



Shoes from US group Wolverine Worldwide.

IMAGE: JILL DE VRIES/WOLVERINE



Leather in the time of trade tensions

The writing was on the wall when the US president said at the start of 2018 that his country's era of "economic surrender" was over. He said he wanted the US's trade relationship with China to be "fair and reciprocal" and that he would use "strong enforcement" of trade rules to achieve that. What followed has been a year of tit-for-tat tariff escalation, which worried almost every industry involved in global trade, including leather and footwear.

For the president of the US, the growing list of Chinese imports to which his administration is applying new or higher tariffs now is about "fairness". He believes it is unfair for the US to have a huge trade deficit with China (\$275 billion in 2017) and for "intellectual property theft" effectively to add billions more.

China's government has retaliated, putting tariffs on products it imports from the US. It rejects the suggestion that the dispute is about fairness and has said: "China does not want a trade war, but we have to strike back to defend the interest of our country and its people and resolutely safeguard economic globalisation and the multilateral trading system." Whether China wanted one or not, the events of 2018 mean it now has a trade war with the US on its hands.

When the announcements began to come with details of the products that would be directly affected, most industry observers hurriedly scanned the lists and the product codes to see if their industries were included or spared. Even for those that escaped the early rounds, including leather (then) and footwear (still), the tension was real. With a high level of prescience, the US Hide, Skin and Leather Association (USHSLA) said in March that "simmering trade tensions" were escalating and that this would, ultimately, cause "significant harm" to the US packer firms and traders that export raw material to China's 620 medium and large tanners. China imported a total of 15.8 million cattle hides from the US in 2017 (13.9 million wet-salted and 1.9 million wet blue) spending a total of just over \$1 billion.



Tariff-toreadors

To return to 2018, USHSLA's prediction came true in early August when China eventually included hides and skins on the list of targeted imports from the US. The majority of US cattle hide, wet blue hide and salted pigskin exports to China now face a 5% tariff, with the extra charges applied from September 24, also the date on which the US began to collect tariffs on the Chinese imports it has listed.

As its March statement indicates, USHSLA has worked tirelessly to convince the tariff-toreadors to back down and return to their normal positions of buying from and selling to each other to meet their own market needs. It is not alone. Beijing-based counterpart organisation the China Leather Industry Association (CLIA) has said it lobbied the Chinese government and convinced it to hold back on a threat to increase the 5% tariffs to 25% in January 2019. "We succeeded in convincing the Chinese government," says CLIA honorary president, Su Chaoying. "That was very important because the US is the largest supplier of hides to the Chinese leather industry. Our tanners can live with 5% tariffs, especially as the price of hides across the whole global market has come down this year, but a tariff of 25% would cause them a big problem."

Nevertheless, according to a colourful report from Bloomberg finance business media agency at the end of September, the 5% tariffs have been enough to put some tanners off. Junxi Leather is based in the footwear-making metropolis that is Dongguan, but came up in the Bloomberg report because it also supplies belt manufacturers in Guangdong province; Bloomberg decided to focus on the impact of US and Chinese tariffs on a belt, made in China from leather tanned in China, but from a US hide, and shipped back to the US for sale in a retail store there.

Junxi's general manager, Lyu Zhihao, told Bloomberg that, at that stage in the autumn, he had two containers full of US hides (each worth \$700,000) on the ocean and headed for China, but that once this delivery was complete he would not be buying any more. He said he had a glut of hides already and claimed he could not afford to pay the extra 5%. The new tariff imposed by the Chinese government adds \$70,000 to the cost of bringing that raw material into the country.

Time and money

And it is not just the money. He told Bloomberg that the customs authorities at Chinese ports have already begun subjecting shipments from the US to heavier scrutiny, causing his production set-up and those of other Chinese manufacturers expensive delays. "It's difficult," he told the business media outlet, "because we have built up a relationship with our US suppliers over many years, but I am aiming to switch completely out of US sourcing. It's too much of a bother now to import from the US."

Finished product manufacturers in and around Dongguan using Junxi leather are facing even greater hurdles if they want to ship their goods back to the US. The list of products that the US is targeting includes a series of finished products containing leather, such as luggage, bags, gloves, wallets and (hence the Bloomberg focus) belts. Some furniture and car seats are also included, although leather footwear continues to escape (for now, at least). The US has set these tariffs at 10% initially, but it does intend to increase this to 25% from the start of this coming January.

Su Chaoying says: "Some manufacturers [of the

TIMELINE: 2018 – A YEAR OF GROWING TRADE TENSIONS

January 23 The US places tariffs of 30% on imports of all solar panels and of 20% on more than a million imported washing machines; China is the world's largest producer of both.

March 1 US president, Donald Trump, outlines a plan to impose tariffs on a wider group of imports from China worth \$60 billion a year; he says intellectual property rights infringements are the main reason.

March 20 the US Hide, Skin and Leather Association (USHSLA) confirms it is one of 45 US trade associations to have signed a letter urging the president not to impose the tariffs.

March 22 President Trump announces that he will move forward with the tariffs anyway.

