

COUNTRY PROFILE

Official Language: Spanish

Population: 38,740,807 (July 2003 est.)

Member-country of MERCOSUR – Common Market of the South (Brazil, Argentina, Uruguay and Paraguay)

Climate: Mostly temperate; arid in southeast; subantarctic in southwest

Area total: 2,766,890 sq km

Terrain: Rich plains of the Pampas in northern half, flat to rolling plateau of Patagonia in south, rugged Andes along western border

Natural resources: Fertile plains of the Pampas, lead, zinc, tin, copper, iron ore, manganese, petroleum, uranium

Animal husbandry: Mainly bovine cattle and sheep

Bovine breeding provinces/areas: Buenos Aires, Santa Fe, the Pampa, Córdoba, Entre Ríos, Corrientes and Mendoza

Sheep breeding areas: Centre-south of the country mainly in Patagonia (Chubut, Santa Cruz, Buenos Aires, Río Negro, Corrientes, Jujuy, Tierra del Fuego, Entre Ríos, Santiago del Estero and Neuquén)

Bovine herd: approx. 50 million head

Sheep flock: approx. 13 million head

Number of tanneries: approx. 200 large and medium ones

Location of tanneries: Mainly in the province of Buenos Aires and in Santa Fe, La Rioja, Córdoba, Entre Ríos, Corrientes and Salta



Ranking fourth among leather exporters

During the 1990's crisis, Argentina's tanning industry built a strong sector, technologically up-to-date and capable of producing crust and finished leather to the highest international standards. In the last few years, the sector has also set up clicking and sewing plants producing leather covers for furniture and automotive upholstery.

After keeping the parity of the peso with the US dollar for over ten years, the government drastically devalued the peso at the beginning of 2002. This divided the history of the country's economy into the pre- and post- devaluation periods. The new situation affected all the sectors of the local economy and the leather, shoe and leathergoods industries were no exception.

Before the devaluation, the strength of the peso resulted in high domestic costs in US dollars: electricity and other public services. Taxes, high interest rates, salaries and all other costs were calculated using the artificial exchange rate of ARG\$1.00 = \$1.00. Moreover, for various reasons, hides, imported chemical products and even some locally produced chemicals went up in price and caught up with the devaluation. Today, in order to calculate their final costs, companies must include a new export duty in their calculations. In the last few years, tanners have improved

their profitability that was stretched beyond any acceptable limits. The tanning sector took advantage of those difficult years, amalgamating and growing. It is now a strong sector able to compete internationally. In the nineties, tanneries also chose to modernise, obtaining their ISO 9001, 9002, 14,000 and QS 9000 certifications and managing to become reliable international suppliers of finished leathers as well as upholstery leather, cut-and-sewn covers and components.

Argentina currently ranks fourth among the world's largest leather exporters with a prominent position in the production of top-of-the-range upholstery leather and the supply of major international footwear brands.

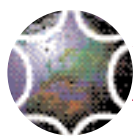


CIDEC Tannery/Morón-Buenos Aires

At present, approximately twelve companies and groups of companies account for 85% of Argentina's leather exports. Sadesa, Curtarsa, Toreda, Yoma, Curtiembre Fonseca, Arlei Leather Group, La Hispano Argentina, Curtiembre Urciuoli, Cueset, Antonio Espósito, Becas and Cidec export almost all of Argentina's exportable leather.

In 2003, Argentina exported \$624 million worth of crust and finished leather. A large quantity of this, being cut & sewn seat covers or cut seat cover parts. In 2003, exports of these goods amounted to \$172 million. The country does not export wet blue or wet salted hides which are subject to a 5% export duty.

Argentina has a bovine herd of approximately 50 million cattle of European breeds. Of these, 25% are slaughtered resulting in an availability of 12/13 million hides in 2003. The quick recovery from last year's FMD outbreak means that slaughter rates should grow and so should hide availability. Between 2001 and 2003 beef consumption dropped due to the country's economic crisis but some recovery can already be seen as a direct consequence of the gradual improvement of the local economy.



Country Commentary: Argentina

ARGENTINA - BOVINE LEATHER EXPORTS BY DESTINATION JAN-DEC 2003

Country	US\$
China	109,621,723.00
USA	105,468,342.00
Mexico	69,145,886.00
Italy	60,701,748.00
Brazil	48,290,555.00
Germany	45,909,680.00
Hong Kong	38,963,286.00
Thailand	35,698,268.00
Uruguay	22,651,141.00
Taiwan	15,397,401.00
Spain	13,396,736.00
Costa Rica	8,451,720.00
India	8,269,835.00
Slovenia	7,410,009.00
Australia	6,117,460.00
Vietnam	4,763,320.00
Canada	4,619,420.00
South Africa	3,675,680.00
Chile	2,911,682.00
Great Britain	2,113,892.00
Norway	1,546,627.00
Malaysia	1,353,166.00
Austria	1,331,817.00
Hungary	1,257,102.00
Others	4,802,593.00
TOTAL	623,869,089.00

Source: C.I.C.A

The recovery of the leather export business has not helped improve cattle prices very much and, as in previous years, the rural sector still prefers agriculture, especially soya crops, to animal husbandry - the reason why the tanning sector can only count on limited hide availability.

