



Country Commentary: Russia



The fall of the Berlin Wall was a seminal moment in the ushering in of a new global economy. No area was more affected than Russia and those countries that used to form the Soviet Union. A decade and a half later the very name Soviet Union sounds like ancient history, and yet the changes which started then still appear to have a long way to go.

Russia and the CIS countries

It seems like another era, and being 30 years ago it certainly was last century, when tanners in the West used to depend on big sales of crust or patent footwear leather, or even rather ugly finished gloving leather to make up sales volumes. Sometimes this was profitable business helping to sweep up low grade rejects but, more often than not, sales directors in the western tanneries used to justify a low price high volume sale on the basis that "at least it helps cover the overheads". These large regular sales of leather into Russia, and the associated visits of the Soviet purchasing impresarios were a major feature in the European industry at a time when the high volume tanneries there were beginning to realise that making a commodity was the quick road to ruin.

After the end of Communism this business stopped abruptly and we had some portents of the future when the huge business in clothing leathers from Türkiye began to be funded with suitcases full of cash. Today, this

somewhat cowboy approach remains characteristic in a market place which is clearly important in terms of raw material and finished product consumption.

	Population (July 2005 est.)	GDP - per capita (2004 est.)
Armenia	2,982,904	\$4,600
Azerbaijan	7,911,974	\$3,800
Belarus	10,300,483	\$6,800
Georgia	4,677,401	\$3,100
Kyrgyzstan	5,146,281	\$1,700
Kazakhstan	15,185,844	\$7,800
Moldova	4,455,421	\$1,900
Tajikistan	7,163,506	\$1,100
Turkmenistan	4,952,081	\$5,700
Ukraine	47,425,336	\$6,300
Uzbekistan	26,851,195	\$1,800
Russian Federation	143,420,309	\$9,800
European Union	456,953,258	\$26,900

Taking the latter aspect alone, Moscow and some of the other major cities in Russia are now teeming with new shopping centres. Where fifteen years ago life was about long queues and little to buy at the end of them, all the top world brands can now be found in Russia.

There are two markets in Russia, the regular stores and the bazaars. The bazaar section is still much loved and used but is shrinking very fast, especially in the bigger cities. In Moscow alone new shopping centres are covering the city, some anchored around big stores such as IKEA. Danish footwear giant ECCO for a time boasted that with fifty stores in Moscow alone, they had more outlets in the city than McDonalds.

According to ispo, the major sports exhibition organiser, the sports business alone in Russia is worth some \$3.5 billion and growing at 30% per annum. The luxury segment is growing fast too, as the middle class expands rapidly. To buy in a department store requires an income of \$400 a month,

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Russian Leather and footwear industries in 2002-2004

Chrome-tanned leather production First Quarter, 2004 (thousand dm³)

Producer	Ist Quarter, 2004	Ist Quarter, 2003	Ratio 2004/2003 (%)
Total	409,267	342,923	11,935
Including biggest producers:			
Ostashkov tannery	119,322	94,820	12,584
Russkaya kozha, Ryazan	110,132	72,191	15,256
Chrome, Yaroslavl	33,699	38,128	8,838
Kozha-M, Eletz	21,664	19,930	1,087
Rascom, Rasskazovo	18,371	17,596	1,044
Artex, Kirov	17,740	5,461	32,485
Spasskiy tannery	13,924	431	323,063
Kurskaya Kozha, Kursk	11,068	13,804	8,018

Heavy leathers production - First Quarter, 2004 (thousand dm³)

Producer	Ist Quarter, 2004	Ist Quarter, 2003	Ratio 2004/2003 (%)
Total	17,995	13,684	1,315
Including biggest producers:			
Ribinsk tannery, Ribinsk	6,310	5,187	12,165
Shevro, Ostrogozhsk	6,192	5,160	1,200

Footwear production - First Quarter, 2004 (thousand pairs)

