

Forget globalising — think survival

Tanners are trying to remember what the industry was like 20 years ago. At that time, there were large numbers of tanners in the US, and they were listening to motivational speakers. They were urging the tanners to globalise. Unfortunately, most of them had little idea what globalisation was, but nevertheless a few tried it. Today the industry has changed tremendously – and globalisation is not the word they are thinking about. It's survival.

Prime Tanning Co. of Rochester, NH, was big in the orient as partners with Pou Chen. But the partnership didn't last and Prime was fortunate to survive in the US. Irving Tanning Co. of Hartland, ME, was another major US tanner to try an Asian adventure, and was fortunate to keep its US facility in operation.

More changes are facing the US industry currently, as Howes Leather Co. of Curwinstown, PA, have announced a major change in its production. The company is in the process of phasing out its vegetable tanned sole leather business. Westan (formerly Westfield Tanning Co.) of Westfield, PA, is taking over the customers and production from Howes, leaving it the only major sole leather tanner in the US. In recent weeks, H&J Leather Finishers Inc. has reportedly filed for Chapter 11 bankruptcy protection to avoid being evicted from its premises.

Established in the late 1970s, H&J moved to the 35,000sq.ft building on the Johnstown Industrial Park, NY, in May 2001. H&J listed \$876,000 in assets and \$1.86 million in debt. The company projects sales of around \$1.6 million over the next 12 months, down from \$2.4 million seen the year before.

But not all of the industry is suffering, tanners of upholstery leathers seem to be doing well, but there is a cloud hovering over the future. First of all, Dominion Tanners of Winnipeg, Canada, recently announced that it was ending production of its footwear leathers in favour of producing more upholstery leathers.

However, its plans may go awry as its bankers have now taken over the company, and will allow it to continue to produce leathers until the financial problems are resolved.

Meanwhile, the makers of the famous Lear jet are causing some concern among upholstery leather tanners. The company is buying some leathers from South America and having them tanned in the Fulton County area of New York state. But one of the profitable money making areas tanners have had is that they have been cutting leathers for Lear. Lear, however, is beginning to cut some of its own leathers.

Another concern for upholstery leather producers is that Japan may soon be making cars in China. This means they will

be getting their leathers from tanneries near their car production sites. Yet another concern among US tanners is the Hong Kong show. With the organisers having been forced to cancel the last presentation because of SARS, tanners are asking whether they will be able to pick up the pieces in 2004 after missing out on 2003. Some are questioning whether the fair will be worth attending in 2004 and they are unsure about going into China to show their leathers when those fairs begin again. Opportunities have been lost because of the SARS epidemic.

Tanners are recalling the former Semaine Internationale du Cuir, once the world's greatest leather shows. They are now concerned about the fate of the Hong Kong fair, and are waiting patiently to see what the organisers will announce. Something has to come out soon.

Leather exports lag behind imports

Another worry for tanners is that leather exports are only about half of what leather imports are. For example, in 2002, the US exported \$1.161 billion worth of leather. In that same year, the country imported \$2.117 billion worth of leather.

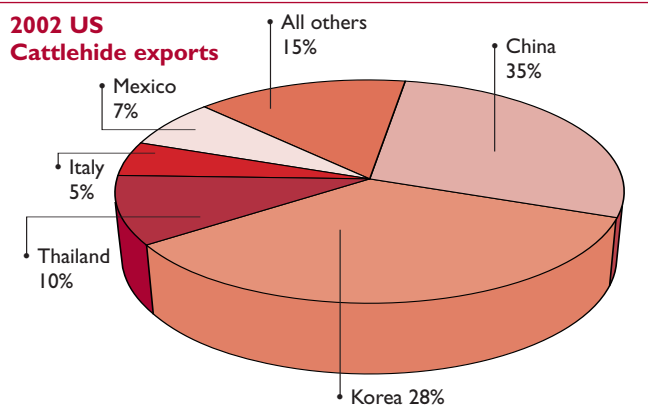
Fortunately for packers and those tanners that have wet blue operations, the export market for hides is doing well. In 2002, 35,743,000 head of cattle were slaughtered. Of that number, 20,783,000 hides were exported. Imports, on the other hand, were quite limited, with only 1,299,000 hides imported.

Tanners are considering a range of options to remain in business. They are considering creating cutting operations, they are looking towards creating new products and more end uses for leather, such as wall and floor coverings, and they are considering offering packages to customers, such as insulation and lining combinations that can be cut as one piece. Since tanners have to handle the skins anyway, they can bond insulation and lining materials in one package.

