



Dealing with Devaluation

For over ten years Argentina maintained its currency at an artificially high level. In early 2002, however, the country was plunged into the worst economic crisis of its history when devaluation could no longer be put off. After a decade of stability, the so-called Law of Convertibility that pegged the peso to the dollar finally ran out of road. The result was an almost overnight devaluation in the national currency by some 350%.

When this occurred, private bank accounts were frozen and those people who had merrily lived off the 20% dollar interest from their accounts, (while the rest of the world was receiving 3% and less, lest it be forgotten), suddenly discovered themselves locked out of the bulk of their funds. Worse still, they found the little they could gain access to was paid in Argentine pesos, representing a loss of around 200% in hard currency terms on their original deposits. No wonder they rioted.

Devaluation was long overdue. The peso/dollar exchange generated high domestic costs in dollars on all fronts: badly inflating electricity supplies and other public services while pushing up taxes and interest rates to astronomical levels.

Dollarised prices

Now, one year after the devaluation, leather is still being quoted in pesos but at 'dollarised' prices, despite being locally produced. The same happened to other local products and services that for a host of different reasons had their prices increased in pesos where the peso virtually ranks equal with the dollar.

To add difficulty to the cost situation currently faced by both manufacturers and exporters in general, today companies must add to their operational expenses a new export duty that must be paid when the goods are shipped. On top of this they are never sure when, or if, they will receive their VAT refunds from the government.

Nevertheless, tanneries have improved their profitability that in previous years had become almost embarrassingly low. In those difficult times, Argentina's tanning

industry contracted into just one select group of businesses. Today, however, it is a strong and internationally competitive business sector. In the 1990s, these companies managed to update themselves and get their ISO 9001, 9002, 14,000 and QS 9000 certifications, transforming themselves into reliable international suppliers for all sorts of leather. They are now among the world's top companies producing high quality leather for international footwear and leather goods brands, as well as ready-cut and finished leather furniture, motor seating covers and upholstery components.

Today, a dozen companies and groups account for 85% of Argentina's crust and finished leather exports. Companies such as Sadesa, Curtarsa, Yoma, Curtiembre Fonseca, Curtiembre Arlei, Antonio Espósito, Becas, La Hispano Argentina, Curtiembre Urciuoli, Gibaut y C.I.D.E.C and Cueset y La Teresa export almost all their production. Toreda Curtiembres, part of Austria's Schmidt-Feldbach, has recently started operating and already processes some 3,000 hides per day. Moreover, an investors' group will soon restart the Grunbaum Rico y Dacourt/GRD plant that had been closed for over a year.

Of the \$750 million worth of leather exported in 2001, 40% was finished, 51% was crust, 8% was wet blue and 1% was sole leather. Leather ready-cut and finished furniture and motor seating covers as well as other upholstery leather components worth \$180 million were also exported. In October 2002, Argentina imported some 3.6 million pairs of shoes while exporting only 605,000. Total production for 2001 was 36.5 million pairs.

The herd

Argentina currently has a herd of some 52 million cattle of European breeds that guarantees a supply of around 12-13 million hides per year. The number of hides available depends as everywhere else in the world on the needs of the beef industry that had already recovered most of its export markets after last year's cattle

disease epidemics. But while beef exports are doing well, domestic beef consumption has fallen to very low levels due to the economic crisis. This means that in 2002 slaughter numbers have dropped significantly reducing hide supply further.

The right road to local production recovery and job generation

The overvaluation of the peso did tremendous damage to the manufacturing sector, forcing the closure of companies selling to the domestic market that had no answer to the avalanche of low price imported goods. Exporting companies fared no better because of the country's high internal costs. As a result, unemployment hit the 25% mark.

In the last few years, the footwear sector not only had to face competition from cheap imports from Asia, but it has also seen its products forced out of the domestic market by imports from Brazil, especially after that country's heavy devaluation of its currency in 1999. Taking advantage of its position as a MERCOSUR member-state, Brazil exported some 24 million pairs of shoes to Argentina last year, taking up 30% of the local market. The situation resulted in the widespread closure of shoe factories, tanneries and component suppliers, fuelling unemployment.