The environment

All the large tanneries have made huge investments in effluent treatment plants that comply with the most rigorous international standards. The essentially exporting profile of the sector and the fact that these companies are internationally recognised as suppliers of top-of-the-range upper and upholstery leather has forced them to be environmentally sound.

THE LEATHER VALUE CHAIN

Ag. Eng. Hugo Orestes Zilocchi, of SAGPyA (the Department of Agriculture, Animal Husbandry, Fisheries and Food) of



Sadesa's effluent treatment plant, in Esperanza/Santa Fe

the Ministry of Economy and Production, reports on the present situation of the bovine cattle sector from the economic point of view:

ARGENTINA'S LEATHER VALUE CHAIN - 2003 (SUMMARISED)

Four sectors interact in the leather and leather goods value chain: farming, meat packing, tanning and footwear and leather goods manufacturing

FARMING

Cattle ranching involves approximately 250,220 farmers and covers 151,327,743 hectares populated by a herd of 50 million bovine cattle. Slaughter amounted to 13 million head in 2003.

A pro-Argentinean-leather campaign was launched a few years ago with the intention of improving the quality of hides and skins at production/process levels.

In this campaign the government is working together with cattle breeders and meat packers in joint measures towards increase the value of hides through quality improvement. The idea is to add value to raw materials and promote the "Argentine Leather" brand in the international market.

MEAT PACKING

There are approximately 430 meat packing plants in Argentina. This sector purchases livestock from breeders and supplies the tanning industry with hides. Raw hides are an atypical source of material because, as a by-product of the beef industry, availability depends on beef consumption. The best hides must have even thickness, good structure and no defects but they are graded in the meat packing sector where some of the nastiest defects are caused by cuts on hides during the fleshing operation.

TANNING

There are approximately 200 tanneries in Argentina. In the last few years, the sector has become vertically integrated:

Total: 2001-2003 Cattle Slaughter

2001	2002	2003
11,584,250	11,499,447	12,326,719

Source: SAGPyA/SENASA/DGI/ONCCA

tanners have gone into upholstery while meatpackers have gone into tanning. Argentina's tanning sector employs some 12,000 people. It is estimated that 40% of the production capacity of the tanning sector is currently idle.

LEATHER GOODS MANUFACTURING

There are 400 companies in operation in the leathergoods sector, most of them being small and medium-sized businesses. Some 20 manufacturers are also exporters and employ approximately 5,000 people. The leathergoods industry has started to recover after the 1990's economic crisis.

CECMA (Exhibition for Leather Goods and Related Products), Latin-America's only fair dedicated to leather goods, leather garments, saddlery and luggage is a two-day, twice-yearly event organised by CIMA (Argentine Chamber of Leather Goods and Related Products).

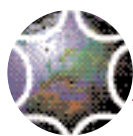
In 2004, CEMCA shows take place against the backdrop of a renewed push by the Argentine leathergoods sector in the international marketplace, and which will see the industry take a pavilion at APLF. The second CEMCA of 2004 takes place August 8-10.

FOOTWEAR

Argentina's footwear industry has approximately 800 factories offering 26,000 direct jobs and indirectly ensuring work for another 14,000 people. In the City of Buenos Aires there are some 250 factories, another 400 in the province of Buenos Aires and about 150 in other regions. At the moment, the shoe industry is gradually recovering after being almost wiped out when the local market was flooded by contraband mainly from China and fell victim to political and public service corruption.

THE LEATHER TRADE

Only 20% of the hides produced in Argentina end up as raw materials in the local shoe and leathergoods sectors while 80% is exported as crust and finished leather. Some tanneries export finished leather cut and sewn seat covers for the furniture and motor industries. This line of business is becoming increasingly strong in Argentina.



Bovine leather	Industry of destination
Calf and heifer hides	Footwear, leathergoods, gloving and garment industries.
Large calf and heifer hides	Upholstered goods industry.
Bull hides	Sole manufacturers.

Source: SAGPyA/MECON

Sadesa moves into upholstery

Argentinean tanner Sadesa has set up a sofa cover factory at its Esperanza industrial unit in the Santa Fe Province. Started in 2001, the production facility uses leather which is produced in the same unit, and makes sofa covers for export to the US furniture industry.

It is seen as an important boost to regional economic development as well as providing employment for 82 local people – a number that should increase to 140 in the next few months. The company has recently set up a new cut-and-sew section too and intends to keep opening new markets for manufactured goods, generating more jobs.