Producer	Ist Quarter, 2004	Ist Quarter, 2003	Ratio 2004/2003 (%)
Total	10,051.7	10,398.0	96.67
Bris-Bosfor, Krasnodar region	2281.0	2874.0	79.37
Mua Production, Vladimir region	500.0	320.0	156.25
Unichel, Chelyabinsk	369.0	357.0	103.36
Torzhok footwear factory	327.8	283.1	115.79
Donobuv, Rostov region	299.5	156.8	191.01
Egorevsk-obuv, Egorevsk	238.0	228.0	104.39
Oktyabrskiy leather-footwear plant	235.0	220.0	106.82
Kuznetzkobuv, Kuznetzk	231.5	227.4	101.8
Davlekanovskaya footwear factory	187.5	304.1	61.66
Belka Trade House, Moscow	184.0	-	-
Kalita, Kaluga	172.0	182.0	94.51
Westfalika, Novosibirsk	147.9	36.6	404.1
Parizhskaya Kommuna, Moscow	143.0	142.0	100.7
Ankar, Perm region	141.0	117.0	120.51
Tor, Tambov region	133.9	179.1	74.76
Spartak, Kazan	133.6	149.9	89.13
Obuvprom, Samara region	123.9	129.5	95.68
Magnitogorskaya footwear factory	123.5	130.5	94.64
Smolenskaya footwear factory, Smolensk	116.3	5.4	2153.7
Union of Vahrushy Enterprises, Vahrushy	115.9	63.0	183.97
Ryazanwest, Ryazan	113.7	145.7	78.04
Zarya Svobod, Moscow	104.0	137.0	75.91
Kors, Novosibirsk	97.3	100.6	96.72
Muhanov footwear factory, Moscow	93.0	95.0	97.9
Basko Trade House, Kirov	70.3	48.5	144.95

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so while this richer segment develops low-entry cost sports such as soccer and running are taking the lead.

Having been around in the market for 30 years, adidas is the market leader, followed some way behind by Nike, Reebok and Puma.

A recent BBC World Service comment noted the sparkling new malls opening up across the country. "But can Russians afford to visit them? Well, certainly in Moscow, every weekend the shopping centres are packed out. And the kind of shoppers you will find here are not the rich and famous, or the well-connected. They are ordinary families, getting their groceries, buying the latest DVDs and computer games and just enjoying a pleasant day of retail therapy."

On the tanning side, the Russian Tanning and Shoe Union has a total of 53 members from 30 regions of Russia as well as from Belarus and Kazakhstan. These cover tanneries, footwear manufacturers, chemical plants, the Central Research Institute of Leather and Shoe Industry, two institutes, and the Association of Light Industry Enterprises.

Statistics are hard to come by and accurate ones are particularly elusive so we advise readers to use those published here with caution. Suffice to say that Russia has an enormous demand for leather and leather goods that local supply is unable to meet.

As the legal position improves we can expect more investment in the leather sector where the prospects for profit look very good. The recent events in the oil industry may have scared off some foreign investors although in the view of industry experts they are most unlikely to ever impact on the leather area, so most investors are likely to be domestic. There appear to be plenty of these. For all involved, the further south you go, and especially in many of the former Soviet Republics, the greater the risks, both financial and personal.

There are twenty-nine big tanneries in Russia producing chrome-tanned leathers. Amongst them two large tanneries Zao Russkaya Kozha (Ryazan) and Ostashkovsk produce over 50% of the Russian output of chrome-tanned leathers. Artex, Safyan and Spasskiy tanneries have also achieved good growth rates in recent years. While this growth in volume year-on-year has been dramatic, just looking at the footwear production figures of over 784 million pairs average from 1984-1986 to 126.7 million in 2001 according to the FAO is indicative of a need for imports. Despite ►



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demand, according to figures produced by the Central Bank of the Russian Federation, the manufacturing output in the domestic leather and footwear industries declined 5% in the period January-April 2005. This was in contrast to the general trend that saw most industries recording an increase in output, for example the production of machinery and equipment expanded 17.4% and the output of electrical, electronic and optical equipment went up 15.3%.

China supplies a major part of these missing shoes. The Kamiedo Company in Chengdu is typical. Only having started up in 1995, it now produces 40 million pairs of ladies boots per year. Half go to its own stores in China and the remainder is split between Russia and the USA.

