



Politics, economics and double-face

About 80% of Turkish leather production still revolves around processing double-face into finished garments. Some 80 million skins were processed in 2002 and official garment exports topped \$750 million. 75% of all hides are imported with tanneries concentrated in 11 or 12 industrialised leather zones. The animal husbandry situation has not improved. Once an exporter of food products, farm policies have turned the country into an importer of major staple foods and agricultural items. Footwear producers and a few handbag and accessory makers source local cow hides for their excellent grain but the bulk of leathers for garments are imported either in raw, wet blue or as finished skins.

With politics embedded in business life and decision-making, leather professionals are not the only ones worrying about economic inertia from a government that promised sweeping reforms. The ruling party seems western enough in Ankara, the nation's capital, but almost all provinces and rural areas have less secular powers *in situ* and economic issues are hazier.

Tanneries and leather producers must invest their own money for expansion and upgrading. High interest rates keep companies away from banks. Türkiye's total exports were about \$36 billion in 2002 but imports totalled some \$51 billion. With no viable revenue-collecting mechanism, value added tax (VAT) of 18%

is by far the biggest source of government income. The Export-Import Credit Bank (Eximbank) is slow to dole out export credits to frustrated exporters, although the bank itself continually increases support and guarantees to exporters. However, this palls compared with the nightmare that a weak dollar and the plumped-up euro are creating for producers.

Double-face and the 'luggage trade'

Since 1998, the 'luggage trade' with Russia has thrived, giving Türkiye the world's number one position as a double-face producer. Most tanneries work exclusively for this sector, as do the majority of garment makers. A chemical producer who toured tanneries in Anatolia in mid-May told *World Leather* that few companies had yet received any orders for double-face items yet. However, last year's season did not pick up significantly until June or so. Any slackening in seasonal double-face production will cause serious concern for garment producers.

The CEO of one of Türkiye's most sophisticated and successful garment producers told our correspondent that he had already taken orders for the coming season. Another source disputed this, saying that the company had closed its factory and laid off workers for one week due to lack of orders. Clearly, even the loftiest producers are touchy about the

approaching double-face season.

Both Russian and Turkish trade officials have worked hard to regularise trade between their two countries and continue to make headway here. Russians who would expect to come to İstanbul's Lale district with \$10,000 to spend, now come with about \$2,000. After the free-wheeling years, control isn't easily accepted. More important perhaps is that Russia has its own fledgling tannery industry, a healthy animal population and high tariffs on exported items. These factors could do more to curb illegal trade than legislation. Russia's quality is not consistent with Türkiye's at present, but Turkish producers who lean heavily on this market need to note that there are Russians trying to invest in restoring their Soviet-era tanneries, equipping them with high technology machine parks and when, not if, 'Made in Russia' will become a fashion label.

Türkiye's textile industry has benefited from a number of orders from producers who have avoided China due to the uncertainties related to the respiratory disease, SARS. Although it was assumed that this would have a knock-on effect on the leather sector, this has not happened. Indeed, not many garment producers can cope with the sort of volumes that China routinely services. Many producers find China too remote when immediate neighbours constitute an already dynamic market.



Country Commentary: Türkiye

Still a need to foster local industry

One might wonder why there are 11 or 12 tannery districts located throughout Türkiye, when one would service all the country's needs and capacity. The reasons relate to job creation and fostering local industry. With the overall leather sector working, on average, at only 30% of capacity, these zones have adapted to operating well below potential. Çorlu, west of Istanbul, easily outperforms the others, with a 65% capacity rate, and more during the double-face season. Only the Tuzla (Istanbul), Çorlu and Menemen (Izmir) districts have accredited waste water systems. Gerde, located between Istanbul and Ankara, is becoming a model for others. It specialises in cow and steer hides, and there is a spirit of cooperation and common goals not apparent elsewhere in the industry. This is the area to watch, particularly when its waste water scheme comes into operation. Many professionals are preparing for a shift to natural, aniline finishes when the 'party-lion' look of over-printed and kitsch leather craze wanes.

Leather clothing leads the way back

The leather sector, which had been affected heavily by the Russian Crisis and its aftermath, regained its position in the Turkish economy in 2001-2002, both in terms of production and export after it had begun to recover in 2000. According to

TARGETING PIRATES

Like mosquitoes, piracy and counterfeiting are as pesky as ever. Türkiye is working well to reduce intellectual property violations and has several commercial courts which hand out jail sentences to copy-cats. The month of May was devoted to a well-publicised campaign to catch software pirates.

