



Country Commentary: USA and Mexico

For the last decade or more the state of the North American economy has decided the fate of the world economy but increasingly this is based on spending rather than producing. The North American leather industry brings starkly into focus the global trend in the changing locations of manufacture.

Consuming concerns in the USA

There is no doubt that the USA has moved from being a nation of pioneers in manufacturing to a consumer state and the leather sector has been affected particularly badly by the general swing away from domestic production to offshore facilities.

As statistics show a steep increase in the imports of consumer goods, so those for leather manufacturing illustrate the complete reverse.

Although the tanning industry thrived throughout the 19th century and made a large contribution to the US economy, since the 1970s its importance has dwindled to an extent where there now remain only a handful of tanneries in the country. In a survey on plant capacity published in December 2005 by the US Department of Commerce, it was revealed that whilst overall US domestic manufacturing plants used an estimated 70% of their production capacity in the fourth quarter of 2004 the leather industry ranked amongst those manufacturing sub-sectors with the lowest utilisation rates of capacity at a mere 41%. This highlights the true level of the decline in the industry that has occurred over the past decade or so. And even those tanneries that do remain are finding it increasingly difficult to survive.

Survival of the fittest

The problems facing the US tanning industry will come as no surprise as they are exactly those that are affecting the rest of the Western world: competition from low labour cost countries, increasing fuel costs, and higher levels of regulation in terms of the environment, etc. All of these factors have led to severe rationalisation within the industry, but some have still survived, why?

Prime Tanning is one of the most well known companies that is still in production in the States and has two facilities, a wet blue factory—the largest individual plant in the USA, producing two million feet of wet blue per week—and a finishing facility. Cynics might say that the reason for its continued presence in America is due to the fact that it is involved in the production of military footwear, all

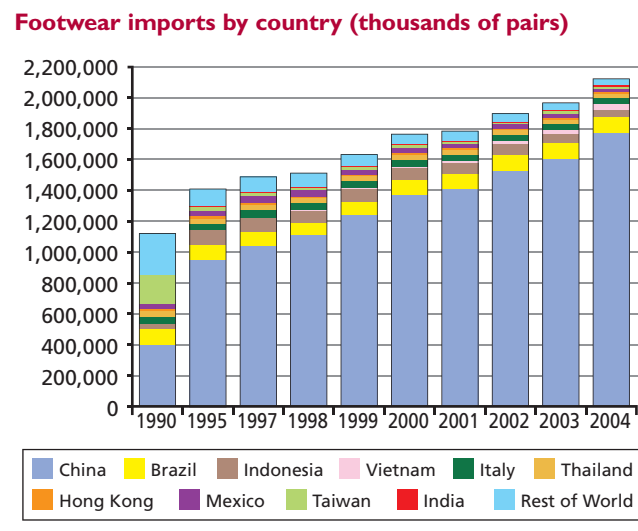
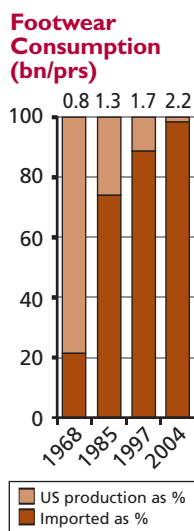
of which must by law be produced in the United States. However, this is not the only reason. As is the case with so many industries, based in Europe and the States, although they cannot compete in terms of price, they are still—for the time being—superior in the field of quality and technology. Prime Tanning, in part at least survives through innovation and has its own recognised leathers such as Crazyhorse and WeatherTuff, which can offer levels of performance that cheaper alternatives do not. There are other positive stories too. Irving Tanning, a side leather tanner with the capacity to finish over 30 million square feet of leather per year, is a shining example of how US companies are adapting to face today's situation. Having looked to be on the brink of disappearing, having filed for bankruptcy for the second time in 2005, the company was purchased and is now collaborating with Sustainable Solutions, Inc. to produce a sustainable, regenerated leather product. Using by-products from leather product waste streams, SSI's proprietary technology, and Irving's finishing expertise, the product, called Dilusso, has already been used in Mazda's award-winning Kabura concept car at the North American International Auto Show in Detroit in January. This new product is not only innovative it also addresses the environmental issues that are so relevant to the industry nowadays.