Dr. Mario de Pro, industrial relations

manager, said: “Although there is high risk involved in this endeavour due to market complexity and changing economic conditions, we are strongly committed to helping the country’s industry.”

SHEEP

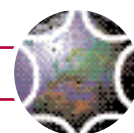
Sheep occupy second place in importance in Argentina’s animal population and are bred for their meat, wool and skins. Sheep can be found in the in the central-southern region of the country mainly in Patagonia and in Chubut, Santa Cruz, Buenos Aires, Río Negro, Corrientes, Jujuy, Tierra del Fuego, Entre Rios, Santiago del Estero and Neuquen.

Sheep industry to contribute to economic improvement

The country’s economic problems notwithstanding, the sheep and wool industry would appear to be faring better than most in the international marketplace.

The ongoing slump in Australia’s 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 massive devaluation of the peso at the beginning of 2000 and steadily rising 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. If it does, as well as increasing export revenues, it will bring much-needed relief to the



LEATHER UPHOLSTERY EXPORTS BY COMPANY

Accumulated - Jan-Dec 2003

COMPANY	US\$
DONTO SA	18,072,940
A ESPOSITO	10,179,886
SADESA	8,997,524
TRADARSA	6,399,830
ARLEI	4,610,274
BECAS	4,489,563
GRD LEATHER	3,103,076
COTO	1,649,701
GAITA AMERICO	1,584,159
YOMA	1,411,506
CURT. FONSECA	1,274,146
Total	61,844,314

Source: C.I.C.A

country's sheepskin tanners who have been hard hit in recent years by spiralling debts, drastic climate changes and the country's failing fortunes.

During the July-August 2003 period, exports of sheepskins amounted to 474

EXPORTS OF CUT LEATHER SEAT PARTS

Accumulated - Jan-Dec 2003

COMPANY	US\$
EAGLE - FONSECA	52,861,345
SETON	26,526,496
ESPOSITO	3,773,087
BECAS	2,462,620
SADESA	813,880
CURT. ARLEI	233,116
COTO	212,725
YOMA	208,952
TRADARSA	42,062
CURT. FONSECA	27,586
Total	87,161,869

Source: C.I.C.A

tons, a 32% increase over the same period of the previous harvest. The main export markets for Argentinean sheepskins were Uruguay, the USA and France which took 80% of total exports.

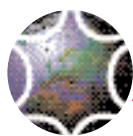
The table shows sheepskin exports

according to their processing stage and their FOB prices for the July-August period of the 2002/2003 and 2003/2004 harvests.

World Leather recently interviewed Eduardo Wydler, President of C.I.C.A. – Chamber of Argentina's Tanning Industry, who gave us the following overview of his country's tanning sector:

"Argentina's economic recovery has not meant good results to all lines of business. In the case of the tanning business the signs of recovery have not been outstanding due to raw hide prices that remained dollar-linked and went up. Other factors contributing to the slow recovery of the sector are the dollar-linked prices of chemical products, machinery, export expenses, port fees, etc. that keep going up as well as extremely late VAT refunds that fortunately now are getting back on track.

"Hide shortage has also been a drawback and one of the reasons why 2003 leather exports did not increase significantly. This has not changed



Country Commentary: Argentina

significantly but the situation may change as beef consumption has gone up slightly and farmers are seeing more money for their products.

“On the other hand, there has been a slight increase in domestic leather consumption in view of the decline of cheap imports and the recovery of the shoe and leathergoods sectors.”

According to Mr. Wydler, “there have been no changes in the government’s fiscal policy that could benefit the tanning sector. Furthermore, the government’s financial difficulties have made it impossible for new export promotion projects to be set up. But, having said that, part of the export tax is put to good use in social welfare programmes that help Argentina’s millions of unemployed.

Regarding technology, Mr. Wydler said that, in general, tanneries had made large investment in machinery, processes and training. This had improved both their competitiveness and their presence in the international market through standardised quality products. As far as the leather types

Sheepskin exports - US\$ 1000 FOB								
	Dry		Tanned with wool		Finished		Total	
	02/03	-	02/03	03/04	02/03	03/04	02/03	-
July	13	445	348	310	512	420	889	1175
August	155	35	293	344	455	234	903	614
September	176		275		99		550	
October	267		106		191		591	
November	47		476		386		909	
December	153		283		167		603	
January	48		306		210		564	
February	115		264		133		512	
March	351		226		212		788	
April	481		416		203		1099	
May	210		313		303		854	
June	257		297		260		814	
Subtot. Jul-Aug	168	480	641	654	967	654	1792	1789
Total	2.273	480	3.603	654	3.131	654	9.076	1.789

Source: Federación Lanera Argentina

produced are concerned, Mr. Wydler explained that the sector was seeking to output higher added value articles made from locally produced raw materials. He

added that there was no interest in exporting wet blue hides as it would cause unemployment and limit economic activity in the country. 🌐