Rural areas, so far, remain virgin territory. The initial plan was to make an example of prosecuting pirates in the big cities and hope the remote small fry would wither by example. However, counterfeiters are increasingly adept and versatile and often seem to have the upper hand. Firms try to be innovative. For example, Ceyo, a leather sandal manufacturer, turns out about 400 designs for the summer season. To deter copy cats, each style has an individual sole design. There are no production 'over-runs' that tempt distributors to sell on the side. Nevertheless, this firm estimates it loses some \$2-2.5 million to pirates yearly.

Denlaks, a beacon name in adhesives for footwear and other industries, deals with counterfeiting of a different nature. Competitors operate from garages and basements, often with just a small mixer for blending additives, with no registered workers or legal operating licence. These people can move around easily, sell inferior (and often unsafe) products and use unconventional, non-taxable trade avenues to undercut legitimate businesses. Whilst glues and adhesives don't have Rolex or pop music pirating potential, Denlaks views these 'below deck' pirates as a serious hazard to the industry.

ITKIB data, the leather sector achieved \$748.2 million in leather and leather product exports in 2002, a 5.2% increase compared with the previous year. (In 1997, exports totalled \$723.8 million.) Leather and leather product exports rank twelfth in the country's exports.

By export sector, leather garments were placed first in 2002, with a 69% share worth \$508 million. This ratio was 67% in 2001. Footwear exports in 2002 were 18% of the total, with exports of \$132,761,000. Leather goods took 8%.

The downside for the industry in 2002 was that it had to import some 70% of its raw material requirements.

Footwear exports set to rise

The footwear sector, although still addicted to local markets, has now become one of the most interesting and promising sectors. Footwear exports are low at \$120 million but one can expect this to rise over the next few years. Europe is barely a market any more for Turkish shoes, which go mainly to neighbouring emerging markets. One thing has not changed: about

Exports of Leather and Leather Products by Month

Year-on-year 2001-2002

Unit: \$'000

Month	2001	2002	2001/2002 % Variation
January	40,352	41,194	2.1
February	43,326	40,176	7.3
March	38,396	44,034	14.7
April	39,753	38,001	4.4
May	48,625	43,517	10.5
June	53,119	53,892	1.5
July	57,970	75,685	30.6
August	75,312	87,866	16.7
September	71,110	88,712	24.8
October	71,366	91,003	27.5
November	68,384	86,204	26.1
December	42,160	60,000	42.3

Source: ITKIB

Share of Leather and Leather Products Exports from Türkiye's Total Exports

Unit: \$'000

	2001 Jan-Dec	2002 Jan-Dec	02/01 Variation (%)
Türkiye's overall exports	31,049,213	36,205,090	16.6
Leather and leather products exports	649,688	748,224	15.2
Share of leather and leather products %	2.0	2.1	-

Source: ITKIB

Exports of Leather Products* 2001-2002

Items	2001 \$'000	2002 \$'000	01/02 Variation	02 Share
Clothing	425,608	508,049	19.3	69
Footwear	121,727	132,761	9.06	18
Leather goods	54,971	62,311	13.3	8
Other (raw hides and skins, fur, etc)	33,865	35,975	6.2	5
Total	636,170	739,096	16.1	100

Source: ITKIB *Based on records of exporter associations were taken as basis for record figures by items.



TURKISH BORDER TRADE SET TO IMPROVE

Türkiye has few trade rules or regulations with any of its eight neighbouring countries. As a result, informal trade, improvised movement of goods and smuggling have formed the basis of neighbourly economic deals for decades.

For many years, Iraqi diesel oil has flowed freely into Türkiye on overland tankers and the 'luggage trade' between Türkiye and Russia has flourished. For leather only, this trade is said to be worth between \$2 billion and \$2.5 billion annually.

To regularise this trade, the Turkish government has announced the formation of four or five border trading posts. These two-way 'shopping centres' will be established within Customs areas and will be opened by the Turkish Customs under-secretariat with a view to generating \$100 million to \$150 million worth of legitimate trade. The first market place will be with Syria and then Iran, Georgia and Nakhichevan. The project is expected to be under way within a few months. Türkiye also borders with Armenia, Bulgaria, Greece and Iraq.

Tighter trading regulations are long overdue in Türkiye and these 'outposts of enterprise' show improved initiative. Additionally, with so many neighbours, multilateral trade is often a good diplomatic leveller. Leather professionals know that unregistered trade undermines their legitimate status.