Informal trade

There is a large 'informal' trade in shoes at Urumuji in the extreme north west of China which has developed to the point where local manufacturers have established offices and sample showrooms. Buyers from southern Russia and mid-Asia cross over into China and place orders with a 50% cash deposit in US dollars. The order is delivered to Urumuji where the customer pays the balance. Transport to the final destination and customs formalities are then his responsibility as local businessmen prefer to avoid any irregular dealings that might take place.

A similar situation exists in Beijing, where at the La Ba Lu market Russian buyers congregate to place orders with Chinese manufacturers and, once again, the buyer is responsible for forwarding the cargo. Aeroflot carries large quantities of shoes to Moscow but won't reveal the actual tonnage. The Sichuan Chamber of Commerce says the province's shoe exports in 2004 were \$74 million, yet many think this is far too low. One can therefore assume that 'informal' sales are not included and the revenue therefore not declared.

But, it appears that, even for 'legitimate' trade, there are still problems with importing into Russia. An official from the Chinese embassy in the Russian Federation recently announced that a special import and export committee will be established by Russia and China in order to protect the free flow of goods traded between the two countries. This comes as a direct result of an incident when Chinese shoes worth 80 million yuan (\$9.9 million) were detained in Russia due to an incomplete customs declaration. According to the China Leather Industry Association, this was the

second time that large quantities of Chinese shoes had been impounded by Russian officials for this reason.

An official from the Chinese Embassy said that both the Chinese shoe manufacturers and Russian customs clearance companies were responsible for the incident adding that many Chinese goods had been exported to Russia through disreputable Russian customs clearance companies since the end of the Soviet Union, which has led to a shift away from Russia.

Changing markets and conditions

The USSR was, for a long time, the major market. However, one major trader observed that he had experienced letters of credit being disputed by Russian banks and, whilst he had an initial 20% deposit, there was not much he could do once his shoes were on the high seas. So while the developing Chinese companies now seek orders from the West at major shoe fairs in Las Vegas and Düsseldorf it is increasingly left to smaller producers or other countries to fight over the Russian market.

Pakistan and the Russian Federation are currently in discussion to sign a Free Trade Agreement to facilitate the import and export of finished leather and leather products. Khawaja Muhammad Yousuf, the newly elected chairman of Pakistan Tanners' Association (PTA) told *World Leather* that efforts were ongoing at government level to get this implemented as soon as possible. Pakistan booked \$5 million spot orders for exports of leather garments from the Russian Federation at 'Leshow', the international leather and fur fair held in Moscow in June this year through sixteen Pakistani leather garments exporters—despite the cumbersome customs procedures.

Pakistan leather industry leaders have vehemently pointed out that a lack of visas, banking channels, and direct air cargo facilities, along with high import tariffs, are hindering the export of leather and leather products from the Asian subcontinent to the Russian Federation. They have urged an exchange of delegations, participation in fairs and the free flow of information.

Industry experts estimate that presently most of the leather cargoes are being shipped through Dubai—the cargo hub in the Middle East—to the Russian Federation. The cargo agents of Russia's imports arrange charter flights for final shipments to the Russian Federation and other CIS countries on a daily basis. However, a Karachi-based exporter M/s Sarq International reported a backlog of

leather garments at Dubai due to the non-availability of charter flights in recent weeks.

CLE, India's Council for Leather Exports, recently commissioned a study on the Russian leather and leather products market by engaging the services of IMCN, a marketing agency recommended by the Indian Embassy in Moscow. The report covers the general economic overview, market trends of footwear, leather goods and leather garments, logistics and distribution, market strategies for penetrating the Russian market, and warehousing.

It is estimated that Pakistan exports about 5,000 pieces of leather garments per month via Dubai at an average price of \$60-100. The orders are booked by visiting Russian buyers who have been frequent visitors to Karachi since the fall of Communism in Russia in the early nineties.