Through innovating and producing niche products the remaining tanneries have continued to survive even in the face of such stiff competition. How long this will be the case remains uncertain. As Ken Maxfield, managing editor at the Jacobsen Publishing Company comments, the majority of tanners that are still present in the USA produce upholstery leather and as this is a niche market they are in no immediate danger, however, he believes that their market share will continue to be eroded with time.

Quantity over quality

In the automotive sector, Eagle Ottawa, Seton and GSTR have maintained their positions as they produce high end luxury leathers, but a change in consumer preference could have a significant effect on this business. Furthermore with the automotive sector struggling and US car manufacturers losing their market share, consumers and manufacturers alike are looking at cheaper cars, which rarely include leather upholstery.

According to Maxfield there has been a change in the mindset of consumers, who are no longer willing to pay for quality and prefer to "sacrifice dollars for quality". As a result the quality of leather in automobiles has suffered with many of the leathers diminished in quality to the point where it is no longer considered a

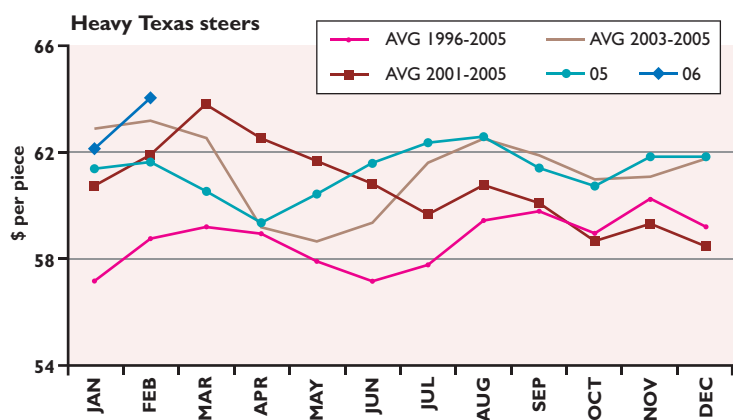


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Packers struggle

There are serious problems further down the line, which could have an effect on the hide industry. The outbreak of BSE in the USA in 2003 and the closure of export markets led to a lower slaughter and diminished demand. This has led to a difficult situation as packers' margins have been reduced to a minimum. It is proving increasingly difficult to make money, and in recent weeks some packers have left production lines idle at times rather than sell product at a loss. Packers are already facing increased costs due to higher fuel bills for powering their facilities and transportation costs, all of which have to be absorbed by themselves, but are unable to improve on the top end of the price range (which is currently around \$70 on heavy steers – see graph) as there is so much competition in the market.



Courtesy of The Jacobsen

“luxury item” to many, especially those shopping for mid-range vehicles. This is also true in other areas such as furniture upholstery and garments where people refuse to pay more as society demands instant gratification with lower cost products. Although at the top end the demand is still intact in mid range products manufacturers and retailers are feeling the pinch. Whilst luxury brands

such as Coach continue to report increased sales and profit, the more mid range retailers such as Wilsons The Leather Experts are finding it extremely difficult to compete with the discount outlets and this is shown through the current decreasing sales figures.

Losing its foothold

The situation is much the same in the

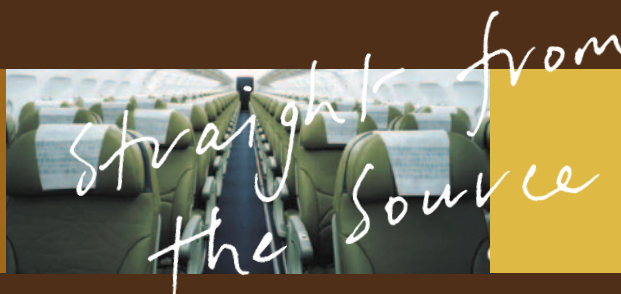
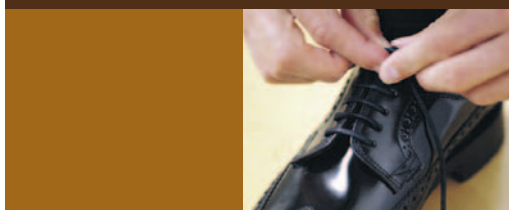
footwear sector too. Over the past fifteen years, the face of the US footwear industry has changed out of all recognition. The latest statistics compiled by the American Apparel & Footwear Association (AAFA) are most revealing. Actual pairage totals show that domestic production took the greatest hit during the twenty years up to 1990, when it fell from 642 million to around 200 ➤



