



It's about the emotion. The leather industry needs to help consumers discover or rediscover the emotional appeal of using leather products.

CREDIT: VIKTORIA MINKOVA/SHUTTERSTOCK.COM

Hides go to waste

Demand for high-quality leather remains strong, but no one in the global industry can be in any doubt that lower-value material is harder to sell than at any time in living memory. As a result, what we thought would never happen has come to pass: hides really are going to waste.

Tanners do the world and, in particular the meat industry, a big favour by taking a waste product (the hides of bulls and cows, the skins of sheep and goat), and turning it into leather, a material that is strong, versatile and unbelievably beautiful. This has been happening for millennia and, until very recently, appeared to be as integral a part of the human experience as eating food.

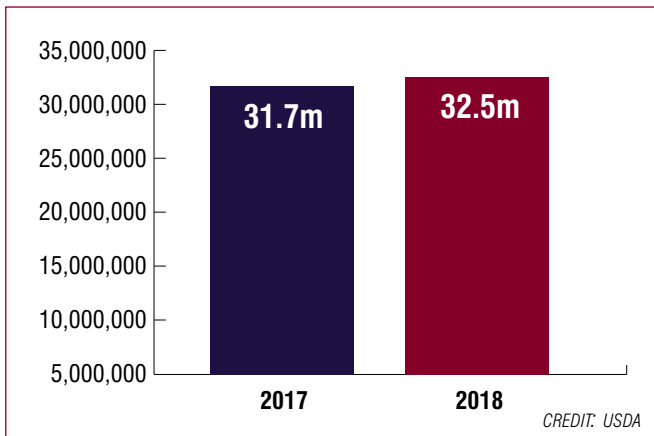
In the early twenty-first century, eating food need have nothing to do with eating meat and, although finished products such as shoes, bags, jackets, furniture and cars remain popular purchases, it's no longer essential for their manufacturers to use leather. There seems to be no end to the array of synthetic materials that, their promoters claim, can do everything leather can do, but "without harming animals". As if leather were the motivation for rearing and slaughtering animals. The leather industry could entirely disappear tomorrow, heaven forfend, without affecting the slaughter of cattle, sheep and goat one iota. These animals are raised for meat and milk; hides and skins are an after-

thought for the livestock firms, leather scarcely even that.

Demand for leather stubbornly refuses to pick up and, at the same time, slaughter rates continue to rise. In the US in 2018, 33 million head of cattle went to slaughter, around 3% up on the figure for the previous year. The corresponding figure for Brazil was 24.4 million head, a rise of more than 5%. The meat business is thriving and packers are picking up piles of cash. There was a time when they would have paid attention to the high numbers of hides that have no takers, but, thanks to high demand for meat, around \$130 goes onto these companies' bottom line each time an animal is slaughtered; they seem unworried by the pile-up of hides. In times past, they might have salted and stored the material, or they might have negotiated with traders or tanners to take it off their hands at a favourable price, for the hides then to be part-processed and stored until demand picked up. The only alternative to making them available to the leather value chain is to let the hides go to waste.



Figure 1: US cattle slaughter 2018 and 2017



Rules in place

The Commission on Environmental Quality in one of the US's most important cattle-producing states, Texas, said in April this year that it had no reports of "concerns about improper disposal of hides nor about the number of hides disposed of as opposed to the number used as a raw material". It pointed out that its rules focus on the disposal of dead animals and do not distinguish between hides and carcasses. The rules in place at the moment are that slaughterhouses may dispose of carcasses onsite if they have their own rendering plants (most do because this, too, is a way of extracting value from waste) and if they have followed "proper notification and deed recordation requirements". For disposal offsite, the commission in Texas allows the waste to go to municipal solid waste landfill or industrial solid waste landfill sites that are authorised to accept slaughterhouse waste. Municipal landfills must track and report the amount of dead animal waste disposed of at their sites, but they are not obliged to give more detail about where the waste came from or what exactly it consisted of. Therefore, 2017's figure of just over 9,000 tonnes across 75 authorised landfill sites in Texas will include everything from

cow carcasses to cats hit by cars in the street. In other words, it is hard to tell if the hides tanners can't use at the moment are going into storage for future leather production or simply going to waste.