Indian exports of leather and leather products to Russia fell to \$7.61 million during 2004-05 from \$31.53 million in 2000-01. The Bangladeshis exported about \$3.15 million worth of finished leather, footwear (sports) and footwear (leather) during 2003.

A CLE official said the declining trend in exports to Russia may be attributed to many aspects including market stability. However, she pointed out that India's overall export of leather and leather products reached an all time high value of \$2,379.44 million during 2004-05, which shows the increasingly positive trend in exports. "As far as Russia is concerned, we are aiming to undertake specific market promotion programmes including participation in product specific leather fairs to further promote our exports to this country," she added.

Sunil Rallan, president of Rallan Tanning Ltd, in Chennai, claims that while the official and formal export of leather products from the subcontinent to the Russian Federation is nominal, the informal or unofficial export is massive. The high import duties and tariffs encourage a large grey market of smuggled goods into Russia and he is of the opinion that their banking system for foreign currency payments and remittances seems to be weak. This necessitates Russian businessmen buying foreign goods through cash payments using hard currency.

He added that in India the customs authorities have tough regulations on passengers carrying overweight baggage, which doesn't permit such informal exports. Furthermore, exporters who get paid in cash by the Russians cannot bank the money because of strict money

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laundering rules.

Apparently Dubai is the ideal point for re-export under the prevailing circumstances and hence goods are shipped to Dubai from India and Pakistan and then shipped to the Russian market. While the same position exists in China, the entire Russian market is serviced for most consumer products such as leather goods from China to Russia. Effectively much of the Russian business is a cash and carry business only. The Russians do not like to order in advance. They will want to inspect the goods on the spot and take them away at the same time. Sunil Rallan claims that China is the only source which is providing this service.

The Chinese have set up large wholesale marts specialising in bags, shoes, and garments in several Chinese cities such as Guangzhou, Wenzhou, Shanghai, Dalian, Beijing and Hebei Province. Alexandra Andrunakievich, the general director of Russian Tanning and Shoe Union (RTSU), declined to share data on the imports of leather and leather products from the Indian subcontinent and said that as far as import and export information is concerned it was rather confidential.

Overall the Russian Federation imported leather and leather products worth \$409.5 million during 2003 compared with \$345.9 million a year ago. However, if compared with 1999, imports have surged 376% from \$85.99 million, according to data released by ITC Geneva. According to the Central Bank of the Russian Federation, total exports during 2003 stood at \$160 billion against imports of \$217 billion. The main trading partners are CIS countries, EU nations, Central and Eastern Europe (other than Baltic countries), and North America. Türkiye and China are said to be the main trading partners in the leather sector.

Growth in production

According to Russian leather industry sources, finished leather production in Russia has been growing continuously since 1998. In 2003 production of chrome-tanned leathers amounted to 1421 million sq. dm (20.8% growth as compared with 2002), output of "Juft" leathers—118 million sq. dm (16.8% growth), output of heavy leathers—67.7 million sq. dm (8.3% decrease). Production of Juft and chrome-tanned leathers has grown throughout these years. Juft leather is a term which is specific only to the Russian leather industry and is probably best described as a leather which is high substance, heavily fatliquored, hard

wearing and low cost. This is a popular material amongst local shoemakers.

Similarly, there are twelve tanneries, which produce heavy leather. The two biggest Russian producers (Shevro and Ribinsk tanneries) produced about 70% of the whole Russian output of heavy leathers. Shevro, being an unsurpassed leader in the high quality heavy leathers segment, in only a few years has also considerably increased production volume becoming one of the biggest Russian producers of heavy leathers.

There are about twenty-five major shoe producers in the Russian Federation. Their production during the first quarter of 2004 was 10,051,700 pairs as against 10,398,000 pairs in the first quarter of 2003. As a result, as indicated, a big quantity is being imported through formal and informal channels.