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2005 US accumulated exports, 1,000 pcs

	2005	2004
Cattle hides		
whole - excluding wet blues	22326.0	23329.0
(of which exported to China)	9037.2	7387.5
Calf skins		
whole - excluding wet blues	555.8	906.2
Kip skins		
whole - excluding wet blues	569.5	785.3
Cattle hides and skins		
other - excluding wet blues	3018.2	2778.4
Cattle wet blues		
unsplit (whole or sided)	4029.0	4352.5
Cattle wet blues		
grain splits (whole or sided)	1188.5	819.2

Source: United States Department of Agriculture

million pairs. By 2004 it was only 35 million. During the same overall period, consumption increased from 818 million to a staggering 2.15 billion, so it is an immense consumer market.

All that is left today are companies like Bates, Cove and Altama, making boots for the military, Wesco producing highly specialised work boots, Allen Edmunds, making classic men's Goodyear welted wing and cap shoes or the very best Western Boot makers like Luchesse, RJ Boots or DW Frommer II. Florida-based Otabo is a real rarity in America, a new footwear manufacturer. It is once more a niche producer, this time in computerised made-to-measure footwear. The common factor in all these is again specialisation and small volume, or protected markets that do not attract importers. All the mass market products are long gone and even the best made New England Penny Loafers have now moved offshore.

No hiding from the truth

Until recently there was an upside to the competition from China in the leather chain—an increased demand for imported goods including hides and skins. Whilst in 1995 South Korea imported 8.5 million hides, Japan imported 3.3 million hides and China

took 1.05 million hides from the States, by 2002 whilst South Korea's imports had dropped slightly to eight million, China's imports of US hides had risen to six million—a staggering increase of nearly five million in seven years.

However, despite this initial increase in demand, the US hide industry has had a tough time over the past few years due to increasing competition from lower cost countries, such as Brazil, that have improved the quality of the hides they produce. And when you consider that over 50% of the hides produced in the USA this year will be exported, producers have had to squeeze their margins as much as possible in order to compete on the international market, and with significant increases in fuel costs in the USA this is not easy.

The change in consumer preference, concerns over the US economy, rising fuel costs for householders and the improved quality of hides coming out of competitive countries add up to a situation where the industry in the USA is facing an uphill struggle. ☹

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The US alligator industry rides the storm



Hurricanes Katrina and Rita caused devastation across the Southeast United States in 2005, destroying homes and livelihoods across the region and leaving damage that will take years to repair. What many people didn't consider was that this region is the predominant production area for the US alligator industry and nobody appears to have considered how these natural disasters could have affected the sector.

Although Hurricane Katrina devastated a larger area of the States and received more media attention, it was hurricane Rita that had more of an adverse effect on the alligator industry. Katrina hit the south east part of Louisiana and this impacted a smaller area of productive wetlands. However, as Rita hit Louisiana during the September harvest, there was a certain degree of disruption in the wild harvest and the number of skins collected was about 3,300 skins lower than the 31,500 that had been forecast. However, this was due to a lack of people available to carry out the harvest, and a week-long delay in it beginning, rather than any large scale mortality amongst the alligator population. And it is this lack of labour that resulted in the lower numbers collected and the increased price per square foot for alligator skins. Any reduction in the number of wild alligators as a result of the storms will only really come to light during the 2006 harvest, and as Noel Kinler from the Louisiana Department of Wildlife and Fisheries says, "The biggest thing is we don't know yet."

Increased salinity affects habitat

Kinler is, however, quick to point out that the long term effects of the hurricanes on the alligator habitat is more of a concern than the immediate death toll. Hurricane Rita inundated the entire southwest coastal area of Louisiana and increased salinity in the marshlands, which could have serious implications for the alligator population. Alligators' preferred habitat is fresh, brackish water with a salinity level of 0-10 parts salt per 1,000. Seawater is 35 parts to 1,000 salt, and as the marshlands were inundated with this

water, those involved in the industry will have to wait until June or July, when the females nest, to see if the number of alligators has dropped due to a higher saline content in the marshlands and ponds. As Kinler states, if the level of salinity is too high, or there is too much open water, the alligators will redistribute to more suitable areas.