Bulgaria, Iran and Iraq are sources for Turkish leather hides, machinery and some leather chemicals. Many 'conflict' zones have good animal populations and sell hides and skins to world producers. Emelda, a prestigious Turkish fashion garment producer, sources skins from Bulgaria. Bosnia has also been a source for some Turkish hide dealers. With the hope of a more outward-looking government in Iraq, Turkish leather traders are sure to be taking a fresh and legal look at this country.

80 or 85% of production is produced in small workshops. Just a few firms, Ceyo, Uc-El, Topbas, Yesil Kundera, for example, have a 2 or 3 million pair annual capacity and most of these are currently working under-strength. This calibre of maker has a 70 or 80% automation rate and is detached from the thousands of cobbling artisans.

Ceyo, which produces 2.5 million pairs of leather anatomical sandals and casual

Leather and Leather Products Exports to EU Countries Year-on-year 2001-2002 (\$'000)

	2001 Year-on-year	Share in total leather(%)	2002 Year-on-year	Share in total leather(%)	01/02 Variation
Germany	128,919	19.84	132,877	17.76	3,07
Austria	6,119	0.94	5,137	0.69	-16,05
Belgium/Luxembourg	12,212	1.88	11,263	1.51	-7,77
Denmark	4,033	0.62	4,940	0.66	22,49
Finland	1,209	0.19	3,179	0.42	162,94
France	52,571	8.09	51,840	6.93	-1,39
Netherlands	20,555	-	-	-	-
UK	22,324	3.44	20,055	2.68	-10,16
Ireland	1,810	0.28	2,123	0.28	17,29
Spain	29,762	4.58	21,424	2.86	-28,02
Sweden	1,536	0.24	2,296	0.31	49,48
Italy	12,904	1.99	14,320	1.91	10,97
Portugal	2,993	0.46	2,351	0.31	-21,45
Greece	6,857	1.06	10,926	1.46	59,34
Total of EU Countries	303,803	46.76	308,864	41.28	1,67

Source: ITKIB

Leather and Leather Products Exports to Former USSR countries Year-on-year 2001-2002 (\$'000)

	2001 Year-on-year	Share in total leather(%)	2002 Year-on-year	Share in total leather(%)	01/02 Variation
Russian Federation	135,729	20.89	230,529	35.48	69,85
Ukraine	16,033	2.47	9,225	0.17	-42,46
Azerbaijan	842	0.13	798	0.02	-5,23
Kazakhstan	2,243	0.35	2,188	0.02	-2,45
Uzbekistan	674	0.10	563	0.04	-16,47
Turkmenistan	424	0.07	689	0.02	62,50
Total of Former CIS countries	155,944	24.00	243,993	35.75	56,46

Source: ITKIB

Leather and Leather Products Exports to Other OECD Countries Year-on-year 2001-2002 (\$'000)

	2001 Year-on-year	Share in total leather(%)	2002 Year-on-year	Share in total leather(%)	01/02 Variation
USA	48,146	7.41	40,392	5.40	-16,11
Switzerland	4,859	0.75	4,404	0.59	-9,36
Japan	4,809	0.74	2,774	0.37	4,42
Norway	676	0.10	819	0.11	21,15
Other OECD countries total	62,451	9.61	52,523	7.02	-15,90

Source: ITKIB

footwear annually, has beefed up efforts in market research and is creating dynamic profiles of customer preferences and spending patterns. Also at this firm, the hallowed family business model is not only

welcoming, but aggressively head hunting articulate and skilled talent from competitors and even global conglomerates. Turning out a steady stream of new styles and creative designs is



Country Commentary: Türkiye

Leather and Leather Products Exports to Middle East Countries

Year-on-year 2001-2002 (\$'000)

	2001 Year-on-year	Share in total leather(%)	2002 Year-on-year	Share in total leather(%)	01/02 Variation
Abu Dhabi (Six Emirates)	1,199	0.18	1,342	0.18	11.93
Iraq	2,968	0.46	4,301	0.57	44.91
Iran	31	0.00	1,386	0.19	4370.97
Kuwait	502	0.08	1,087	0.15	116.53
Syria	84	0.01	331	0.04	294.05
Saudi Arabia	17,606	2.71	20,182	2.70	14.63
Jordan	956	0.15	1,133	0.15	18.51
Israel	11,135	1.71	11,255	1.50	1.08
Middle East countries total	34,481	5.31	41,016	5.48	18.95

Source: İTKİB

on a par with upgrading the machine park and not confined to departmental budgetary corrals. "We spend constantly and as necessary on R&D," General Manager, Naki Kolsuz, explained. Distributors and selling agents are in the loop, too, and must meet quotas and

competitive targets.