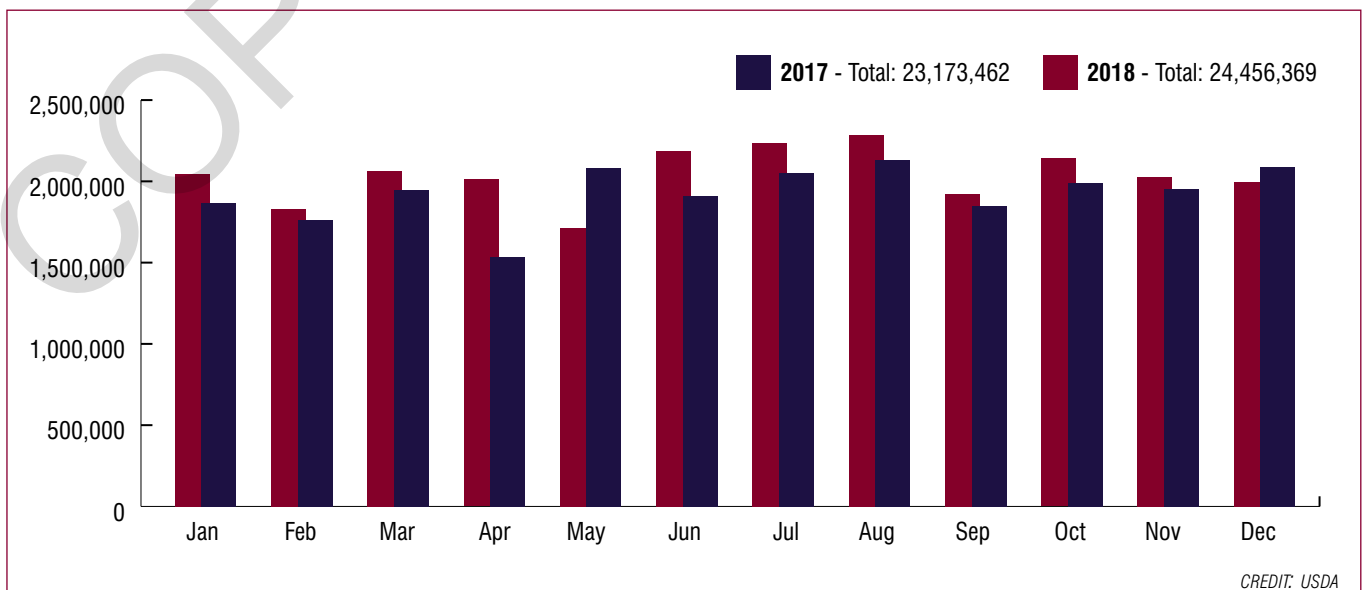
No buyers, no value

"It's the second scenario," one industry expert insists, referring to the wider market rather than to Texas. "The waste is there; there is no doubt about it. We saw it first in sheepskins in origins such as the UK and Australia. The skins ended up having no buyers and no value, and they began to be buried or rendered. The same thing is now happening with cattle hides."

He is at pains to emphasise that this does not apply to all cattle hides. Far from it. Quality raw material that tanners can make into high-value leather is still sought after. With healthy demand for high-end handbags and other luxury leathers and strong sales of higher-value cars, including the quickly expanding ranges of sports utility vehicles (SUVs), this situation is unlikely to change in the near future. But at what our commentator refers to as "the very bottom end of the quality range" there are definitely hides from abattoirs that are no longer making it even to the brine-cured or wet blue stages of leather production. "They are going into bio-diesel or gelatine production if the processors can find takers for them and, if not, they are being buried in the ground," he says.