Hurricanes are not in fact the most catastrophic problem for the industry in Louisiana. Kinler explains that the severe drought that hit the state in 2000 had a far greater short-term impact as it led to a lower nesting rate due to increased levels of salinity, which meant that there were fewer eggs and alligators to harvest. The industry survived this natural disaster and carried on to flourish, so it is thought unlikely that the hurricanes will cause severe problems either.

Changes in the wetland habitats are a major concern to those involved such as the Louisiana Fur and Alligator Advisory Council, as the level of pollution and salinity is continuing to rise and the alligator habitat is being eroded. According to Kinler in the next 25-50 years he believes that the habitat could be severely reduced unless measures are taken to protect it, such as constructing protection dykes and fresh water diversions, and monitoring pollution. If no action is taken it could lead to the demise of an important industry that has been turned around and flourished in the past few decades.

A long tale

The US alligator industry has a long history. Indigenous to the south eastern region of the States, records show that the American alligator has been hunted for centuries, first by Native Americans and then by settlers. The commercial harvesting of alligators for their meat and skins began in the 19th century. Unfortunately alligator harvesting was left unmonitored for many years and this led to a serious fall in the alligator populations in the USA and resulted in alligators being classified as an

endangered species in the 1970s. However, this did not lead to the demise of the industry. A management programme was instigated and regulated harvests were reintroduced which has led to a thriving alligator population and an important industry in the states of Louisiana and Florida, and to a lesser extent in Texas and Alabama. In Louisiana, the largest alligator skin producing area in the US, following the implementation—in 1972—of sustainable programmes and controlled harvests, run by the LFAAC, the wild alligator population has been increased from 100,000 to 1.5 million in 30 years with another 500,000 animals on farms around the state.

This is good news for the ecosystem and for the skin industry in the States as it means that the harvests continue to increase year-on-year. Furthermore, as alligator is one of the two most valuable classic exotic leathers in the world, second only to the Saltwater Crocodile, which is highly sought after thanks to its small scale pattern, the alligator is one of the very few American products that is recording a steady increase in demand and value. In 2004 alligator skins in the USA commanded \$22.50 per square foot compared with around \$9 per foot in the 1960s and this is set to rise to \$34.50 per square foot, although this sharp increase may be partially attributable to the hurricanes.

Eco-friendly industry

The alligator industry in Louisiana is sustainable and eco-friendly throughout the process from harvesting eggs to exporting skins. The number of wild alligators harvested is closely monitored and the harvest quotas are set each year following a survey carried out on the number of nests and eggs in the state. Alligator farming is also closely monitored. Regulated farming began in 1986 and now produces up to 280,000 alligators per annum. 60 farms are licensed although only 30 of these are active producers on a commercial scale. Farmed alligators are produced from eggs that are harvested from private lands under supervision ➤



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according to quotas, and farmers are also obligated to return a percentage of the animals back to the wild. The alligators that are reared on farms are then harvested at between 10-14 months of age when they have reached a length of approximately four feet. This compares with an average length of seven feet for wild alligators that are harvested—although these are much older as farmed alligators grow much quicker in captivity due to better nutrition. As a result the scale patterns of farmed alligators are smaller and make them well-suited to smaller leather goods such as wallets and belts, whilst the larger wild skins are used in larger goods such as luggage.

"Buy a gator save a gator"

Through this programme alligators have become a renewable natural resource that feeds a sustainable industry which, according to Don Ashley from the Specialist Crocodile Group, generates \$30 million in skins and meat every year and 50% of the state's land surface revenue.

Sustainability is very important to the industry as in the US in particular many consumers still believe that crocodilians are endangered species and therefore shy away from buying products manufactured from reptile skins. The Louisiana Department of Wildlife and Fisheries is trying to address this misconception with its "Buy a gator, save a gator" slogan.

The exotic skin industry as a whole is extremely well regulated and alligators are no exception. All hides must be certified by the United Nations Convention on

International Trade in Endangered Species (CITES) before they can be exported. This means ensuring that all alligators are harvested in accordance with the relevant laws. The industry in the States is heavily involved with CITES and takes compliance very seriously. Kinler points out that the Louisiana annual harvest is certified that it is in no way detrimental to the alligator population and each alligator has a CITES tag to allow it to be traced from harvest through all the processes to exportation.