March 23 China's ministry of commerce says the government in Beijing is "extremely unhappy" and says it will take necessary measures to defend its interests.

March 23 USHSLA issues a statement predicting that the import tariffs will escalate "simmering trade tensions" between the US and China and ultimately cause "significant harm" to the US hide, skin and leather industry:

- It says China imported US hide, skin and leather products with a value of more than \$1 billion in 2017, representing more than 50% of the sector's total export value, and that the Chinese market is "essential to its survival".

April 2 China publishes a list of 128 products that will face new tariffs; leather is absent from the list, but pork is there, which upsets the US meat industry.

April 3 The US publishes a new list of 1,300 items that will be subject to tariffs of 25% if imported from China.

April 4 China publishes a new list of its own, showing 106 products to which it will apply tariffs if imported from the US:

- Beef features prominently on China's April 4 list, sparking further statements of concern from exporters of US beef and its by-products.

July 6 The measures begin to come into effect.



Drying hides from the US at a tannery in Zhejiang province in China.

IMAGE: WTP

leathergoods now subject to the 10% tariff] have told us that orders from the US are already down and we know that some of those companies will shift production from Guangdong province, which has a strong tradition in designing and manufacturing these products, to Vietnam, Bangladesh, Cambodia and other countries in south-east Asia. Margins are low already and the tariffs will bring even more difficulty to these manufacturers." Mr Su explains that around 75% of all the leather handbags and items of luggage imported into the US at the moment are from China and that this business is worth \$8.4 billion per year to the Chinese leather industry. Without fail, the supply chain partners that Bloomberg talked to for its article about the belt said they were sure the extra costs from the tariffs will end up being passed on to consumers.

Smaller family budgets

Footwear has survived all of the early onslaughts in the China-US trade war of 2018 but, as we have mentioned, representatives of the shoe industry have still lost plenty of sleep contemplating the impact that tariffs would have on companies that make and sell shoes, as well as on consumers. Back at the start of March, the president of the Footwear Distributors and Retailers of America (FDRA), Matt Priest, issued a statement saying the footwear industry was "highly concerned" about what it could see unfolding. "We adamantly oppose this potential action," he said, arguing that shoes imported into the US are already subject to high taxes and tariffs, hurting lower-income consumers the most because shoes are "a necessity that families can't live without".

Timeline continued:

July 10 The US Chamber of Commerce identifies the 10 states that will be hit hardest by the tariff tensions: farm states and states with large automotive production plants are particularly vulnerable to the tariffs' adverse effects.

July 15 The US says it may impose tariffs on a further list of 6,000 products it imports from China with a total trade value of \$200 billion per year. This proposed "supplemental action" is the subject of a public consultation exercise:

- This time, there are several hide, skins and leather products on the list of imports from China that will be affected.

August 1 China publishes another new list of products that it will target in retaliation for the "supplemental action".

August 3 An USHSLA statement makes it clear that, this time, hides and skins imported into China from the US are likely to be on the list.

August 17 Deadline for US businesses and members of the public to submit comments for the public consultation.

August 20 US Trade Representative holds a public hearing on the matter.

September 17 US makes its decision public: it will go ahead with the imposition of the new tariffs.

September 24 The new tariffs come into effect, at 10% on the imports from China listed by the US. The US says it will increase the tariffs to 25% from January 1 2019.

September 24 Most US hides and wet blue become subject to 5% tariffs when imported into China.

September 25 The China Leather Industry Association tells *World Leather* that its intervention prevented the Chinese government from mirroring the US move of putting the 5% tariffs up to 25% on January 1.

October 5 The Maxfield Report says the increase could still happen because the Chinese government has been quizzing tanners there about how much US raw material they buy at the moment and what alternative sources they have identified.



Honorary president of the China Leather Industry Association, Su Chaoying.
IMAGE: WTP



President of the the US Hide, Skin and Leather Association, Stephen Sothmann.
IMAGE: WTP

FDRA's position is that footwear is among the imported products that carry the heaviest tax burden, pointing out that an iPhone can come into the US at a duty rate of 0% while the rate for shoes is, on average, 11% (it is complicated: for example, athletic shoes for girls are subject to tariffs of 48%, FDRA says, while the rate for athletic shoes for boys is 20%, and some footwear is subject to a rate as high as 67.5%).

The organisation insists this is more than enough without

pouring extra burdens on brands, retailers and consumers by making shoes part of the 2018 dispute. According to its figures, the US imports 2.4 billion pairs of shoes a year, the per capita equivalent of seven pairs per person. Overall, the US footwear market is worth \$80 billion per year. FDRA echoes the point that increased tariffs will mean increased prices for consumers; at the very least it will leave less money for footwear in family budgets. ☹

QUALITY SAVES.



LANXESS and its initiative **Sustainable Leather Management** encompasses and extends the entire life cycle of leather by improving its properties in terms of sustainability during and after use. We are bringing economic interests, ecological soundness, and consumer safety requirements into line! With **LANXESS** you save:

- Processing cost & time
- Recycling cost & effort
- Energy, water & raw materials



**QUALITY
WORKS.**

LANXESS
Energizing Chemistry