Global supply of raw material "far outweighs demand", he continues, and this also is a scenario that is unlikely to change in the months ahead, no matter how fervently some may hope for the 'old normal' to return triumphantly and replace the 'new normal'. "One of the reasons we lost demand is that, back in 2014, we reached a point at which cured hides were costing more than \$100 each," he continues. "Manufacturers and brands chose other materials and, among those companies, the most cost-conscious ones are not coming back at the moment. Even though it's now possible to buy wet blue, not cured material, for 35 cents per square-foot."

Figure 2: Brazilian cattle slaughter 2018 and 2017





Many people have a favourite item that was made from leather.

CREDIT: LABUTIN.ART/SHUTTERSTOCK.COM

Backlog blues

This same expert believes that cheaper leather from cheaper hides could become competitive again one day, especially when trends such as the one that favours knitted uppers in shoes dwindle, or if the animus against plastics continues to build. But he thinks the demand for meat will remain high and that, if demand for lower-priced leather and hides does recover in future, it will simply take up the slack in hide availability at that point. This will not affect the backlog we have at the moment. It is likely that nothing will.

There are raw hides coming out of abattoirs that meat companies are, quite literally, unable to give away. This has continued along the supply chain and has now led, according to sources we have spoken to, even to wet blue hides being offered to finished leather manufacturers for free. The way this is working is that some under-pressure traders and wet-end tanners are offering lower-grade wet blue hides as a kind of loss-leader, part of the bigger lots of semi-processed material they are trying to sell. It is a case of 'buy these hides and I'll throw these other ones in for free as part of the deal'.

These sources are equally clear on where the problem lies: quality. Low-quality wet blue may be available for a very cheap price or even, as we have seen, for free, but finished leather manufacturers know that, by paying just a little bit more, they can source material of much better quality, allowing them to add much greater value. Poor-quality raw material may have become so cheap that it is going to waste, but better-quality hides have come down in price too; it is not

unusual to hear leather manufacturers point to a price-drop of close to 30% for decent quality hides between March 2018 and March this year. Cheap is more cheerful than free because of the potential for making much more money at the end of the tanning process from the slightly more expensive hides you have invested in.

Small and female

Size is also a factor, as is sex. Other sources we have spoken to confirm that hides are going to waste, but say that the only hides being thrown away are small cow hides. "Go back even three years and these hides would certainly have been made into cheap leathergoods, lower-end furniture and even into footwear," these commentators say, "but now there is definitely a percentage of them that is being sent to landfill or rendering." The simple reason is that the cheap leather is not in demand any longer because brands and consumers want material with a tighter grain.

Across the major cattle-producing countries, it is possible that we will see 40 million cows will go to slaughter this year from a total, in just those countries, of 250 million head of cattle overall. Add in other markets and the figure could be as high as 60 million cows from a total cattle slaughter of as many as 300 million head. "There will not be buyers for all those hides; as many as 5% of cowhides, which is 3 million hides, will be thrown away," the same sources conclude.

Old world, new problems

Europe is not immune from this upheaval. News reaches us of abattoirs in northern Europe that are no longer bothering to flay cattle carcasses after slaughter and the entire carcass is going straight into rendering. These hide processors, some of them in Germany, others in Denmark, the Netherlands and Belgium, can see no way of achieving any sort of economic return for the effort of removing the hide and they are no longer bothering to do so. And of the hides that are being made available, traders have been saying for some time that they would like to leave all C-grade hides and lower on the floor of the abattoir if they had a choice. But they have no choice: if you buy a lot of 500 hides and 20 of them are C-grade, you have to take them all. This results in pushing unwanted material further downstream in the supply chain; it does nothing to promote finished leather or to improve the economics of the leather value chain. As we have seen, the time may just be round the corner when these lower-grade hides are dumped anyway.