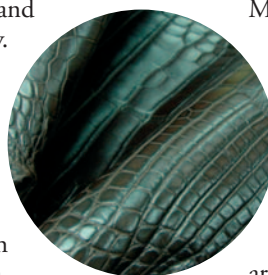
Scaling new heights

Louisiana is home to the largest number of alligators and currently produces between 32,000 and 34,000 wild skins and 270,000 to 280,000 farmed skins per year, accounting for approximately 85% of total US output. And as alligator skins account for 60% of classic crocodilians around the globe, the scope for the industry is larger than one might have imagined. An economic analysis carried out by the Louisiana State University in 2001 showed that approximately 400 people were employed in farming and processing alligator skins in the industry and, according to Kinler, looking at the increased harvests year on year, this number is set to rise further still. However, although this is positive, it cannot be claimed to be a major employer in terms of the US population as a whole. The reason for this relatively low labour force is that the US exports mainly raw skins with no

added value. Although there are several small-scale tanneries, that work periodically, based in Louisiana, the only permanent one is RTL, and a subsidiary of Tannery de Cuir Indochine et de Madagascar, (TCIM) most skins are exported raw.

TCIM's tannery in Louisiana employs between 30 and 40 people and processes 50,000 alligator skins per annum, 35,000 of which come from farms and the remaining 15,000 which are wild alligators. Of these, most are exported to Europe, 90% of which leave the USA as wet blue and only 10% as finished leather. Europe remains the major export market for alligator skins (mainly France which accounts for 21% of the USA's alligator skin exports, Italy at 20% and Asia (mainly Singapore at 19%, as well as Korea and Japan). Some also go to Panama in South America.

Historically Europe produced the higher quality crocodilian products, but Kinler notes that the "playing field has been levelled" as Singapore and other Asian countries have progressed significantly in the quality of the exotic skins they produce. And as the demand for luxury goods continues to rise around the globe and the fact that the main producers of exotic leathers namely France, Italy and Singapore do not have indigenous alligator populations, it seems that unlike the rest of the leather industry in the USA the alligator story looks set to be a tale with a happy ending. 🌐



Mexico – trying to retain a foothold

The Mexican leather industry is concentrated in terms of location and production. It is mainly focused in the states of Guanajuato, Jalisco, the area encompassed by Mexico City and the surrounding Valley of Mexico.

The leather industry as a whole employs no less than half a million people and is therefore a significant contributor to the economy. According to figures released by the National Council of Chambers of Suppliers and Producers of Leather, Footwear and Leather Goods (Concalzado), the sector comprises 62% micro businesses with 1-10 employees, 22% small enterprises with 11-50, 10% medium with 51-250 and 6% large with over 250.

The main areas of production are footwear, designer products, furniture, and automobile upholstery but its international competitiveness has, however, declined over the past few years and this has become a matter of concern to all those involved in the industry. One of the factors contributing to this is that the scale of production has not advanced sufficiently as is shown by the fact that only some 16% of manufacturers employ more than 50 people.

The main reason for the decline—as in so many other cases—has been the emergence of South East Asia as a low labour cost producer of all types of footwear in sophisticated factories. It has also been affected to a lesser degree by the

appreciation of the peso against the dollar. At the same time, imports of finished footwear have increased substantially. Mexico is facing the same problems as so many other countries and has seen a fall in the number of footwear manufacturing companies, an allied loss of jobs and a reduction in exports. Current prospects for the industry are therefore not too positive.

Focus on footwear

The largest tanneries mainly process shoe leather and the Mexican footwear industry is one of the 10 most important in the world. It is a major source of employment that provides approximately 150,000 jobs, and the footwear produced is recognised internationally for its ➤



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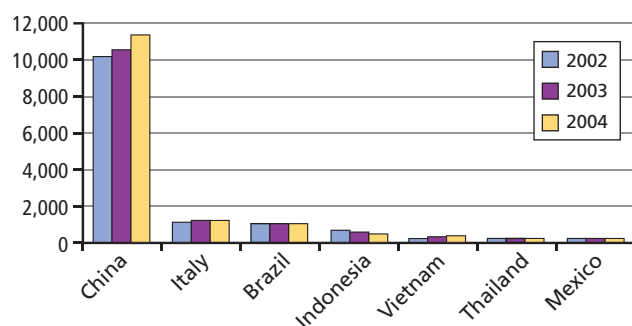
quality. The industry, which dates from 1700, has maintained its vitality over time, functioning as a decisive element in the development and economic growth of the central region of the country. It supplies most of the domestic market, and its competitiveness has made it an important player in overseas markets as well.