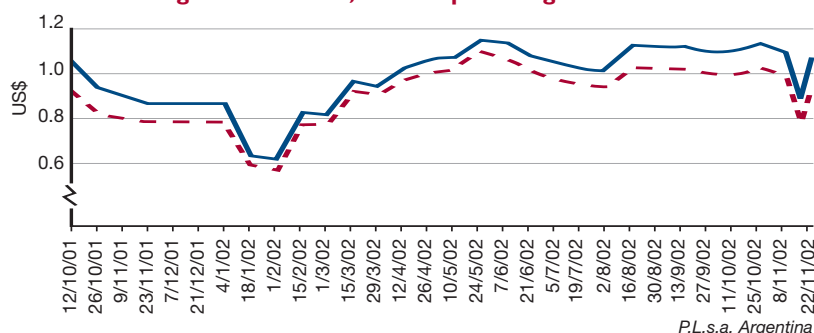
The devaluation in January 2002 enabled Argentina's industry to become competitive again. A new era had started.

Initially, the leather industry recovered its domestic market and thanks to the new rate of the peso, it was able to start exporting to other countries in the region (MERCOSUR, Mexico, Chile, etc). However, buyers from many other markets worldwide did not take long to show up in search of good quality fashion goods made from top quality leathers at competitive prices. A very important competitive advantage for Argentina's leather product manufacturers in this new era is that, unlike ten or twelve years ago, the now-strong local tanning industry produces top quality finished leathers that are used in the



Country Commentary: Argentina

Figure 1: The relationship between the value of the US dollar in relation to the Argentine current, and the price of green hides



production of their goods. This certainly means better quality all round.

The leather goods and leather garment sectors find themselves in a similarly favourable situation. During the long dark years, high domestic costs prevented them from competing with imports from Asia and whole sectors such as leather luggage and leather bag factories, as well as most of those working with synthetic and textile materials, simply disappeared.

Since the crisis, these sectors are now on

their way to recovery. Small workshops are being set up and there are plans to invest in companies that before the devaluation chose to shrink to survive but have managed to hang on. New markets and possibilities have been opened up to Argentina's footwear and leather-goods sectors, and manufacturers' associations are now organising trade missions and participation both in local and international fairs and other relevant events. For example, the national leather

Cumulative exports of cut leather covers (Automotive) Jan – Nov 2002

Destination	Value (x1000 US\$)
USA	41,853
Great Britain	3,188
Germany	64.5
Canada	54.6
Denmark	55.3
The Philippines	6.3
Total	45,221

goods industry recently took part in the Asia Pacific Leather Fair in Hong Kong with excellent results and it is already preparing a larger delegation to the fair's April 2003 edition.

During the show, buyers and traders showed interest in Argentina's products not only for their competitive prices but also their quality and design. In spite of the general situation, recent editions of local exhibitions for the leather, footwear and leather goods and allied sectors have



Figure 2: Principal Argentine leather exports January – October 2002

Country	Value US\$ x1000
USA	137,289
China	89,029
Mexico	54,339
Brazil	33,826
Italy	32,101
Uruguay	25,004
Hong Kong	24,089
TOTAL (all countries)	494,613

Source: CICA

been very successful with increasing numbers of local and foreign visitors, mainly from Latin-American countries.

Nowadays, Argentina offers no easy conditions for the smooth running of businesses, having no credit availability and a serious recession in the domestic market. However, the industrial sector is confident of better times ahead as labour rates are now aligned with other South American countries and imports have

dropped to near zero. Indeed, there has been a quantifiable increase in the number and volume of orders placed recently. Local traders have felt the need to replenish their shelves and replace previously imported products with locally produced goods while tourists, attracted by the new exchange rate, are coming from neighbouring countries on shopping sprees. This in turn has led to something of a boom in the retail and hotel sectors.

It is true that the situation is improving in Argentina but the difficulties for the leather sector are still there with increasing raw material prices, especially leather. There has also been no clear directive from the country's political leaders on the way forward in the medium term. But for now, and in spite of the country's wider problems, the outlook for the Argentinean leather sector is looking more positive than it has been for some considerable time.

Patagonian Promise

The country's wider problems notwithstanding, Argentina's sheep and

wool industry would also appear to be faring better than most in the international marketplace. The ongoing slump in Australia and New Zealand's sheepskin production has seen average prices rise by between \$1.5 and \$2.00 in the international marketplace in recent months. Combined with the devaluation in the peso and steadily climbing meat prices, this has led to rising demand and returns for the Argentine product. One area that stands to gain the most is the traditional sheep-rearing region of Patagonia where, after a prolonged period of stagnation, farmers have begun investing in new stock and facilities.

Observers say that if other regions follow suit, the national flock could be increased by two million head to 15 million animals. If it does, as well as increasing export revenues, it will bring much-needed relief to the country's sheepskin tanners who have been hard hit in recent years by spiralling debts, drastic climate changes and the country's failing fortunes. 