"We have not really seen this situation before in Europe," another one well placed observer says. "We have all heard the saying that no hide would ever be just dumped, that processors would always find a buyer who would turn the hide into leather and that tanners would always find a buyer for the leather. It simply does not apply any longer." Perhaps the closest Europe has come, in living memory, was when the Berlin Wall came down in 1989. When markets converged, the leather industry in Germany and other western economies was awash with cheap hides that had suddenly become available from Poland, Romania, the old Soviet Union and other places. Traders there wanted foreign currency as quickly as possible; tanners, as always, were attracted by the decent-sounding deals on offer. For a time, there were too many hides and it is likely that a number went to waste before balance was returned to the market.



Emotional appeal

This is the way supply chains work: eventually, supply and demand come into balance. And if demand for finished leather is too weak to absorb 270 million or 300 million hides and efforts to stimulate more demand are in vain, it is obvious that the only other way to restore the balance will be to lower the number of hides for sale. More are going to go to waste, therefore. Step by step, supplies will erode and sources say that anyone who doubts this just needs to take a quick look inside any rendering plant.

And what if things get worse before they get better? Automotive programme cycles are long in the planning and original equipment manufacturers (OEMs) have included leather in a decent proportion of interiors in their current programmes; it could be more, but it could be less. "The signs are there that there could definitely be less leather in future programmes," our commentators say.

Some observers are of the opinion that the only hope for commodity leather is if higher-end leather drives an important increase in demand for leather of all or any kind among consumers. They add that the only way to achieve this is by appealing to consumers' emotions. "So many people will have leather in mind if you ask them about a favourite product, either now or from earlier in their lives," they say. "It could be a chair their grandfather used to sit in, an old leather jacket that made them feel cool, a pair of shoes or a car interior from years gone by. The leather industry needs to find a way of reconnecting consumers to the emotions that made them love those products so much in the first place, or of communicating the same emotion to younger consumers for the first time. It needs to be much more about the emotion than about the science or the environmental message. That's the direction we have to go in."

Natural beauty

In the minds of the industry observers, will be that more people will start saying, 'I want leather'. Then tanners will need a higher volume of raw material again. The thinking is that the public gets what the public wants, and finished product manufacturers, whose focus is on maximising profit, will use leather if there is money in it for them. They will see no need to make a higher volume of leather shoes, for example, until it is the leather ones that are flying off the shelves ahead of plastic ones.

Figure 3: 2018 Sales of passenger vehicles in the world's seven major markets

Country/Region	Volume	Change in % 2017-2018
China	23,256,300	-3.8
USA	17,215,200	0.5
Europe (EU28 + EFTA)	15,624,500	0.0
Japan	4,391,200	0.1
India	3,394,700	5.1
Brazil	2,475,400	13.8
Russia	1,800,600	12.8

CREDIT: VDA

A familiar element of this argument is that embracing the natural beauty and properties of leather (scratches, blemishes and all), will be important in increasing its emotional appeal. Under pressure from customers, particularly in the automotive and footwear industries, the consensus is that tanners have been making leather that looks too much like plastic for far too long. Those manufacturers want cuttability because that is what is best for the bottom line but it is making leather that is beautiful again that will inspire new generations of consumers to fall in love with it and become willing to pay for it. If leather is indistinguishable from plastic, critics ask, what reason could consumers have for paying more for it?

Saddles soar

"Hipsters would not pay more than €100 to have a leather saddle from Brooks England on the single-speed bikes they use to ride around town if those saddles looked and felt the same as plastic ones," one commentator says. "They pay for a Brooks saddle because it's comfortable and beautiful. And if they fail to make the connection between those qualities and the veg-tanned leather Brooks uses, we need to make the connection for them and encourage them to think that leather shoes and other products made from leather will be equally attractive."

The enduring popularity of vintage clothes, bags, shoes and furniture suggests the leather industry would be pushing against an open door here, she says.



Authentic. A leather bicycle saddle from Brooks England.

CREDIT: GORAN BOGICEVIC/SHUTTERSTOCK.COM



The Audi e-tron GT concept comes with a vegan interior.