However, a growing number of tanners are also processing designer products and furniture for both domestic use and export. These products, especially furniture, require better and more refined leather.

About 80% of the country's total leather production is based in Guanajuato and 60% of total production comes out of León alone—Mexico's fourth largest city.

The state of Jalisco—and especially the capital city of Guadalajara, which is a major producer of fine ladies' shoes—generates 18% of the country's output.

Footwear imports into the USA (millions of dollars)



Source: World Trade Atlas

footwear; Veracruz, a source of exotic leathers and dress shoes of leather, skins and synthetic materials; Michoacan, producer of huarache-style sandals; and Yucatan, where handcrafted shoes are a specialty.

Mexico produces 242 million pairs of shoes annually. Of this number, Guanajuato state makes 146 million pairs, Jalisco 43 million, the Valley of Mexico 29 million and the rest of the country 24 million.

The third region, Mexico City and the neighbouring urban zone in Mexico state, turns out about 12% of Mexican footwear, mostly safety shoes and athletic shoes.

The remaining 10% of Mexican shoe production comes from states such as Chihuahua and Nuevo Leon, important producers of cowboy boots; Puebla and Hidalgo, which specialise in children's footwear, safety shoes and hand-crafted

Missing out close to home

Despite the reputation and capacity of its footwear industry, Mexico has struggled to maintain its level of exports to the US despite its geographical proximity and a long-standing trading relationship. Its membership of the North American Free Trade Association (NAFTA) since 1994 does not seem to have helped much either, such is the fondness of major American

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discount retailers for the lowest cost footwear. America does not therefore look like a potential saviour.

As for the domestic market, in terms of recorded imports, as opposed to the black market, Vietnam and Brazil have both been outstripping China in apparent imports in terms of value. Vietnam managed to more than double the value of its footwear exports to Mexico between 2002 and the end of 2004, overtaking Brazil on the way. Much of this will have been very cheap product and this once again shows that consumers are driven more by price than anything else, regardless of the country they live in. This will obviously have a serious affect on Mexican producers at the low end of the market, which is a major problem when one considers that the domestic market is large but poor.

Too little too late?

Mexico's shoemakers have been hit hard by the globalisation of the footwear industry just as have so many others. Mexico's problem, however, is that it has

Balance of trade for the leather industry
(millions of dollars)

	1997	2000	2004
Total			
Exports	941.7	1,065.7	751.7
Imports	992.4	1,414.4	1,977.5
Balance	-50.7	-384.7	-1,225.8
Hides & leather			
Exports	191.6	279.0	235.4
Imports	562.6	818.9	1,020.3
Balance	-370.9	-539.9	-784.9
Leathergoods			
Exports	280.4	381.7	225.9
Imports	281.8	405.3	565.8
Balance	-1.4	-23.6	-339.9
Footwear			
Exports	469.7	405.0	290.4
Imports	148.0	190.2	391.4
Balance	321.7	214.8	-101.0

Source: World Trade Atlas

probably reacted too slowly and the only path that seems open to it is already filled with other countries all jostling for the lead.

However, in spite of this, Mexico still

has a good basis to work on. Mexico has quality raw materials. About half the hides used by the Mexican leather industry are produced locally while the other half is imported, mainly from the USA. Furthermore, there are now moves to address the environmental issues associated with the industry and adopt cleaner technologies and this will further improve the country's image on the global market. Mexico has also embarked on a major training programme in order to raise productivity under the leadership of Concalzado. The Programme for International Competitiveness of the Leather-Footwear Cluster has so far provided technological benefits for more than 520 companies. In addition, the Centre for Business Connection has trained people from over 1,000 companies in aspects of re-engineering, organisational development and quality management in general. In all, representatives from more than 2,900 companies have attended training programmes and presentations by international specialists.

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