Total shoe upper leather Imports vs. Exports

	Imports (Unit - 1,000 Sq M)	Exports
1992	1,127	16,316
1993	1,780	19,627
1994	3,006	9,710
1995	2,506	8,933
1996	2,085	8,668
1997	3,164	8,404
1998	2,759	10,559
1999	2,005	10,286
2000	2,339	6,655
2001	6,312	4,789
2002	2,472	3,791

2002 US Cattlehide exports





Country Commentary: USA

US foreign trade - leather Unit \$1,000

	Imports	Exports
1992	\$631,360	\$705,038
1993	735,793	764,120
1994	959,690	811,951
1995	1,088,959	870,247
1996	1,139,426	950,510
1997	1,375,730	1,145,664
1998	1,571,195	1,289,547
1999	1,635,234	1,137,534
2000	1,992,613	1,125,957
2001	2,059,175	1,221,131
2002	2,117,550	1,161,944

US non-rubber shoe market US imports for consumption by principal sources Unit value (per pair)

	1998	1999	2000	2001	2002
China	\$7.47	\$7.00	\$6.84	\$7.06	\$6.92
Italy	23.77	24.45	24.07	25.98	27.19
Brazil	12.34	11.30	11.66	12.05	10.88
Indonesia	9.72	9.34	9.22	9.40	9.92
Spain	17.05	17.61	17.93	18.37	20.79
Thailand	13.61	12.65	12.02	12.05	10.25
UK	33.45	34.18	31.58	31.07	27.10
Mexico	14.10	15.80	19.27	22.89	24.36
Korea	14.71	15.88	16.58	15.50	13.61
Portugal	20.16	24.08	25.58	26.71	26.09

Imports of leather products Unit \$1,000

	Gloves (1)	Sport gloves (2)	Wearing apparel	Handbags & purses (3)	Luggage & flat goods (4)	Other products
1998	\$284,172	\$194,257	\$937,469	\$1,018,120	\$2,947,793	\$454,229
1999	258,387	171,902	1,015,746	1,019,785	3,120,699	473,435
2000	269,873	203,343	1,736,126	1,202,790	3,252,942	532,178
2001	275,635	194,943	1,790,945	1,229,678	3,152,892	586,642
2002	263,010	200,435	1,481,831	1,330,035	3,026,197	675,087

(1) Non-sports includes leather and combination. (2) Includes all sports gloves.

(3) Includes leather, vinyl and other materials. (4) Includes leather and other materials.

With the number of tanners still active in the US, there are certainly some challenges ahead. According to industry watchers, they must seek to combine operations to cut costs, for example. They must unite with other tanners so that production will fill one tannery and the others must close. None of the options available are bright; they are a matter of survival.

And suppliers

But what of suppliers to tanners, the hide sector and the chemical suppliers.

Because hides are the result of demands for meat, it is doubtful that hide availability will grow at any remarkable rate; it will be by percentage points only. But if the US tanning industry can't use more hides, what then?

Packers have been turning to exports to rid themselves of surplus hides. They are exporting both wet blues and wet salted hides. While hide exports are going to some 60 countries around the world, 90% of the hides are going to eight Asian countries and, of this number, 70% are

going to only four countries, with Korea being the largest buyer, followed by China, Taiwan and Hong Kong. However, many of the hides being sent to Hong Kong are re-exported to China. Therefore, if exports to China and Hong Kong are added together, China is the largest market for US hides. Of the hides going into China, some 80% are whole hides to meet the needs for upholstery leathers, garment leathers and leather goods, such as handbags and computer carrying cases.

In 2001, China imported 5,036,472 hides and skins from the US, worth \$429 million, while in 2002 the numbers moved to 5,713,000 pieces worth \$439 million. Hong Kong, on the other hand, imported in 2001 some 1.4 million hides and skins, but in 2002 the numbers rose to 1.6 million pieces.

Sales of hides to Taiwan, however, dropped in 2002. In 2001, Taiwan imported 2.7 million hides, while in 2002 the number had dropped to 2.14 million.

Korea also witnessed a substantial drop in hide imports from the US. In 2001, Korea imported 7.6 million hides, but in 2002 it had fallen to 5.8 million pieces.

Because there cannot be too much growth in the packing business (meat demand runs the volumes) other steps must be taken to improve profits.

What will be seen here will be more concentrations in packers, where larger packers will be buying smaller packers to hold or improve the profit line, or even closing the smallest or least profitable plant to keep the others in the company working.

Most of the international chemical companies have facilities in China and India, but continue to operate facilities in the US to meet local demands. It is the chemical companies that are helping domestic firms to remain solvent. They are offering technical help to keep costs down, as well as helping to introduce new leathers.

With new chemicals and technology, US tanners have improved their production and variety of upholstery leathers, the most viable sector of US tanning production. Even with more orders for military footwear, and new boots being developed for the military, the footwear side of the industry will continue to struggle to maintain production levels as well as profitability.