The shoe sector is proud of its recently inaugurated high school for footwear technology. Few in the sector dispute that this is long overdue and the goal is to encourage graduates to pursue a career in shoe-making technology, not take a part-

time job assembling components. This is particularly relevant because there are barely a handful of skilled technicians in Türkiye who know the entire shoe-making process. Standardised production is another item on the bug-bear agenda but, as Muhittin Savronoglu of Kampana Deri, a tanner of shoe uppers, explained, "We won't solve this problem until leather itself is available to consistent, uniform standards."

A sector to watch is children's and baby shoes. Production and technology have received a boost via a Dutch footwear agent and exports are becoming competitive and professional.

The sector would benefit from better sole technology. A handful of big, automated players have in-house production and use the whole range of soling compounds. TPU use is growing as a sole material. It is more expensive but makers rate it as more versatile, durable and easier to mould to customer specifications.

About 40 tanneries produce leathers for shoe uppers and many use local hides.



Sepiciler Caybasi Deri San. Tic. A.S., near Izmir, is a prominent exporter, with finished and sole leathers going to about 15 or 16 countries. An Istanbul-based tannery has ongoing contracts with Puma for sports shoe leathers. Türkiye has become an adept and approachable market for mid-range finished footwear leathers. Expect to see volumes rise and quality improve steadily.

...narrower, smaller, lower

The tannery machinery sector is worth about \$25 million. With some 400 or so tanneries in Türkiye, this relatively small figure indicates that many tanners still choose to import machinery, more often than not from Italy. Yildirim Makina and Deri Maksan dominate locally. So it is easy to overlook adept producers like Mareks, who concentrate on exports and have scant interest in the local market. This is a globe-trotting wheeling-dealing business and Marek's Omer Camcioglu claims he sells machines in over 15 countries. Recently, he won back several customers in Pakistan, previously lost to a Chinese rival.

Machines are, typically, narrower, smaller, lower capacity and this is said to reflect the new global trends in leather production requiring smaller, but more frequently changing order batches. Giant mixer drums are largely extinct and sleek, low-energy users in stainless steel have replaced them. Ironing machines are Lilliputian compared with their Brobdingnagian prototypes. Expect more of the same as globalisation and specialisation continue to change production patterns and offer infinite choice to end users.

Chemicals – volume production vs small needs

Increasingly, Türkiye is recognised for excellent finishing techniques, resulting mainly from technological advances in polyurethane finishes. As chemical companies rely increasingly on volume production, the trend for smaller, more customised leathers in a one-off finish or shade can clash with production cycles. One Istanbul-based company recently surprised tanners with a decision to supply only tonnage volumes to formulators. "We can no longer afford to provide orders of 200, 500 or 700kgs for finished products," a company spokesman explained. This firm specialises in acrylic polymers and turns over about \$75 million annually. These kinds of decisions will have an impact on tanners. Why? Because formulators (who mix the finished compound) and distributors will now have to take on the role of research and development and act as the technical consultants to tanneries. Many distributors already do this but new production maxims are sending chemical companies to their balance sheets to see if small orders are worthwhile.

The country has few chemical raw materials; almost all ingredients and additives are imported for processing into finished compounds. So, tanners may turn to newer markets for finished tanning chemicals. Iran, with a rich petrochemical industry and a vast chemical raw material base is Türkiye's neighbour and the source most tipped for the future, according to more than several Turkish competitors.

Tanners now must turn out so many different leathers and every customer

wants something different. The concept of two distinct fashion seasons is murky, as new designs, prints and embroidered or embossed leathers are being turned out on a tread-mill basis to customer demand. Orders are small but more frequent and individually tailored. Economies of scale are an industry model of the past, making it increasingly hard for makers to keep costs down. Profit margins at one firm are just 2 or 3%. Globalisation has made tanning less of a traditional industry and highlighted it as a precise science.

Prying open the oyster

Not being a full member of COTANCE or other leather-related bodies, Türkiye has remained outside the mainstream of European decisions and access to finance. Integration, instead, is taking place through MEDA, a European Union initiative to integrate trade between 12 Mediterranean basin countries. MEDA has partly funded the new footwear technology high school in Istanbul. A new MEDA project at Tuzla's Leather Industrialised Zone is an International Leather Technology Research and Development Centre, already in the planning stage. Both projects are supported by Greece's Elkede Technology and Design Centre and by the British School of Leather Technology and BLC Leather Technology Centre.

Encouraging Türkiye into the international fold involves effort and co-operation. There are teething troubles, as both sides accommodate their differences and probe common ground. But prying open the oyster of Turkish leather will bring positive and enduring benefits to all involved. ●