Quality control

It may be mentioned here that during an all-Russia conference, organised by the Russian Tanners' Union (RTU) two years ago, the RTU and the Russian Ministry of Agriculture together agreed to work out a federal six-year programme aimed at improving the quality of hides and skins collected in Russia. Measures against cattle hypodermatitis are considered to be an important aspect. Hypodermatitis is caused by gadfly larvae deposited in animals' skin. Infected animals lose weight, and often scratch the sore spot causing defects on the grain layer of the hide (skin). After the animal is flayed many small holes in the central area of the hide are usually found. Tanners usually pay 30-50% less for such hides. In the Soviet Union serious preventative measures against hypodermatitis were taken. Now Russian authorities wish to resurrect the system of preventive veterinary measures against hypodermatitis and other animal diseases.

So, as the world watches to see what the new order of world tanning and leather usage will be as Europe and the USA continue to lose ground, Russia and the CIS with large volumes of raw material and a population with increasing wealth is obviously an area with potential. Yet the changes going on remain early in the cycle, and are taking place against a backdrop of economic uncertainty. Industry participants also often worry about getting caught up in the crime, violence and terrorism to be found in some parts. Certainly the further south one works the more care is needed. Life was never easy for the tanner. ►

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Profile:

Ryazan Tannery

ZAO Russkaya Kozha is said to be the largest tannery in Russia. It is located in the city of Ryazan which is about 180 km southeast of Moscow and was first established in 1916. The new tannery was built with the help of the very famous Concerie Cogolo SPA of Italy as part of a turnkey contract in 1988.

Today on a huge site of 480,000 square metres, 2,300 people (whose average age is only 30-35 years) are employed processing bovine hides on the site. Ryazan currently produces over 40% of all Russia's finished leather, crust, wet white and wet blue hides. The main production is targeted at the manufacture of footwear and furniture leathers. Garment leather is also made and it has started the production of automobile leathers this year.

Lada Kirisenko, marketing director told *World Leather* that, "Every month we sell more than 850,000 square metres of grain leathers and 500,000 square metres of split leathers. Last year we achieved an overall sales growth of 37% compared with 2003. The production growth increased by 143%. Clear profit increased 112% in 2004. We are currently exporting 80% of our production to more than 100 customers from Spain, Italy, Portugal, France, Finland, Türkiye, China, Vietnam, India, and Pakistan."

In the summer of 2005 the tannery joined SATRA. "We will look to SATRA to help us in our development of finished leather," said Mr Alexander Suvorov,



Ryazan's quality director, "especially with its industry-accepted leather grading systems and laboratory accreditation. Our quality is well-established, but you can't succeed on quality alone. You also need to know which companies and areas need good leather, how they want it and when."

The tannery is a major player in the Russian rawhide market. It processes more than 40% of all Russian hides collecting them through some twenty-one established collection points throughout Russia. Every year more than three million hides are purchased this way with some 8,000 being soaked daily.

Automotive and upholstery leather

At the beginning of 2005 the final steps for implementing a new line for automotive and upholstery leathers were

taken. Investment into the project has passed the €3 million mark. By the middle of 2005 the sales volume of furniture leather and associated semi-finished items had reached 210,000 m² in a month.

It recognises that automotive leather requirements are very strict and it is still developing the QC system for this type of production. It says it has recently received an official TFL certificate confirming that the automotive leathers fit the standard requirements of the industry and has made extensive use of the TFL Academy.

The tannery is a showcase for some of the world's best machinery, including Bergi, Cartigliano, Emmezetta, Gemata, Gozzini, Mosconi, Mostardini, and Poletto and a great deal of attention is paid to testing leathers. The tannery has its own dyeing laboratory, equipped with a spectrophotometer and light imitation camera. A Special Research and Development department creates new types of leathers, improves existing technologies and produces the small tailor-made lots requested by customers.

The tannery has also involved itself in some innovative marketing, not least the running of some highly-regarded international seminars with speakers from the top worldwide chemical companies and research and testing bodies. The most recent one took place in early November in Moscow and covered leather upholstery technology and standards. The seminar had, as its target audience, senior management in furniture factories, sales managers, fashion designers and technologists in furniture manufacture. Subjects covered included a general overview of the world furniture market, fashion and furniture design, quality standards, production technologies of furniture leather, and the Ryazan tannery upholstery leather collection. 🌐

