such as heavy weights. Meanwhile, initiatives to regulate and control industry rules and compliance require commitment and recourse, otherwise transparency in hide supply will commence with contracts being written in invisible ink.

Sabbatical

After 45 continuous articles, spanning the last 3½ years, pontificating the good, bad and ugly of our industry I will be taking a sabbatical until early 2019. This hiatus will permit my environmentally-correct batteries to be recharged and allow for a reinvigorated approach to which characteristics of the leather industry require exposure. With the vast majority of holidays occurring in November and December, may I be the first to wish all a brilliant festive season and an illustrious New Year.

(To those readers who enjoy the trivia, the title quote is from "A Few Good Men", but if you really want to play the game the leather industry should be adopting the DEFCON scale. See you all in January.) ☺