CREDIT: AUDI

Car companies look the other way

Discussions about authenticity return us to automotive and the worrying prospect of this market, which has been the saving grace of the leather industry for most of this decade, now in danger of facing a downturn of its own. Sales of cars are still reasonably strong. German automotive manufacturers' association VDA calculated that sales of passenger vehicles from all OEMs in 2018 in the world's seven biggest markets (China, the US, Europe, Japan, India, Brazil and Russia) reached a total of 68 million. This is down on the figure for 2017 but only by 0.4%. Considering China suffered its first automotive market contraction in decades in 2018, the figures held up well. However, more recently, car manufacturers in Germany registered a decline of 10% in the volume of vehicles they produced there in the first quarter of 2019, reaching just over 1.25 million vehicles. VDA said domestic demand was steady, but that a decline in export sales for Audi, Mercedes-Benz, Volkswagen, BMW et cetera had led to the 10% fall overall.

Automotive tanners, naturally, hope these OEMs will maintain and maybe even increase their use of leather in their car interiors to emphasise quality, craftsmanship and prestige, as part of their attempts to renew growth. As already mentioned, some of our commentators fear the opposite may be in the offing. They criticise OEMs for taking a one-size-fits-all approach to interiors, seemingly seeking to use the same material regardless of whether the car will be used in Abu Dhabi in summer or Alberta in winter. "The OEMs all say they believe leather makes a car interior special," they say, "but

look at the type of leather most of them insist on: it just looks like plastic." Consumers are underwhelmed by much of the material in these interiors, the commentators continue, because it deteriorates relatively quickly and sometimes needs replacing before the car does. They choose leather because of the image leather has, but the reality often fails to live up to that image.

It is perhaps inevitable that some OEMs will think that they can now put non-leather material into their car interiors without putting their customers off, even in expensive cars such as the Porsche Panamera or the Audi e-tron. "They are teasing consumers with messages such as 'non-animal interior'," one contributor to the conversation says, "and if customers accept non-leather interiors in cars costing €100,000 and more, the OEMs will continue to reduce their use of leather." He refuses to exonerate tanners from all blame. He says: "Nothing new has come through in automotive leather in the last decade. It's just more of the same. Twenty-five years ago tanners were creative; today too many of them are little more than production slaves. They have to try out new ideas. They have to take some risks."

Hard lessons learned

Some say the leather industry, globally, is going through a paradigm shift while for packers, "who are making more money than they have every made", hides are an irrelevance, a part of the overhead they incur while trying to keep up with the demand for protein. But tanners who are working with high-quality raw materials are also enjoying better margins than they have for years because the price of raw material is so affordable relative to a finished leather price that is adjusting, but not too much.

World Leather is on the record as saying the future of finished leather ought to be as an exclusive, high-value, luxury material and that those working in all parts of the leather industry should set aside their differences and work together to promote leather to consumers. This supports the push as outlined above to have more natural-looking leathers accepted, defects and all, by consumers, designers and brands.

Perhaps the time has come for finished-product companies to accept that if they want a material that looks like plastic, has the bland uniformity of plastic and the cheapness of plastic the solution is staring them in the face: they should use plastic. But in choosing to do so, of course, these companies would also need to face up to the huge challenges that plastic waste presents, on land, at sea and, increasingly, in the minds of consumers rather than pretend to themselves and to the public that plastic represents a better option than leather.

We used to think leather's qualities spoke for themselves: its durability, naturalness, breathability and, of course, beauty. Maybe they did in the past, but we have learned the hard way that they certainly do not now. It is up to the leather industry to tell the full story of this material that it manages to make from a bulky waste product, most of which will otherwise go into a renderer's grinder or into landfill. Tanners know better now than to expect any thanks for turning that waste into something uniquely valuable, beautiful and versatile. But it would be some consolation if leather's critics could take a moment to contemplate the potential environmental, ethical and economic difficulties that will arise from the current situation of allowing piles of raw material to rot. 🌍